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Treasury bills' yields decline on rate cut expectations

KARACHI: Market treasury bills yields fell across the board on Wednesday, as subdued inflation outlook and slowdown in the economy boosted expectations that the central bank would cut the interest rate further in the upcoming monetary policy review due in July.

The government managed to raise Rs62.495 billion through an auction of three-, six-, and 12 month treasury bills.

The three-month treasury bills cut-off yield declined to 7.7999 percent from 8.1297 percent in previous auction held on June 3. The State Bank of Pakistan (SBP) sold Rs2.420 billion worth of shortest tenor paper.

The six-month yield stood at 7.4847 percent, which was lower than the previous yield of 7.9757 percent. The SBP sold Rs12.225 billion of six months treasury bills.

Cut-off yield on 12-month paper was 7.3600 percent.

That compared with 7.7101 percent in the previous auction. The raised amount through the auction of this paper was Rs47.850 billion.

Analysts said that with the latest auction, there were expectations of another rate cut in the market.

"Falling inflation and slowing economy amidst rising COVID-19 cases has raised expectations of further rate cuts. We were already expecting a rate cut of 50-100bps in the upcoming July 2020 monetary policy statement," said Faizan Ahmad, head of research at BMA Capital.

The SBP has slashed policy rate by a cumulative 525bps to eight percent since March 17.

Inflation fell to 8.2 percent in May from 8.5 percent in April.

The government plans to sell Rs900 billion of three, six and 12 months debts through t-bills in June to August 2020.

Government would likely remain dependent on bank borrowing to meet its funding requirements.

It has estimated a fiscal deficit of 9.1 percent of gross domestic product for the current fiscal year.

However, many analysts expect the deficit could range between 9-10 percent of GDP in FY2020.

The government has set a fiscal deficit target of seven percent of GDP for FY2021 and a primary deficit of 0.5 percent of GDP.

“We believe that under the extraordinary tough economic conditions due to the COVID-19 outbreak, the government will have a huge juggling task to contain the fiscal deficit,” said a report issued by Topline Securities last week.

“We expect revenue collection to remain subdued due to decline in economic activity, while at the same time the government will have to increase its expenditures to revitalise the economy,” the brokerage house noted.