

Rate cut on cards as T-bills yields fall sharply

KARACHI: Treasury bills yields, in line with the market expectations, fell sharply at an auction on Wednesday and dealers said the result boosted expectations that the central bank will cut interest rate next week.

The cut-off yield on three-month paper fell 66 basis points to 12.73 percent. The State Bank of Pakistan (SBP) sold Rs128.5 billion worth of shortest-tenor government securities.

The yield on benchmark six-month treasury bills down 84 basis points to 12.73 percent. The SBP sold Rs102.3 billion worth of benchmark paper. The yield on 12-month paper eased 133 basis points to 12.00 percent, while the central bank sold Rs192.5 billion worth of T-bills.

The central bank sold Rs323.38 billion worth of treasury bills, while the auction saw participation amounting to Rs1.63 trillion. Analysts said heavy participation showed “investors’ desperation to purchase treasury bills ahead of monetary policy announcement”.

The SBP is scheduled to announce monetary policy on March 17, 2020. Treasury bills are attracting foreign inflows since July when interest rate hit a peak of 13.25 percent. The latest data issued by the SBP shows the country received over \$4 billion investment in T-bills and Pakistan Investment Bonds from July 1, 2019 to March 9, 2020.

Analysts increasingly see the central bank moving towards a rate cut on the back of recent mixed set of economic data. The central bank left the policy rate unchanged at 13.25 in its last policy meeting.

Macroeconomic data releases since the previous MPC meeting, held in January, have been mixed, with positive developments on external and fiscal fronts and inflation numbers, but disappointments on growth.

“Inflation, money supply figures and the projected budget deficit as a percentage of GDP have all fallen over the past few months and the auction result is an indication of an interest rate cut next week,” an analyst at a local bank said.

“The fall in the T-bill yield clearly manifests a gradual easing of monetary stance. We expect the central bank to cut its policy rate by at least 50 basis points by next week.”

A survey conducted by brokerage Topline Securities showed that around 27 percent of market participants are expecting up to 100 basis points rate cut in the upcoming policy. However, majority or 40 percent participants anticipate a cut of 50 basis points. Brokerage Arif Habib Limited in a recent market note said the recent decline in oil prices is likely to reduce Pakistan’s import bill, “which will result in lower trade and current account deficits and saves foreign currency”.

“Consequently, lower oil prices translate to lower inflation demanding monetary easing leading to better consumer purchasing power benefitting other sectors with higher demand.” High oil prices have serious implications for the country’s economy and a key factor behind inflation rates given its substantial dependence on imported fuels for energy needs.