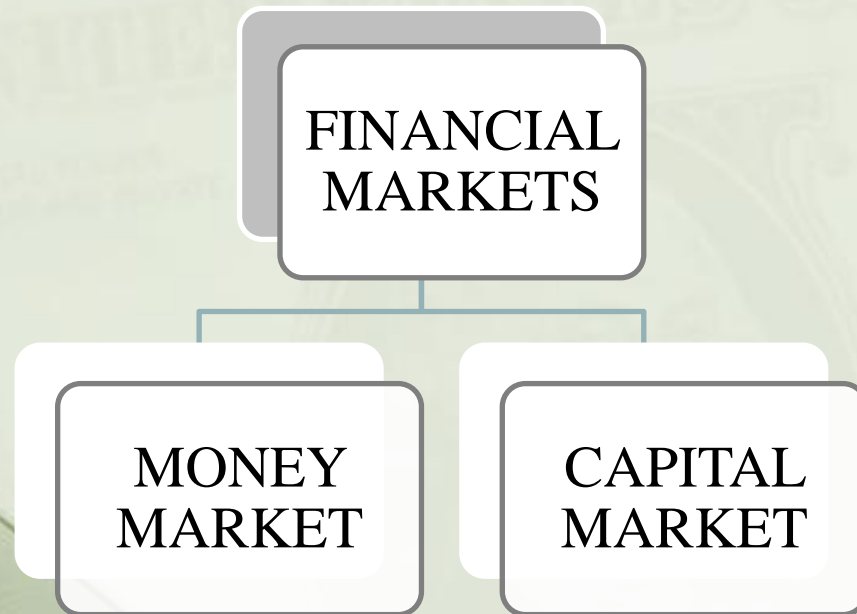




Introduction to Money Market

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Financial Markets:



Investment and Risk Characteristics:

Term: Mostly Short Term i.e. less than a year

Income: Low

Security: Depends upon the issuer

Marketability: Good

Volatility: Low since the term is short

Inflation: Low impact of inflation as term is short

Expected Return: Negotiable/Equivalent to bank deposit

Currency: Available in different currencies

The Six Horses: Why, What, Who, Which, How and Where ?

- **Why:** The Need
- **What:** The Definition
- **Who:** The Players
- **Which and How:** The Product and Process
- **Where:** The Resources



Why: The Need

The Need:

- Need for short term funds by Banks.
- Outlet for deploying funds on short term basis .
- Optimize the yield on temporary surplus funds
- Regulate the liquidity and interest rates in the conduct of monetary policy to achieve the broad objective of price stability, efficient allocation of credit and a stable foreign exchange market



What: The Definition

The Definition:

- Money Market is "the centre for dealings, mainly short-term character, in money assets.
- It meets the short-term requirements of borrower and provides liquidity or cash to the lenders.
- It is the place where short-term surplus investible funds at the disposal of financial and other institutions and individuals are bid by borrowers, again comprising Institutions, individuals and also the Government itself"

Continued..

- Money market refers to the market for short term assets that are close substitutes of money, usually with maturities of less than a year.
- A well functioning money market provides a relatively safe and steady income-yielding avenue..
- Allows the investor institutions to optimize the yield on temporary surplus funds



Who: The Players

The Players:

- Central Bank (State Bank of Pakistan).
- Commercial Banks, Co-operative Banks and Primary Dealers are allowed to borrow and lend.
- Specified Pakistani Financial Institutions, Mutual Funds, and certain specified entities are allowed to access to Call/Notice money market only as lenders.
- Individuals, firms, companies, corporate bodies, trusts and institutions can purchase the treasury bills, CPs and CDs.



Which and How: The Products and Process

The Product and Process:

- Treasury Bills
- Certificate of Deposit
- Commercial Paper
- Local Authority Bills
- Bills of Exchange
- Call Deposit
- Term Deposit
- Floating Rate Notes

Treasury Bills:

- Treasury bills, commonly referred to as T-Bills are issued by Government of Pakistan against their short term borrowing requirements.
- T-Bills are the most marketable money market security due to its simplicity.
- Their standard maturity periods are 4, 13, 26 or 52 weeks(1, 3, 6, 12 months)
- One of the money market instruments that are affordable to the individual investors.
- T-Bills are considered to be the safest investment.
- They are considered to be risk free as they are backed by the government.

Certificate of Deposits:

- A Certificate of Deposit (CD) is a time deposit with bank. CDs are generally issued by commercial banks but they can be bought through brokerages.
- They bear a specific maturity date (from three months to five years), a specified interest rate and can be issued in any denomination.
- CDs offer a slightly higher yield than T-Bills because of the slightly higher default risk for bank

Commercial Paper:

- Commercial paper is an unsecured, short term loan issued by a corporation, typically for financing Accounts Receivables and Inventories.
- Maturities on Commercial Papers are no longer than nine months, with maturities of between one and two months being the average.
- Commercial Paper is a very safe investment because the financial situation of a company can easily be predicted over a few months.



Where: The Resources

The Resources:

- **SBP's site:**

<http://www.sbp.org.pk/>

- **Investopedia:**

<http://www.investopedia.com/university/moneymarket/>

- **Pakistan Economist's site:**

<http://www.pakistaneconomist.com/database2/>



Questions and Comments