Introduction to Money Market

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Financial Markets:

- Money Market
- Capital Market
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"
• 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 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