

TREASURY COMMENTARY – 21 JANUARY 2019

LOCAL MARKET

MONEY

Overnight call-money traded at 8.95% - 9.00% on Friday. Net market liquidity with the Central Bank was a Deficit of Rs. 139.31 Bn on Friday from a Deficit of Rs 96.45 Bn on Thursday.

USD/LKR MARKET VOLUMES

VOLUME (USD Mn)

AS AT 18.01.2019

Cash	32.40
Tom	NIL
Spot	16.10
Forwards	33.00

MARKET LEVELS

Cash	181.05/182.05
Spot	181.10/182.10

INTERNATIONAL MARKET

FOREX

The dollar traded near a two-week high against a basket of currencies on Monday, supported by a sustained recovery in investor risk appetite which pushed U.S. bond yields higher. The dollar index, which measures its strength against a group of six major currencies, was steady at 96.315 after climbing to 96.394 percent on Friday, its strongest since Jan. 4.

Hopes for a thaw in U.S.-China trade tensions, a more dovish-sounding Federal Reserve and optimism that Britain could avoid a "No-Deal" Brexit are some of the factors that have fanned the return in investor risk appetite, which went into a deep freeze in December amid a slide in global equity markets. Along with a decline in Treasury yields earlier in the month which had accompanied the retreat in equities, the dollar index had slipped to a three-month low near 95.00 on Jan. 10. "The dollar index is clearly on a recovery track. The currency was stuck in a downtrend at the start of January but is now being bought back against its peers such as the yen, euro, pound and the Aussie," said Junichi Ishikawa, senior FX strategist at IG Securities in Tokyo.

The dollar was down 0.15 percent at 109.62 yen, taking a pause after climbing to a three-week high of 109.895 on Friday. The greenback had gained more than 1 percent against its Japanese peer last week. The euro was a shade higher at \$1.1373 but in close reach of a two-week low of \$1.1353 brushed on Friday. The pound was 0.1 percent lower at \$1.2857. Sterling had climbed to a two-month peak of \$1.3001 on Thursday on growing confidence that Britain can avoid leaving the European Union without a deal, but faced profit-taking on Friday. The Australian dollar was steady at \$0.7164 after ending Friday on a loss of 0.3 percent. China is expected to report on Monday that economic growth cooled to its slowest in 28 years in 2018 amid weakening domestic demand and bruising U.S. tariffs. Due to Australia's close trading links with the world's second-biggest economy, the Aussie is often regarded as a proxy to China-related trades.

COMMODITIES

Gold prices inched up on Monday on expectations that the U.S. Federal Reserve will pause its multi-year interest rate hike cycle, but gains were limited by a recovery in investor appetite for risk. Oil prices dipped on Monday as China reported its weakest annual economic growth in 28 years, although oil prices remain relatively well supported by supply cuts led by the Organization of the Petroleum Exporting Countries (OPEC).

ECONOMIC INDICATORS

T/BILL RATES % (W. Av. Last Auction)

3 Months	Not Offered
6 Months	9.87
12 Months	10.75

T/BOND RATES % (W. Av. Market rates)

2 Year	10.60
3 Year	10.75
4 Year	10.90
5 Year	11.10
6 Year	11.25
7 Year	11.30
8 Year	11.35

LIBOR

	USD	EUR	JPY	GBP
1 Month	2.50	(0.41)	(0.10)	0.73
3 Months	2.76	(0.34)	(0.08)	0.92
6 Months	2.85	(0.29)	0.01	1.03
12 Months	3.03	(0.17)	0.10	1.17

SLIBOR (18/01/2019)

Overnight	9.00%
1 Week	9.26%
1 Month	10.05%
3 Months	10.65%
6 Months	11.15%

AWPLR %

Week ending 18/01	12.03
Week ago	11.82
Year ago	11.40

AWDR %

December 2018	8.81
November 2018	8.77
Year ago	9.07

INFLATION (%)

		October 2018	November 2018	December 2018	Year ago
NCPI	(YoY)	0.10	1.00	-	8.4
CCPI	(YoY)	-	3.3	2.8	7.1
	(12M W.Av)	-	4.6	4.3	6.6

TREASURY DIVISION

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