

TREASURY COMMENTARY – 12 FEBRUARY 2019

LOCAL MARKET

MONEY

Overnight call-money traded at 9.00% on Monday. Net market liquidity with the Central Bank was a Deficit of Rs. 84.46 Bn on Monday from a Deficit of Rs 96.15 Bn on Friday.

USD/LKR MARKET VOLUMES

VOLUME (USD Mn)

AS AT 11.02.2019

Cash	18.00
Tom	13.50
Spot	7.69
Forwards	41.00

MARKET LEVELS

Cash	177.40/178.40
Spot	177.45/178.45

INTERNATIONAL MARKET

FOREX

The dollar held close to its 2019 highs on Tuesday as U.S.-Sino trade tensions and global growth worries underpinned the greenback's safe-haven appeal, while the euro and the British pound were hurt by troubles of their own.

Investors are focusing on high level trade talks in China this week where Washington is expected to keep pressing Beijing on long-standing demands that it make sweeping structural reforms to protect American companies' intellectual property, to end policies aimed at forcing the transfer of technology to Chinese companies, and curb industrial subsidies. This week's talks come as the world's two largest economies try to hammer out a deal before a March 1 deadline, after which U.S. tariffs on \$200 billion worth of Chinese imports are scheduled to increase to 25 percent from 10 percent. Financial markets have been shaken by the trade tensions over the past year, with business sentiment taking a hit around the world as the fallout of the U.S.-China dispute disrupted factory activity and hurt global growth.

The dollar has gained on other safe havens such as the yen and franc over the last week. It was steady against the yen at 110.37 and a touch higher versus the Swiss franc at 1.0040.

The dollar index was steady at 97.06, after advancing 0.45 percent in the previous session, its largest percentage gain since Jan. 24. The index has risen for eight straight sessions, mainly thanks to a tumbling euro, which has the largest weighting in the index.

The single currency was off slightly at \$1.1272 in early Asian trade, having lost nearly half a percent on Monday. The euro has weakened for six consecutive sessions, and traders expect further losses now that the crucial psychological support of \$1.13 has been broken. The European Central Bank is expected to maintain a highly accommodative monetary policy this year as growth slows in the eurozone and inflation stays low. Last week, the European Commission sharply cut its forecasts for euro zone growth for this year and next.

COMMODITIES

Gold prices eased on Tuesday as investors sought safety in the dollar from a long-drawn U.S.-China trade war and its impact on the global economic growth. Oil prices rose on Tuesday amid OPEC-led supply cuts and U.S. sanctions against Iran and Venezuela, although surging U.S. production and concerns over economic growth kept markets in check.

ECONOMIC INDICATORS

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

3 Months	9.55
6 Months	9.87
12 Months	10.69

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

2 Year	10.70
3 Year	10.90
4 Year	11.00
5 Year	11.00
6 Year	11.05
7 Year	11.05
8 Year	11.10

LIBOR

	USD	EUR	JPY	GBP
1 Month	2.50	(0.41)	(0.11)	0.73
3 Months	2.69	(0.33)	(0.08)	0.88
6 Months	2.74	(0.29)	(0.01)	1.00
12 Months	2.93	(0.16)	0.09	1.14

SLIBOR (11/02/2019)

Overnight	9.00%
1 Week	9.26%
1 Month	10.13%
3 Months	10.96%
6 Months	11.45%

AWPLR %

Week ending 08/02	12.22
Week ago	12.27
Year ago	11.04

AWDR %

January 2019	8.85
December 2018	8.81
Year ago	9.08

INFLATION (%)

		November 2018	December 2018	January 2019	Year ago
NCPI	(YoY)	1.0	0.4	-	7.3
CCPI	(YoY)	3.3	2.8	3.7	5.8
	(12M W.Av)	4.6	4.3	4.1	6.6

TREASURY DIVISION

Level-11

Tel: FX: 2664843-6 (Priyantha/Chaaminda/Chandika/Ramesha) Fax: 2664854

Interest Rates: 2664850-3 (Priyantha / Thayalan/ Sanka)

E-mail: forex@hnb.lk Fitch Rating: AA-(Ika.)