

TREASURY COMMENTARY – 15 JULY 2019

LOCAL MARKET

MONEY

Overnight call-money traded at 7.75% - 7.85% on Friday. Net market liquidity with the Central Bank was a Surplus of Rs. 19.40 Bn on Friday from a Surplus of Rs. 25.98 Bn on Thursday.

USD/LKR MARKET VOLUMES

VOLUME (USD Mn)

AS AT 12.07.2019

Cash	2.00
Tom	8.75
Spot	14.29
Forwards	10.25

MARKET LEVELS

Cash	175.05/176.05
Spot	175.10/176.10

INTERNATIONAL MARKET

FOREX

The dollar stayed on the defensive on Monday, pinned down by expectations of a Federal Reserve rate cut this month, as traders in Asia waited for the latest update on the health of the world's second largest economy. Figures are expected to show Chinese economic growth hitting its slowest pace in almost a generation as domestic demand falters and trade tensions bite. Weaker-than-expected numbers for retail sales, industrial output or second-quarter gross domestic product, seen growing at 6.2% from a year earlier, could cause investors to move away from Asian currencies and the Australian dollar. "We see downside risks to the Chinese economic data, particularly infrastructure spending," Commonwealth Bank of Australia analysts wrote in a note to clients on Monday morning.

That could lift the dollar against the yuan and dent the Aussie, the CBA analysts said. Against a basket of currencies the dollar held near a 10-day low at 96.814, still pressured by comments last week from Fed Chair Jerome Powell and Chicago Fed president Charles Evans indicating U.S. rate cuts are needed to boost inflation. The dollar hovered around 107.80 yen, bound between support around 106.80 and resistance at 108.98. Monday is a national holiday in Japan and dollar-yen trading volumes were very thin. The euro trod water against the dollar at \$1.1270, in the middle of a two-cent range where the currency has remained since June. The dollar shed 0.4% against the single currency last week, cushioned though by expectations that policy easing in Europe will follow the Fed. "An impending interest rate cut and speculation that the U.S. Treasury may intervene in currency markets are the twin drivers of the dollar weakness," said Michael McCarthy, chief strategist at CMC Markets in Sydney. "With the important China data due around shortly, traders will likely be cautious Monday morning," he said. Barring a GDP surprise, investors are likely to focus more on China's June activity data for clues on whether the economy continued to weaken heading into the second half or is bottoming out. In the U.S., a 25 basis-point rate cut in July is priced in, along with an almost 20% chance of a 50 basis point cut. Investors will be looking to U.S. retail sales figures due Tuesday and company earnings for signs of how shoppers and businesses are weathering the slowdown.

COMMODITIES

Oil prices slipped on Monday after China posted its slowest quarterly economic growth in at least 27 years, reinforcing concerns about demand in the world's largest crude oil importer. Refineries in the path of Tropical Storm Barry continued to operate despite flood threats while the storm has slashed U.S. Gulf of Mexico crude output by 73%, or 1.38 million barrels per day. Gold prices held steady in early Asian trade on Monday, as market participants awaited key economic data from China for cues about the health of the world's second-largest economy.

ECONOMIC INDICATORS

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

3 Months	8.09
6 Months	8.21
12 Months	8.54

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

2 Year	8.65
3Year	8.90
4 Year	9.45
5 Year	9.70
6 Year	9.75
7 Year	9.90
8 Year	9.95

LIBOR

	USD	EUR	JPY	GBP
1 Month	2.33	(0.43)	(0.11)	0.72
3 Months	2.32	(0.40)	(0.08)	0.77
6 Months	2.22	(0.40)	(0.04)	0.82
12 Months	2.23	(0.31)	0.04	0.90

SLIBOR (12/07/2019)

Overnight	7.82%
1 Week	8.25%
1 Month	8.39%
3 Months	9.26%
6 Months	10.76%

AWPLR %

Week ending 12/07	10.97
Week ago	11.13
Year ago	11.34

AWDR %

June 2019	8.94
May 2019	9.00
Year ago	8.91

INFLATION (%)

	April 2019	May 2019	June 2019	Year ago
NCPI (YoY)	3.6	3.5	-	2.1
CCPI (YoY)	4.5	5.0	3.8	4.4
(12M W.Av)	4.1	4.2	4.2	5.6

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-(lka.)