

TREASURY COMMENTARY – 22 AUGUST 2019

LOCAL MARKET

MONEY

Overnight call-money traded at 7.75% - 7.82% on Wednesday. Net market liquidity with the Central Bank was a Surplus of Rs. 22.50 Bn on Wednesday from a Surplus of Rs. 14.70 Bn on Tuesday.

USD/LKR MARKET VOLUMES

VOLUME (USD Mn)

AS AT 21.08.2019

| | |
|----------|-------|
| Cash | 3.85 |
| Tom | 15.75 |
| Spot | 27.40 |
| Forwards | 50.25 |

MARKET LEVELS

| | |
|------|---------------|
| Cash | 178.45/179.45 |
| Spot | 178.50/179.50 |

INTERNATIONAL MARKET

FOREX

The dollar held gains on Thursday after minutes from the Federal Reserve's last policy meeting hosed down some aggressive expectations the central bank would embark on a series of deep interest rate cuts.

Asian currencies are expected to trade in tight ranges on Thursday ahead of U.S. Federal Reserve Chairman Jerome Powell's speech on Friday for signs of just how far the U.S. central bank is prepared to lower rates.

His comments are of particular interest after an inversion in the Treasury yield curve highlighted the risk that the U.S. economy may fall into recession. While the Fed's minutes tempered some dovish expectations, markets still broadly expect further rate cuts as growth slows.

At the Fed's last meeting in July, the U.S. central bank cut interest rates for the first time in a decade to 2.00-2.25%. The Fed next meets Sept. 17-18.

The dollar held steady at 106.50 yen following a 0.36% gain on Wednesday, its biggest since Aug. 13.

The greenback drifted higher versus the Chinese yuan in offshore trade, last trading at 7.0694 yuan. In onshore trading, the yuan opened at 7.0635 per dollar versus its previous close at 7.0633.

The International Monetary Fund on Wednesday warned against governments trying to weaken their currencies through monetary easing or market intervention. This could place unwanted attention on the yuan after the U.S. Treasury declared China a currency manipulator in an escalation of the U.S.-China trade war.

Sterling traded a tad lower at 91.39 pence per euro, on course for its second day of losses, as uncertainty about Britain's exit from the European Union weighed on the pound.

COMMODITIES

Gold prices were steady on Thursday, holding above the key \$1,500 an ounce level, as investors awaited a U.S. central bankers' meeting for clues on future interest rate cuts. Oil prices rose on Thursday following a drawdown in U.S. crude inventories, but gains in fuel inventories and persistent concerns over the global economy and future demand outlook capped gains.

ECONOMIC INDICATORS

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

| | |
|------------------|------|
| 3 Months | 7.84 |
| 6 Months | 7.89 |
| 12 Months | 8.31 |

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

| | |
|---------------|-------|
| 2 Year | 8.93 |
| 3Year | 9.20 |
| 4 Year | 9.62 |
| 5 Year | 9.95 |
| 6 Year | 9.95 |
| 7 Year | 10.08 |
| 8 Year | 10.10 |

LIBOR

| | USD | EUR | JPY | GBP |
|------------------|------|--------|--------|------|
| 1 Month | 2.17 | (0.44) | (0.10) | 0.70 |
| 3 Months | 2.14 | (0.44) | (0.10) | 0.76 |
| 6 Months | 2.02 | (0.45) | (0.04) | 0.80 |
| 12 Months | 1.94 | (0.42) | 0.02 | 0.84 |

SLIBOR (21/08/2019)

| | |
|------------------|--------|
| Overnight | 7.80% |
| 1 Week | 8.02% |
| 1 Month | 8.11% |
| 3 Months | 8.76% |
| 6 Months | 10.14% |

AWPLR %

| | |
|--------------------------|-------|
| Week ending 16/08 | 10.77 |
| Week ago | 10.52 |
| Year ago | 11.41 |

AWDR %

| | |
|------------------|------|
| July 2019 | 8.88 |
| June 2019 | 8.94 |
| Year ago | 8.64 |

INFLATION (%)

| | May 2019 | June 2019 | July 2019 | Year ago |
|-------------------|----------|-----------|-----------|----------|
| NCPI (YoY) | 3.5 | 2.1 | 2.2 | 3.4 |
| CCPI (YoY) | 5.0 | 3.8 | 3.3 | 5.4 |
| (12M W.Av) | 4.2 | 4.2 | 4.0 | 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.)