

TREASURY COMMENTARY – 07 JULY 2020

LOCAL MARKET

MONEY

Overnight call-money traded at 5.50%-5.52% on Monday (06.07.2020). Net market liquidity with the Central Bank was a Surplus of Rs 162.62 Bn on Monday from a Surplus of Rs.165.52 Bn on Friday (03.07.2020).

USD/LKR MARKET VOLUMES

VOLUME (USD Mn)
AS AT 06.07.2020

Cash	18.50
Tom	13.75
Spot	32.83
Forwards	43.50

MARKET LEVELS

Cash	185.25/186.35
Spot	185.35/186.45

INTERNATIONAL MARKET

FOREX

The dollar nursed losses in Asian trading on Tuesday and riskier currencies added a fraction to galloping gains, after better-than-expected U.S. services data provided the latest boost to confidence in a worldwide economic recovery from the COVID-19 pandemic. Against a basket of currencies, the dollar huddled near a two-week low. The Chinese yuan picked up where it left off after soaring with runaway Chinese equities on Monday and briefly broke past the 7 per dollar barrier. The Antipodean currencies tagged along for the ride. The surge came after a front-page editorial in the China Securities Journal, affiliated with state-run Xinhua, said fundamentals laid the foundation for a "healthy bull market". Data also showed U.S. service industry activity rebounded to almost pre-pandemic levels last month, with the headline figure of 57.1 well ahead of expectations around 50.2.

The kiwi rose as much as 0.3% to a one-month high of \$0.6580, testing resistance around \$0.6585. The Australian dollar was steady at \$0.6976. Both are making a renewed tilt at the top of the ranges they have held for weeks, taking cues from ebullient stock markets. The push higher in riskier currencies this week comes despite the rapid spread of the coronavirus casting doubts over the global recovery. Florida's greater Miami area became the latest U.S. hot spot to roll back its reopening, ordering all restaurant dining closed on Monday as COVID-19 cases surged nationwide by the tens of thousands and the U.S. death toll topped 130,000. Australia shuts the border between its two most populous states at one minute before midnight on Tuesday, as it attempts to contain a coronavirus outbreak in the city of Melbourne. But as central banks pump cash into the world's financial system and data shows rebounds in activity from April and May doldrums, the dollar's 50-day moving average has fallen below its 200-day average - often a bad signal for the greenback. The pattern has been followed by a period of dollar weakness in eight out of nine instances since 1980, according to analysts at Bank of America. Ahead on Tuesday, the Reserve Bank of Australia meets at 0430 GMT and is expected to keep interest rates on hold at a record low 0.25%.

COMMODITIES

Gold prices edged higher on Tuesday, hovering near an eight-year high, as concerns over surging coronavirus cases around the world kept bullion's safety demand elevated. Oil prices cautiously rose in early trade on Tuesday with major producers sticking to supply cuts, but gains were capped as U.S. coronavirus cases surged, potentially hampering a recovery in fuel demand.

ECONOMIC INDICATORS

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

3 Months	5.08
6 Months	5.22
12 Months	5.45

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

2 Year	5.85
3Year	5.90
4 Year	6.48
5 Year	6.60
6 Year	6.80
7 Year	7.00
8 Year	7.05

LIBOR

	USD	EUR	JPY	GBP
1 Month	0.16	(0.50)	(0.08)	0.07
3 Months	0.28	(0.42)	(0.05)	0.11
6 Months	0.37	(0.34)	(0.02)	0.30
12 Months	0.51	(0.24)	0.11	0.42

AWPLR %

Week ending 03/07	8.48
Week ago	8.65
Year ago	11.13

AWDR %

June 2020	7.38
May 2020	7.57
Year ago	8.88

INFLATION (%)

	April 2020	May 2020	June 2020	Year ago
NCPI (YoY)	5.9	5.2	-	3.5
CCPI(YoY)	5.2	4.0	3.9	3.8
(12MW.Av)	4.8	4.7	4.7	4.2

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.)