

TREASURY COMMENTARY – 27 OCTOBER 2020

LOCAL MARKET

MONEY

Overnight call-money traded in a range of 4.51%-4.54% on Monday (26.10.2020). Net market liquidity with the Central Bank was a Surplus of Rs 191.59 Bn on Monday from a Surplus of Rs.203.11 Bn on Friday (23.10.2020).

USD/LKR MARKET VOLUMES

VOLUME (USD Mn)
AS AT 26.10.2020

Cash	19.50
Tom	3.00
Spot	13.00
Forwards	34.97

MARKET LEVELS

Cash	183.80/184.90
Spot	183.82/184.92

INTERNATIONAL MARKET

FOREX

The dollar clung to small gains on in Asian trading on Tuesday as the greenback's safe-haven appeal was burnished by worries about a second wave of COVID-19, which drove the steepest stock market selloff in a month and underpinned a bond rally. The United States, Russia and France all hit new daily records for coronavirus infections and overnight the S&P 500 index fell 1.9% and Germany's DAX dropped 3.7%. Moves in the currency market were more muted, though the dollar index lifted about 0.3% overnight and held there early in Asia trade while regional equities fell. The largest gains for the greenback on Monday came against the up 0.4%, which was hit by a drop in German business confidence, and a 0.7% rise on the Canadian dollar as oil prices slumped. The yuan nursed a 0.5% loss as Sino-U.S. tensions flared over arms sales to Taiwan.

The usually risk-sensitive Australian and New Zealand dollars dipped only marginally overnight and were firm in the early part of the Asia session. The Japanese yen did not move much as U.S. equities sold off, and was steady at 104.76 per dollar in Asia. Sterling slipped overnight but was back above \$1.30 on Tuesday. A week out from polling day, national polls give Democrat Joe Biden a solid lead but the contest is much tighter in battleground states that could decide the outcome. Analysts regard a Biden victory, and especially Democrat control of the Senate, as negative for the dollar since it is expected to deliver big stimulus spending that would boost investor sentiment and drive demand for riskier currencies. Positioning data showed long bets on the yen shrank for a fourth straight week last week, as investors wagered on a Biden victory, though short bets against the yen also fell - pointing to heightened uncertainty around the vote.

COMMODITIES

Gold prices gained in early Asia trade on Tuesday, supported by a weaker dollar and concerns stemming from the surging coronavirus spread globally and its economic fallout. Gold tends to benefit from widespread stimulus measures from central banks because it is widely viewed as a hedge against inflation and currency debasement. Oil prices regained a semblance of stability on Tuesday after suffering sharp losses over the previous session and last week, as a resurgence of coronavirus cases globally hit prospects for crude demand while increasing supply also hurt sentiment.

ECONOMIC INDICATORS

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

3 Months	Rejected
6 Months	3.87
12 Months	4.13

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

2 Year	5.60
3Year	5.95
4 Year	6.14
5 Year	6.40
6 Year	6.60
7 Year	6.95
8 Year	7.10

LIBOR

	USD	EUR	JPY	GBP
1 Month	0.16	(0.56)	(0.08)	0.05
3 Months	0.22	(0.53)	(0.09)	0.05
6 Months	0.25	(0.51)	(0.06)	0.07
12 Months	0.34	(0.46)	0.05	0.13

AWPLR %

Week ending 23/10	5.72
Week ago	6.51
Year ago	10.29

AWDR %

Sep 2020	6.44
Aug 2020	6.74
Year ago	8.51

INFLATION (%)

	July 2020	August 2020	September 2020	Year ago
NCPI (YoY)	6.1	6.2	6.4	5.0
CCPI(YoY)	4.2	4.1	4.0	5.0
(12MW.Av)	4.8	4.8	4.7	3.9

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.)