

TREASURY COMMENTARY – 29 OCTOBER 2020

LOCAL MARKET

MONEY

Overnight call-money traded in a range of 4.51%-4.54% on Wednesday (28.10.2020). Net market liquidity with the Central Bank was a Surplus of Rs 191.26 Bn on Wednesday from a Surplus of Rs.191.21 Bn on Tuesday (27.10.2020).

USD/LKR MARKET VOLUMES

VOLUME (USD Mn)
AS AT 28.10.2020

Cash	4.50
Tom	14.00
Spot	17.75
Forwards	22.11

MARKET LEVELS

Cash	183.75/184.85
Spot	183.77/184.87

INTERNATIONAL MARKET

FOREX

The dollar held gains against a basket of major currencies in Asian trading on Thursday as escalating coronavirus cases in Europe stoked fears across markets that fresh lockdowns would further hit the already fragile economic recovery. The safe-haven greenback steadied against a basket of six currencies at 93.41, taking a pause after its 0.3% gains in early trade.

Concerns of further damage to the economic recovery grew as French President Emmanuel Macron and German Chancellor Angela Merkel ordered their countries back into lockdown on Wednesday, as a massive second wave of coronavirus cases threatened to overwhelm Europe. The euro changed hands at \$1.1753 after sliding to a one-week low of \$1.1718 overnight. It also steadied against the Japanese yen, last fetching 122.63 yen after hitting its weakest levels since July overnight. Amid surging cases across Europe, the European Central Bank meeting on Thursday is expected to resist pressure to unveil new stimulus measures, but will likely pave the way for action in December. Traders also braced for volatility with the U.S election less than a week away, while the country, like Europe, also faces an increase in coronavirus infections. With former Vice President Joe Biden consistently leading in the polls over President Donald Trump, traders cautiously bet on his victory and a possible "blue wave" outcome, where Democrats control both chambers of Congress. The greenback steadied against the Japanese yen at 104.33 yen, having dropped to a more than one-month low on Wednesday. The Bank of Japan ends its two-day policy meeting later in the day and analysts expect the central bank to keep monetary settings unchanged.

The Australian dollar drifted away from its near one-week low of \$0.7038 marked overnight. It last sat at \$0.7063. The Bank of Canada said on Wednesday it expects interest rates to remain at current record lows until 2023 and reduced its weekly bond-buying programme.

COMMODITIES

Gold was little changed on Thursday, trading near a one-month low hit in the previous session, as fears of the economic impact from a fresh wave of the novel coronavirus in Europe kept the dollar around a one-week high it hit on Wednesday. Oil prices rose in early trading on Thursday, regaining some of the ground lost in a 5% slump overnight, amid the prospect of tighter short-term supply with two-thirds of U.S. output shut in the Gulf of Mexico as Hurricane Zeta slammed Louisiana.

ECONOMIC INDICATORS

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

3 Months	4.57
6 Months	4.69
12 Months	4.96

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

2 Year	5.65
3Year	5.90
4 Year	6.18
5 Year	6.45
6 Year	6.65
7 Year	7.03
8 Year	7.15

LIBOR

	USD	EUR	JPY	GBP
1 Month	0.14	(0.57)	(0.08)	0.04
3 Months	0.21	(0.53)	(0.10)	0.05
6 Months	0.25	(0.51)	(0.07)	0.06
12 Months	0.33	(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.)