

TREASURY COMMENTARY – 15 JANUARY 2021

LOCAL MARKET

MONEY

Overnight call-money traded in a range of 4.53%-4.55% on Wednesday (13.01.2021). Net market liquidity with the Central Bank was a Surplus of Rs 204.38 Bn on Wednesday from a Surplus of Rs.232.90 Bn on Tuesday (12.01.2021).

USD/LKR MARKET VOLUMES

VOLUME (USD Mn)
AS AT 13.01.2021

Cash	4.25
Tom	12.75
Spot	12.00
Forwards	78.55

MARKET LEVELS

Cash	192.50/196.50
Spot	192.52/196.52

INTERNATIONAL MARKET

FOREX

The dollar drifted lower in Asian trading on Friday in choppy trading, after Federal Reserve Chair Jerome Powell struck a dovish tone, saying the U.S. central bank is not raising interest rates anytime soon and rejecting suggestions the Fed might start reducing its bond purchases in the near term. The Fed's asset-buying program to support financial markets in a pandemic has weighed on the dollar, as it increased the supply of the currency and diminished its value.

The dollar, though, traded higher for most of yesterday's session, in line with a rise in Treasury yields, amid upbeat expectations about President-elect Joe Biden's fiscal stimulus. But it changed direction as Powell spoke. Powell said the economy remains far from the Fed's goals and he sees no reason to alter its highly accommodative stance "until the job is well and truly done." The Fed chairman was in a live-streamed interview with a Princeton University professor. In late afternoon trading, the dollar index was little changed to slightly lower at 90.24. Investors also awaited details of Biden's pandemic relief plan. Since hitting a three-year low last week, the dollar has risen about 1.2%, as the prospect of more stimulus has weighed on U.S. government bonds, sending the benchmark 10-year Treasury yield above 1% for the first time since March.

Expectations are high for the stimulus, but many analysts believe the spending push has already been priced in. The euro eased 0.1% to \$1.2151, despite positive news from the bloc's economic powerhouse. Germany's economy shrank by 5% in 2020, less than expected and a smaller contraction than during the global financial crisis. The euro, however, is being weighed down by expectations that the European Central Bank will be monitoring exchange rates more closely. The euro has gained about 6.3% over the last six months. ECB policymaker Francois Villeroy de Galhau said on Wednesday the ECB was keeping a close eye on exchange rate developments and their negative impact on inflation. The dollar fell 0.1% versus the yen to 103.75. Bitcoin held gains on Thursday after a slide of nearly \$12,000 from last week's record high of \$42,000. It rose about 5.7% to \$39,536 on Thursday, after hitting a session high above \$40,000. Interest in the cryptocurrency has surged as institutional investors began buying heavily, viewing it as both an inflation hedge and as exposed to gains if it becomes more widely adopted.

COMMODITIES

Gold rose on Friday as U.S. President-elect Joe Biden unveiled a massive stimulus plan, while U.S. Federal Reserve Chair Jerome Powell's commitment to keep monetary policy dovish further boosted the metal's appeal. Oil prices were mixed on Friday as strong import data from China, the world's biggest crude importer, that boosted sentiment earlier ran into concerns about Chinese cities in lockdown due to coronavirus outbreaks.

ECONOMIC INDICATORS

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

3 Months	4.70
6 Months	4.78
12 Months	5.02

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

2 Year	5.35
3Year	6.00
4 Year	6.35
5 Year	6.60
6 Year	7.05
7 Year	7.15
8 Year	7.40

LIBOR

	USD	EUR	JPY	GBP
1 Month	0.13	(0.59)	(0.06)	0.03
3 Months	0.23	(0.55)	(0.08)	0.03
6 Months	0.25	(0.53)	(0.05)	0.04
12 Months	0.33	(0.50)	0.04	0.08

AWPLR %

Week ending 08/01	5.75
Week ago	5.81
Year ago	9.76

AWDR %

Dec 2020	5.80
Nov 2020	6.01
Year ago	8.20

INFLATION (%)

	October 2020	November 2020	December 2020	Year ago
NCPI (YoY)	5.5	5.2	-	4.1
CCPI(YoY)	4.0	4.1	4.2	4.8
(12MW.Av)	4.6	4.6	4.6	4.3

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