

TREASURY COMMENTARY – 22 JUNE 2021

LOCAL MARKET

MONEY

Overnight call-money traded in the range of 4.70 % - 4.90 % on Monday (21.06.2021). Net market liquidity with the Central Bank was a Surplus of Rs 87.29 on Monday from a Surplus of Rs.94.09 Bn on Friday (18.06.2021).

USD/LKR MARKET VOLUMES

VOLUME (USD Mn)
AS AT 21.06.2021

Cash	14.60
Tom	-
Spot	06.00
Forwards	18.50

MARKET LEVELS

Cash	199.00/203.00
Spot	199.02/203.02

INTERNATIONAL MARKET

FOREX

The dollar paused for breath in Asian trading on Tuesday as traders looked to testimony from U.S. Federal Reserve chair Jerome Powell for guidance, after a surprise shift in the central bank's policy outlook, while cryptocurrencies nursed heavy losses. The greenback has gained sharply since the Fed last week flagged sooner-than-expected interest rate hikes, but dipped on Monday to hand back a little bit of that rise. Against the euro the dollar nursed an overnight loss of about 0.4% to steady around \$1.1909. It held at 110.31 yen and the dollar index was steady at 91.915 after a loss of about 0.5% on Monday. The Australian and New Zealand dollars eased - after snapping losing streaks on Monday - with the Aussie down 0.2% to \$0.7527 and the kiwi down 0.15% to \$0.6978. Over the next few weeks the Aussie dollar could drop to around 74 cents and the kiwi to around 68 cents, he said, before they both might recover as the U.S. dollar charts a "raggedy" rise on the back of a strong U.S. pandemic recovery. In the medium term, investors will be keenly focused on the U.S. labor market as its performance is likely to have an influence on the Fed's attitude. In the nearer future, all eyes are on Powell who appears before Congress from 1800 GMT. In prepared remarks he noted sustained labor market improvement and the recent increase in inflation. On Monday hawkish Fed officials such as St. Louis Fed President James Bullard and Dallas Fed President Robert Kaplan offered toned-down rhetoric. New York Fed President John Williams said it was too soon to shift policy, and that he expects inflation to ease from about 3% this year to close to 2% in 2022 and 2023 - which is something markets are not so sure about. "The Fed is nearly always late on such things," said RBC Capital Markets' chief economist Tom Porcelli, who thinks core inflation could be higher - just under 3% - by the end of 2022. "That is not 2% inflation," he said in a note, and it is going to eventually apply pressure to the Fed to move on rates. "In the meantime, we have no doubt with that 2% forecast as cover, Powell will attempt to play down the likelihood of a rate hike next year. But just as he eventually relented on taper talk, he will relent on dismissing talk about hiking rates too. Just give it more time."

COMMODITIES

Gold on Monday clawed back some losses from its biggest weekly percentage drop since March 2020, as a pause in the U.S. dollar's rally helped restore the metal's allure. China has issued 35.24 million tons of crude oil import quotas to non-state refiners in a second batch of allowances for 2021, a 35% drop from the same slot last year, according to a document seen by Reuters and two sources with knowledge of the matter.

ECONOMIC INDICATORS

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

3 Months	5.17
6 Months	5.17
12 Months	5.21

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

2 Year	6.10
3 Year	6.68
4 Year	7.00
5 Year	7.35
6 Year	7.65
7 Year	8.00
8 Year	8.25

LIBOR

	USD	EUR	JPY	GBP
1 Month	0.09	(0.57)	(0.07)	0.04
3 Months	0.13	(0.54)	(0.08)	0.08
6 Months	0.16	(0.52)	(0.05)	0.11
12 Months	0.25	(0.48)	0.04	0.18

AWPLR %

Week ending 18/06	5.74
Week ago	5.64
Year ago	8.94

AWDR %

May 2021	4.97
April 2021	5.07
Year ago	7.57

INFLATION (%)

	March 2021	April 2021	May 2021	Year ago
NCPI (YoY)	5.1	5.5	6.1	5.2
CCPI(YoY)	4.1	3.9	4.5	4.0
(12MW.Av)	4.0	3.9	3.9	4.7

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