

## TREASURY COMMENTARY – 26 OCTOBER 2021

### LOCAL MARKET

#### **MONEY**

Overnight call-money traded in the range of 5.80 % - 5.95 % on Monday (25.10.2021). Net market liquidity with the Central Bank was a deficit of Rs 142.68 Bn on Monday from a deficit of Rs. 134.34 Bn on Friday(22.10.2021).

#### **USD/LKR MARKET VOLUMES**

VOLUME (USD Mn)  
AS AT 25.10.2021

Cash	08.50
Tom	-
Spot	00.25
Forwards	08.50

#### **MARKET LEVELS (Indicative Levels)**

198.00 / 203.00

### INTERNATIONAL MARKET

#### **FOREX**

The dollar has bounced off recent lows and was firm in choppy trade in Asian trading on Tuesday ahead of a handful of data releases and central bank meetings which investors expect to guide the rates outlook. The euro fell 0.3% overnight on softer-than-forecast German business morale and expectations that the European Central Bank (ECB) will stay dovish when it meets on Thursday. The euro last bought \$1.1598, near a one-week low. Other overnight moves were modest, with the dollar easing a tad on the Aussie, kiwi and sterling. It was steady on Tuesday save for a small rise on Japan's yen to 113.83 yen, and a slight dip on the Aussie. The U.S. dollar index rose held at 93.856. Central bank meetings in Japan and Canada are also scheduled this week, as is the release of quarterly inflation data in Australia where rates markets are at odds with the resolutely dovish Reserve Bank of Australia (RBA) over the outlook. The Australian dollar edged up to \$0.7503 after having climbed as far as \$0.7546 last week, its highest since July. The kiwi held at \$0.7165. Economists expect growth in Australia's trimmed mean consumer prices, the central bank's preferred measure, to have accelerated to an annual pace of 1.8% in the September quarter from 1.6% in the preceding three months. Inflation in Canada has also put pressure on the central bank to pull forward rate hikes and traders are watching Wednesday's meeting for any hawkish clues. The Canadian dollar stands at C\$1.2383 per dollar, having scaled a four-month peak last week, while the gap between Canadian and U.S. 2-year yields has doubled since last month to 41 basis points in favor of the Canadian bond. The Bank of Japan also meets over Wednesday and Thursday, and sources have told Reuters that it is discussing phasing out a COVID-19 loan programme, though a decision before December is unlikely and no policy changes are expected this week. Beyond Friday, the Fed, the RBA and the Bank of England meet next week with markets having priced a roughly 60% chance that the Bank of England raises interest rates to head off inflation. Sterling has been firming at the prospect of higher rates and was last steady at \$1.3758. Monetary tightening is justified in this environment.

#### **COMMODITIES**

Gold prices edged lower on Tuesday, weighed down by an uptick in the dollar as investors eye upcoming key central bank meetings this week. Oil prices edged lower on Tuesday, taking a breather from a sustained rally driven by strong demand in the United States, the world's biggest consumer of oil and its products.

## ECONOMIC INDICATORS

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

<b>3 Months</b>	8.39
<b>6 Months</b>	8.16
<b>12 Months</b>	8.17

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

<b>2 Year</b>	9.25
<b>3 Year</b>	9.70
<b>4 Year</b>	10.25
<b>5 Year</b>	11.10
<b>6 Year</b>	11.50
<b>7 Year</b>	11.60
<b>8 Year</b>	11.75

### LIBOR

	USD	EUR	JPY	GBP
<b>1 Month</b>	0.08	(0.57)	(0.07)	0.12
<b>3 Months</b>	0.13	(0.56)	(0.08)	0.20
<b>6 Months</b>	0.17	(0.54)	(0.06)	0.40
<b>12 Months</b>	0.32	(0.48)	0.06	0.71

### AWPLR %

<b>Week ending 22/10</b>	7.23
<b>Week ago</b>	6.95
<b>Year ago</b>	5.72

### AWDR %

<b>September 2021</b>	4.75
<b>August 2021</b>	4.75
<b>Year ago</b>	6.44

### INFLATION (%)

	July 2021	August 2021	September 2021	Year ago
<b>NCPI (YoY)</b>	6.8	6.7	6.2	6.4
<b>CCPI(YoY)</b>	5.7	6.0	5.7	4.0
<b>(12MW.Av)</b>	4.2	4.3	4.5	4.7

### TREASURY DIVISION

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