

TREASURY COMMENTARY – 28 JANUARY 2022

LOCAL MARKET

MONEY

Overnight call-money traded in the range of 6.45 % - 6.50 % on Thursday (27.01.2022). Net market liquidity with the Central Bank was a deficit of Rs 452.19 Bn on Thursday from a deficit of Rs. 466.49 Bn on Wednesday (26.01.2022).

USD/LKR MARKET VOLUMES

VOLUME (USD Mn)
AS AT 27.01.2022

Cash	06.25
Tom	02.50
Spot	09.95
Forwards	16.25

MARKET LEVELS (Indicative Levels)

198.75 / 203.00

INTERNATIONAL MARKET

FOREX

The dollar was headed for its best week in seven months in Asian trade on Friday after breaking through key levels against the euro as traders priced in a year of aggressive U.S. interest rate hikes.

Federal Reserve chair Jerome Powell unleashed bets on five or more hikes this year after he left the door open on Wednesday to raising rates faster than in previous cycles. Data showing the best annual U.S. growth in nearly four decades didn't hurt either. Overnight the euro fell almost 0.9% to a 20-month low of \$1.1131, the yen fell 0.6% and the Australian and New Zealand dollars dropped more than 1%. For the week so far, the dollar has gained 1.7% on the euro, 2% or more on the Antipodeans and the U.S. dollar index has shot above 97 for the first time since July 2020. It last stood at 97.250. The greenback also leapt against the yuan on Thursday - its best session in seven months - as softening industrial profit growth in China bolstered the case for monetary easing there. Fed funds futures have moved to price in as many as five U.S. hikes this year with some analysts forecasting six.

Moves were modest in early Asia trade, leaving the yen at 115.40 per dollar and the Aussie clinging on at \$0.7029. The Aussie's next support is December's low of \$0.6994. The New Zealand dollar was kept under pressure and edged to a fresh 15-month low of \$0.6570.

Sterling was pushed to a one-month low of \$1.3360 overnight and hovered at \$1.3385 as traders turn their focus to a Bank of England meeting next week. Rates markets have priced a 90% chance of a hike.

The European Central Bank and the Reserve Bank of Australia also meet next week and some analysts see the dollar's surge starting to lose steam as economies and central banks around the world emerge from the pandemic during the year.

COMMODITIES

Gold was flat on Friday and set for its sharpest weekly decline since November, as markets digested the U.S. Federal Reserve's policy tightening plans that propelled the dollar index to a multi-month peak. Oil prices fell on Friday after Brent crude hit a seven-year high above \$90 a barrel, as the market balanced concerns about tight worldwide supply with expectations the U.S. Federal Reserve will soon tighten monetary policy.

ECONOMIC INDICATORS

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

3 Months	8.63
6 Months	8.55
12 Months	8.55

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

2 Year	9.75
3 Year	10.35
4 Year	11.50
5 Year	11.50
6 Year	11.55
7 Year	11.55
8 Year	11.85

LIBOR

	USD	EUR	JPY	GBP
1 Month	0.10	(0.56)	(0.06)	0.41
3 Months	0.29	(0.55)	(0.02)	0.61
6 Months	0.51	(0.52)	0.03	0.95
12 Months	0.92	(0.46)	0.11	1.05

AWPLR %

Week ending 21/1	8.65
Week ago	8.58
Year ago	5.76

AWDR %

December 2021	4.94
November 2021	4.82
Year ago	5.80

INFLATION (%)

	October 2021	November 2021	December 2021	Year ago
NCPI (YoY)	8.3	11.1	14.0	4.6
CCPI(YoY)	7.6	9.9	12.1	4.2
(12MW.Av)	4.8	5.3	6.0	4.6

TREASURY DIVISION

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