

TREASURY COMMENTARY – 26th September 2023

DOMESTIC MARKET

USD/LKR

The USD/LKR interbank market is active and is trading in the range of 318.00 and 328.00 today. However, the volatility is continuing in the market. The rupee has appreciated by approximately 12% against the USD during the year up to 26 September 2023.

USD/LKR Market Volume (USD Mn) on 25.09.2023

Cash	6.18
Tom	8.50
Spot	30.00
Forward	38.75

MONEY

Overnight call-money traded at 11.49% on Monday (25.09.2023). Net market liquidity was a deficit of Rs 68.96 Bn on Monday from a deficit of Rs 58.39 Bn on Friday.

FOREIGN MARKET

FOREX

The dollar stood by 10-month highs against a basket of major currencies in Asian trading on Tuesday, supported by U.S. bond yields scaling 16-year peaks, while the yen tiptoed deeper into the intervention danger zone.

A combination of resilient economic data, hawkish Federal Reserve rhetoric and a budget deficit to be financed by borrowing has the 10-year Treasury yield up more than 45 basis points in September to top 4.5% for the first time since 2007.

Rates markets are priced for an almost 40% risk of another Fed hike this year, against slimmer chances for another rise in Europe, and the difference has helped prop up a dollar many had bet would swiftly fall once short-term rates peaked.

As U.S. yields rose, the Euro lost 0.5% overnight, hitting a six-month trough of \$1.0575 and setting a course for its worst quarterly drop in a year, down about 3%.

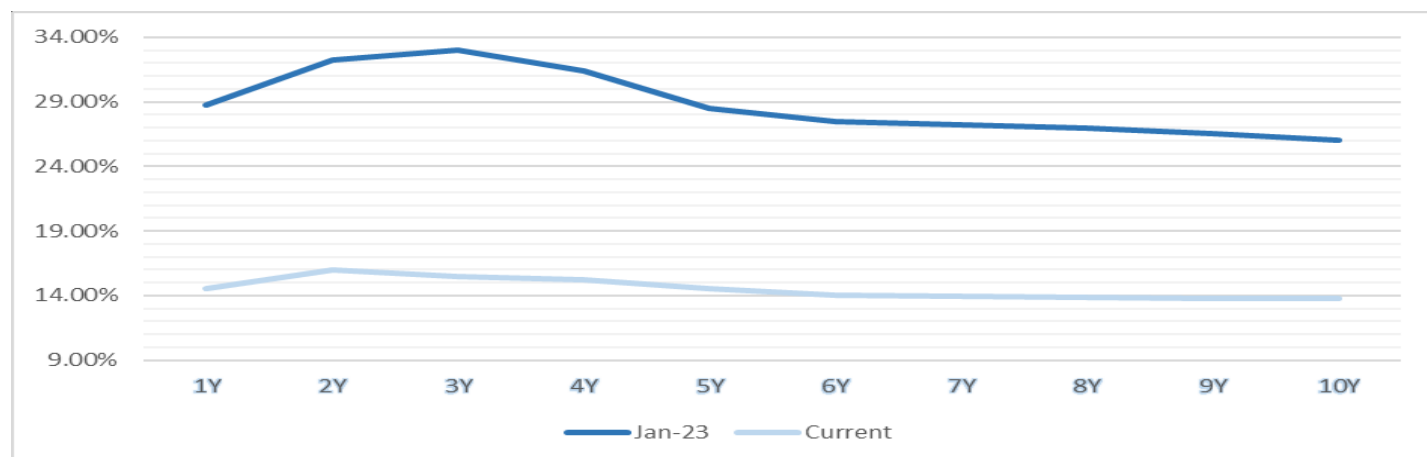
Sterling is also set to snap three quarters of gains, with a loss of 3.8% over the three months to September. It fell to a six-month low of \$1.2195 overnight and traded only a whisker above that level early in the Asia session. The U.S. dollar index touched its highest since November at 106.1. Rising commodity prices have provided some support to the antipodean currencies, though they have been mostly sideways for the past month or so. The Aussie was last steady at \$0.6417 and the kiwi at \$0.5962.

COMMODITIES

Gold prices drifted lower on Tuesday as the U.S. dollar and Treasury yields climbed, with investors awaiting a key consumer inflation report for more cues on whether the Federal Reserve will hike interest rates once again this year. Oil prices slipped in early trade on Tuesday amid concerns that fuel demand will be cramped by major central banks holding interest rates higher for longer, even with supply expected to be tight.

ECONOMIC INDICATORS

Bond Curve



AWPLR %		AWDR %		T BILL%	
Week ending 22/09	14.81	Aug 2023	14.15	3M	18.12
Week ago	15.21	July 2023	14.76	6M	15.38
Year ago	26.89	Year ago	10.49	1Y	13.32

INFLATION (%) (Base:2021=100)	June 2023	July 2023	Aug 2023	Year ago
NCPI (YoY)	10.8	4.6	2.1	70.2
NCPI (core)	11.3	6.3	4.1	60.5
CCPI(YoY)	12.0	6.3	4.0	64.3
CCPI (core)	9.8	5.9	4.6	46.6

CBSL reserves (USD) – Aug 23"	3,598 Bn
CBSL T-bill/bond holding	2,839.35 Bn
Market liquidity	(68.96) Bn
Foreign holding LKR bills/bonds	159.50 Bn

	O/N	1M	3M	6M	12M
USD SOFR	5.3000	5.3174	5.3911	5.4692	5.4668
EUR ESTR	3.9050	3.9060	3.9310	3.9670	3.9190
GBP SONIA	5.1855	5.1974	5.2690	5.34760	5.3944

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