

TREASURY COMMENTARY – 27th January 2023

DOMESTIC MARKET

USD/LKR

CBSL announced interbank spot middle rate at 362.14 while the interbank market remained inactive with most banks using internal flows to manage client trades.

USD/LKR Market Volume (USD Mn) on 26.01.2023

Cash	39.55
Tom	4.00
Spot	2.00
Forward	41.25

MONEY

Overnight call-money traded at 15.36 % on Thursday (26.01.2023). Net market liquidity was a deficit of Rs 91.49 Bn on Thursday from a deficit of Rs 166.55 Bn on Wednesday.

FOREIGN MARKET

FOREX

The U.S. dollar dropped against the yen on in Asian trading on Friday as traders bet a hawkish pivot from the Bank of Japan (BOJ) was still in the offing. The dollar also sagged close to a nine-month low versus the euro, amid market expectations the European Central Bank next week will implement a rate hike twice as big as the Federal Reserve's.

The U.S. currency dropped 0.43% to 129.65 yen in early trading, after data showed consumer price inflation in Tokyo accelerating to a nearly 42-year peak this month, ramping up pressure on the BOJ to step away from stimulus..

By contrast, the euro is headed for a 0.4% rise since last Friday in its third straight winning week. It was 0.07% stronger at \$1.08975 on the day, edging back towards the overnight high of \$1.09295, a level last seen in April.

Traders broadly expect the Fed to increase interest rates by 25 basis points (bps) on Wednesday, a step down from a 50 bps increase in December. Meanwhile, the ECB has all but committed to raising its key rate by half a percentage point on Thursday.

Sterling was also set for a third winning week against the greenback, eking out a 0.1% rise. It was flat on Friday at \$1.2411. The British currency remains near the seven-month peak of \$1.24475 reached at the start of this week, even as traders are still concerned about the task facing the Bank of England in controlling inflation without damaging an economy already in recession.

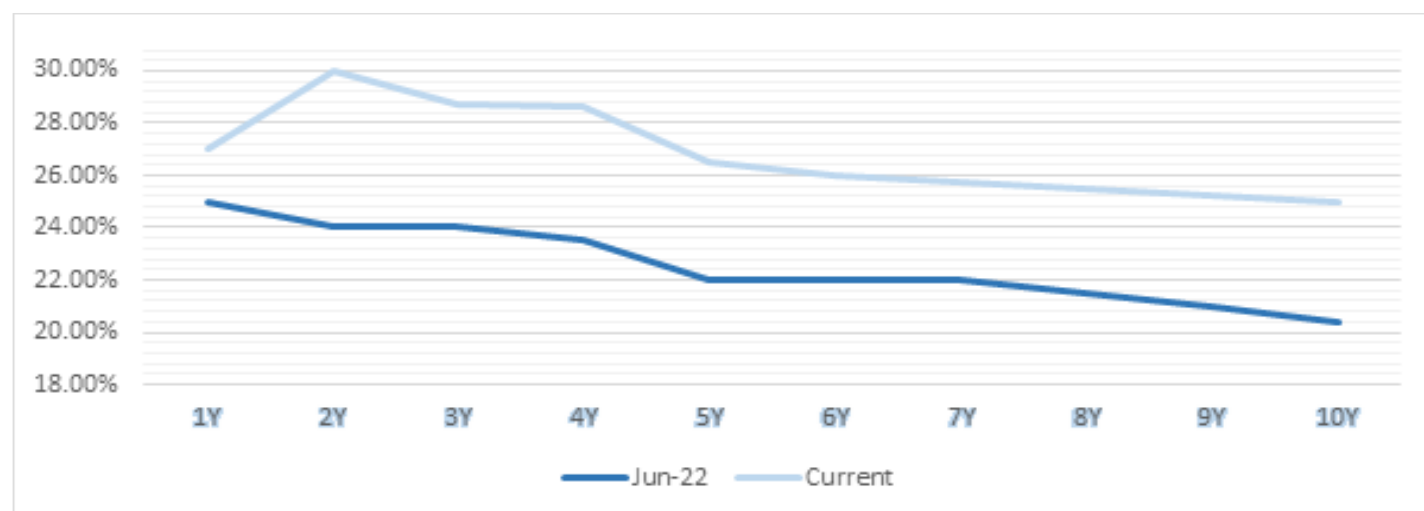
The risk sensitive Aussie dollar rose 0.11% to \$0.71225, bringing it closer to Thursday's seven-month high of \$0.71425. Australian inflation earlier in the week showed consumer prices climbing at the fastest pace in 33 years, fostering expectations that more Reserve Bank of Australia interest rate rises are due.

COMMODITIES

Gold prices were little changed in early Asian hours on Friday, as traders awaited U.S. inflation data due later in the day to gauge the Federal Reserve's rate-hike stance. Oil prices edged marginally higher on Friday, extending for a second session on strong U.S. economic data and strengthening hope that the reopening of the Chinese economy would boost demand.

ECONOMIC INDICATORS

Bond Curve



AWPLR %
Week ending 20/01 27.54
Week ago 27.93
Year ago 8.65

AWDR %
Dec 2022 14.06
Nov 2022 13.37
Year ago 4.94

T BILL%
3M 29.91
6M 28.72
1Y 27.78

INFLATION (%)	October 2022	November 2022	December 2022	Year ago
NCPI (YoY)	70.6	65.0	59.2	14.0
NCPI (core)	62.4	60.1	57.5	10.8
NCPI (12m ave)	42.2	46.7	50.4	7.0
CCPI(YoY)	66.0	61.0	57.2	12.1
CCPI (core)	49.7	49.4	47.7	8.3
CCPI (12m ave)	38.3	42.6	46.4	6.0

CBSL reserves (USD)	1.896 Bn	LIBOR	USD	EUR	JPY	GBP
CBSL T-bill/bond holding	2548.99 Bn	1M	4.55	2.06	(0.05)	3.82
Market liquidity	(91.49) Bn	3M	4.80	2.46	(0.05)	4.10
Foreign holding LKR bills/bonds	25.42 Bn	6M	5.11	2.93	0.05	4.47
		1Y	5.30	3.36	0.05	4.80

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(Sources: Reuters, Bloomberg)