

TREASURY COMMENTARY – 2nd February 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 01.02.2023

Cash	11.4
Tom	-
Spot	8.5
Forward	21.0

MONEY

Overnight call-money traded at 15.47 % on Wednesday (01.02.2023). Net market liquidity was a deficit of Rs 109.52 Bn on Wednesday from a deficit of Rs 44.85 Bn on Tuesday.

FOREIGN MARKET

FOREX

The dollar tumbled in Asian trading on Thursday after the U.S. Federal Reserve said it had turned a corner in the fight against inflation, giving markets a confidence boost that the end of its rate-hike campaign is near.

Investors took a dovish cue from Fed Chair Jerome Powell's remarks on Wednesday that "the disinflationary process has started" in the world's largest economy, although he also signalled that interest rates would continue rising and that cuts were not in the offing.

The Fed's statement on Wednesday, which came after the conclusion of its two-day policy meeting where policymakers agreed to raise rates by 25 basis points, marked the central bank's first explicit acknowledgment of slowing inflation.

The dollar dived following Powell's remarks, and against a basket of currencies, the U.S. dollar index fell to a fresh nine-month low of 100.80.

The Aussie jumped to a new eight-month high of \$0.7158 in early Asia trade on Thursday, after rallying 1.2% in the previous session.

Against the Japanese yen, the dollar fell 0.55% to 128.21.

The kiwi, which similarly jumped more than 1% on Wednesday, was last 0.25% higher at \$0.6523.

With the Fed out of the way, the stage is set for the European Central Bank (ECB) and the Bank of England (BoE) to announce their rate decisions later on Thursday, where expectations are for a 50bp hike from each.

The euro rose to a roughly 10-month peak of \$1.1034 on Thursday, after gaining 1.2% in the previous session, while sterling was last 0.19% higher at \$1.2399.

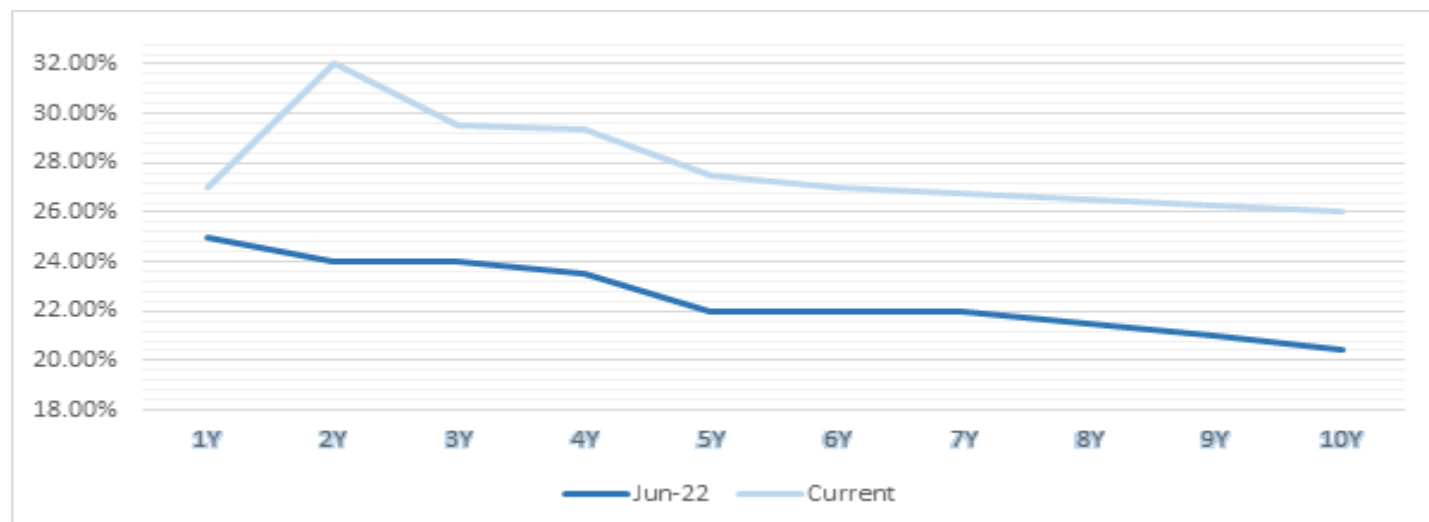
COMMODITIES

Gold prices extended gains on Thursday to touch their highest in more than nine months, after the U.S. central bank raised interest rates by an expected 25 basis points and comments from Chair Jerome Powell were read as dovish by the market.

Oil prices rose in early Asian trade on Thursday after the U.S. Federal Reserve raised interest rates by 25 basis points, sending the dollar lower.

ECONOMIC INDICATORS

Bond Curve



AWPLR %
Week ending 27/01 25.28
Week ago 27.54
Year ago 8.52

AWDR %
Dec 2022 14.06
Nov 2022 13.37
Year ago 4.94

T BILL%
3M 29.91
6M 28.72
1Y 27.72

INFLATION (%)

	November 2022	December 2022	January 2023	Year ago
NCPI (YoY)	65.0	59.2	-	14.0
NCPI (core)	60.1	57.5	-	10.8
NCPI (12m ave)	46.7	50.4	-	7.0
CCPI(YoY)	61.0	57.2	54.2	14.2
CCPI (core)	49.4	47.7	45.6	9.9
CCPI (12m ave)	42.6	46.4	49.6	6.9

CBSL reserves (USD)	1.896 Bn	LIBOR	USD	EUR	JPY	GBP
CBSL T-bill/bond holding	2548.99 Bn	1M	4.58	2.18	(0.05)	3.89
Market liquidity	-109.52 Bn	3M	4.80	2.51	(0.05)	4.14
Foreign holding LKR bills/bonds	25.47 Bn	6M	5.09	2.99	0.05	4.49
		1Y	5.31	3.41	0.05	4.80

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(Sources: Reuters, Bloomberg)