The dollar closed trading at 181.60, marginally higher against the rupee on Friday after trading in range of 181.40-181.80 last week. The market was subdued and the rates were relatively stable on the back of interbank and limited exporter selling throughout the week. The market trading volumes were low compared to previous week with an average of Usd 50-70 mln. Central Bank raised USD 180 mln under SLDB last week and revised the foreign investment threshold in Treasury bill and bonds, down from 10% to 5% out of the total outstanding issuance with effect from 18th January. This move is to curb excesses volatility in the exchange rates and BoP as foreign investors moved Lkr 86.7 bln of Lkr bonds and bills between 25 Oct and 16th Jan 2019. Forward premiums closed unchanged from the previous week to close at 0.90, 2.85, 5.70, and 11.65 for 3, 6, and 12 months respectively.

Sri Lanka new vehicle registrations fell sharply to 22,943 in December, down from 31,358 in October 2018, as import restrictions on motor vehicles dampened the demand. Last year Sri Lanka imported USd 222 mln worth of vehicles up to October 2018, 137% increase over same period in 2017. Overnight call rates remained in a range of 8.95%-9.00% throughout last week. Market liquidity shortfall was at Lkr 138.0 bln last week.

**INTERNATIONAL MARKET**

The dollar fell on Friday from its three-week highs in the previous session, as traders' focus shifted to the Federal Reserve's policy meeting next week when the U.S. central bank is expected to leave interest rates unchanged. The Fed raised interest rates four times last year and has signaled it will probably lift borrowing costs twice in 2019, though some central bank officials have said they will be patient in raising rates. In mid-morning trading, the dollar index was down 0.6 percent at 96.046, after climbing to a three-week high of 96.676 on Thursday. The dollar's decline also coincided with a rally in U.S. stocks, which were bolstered by upbeat earnings. The euro, on the other hand, rebounded on Friday, steadying after a dovish European Central Bank President Mario Draghi failed to alter an already downbeat assessment on the eurozone's economy.

Draghi warned on Thursday that a dip in the euro zone's economy could be more pronounced than thought a few weeks ago, comments seen as signaling a delay in the bank's first interest rate hike. The euro on Thursday weakened broadly on those comments and fell to a two-month low of $1.2886 against the dollar. But on Friday, the single currency recovered, rising 0.7 percent to $1.379. Markets are pricing in an ECB interest rate rise only for mid-2020 as the euro zone economy is suffering its biggest slowdown in more than half a decade, with no recovery in sight. The euro has traded in a range of $1.12 to $1.16 for the past three months, and analysts expect it to underperform in the near term as monetary policy is expected to remain accommodative.

Sterling reached an 11-week high on Friday after a report in the Sun newspaper that Northern Ireland's Democratic Unionist Party had privately decided to offer conditional backing for British Prime Minister Theresa May's Brexit deal next week. The report pushed the pound 0.4 percent higher to 0.7179, its highest level since Nov. 9. (Source – Reuters)