Weekly Treasury Market Report

17th June, 2019

10th Jun – 14th Jun 2019

LOCAL MARKET

The Sri Lankan rupee ended the week on a weaker note to close at 176.95 against the Usd, after opening at 176.50. The market was relatively active with increased volumes from exporters and foreign investors towards early part of the week as it met the importer demand which was relatively subdued. However, the rupee weakened by 0.40 cents towards the latter part of the week on the back of investor demand and possible Central Bank buying of Usd from the open market. Central Bank so far bought a net of Usd 138 mln this year as a part of its 2019 strategy to build up reserve from the open market. Outstanding T bill and bond holding by foreign investors edged higher to Usd 807.63 mln from Usd 805.86 mln. Forward premiums continued to moved lower on the narrowing interest rate differentials and it closed at 0.70, 2.15, 4.30 and 9.50 for 1, 3, 6 and 12 months. Overnight call rates inched up marginally to trade at 8.0% from 7.95% with market liquidity in the surplus at Lkr 56.08 bln. 1 year Tbll yields stabilized tad below 9.0% after Central Bank rejected the auction bids received for 1 year tenor last week. (see table)

INTERNATIONAL MARKET

The dollar index climbed to its highest level in a week on Friday after encouraging retail sales data for May eased fears that the U.S. economy is slowing sharply, ahead of the Federal Reserve’s meeting next week. The Commerce Department said on Friday retail sales rose 0.5% last month, just slightly below economists’ expectations of a 0.6% gain. Data for April was revised up to show retail sales gaining 0.3%, instead of dropping 0.2% as previously reported. The dollar has recovered in the last week from a weak start to June, as investors consider whether rate cut expectations have gotten too far-fetched relative to the data.

With international economic growth slowing, investors are nervous that U.S. President Donald Trump will impose tariffs on Japan and Europe, which could result in more dovish central banks globally and give the dollar a relative advantage. The U.S. economy is also seen as better placed to handle trade tensions than other countries. The dollar “has benefited to date from negative globalization news as the domestic side of the U.S. economy has looked sufficiently robust to deal with trade-related headwinds,” Morgan Stanley analysts said in a report on Friday.

Chinese data on Friday flashed more warning signs in May, with industrial output growth unexpectedly slowing to a more than 17-year low and investment cooling, underlining a need for more stimulus. The Fed is not widely expected to lower interest rates when it meets on June 18-19, though investors will watch for new signals that a cut may come in July. Interest rate futures traders are pricing in a 23% chance of a cut in June, and an 87% likelihood of at least one cut in July, according to the CME Group’s FedWatch Tool. (Source – Reuters)

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