**Weekly Treasury Market Report**

**05th August, 2019**

**LOCAL MARKET**

The Sri Lankan rupee closed trading at 176.70 from 176.40 against the USD, up by 0.40 cents compared to last Monday in a lackluster week of trading. The market trading volume was low compared to the previous week as inflow of USD from exporters and foreign investors were limited while regular importer demand was intact. Stronger USD in the international market may have also influenced some of the investors to hold in USD. The trading range for the week was at 176.30-176.75.

Forward premiums closed lower by 0.50 cents especially in the 6 and 12 moth tenors at 0.55, 1.65, 3.60 and 7.25 for 1, 3, 6 and 12 months respectively. According to market sources, speculation of further reduction in the yields in G Sec markets have contributed towards lower premiums especially in the longer tenors.

In other news, Sri Lanka is planning to issue a Usd 500 mln Samurai bonds (Japanese Yen denominated) shortly.

Overnight call rates closed lower at 7.70% after trading in a range of 7.60%-7.80%. Market liquidity remains in the surplus at Lkr 34.25 bln.

**INTERNATIONAL MARKET**

U.S. job growth slowed in July and manufacturers slashed hours for workers, which together with an escalation in trade tensions between the United States and China could give the Federal Reserve ammunition to cut interest rates again next month.

The Labor Department’s closely watched monthly employment report on Friday came a day after President Donald Trump announced an additional 10% tariff on $300 billion worth of Chinese imports starting Sept. 1, a move that led financial markets to fully price in a rate cut in September.

The U.S. central bank on Wednesday cut its short-term interest rate for the first time since 2008. Fed Chairman Jerome Powell described the widely anticipated 25-basis-point monetary policy easing as insurance against downside risks to the 10-year old economic expansion, the longest in history, from trade tensions and slowing global growth. Nonfarm payrolls increased by 164,000 jobs last month, the government said. The economy created 41,000 fewer jobs in May and June than previously reported. July’s job gains were in line with economists’ expectations.

Underscoring the moderation in hiring, the average workweek fell to its lowest level in nearly two years in July as manufacturers cut hours for workers. Hours were also reduced in other industries, contributing to the workweek’s drop to 34.3 hours, the fewest since September 2017, from 34.4 hours in June. The U.S.-China trade war is taking a toll on manufacturing, with production declining for two straight quarters. Business investment has also been hit, contracting in the second quarter for the first time in more than three years and helping to hold back the economy to a 2.1% annualized growth rate. The economy grew at a 3.1% pace in the first quarter. – (Source – Reuters)

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