

Weekly Treasury Market Report

31st August, 2020

24th Aug – 28th Aug 2020

LOCAL MARKET

The Sri Lankan rupee closed weaker against the US currency at 186.50 on Friday, after opening the week at 184.75. The weakness of the local currency was attributed to demand from importers in the forward market and investor buying in a thin market conditions. Average interbank volume during the week was at Usd 48.0 mln with Friday registering a mere Usd 33.0 mln. The Rupee has been depreciated against the Usd by 2.5% from beginning of 2020.

Usd/Lkr premiums held steady on import covering to close at 0.20, 0.30, 0.75 and 1.80 for 1, 3, 6 and 12 months respectively. Market liquidity remained in the surplus of Lkr 193 bln with interbank call money rates trading at 4.50%. T-bill yields closed marginally lower across all maturities (see table)

According to CBSL data, during the first half of 2020, government revenue has declined to Lkr. 663.4 bn from Lkr. 888.0 bn recorded in the corresponding period of 2019, while total expenditure and net lending declined to Lkr. 1,401.2 bn from Lkr. 1,410.3 bn recorded in the corresponding period of 2019. Overall budget deficit increased to Lkr. 735.7 bn during the first half of 2020 from Lkr. 521.7 bn recorded in the corresponding period of the previous year.

INTERNATIONAL MARKET



The dollar registered its fourth consecutive monthly decline on Monday; its longest streak since 2017, while the yen studied after Yoshihide Suga is expected to succeed Prime Minister Abe who announced his resignation last week. Yoshihide Suga, Chief Cabinet Secretary to Abe, would be expected to extend the fiscal and monetary stimulus that defined Abe's term in government. Yen eased to 105.55 from 104.19 on Friday in the wake of Abe's resignation.

A speech last Thursday in which Federal Reserve Chair Jerome Powell outlined an accommodative shift in the central bank's approach to inflation has weighed on the greenback as investors interpreted it as US interest rates would stay lower for longer. For the month of August, the dollar is down nearly 1.3% against a basket of currencies and about 1% against the euro, having dropped more than 10% against both since March. Aud touched a 21 month high at 0.7369 against the dollar on broader USD weakness despite RBA's rate decision this week which is expected to remain unchanged at 0.25% The euro 0.1% to 1.1921 early in the Asia session. Sterling last traded at \$1.3358. Besides Japanese politics, investors are watching U.S. opinion polls this week in the wake of the political party conventions and, on the data front, the Purchasing Managers' Index figures in China and across major economies, as well as Friday's U.S. payrolls number.

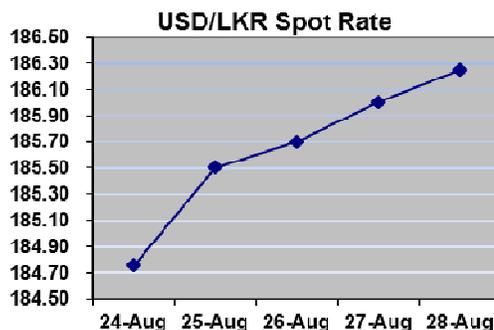
(Source – Refinitive Thomson Reuters)

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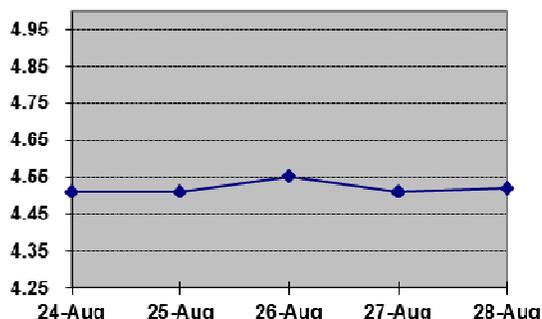
Primary Market Treasury Bills

Week Ending 28th Aug 2020

	W/avg.	Previous	Change	
3 m	4.56%	4.59%	- 0.03%	
6 m	4.68%	4.71%	- 0.03%	
12m	4.89%	4.90%	- 0.01%	*R - Rejected



Interbank Lkr O/N rates %



As at 28th Aug, 2020

USD LIBOR		LKR AWPL Rates	
1 mth	0.16%	Weekly	6.66%
3 mths	0.24%	Monthly	7.01%
6 mths	0.31%	Semiannual	8.60%
12mths	0.44%		

Foreign Exchange Rates

	Friday Closing New York
EUR/USD	1.1903
USD/JPY	105.34
AUD/USD	0.7366
GBP/USD	1.3349

