

Weekly Treasury Market Report

18th January, 2021

11th Jan – 15th Jan 2021

LOCAL MARKET

The Sri Lankan rupee ended on a weaker note against the Usd on Friday after a volatile week of trading. The Dollar closed trading at 195.00 after touching a weekly high of 196.50. Heavy importer demand in the forward market, coupled with illiquid market conditions pushed the rupee lower during the week. Limited participation by exporters and investors in the spot and forward market, the trading volumes plummeted as low as Usd 20-30 mln in the beginning of the week. However, with the Central Bank intervention on Friday, the rupee managed to recover to 194.50. The demand for the dollar is likely to continue this week and see a wide range of 191.0-196.0.

Usd/Lkr premiums remained around at -0.30, -0.50, for 1and 3 months respectively.

The rupee bond markets gilt yields were steady ahead of next week Central Bank's first policy review meeting for 2021. Market expects the key interest rates to remain unchanged at current levels.

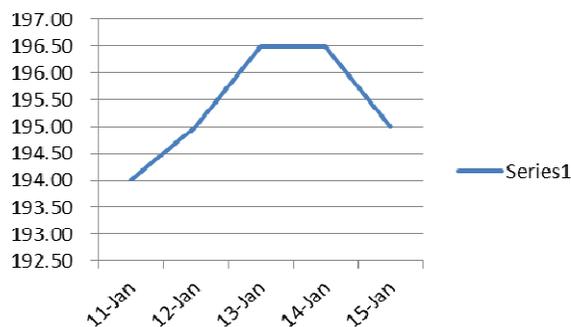
Market liquidity remained high at Lkr 222 bln on Friday, with interbank call money rates trading in a range of 4.55%.60%

Primary Market Treasury Bills

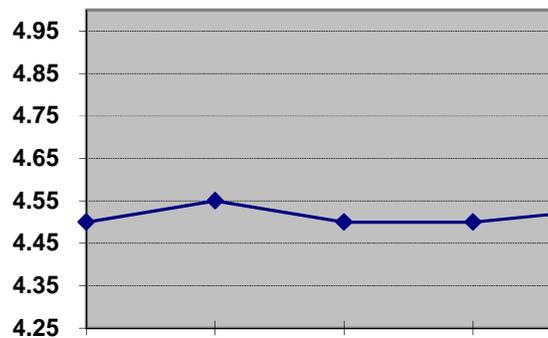
Week Ending 15th Jan 2021

	W/avg.	Previous	Change	
3 m	4.70%	4.74%	- 0.04%	
6 m	4.78%	4.80%	- 0.02%	
12m	5.02%	5.05%	- 0.03%	*R - Rejected

USD/LKR Spot Rate



Interbank Lkr O/N rates %



INTERNATIONAL MARKET



(Source – Refinitive Thomson Reuters)

The US dollar trades to fresh monthly highs going into the inauguration of President-elect *Joe Biden*, but it remains to be seen if the Greenback will continue to appreciate ahead of the Federal Reserve interest rate decision on January 27 as the longer dated US Treasury yields rebound. Recent remarks from Vice Chair Richard Clarida suggest the FOMC will retain the current policy at its first meeting for 2021 as the board member insists that the central bank “will continue to increase our holdings of Treasury securities by at least \$80 billion per month and our holdings of agency mortgage-backed securities by at least \$40 billion per month until substantial further progress has been made toward our maximum-employment and price-stability goals.” In turn, it seems as though the FOMC will retain a dovish forward guidance as Chairman *Jerome Powell* and Co. lay out an outcome-based approach for monetary policy, and swings in risk appetite may continue to sway the US Dollar as the FOMC relies on its balance sheet to achieve its policy targets. The last few sessions the Euro reversed its gains with the rebound of the dollar and the news that German GDP growth fell by 5% in 2020, yet another political crisis in Italy and a slow coronavirus vaccine rollout in the EU. Euro closed lower to 1.2080 from a high of 1.2250 a fortnight ago.

As at 15th Jan, 2021

USD LIBOR	LKR AWPL Rates
1 mth	0.14%
3 mths	0.21%
6 mths	0.24%
12mths	0.33%

Foreign Exchange Rates

	Friday Closing New York
EUR/USD	1.2078
USD/JPY	103.87
AUD/USD	0.7702
GBP/USD	1.3586

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