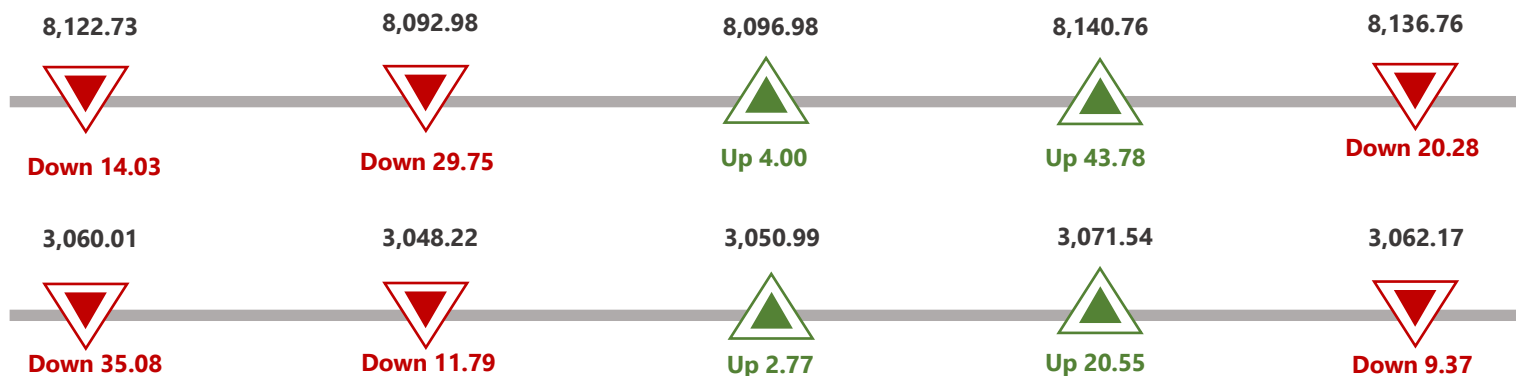


Market Turns Red as Profit-Taking Takes Hold, ISB Repayment Does Little to Bolster Momentum

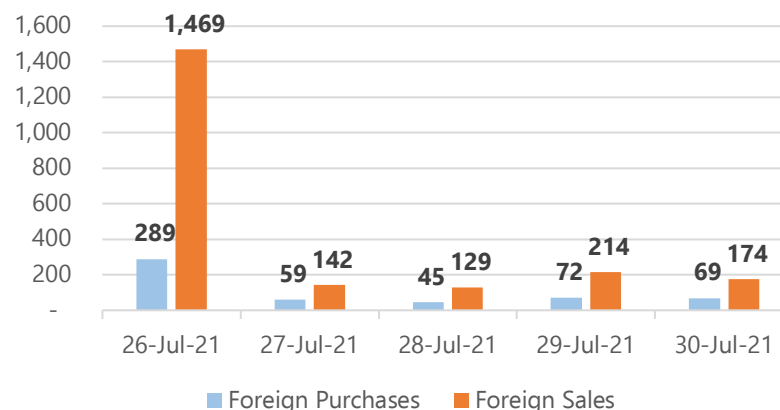
ASPI and S&P SL 20 Weekly Movement 26th July – 30th July

Source: CSE



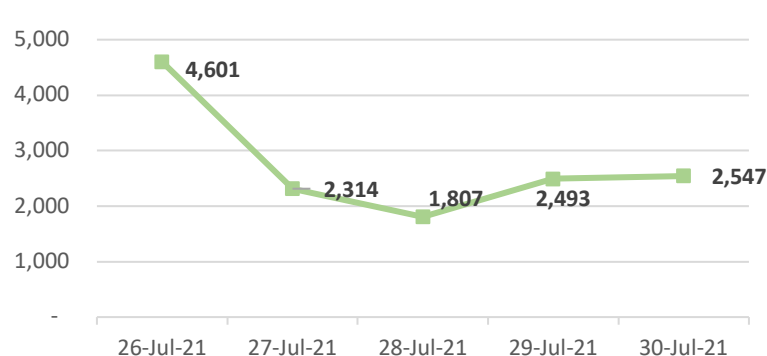
Foreign Purchases vs. Foreign Sales (in LKR Mn)

Source: CSE



Daily Turnover for the Week (in LKR Mn)

Source: CSE



- The ASPI fell by 0.03% this week.
- The S&P rose by 0.07% this week.
- The All Share witnessed a considerable fall this week despite the government settling a USD 1bn International Sovereign Bond (ISB) payment. We suspect that the drop can be attributed to month-end credit settlements and profit-taking.
- Net foreign selling continued as weekly net foreign outflow came in at LKR 1.6 Bn.
- Thursday saw a partial recovery driven by Food & Beverage sector with particular interest in DIST. Index heavy counters such as EXPO and LOLC further drove the recovery before the market retraced back on Friday.

Government Pays USD 1 Bn ISB, A Further USD 2.65 Bn Inflows are Scheduled to Come Online in Next 03 Months

- The Sri Lankan government repaid a USD 1 Bn ISB before the deadline – arresting default fears in the market.
- The next ISB payments come online in 2022 with USD 500 Mn maturing on 18th January and a further USD 1 Bn on the 25th of July.
- The repayment gives the government some breathing space. The government’s reserves post payment, stand at USD 3 Bn. However, we estimate that the reserve levels need to be between USD 5 Bn – USD 7 Bn at current levels of growth.
- The State Minister of Finance has cited that there will be forex inflows of c. USD 2.65 Bn over the next three months via a combination of SWAP deals with India and Bangladesh, SDR allocations from IMF and Loan from the China Development Bank.
- Balancing act persists as the government continues to be hampered with virtually no forex income from Tourism.

SLDB Initial Issue Quantum Snapped up on Short-Term Bids, However, c. 47% of Issue Remains Unsubscribed

Spot Rates

	Current	Previous Week	Change
LKR/USD	199.90	199.90	-
LKR/GBP	278.95	273.99	+4.96
LKR/EUR	237.53	235.81	+1.72
LKR/JPY	1.83	1.82	+0.01

Source: CSE

- As stated last week, there was a Sri Lanka Development Bond (SLDB) issue of USD 110 Mn opening on 27th of July.
- The issue had an initial amount of USD 30 Mn with an upsizing of a further USD 80 Mn.
- On Thursday (29th of July), the Central Bank accepted USD 58.6 Mn of bids for SLDB's. Majority of the bids (USD 48.01 Mn) came in for short-term 9-month SLDB's which had a fixed rate of 7.69%
- The oversubscription of the initial amount is a positive – given that this was not achieved over the past two other issues held in June and April 2021.
- However, at the time of publishing this report, 46.73% of the issue remains unsubscribed.

Oil Soars as US Tightens Supplies. Aluminium Rises as Floods in Henan Causes Supply Chain Disruptions

	Current	Previous Week	Change
Oil, Brent (USD per Barrel)	76.05	72.50	+3.55
Gold (USD per Troy Ounce)	1,828.10	1,797.03	+31.07
Copper (USD per Pound)	4.54	4.15	+0.39
Aluminium (USD per Tonne)	2,556.50	2,432.00	+124.50

Source: Gold Council, LME, Reuters

- Oil prices rallied this week, with the global benchmark Brent topping USD 76 per barrel.
- This was on the back of US supplies tightening further to its lowest levels since January 2020.
- Aluminium prices soared due to disruptions caused to the global supply chain as a result of the devastating floods in Henan Province China.
- Gold prices held firm near a two-week high, heading for their biggest gains in over two months as the Fed cemented investor's hopes that interest rates are going to remain low for some time.
- Copper prices hover near multi-week highs on the back of China flooding while 2H2021 outlook remains positive with increased demand loads arising from higher electric car manufacturing.

Asian and European Markets Falter on Surge in Delta Cases and China's Regulatory Actions

- Asian stocks faltered this week as significant losses were incurred with Asian markets set to have their worst month since May 2019. This is due to Covid outbreaks in Thailand, Indonesia, Philippines, and Malaysia which has resulted in further travel curbs and lockdowns.
- The MSCI Asia ex-Japan fell by 0.84% whilst the Nikkei was down 1.71%.
- The fall was further compounded by Chinese crackdown on its technology sector.
- European Stocks fell from record highs as concerns about the fast-spreading delta variant and regulatory actions in China outweighed optimism around quarterly earnings season and economic recovery.
- The pan-European STOXX 600 index fell 0.8%.

Notions on the ASPI



Source: Investing.com

- The Relative Strength Index (RSI) closed at 73.34 – which is in the overbought region.
- The daily chart of ASPI indicates that the index is trading above the daily support zone of 7,950 – 8,000. The index made a higher-high formation on the 26th of July, reaching 8,218.67.
- Therefore, the index needs to sustain above the 28th of July low of 8,075.25 to test the daily resistance level of 8,200 – 8,250 again. However, if the index breaks the 28th of July low, then it would test the support level of 7,950 – 8,000.
- The Exponential Moving Average (EMA) of 18 & 8 indicates a strong bullish momentum as it is trading above both moving averages. Additionally, the gap between the 8 EMA and the index has been reduced.

Pick of the Week: KGAL



Source: Investing.com

- The RSI closed at 58.84 – which is in the overbought territory.
- The daily chart indicates that after reaching the daily resistance of LKR 120.00 – LKR 123.00, the price has been rejected multiple times where now the resistance level of LKR 120.00 – 123.00 is a supply zone. To break the current resistance level, there needs to be good turnover to push the price above the supply zone. The next daily resistance is at LKR 130.00 – LKR 133.00. However, if the price continues to make the lower-low structure, the support levels of LKR 110 -LKR 113.00 could be tested again.
- The price closed below the 8 EMA levels. If the price continues to trade below this level, this will indicate a short-term bearish trend which would lead the price to test the 18 EMA which is at LKR 115.00.

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