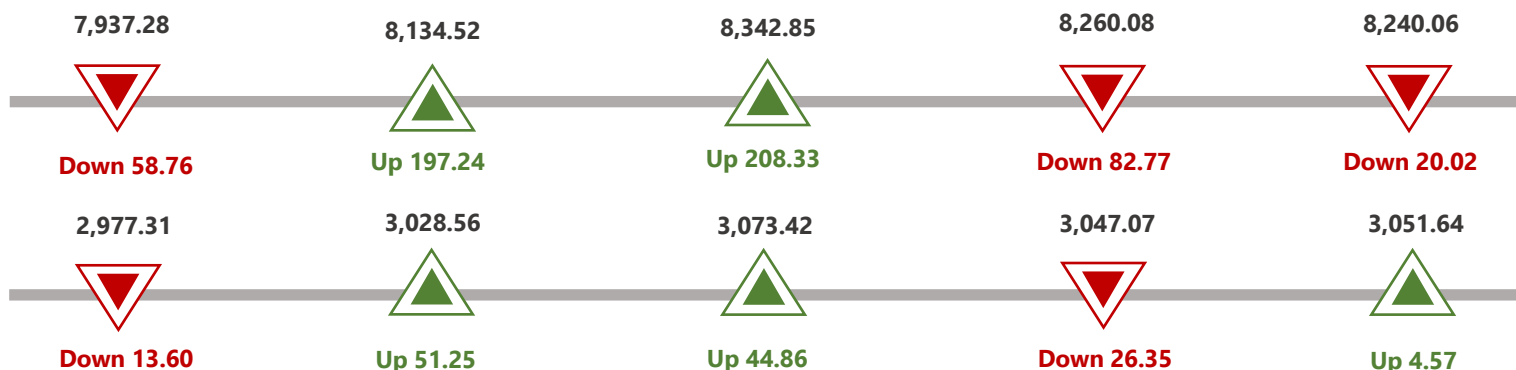


Market Turbulence Continues as Early Week Momentum is Eroded with Policy Rate Uptick

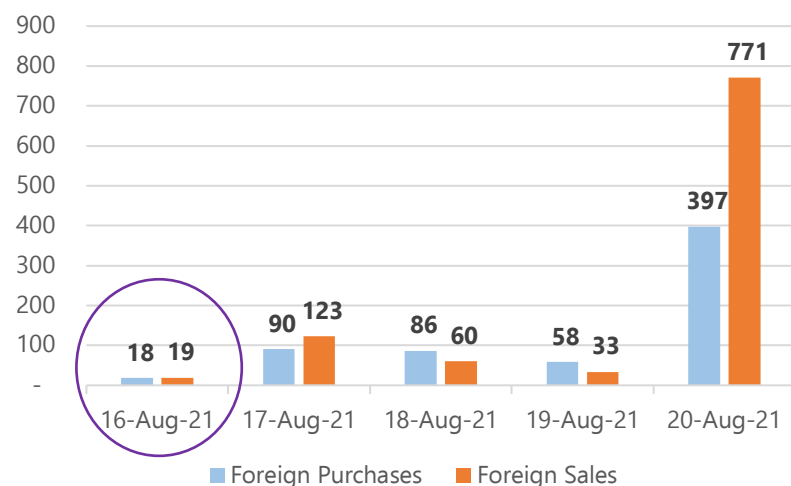
ASPI and S&P SL 20 Weekly Movement 16<sup>th</sup> August – 20<sup>th</sup> August

Source: CSE



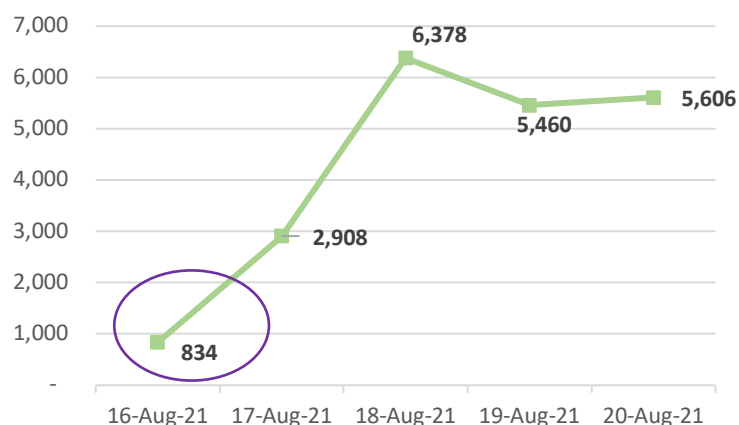
Foreign Purchases vs. Foreign Sales (in LKR Mn)

Source: CSE



Daily Turnover for the Week (in LKR Mn)

Source: CSE



○ = DVP Implementation issues caused delays in the market opening

- The ASPI rose by 3.81% this week.
- The S&P rose by 2.50% this week.
- The Net foreign outflows for the week came in at LKR 356 Mn
- The bourse witnessed another topsy-turvy week with Monday witnessing the commencement of the Delivery vs. Payment mechanism which did have some teething problems which resulted in the market opening for one hour.
- Tuesday and Wednesday, saw the bourse gaining over 400 points, reaching a 5-month high. The charge was again led by EXPO and LOLC.
- The buoyant momentum was despite fears on ongoing Covid peaks in the country. The bullish nature of the market was driven primarily on the back of local demand, in particular, the institutional and high net-worth base.
- However, Thursday saw another retraction as the Central Bank revised up their policy rates which resulted in some sell off in the bourse.
- Friday saw the bourse dip slightly as fallback from the policy revision continued as well as fears of a lockdown.
- The next week or so remains crucial from our aspect as the fallout from the policy rate revision may hold (however, we feel that as it was a small increase, its impact won't be that meaningful). However, we do cite that we expect that policy rates may go up further in the future as the country's forex reserve situation doesn't seem to get any better.
- The key risk factor is the unclear nature as to whether there will be a further lockdown occurring in the country which may trigger a sell-off in the market as profit realisation kicks in.

## Policy Rates Revision Moot Unless Price Ceilings are Also Removed

- On Wednesday, the Central Bank revised up policy rates after maintaining an accommodative stance for over a year during the backdrop of the pandemic. The Standard Deposit Facility Rate (SDFR) and the Standard Lending Facility Rate (SLFR) by fifty (50) basis points which results in a SDFR and SLFR of 5.0% and 6.0% respectively. The policy revision comes as a positive signal, the increase must go in tandem with the removal of ceilings in T-Bill auctions and injections are halted as any rate hikes will not stem the flow of reserve losses. The rate hike was primarily implemented to stem forex losses and ease inflationary pressures. The Central Bank did indeed reiterate on Thursday that they will continue with keeping price ceilings for T-bill auctions for a while.
- Sri Lanka entered into an LKR 61.5 Bn (USD 308 Mn) term facility agreement with the China Development Bank. This is on top of the USD 1.5 Bn SWAP the country entered with the People's Bank of China.
- A leading diplomat highlighted that Sri Lanka is not currently fully utilising the GSP+ scheme on top of the risk we are running on losing it. It was highlighted that Sri Lanka might lose the GSP+ scheme due to non-compliance toward international conventions and standards. Furthermore, many apparel players lose out on the benefit based upon the country-of-origin criteria as most of the fabric manufacturing does not take place locally. Additionally, we need to diversify our goods range as we currently only cater to 10 out of the 27 countries available within the framework.

## CBSL Maintains Price Ceilings as Another Auction Fails to Sell Full Quantum

### Spot Rates

|         | Current | Previous Week | Change       |
|---------|---------|---------------|--------------|
| LKR/USD | 199.92  | 199.92        | <b>0.00</b>  |
| LKR/GBP | 272.34  | 276.17        | <b>-3.83</b> |
| LKR/EUR | 233.43  | 234.71        | <b>-1.28</b> |
| LKR/JPY | 1.82    | 1.81          | <b>+0.01</b> |

Source: CBSL

- Following on from the story of the Central Bank's new hawkish policy stance, the Central Bank Governor iterated that Sri Lanka would continue ceiling rates on treasury auctions for some time. Despite hiking the overnight policy rate, the ceiling rate this week was at 5.38% - at which point 64% of the auction failed. As we have stated prior to this, any expected benefit from the rate hike would be completely nullified by the ceiling rates on treasury auctions.
- Sri Lanka again failed to sell 54.8% of an LKR 53.5 Bn auction despite a ceiling rate operating at 5.38% post the policy revision. Majority of the traction were on the short tenor bills whilst there were no bids for the 12-month bills
- The Sri Lankan Rupee weakened in the curb market to settle around 227/228.50 up from 226 levels earlier this week. Meanwhile, bond yields rose marginally this week.

## Commodity Markets Slump Over Fears of The Fed Reducing Stimulus and Global Recovery Slowdown

### Commodity Prices

|                             | Current  | Previous Week | Change        |
|-----------------------------|----------|---------------|---------------|
| Oil, Brent (USD per Barrel) | 66.63    | 71.26         | <b>-4.63</b>  |
| Gold (USD per Troy Ounce)   | 1,785.30 | 1,758.05      | <b>+27.25</b> |
| Copper (USD per Pound)      | 4.04     | 4.36          | <b>-0.32</b>  |
| Aluminium (USD per Tonne)   | 2,544.00 | 2,602.00      | <b>-58.00</b> |

Source: Gold Council, LME, Reuters

- Oil prices fell to a 3-month low after the U.S. dollar strengthened. Prices were further driven down by concerns being stoked again that the global economic recovery will be somewhat stunted coupled with the signals from the Fed that there may be stimulus cutbacks to come.
- Gold prices witnessed a weekly gain as fears of further global outbreaks drove the counter's price up.
- Copper prices fell to a 4-month low, just hovering above USD 4.00 per pound. This can be attributable to weakening economic data from China coupled with the current situation of the global pandemic and the Fed expected to reduce bond buying which could drive down the U.S. Dollar.
- Aluminium saw a slight dip weekly as early week momentum saw the commodity price hit the USD 2,644 per tonne mark. However, the retraction took place on the back of the continuing fall in output from China due to power restrictions and lack of the bauxite material – essential for aluminium manufacturing.

## Asian Market Continues Dip as Europe Also Falls as Investor Sentiment Nosedives

- Asian stocks slumped to their lowest levels this year as the U.S. Dollar hit a 10-month high on Thursday. The slump was exacerbated further by worries of global growth coupled with an end to the Fed's support which drove investors towards a safety-first attitude.
- The Shanghai SE Composite Index was down 1.10% whilst the Nikkei and Hang Seng Index dropped 0.98% and 1.84% respectively.
- The benchmark STOXX 600 in Europe is on course for its worst week since February on signs of slowing down growth coupled with a rise in Covid numbers.
- We believe that this isn't because of the Fed's tapering stance, but more to do with the fact that investors are concerned about a slowing global recovery story.
- The FTSE 100 is also on course to break a four-week winning streak as data showed a surprise fall in UK retail sales last week.

## Commodity Watch: Coppers Slump Continues



Source: Trading View

- The Relative Strength Index (RSI) for copper is in the mid-range
- The price is trading above the daily support USD 4.00 – USD 4.05. It is important to note that since May of this year, the price has been declining continuously. If the price manages to sustain above the current support levels, it could then test the daily resistance of USD 4.40 – USD 4.45.
- However, if the price were to trade below the current support levels, the next daily support of USD 3.60 – USD 3.65 could be tested again.
- The price is trading below the 8 & 18 Exponential Moving Averages (EMA's) which indicates a bearish momentum.

## Notions on ASPI



- The RSI of ASPI closed at 60.41 for the week ended 20<sup>th</sup> August
- The daily chart indicates that the index is trading in between the daily support zone of 8,200 – 8,250. If the index sustains itself above the daily support, then the August 19<sup>th</sup> high of 8,443.03 can be tested again.
- However, if the index fails to sustain at the daily support levels, the previous week's support level of 7,950 – 8,000 could be tested again.
- The index is trading above the 8 & 18 EMA levels. If the index continues to trade above the EMA levels, the bullish momentum we have witnessed thus far, will continue.

## Pick of the Week: LOLC



- The RSI of LOLC closed at 53.43 which is in the mid-range.
- After breaking the daily resistance LKR 460.00 – LKR 470.00 the price failed to sustain above the daily resistance. If the price continues to decline below the daily resistance, the demand zone LKR 425.00 – LKR 430.00 could be tested again.
- A breakout above the daily resistance LKR 460.00 LKR 470.00 could lead the price to a 4<sup>th</sup> of August high which is LKR 490.00.

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