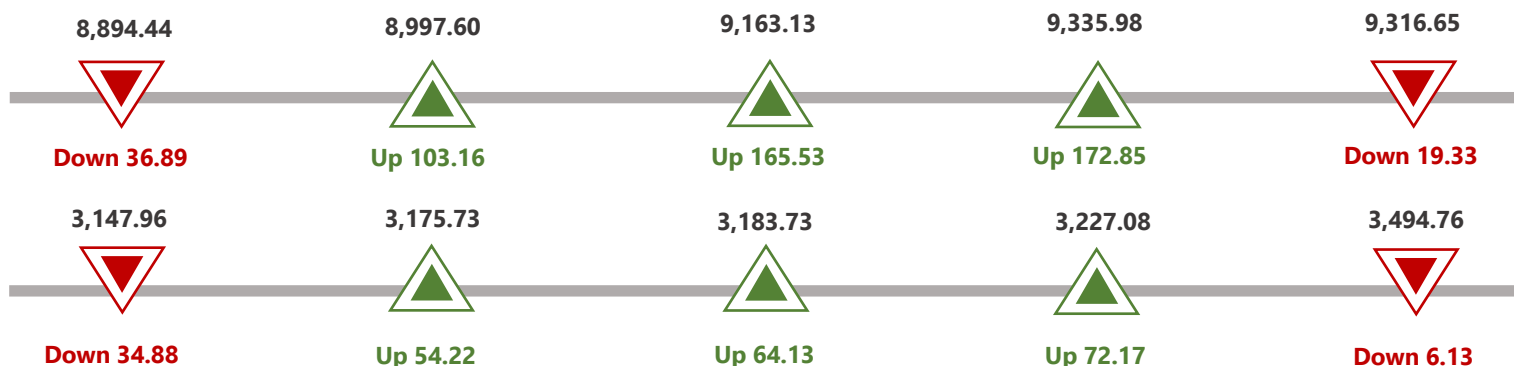


Raging Bull: Another Week, Another Bull Run. The Heavyweights Propel ASPI to All-Time High

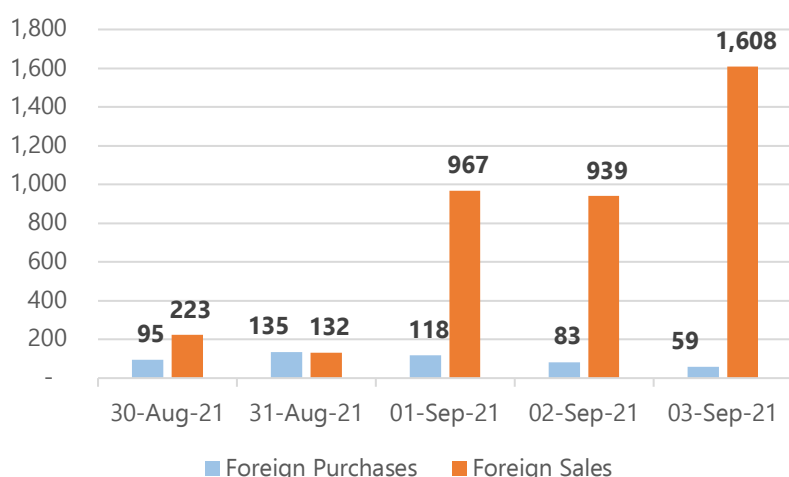
ASPI and S&P SL 20 Weekly Movement 30th August – 03rd September

Source: CSE



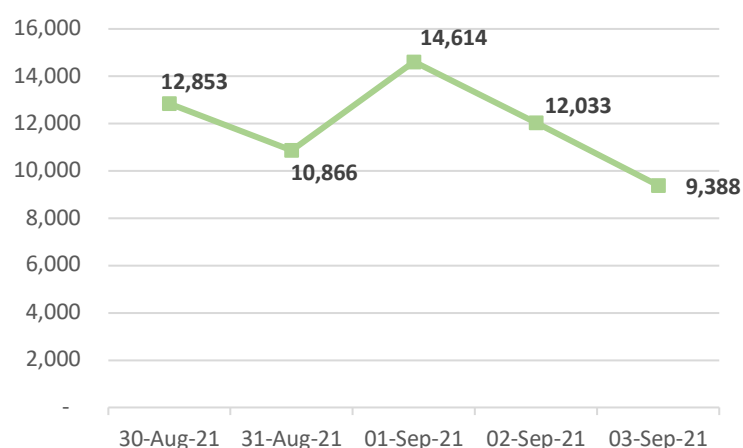
Foreign Purchases vs. Foreign Sales (in LKR Mn)

Source: CSE



Daily Turnover for the Week (in LKR Mn)

Source: CSE



- The ASPI rose by 4.75% this week.
- The S&P rose by 5.57% this week.
- The net foreign outflows for the week came in at LKR 3,379 Bn.
- The Colombo bourse continued its bull run this week, as it hit an all time high of 9,000 despite an unchanged covid situation on the ground and an ever-deteriorating economy.
- The bullish momentum again can be attributed to heavy retail and high net-worth buying support. Despite Year-to-Date (YTD) net foreign outflow being over LKR 38 Bn, this too has been collected by the local investors giving way to massive gains in the market.
- Monday saw the bourse retrace as profit taking took place, but that was followed by three consecutive days of gains driven by heavyweights EXPO and LOLC whilst BIL, HAYL and RCL contributed significantly towards the continuation of this bull run.
- Whilst this market means there are hefty profits to be made, one must err on the side of caution, as there are dangers that the stock market is overheating, at which point, there could be a significant correction.
- The continuing blight on the market remains the extensive levels of foreign outflow, which in the week almost crossed the 1 Bn mark on two occasions whilst Friday saw foreign outflows above 1.6 Bn.
- Friday saw the index retrace with turnover recording its lowest this week (coming in at 9 Bn). The fall can be attributable to profit taking.

Murkier Waters Continue: CBSL Extends Moratorium Period till Year-End to Provide Support to Ailing Businesses

- The Central Bank of Sri Lanka (CBSL) confirmed on Wednesday, that the country had received some much-needed funds in the shape of an IMF Special Drawing Rights (SDR) amounting to USD 787 Mn and a currency swap arrangement with the Bangladesh Bank amounting to USD 150 Mn.
The SDR allocation comes on the back of the pandemic, with the IMF, providing additional liquidity amongst its member countries. These foreign exchange receipts will help improve the country's gross official reserves, whilst also allowing the CBSL to facilitate liquidity conditions in the domestic foreign exchange market. With more inflows being touted by the government, Sri Lanka's foreign exchange reserves may just get that breathing space it is in dire need of.
- The CBSL yesterday extended the debt moratorium period till the 31st of December 2021. The moratorium period was supposed to expire on the 31st of August 2021. The extension has come about due to the challenges faced with Covid 19 and the most recent lockdowns that have been enforced in the country. Whilst this will provide much needed relief for businesses, the strain on banks does become greater as their NPL's will take a greater hit down the line.
- At the end of last week, the global ratings agency S&P, revised its long-term outlook to negative from stable. This was primarily on the back of their expectation that the country's financing environment may get more difficult over the next 12 months. They have further cited the country's modest income levels, vulnerable external profile, significant fiscal deficit, government debt and ever rising interest payments. However, they do state that in their view, the ratings outlook can be improved if external buffers can be significantly boosted.

Bond Markets in the Doldrums: Two More Failed Auctions this Week as Rupee Depreciates Further

Spot Rates

	Current	Previous Week	Change
LKR/USD	207.35	200.00	+7.35
LKR/GBP	286.99	273.90	+13.09
LKR/EUR	246.34	235.11	+11.23
LKR/JPY	1.89	1.82	+0.07

Source: CBSL

- The Sri Lankan Rupee was quoted selling rates at 222 to 223.50 against the U.S. Dollar for most telegraphic transfers and imports at most banks. Even the CBSL revised rates up to 210 but settled at 207.35 on Friday.
- There was a further two bond auctions that went unsold this week. 92% of an LKR 50 Bn bond auction went unsold whilst another auction (LKR 68.5 Bn), failed to sell 63% with a pre-declared controlled yield. The vast majority of the interest was for the short tenors, in particular, the 3-month bills.

Cost of Going Green: Aluminium Hits an All-Time High as China Curbs Production to Meet Climate Targets

Commodity Prices

	Current	Previous Week	Change
Oil, Brent (USD per Barrel)	72.96	72.07	+0.89
Gold (USD per Troy Ounce)	1,811.08	1,793.70	17.38
Copper (USD per Pound)	4.29	4.48	-0.19
Aluminium (USD per Tonne)	2,694.50	2,635.00	+59.50

Source: Gold Council, LME, Reuters

- Oil prices continued to rise this week as optimism rebounded on global economic growth in particular, the U.S. as jobless benefit claims fell whilst layoffs in August dropped to their lowest in 24 years. Furthermore, OPEC+ decided to phase out production reductions by adding 400,000 barrels per day. The rise in oil was somewhat offset by hurricane Ida causing the temporary shutdown of 80% of the Gulf of Mexico's oil and gas output.
- Aluminium rose again this week, with the metal counter hitting an all-time high of USD 2,727 per tonne on the London Metal Exchange before a retracement and settling at USD 2,694.50 per tonne. The metal has undergone a 50% uptick over the past year, the main reason behind this is the fact that China is scaling back on production as they try move away from highly polluting industries and looks to achieve its climate targets. We continue to reiterate that aluminium will go above USD 3,000 per tonne next year. We expect this may have significant impacts on the margins of local companies such as, Alumex.

All Eyes on America: Asian and European Markets Come in Mixed as they Await U.S. Jobs Data Release

- Asian markets came in mixed towards the end of the week despite positive gains on Wall Street. Traders remained cautiously optimistic as they awaited the release of the U.S. labour department's more closely watched monthly jobs report. The report will give some indication about the timings of the Fed's asset tapering and interest rate hikes.
- The Shanghai Composite index fell 0.2% while the Hang Seng declined 0.4%, the Nikkei however, climbed 0.9% and the Kospi in Seoul rose 0.7% on Friday.
- European stocks edged higher on Thursday with pan-European STOXX 600 was marginally up by 0.1%.
- Doubts remain in Europe over monetary policy outlook coupled up with signs of slowing global growth.
- Eyes will be on U.S. job data as well as looking towards next week when the European Central Bank meets with some corners asking the bank to pare back its pandemic era bond purchases.

Commodity Watch: Brent Oil



Source: Trading View

- The Relative Strength Index (RSI) for Brent Oil is in the mid-range
- The price broke the previous resistance level of USD 70.00 – USD 71.00 and made it a daily support at present. The price is trading in a descending channel; therefore, the price needs to break the current higher-high, which is USD 73.57.
- A breakout above the descending channel would drive the price to the daily resistance of USD 74.50 – USD 75.50.
- As there was a crossing on both 18 & 8 Exponential Moving Averages (EMA's) and given that the price is trading above the EMA's, the price remains bullish.

Notions on the ASPI



- The RSI of the ASPI closed at 82.54 for the week ended 03rd September 2021.
- The daily chart indicates that the index is trading above in between the daily support zone of 9,250 – 9,300. If the index manages to sustain above the daily support zone, the resistance level 9,600 – 9,650 could be tested again.
- However, if the index fails to sustain above the daily support 9,250 – 9,300, the index could pull back below the support zone and consolidate in between the psychological area of 9,000 and 9,300.
- The index is currently trading above the 8 & 18 EMA levels, indicating that the index remains to be on the bullish side.

Pick of the Week: EXPO



- The RSI of EXPO for the week, closed at 87.36.
- The price of EXPO got rejected from the weekly resistance levels of LKR 185 – LKR 190, where the price made a high of LKR 192 today.
- If the price manages to break the current weekly resistance as well as the daily high today, the daily resistance of LKR 200 – LKR 202.50 would be tested.
- However, if there is continuous rejection from the weekly resistance, there could be a pull back in the price to the daily support level of LKR 172.50 – LKR 175 and even further to the weekly support level LKR 160 – LKR 165.
- Moreover, due to the gap between the price and the 18 & 8 EMA's, it is possible to reach the support levels if the price continuously gets rejected from the weekly resistance level of LKR 185 – LKR 190.

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