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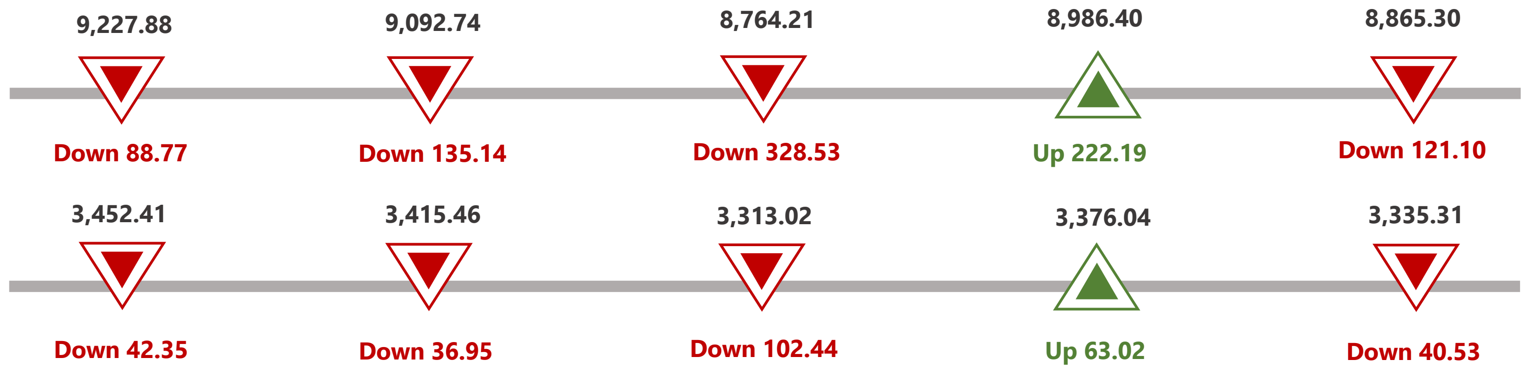
Correction in the Works? – ASPI Ends the Week in the Red as Investor Sentiment Takes a Plummet

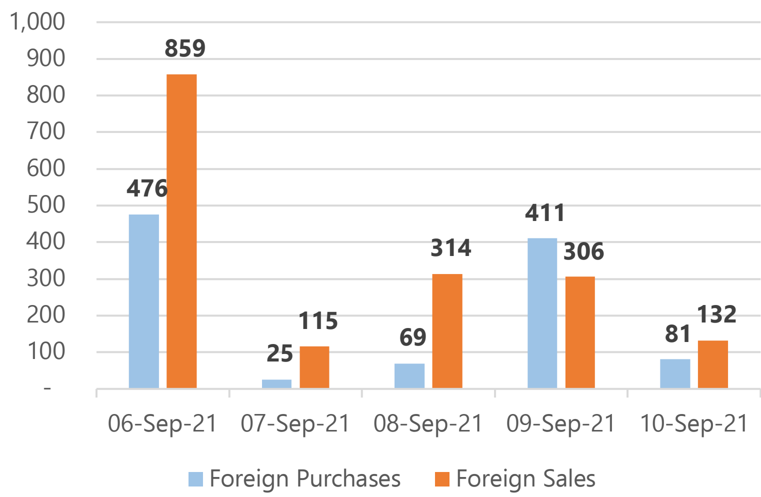
ASPI and S&P SL 20 Weekly Movement 06th September – 10th September

Source: CSE



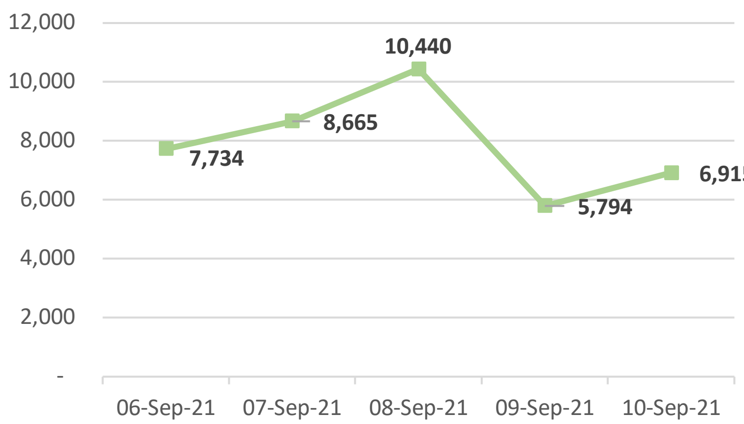
Foreign Purchases vs. Foreign Sales (in LKR Mn)

Source: CSE



Daily Turnover for the Week (in LKR Mn)

Source: CSE



- The ASPI fell by 3.93% this week.
- The S&P fell by 3.39% this week.
- The net foreign outflows for the week came in at LKR 664 Mn.
- The bourse witnessed in our eyes, a long overdue correction as the all share ended in the red zone during the early days of the week.
- Monday saw the market dip by 1.0% as further profit taking took place – a pattern we saw last Friday.
- Tuesday and Wednesday saw a sharp decline with the all share plummet by 135 points and 329 points respectively. This was on back of continued profit taking coupled with investor concerns over currency instability. Export earning companies such as EXPO and HAYL can particularly be hampered with a pegged currency. The tumble was further exacerbated by the fact that it was the biggest index gainers that contributed to the fall as well. On Wednesday alone, EXPO contributed 55 points, LOLC 54 points, BIL 39 points and HAYL 16 points.
- Thursday and saw the bourse rebound as investors took advantage of the dip to collect at lower prices. Driven primarily by the same counters that drove the index down in the previous sessions. A noteworthy point is that we saw significant foreign buying in Nestle and it was one of the top contributors towards turnover.
- Friday saw the index retrace as profit taking took place couple with some investor trepidation.
- At this point, the volatility that exists in the market is great and very hard to ascertain as to which direction it may go. The sell-off that occurred this week was somewhat of an over correction resulting from the fact that the index was thoroughly overheated.

Roadblocks Ahead: Central Bank imposes Fresh Restrictions on Imports

- The Central Bank of Sri Lanka (CBSL) confirmed on Wednesday (8th of September), unofficially pegged the rupee at a fixed rate in the region of LKR 200- LKR 203. In a letter sent across by the Governor, he conveyed that banks must categorically comply to this new measure whilst efforts are being made to boost foreign inflows. Prior to the announcement, the dollar was being quoted in the range of LKR 225 – LKR 235. The benefits arising from this is that the country's debt stock will come down overnight whilst imports become cheaper and cost-push inflation falling thereby reducing the cost of living. The downside of the move is that it hampers the export sector as the rupee being pegged back reduces the export competitiveness as the depreciation of the currency is halted. Furthermore, with a fixed rate expected to be kept in place till December, exporters will now be forced to convert their earnings rather than delaying them on speculation of further depreciation.
- Furthermore, the CBSL confirmed that in its monetary board meeting (also held on the 08th of September) has opted to impose a 100% cash margin deposit requirement on the importation of they deem to be "non-essential/non-urgent" with immediate effect. Additionally, banks have been barred from giving credit for importers to meet the margins. The new restrictions apply to some 690 items, this will most definitely have impact on retailers who import and sell such goods. However, we feel the impacts will really be felt by the small-to-medium retailers as the big players such as Abans, Softlogic Retail and Singer may incur some losses, but do have the capital buffers to buy these goods outright. At the time of publishing this report, we do not have any further indications as to whether there will be additional restrictions placed upon imports moving forward.

Forex Slumber – Forex Markets Remained Inactive After CBSL's Move to Kepp the Rupee Pegged.

Spot Rates

	Current	Previous Week	Change
LKR/USD	200.00	207.35	-7.35
LKR/GBP	276.96	286.99	-10.03
LKR/EUR	236.55	246.34	-9.79
LKR/JPY	1.82	1.89	-0.06

Source: CBSL

- The forex markets remained largely inactive following the CBSL's request to keep the rupee pegged. Industry leads such as Bank of Ceylon and People's Bank have not done any major transactions including the opening of further Letter of Credit's.
- Banks continued to face difficulties in getting foreign exchange from exports and remittances after a revaluation of the rupee from 230 to 203. Market insiders stated that banks were forced to ration dollars as supplies continued to remain weak.

Aluminium Takes to the Sky: Metal Reaches 13-Year High as Guinea's Political Instability Adds onto the Price

Commodity Prices

	Current	Previous Week	Change
Oil, Brent (USD per Barrel)	72.60	72.96	-0.36
Gold (USD per Troy Ounce)	1,802.15	1,811.08	-8.93
Copper (USD per Pound)	4.31	4.29	+0.02
Aluminium (USD per Tonne)	2,839.50	2,694.50	+145.00

Source: Gold Council, LME, Reuters

- Oil prices earlier this week observed a dip in prices as firstly on Monday, Saudi Arabia slashed prices for Asia citing that global markets are well supplied. This was continued on Tuesday as due to the continued strengthening of the U.S. dollar. However, we saw this offset as midweek prices rose up by 1.0% on the back of slow U.S. production in the Gulf of Mexico following Hurricane Ida.
- Gold prices hit a two-week low on Thursday as a stronger U.S. dollar weighed on prices. However, we do not see the fall being sustained as investor trepidation persists on a global recovery due to new Covid spikes still occurring.
- Aluminium prices hit a 13-year high this week as supply cuts from China continued to plague the market as well as major disruptions to the supply chain from a major bauxite producer in the world, Guinea who are currently undergoing a military coup.

Market Watch: Asia Gains over Biden – Jinping Call, Europe Came in Flat as Central Bank Indicates Tapering

- Asian markets ended the week strong on the back of news pertaining to a “candid” call between Presidents Biden and Xi Jinping. Hang Seng index rose 1.9% on Friday whilst the China Enterprise Index gained 2.2%. This follows a mixed week for Chinese markets that started off strong buoyed by better-than-expected export figures from China. However, this momentum was broken up by a mid-week slump driven primarily by a slowdown in tech stocks which can be attributable to the government’s new crackdown on gaming.
- European stocks ended flat on Thursday after dropping by 0.9% on the back of the European Central Bank signalling it will taper off its emergency bond purchases over the coming quarter, this was widely expected which resulted in indexes not declining as sharply.
- The pan-European STOXX 600 ended the session barely below the flatline after falling by 0.8% earlier on during the day.
- On Wall Street, U.S. Stocks remained mixed on Thursday as investors still remained cautious over the economic recovery.

Commodity Watch: Gold

Source: Trading View

- The Relative Strength Index (RSI) for Gold remains at the mid-range.
- The current supply zone of gold is at USD 1,797 – USD 1,800 as the price getting continuously rejected from the supply zone. Whereas, once the price managed to break the supply zone and made a high of USD 1,834 on the 3rd September. However, the price failed to sustain over the supply zone. Therefore, the price pulled back again below the supply zone.

Notions on the ASPI

Source: Investing.com

- The RSI of the ASPI closed at 55.90 for the week ended 10th September 2021.
- In the daily chart, the index made a high of 9,425.62 last Friday, but the index declined continuously and now trading below the daily resistance of 9,000 – 9,250. If the index breaks the 10th of September low 8,838.95, the index could further decline to the daily support level 8,550 – 8,600. However, if the index manages to break the daily resistance level of 9,000 – 9,250, the previous high made on the 3rd of September could be tested again.
- Currently, the index is trading below the 8 Exponential Moving Average (EMA) and above the 18 EMA which doesn't give a proper signal. However, if the index trades below both the EMA's, the next daily support level of 8,550 – 8,600 could be tested.

Pick of the Week: HNB (Non-Voting)

Source: Investing.com

- The monthly RSI of HNB.X closed at 57.80 – which is in the mid-range.
- The price broke the monthly resistance: LKR 115 – LKR 125 and the price is currently moving in a bullish momentum to test the weekly resistance of LKR 140 – LKR 145. Previously the price was trading in a symmetrical formation where the price has now broken the formation and is trading above the monthly support.
- Furthermore, 18 & 8 EMA's indicate a bullish momentum since the price is trading above both EMA's. Moreover, the 8 EMA has crossed the 18 EMA whereas, this indicates long-term bullish momentum.

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