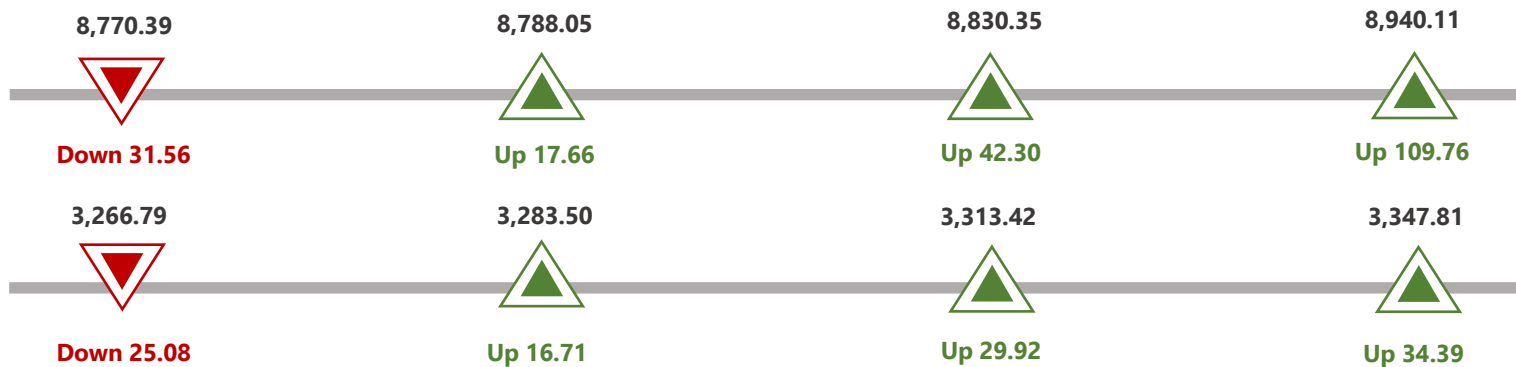


The Consolidation Story: Markets Turn Green Amidst Sluggish Turnover. Outlook Does Suggest Some Optimism

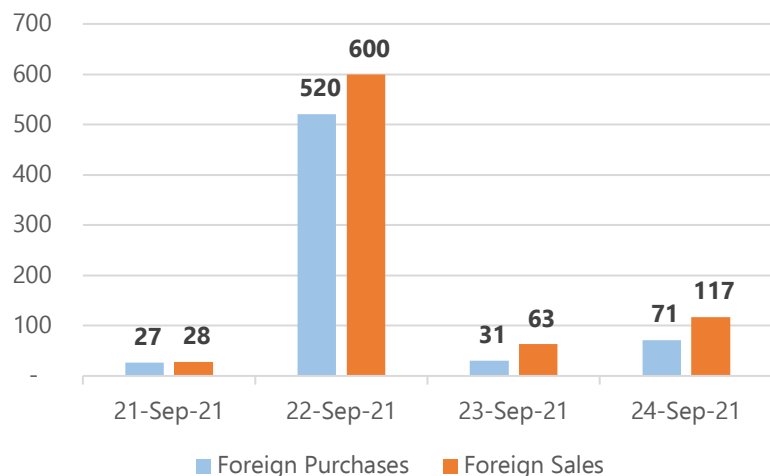
ASPI and S&P SL 20 Weekly Movement 21st September – 24th September

Source: CSE



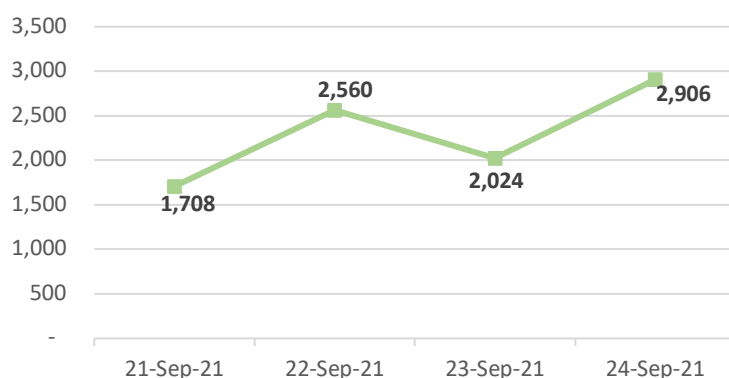
Foreign Purchases vs. Foreign Sales (in LKR Mn)

Source: CSE



Daily Turnover for the Week (in LKR Mn)

Source: CSE



- The ASPI rose by 1.94% this week.
- The S&P rose by 2.48% this week.
- The net foreign outflows for the week came in at LKR 159 Mn.
- Investor participation came in lower with average weekly turnover coming in at 2,299.51.
- The bourse commenced the week in the red zone – registering a third consecutive day of losses as well as a marked drop in turnover to a two-and-a-half month low. The drop on Tuesday was attributable to index-heavy counters such as, LOLC, EXPO and BIL with most of the traction coming from the high-net-worth segment.
- Wednesday saw the index post a recovery even though the market was blighted by another day of low turnover. Early day momentum was attributable to price gains in EXPO whilst there was marked foreign interest on JKH.
- Thursday saw the market register a second consecutive day of gains with the all share and S&P improving by 0.5% and 1.0% respectively. Turnover continued its sluggish pattern. JKH was among the top gainers alongside EXPO and MELS.
- The bourse experienced a third consecutive day of gains as the all share rose by 110 points, with the bulk of the traction coming from index heavy counters. However, turnover remained sluggish – a consistent pattern for the week.
- The market at this point is coming out of the consolidation phase having retraced to 8,700 levels, we may see the bourse touch the 9,100 level and that may be where we see another retracement possibly.

A Momentary Solace: Inflation Falls as Policy Rates Take Effect. However, Rising Food Cost May Erode That

- The headline inflation measured by a year-on-year change based on the National Consumer Price Index (NCPI) was marginally down 0.1% to 6.7% in August from 6.8% in July. The marginal decline was attributable to a fall in non-food inflation. However, food inflation was up to 11.10% in August 2021 when compared to 11.00% in July 2021. Despite the fall, the inflation rate remains above the Central Bank of Sri Lanka (CBSL) target threshold. Looking ahead, we expect food inflation to rise due to the shortage in chemical fertilisers which will in turn put an upward pressure on headline inflation rates. However, this could be offset by a reduction in non-food inflation on the back of further potential policy rate upticks down the line – the October Monetary Policy Review is a key event pertaining to this.
- With the welcome news on Wednesday (22nd September) that Sri Lanka is off the “red list” for travel destinations, the country is hoping for an earnings season this winter amounting to USD 500 Mn. This would be a welcome change for an industry bereft of any substantial earnings ever since the onset of the pandemic. With the rapid vaccination programme ongoing, the country will be able to lift restrictions sooner than expected. The national carrier has also delved into new markets such as France in order to tap into other potential markets post pandemic. Whilst these initiatives are pragmatic, we must also take into account that global disposable incomes have taken a significant hit, while tourism will be Sri Lanka’s forex salvation, it may take a bit longer for us to see the levels we are accustomed to seeing.

Up, Up and Away! How Rising Yields Signals at a Further Policy Rate Revision Sooner Rather Than Later

Spot Rates

	Current	Previous Week	Change
LKR/USD	199.90	200.01	-0.11
LKR/GBP	272.37	276.78	-4.41
LKR/EUR	233.80	236.36	-2.55
LKR/JPY	1.82	1.83	-0.01

Source: CBSL

- All eyes were on the auction that took place on Wednesday (22nd September). Sri Lanka Treasuries yields rose across maturities, with the 12-month yield going up 38 basis points to 6.50% in the first auction without price controls since March 2020. The 3-month yield rose by 30 basis points to 6.38% while the 6-month yield rose 32 basis points to 6.27%. Overall, 48.0% of the auction were sold.

Gold Rush – The Precious Metals Counter May Just See the Price Uptick We Are All Yearning For in 2022

Commodity Prices

	Current	Previous Week	Change
Oil, Brent (USD per Barrel)	77.39	75.50	+1.89
Gold (USD per Troy Ounce)	1,755.30	1,760.90	-5.60
Copper (USD per Pound)	4.22	4.30	-0.08
Aluminium (USD per Tonne)	2,949.50	2,879.50	+70.00

Source: Gold Council, LME, Reuters

- Oil prices rose significantly on Thursday, with Brent hitting a two-month high driven primarily on the back of increased global fuel demand coupled with a lag in U.S. crude inventories as production continues to be hampered in the Gulf of Mexico in the aftermath of two hurricanes.
- Gold saw a weekly reduction with the counter witnessing a 5.60% fall. However, this counter may present a good investment opportunity towards the start of next year. We all know that gold is a traditional safe haven from any potential crashes in fiat currencies. With global uncertainty still plaguing markets coupled with the new Basel III regulations, we may see the precious metal appreciating by the end of this year if not, by the 2022 most definitely. However, currently we may just see the downward trend of the counter persist for a short while longer.
- Aluminium prices are continuing to rise, hovering at a 13-year high. As we have mentioned before this due to the country's stance to attain carbon neutrality in 2060. Production has further been hampered by tight electricity supplies as the country has been hit by a drought as well as a surge in thermal coal prices.

The Home Stretch: Evergrande Default Fears Dominate Global Markets as Caution is Thrown to the Wind

- Asian markets ended the week in the mixed region, it followed what was a rough week for Asian and global markets stemming from fears of China's largest real estate company, Evergrande potentially defaulting on debts amounting to USD 300 Bn – roughly 2.0% of China's GDP.
- The Hang Seng closed 0.27% down for the week whilst the Nikkei was down 2.07% for the week. The Shanghai SE Composite, however, was up 1.14% on Friday. However, for much of the week, these indexes were plagued with investor trepidation over Evergrande.
- The cautionary stance from Asia spilled into European markets as shares slipped slightly but were able to hold their gains for the week. The pan-European STOXX 600 closed 0.9% on Thursday with most major bourses in positive territory. However, the FTSE was down marginally by 0.1% as the Bank of England kept policy rates as is whilst downgrading projections for economic growth in the third quarter.
- US stocks rallied mid-week by 1.48% as fears of the Evergrande crisis eased coupled with the Fed signalling they will keep the current level of monetary stimulus for a while longer

Commodity Watch: Gold



Source: Trading View

- The Relative Strength Index (RSI) for Gold remains in the mid-range.
- Gold Prices failed to retake the uptrend from May 2019, March 2020 and March 2021 lows and are now heading for a monthly low of USD 1,740 – USD 1,760. Moreover, a breakout from the current support level could lead the price of gold back to USD 1,700 per tonne. If the price manages to sustain at the support level and if sufficient liquidity comes into gold, then we can expect it to hit USD 1,800 per tonne again.

Notions on the ASPI



Source: Investing.com

- The RSI of the ASPI closed at 56.56 for the week ended 24th September.
- The daily chart made a reversal after reaching a low of 8,725.42 on 21st of September. Moreover, the index managed to close at 8,940.11 for the week ended 24th of September 2021. Furthermore, the index managed to break the declining trend line in the 4-hour chart and now, the bulls are pushing the index to psychological area of 9,000. If the index manages to sustain at this area, and if a clear breakout happens, the index could reach the daily resistance level of 9,250 – 9,300. However, any rejections from the 9,000 level could pull the index back to the low of 8,725.42.
- Currently, the index is trading above the 8 Exponential Moving Average (EMA) and 18 EMA. This indicates that the index is bullish as it is trading above both EMA levels.

Pick of the Week: JKH



Source: Investing.com

- The monthly RSI is at 46.44 – which is at the mid-range.
- The price is trading at the monthly support level of LKR 130.0 – LKR 135.0, during previous years and months, the price of JKH seems to be consolidating in between the monthly support levels of LKR 130.0 – LKR 135.0 and monthly resistance levels of LKR 175.0 – LKR 180.0. Therefore, the next resistance is the weekly resistance level of LKR 155.0 – LKR 157.0. If the price sustains above the current monthly resistance, the weekly resistance of LKR 155.0 – LKR 157.0 could be expected again.
- The price is trading below the 18 and 8 EMA levels – where the 18 EMA is at the price level of LKR 140.0 whilst the 8 EMA is at the price level of LKR 138.0. If the price manages to trade above both EMA's, a bullish momentum can occur as there would be a crossing between the 18 and 8 EMA's.

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