

FC Fixed Income Recommendation Revision

31ST JULY 2017

**ANALYST CERTIFICATIONS AND REQUIRED
DISCLOSURES BEGIN ON PAGE 17**



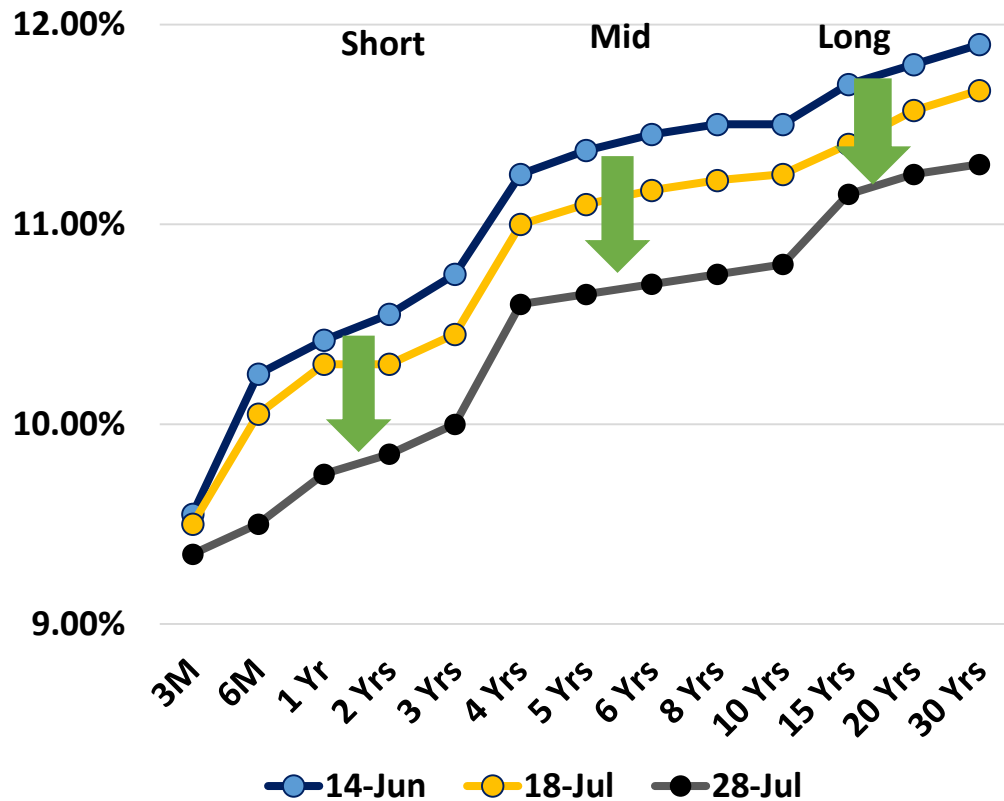
First Capital
FC Research
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Recommendation on 18 Jul 2017

Fixed Income Portfolio Recommendation

- Portfolio exposure: HOLD
- Capacity Utilization to be maintained at 70%
- Recommend to **SELL** all longer tenors (10y, 15y, 20y, 30y) and **invest in the shorter tenors.**
Continue to HOLD mid tenor bonds
- Need to watch out for the passing of the Inland Revenue Act

Latest Developments



A further steep dip in yield across the yield curve

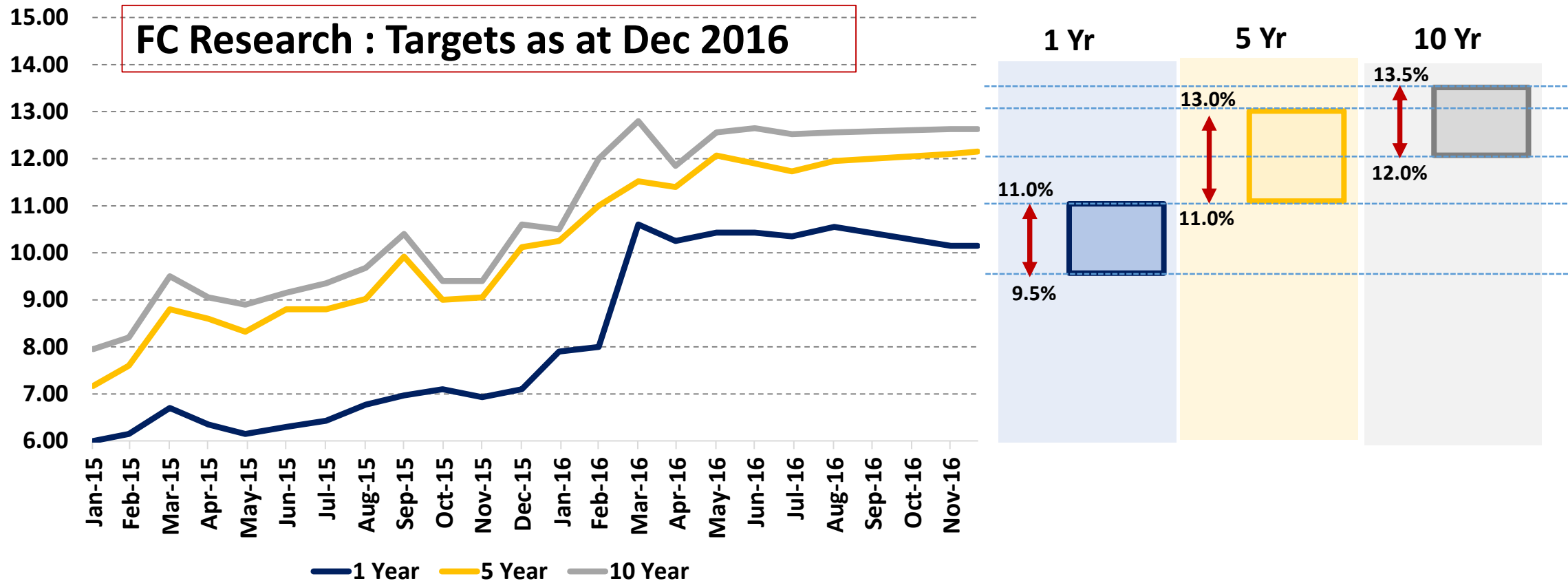
Slow improvement in Government Securities continue

Largest PPP in the in the recent past
Hambantota JV signed confirming an inflow of USD 1.1 Bn

Dip in Yield during the past 6 weeks

Interest Rate Change (bps)					
Tenure	14-Jun	18-Jul	Change (bps)	28-Jul	Change (bps)
3M	9.55%	9.50%	-5	9.35%	-15
6M	10.25%	10.05%	-20	9.50%	-55
1 Yr	10.42%	10.30%	-12	9.75%	-55
2 Yrs	10.55%	10.30%	-25	9.85%	-45
3 Yrs	10.75%	10.45%	-30	10.00%	-45
4 Yrs	11.25%	11.00%	-25	10.60%	-40
5 Yrs	11.37%	11.10%	-27	10.65%	-45
6 Yrs	11.45%	11.17%	-28	10.70%	-47
8 Yrs	11.50%	11.22%	-28	10.75%	-47
10 Yrs	11.50%	11.25%	-25	10.80%	-45
15 Yrs	11.70%	11.40%	-30	11.15%	-25
20 Yrs	11.80%	11.57%	-23	11.25%	-32
30 Yrs	11.90%	11.67%	-23	11.30%	-37

Mid Tenor securities falls sharply below the target yield of 11% given below



Fixed Income Portfolio: New Recommendation – 31st Jul 2017

Recommend to **SELL** all mid tenors (4y, 5y, 6y, 8y) as the securities fall sharply below our lower band of 11%.

We already remain on a **SELL** on all longer tenors (10y, 15y, 20y, 30y) securities as at 18th Jul 2017.

Portfolio exposure: REDUCE

Capacity Utilization to be reduced to 60%

We believe the bond market is ignoring the future risk beyond Dec 2017 where Government Borrowing Requirement again starts to increase while 4Q2017 may experience possible inflationary pressure due to supply side shortages from the floods

Re-cap [Dec 2016]: Time Period vs Risk Score

	3 Months Outlook Feb-Apr	3-6 Months Outlook Apr-Jul	6-9 Months Outlook Jul-Oct	9-12 Months Outlook Oct-Dec
Risk Score Estimate	<50	50-75	75-100	50-75
Rise in Rates by +1%	High	Medium	Remote	Medium
Utilization Recommendation	Reduce	Slow Increase	Significantly Increase	Slow Decrease
Utilization of Capacity	Limited to 40% or less	Limited to 60% or less	Limited to 80% or less	Limited to 60% or less

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