



First Capital
First Capital Research

“YIELDS ARE LOW, ALL OVER”

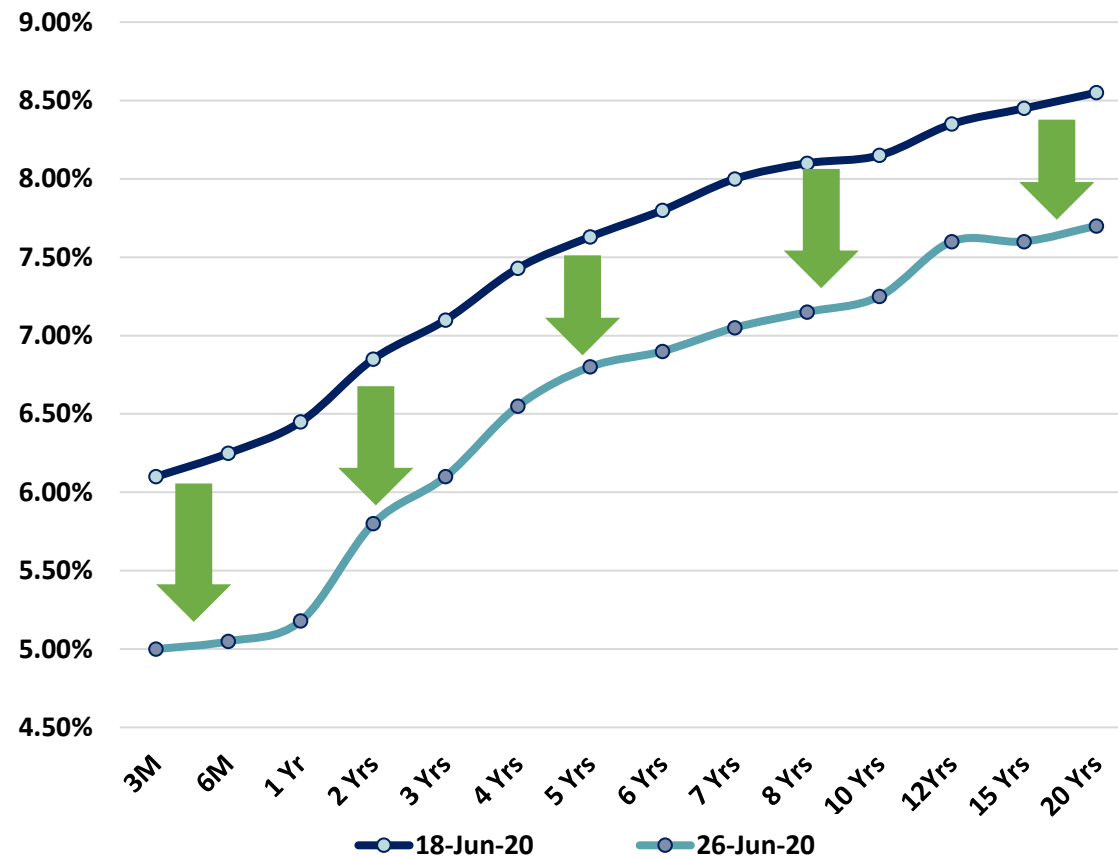
First Capital Fixed Income Recommendation – 30th June 2020

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1.0 Previous Recommendation

18th Jun 2020 Re Cap:

Recommendations and Yield curve movement



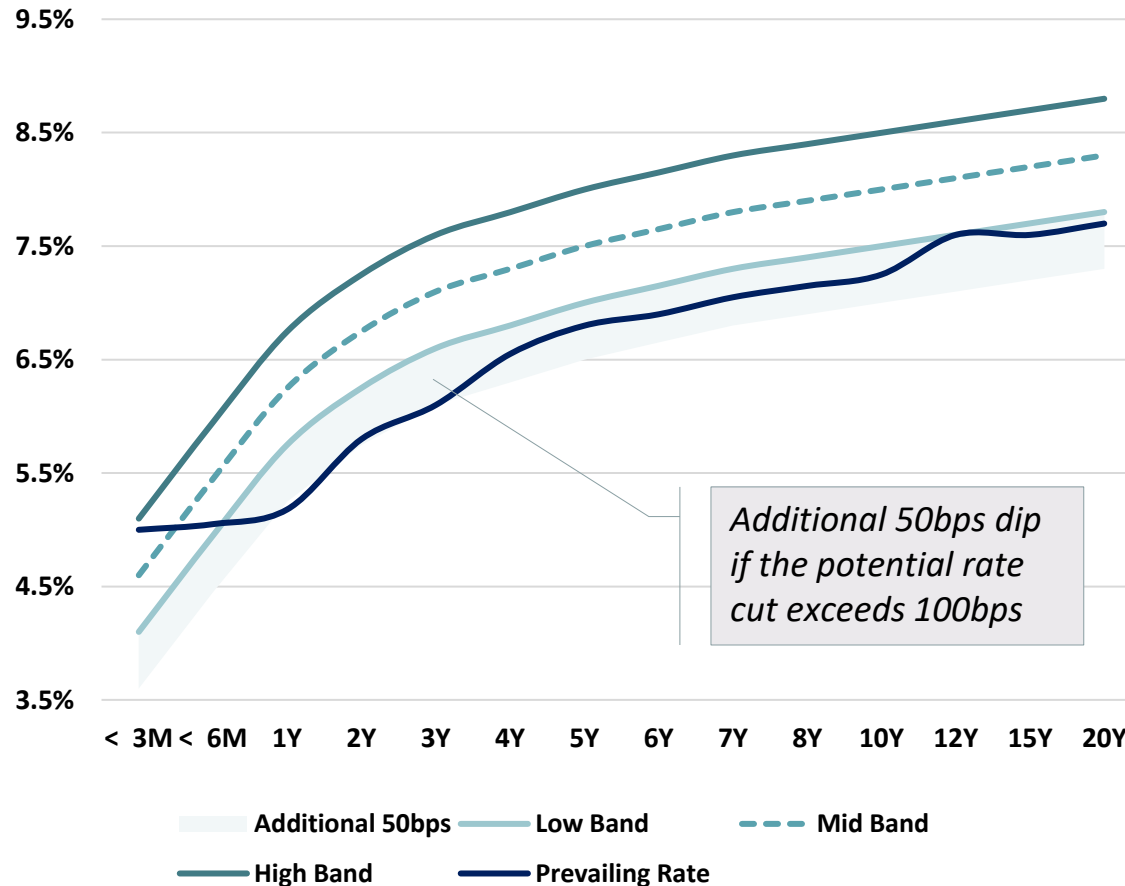
Tenure			Current Yield	Recommendation
< 91 Days	< 3M	Short	6.10%	Buy
< 182 Days	< 6M	Short	6.25%	Buy
< 364 Days	< 1Y	Short	6.45%	Buy
01-Oct-22	< 2Y	Short	6.85%	Buy
15-Jul-23	< 3Y	Short	7.10%	Buy
15-Sep-24	< 4Y	Mid	7.43%	Buy
01-May-25	< 5Y	Mid	7.63%	Buy
01-Aug-26	< 6Y	Mid	7.80%	Buy
15-Oct-27	< 7Y	Mid	8.00%	Buy
01-Sep-28	< 8Y	Mid	8.10%	Buy
01-May-29	< 10Y	Long	8.15%	Buy
15-Mar-32	< 12Y	Long	8.35%	Buy
15-Sep-34	< 15Y	Long	8.45%	Buy
15-Aug-39	< 20Y	Long	8.55%	Buy

2.0 New Recommendation

The curve has room to steepen; spreads have room to tighten

- ❑ Secondary market rates already adjusted for the 100bps policy rate cut.
- ❑ We don't rule out a further rate drop as mentioned in the Pre-Policy report released on 29th Jun 2020.
- ❑ In such a scenario, where policy rate cut exceeds 100bps to 150bps, we would expand our lower level band by a further 50bps bringing 1Yr, 5Yr and 10Yr to 5.0%, 6.5% and 7.0% respectively as illustrated in Slide 8.

Yield Curve Recommendation



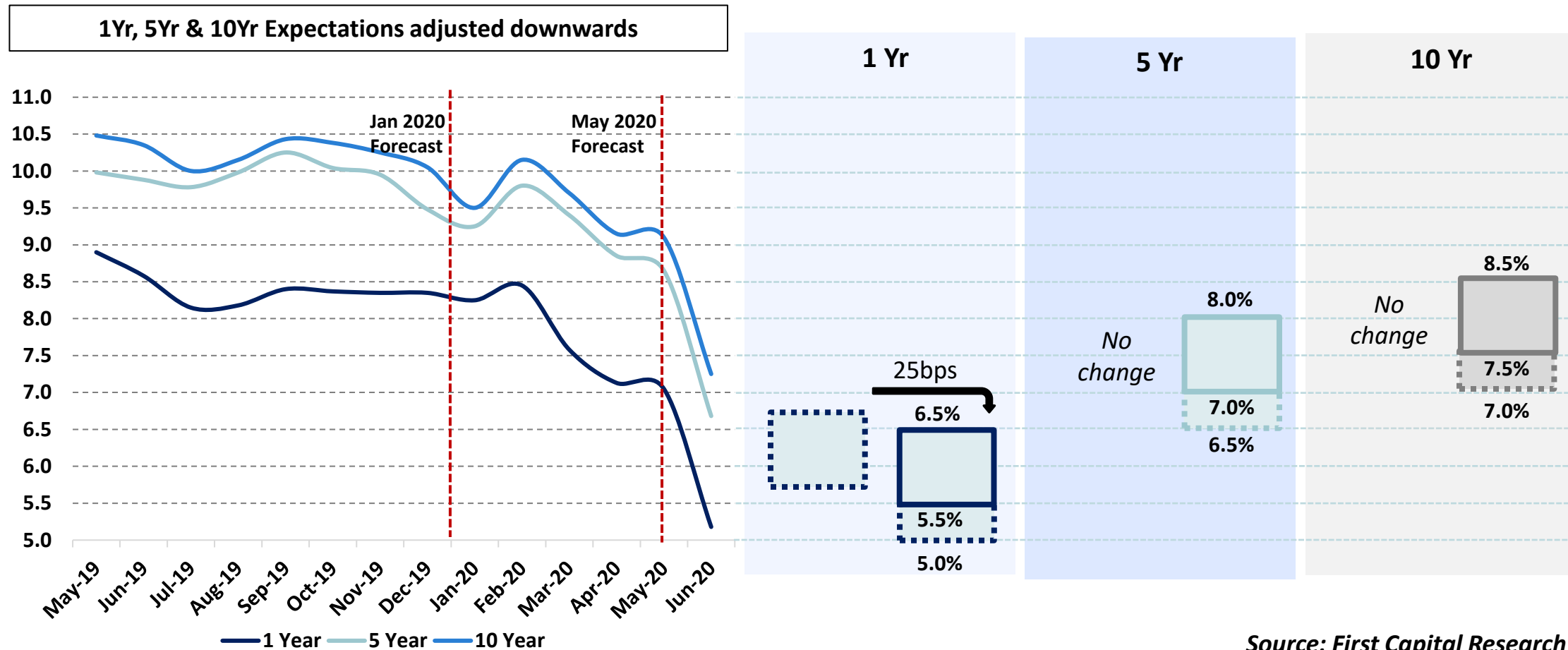
Tenure			Current Yield	Recommendation
< 91 Days	< 3M	Short	5.00%	Buy
< 182 Days	< 6M	Short	5.05%	Buy
< 364 Days	< 1Y	Short	5.18%	Sell
01-Oct-22	< 2Y	Short	5.80%	Sell
15-Jul-23	< 3Y	Short	6.10%	Sell
15-Sep-24	< 4Y	Mid	6.55%	Hold
01-May-25	< 5Y	Mid	6.80%	Hold
01-Aug-26	< 6Y	Mid	6.90%	Sell
15-Oct-27	< 7Y	Mid	7.05%	Sell
01-Sep-28	< 8Y	Mid	7.15%	Sell
01-May-29	< 10Y	Long	7.25%	Sell
15-Mar-32	< 12Y	Long	7.60%	Hold
15-Sep-34	< 15Y	Long	7.60%	Hold
15-Aug-39	< 20Y	Long	7.70%	Hold

Source: First Capital Research

3.0 Yield Curve Band 1-5Yr spread expanded by 25bps

Bond Yield Expectations for Jun-Sep 2020 (Short-Term View);

Expectations adjusted downwards 1Yr by 25bps and 5Yr, 10Yr No change



Source: First Capital Research

Appendix

18th Jun 2020 FI Cap:

All-time high liquidity position counts on

- ❑ With the liquidity position surging over LKR 200Bn and bulk of the excess liquidity likely to be parked in short term Government Securities, we expect a significant downward pressure on the Yield curve
- ❑ Considering the possibility of a major rate cut to discourage using of the SDFR facility, we expect an accelerated downward pressure on the yield curve.
- ❑ Further, the Government has decided to expand its quasi-fiscal re-financing facility from LKR 50Bn to LKR 150Bn requiring additional LKR 100Bn funding for planned disbursement. The remedial action to revive the economy may further boost liquidity in the system which as mentioned prior may push CBSL Holdings closer to LKR 500Bn.

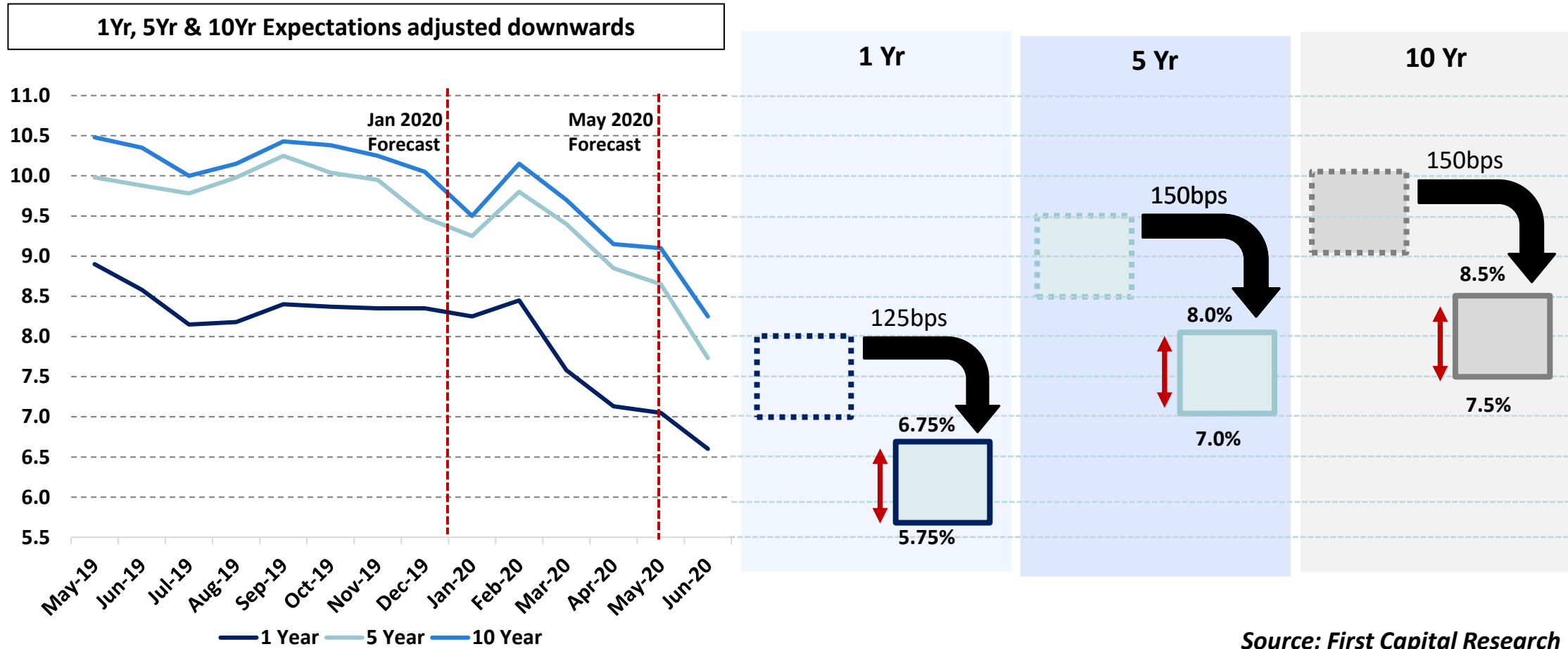
May 2020 Short Term (Appendix 1) View *Upgraded*

Bond Yield bands adjusted downwards by 125-150bps for Jun – Sep 2020 period

In our previous recommendation we expected a further surge in liquidity in 2Q-3Q which may bring yields by 25-50bps. However, the current SRR cut, possible policy rate cut, and additional LKR 100Bn funding may bring the yields further down, thereby we bring down our bond yield bands by 125-150 bps as illustrated in Slide 5.



Bond Yield Expectations for Jun-Sep 2020 (Short-Term View); *Expectations adjusted downwards 1Yr by 125bps and 5Yr, 10Yr by 150bps*



Source: First Capital Research

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Thank You

"Successful Investment Is About Managing Risk..."