



First Capital

“ENHANCED LIQUIDITY TO KEEP BOND YIELDS IN CHECK”

First Capital Fixed Income Recommendation – 07th May 2021

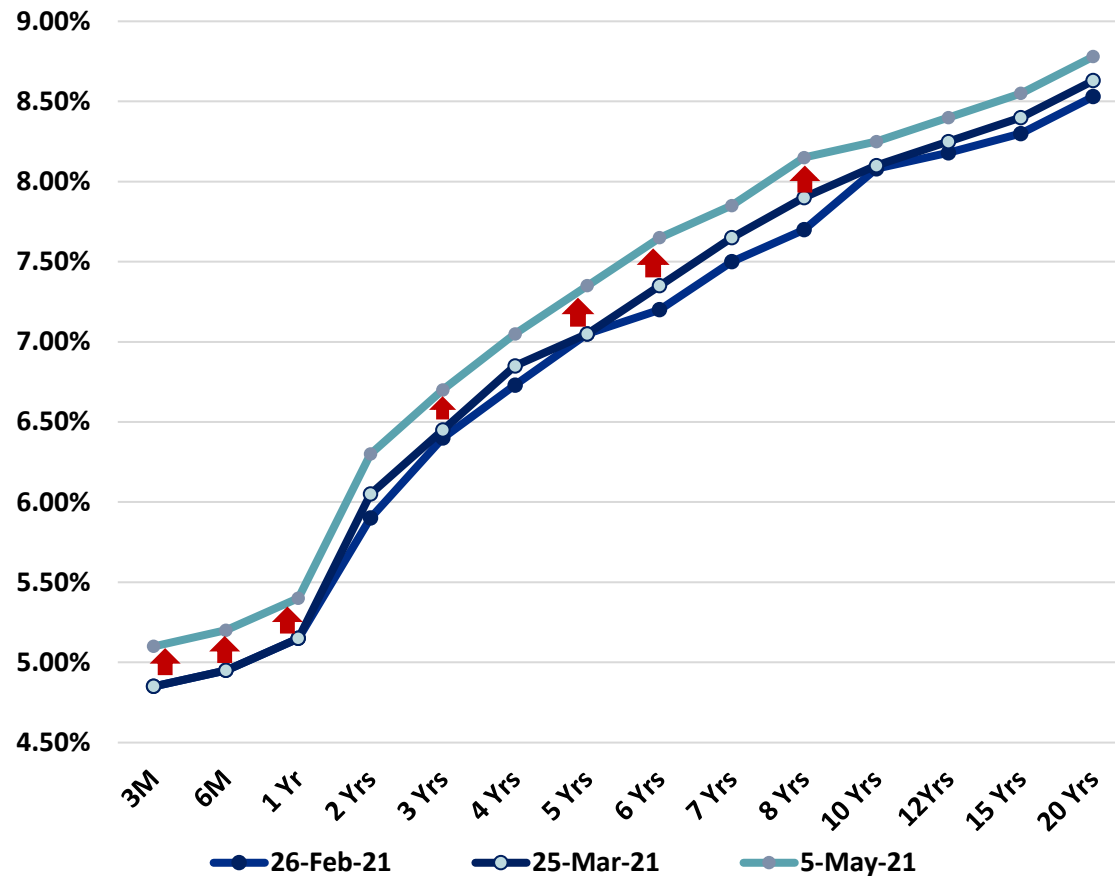
FIRST CAPITAL RESEARCH

**Analysts: Atchuthan Srirangan
Hiruni Perera
Dimantha Mathew**

1.0 Previous Recommendation

25th Mar 2021 Re Cap:

Recommendations and Yield curve movement



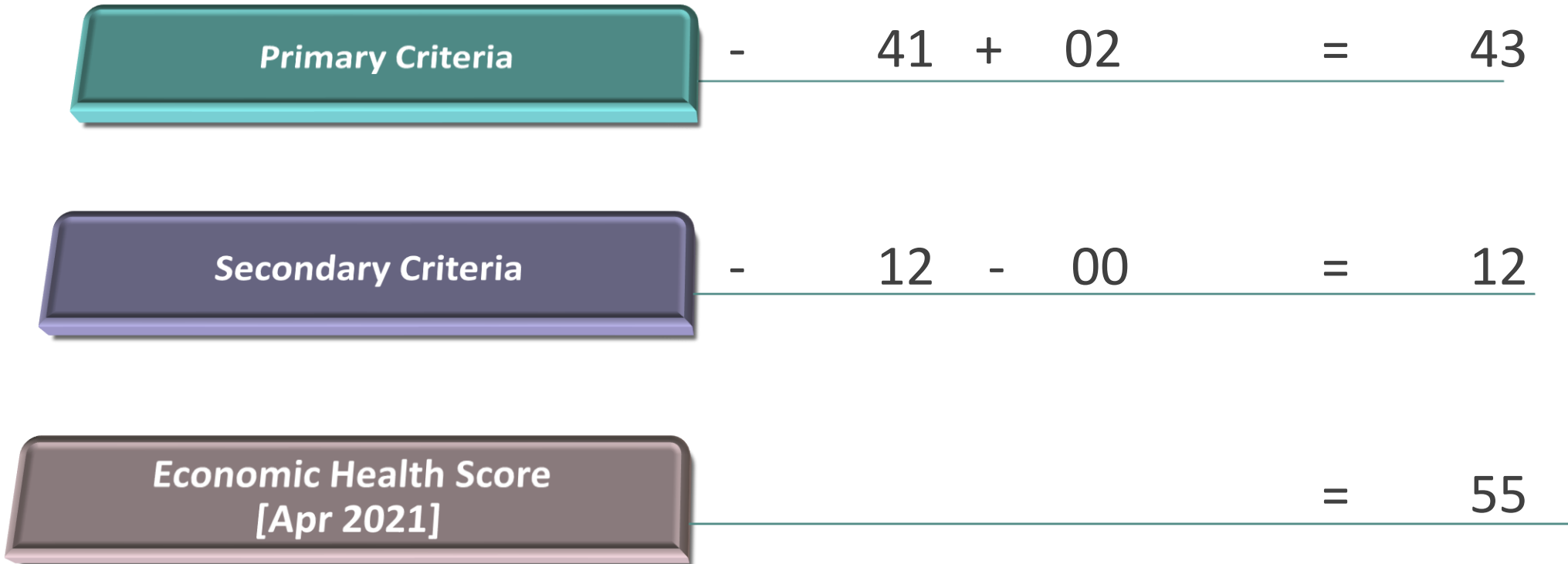
Tenure			Current Yield	Recommendation
< 91 Days	< 3M	Short	4.85%	Sell
< 182 Days	< 6M	Short	4.95%	Sell
< 364 Days	< 1Y	Short	5.15%	Sell
01-Oct-22	< 2Y	Short	6.05%	Sell
15-Jul-23	< 3Y	Short	6.45%	Sell
15-Sep-24	< 4Y	Mid	6.85%	Sell
01-May-25	< 5Y	Mid	7.05%	Sell
01-Aug-26	< 6Y	Mid	7.35%	Sell
15-Oct-27	< 7Y	Mid	7.65%	Sell
01-Sep-28	< 8Y	Mid	7.90%	Sell
01-May-29	< 10Y	Long	8.10%	Hold
15-Mar-32	< 12Y	Long	8.25%	Hold
15-Sep-34	< 15Y	Long	8.40%	Hold
15-Aug-39	< 20Y	Long	8.63%	Hold



Fixed Income Health Score

Apr 2021 FI Economic Health Score

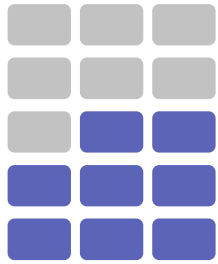
Primary indicators on a downtrend while secondary criteria holds steady.....



[As against 53 in Mar 2021 & 61 in Apr 2020 (1 Year ago)]

Source: First Capital Research

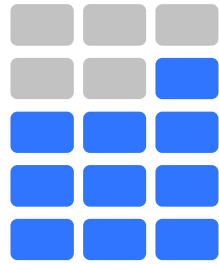
Changes to Health Score – Primary Criteria



08/15

Foreign Reserves

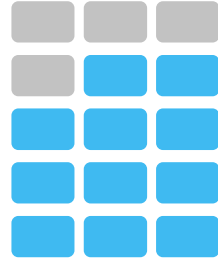
Foreign reserves grew to USD 4.5Bn in Apr 2021 from USD 4.1Bn in Mar 2021.



9/15

Liquidity

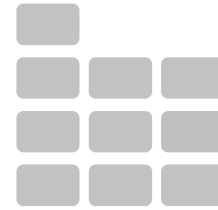
Liquidity level was at LKR 146.5Bn as at 05th May following continuous volatility during last 2 weeks.



11/15

Inflation

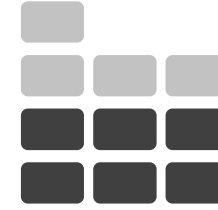
CCPI marginally dip to 3.9% in Apr 2021, driven by decrease of prices in the food category.



0/10

Foreign Activity

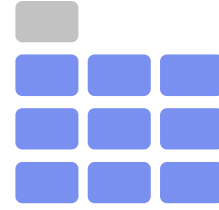
Govt. securities over the last 2 months below LKR 7Bn



06/10

Credit

Private credit expanded by LKR 112.2Bn Mar 2021



09/10

CBSL Holdings

CBSL holdings above LKR 850Bn along with improved liquidity



08/15

07/15

11/15

0/10

06/10

09/10

Changes to Health Score – Secondary Criteria



0/05

Rating Outlook

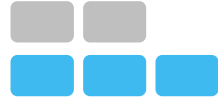
Sri Lanka’s sovereign credit is at an alleviated risk of a possible downgrade if IMF program is further delayed



02/05

External Environment

Foreign exchange market remains volatile, YTD USD/LKR has depreciated by 6.5%



03/05

BOT & BOP

Trade deficit decreased to USD 572.0Mn in Feb 2021



05/05

Political Risk

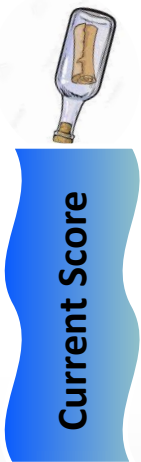
Political stability reinstated



02/05

Investor Confidence

BCI index improved to 138 in Apr 2021



0/05

02/05

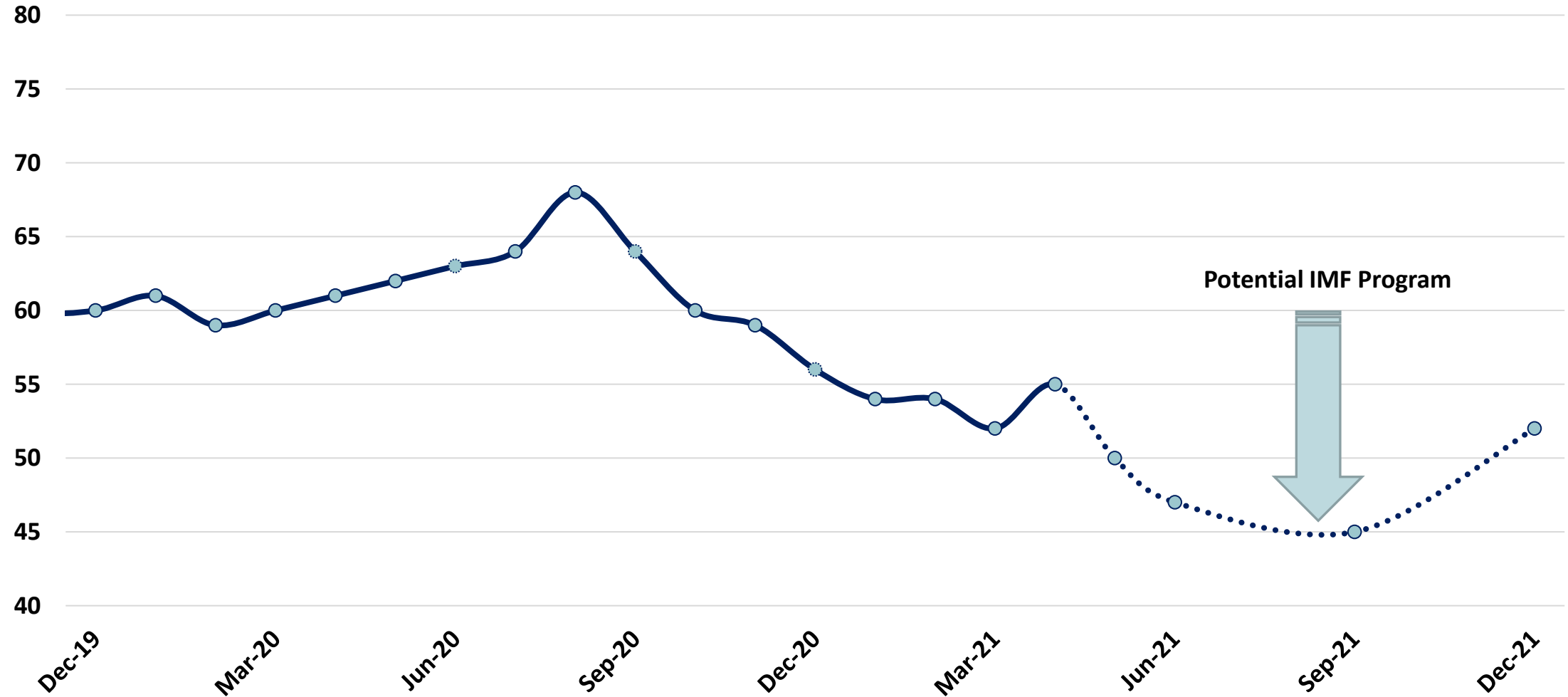
03/05

05/05

02/05

Fixed Income Health Expectations

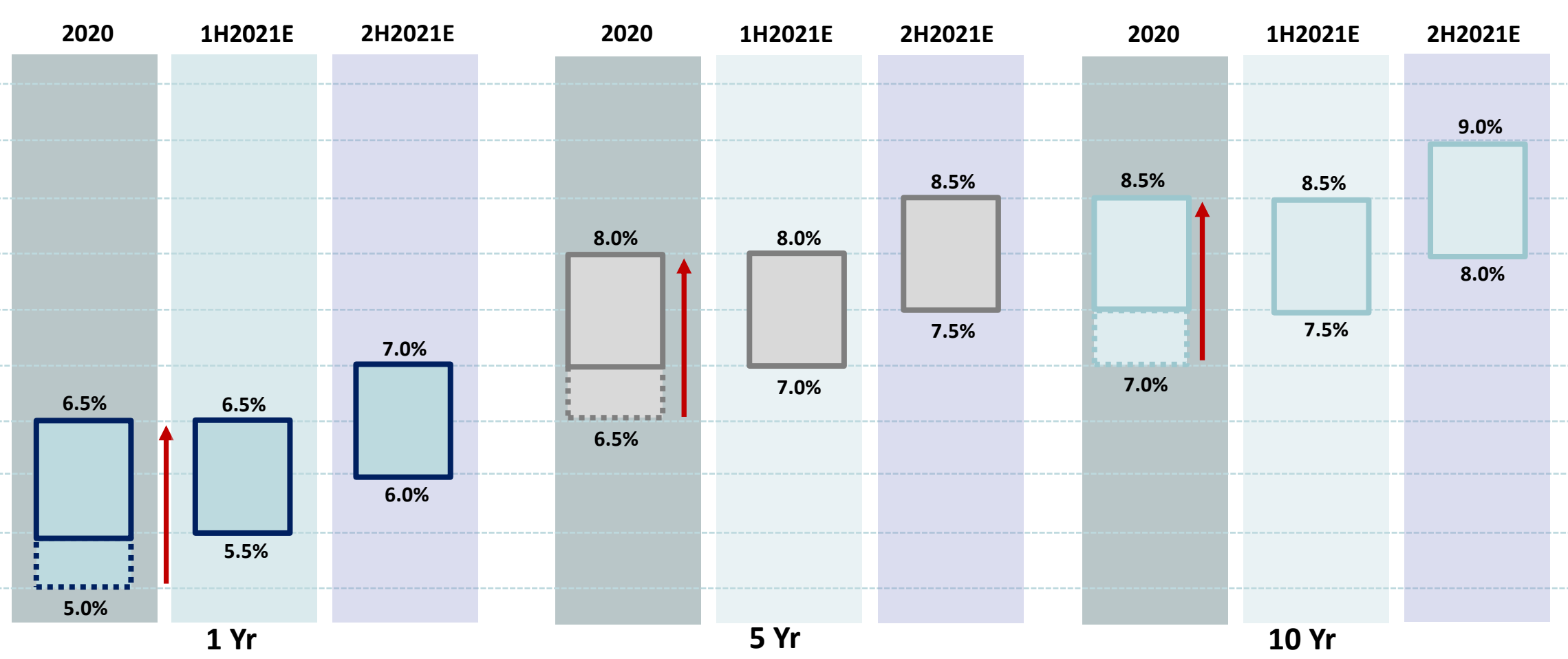
First Capital Fixed Income Health Score



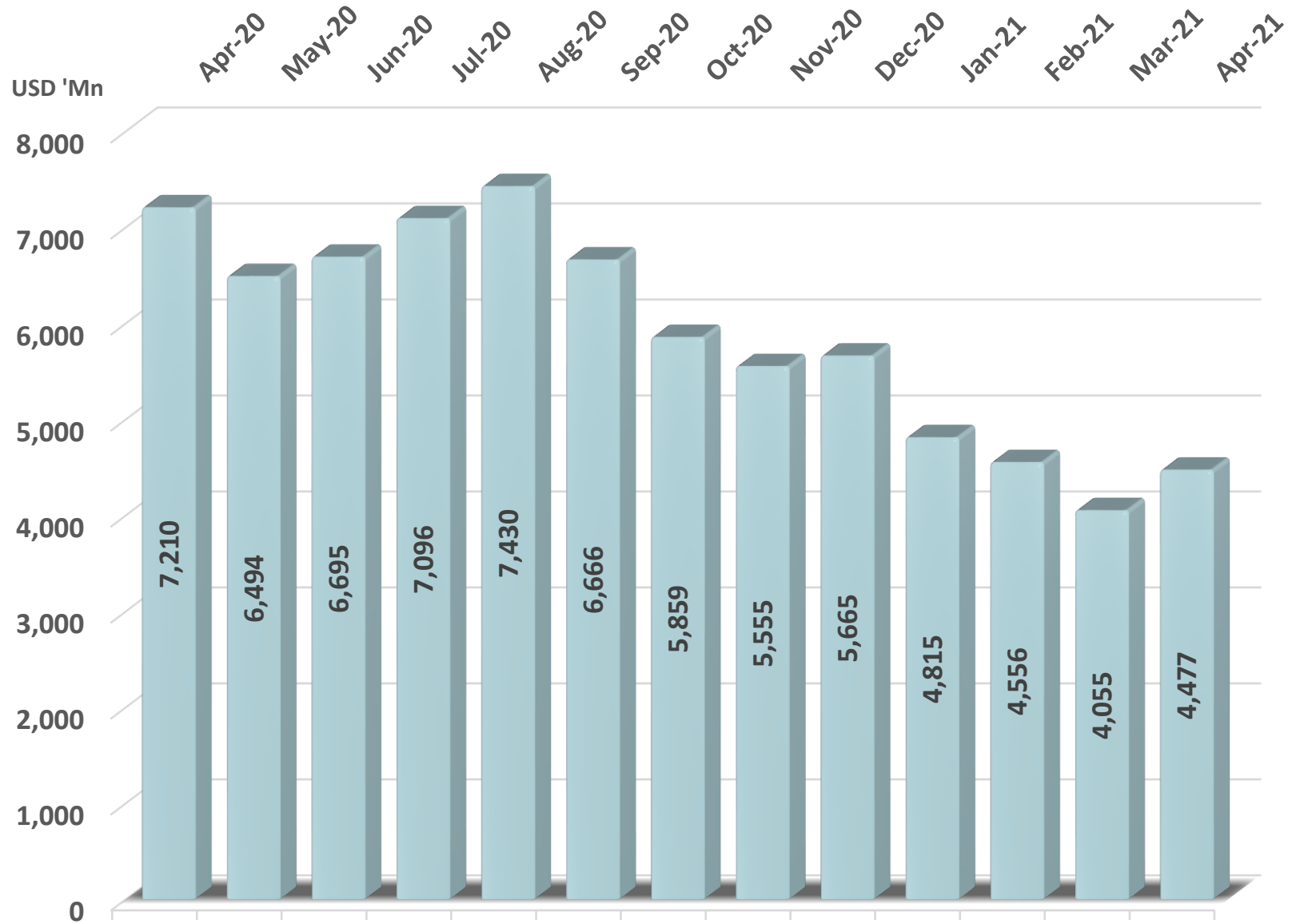
2.0 New Recommendation

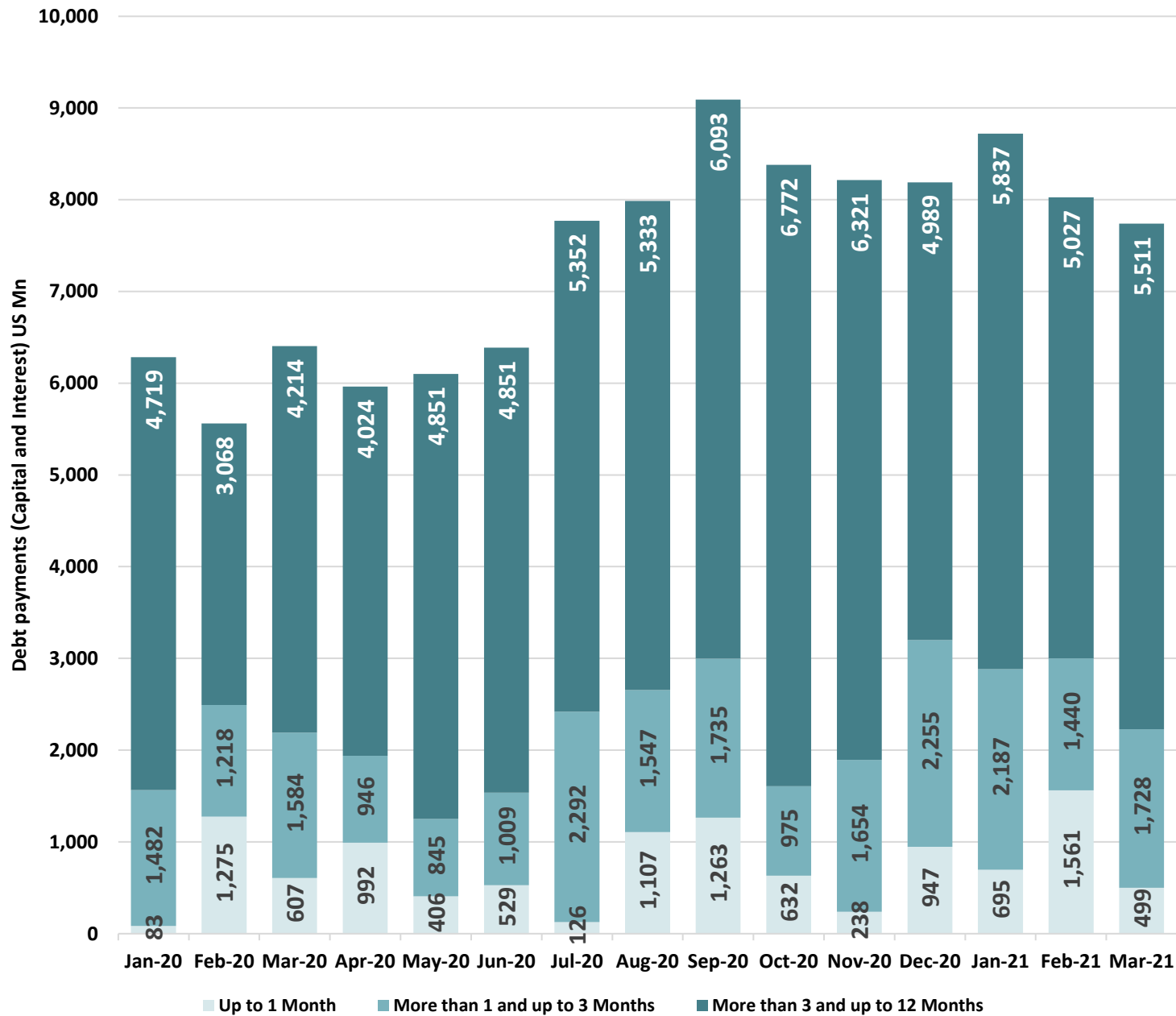
Jan 2021 Re Cap:

Yield Curve may rise by 150-200bps and reach our upper bands of the yield curve



Sri Lanka's gross official reserves USD 4.5Bn(excluding the swap facility with the PBOC), with an import cover of 3 months, in Apr 2021.

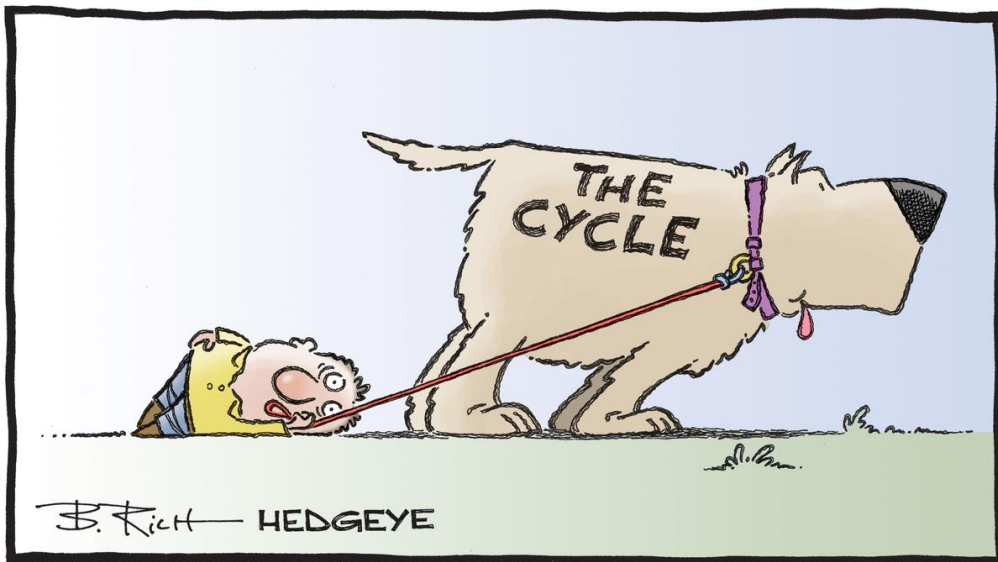




Source: CBSL

Sri Lanka's next 12-month FX liabilities exceeds Value of Foreign Official Reserve of USD 4.5Bn as at Apr 2021

Broader view: Brace for bond tantrums



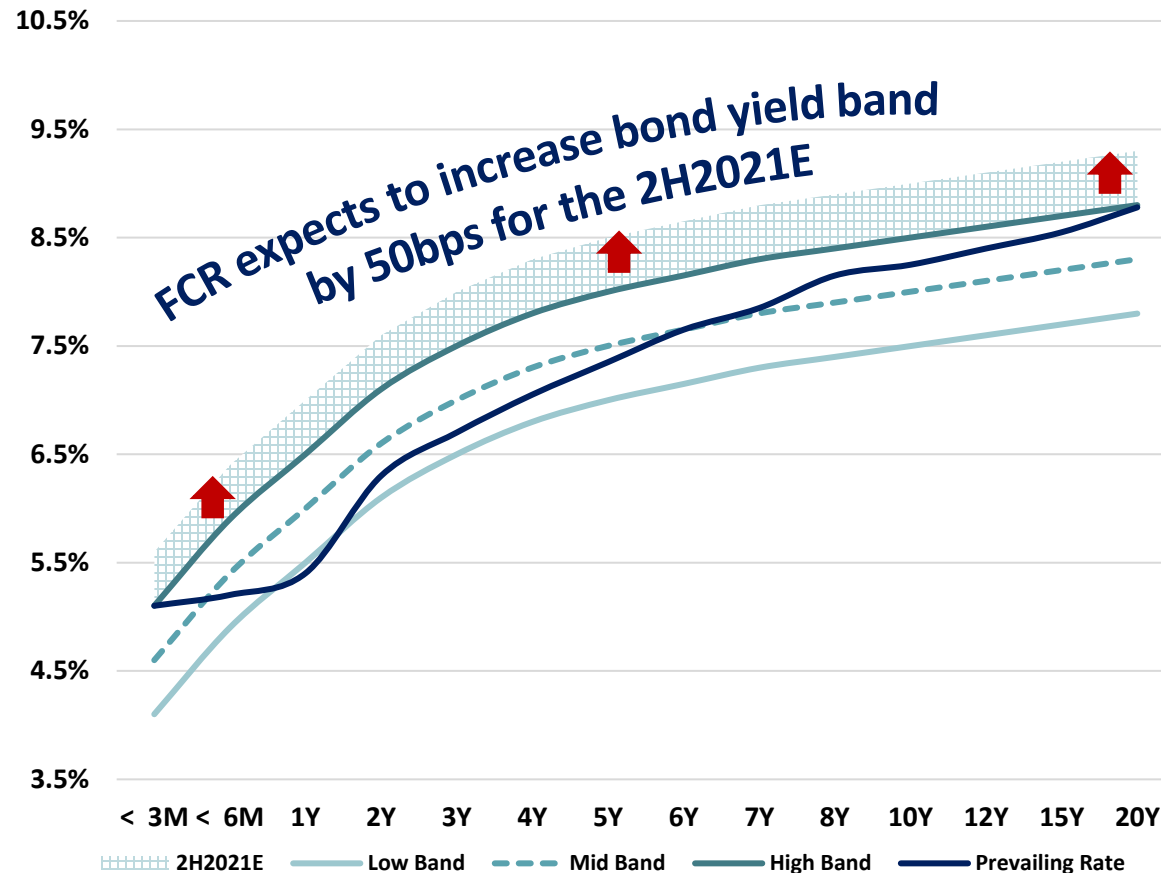
Sri Lanka's foreign reserves grew to USD 4.5Bn in Apr 2021 supported by the USD 500Mn loan from China Development Bank improving reserves from USD 4.1Bn in Mar 2021 (lowest since Aug 2009).

Depleting foreign reserve position, high foreign currency debt repayment (USD 4.0Bn outstanding debt payment from Apr-Dec 2021) requirement and limited funding sources available in the market are expected to further increase pressure on yields in 2H2021E.

However, due to the continuous under-subscription of bill and bond auctions, the budget deficit was financed mainly via quantitative easing leading to a sharp rise in CBSL Holdings (LKR 884Bn as at 06th May 21) which creates aggregate money supply and high liquidity.

*Considering the surge in market liquidity, rate pressure may subside in the short term, but **BRACE FOR BOND TANTRUMS** in 2H2021E.*

Yield Curve Recommendation



Tenure			Current Yield	Recommendation
< 91 Days	< 3M	Short	5.10%	Sell
< 182 Days	< 6M	Short	5.20%	Sell
< 364 Days	< 1Y	Short	5.40%	Sell
15-Mar-23	< 2Y	Short	6.30%	Sell
15-Mar-24	< 3Y	Short	6.70%	Sell
01-May-25	< 4Y	Mid	7.05%	Sell
15-Jan-26	< 5Y	Mid	7.35%	Sell
15-Jan-27	< 6Y	Mid	7.65%	Sell
01-May-28	< 7Y	Mid	7.85%	Sell
01-May-29	< 8Y	Mid	8.15%	Hold
15-Mar-31	< 10Y	Long	8.10%	Hold
15-Jan-33	< 12Y	Long	8.25%	Hold
15-Mar-35	< 15Y	Long	8.40%	Hold
01-Jan-41	< 20Y	Long	8.63%	Hold

Source: First Capital Research

Disclaimer

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the accuracy, usefulness, reliability of same. First Capital Holdings PLC may act as a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, before its publication. First Capital Holdings PLC and/or its principal, their respective Directors, or Employees may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent allowed by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without prior permission.

Contact Us

First Capital Holdings PLC

No: 02, Deal Place,
Colombo 00300,
Sri Lanka.

E: research@firstcapital.lk



First Capital



Dimantha Mathew

Head of Research

T: +94 11 2639 853

E: dimantha@firstcapital.lk



Atchuthan Srirangan

Assistant Manager – Research

T: +94 11 2639 863

E: atchuthan@firstcapital.lk



Hiruni Perera

Assistant Manager- Research

T: +94 11 2639 864

E: hiruni@firstcapital.lk



Vidushika Perera

Assistant Manager- Research

T: +94 11 2639 864

E: vidushika@firstcapital.lk



Thank You

"Successful Investment Is About Managing Risk..."