



First Capital

“BOND BULLS GO BUST!!!”

First Capital Fixed Income Recommendation – 11th Jan 2021

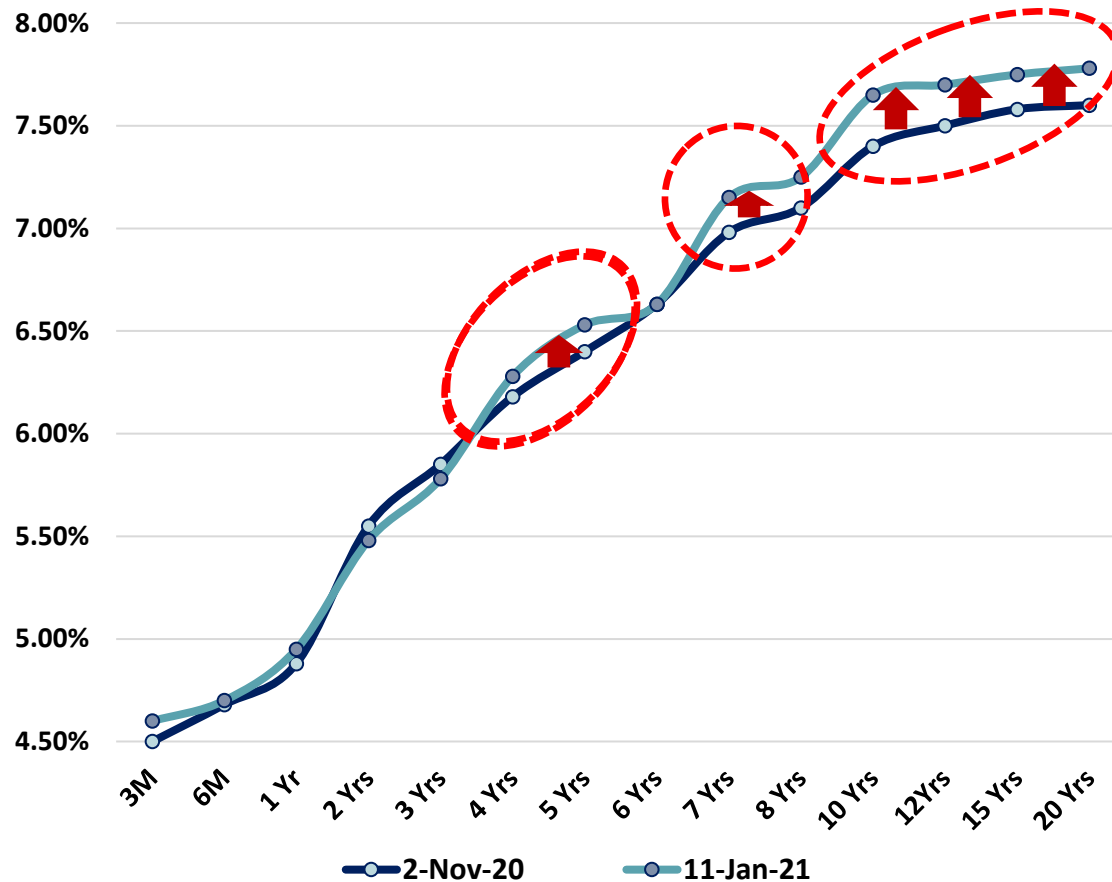
FIRST CAPITAL RESEARCH

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Dimantha Mathew
Nisansala Kuruppumudali**

1.0 Previous Recommendation

02nd Nov 2020 Re Cap:

Recommendations and Yield curve movement



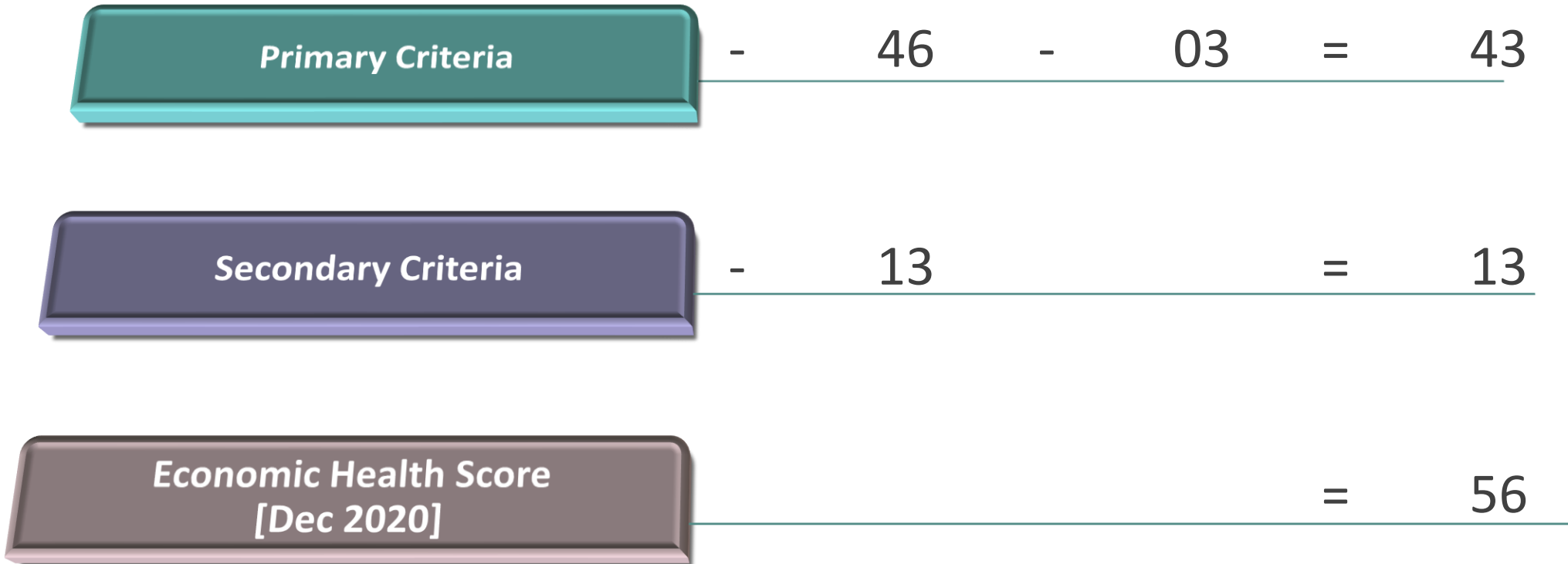
Tenure			Current Yield	Recommendation
< 91 Days	< 3M	Short	4.50%	Sell
< 182 Days	< 6M	Short	4.68%	Sell
< 364 Days	< 1Y	Short	4.88%	Sell
01-Oct-22	< 2Y	Short	5.55%	Sell
15-Jul-23	< 3Y	Short	5.85%	Sell
15-Sep-24	< 4Y	Mid	6.18%	Sell
01-May-25	< 5Y	Mid	6.40%	Sell
01-Aug-26	< 6Y	Mid	6.63%	Sell
15-Oct-27	< 7Y	Mid	6.98%	Sell
01-Sep-28	< 8Y	Mid	7.10%	Sell
01-May-29	< 10Y	Long	7.40%	Sell
15-Mar-32	< 12Y	Long	7.50%	Sell
15-Sep-34	< 15Y	Long	7.58%	Sell
15-Aug-39	< 20Y	Long	7.60%	Sell



Fixed Income Health Score

Dec 2020 FI Economic Health Score

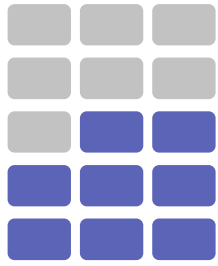
Primary indicators on a downtrend while secondary criteria holds steady.....



[As against 59 in Nov 2020 & 60 in Dec 2019 (1 Year ago)]

Source: First Capital Research

Changes to Health Score – Priority Criteria



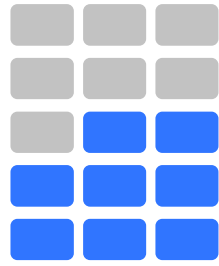
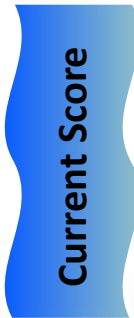
08/15

Foreign Reserves

Foreign reserves dipped by USD 0.3Bn during the month of Nov 2020 to USD 5.6Bn from USD 5.9Bn in Oct 2020



09/15



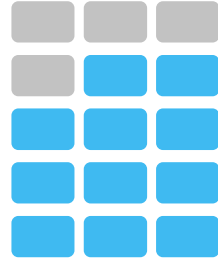
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Liquidity

Liquidity level was high at LKR 239.4Bn following continuous volatility during last 2 weeks.



10/15

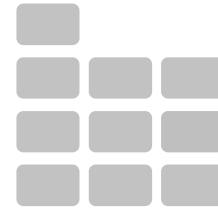


11/15

Inflation

CCPI marginally increased to 4.2% in Dec 2020 in line with the rise in Food prices

11/15

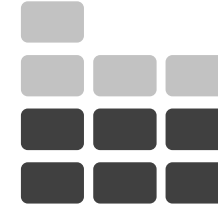


0/10

Foreign Activity

Net outflow of LKR 3.1Bn in govt. securities over the last 2 months; Foreign holding around 0.1%

0/10



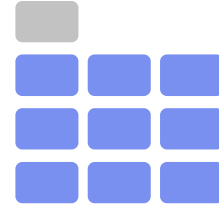
06/10

Credit

Private credit increased by LKR 41Bn in Nov 2020



07/10



09/10

CBSL Holdings

CBSL holdings hovers above LKR 700Bn along with improved liquidity

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Changes to Health Score – Secondary Criteria



New Score



0/05

Rating Outlook

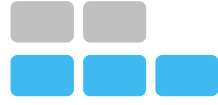
Sri Lanka’s sovereign credit is at an alleviated risk of a possible downgrade if IMF program is further delayed



03/05

External Environment

Rupee has marginally depreciated against the greenback, YTD USD/LKR has depreciated by 1.5%



03/05

BOT & BOP

Trade deficit decreased to USD 514.0Mn in Oct 2020 from USD 525.0Mn in Sep 2020



05/05

Political Risk

Budget 2021 was passed in parliament with a majority



02/05

Investor Confidence

BCI index fell to 83 in Dec recording the lowest point the index has reached for 2020

Current Score

0/05

03/05

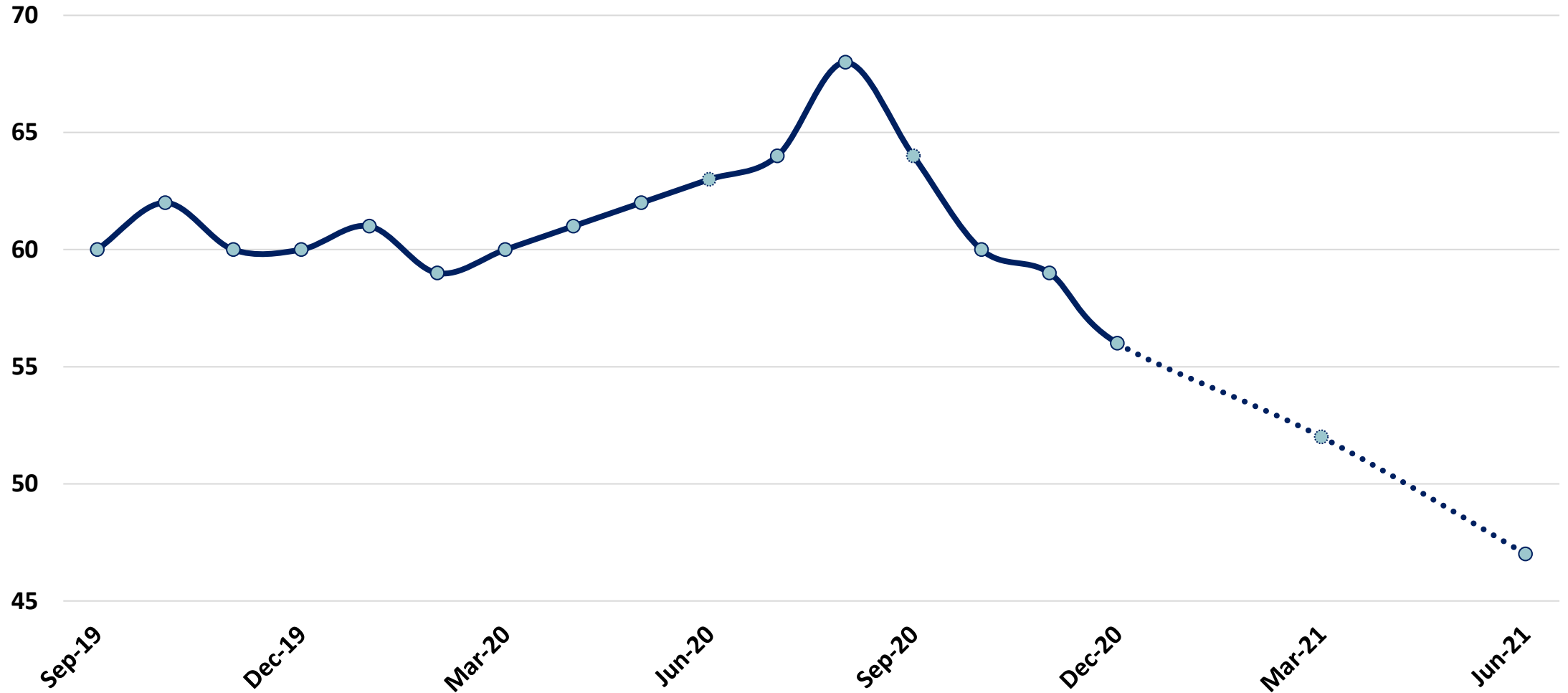
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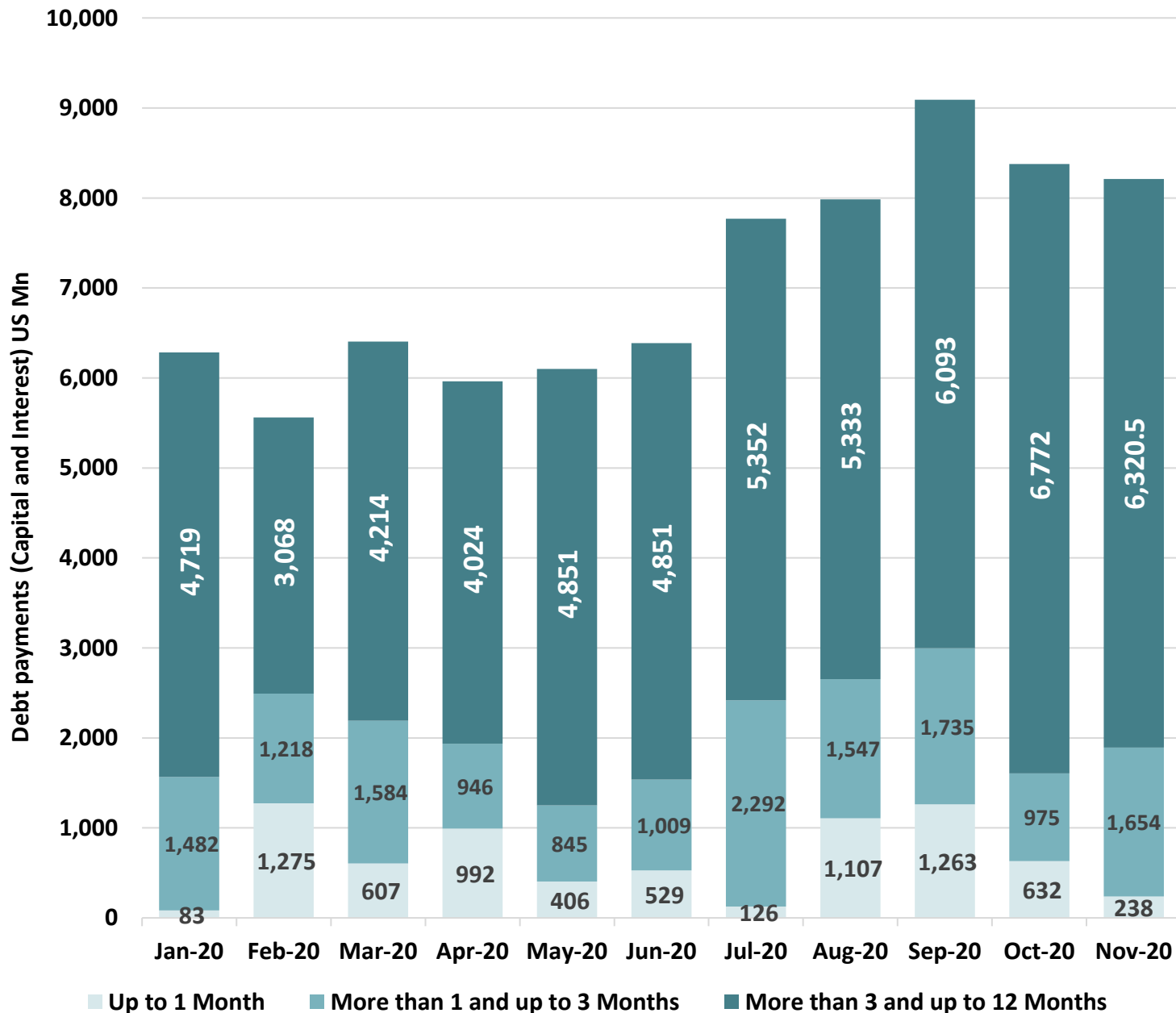
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Fixed Income Health Expectations

First Capital Fixed Income Health Score



2.0 New Recommendation



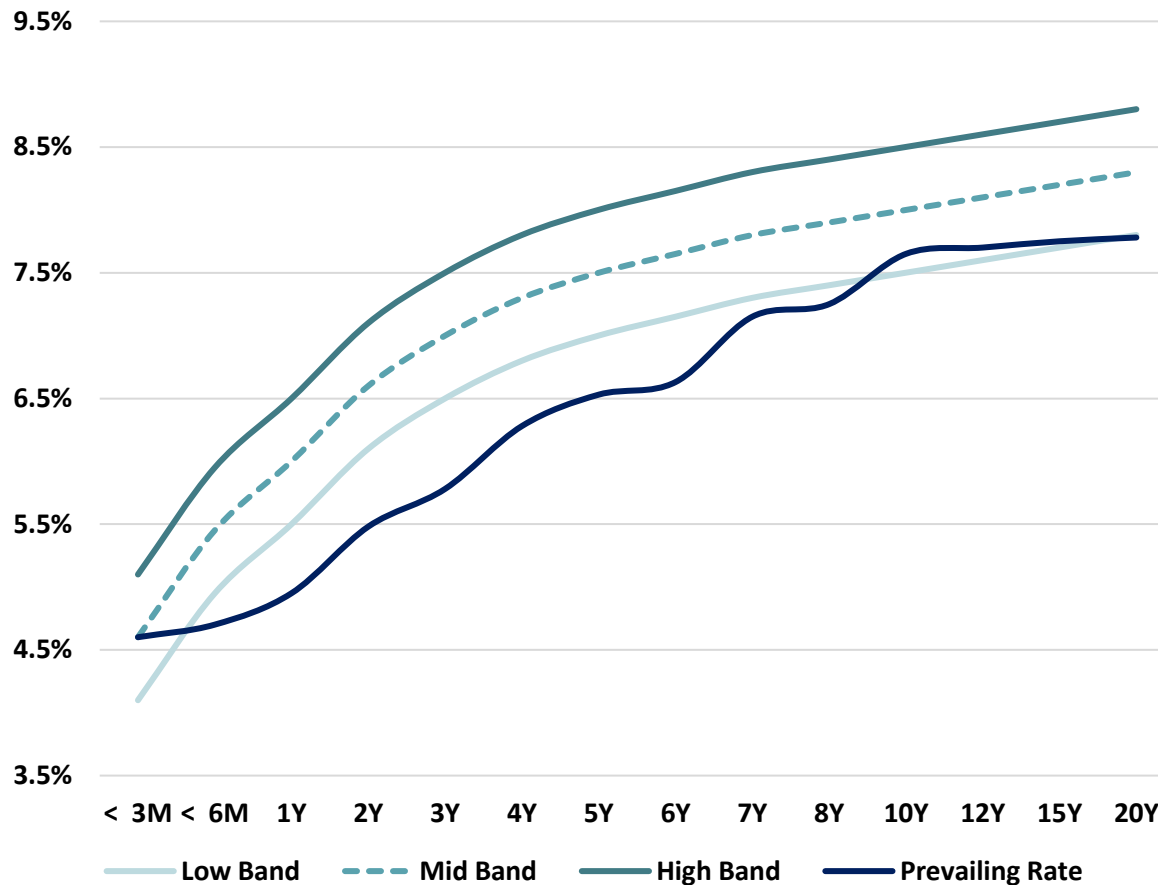
Source: CBSL

Sri Lanka's next 12-month FX liabilities exceeds Value of Foreign Official Reserve of USD 5.6Bn as at Nov 2020

“ Amidst the surge in liquidity along with the oversubscription of the two recently held Bill (6th Jan 2021) and Bond (11th Jan 2021) auctions there is a possibility of short-term yields easing further in the range of 10-15bps, however, on a broader view we believe that current rates have bottomed out”

Broader view: Current rates have bottomed out

Yield Curve Recommendation



Tenure			Current Yield	Recommendation
< 91 Days	< 3M	Short	4.60%	Sell
< 182 Days	< 6M	Short	4.70%	Sell
< 364 Days	< 1Y	Short	4.95%	Sell
15-Dec-22	< 2Y	Short	5.48%	Sell
01-Oct-23	< 3Y	Short	5.78%	Sell
15-Sep-24	< 4Y	Mid	6.28%	Sell
01-May-25	< 5Y	Mid	6.53%	Sell
01-Feb-26	< 6Y	Mid	6.63%	Sell
15-Oct-27	< 7Y	Mid	7.15%	Sell
01-Sep-28	< 8Y	Mid	7.25%	Sell
01-May-30	< 10Y	Long	7.65%	Sell
01-Jan-32	< 12Y	Long	7.70%	Sell
15-Sep-34	< 15Y	Long	7.75%	Sell
15-Aug-39	< 20Y	Long	7.78%	Sell

Source: First Capital Research

Disclaimer

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Thank You

"Successful Investment Is About Managing Risk..."