



First Capital

“ALARM SNOOZED WITH SWAP!!!”

First Capital Fixed Income Recommendation – 25th Mar 2021

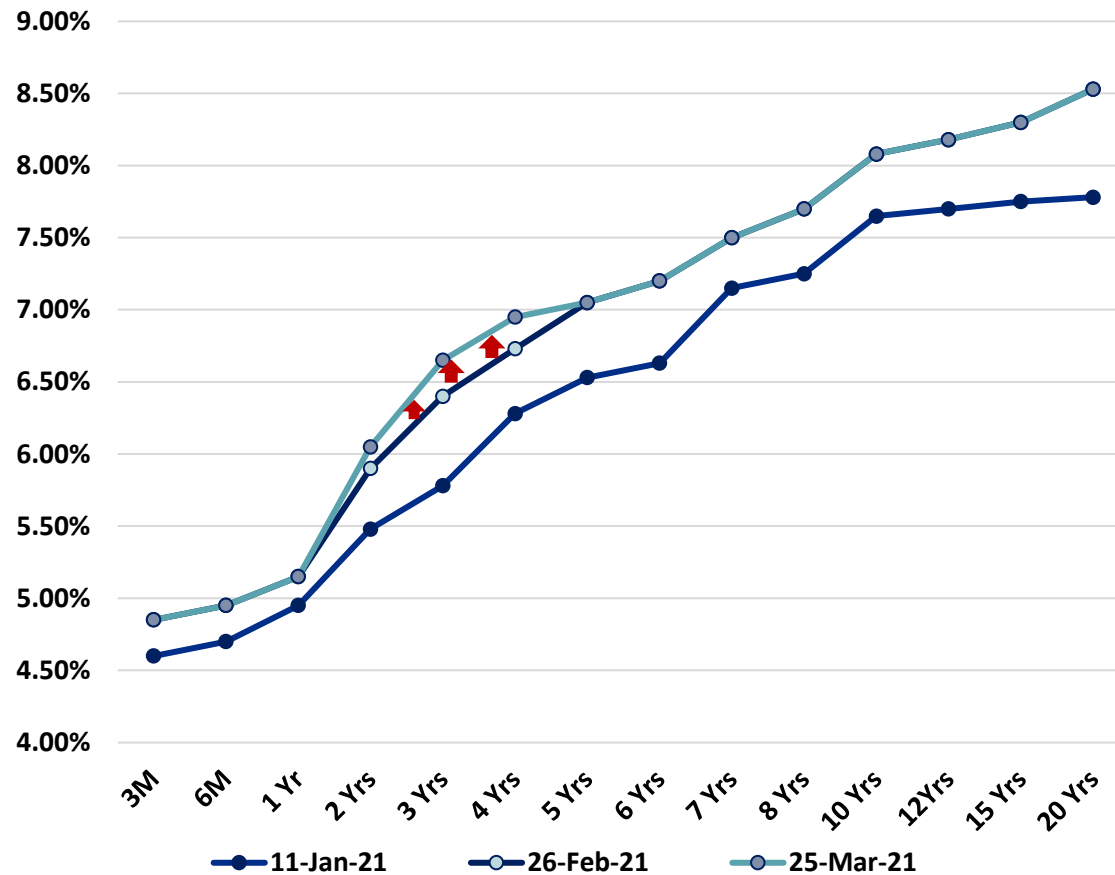
FIRST CAPITAL RESEARCH

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Dimantha Mathew**

1.0 Previous Recommendation

26th Feb 2021 Re Cap:

Recommendations and Yield curve movement



Tenure			Current Yield	Recommendation
< 91 Days	< 3M	Short	4.80%	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	6.65%	Sell
15-Sep-24	< 4Y	Mid	6.95%	Sell
01-May-25	< 5Y	Mid	7.05%	Sell
01-Aug-26	< 6Y	Mid	7.20%	Sell
15-Oct-27	< 7Y	Mid	7.50%	Sell
01-Sep-28	< 8Y	Mid	7.70%	Sell
01-May-29	< 10Y	Long	8.08%	Hold
15-Mar-32	< 12Y	Long	8.18%	Hold
15-Sep-34	< 15Y	Long	8.30%	Hold
15-Aug-39	< 20Y	Long	8.53%	Hold



Fixed Income Health Score

Mar 2021 FI Economic Health Score

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

Primary Criteria

$$- 41 + 02 - 02 = 41$$

Secondary Criteria

$$- 13 - 01 = 12$$

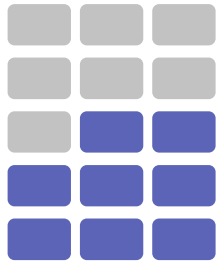
Economic Health Score
[Mar 2021]

$$= 53$$

[As against 54 in Feb 2021 & 60 in Mar 2020 (1 Year ago)]

Source: First Capital Research

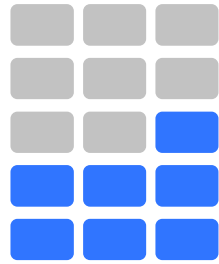
Changes to Health Score – Primary Criteria



08/15

Foreign Reserves

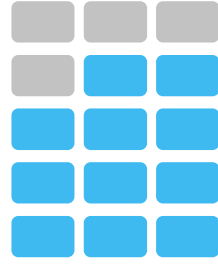
Foreign reserves dipped to USD 4.5Bn in Feb 2021, will improve with recent SWAP



07/15

Liquidity

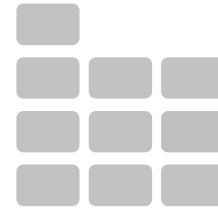
CBSL activate SLF facility during to maintain liquidity level above LKR 100Bn



11/15

Inflation

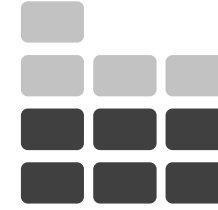
CCPI marginally increased to 3.3% in Feb 2021 in line with the rise in Food prices



0/10

Foreign Activity

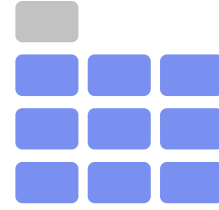
Govt. securities over the last 2 months below LKR 10Bn



06/10

Credit

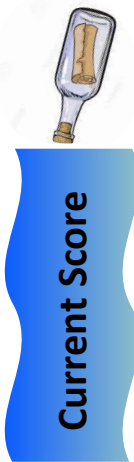
Private credit increased by LKR 25Bn in Jan 2021



09/10

CBSL Holdings

CBSL holdings above LKR 800Bn



06/15



09/15

11/15

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06/10

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Changes to Health Score – Secondary Criteria



New Score



0/05

Rating Outlook

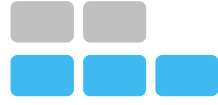
Sri Lanka’s sovereign credit is at an alleviated risk of a possible downgrade if IMF program is further delayed



02/05

External Environment

Rupee has depreciated against the greenback, YTD USD/LKR has depreciated by 7.0%



03/05

BOT & BOP

Trade deficit decreased to USD 667.0Mn in Jan 2021



05/05

Political Risk

Budget 2021 was passed in parliament with a majority



02/05

Investor Confidence

BCI index improved to 120 in Feb 2021

Current Score

0/05



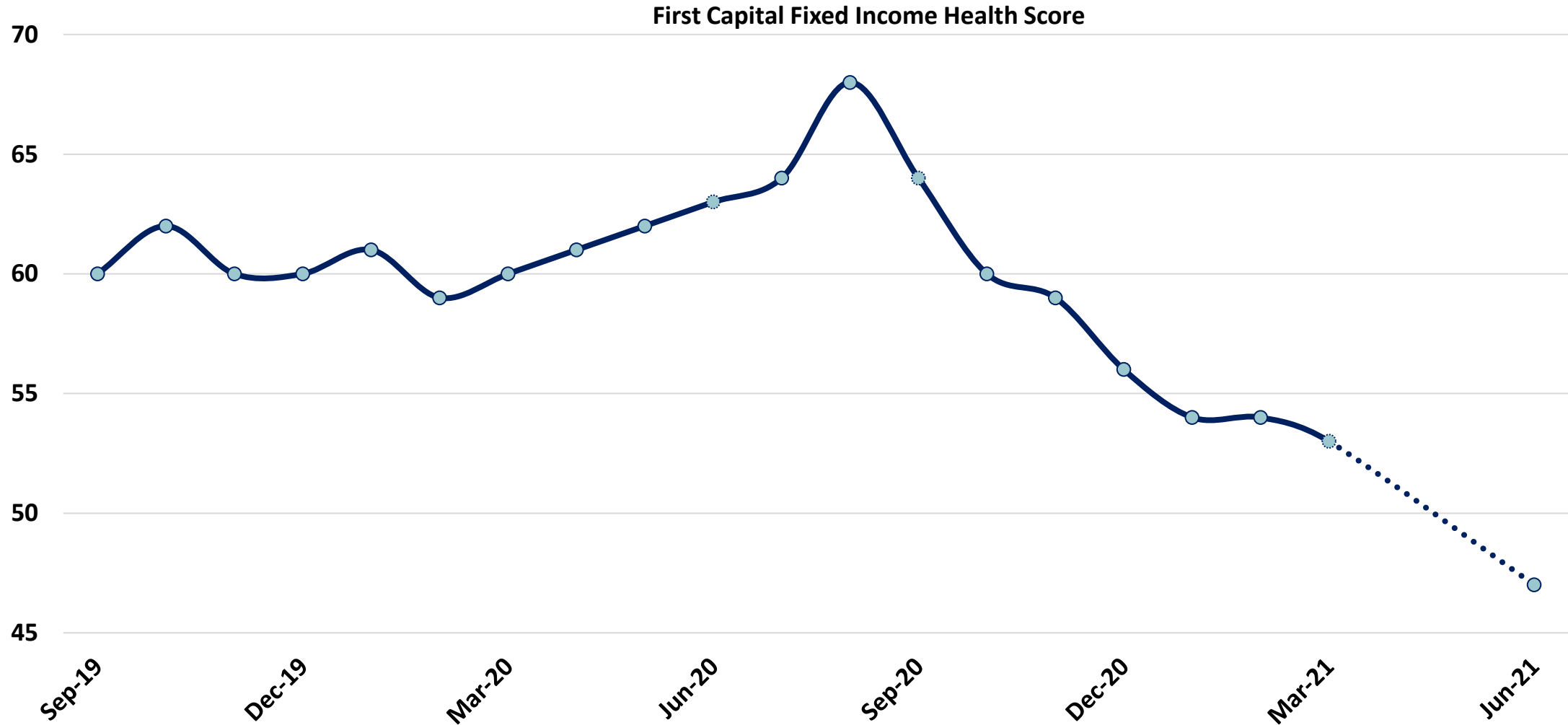
03/05

03/05

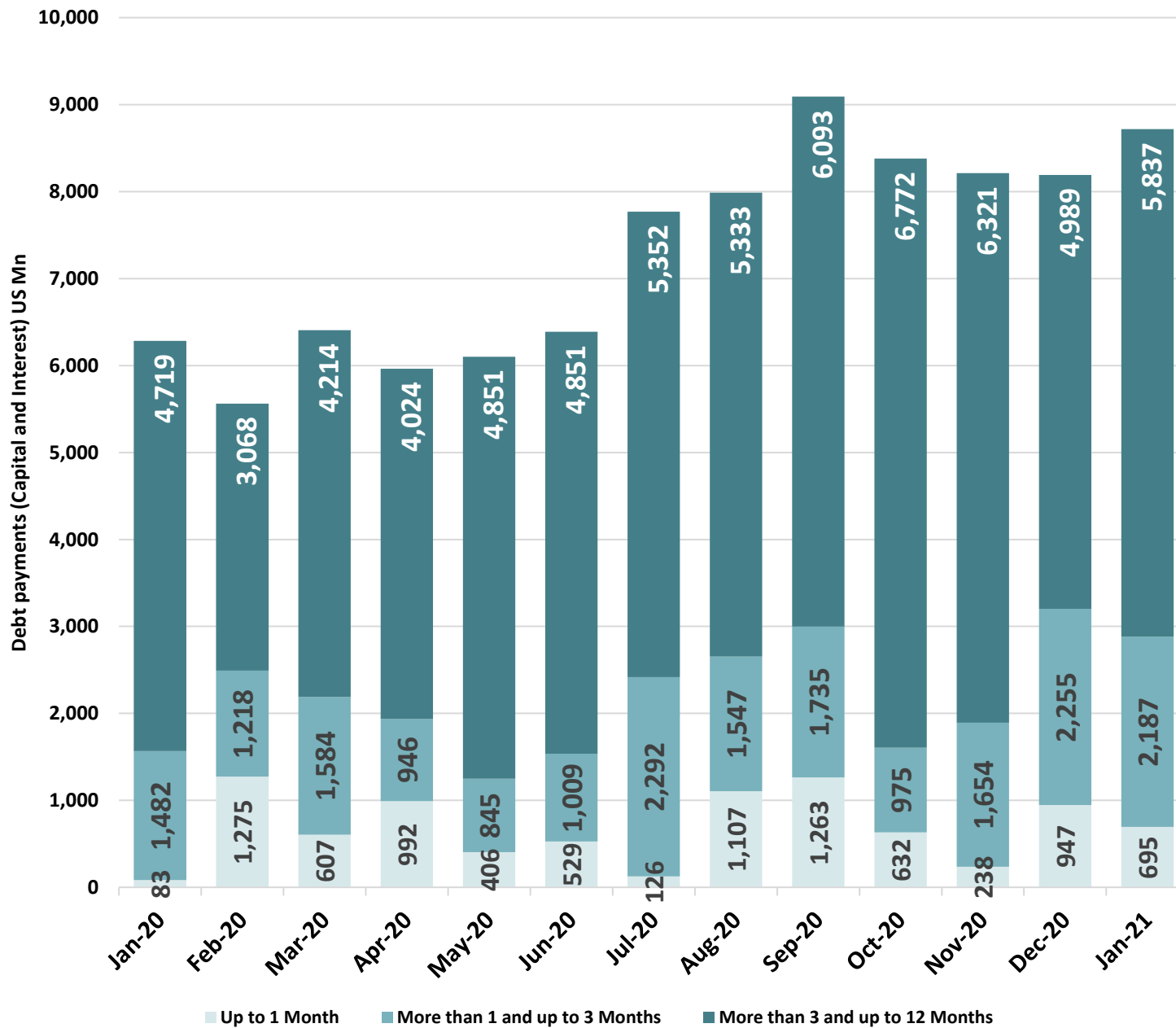
05/05

02/05

Fixed Income Health Expectations



2.0 New Recommendation



■ Up to 1 Month ■ More than 1 and up to 3 Months ■ More than 3 and up to 12 Months

Source: CBSL

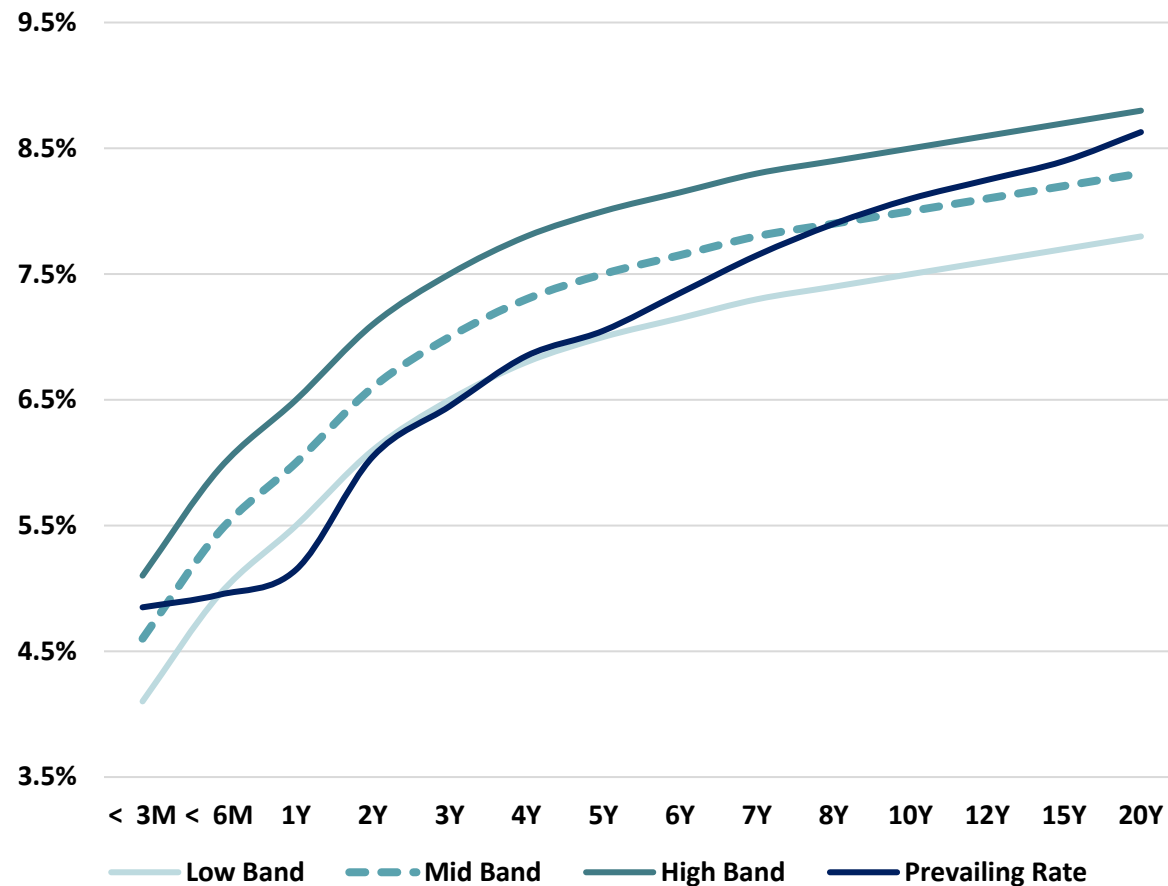
Sri Lanka's next 12-month FX liabilities exceeds Value of Foreign Official Reserve of USD 4.5Bn as at Feb 2021

Broader view: Rising bond yields eased by Swap



“Sri Lanka signs 3-year USD 1.5Bn currency swap deal with China, which may ease secondary market Gov Sec yield over the short term”

Yield Curve Recommendation



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15-Jan-27	< 6Y	Mid	7.35%	Sell
01-May-28	< 7Y	Mid	7.65%	Sell
01-May-29	< 8Y	Mid	7.90%	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

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Thank You

"Successful Investment Is About Managing Risk..."