



First Capital

*“UNCERTAINTY BRINGS BACK THE BEARS; BOND MARKET **ALARMED!!!**”*

First Capital Fixed Income Recommendation – 26th Feb 2021

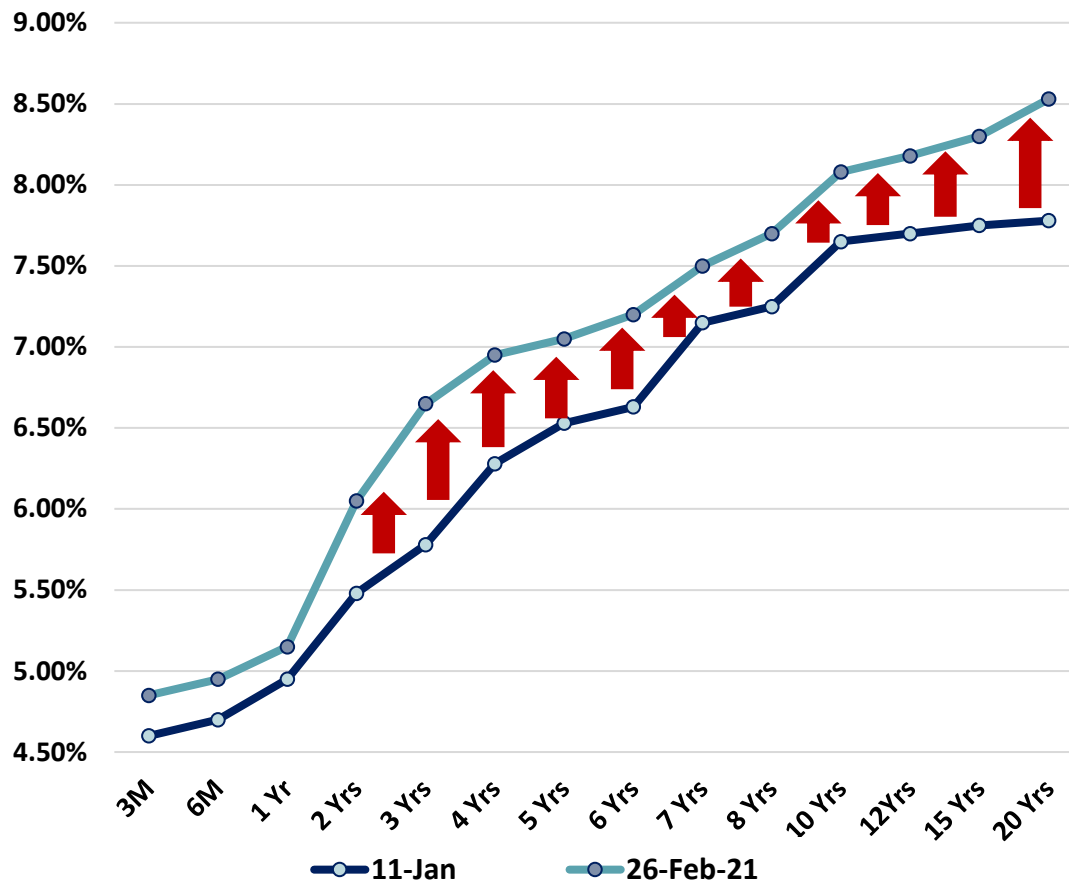
FIRST CAPITAL RESEARCH

**Analysts: Atchuthan Srirangan
Dimantha Mathew**

1.0 Previous Recommendation

11th Jan 2021 Re Cap:

Recommendations and Yield curve movement



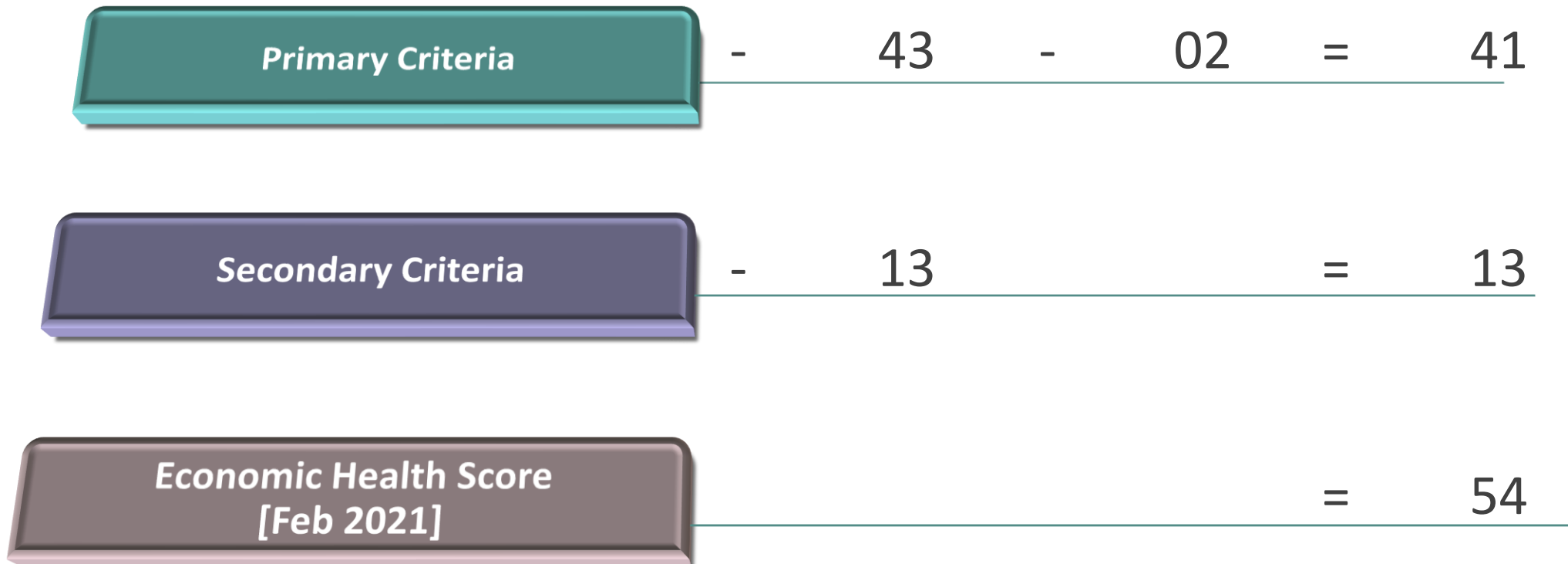
Tenure			Current Yield	Recommendation
< 91 Days	< 3M	Short	4.60%	Sell
< 182 Days	< 6M	Short	4.70%	Sell
< 364 Days	< 1Y	Short	4.95%	Sell
01-Oct-22	< 2Y	Short	5.48%	Sell
15-Jul-23	< 3Y	Short	5.78%	Sell
15-Sep-24	< 4Y	Mid	6.28%	Sell
01-May-25	< 5Y	Mid	6.53%	Sell
01-Aug-26	< 6Y	Mid	6.63%	Sell
15-Oct-27	< 7Y	Mid	7.15%	Sell
01-Sep-28	< 8Y	Mid	7.25%	Sell
01-May-29	< 10Y	Long	7.65%	Sell
15-Mar-32	< 12Y	Long	7.70%	Sell
15-Sep-34	< 15Y	Long	7.75%	Sell
15-Aug-39	< 20Y	Long	7.78%	Sell



Fixed Income Health Score

Feb 2021 FI Economic Health Score

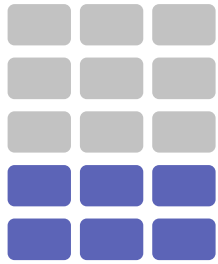
Primary indicators on a downtrend while secondary criteria holds steady.....



[As against 54 in Jan 2021 & 59 in Feb 2020 (1 Year ago)]

Source: First Capital Research

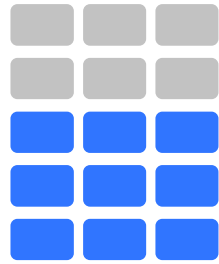
Changes to Health Score – Primary Criteria



06/15

Foreign Reserves

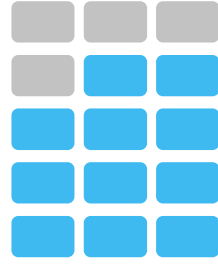
Foreign reserves dipped by USD 0.8Bn during the month of Jan 2021 to USD 4.8Bn from USD 5.6Bn in Dec 2020



09/15

Liquidity

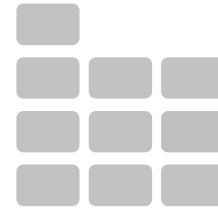
Liquidity level was at LKR 171.5Bn following continuous volatility during last 4 weeks.



11/15

Inflation

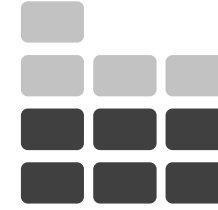
CCPI marginally increased to 3.3% in Feb 2021 in line with the rise in Food prices



0/10

Foreign Activity

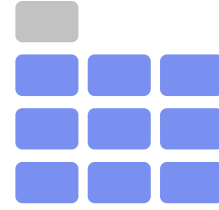
Net outflow of LKR 3.1Bn in govt. securities over the last 2 months; Foreign holding around 0.1%



06/10

Credit

Private credit increased by LKR 25Bn in Jan 2021



09/10

CBSL Holdings

CBSL holdings hovers above LKR 800Bn along with improved liquidity



-2

08/15

09/15

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Changes to Health Score – Secondary Criteria



New Score



0/05

Rating Outlook

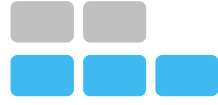
Sri Lanka’s sovereign credit is at an alleviated risk of a possible downgrade if IMF program is further delayed



03/05

External Environment

Rupee has marginally depreciated against the greenback, YTD USD/LKR has depreciated by 4.6%



03/05

BOT & BOP

Trade deficit decreased marginally to USD 562.0Mn in Dec 2020 from USD 565.0Mn in Nov 2020



05/05

Political Risk

Budget 2021 was passed in parliament with a majority



02/05

Investor Confidence

BCI index improved to 122 in Jan 2021

Current Score

0/05

03/05

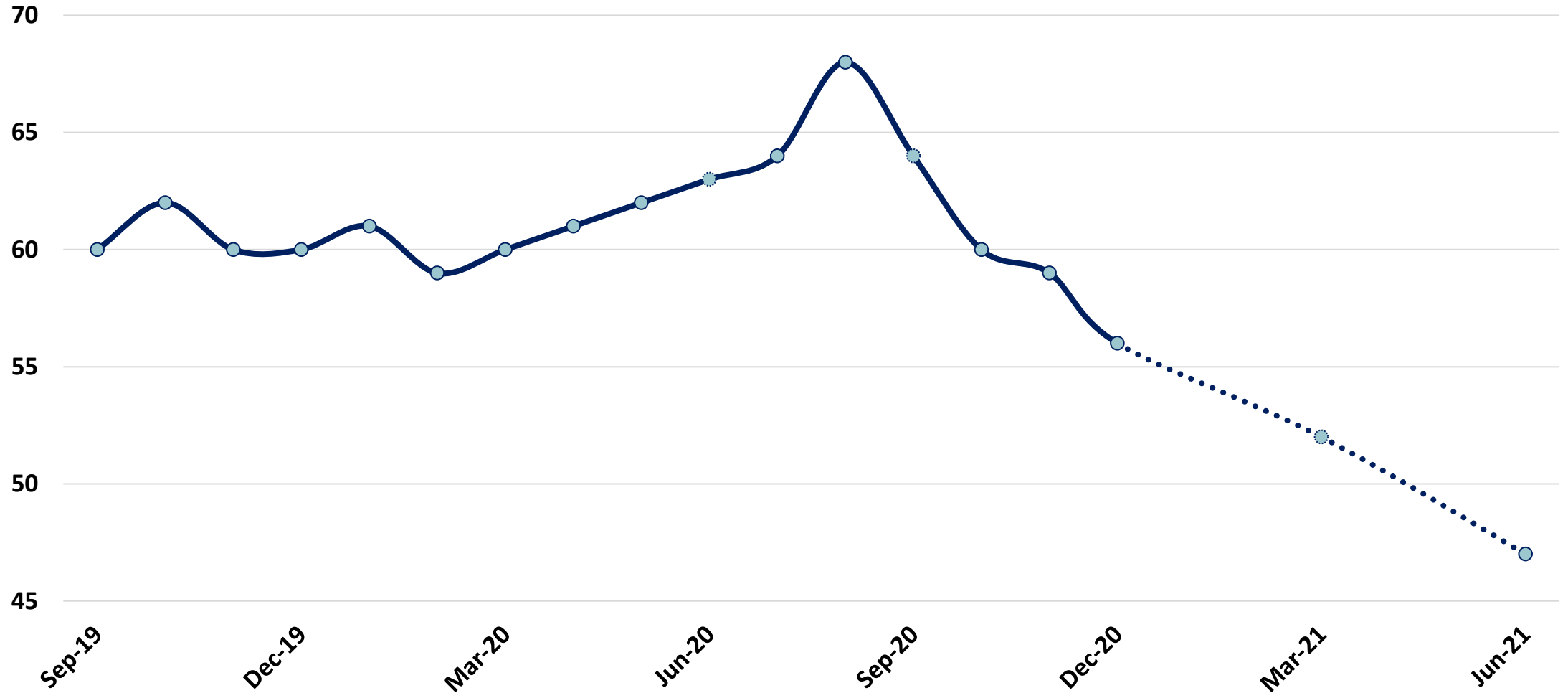
03/05

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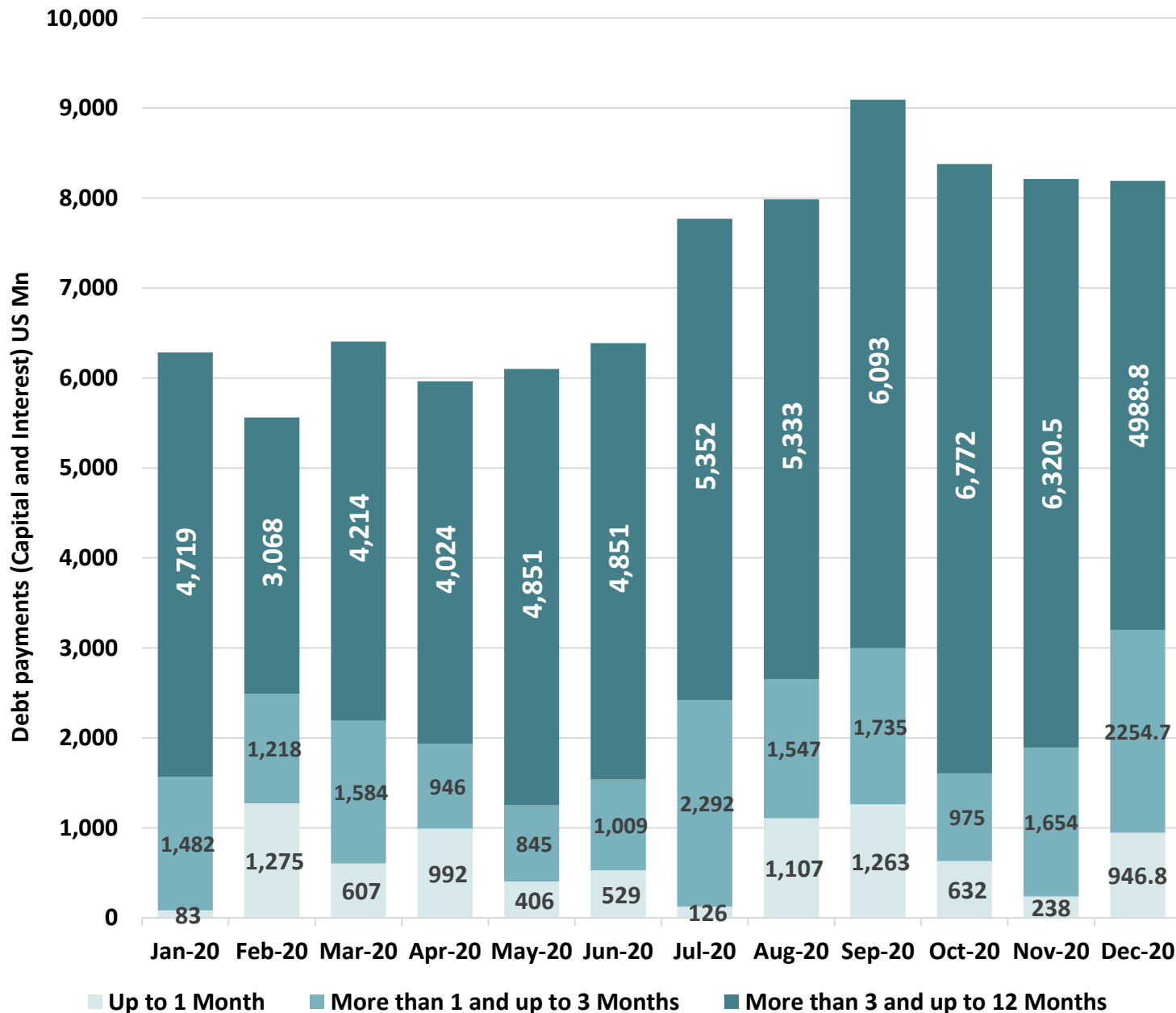
02/05

Fixed Income Health Expectations

First Capital Fixed Income Health Score



2.0 New Recommendation



Source: CBSL

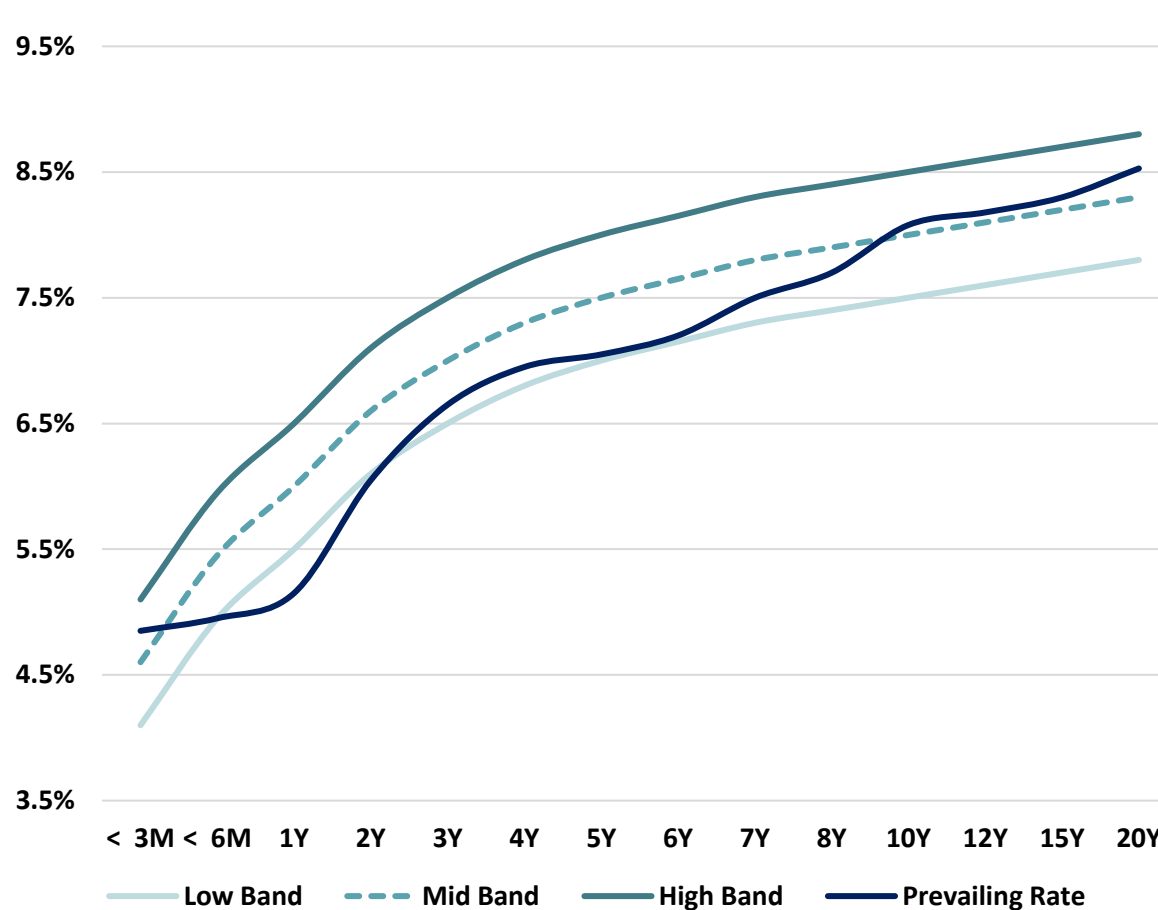
Sri Lanka's next 12-month FX liabilities exceeds Value of Foreign Official Reserve of USD 4.8Bn as at Jan 2021

Broader view: Bond on an uptrend



“The last 2 Bond auctions and 5 Bill auctions were undersubscribed by a considerable amount, as it pushed yields to 5- month high on the back of lack of clarity among market participants with the current economic condition ”

Yield Curve Recommendation



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
15-Mar-23	< 2Y	Short	6.05%	Sell
15-Mar-24	< 3Y	Short	6.65%	Sell
01-May-25	< 4Y	Mid	6.95%	Sell
15-Jan-26	< 5Y	Mid	7.05%	Sell
15-Jan-27	< 6Y	Mid	7.20%	Sell
01-May-28	< 7Y	Mid	7.50%	Sell
01-May-29	< 8Y	Mid	7.70%	Sell
15-Mar-31	< 10Y	Long	8.08%	Hold
15-Jan-33	< 12Y	Long	8.18%	Hold
15-Mar-35	< 15Y	Long	8.30%	Hold
01-Jan-41	< 20Y	Long	8.53%	Hold

Source: First Capital Research

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Thank You

"Successful Investment Is About Managing Risk..."