



First Capital

WEEKLY GOVERNMENT SECURITIES MARKET

First Capital Research

August 24, 2022

For the week 18.08.2022-24.08.2022

"Bill auctions yields surge amidst stagnant activities"

Weekly Yield Movement & Volume

The secondary market yield curve broadly remained unchanged but surged by over 50bps on the short end towards the end of the week following the bill auction held on 24th Aug amidst stagnant activities throughout the week as investors continued their stance on the sidelines over foiled confidence.

Following CBSL announcement to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) at their current levels on 18th Aug, investors in the secondary bond market adopted a wait-and-see approach seeking guidance. Moreover, CBSL assured on reaching the staff-level agreement with IMF on the Extended Fund Facility (EFF) arrangement and accelerating the debt restructuring process which further prompted investors to remain sidelined. However, 01.06.25 maturity displayed some mixed activities in the midst of distinctly limited activities and ultra-thin volumes as the sluggish sentiment persisted through the week.

Meanwhile, At the LKR 90.0Bn bill auction, only 63% of the total offered amount was accepted with 68% being accepted from 03M bill. Accordingly, yields of 03M, 06M and 01 Year T-Bills were recorded at 30.51% (+107bps), 29.51% (+55bps) and 29.83% (+69bps), respectively.

In the Forex market, LKR remained broadly stable against the greenback with the rupee recording at LKR 361.0 towards the end of the week compared to the same level at the beginning of the week.

Liquidity & CBSL Holdings

Market Liquidity further deteriorated during the week. At the beginning of the week, excess liquidity was recorded at LKR -456.2Bn and declined to LKR -490.6Bn by the end of the week. Meanwhile, CBSL holdings slightly improved to LKR 2,230.0Bn compared to LKR 2,263.9Bn held at the beginning.

Foreign Interest

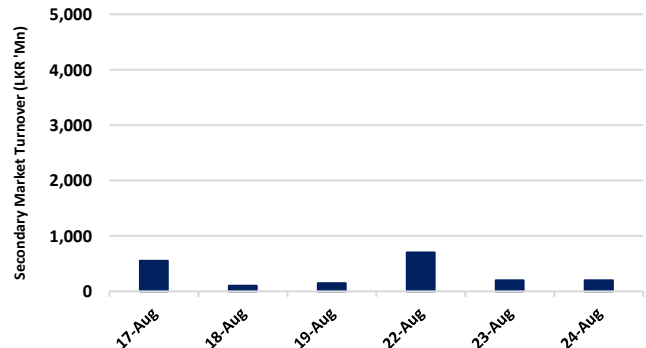
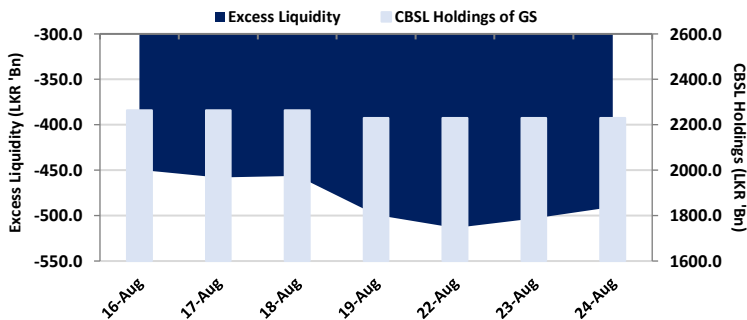
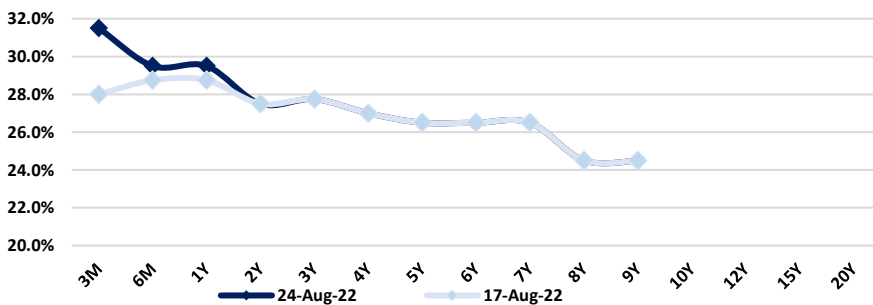
Foreign holding in government securities declined narrowly by LKR 103.3Mn to LKR 4.1Bn whilst foreign holding percentage was maintained at 0.04%.

Maturities for next week

The Government Securities market has to settle a Treasury bill maturity amounting to LKR 145.4Bn and T-Bond interest amounting to LKR 27.4Bn for the week ending 02nd Sep 2022.

TENURE	BID	OFFER
< 91 Days < 3M	32.00%	31.00%
< 182 Days < 6M	30.00%	29.00%
< 364 Days < 1Y	30.00%	29.00%
15-Mar-24 < 2Y	28.00%	27.00%
01-Jun-25 < 3Y	28.00%	27.50%
01-Feb-26 < 4Y	27.50%	26.50%
15-Jan-27 < 5Y	27.00%	26.00%
15-Jan-28 < 6Y	27.00%	26.00%
15-Jul-29 < 7Y	27.00%	26.00%
15-May-30 < 8Y	25.00%	24.00%
15-May-31 < 9Y	25.00%	24.00%
01-Oct-32 < 10Y	N/A	N/A
01-Jan-34 < 12Y	N/A	N/A
15-Mar-35 < 15Y	N/A	N/A
01-Jan-41 < 20Y	N/A	N/A

US TREASURIES	19-Aug-22	12-Aug-22
1 Year	3.26%	3.26%
2 Year	3.25%	3.25%
5 Year	3.11%	2.97%
10 Year	2.98%	2.84%
30 Year	3.22%	3.12%



MARKET INTEREST RATES	19-Aug-22	Last Month
AWPLR	25.68%	24.94%

	This Week	Last Week
FD Ceiling Rate(1Yr)	31.25%	31.42%

MONEY MARKET RATES	High	Low
Call Money	N/A	N/A
Repo Rates	15.50%	15.50%

Daily Summary

Thursday (18.08.22): The CBSL at its monetary policy review meeting has decided to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) at their current levels of 14.50% and 15.50%, respectively. Also, CBSL has confirmed that negotiations with the IMF towards reaching a staff-level agreement on the Extended Fund Facility (EFF) arrangement will take place in coming weeks while measures are being taken to advance the debt restructuring process. As a result, the secondary market yield curve remained broadly stable while the overall market witnessed lackluster performance due to most of the market participants adopting a wait and see approach to seek clarity for a proper directional move. Meanwhile, with some mixed activities 01.06.25 maturity traded in the range of 27.80%-28.00%.

Friday (19.08.22): Despite the CBSL governor's assurance on managing essential expenditure of the country without bridging finance and potential exclusion of domestic debt from restructuring, activities in the secondary bond market displayed a complete standstill with no trades as market participants continued their wait and see approach potentially waiting until the staff level agreement is reached.

Monday (22.08.22): The secondary bond market extended its dull sentiment that was witnessed throughout the prior week as the market participants remained cautious on the economic direction of the country despite CBSL governor's statement on ruling out domestic debt restructuring. During the day, limited activities were seen on 01.06.25 maturity while closing slightly higher at 27.97% compared to the previous closing of 27.90%. However, overall trading volumes remained at low levels.

Tuesday (23.08.22): The secondary market continued to witness sluggish sentiment with market activity almost at a standstill as investors opted a wait-and-see approach seeking more clarity on the debt restructuring plans. Moreover, LKR 90Bn bill auction was scheduled to take place on 24th Aug with LKR 44Bn offered for 91 day maturity, LKR 23Bn offered on 182 day maturity and LKR 23Bn offered for 364 day maturity.

Wednesday (24.08.22): At the LKR 90.0Bn bill auction, only 63% of the total offered amount was accepted with 68% being accepted from 03M bill. Yields of all maturities surged across the board with more notably 03M bill crossing the benchmark of 30.00% nearly after 1-month as market participants continued to factor a possibility of a local debt restructuring in the midst of an ongoing IMF discussion with CBSL and Ministry of Finance in order to finalise a bailout package. Accordingly, yields of 03M, 06M and 01 Year T-Bills were recorded at 30.51% (+107bps), 29.51% (+55bps) and 29.83% (+69bps), respectively. Meanwhile, the secondary bond market continued to be inactive and witnessed a complete standstill mode during the day.

OUTSTANDING STOCK	17-Aug-22	Previous Week	Change (%)
T-Bills [LKR 'Mn]	3,445,879	3,423,061	0.7%
T-Bonds [LKR 'Mn]	8,236,139	8,211,075	0.3%
TOTAL	11,682,018	11,634,136	0.4%
T-Bills & T-Bonds held by Foreigners			
Foreign Holding [LKR 'Mn]	4,103	4,206	-2.5%
Foreign Holding (%)	0.04%	0.04%	
MATURITY TABLE FOR NEXT WEEK		WEEK ENDING	2-Sep-22
Type	LKR ('Mn)	USD ('Mn)	
T-Bills	145,384		
T-Bonds			
T-Bond Interest	27,397		
SLDBs/Sovereign Bonds		0	
TOTAL	172,781	0	

T-BILL AUCTION				Week Ending 26-Aug-22		
Tenure	Current	Previous	Change	Offered	Bids	Accepted
	24-Aug-22	17-Aug-22	(bps)	LKR ('Mn)	LKR ('Mn)	LKR ('Mn)
91 days	30.51%	29.44%	107	44,000	58,218	38,801
182 Days	29.51%	28.96%	55	23,000	26,076	9,582
364 Days	29.83%	29.14%	69	23,000	24,605	8,330
Date of Settlement	26-Aug-22			90,000	108,899	56,713

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