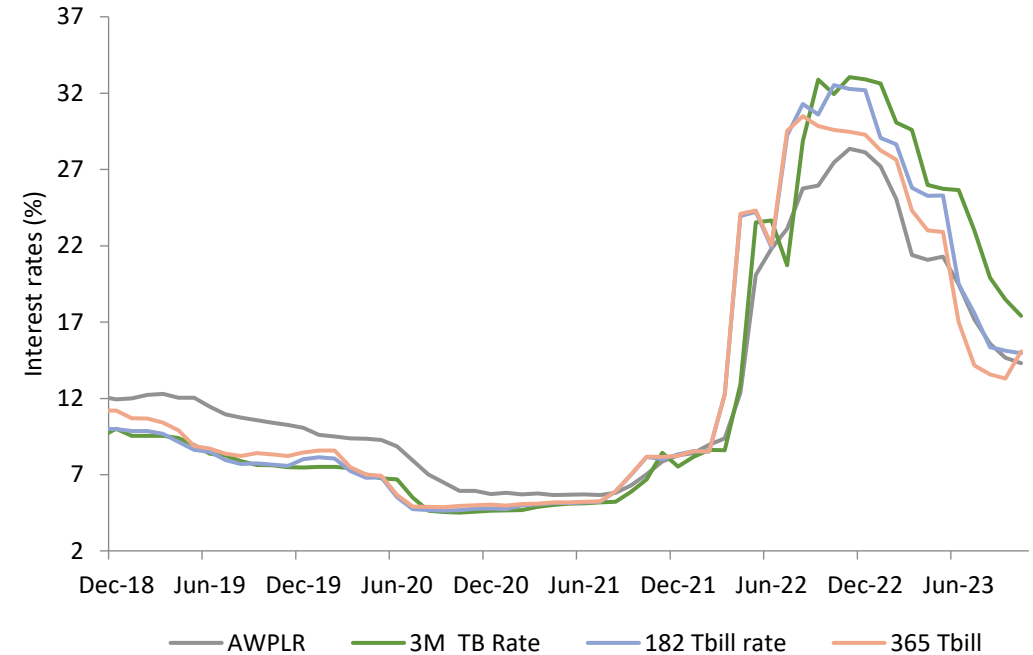


Market Update



AWPLR falls to 14.3% , 12M T bill yields dips to 13.10%

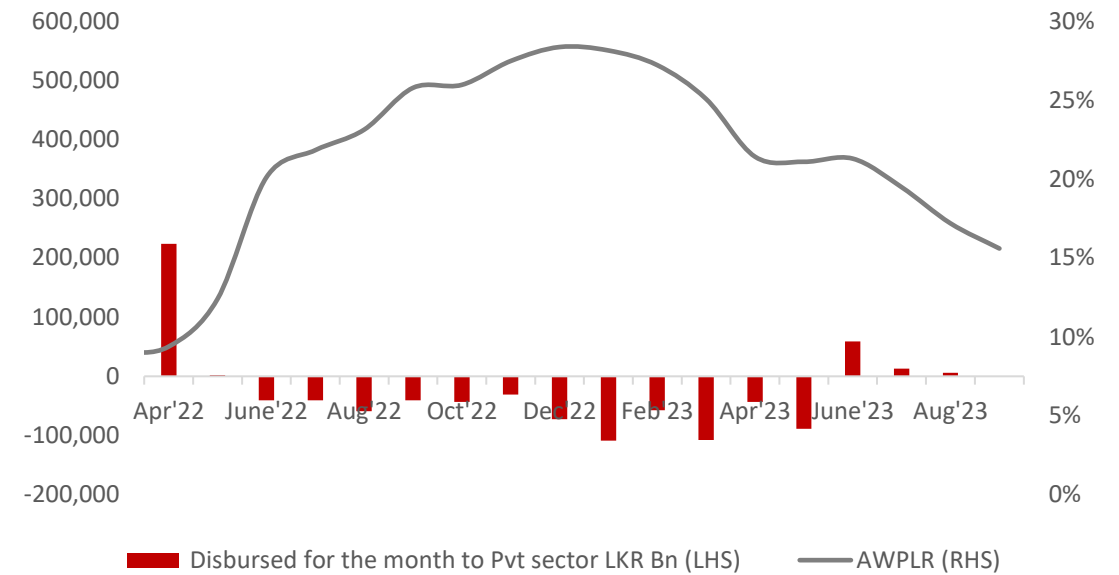
- 12M T bill yield declined by 16.17% YTD to 13.10% while 6M T bill rates fell to 14.96% (cf 32.20% in Dec'22) and 3M T bill fell to 16.64% (cf.32.64% in Dec '22) by 11th October 2023. AWPLR meanwhile declined to 14.3% , a massive 440bps drop compared to the rates prevailed in Dec'22. Overall policy rate cut of 550bps , SRR cut of 200bps together with the imposition of lending rate caps by CBSL on selected segments should further help reduce AWPLR to around 12% by end of 2023 in or view .
- T-bill rates meanwhile should fall further, specially with GOSL successfully concluding the first phase of the DDO (Domestic Debt Optimization) program where Sri Lanka Development Bonds were settled on 15 August 2023 for new LKR T Bonds and superannuation funds exhibiting 84% acceptance under the DDO program. Under the second phase, CBSL treasury bill holdings accounting to 62.4% of total T Bill holdings is expected to be restructured fully, thus helping gross financing needs of SL reducing to 12.8% of GDP which is comfortably in line with IMF's DSA (Debt Sustainability Analysis) requirement (GSN needs to be below 13% for 2027E-20232E).





AWPLR falls to 14.3% , 12M T bill yields dips to 13.10%

- Investors who priced in the impacts on DDO , factoring the negative sentiment surrounding insufficient government revenue and other concerns highlighted by IMF review, should now see the interest rates moderating specially with the reprofiling of domestic debt, where short term short-term borrowing requirement expected to drop further.
- The significant reduction in the borrowing cost meanwhile should also help pick up the private sector credit growth which was seen declining since June'22 for 12 consecutive month before it picked up in June '23.
- We also believe that there is a chance of further easing of monetary policy specially on the back of record inflation of 1.3% recorded in September (cf. to inflation target of 5% in the medium term).



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