



First Capital
First Capital Research

First Capital Fixed Income Recommendation

26TH JULY 2018

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ANALYST CERTIFICATIONS AND REQUIRED DISCLOSURES BEGIN ON PAGE 17

Previous Month 20th June Recommendations and Yield curve movement afterwards

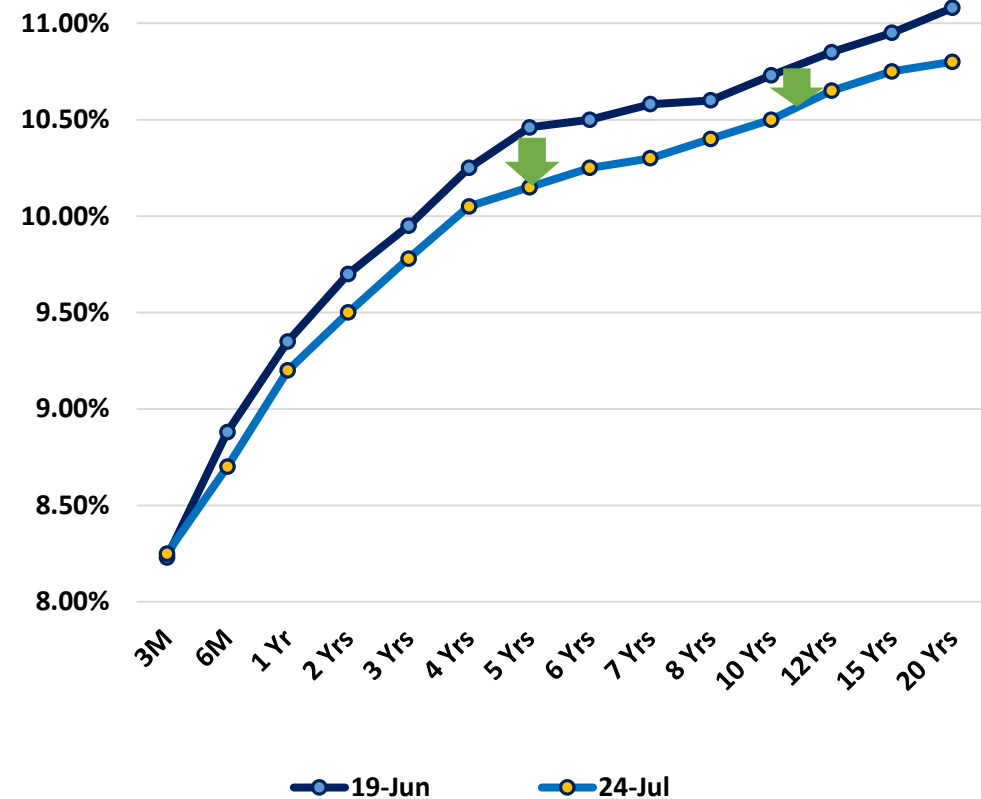
Fixed Income Portfolio Recommendation

Fixed Income Portfolio Recommendation

– Portfolio Recommendation: Maintained overall portfolio at 50%.

- Carry portfolio to be maintained at 40%.
- Trading portfolio to be maintained at 10%.

We expect economic health score likely to decline towards Jul and Aug due to high maturities (Rupee bond and SLDBs) in 3Q2018.



Rate Movement Review (Last 35 days)

Interest Rate Change (bps)			
Tenure	19-Jun	24-Jul	Change (bps)
3M	8.23%	8.25%	2
6M	8.88%	8.70%	-18
1 Yr	9.35%	9.20%	-15
2 Yrs	9.70%	9.50%	-20
3 Yrs	9.95%	9.78%	-17
4 Yrs	10.25%	10.05%	-20
5 Yrs	10.46%	10.15%	-31
6 Yrs	10.50%	10.25%	-25
7 Yrs	10.58%	10.30%	-28
8 Yrs	10.60%	10.40%	-20
10 Yrs	10.73%	10.50%	-23
12Yrs	10.85%	10.65%	-20
15 Yrs	10.95%	10.75%	-20
20 Yrs	11.08%	10.80%	-28

- Following our previous report on 20th June 2018, yields registered 15-30bps downward in across the yield curve.
- Yield curve shifted slightly downwards in the short tenors amidst foreign selling pressure.
- Further LKR 6.2Bn net foreign selling was also witnessed over last 4 weeks.

1.0 Economic Health Score

Changes to Health Score – Priority Criteria

Criteria	Update	Current Score	Add / Deduct Score	New Score
Foreign Reserves	June 2018 Reserves improved to USD 9.2Bn from USD 8.8Bn in May 2018. CBSL sold net USD 127Mn to the forex market.	12/15		12/15
Liquidity	Turned positive and has maintain as excess over the last 2 week	06/15		06/15
Inflation	CCPI at 4.4%, higher than First Capital Research expectation of 3.6%; Core inflation remains under 4.0%.	14/15	-01	13/15
Foreign Buying	Net outflow LKR 10.8Bn over the last 5 weeks; Foreign holding reaches 5.86%.	05/10		05/10
Credit	April and May 2018 private sector credit slumped to LKR 22Bn and LKR 29.Bn respectively; So far credit remains under control	09/10		09/10
CBSL Holdings	CBSL Holdings remained LKR 40Bn level with some one-off fluctuation.	08/10		08/10

Primary Criteria - 54 - 01 = 53

Changes to Health Score – Secondary Criteria

Criteria	Update	Current Score	Add / Deduct Score	New Score
Rating Outlook	No major changes.	05/05		05/05
External Environment	Rupee continuously remain weak.	00/05		00/05
BoT & BoP	Deficit in the trade account continued to expand in May 2018 with expansion decelerated as export growth outpaced the import growth.	02/05		02/05
Political Risk	Signs of PC Polls early 2019.	02/05	-01	01/05
Investor Confidence	High taxes, political interference and the value of the rupee are identified as the primary concerns for business. BCI index declined by 4 points to 102 in June from 106 in May.	00/05		00/05

Secondary Criteria - 9 - 1 = 08

2.0 Recommendation

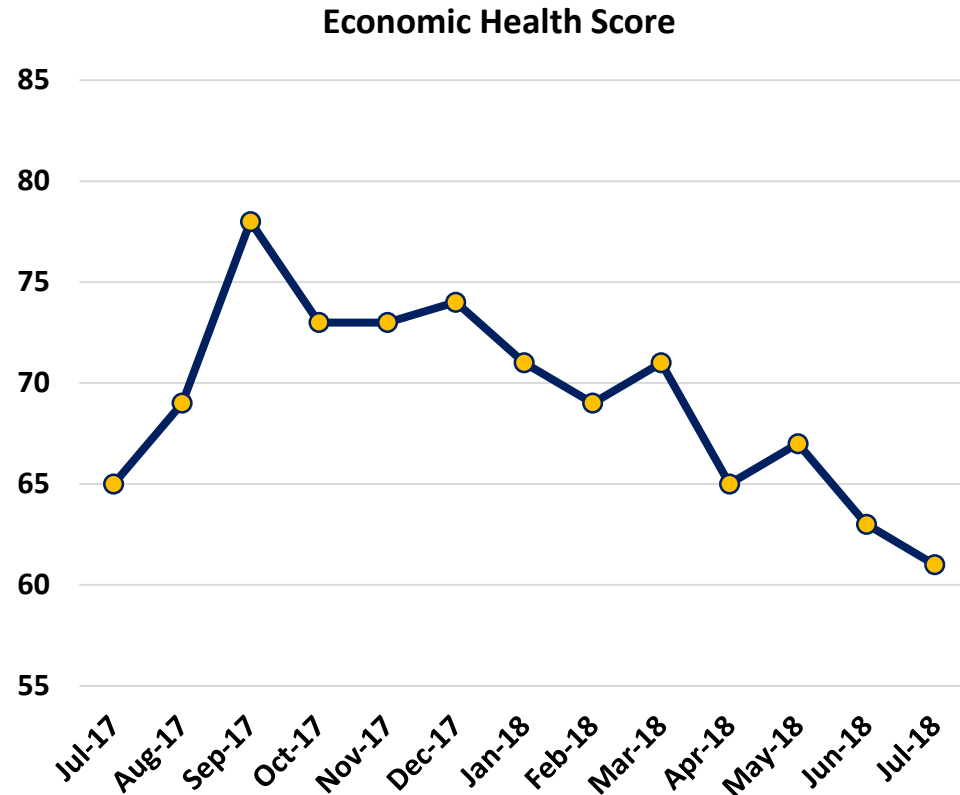
Recommendation

Fixed Income Portfolio Recommendation

– Portfolio Recommendation: **Reduce** overall portfolio to 40% from previous 50%

- Cut Trading portfolio to 0% from 10%.
- Carry portfolio to be maintained at 40%.

We expect economic health score to reduce in Aug 2018 due to high maturities.



Sequence of Events

16th Feb 2018 – **BUY** primarily into the short tenors (2Y, 3Y, 4Y) and mid tenors of 5Y, 6Y. Overall portfolio to be increased to 40%. Increase Trading portfolio to 10% from 0%. Carry portfolio to be maintained to 30%.

5th Mar 2018 - **BUY** primarily into the short tenors (2Y, 3Y, 4Y) and mid tenors of 5Y, 6Y. Overall portfolio to be increased to 50%. Increase carry portfolio to 40% from 30%. Trading portfolio to be maintained to 10%.

22nd Mar 2018 - **BUY** primarily into the long tenors (8Y, 10Y). Overall portfolio to be increased to 60%. Increase Trading portfolio to 20% from 10%. (Primarily into 8Y,10Y on the back of sovereign bond). Carry portfolio to be maintained to 40%.

16th Apr 2018 - **Reduce** overall portfolio to 50% from previous 60% mainly on mid-long tenors (5Y to 10Y). Cut Trading portfolio to 10% from 20%. (Primarily into 5Y to 10Y). Carry portfolio to be maintain to 40%.

23rd May 2018 – Maintain overall portfolio to 50%. Carry portfolio to be maintain to 40%. Trading portfolio to be maintained to 10%

19th June 2018 - Maintain overall portfolio to 50%. Carry portfolio to be maintain to 40%. Trading portfolio to be maintained to 10%

26th Jul 2018 - **Reduce** overall portfolio to 40% from previous 50%. Cut Trading portfolio to 0% from 10%. Carry portfolio to be maintained at 40%.

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