



Nov 2016

Content Briefing

	Page No.
▪ Inflation.....	1
▪ Monetary Policy Review.....	2
▪ External Sector.....	2
▪ Tourist Arrivals.....	3
▪ Treasury Bills & Bonds.....	3
▪ Global News.....	4

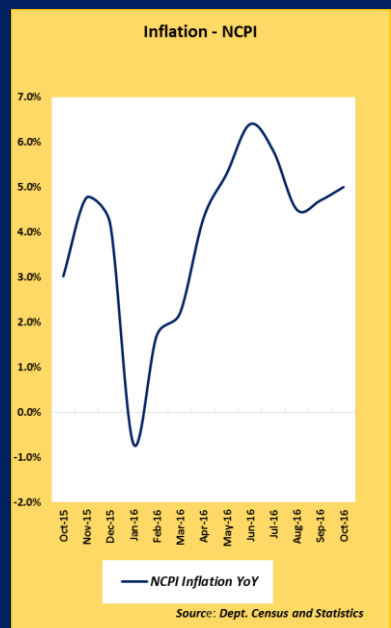
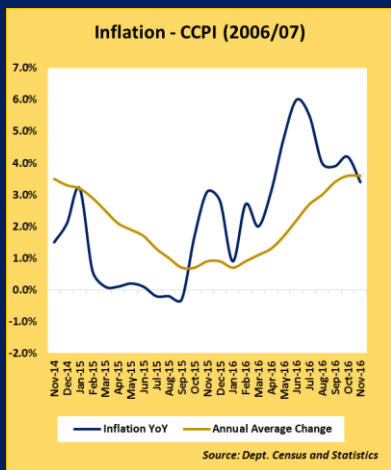
Inflation

CCPI for November 2016: Inflation declines to 3.4%YoY in November

CCPI declines in November: Inflation decreased to 3.4%YoY in November 2016 from 4.2%YoY recorded in October 2016. On annual average basis inflation was recorded at 3.6% in November 2016. Monthly CCPI increased by 0.6% from October to November 2016. YoY inflation of Food Group has declined from 6.0% recorded in October 2016 to 2.9% in November 2016 while Non-food Group increased to 3.8% in November from 2.5% recorded in October 2016.

NCPI for October 2016: Inflation increases to 5.0%YoY in October

NCPI increases in October: Inflation, as measured by the change in the NCPI was recorded as 5.0% in October 2016 from 4.7%YoY in September 2016. NCPI from September 2016 to October 2016 was increased by a marginal 1.8% and this was due to the increase in prices of the items in the Alcoholic Beverages and Tobacco category by 0.18% and value change increase of non-food items by 0.22% and increase in prices of food items by 0.79%. On an annual average basis inflation remained unchanged at 5.7% in October 2016 compared to September 2016.



Monetary Policy Review – November 2016

Policy rates unchanged

Credit to Private Sector declines: Credit granted to the private sector by commercial banks decreased to 25.6%YoY in September from 27.3%YoY in August 2016. Broad money supply (M2b) accelerated to 18.4%YoY in September compared to 17.3% recorded in August 2016. The Budget 2017 is expected to have a one-off impact on inflation from November 2016 while the overall impact is estimated to be favourable. Sri Lanka received the second tranche of the Extended Fund Facility (EFF) Programme with the International Monetary Fund (IMF) in November 2016. This expected to strengthen the economy by facilitating medium to long term financial inflows in the period. Accordingly, Deposit and Lending rates were decided to be maintained at 7.0% and 8.5% respectively.

External Sector – August 2016

Trade deficit widened as growth in imports overshadow exports

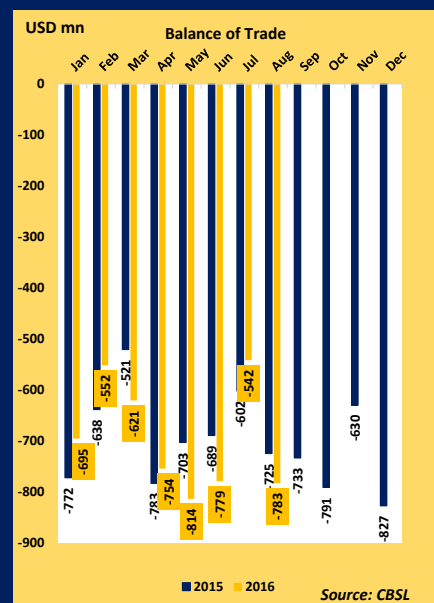
Trade deficit widens: The deficit in the trade account widened by 8% to USD 782.8mn in August 2016 compared to USD 724.5mn in August 2015. This was mainly driven by the growth in imports by 8.3% to USD 1,649.1mn which is attributable to the boost in expenditure on intermediate goods (+11.5%) and investment goods (+18.1%) offsetting the decline in import of vehicles (-53.7%). Exports increased by 8.4% to USD 866.3mn which is attributable to increase in tea exports (+18.6%). The cumulative trade deficit from January-August 2016 also widened by 1.6%.

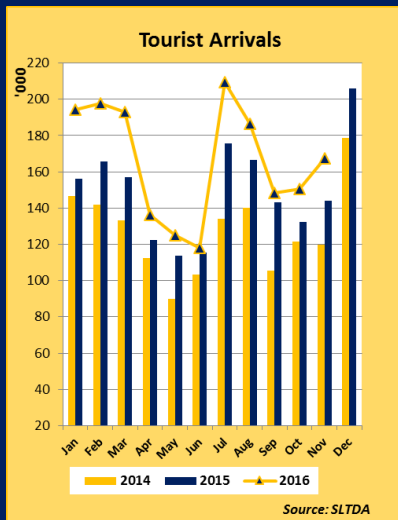
Exports

Category	2015 (USDm)	2016 (USDm)	Change (%)
Industrial exports			
- Aug	618.2	654.3	5.8
- Jan -Aug	5,455.0	5,314.7	(2.6)
Agricultural exports			
- Aug	177.8	208.0	17.0
- Jan -Aug	1,667.8	1,520.6	(8.8)
Mineral and other			
- Aug	2.9	4.0	37.9
- Jan -Aug	32.6	29.9	(8.3)

Imports

Category	2015 (USDm)	2016 (USDm)	Change (%)
Consumer goods			
- Aug	420.3	393.7	(6.3)
- Jan -Aug	3,142.4	2,824.9	(10.1)
Intermediate goods			
- Aug	738.7	824.0	11.5
- Jan -Aug	6,442.7	6,309.0	(2.1)
Investment goods			
- Aug	363.8	429.7	18.1
- Jan -Aug	3,007.4	3,259.6	8.4





Tourist Arrivals

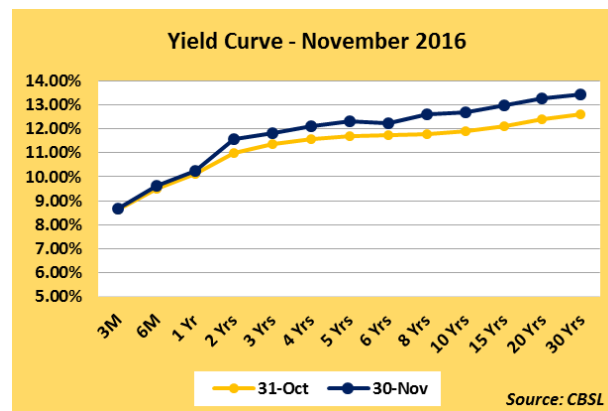
Tourist arrivals in Jan-Nov grow 14.7%YoY

Arrivals grow 16.0%YoY in November: Sri Lanka's tourist arrivals rose to 167,217 in November 2016 (+16.0%YoY). During the period from January to November 2016, tourist arrivals from Western Europe (+17.4%), South Asia (+12.6%), and East Asia (+17.8%) were the main contributors to total arrivals of 1.8Mn (+14.7%YoY) against 1.6Mn recorded during the same period in 2015. Tourists from India was recorded at 318,784 being the highest number of arrivals from a country followed by China with 252,259 arrivals within the first eleven months of 2016. UK with 167,713 arrivals contributed most of the arrivals from Western Europe while India and China contributed highest number of arrivals from South Asia and East Asia respectively. During January to October tourists from Ukraine, China and Netherlands grew by 32.8%YoY, 26.8%YoY, 26.2%YoY respectively while Indonesia dropped by 31.9%YoY.

Treasury Bills and Bonds

Foreign Selling Continues

Uncertainty accelerates selling pressure: Foreign selling in the secondary market continued to remain at a constant level throughout the month of Nov 2016. Further, uncertainty was created through the budget which proposed certain tax changes resulting in an acceleration in the selling pressure of both locals and foreigners resulting in longer tenures rates increasing by over 80bps while the mid tenures increased by 50-60bps.



Interest Rate Change (bps)			
Tenure	31-Oct	30-Nov	Change (bps)
3M	8.62%	8.68%	5
6M	9.49%	9.61%	13
1 Yr	10.13%	10.23%	9
2 Yrs	11.00%	11.56%	56
3 Yrs	11.35%	11.83%	48
4 Yrs	11.57%	12.12%	55
5 Yrs	11.69%	12.33%	64
6 Yrs	11.73%	12.25%	52
8 Yrs	11.79%	12.62%	83
10 Yrs	11.89%	12.70%	82
15 Yrs	12.10%	12.96%	86
20 Yrs	12.41%	13.28%	87
30 Yrs	12.59%	13.43%	84

Global News

China Oct Industrial Profit Growth Accelerates as Prices Rise: The profitability of Chinese industrial firms improved further in October on the back of the continued increase in producer prices, with the coal industry becoming a key contributor to the growth, the National Bureau of Statistics said on Sunday.

(Source: www.marketnews.com)

Top ECB officials pledge continued support to euro zone economy: The European Central Bank needs to continue supporting the euro zone economy with its ultra-loose policy, two of its top officials said on Monday, cementing expectations for an extension of the ECB's bond-buying scheme next month. Euro zone inflation was 0.5 percent last month and is expected to rise beyond 1 percent early next year, mainly due to a stabilization in oil prices.

(Source: www.reuters.com)

Bank of England prepares to protect City firms from hard Brexit: The Bank of England is pushing ahead with plans for transitional arrangements after Brexit negotiations in an attempt to protect financial institutions from a cliff edge deal that could undermine their stability. Governor Mark Carney has met senior figures in the City to stress the need for a smooth path out of the European Union that maintains its stature and strong links with the continent.

(Source: www.theguardian.com)

Moody's turns pessimistic about global sovereign credit outlook: The outlook for global sovereign ratings is negative possibly until 2018 amid expectations for low economic growth and high public-sector debt, Moody's Investors Service said. Around 26%, or 35 out of 134 sovereigns, have a negative outlook as of Monday, Moody's said in a note, adding that it was the largest proportion since late 2012 during the European debt crisis. Only 12 sovereigns currently have a positive outlook, it said

(Source: www.cnbc.com)

Fed Isn't Shifting the Goal Posts on Rates, Its Researchers Say: The Federal Reserve went from forecasting four interest rate increases in 2016 to projecting one, and San Francisco Fed economists say that's perfectly consistent with data-dependency. Since raising interest rates for the first time in more than a decade last December, the Fed has left rates unchanged while revising down the number of hikes it expects in 2016 to just one. The Federal Open Market Committee holds its final meeting this year on Dec. 13-14.

(Source: www.bloomberg.com)



First Capital

First Capital Equities (Pvt) Ltd

No. 02, Deal Place,
Colombo 03.

General: +94 11 2639 898
Fax: +94 11 5736 264

HEAD OFFICE

No. 02,
Deal Place,
Colombo 03.

General: +94 11 2639 898
Fax: +94 11 5736 264

BRANCHES

Negombo
No.72A, 2/1,
Old Chilaw Road,
Negombo

Tel: +94 31 2233 299

SALES

CEO Jaliya Wijeratne +94 70 2910 042

Colombo

Damian Le Grand +94 70 2910 032
Nishantha Mudalige +94 70 2910 041
Isuru Jayawardana +94 70 2910 034
Ifadh Marikar +94 70 2910 033
Thushara Pathiraja +94 70 2910 037
Anushka Buddhika +94 70 2910 030

BRANCHES

Negombo
Priyanka Anuruddha +94 70 2910 035
Priyantha Wijesiri +94 70 2910 036
Gamini Hettiarachchi +94 70 2910 039

RESEARCH

Dimantha Mathew +94 11 2639 853 Amanda Lokugamage +94 11 2639 868
Atchuthan Srirangan +94 11 2639 863 Michelle Weerasinghe +94 11 2639 866
Hansinee Beddage +94 11 2639 864

FIRST CAPITAL GROUP

HEAD OFFICE

No. 2, Deal Place,
Colombo 3
Tel: +94 11 2639 898

BRANCHES

Matara
No. 24, 1/3, 2nd Floor,
Lakshman Cooray Building,
Anagarika Dharmapala Mawatha,
Matara
Tel: +94 41 2222 988

Kurunegala
No. 6, 1st Floor,
Union Assurance Building,
Rajapihilla Mawatha,
Kurunegala
Tel: +94 37 2222 930

Kandy
No.213-215,
Peradeniya Road,
Kandy
Tel: +94 81 2236 011

Disclaimer:

This Review is prepared and issued by First Capital Equities (Pvt) Ltd. and is based on information available in the public domain, internally developed and other sources believed to be correct. Although all reasonable care has been taken to ensure that the contents of this document are accurate, First Capital Equities (Pvt) Ltd and its Directors and employees, are not responsible for its accuracy, usefulness and reliability and disclaim liability for any loss suffered by the use of information contained herein. First Capital Equities (Pvt) Ltd may act as a Broker in the investments which are the subject of this document or any related investments and may have acted on or have used the information contained in this document, or the research or analysis on which it is based, before its publication.