



Oct 2016

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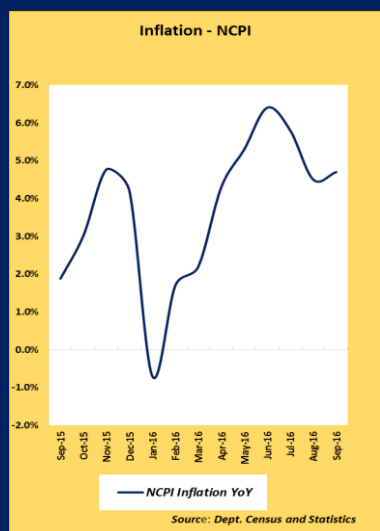
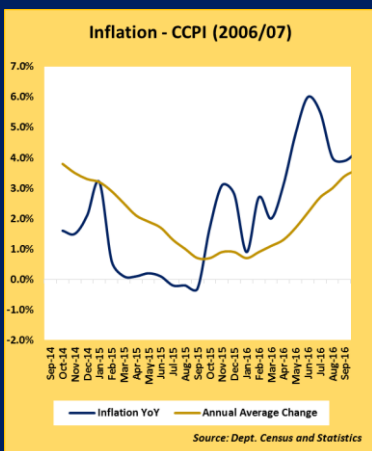
**Inflation**

**CCPI for October 2016: Inflation declines to 4.2%YoY in October**

**CCPI increases in September:** Inflation increased to 4.2%YoY in October 2016 from 3.9%YoY recorded in September 2016. On annual average basis inflation reached 3.6% in October 2016. Monthly CCPI increased by 0.6% from September to October 2016. YoY inflation of Food Group has increased from 5.5% in September 2016 to 6.0% in October 2016 while Non-food Group remained same as September 2016 levels of 2.5% during this period.

**NCPI for September 2016: Inflation increases to 4.7%YoY in September**

**NCPI increases in September:** Inflation, as measured by the change in the NCPI was recorded as 4.7% in September 2016 from 4.5%YoY in August 2016. NCPI from August 2016 to September 2016 is increased by a marginal 0.2% and this was due to the increase in prices of the items in the Alcoholic Beverages and Tobacco category by 0.12% and value change increase of non-food items by 0.18% and increase in prices of food items by 0.07%. On an annual average basis inflation increased marginally to 5.7% in September 2016 from 5.6% in August 2016.



## External Sector – July 2016

### Trade deficit availed by the decline in imports

**Trade deficit narrows:** The deficit in the trade account narrowed by 10% to USD 541.6mn in July 2016 compared to USD 601.8mn in July 2015. The improvement was mainly driven by the sharp decline in imports by 6.6% which stemmed from the decline in imports of vehicles (-63.7%), fuel (-18.6%) and wheat (-66.9%). This overweighed the decline in exports by 4.4% which is attributable to decline in tea exports (-14.8%) and spices (-31.8%). However during the January-Jul 2016 trade deficit widened marginally by 0.7%.

#### Exports

Category	2015 (USDmm)	2016 (USDmm)	Change (%)
<b>Industrial exports</b>			
- Jul	682.4	678.5	(0.6)
- Jan -Jul	4,836.7	4,660.4	(3.6)
<b>Agricultural exports</b>			
- Jul	245.3	207.9	(15.2)
- Jan -Jul	1,490.1	1,312.6	(11.9)
<b>Mineral and other</b>			
- Jul	4.4	4.7	6.8
- Jan -Jul	29.7	25.9	(12.8)

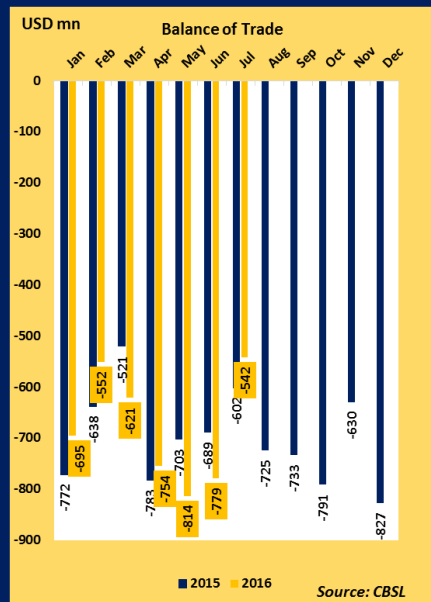
#### Imports

Category	2015 (USDmm)	2016 (USDmm)	Change (%)
<b>Consumer goods</b>			
- Jul	414.7	323.4	(22.0)
- Jan -Jul	2,722.1	2,431.1	(10.7)
<b>Intermediate goods</b>			
- Jul	752.0	704.7	(6.3)
- Jan -Jul	5,703.9	5,485.1	(3.8)
<b>Investment goods</b>			
- Jul	365.8	403.1	10.2
- Jan -Jul	2,643.6	2,829.9	7.0

## Monetary Policy Review - October 2016

### Policy rates unchanged

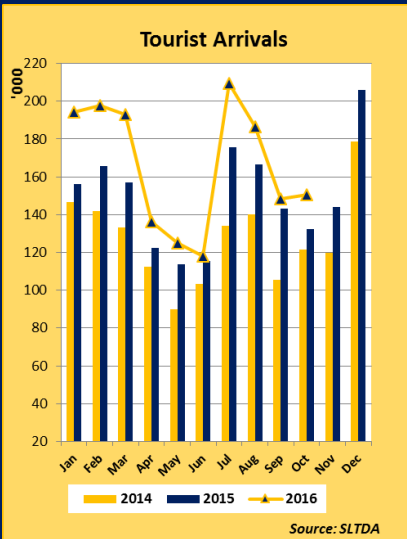
**Credit to Private Sector declines:** Credit granted to the private sector by commercial banks decreased to 27.3%YoY in August from 28.5%YoY in July 2016. Broad money supply (M2b) too decelerated to 17.3%YoY in August compared to 17.8% recorded in July 2016. Central bank expects medium to long term financial inflows to the external sector to strengthen as a result of the confidence boosted by the continuation of Extended Fund Facility (EFF) Program with the International Monetary Fund (IMF). Accordingly, Deposit and Lending rates were decided to be maintained at 7.00% and 8.50% respectively.



## Tourist Arrivals

### Tourist arrivals in Jan-Oct grow 14.6%YoY

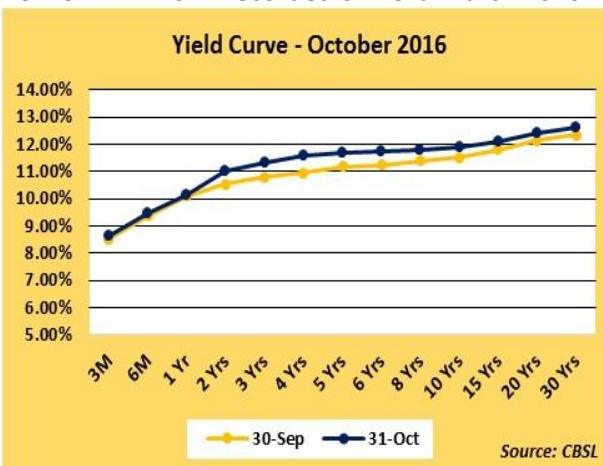
**Arrivals grow 13.7%YoY in October:** Sri Lanka's tourist arrivals rose to 150,419 in October 2016 (+13.7%YoY). During January to October period tourists from Western Europe (+17.4%YoY), South Asia (+12.7%) and East Asia (+18.2%YoY) contributed most to total arrivals of 1.7Mn (+14.6%YoY) during the period against 1.4Mn during the same period in 2015. Tourists from UK (+16.7%YoY) contributed most of the arrivals from Western Europe while India (+14.8%YoY) contributed most of the arrivals from South Asia during the period. During January to October tourists from Ukraine, China, Italy and Austria, grew by 30%YoY, 28.3%YoY, 26.7%YoY and 24.8%YoY respectively while Indonesia dropped by 36.3%YoY.



## Treasury Bills and Bonds

### Bond prices plunge on foreign selling curtails

**Treasury yields witness selling pressure:** October 2016 saw foreign selling pressure across the board resulting in a plunge in prices of mid-long-term treasury tenures. The long-term tenure yields increased by 25-40bps and mid-term tenure yields increased by 46-61bps while shorter term less than one year yields increased by 5-15bps. Furthermore, foreign selling of rupee bonds towards the latter part of the month witnessed an outflow of LKR 14.4Bn for the month ending 28th October 2016 to a total value of LKR 300Bn against its low of LKR 220Bn recorded on 23rd March 2016.



Interest Rate Change (bps)			
Tenure	30-Sep	31-Oct	Change (bps)
3M	8.54%	8.62%	9
6M	9.37%	9.49%	12
1 Yr	10.09%	10.13%	4
2 Yrs	10.54%	11.00%	46
3 Yrs	10.80%	11.35%	55
4 Yrs	10.96%	11.57%	61
5 Yrs	11.19%	11.69%	50
6 Yrs	11.23%	11.73%	50
8 Yrs	11.39%	11.79%	40
10 Yrs	11.51%	11.89%	38
15 Yrs	11.80%	12.10%	29
20 Yrs	12.13%	12.41%	28
30 Yrs	12.34%	12.59%	26

## Global News

**U.S. Economy Grew 2.9% in 3rd Quarter, Picking Up the Pace:** The American economy moved into a higher gear last quarter, expanding at an annual rate of 2.9% and riding continued strength among consumers and a better performance in global trade. The Commerce Department's report on the nation's gross domestic product, released Friday, is the next-to-last snapshot of the overall economy before voters go to the polls on Nov. 8.

(Source: [www.nytimes.com](http://www.nytimes.com))

**China as Factory to World Mulls the Unthinkable: Price Hikes:** China's factories may be on the cusp of delivering a new shock to the global economy after years of undercutting rivals with cheaper costs. This time, increases in prices could reverberate around the world. China's manufacturing prices rose in September for the first time in almost five years and overall producer prices also clambered out of negative territory. Those likely to feel the biggest lift if Chinese export prices follow through with sustained increases would be the country's top five markets: the U.S., Hong Kong, Japan, South Korea and Mexico.

(Source: [www.bloomberg.com](http://www.bloomberg.com))

**Japan Sep Exports Post 12th Straight Drop; Trade in Surplus:** Japan's September exports -6.9% on year (the median forecast: -10.4%), the 12th straight drop after -9.6% in August, led by lower shipments of automobiles, steel and semiconductors. Both the government and the Bank of Japan expect exports to remain largely flat for now in light of slower global growth and the yen's relative strength.

(Source: [www.marketnews.com](http://www.marketnews.com))

**Bangladesh's economy grows faster than forecast in FY 2015-16:** Bangladesh's economy grew 7.11% in the 2015-16 financial year that ended in June, the planning minister said on Tuesday, slightly faster than initially expected. Gross domestic product was projected at 7.05% for the year ended in June, Mustafa Kamal told a news conference, up from 6.5% the previous year when political unrest crippled the economy.

(Source: [www.reuters.com](http://www.reuters.com))

**Carney to Ignore Inflation Jump as November Rate Cut Seen:** Days after the Bank of England governor said he'll tolerate faster price gains in his efforts to support the economy, more than 70 percent of economists in Bloomberg's monthly survey said the Monetary Policy Committee will cut the benchmark rate to a record-low 0.1 percent on Nov. 3. The panel, which will keep its quantitative-easing program running as planned, will present new economic projections the same day.

(Source: [www.bloomberg.com](http://www.bloomberg.com))

