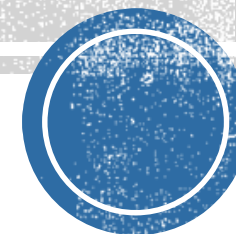


# MONTHLY ECONOMIC WATCH

**Feb 2019**

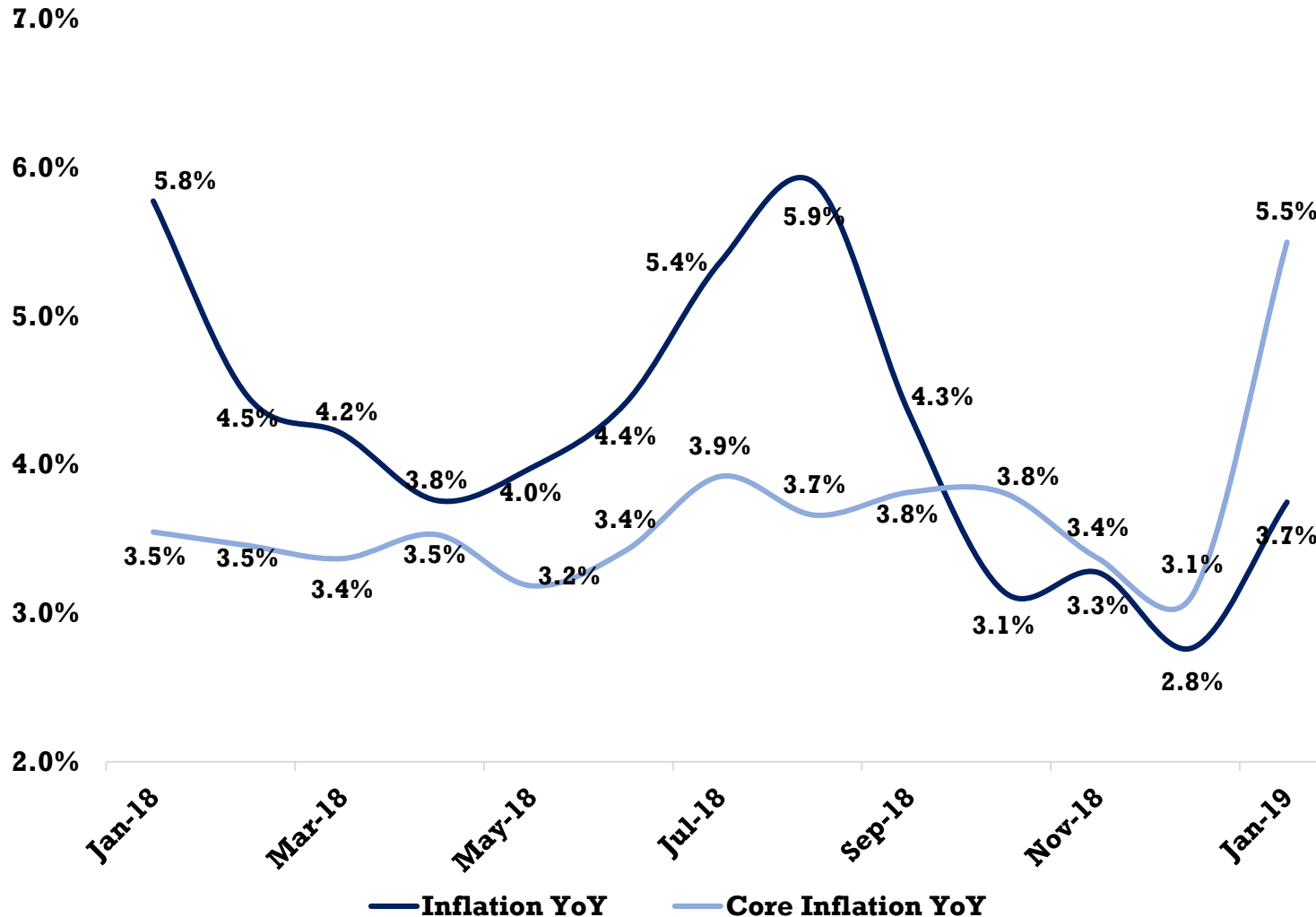


First Capital  
First Capital Research

# CONTENT BRIEFING

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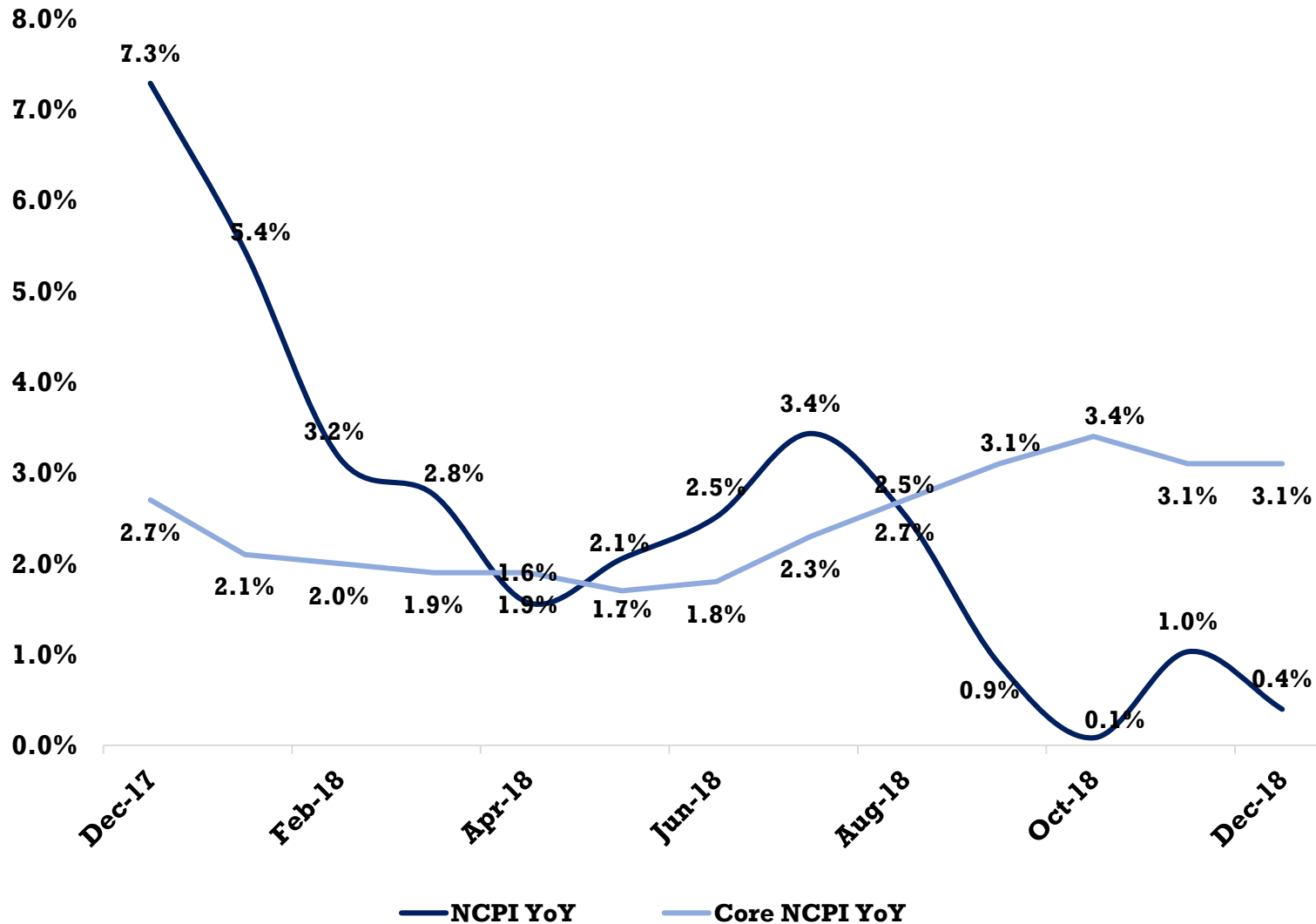
# INFLATION - CCPI



**CCPI FOR JAN 2019:  
MOM +0.9%,  
YOY +3.7%**

- *MoM increase in inflation by 0.9% was due to the expenditure value decrease of Food items by 0.75% and increase of Non Food items by 1.66%. Price decline in Vegetable led the value decrease in the food category, while in Non Food Category, increase was mainly led by Housing Water Electricity Gas and Other Fuels (0.89%).*
- *The YoY inflation increased to 3.7% in January 2019 from 2.8% reported in December as a result of increase in value of Non Food Group.*

# INFLATION - NCPI



## NCPI FOR DEC 2018: DECREASED TO 0.4%YOY

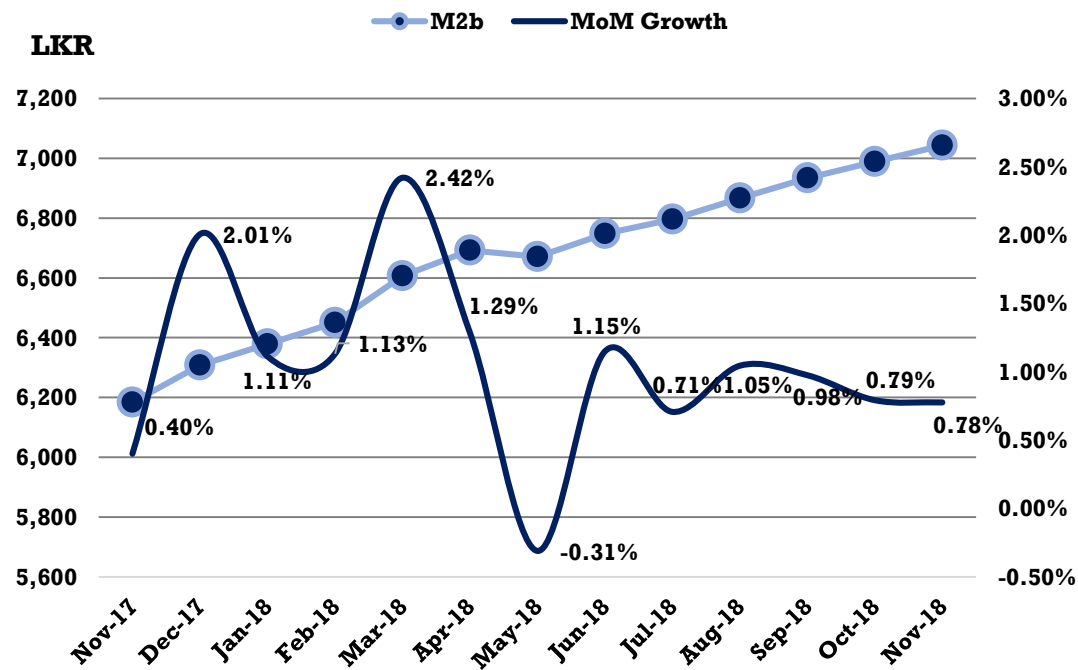
- *NCPI for November 2018 decreased to 0.4% from 1.0% recorded in November 2018.*
- *YoY inflation of food group has decreased to -4.5% in December 2018 while Non Food Group decreased to 4.7% compared to 5.2% recorded in November 2018.*

# M2B AND CREDIT GROWTH

Private sector credit for the month of November 2018 amounted to LKR 79.3Bn, thereby, overall credit growth (state & private) increased to LKR 135.2Bn, +29%YoY. Government credit reflected a net borrowing for the fourth consecutive month amounting to LKR 56.0Bn.

## M2b Growth – November 2018

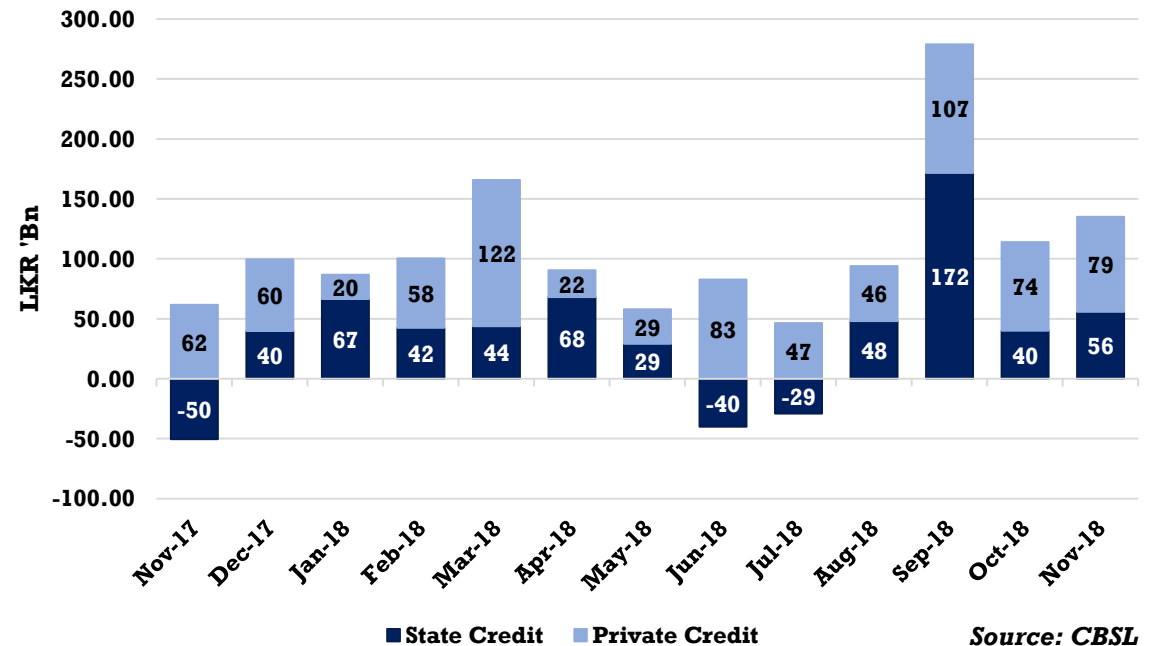
MoM +0.78%, YoY +13.89%, YTD +11.64%



Source: CBSL

## State Credit & Private Credit – November 2018

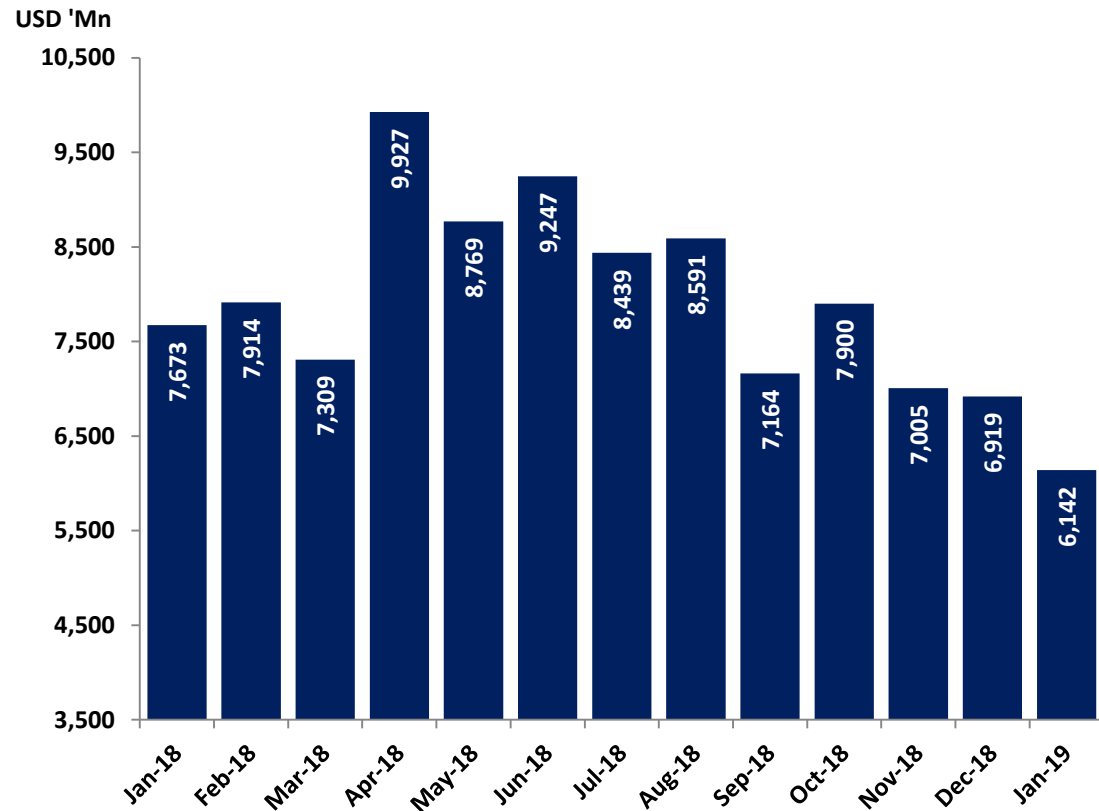
Private credit MoM +1.5%, YoY +15.69%, YTD +14.25%



Source: CBSL

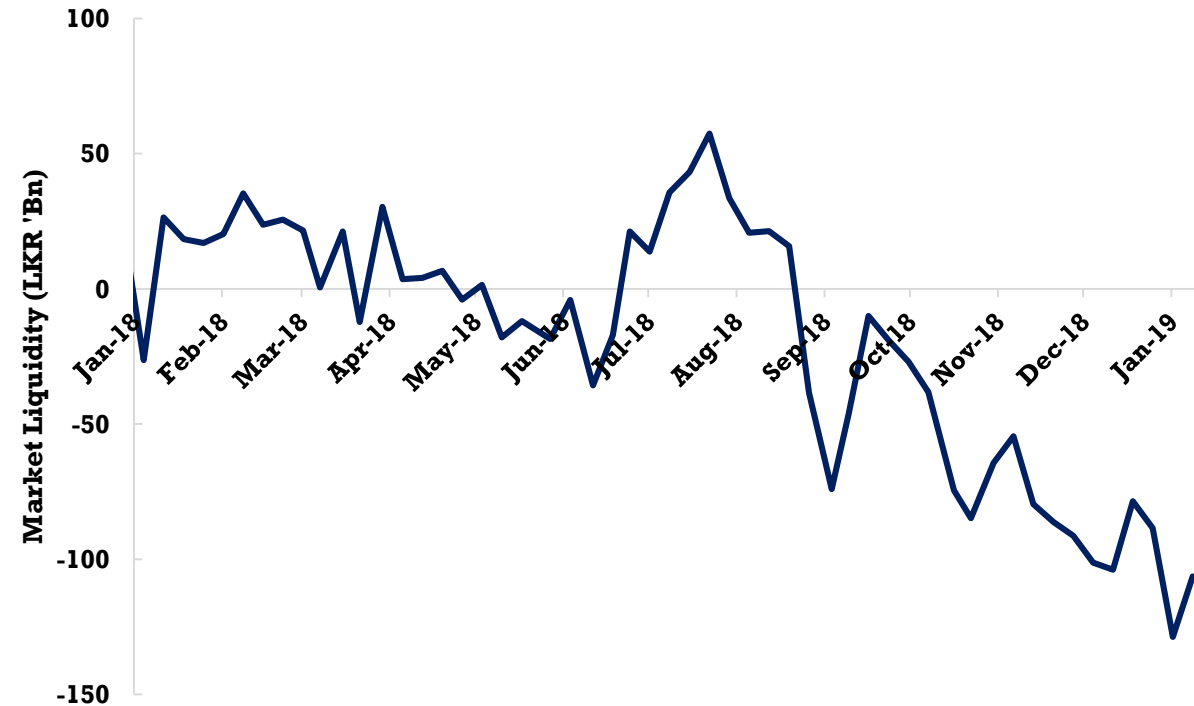
# RESERVES & LIQUIDITY

- Foreign Reserves declined to USD 6.1Bn in January 2018 (from USD 6.9Bn in December 2018).



Source: CBSL

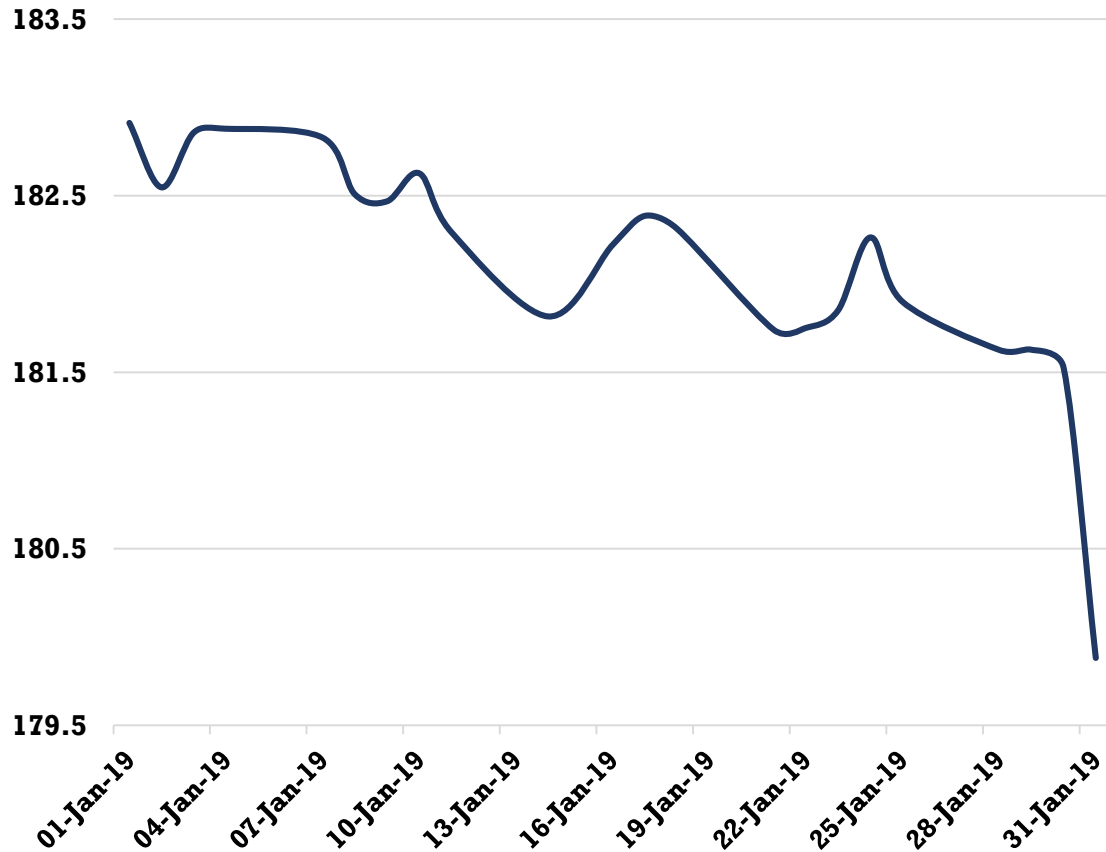
- Market liquidity showed a continuous declining trend for the month of January although negativity in the liquidity narrowed down towards the end of the month.



Source: CBSL

# CURRENCY MOVEMENT

## USD:LKR Movement

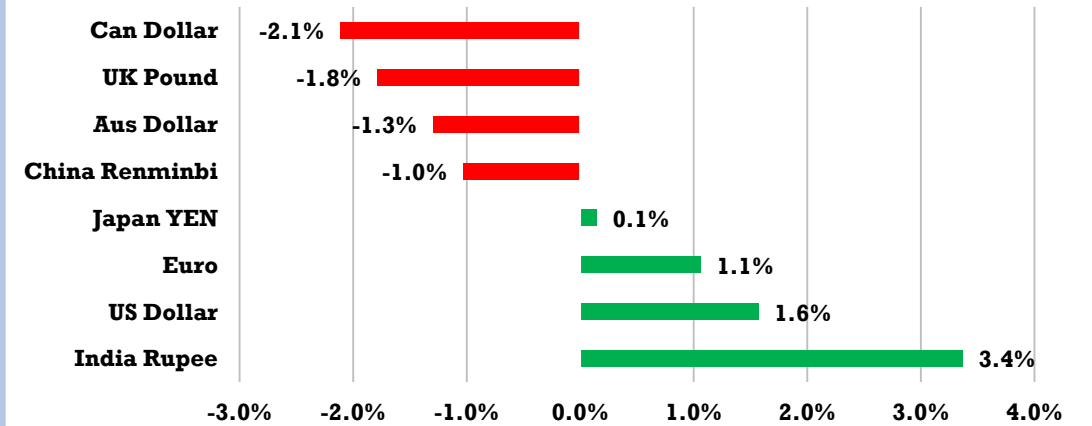
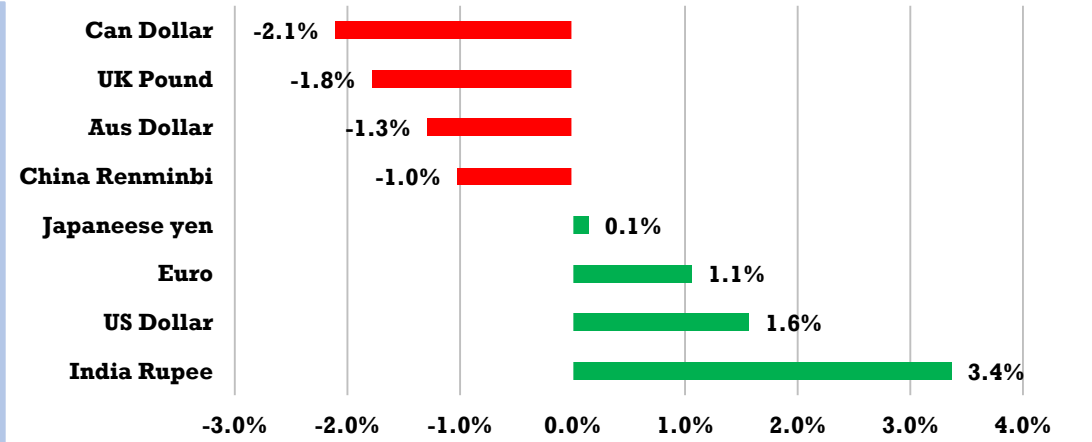


Source: CBSL

January 2019

YTD 2019

## Sri Lankan Rupee vs Global Currencies



Source: CBSL

# GOVERNMENT SECURITIES – NEW ISSUES

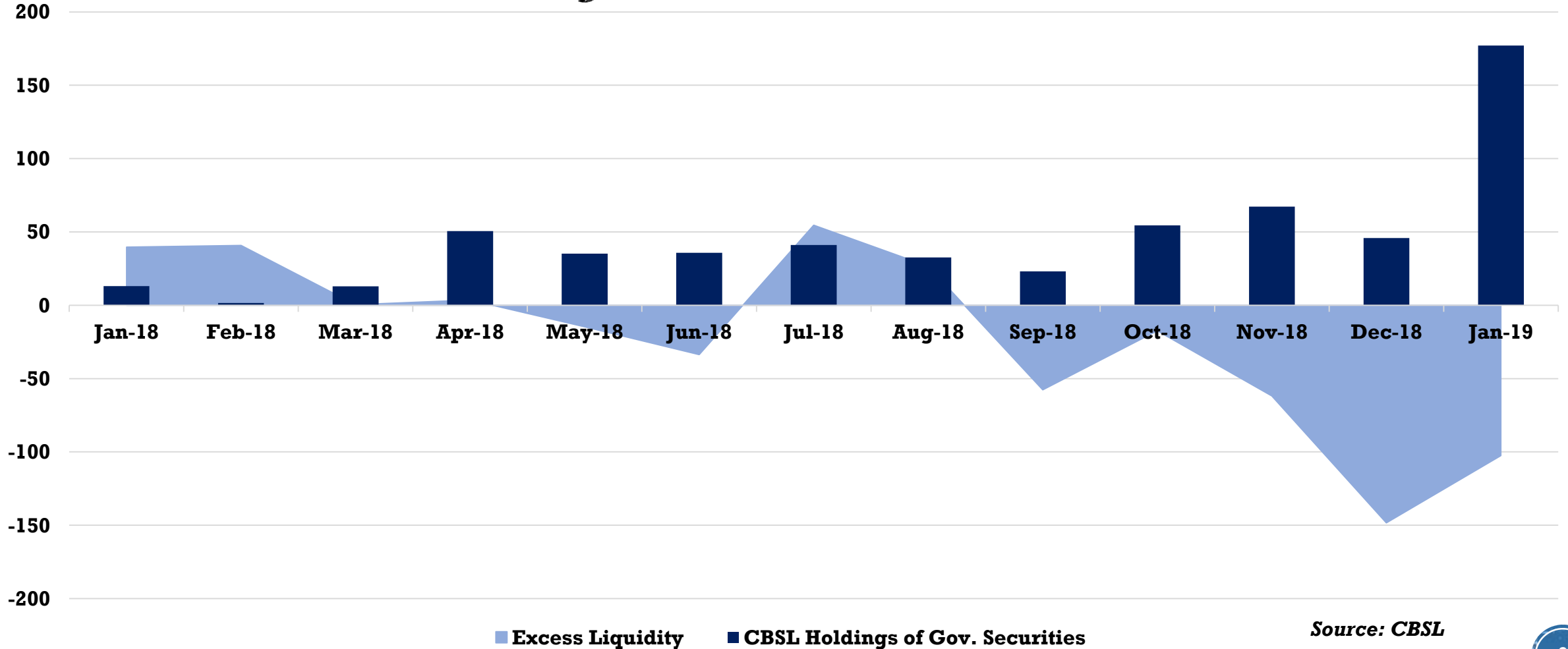
Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
04-Jan-19	15,500		15,500
11-Jan-19	20,000		20,000
18-Jan-19	26,000	98,000	124,000
25-Jan-19	23,500		23,500
<b>Total Issued</b>			<b>183,000</b>

	January 2018	YTD
Maturities	149,846	149,846
New Issues	183,000	183,000
<b>Excess/(Deficit)</b>	<b>33,154</b>	<b>33,154</b>

CBSL Holdings of Gov. Securities		YTD
As at End Jan.2018	177,093	
As at End Dec. 2018	45,797	
<b>Increase/ (Decrease)</b>	<b>131,296</b>	<b>131,296</b>

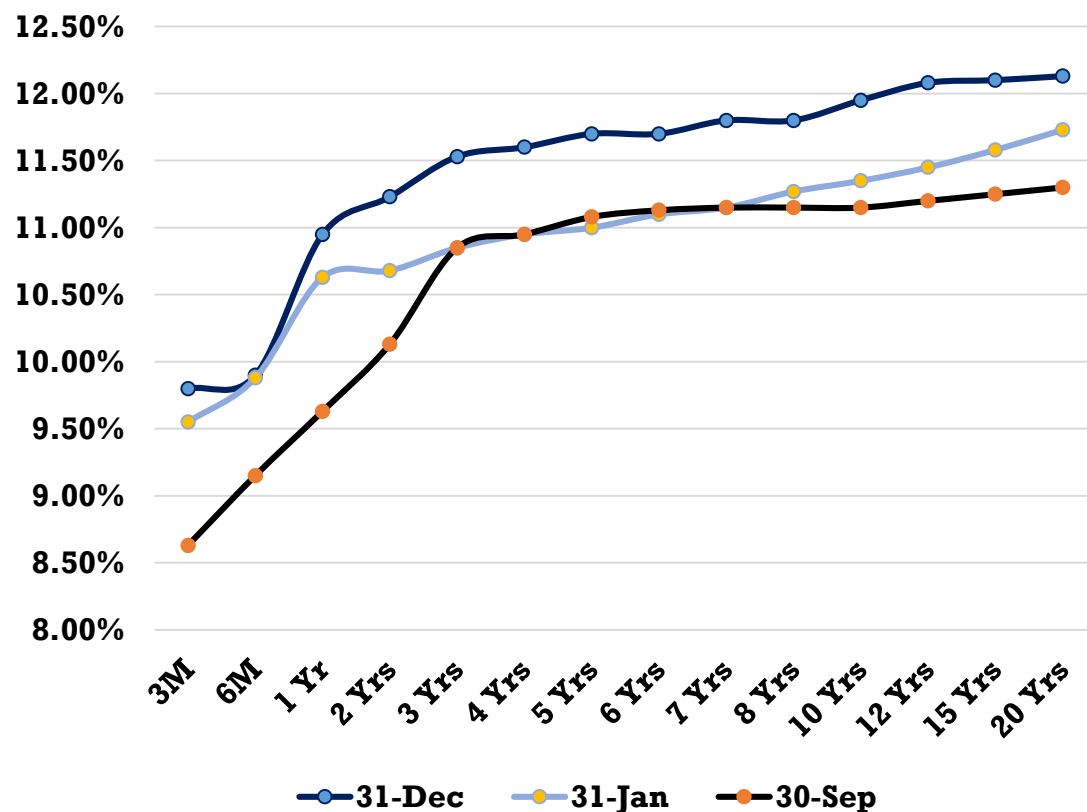


# CBSL HOLDINGS OF GOV. SECURITIES INCREASED IN JAN '19



# TREASURY BILLS AND BONDS— JAN '19

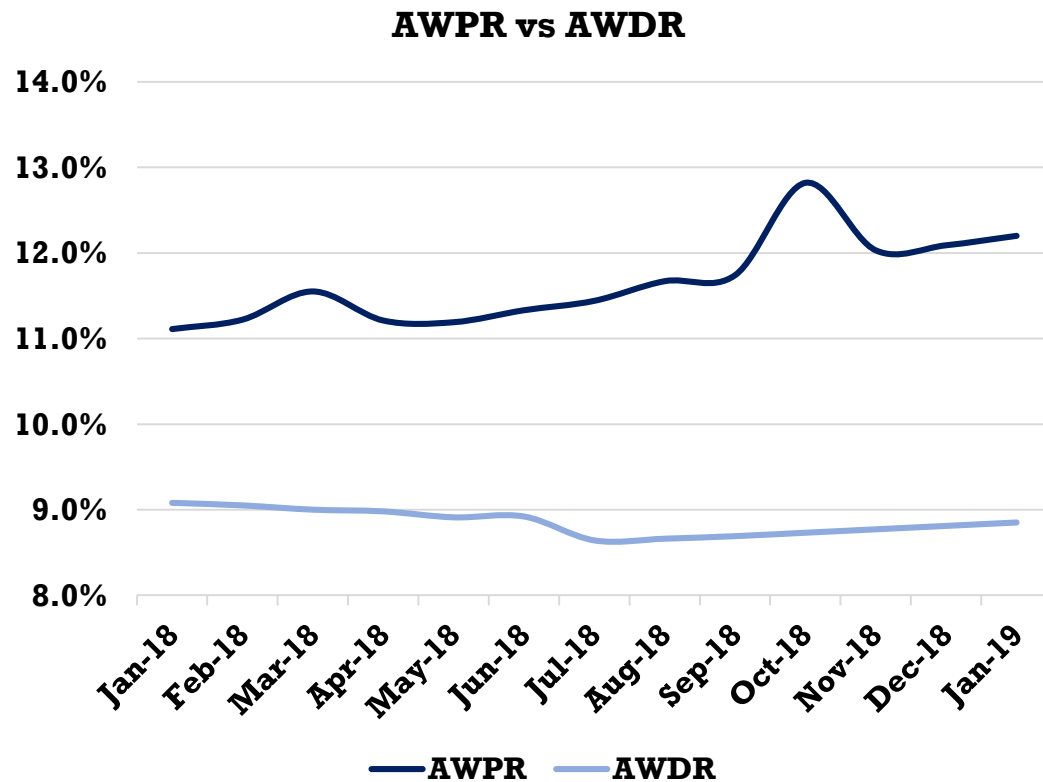
The month of January witnessed a downward shift in the yield curve mainly centered on the mid to long tenor maturities. This was reflected by the dip in mid to long tenor maturities by 40-70bps compared to the dip in short tenor by 2-68bps. Further, last two weeks of the month saw some foreign interest in government securities, recording an increase in foreign holding in government securities while also causing LKR to appreciate by 2.5% to close at LKR 178.40.



Interest Rate Change (bps)					
Tenure	31-Dec	31-Jan	Change (bps)	30-Sep	Change (bps)
3M	9.80%	9.55%	-25	8.63%	92
6M	9.90%	9.88%	-2	9.15%	73
1 Yr	10.95%	10.63%	-32	9.63%	100
2 Yrs	11.23%	10.68%	-55	10.13%	55
3 Yrs	11.53%	10.85%	-68	10.85%	0
4 Yrs	11.60%	10.95%	-65	10.95%	0
5 Yrs	11.70%	11.00%	-70	11.08%	-8
6 Yrs	11.70%	11.10%	-60	11.13%	-3
7 Yrs	11.80%	11.15%	-65	11.15%	0
8 Yrs	11.80%	11.27%	-53	11.15%	12
10 Yrs	11.95%	11.35%	-60	11.15%	20
12 Yrs	12.08%	11.45%	-63	11.20%	25
15 Yrs	12.10%	11.58%	-52	11.25%	33
20 Yrs	12.13%	11.73%	-40	11.30%	43

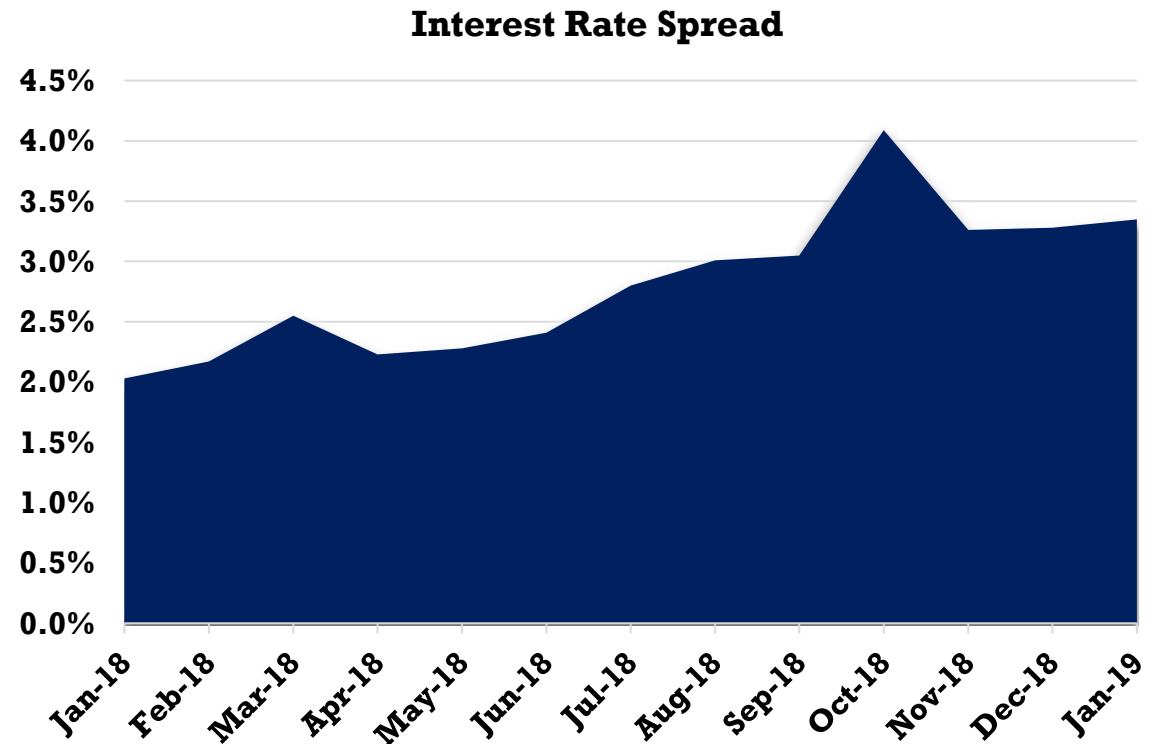
# FINANCE SECTOR RATE MOVEMENTS

## AWPR vs AWDR



Source: CBSL

## Interest Spread

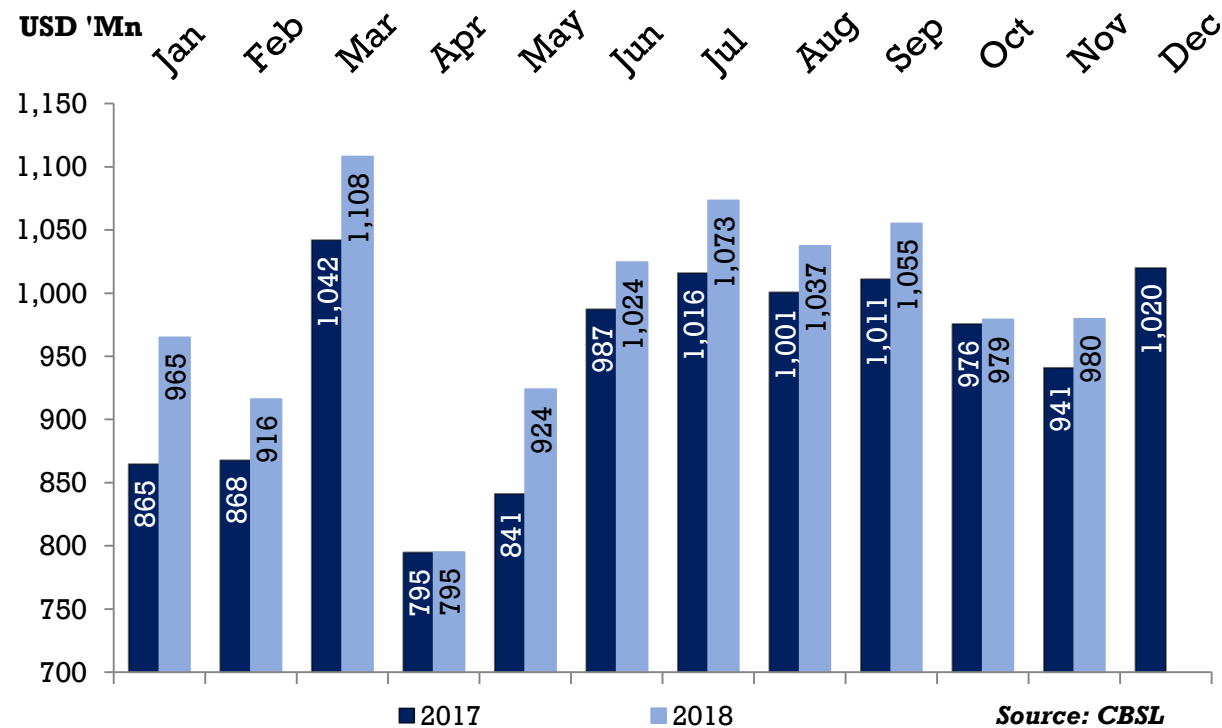


Source: CBSL

# EXTERNAL SECTOR – NOV 18 – EXPORTS

Exports for the month of Nov was recorded at USD 980Mn, +4.1%YoY basis, mainly contributed by Industrial Exports (+10.4%YoY) which was largely driven by Textiles and garments (+45.5%YoY). Meanwhile, earnings from agricultural exports declined in Nov 2018 as well due to weakened earnings in tea, spices, coconut and sea food .

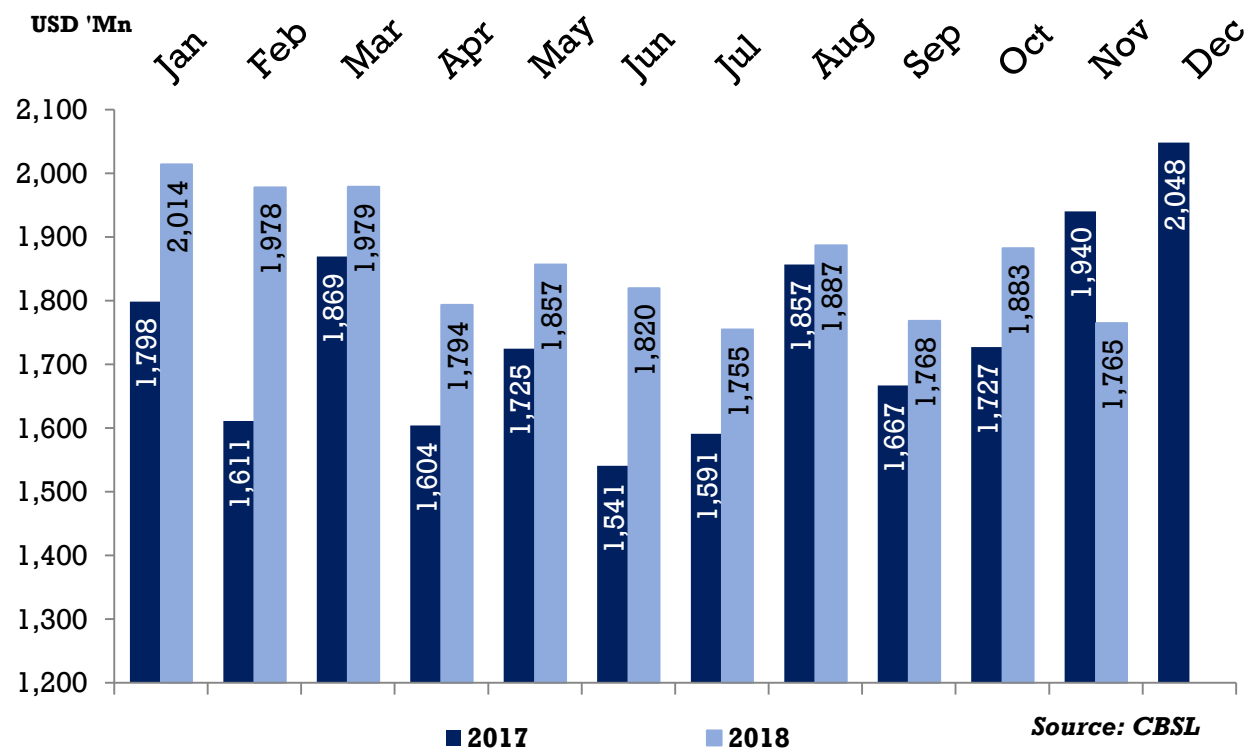
Category	2017 (USD 'Mn)	2018 (USD 'Mn)	Change (%)
Industrial Exports			
- Nov	713.5	787.9	10.4
- YTD	7745.6	8444.9	9.0
Agricultural			
- Nov	224.1	187.8	(16.2)
- YTD	2,547.5	2,362.7	(7.3)
Mineral and other			
- Nov	3.3	3.9	17.2
- YTD	47.8	48.6	1.6
<b>Total</b>			
- <b>Nov</b>	<b>940.9</b>	<b>979.6</b>	<b>4.1</b>
- <b>YTD</b>	<b>10,340.9</b>	<b>10,856.2</b>	<b>5.0</b>



# EXTERNAL SECTOR – NOV 18 – IMPORTS

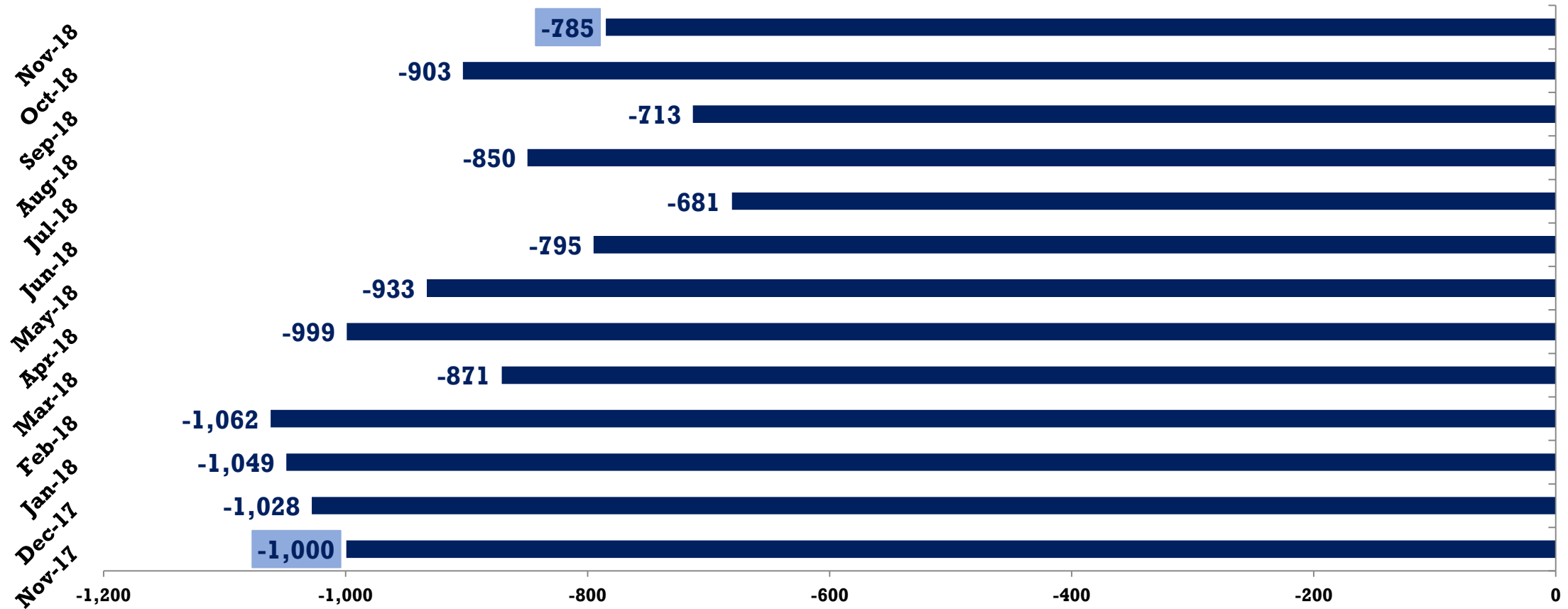
Import expenses decreased in Nov 2018 by 9.1% YoY. Decrease was mainly driven by consumer goods (-10.8% YoY) dominated by decreased expenditure on Food and beverages (-36.5% YoY) amidst a notable decline in Rice. Imports of Intermediate goods increased slightly while investment goods declined by 29.1%.

Category	2017 (USD 'Mn)	2018 (USD 'Mn)	Change (%)
Consumer goods			
- Nov	407.7	363.5	(10.8)
- YTD	4069.0	4622.7	13.6
Intermediate			
- Nov	1072.5	1074.6	0.2
- YTD	10,242.0	11,504.9	12.3
Investment goods			
- Nov	459.7	326.0	(29.1)
- YTD	4,475.9	4,296.4	(4.0)
<b>Total</b>			
- Nov	<b>1,940.4</b>	<b>1,764.6</b>	<b>(9.1)</b>
- YTD	<b>18,931.3</b>	<b>20,498.1</b>	<b>8.3</b>



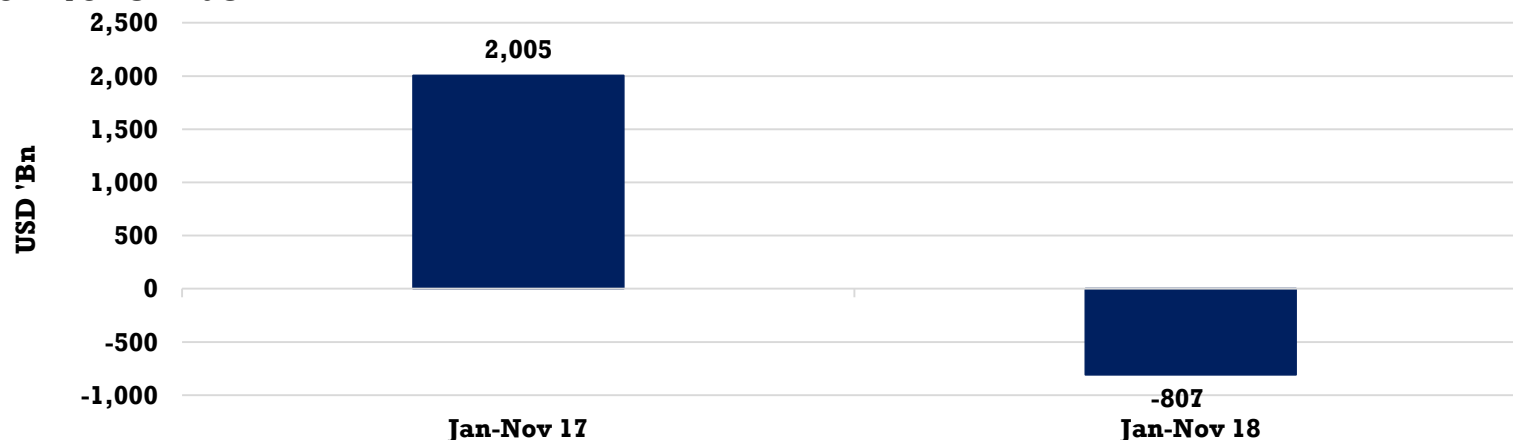
# EXTERNAL SECTOR – NOV 18

## Balance of Trade

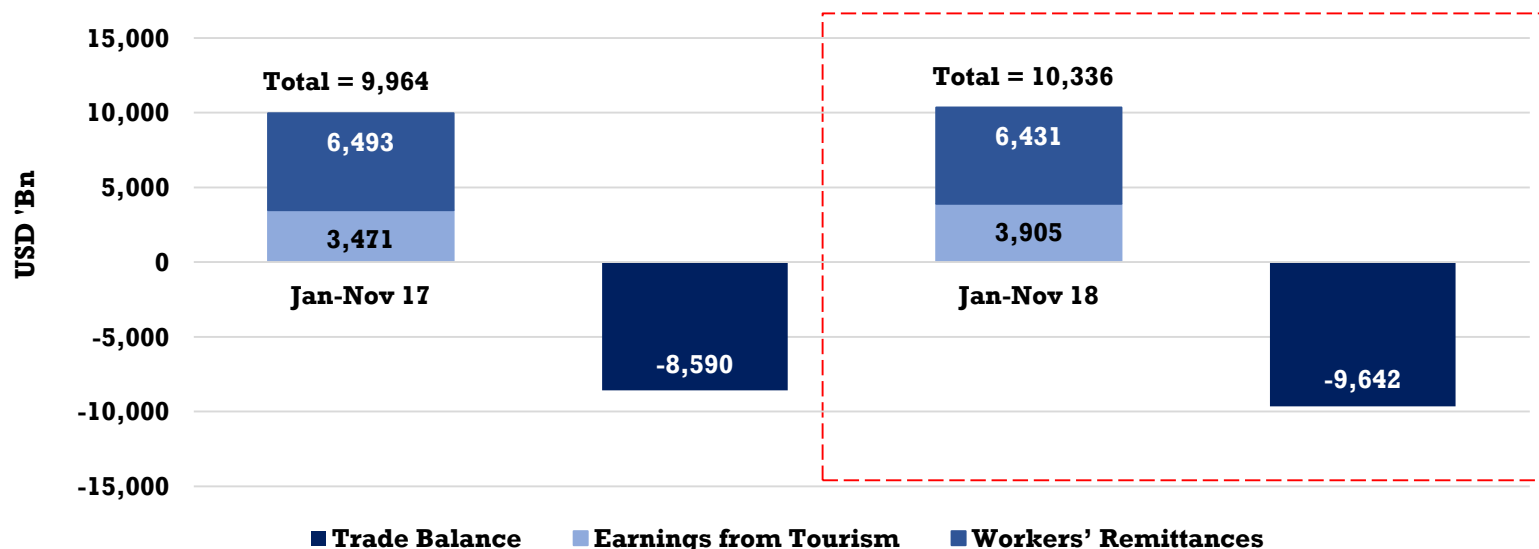


Source: Central Bank

**BoP for Jan-Nov 18 was USD -807Mn compared to the previous YTD of Jan-Oct '18 amount of USD -157Mn, illustrating an outflow of USD 650Mn for the month of November.**



**Worker Remittances declined to USD 555.0Mn (-5.7%YoY). Earnings from tourism recorded an increase for the month of Nov reflecting an YoY increase of +18.2%.**



## BALANCE OF PAYMENTS MARGINALLY DECLINES MOM

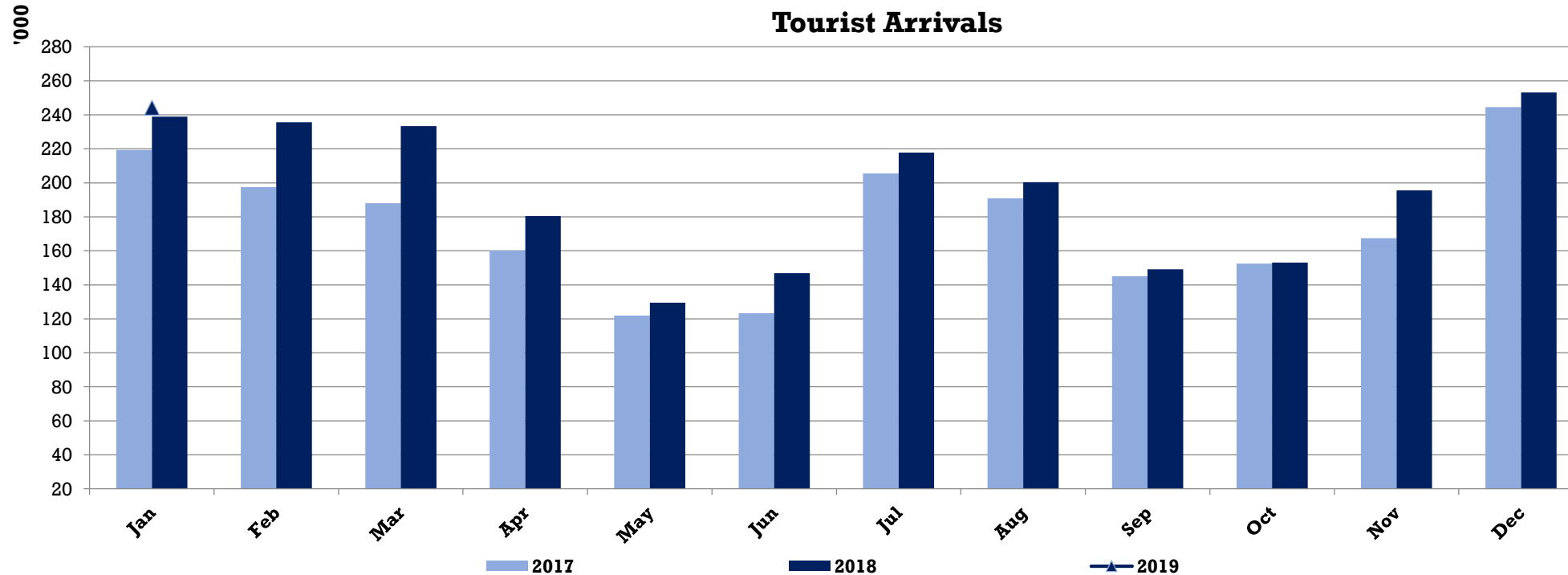
Nov USD 'Mn	2017	2018	Change (%)
Trade Balance	-999.0	-785.0	
Earnings from Tourism	311.0	367.0	+18.2
Workers' Remittances	588.0	555.0	-5.7

YTD USD 'Mn	2017	2018	Change (%)
Trade Balance	-8,590.0	-9,642.0	
Earnings from Tourism	3,471.0	3,905.0	+12.5%
Workers' Remittances	6,493.0	6,431.0	-0.9%

# TOURIST ARRIVALS – JANUARY 2019

(244,239 – **UP 2.2% YOY, YTD 244,239 -UP 2.2%**)

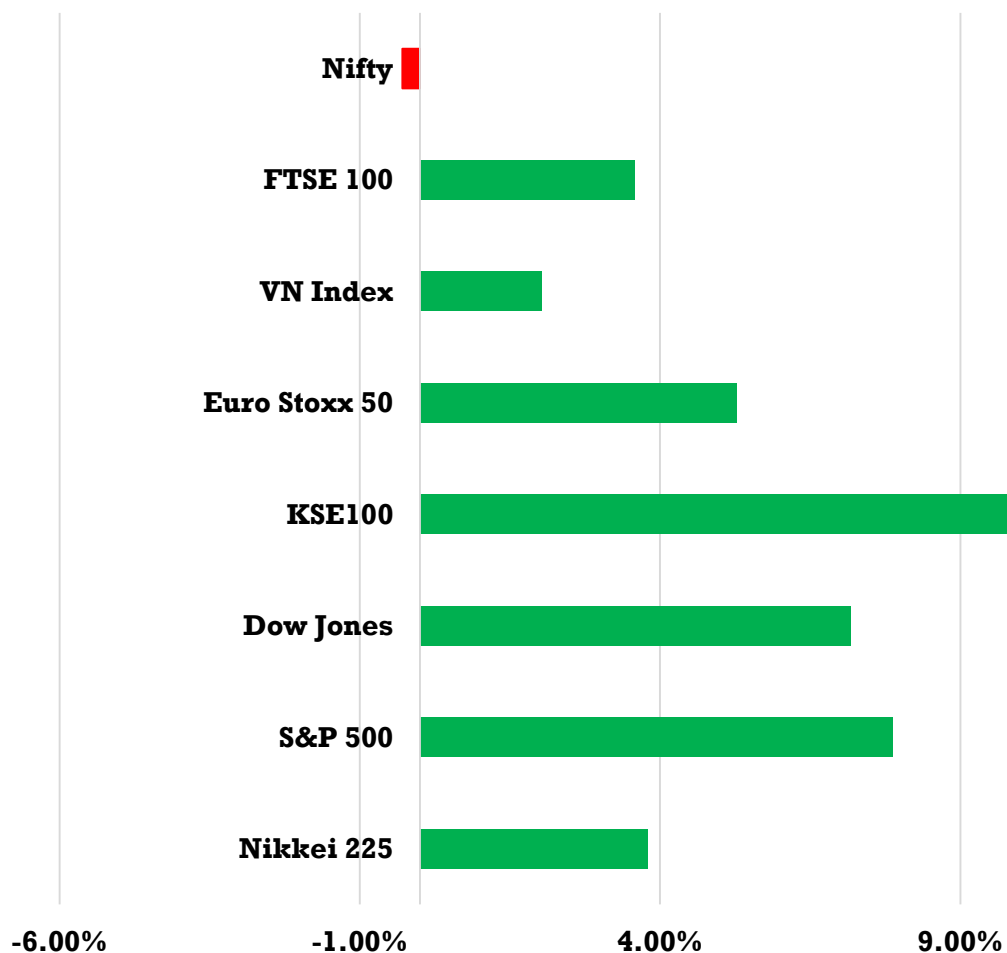
Tourist arrivals into SL grew by 2.2% in January 2019 compared to an year ago. Arrivals were mainly dominated by India followed by United Kingdom and China. YoY tourist arrivals from Italy increased by 20.3% while arrivals from Germany and France were down by 8.3% and 2.7% respectively.



Source: SLTDA



# GLOBAL MARKET



Source: Bloomberg

**The U.S. trade deficit with China is set to balloon again:** President Donald Trump underscored his desire to reduce the trade gap with China in his State of the Union speech, yet the deficit is on track to balloon again this year as a solid economy boosts American demand for imports. The total U.S. deficit in goods with China jumped by USD 37.6Bn, or 10.9%, in the first 11 months of 2018 compared with a year earlier, according to Commerce Department figures that were updated with November data.

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

**No quick fix for citizen rights under no-deal Brexit, says EU official:** Nearly 5Mn British and EU citizens could be stuck in limbo after a no-deal Brexit, a senior EU official has warned, who said it could take several years “to pick up the pieces” of the UK crashing out of the bloc. Politicians on both sides of the Brexit divide have urged negotiators to ringfence the existing agreement on citizens’ rights if the UK leaves without a deal on 29 March. The Brexit withdrawal agreement protects most of the rights of the 3.4Mn EU citizens in the UK and the 1.3Mn British people in the EU. But since MPs rejected the agreement by a crushing majority last month, these protections have been thrown into doubt.

[www.theguardian.com.com](http://www.theguardian.com.com)

**Oil scores best January on record as supply cuts revive market:** Oil closed lower but still scored its best January gain on record, after a month in which OPEC’s emergency supply cuts started to take root and panic eased about the global economy. Futures in New York dived 0.8% late on 31.01.19, after a government report that U.S. production had swelled to an all-time high in November.

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

# MONTHLY ECONOMIC WATCH

Feb 2019



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