



MONTHLY ECONOMIC WATCH

Sep 2020

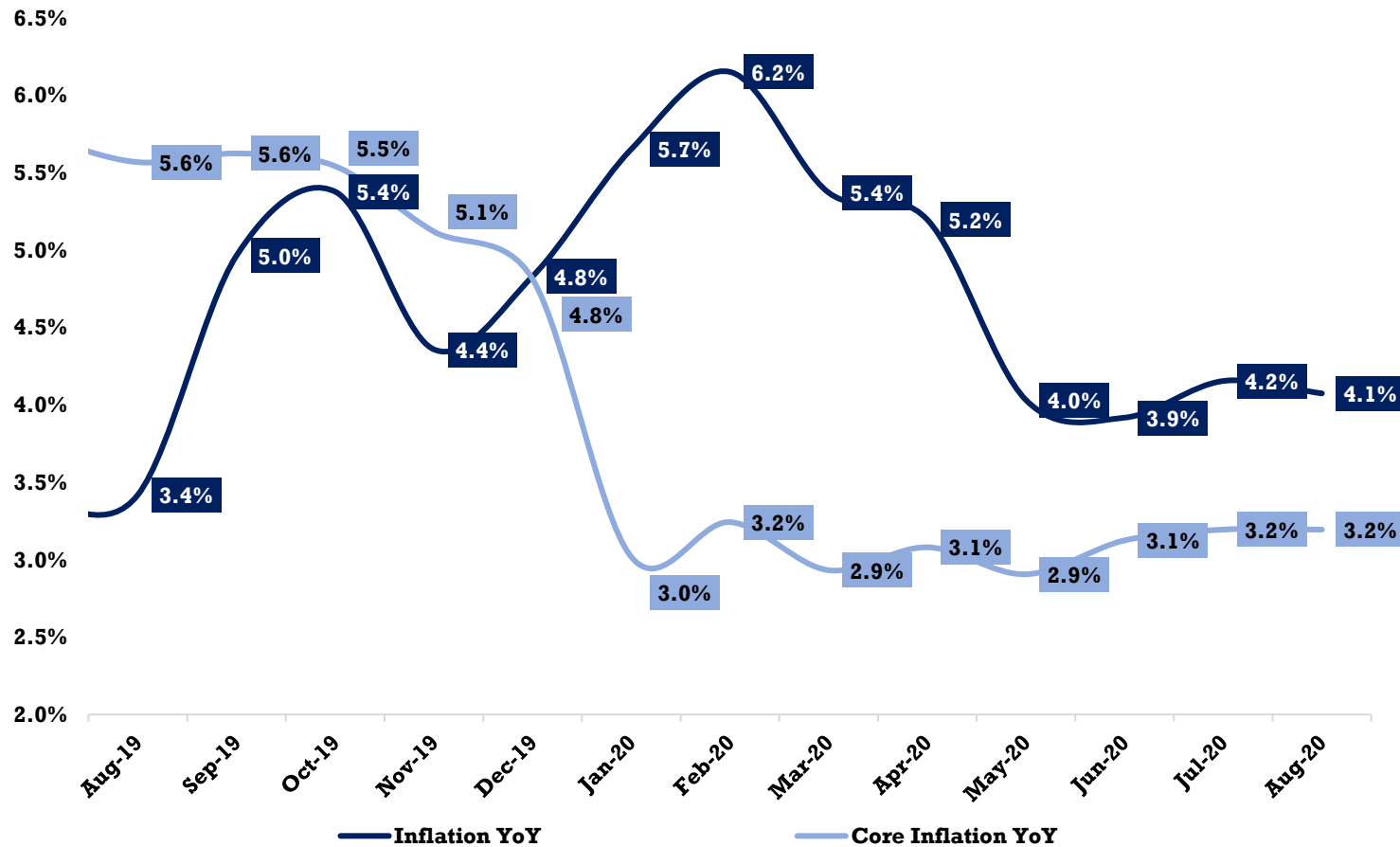
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CENTRAL BANK EXTENDS THE DEADLINE OF APPLICATION FOR 4% WORKING CAPITAL LOAN SCHEME UNTIL 30TH SEPTEMBER 2020

- The Monetary Board decided to extend the deadline of 4% Working Capital Loan Scheme, until 30th Sep 2020. CBSL surpassed the milestone of LKR 100Bn loans on 18th Aug 2020, approving 36,489 applicants under the above facility. Out of approved loans, licensed banks have already disbursed more than LKR 68.5Bn among 25,365 affected businesses and individuals island-wide as of 18th Aug 2020.
- Out of LKR 100Bn approved under the Scheme, 50% has been provided to businesses in the services sector, led by trade services, while distributing 34% and 16% among businesses in the industry sector and the agriculture sector, respectively.

INFLATION – CCPI



Source: Dept. Census and Statistics

**CCPI FOR AUG 2020:
MOM 0.0%,
YOY +4.1%**

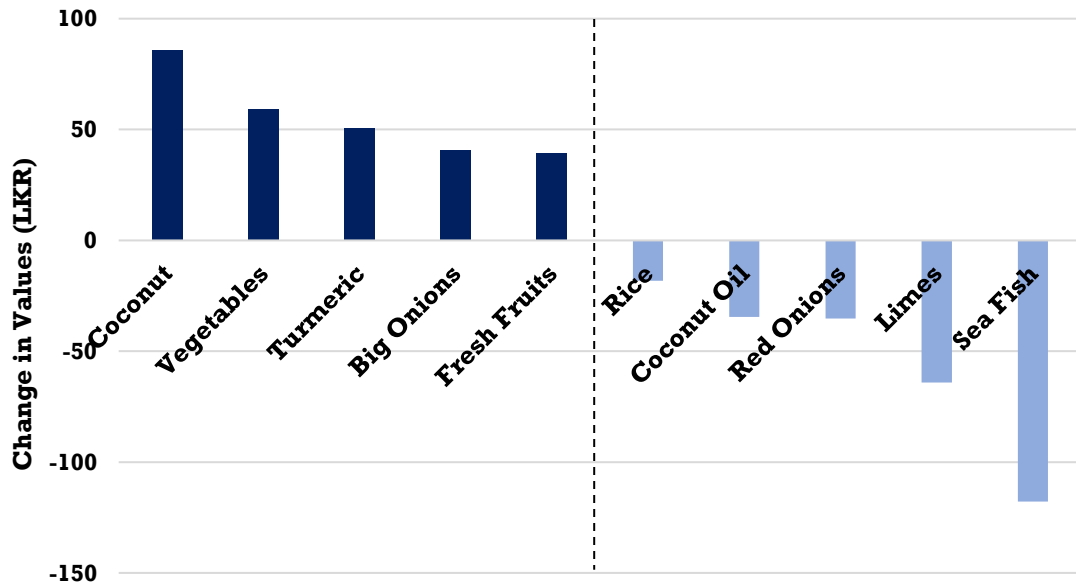
- MoM inflation decreased by 0.03% due to the decrease in expenditure value of Non-Food items by 0.2%. However, Food items increased by 0.3%.
- The YoY inflation decreased to 4.1% in Aug 2020 from 4.2% reported in Jul. YoY inflation of Food Group has increased from 10.9% in Jul 2020 to 12.3% in Aug 2020 while Non-food Group decreased from 1.5% in Jul 2020 to -0.8% in Aug 2020.

INFLATION ANALYSIS – CCPI-MOM

The CCPI index remained flat while recording a decrease of 0.03% amidst the expenditure value decrease of Food items by 0.3% and decrease of Non-Food items by 0.2%. Within the food category, prices of essential items such as Coconut, Vegetables and Turmeric powder witnessed an increase in prices while in the Non-Food category, 'Restaurant and Hotels', 'Alcoholic Beverages, Tobacco & Narcotic', 'Clothing and Footwear' etc., witnessed an increase although 'Health' subsector witnessed a decline in value.

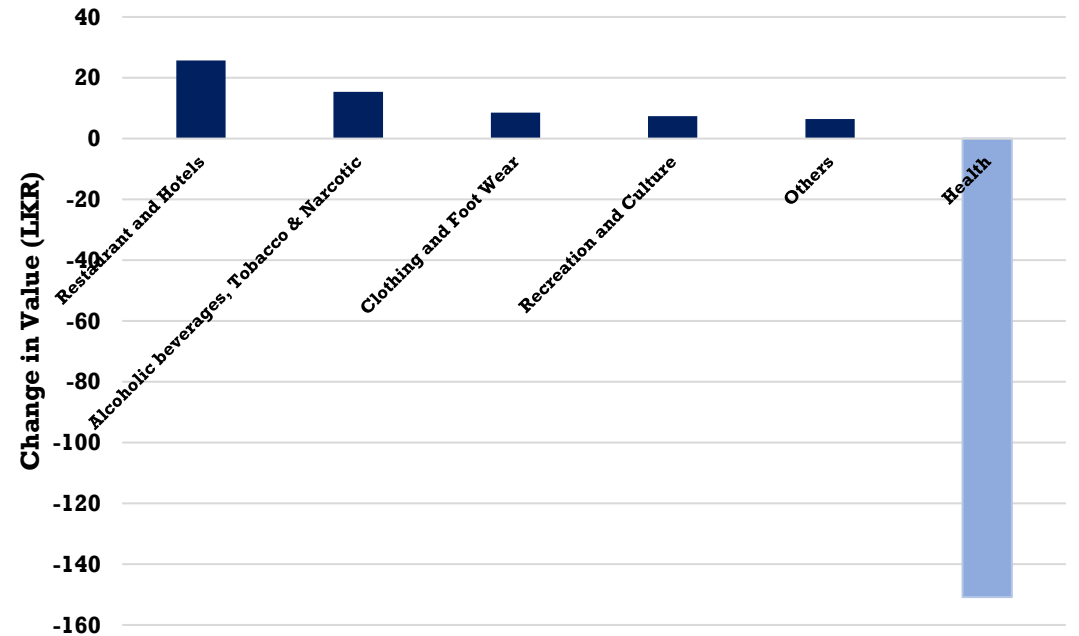


Food Category Inflation



Source: Dept. Census and Statistics

Non-Food Category Inflation



Source: Dept. Census and Statistics Sep 2020

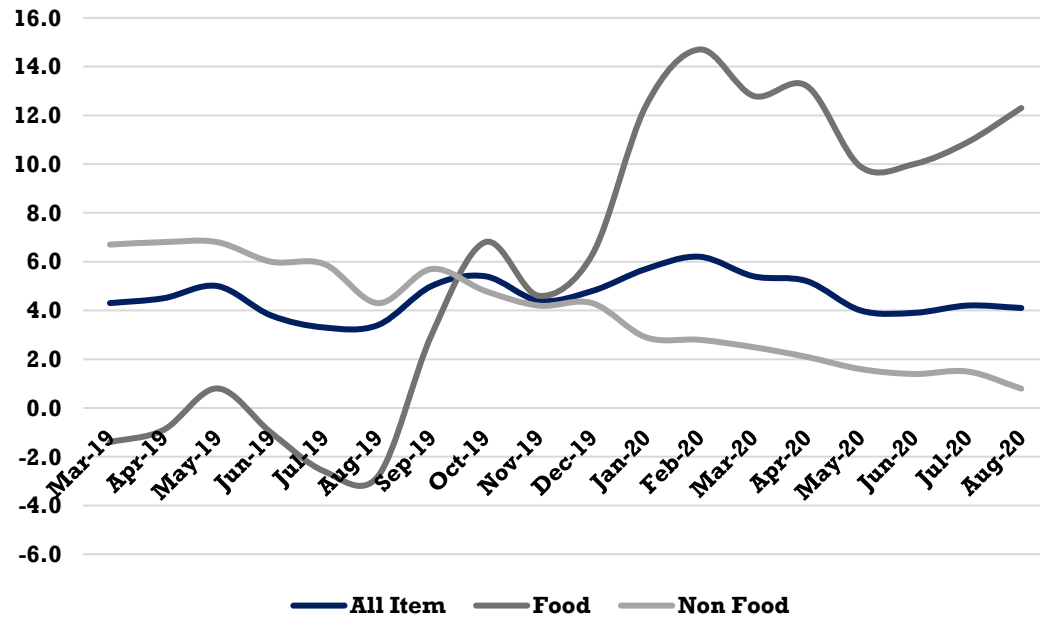
INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI is 4.1% in Aug relative to 4.2% in Jul while the change is as a result of the increase in Food items by 12.3% and increase of Non-Food items marginally by 0.8% YoY in Aug 2020.



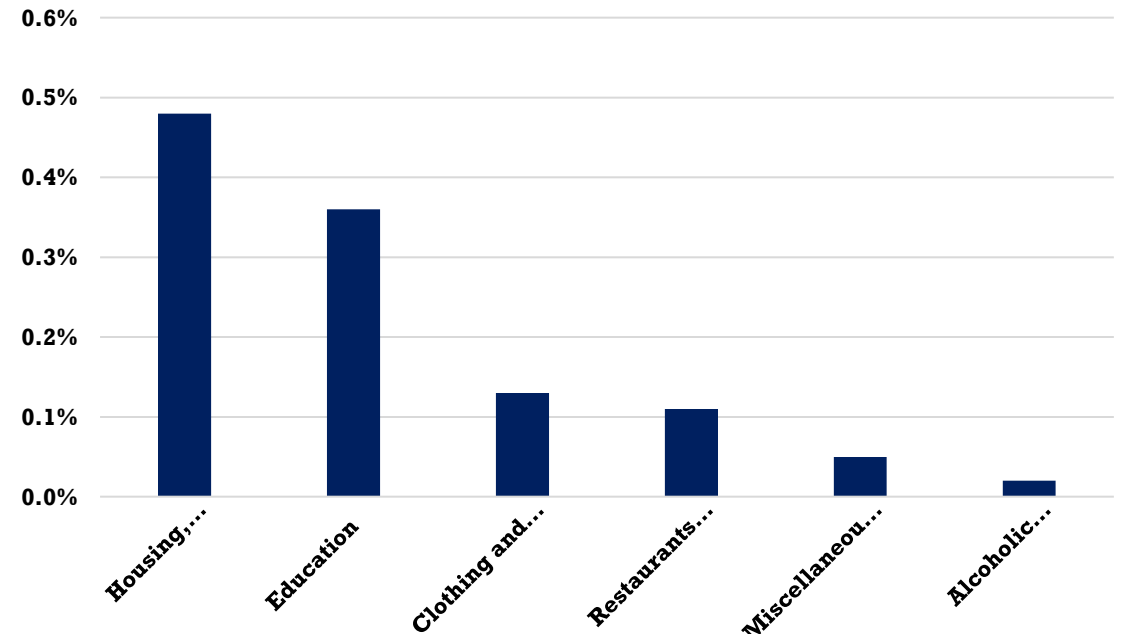
■ Food ■ Non Food

Inflation Analysis (YoY)



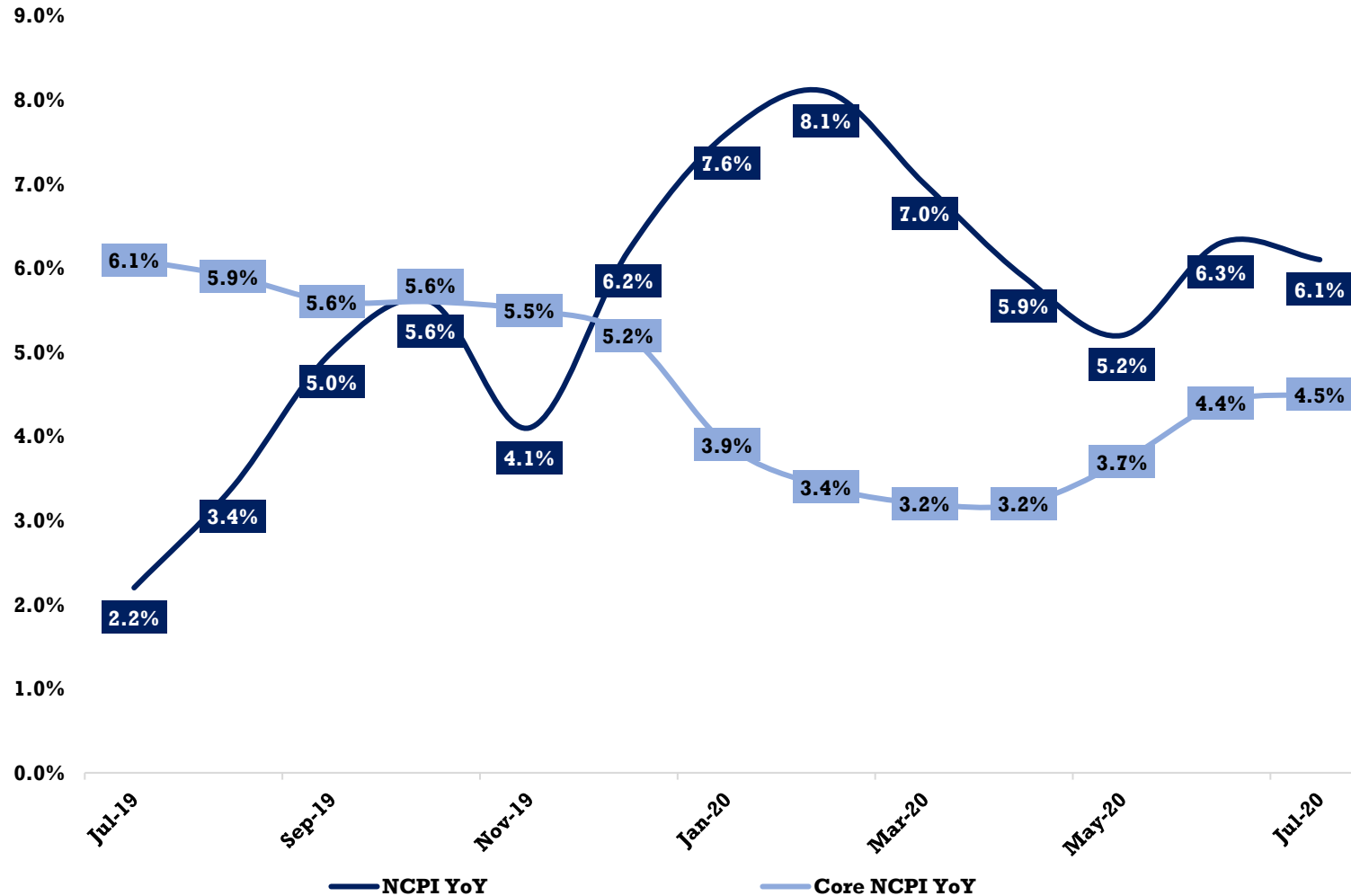
Source: Dept. Census and Statistics

Non-Food Category Inflation



Source: Dept. Census and Statistics

INFLATION – NCPI



Source: Dept. Census and Statistics

NCPI FOR JUL 2020: DECREASED TO 6.1% YOY

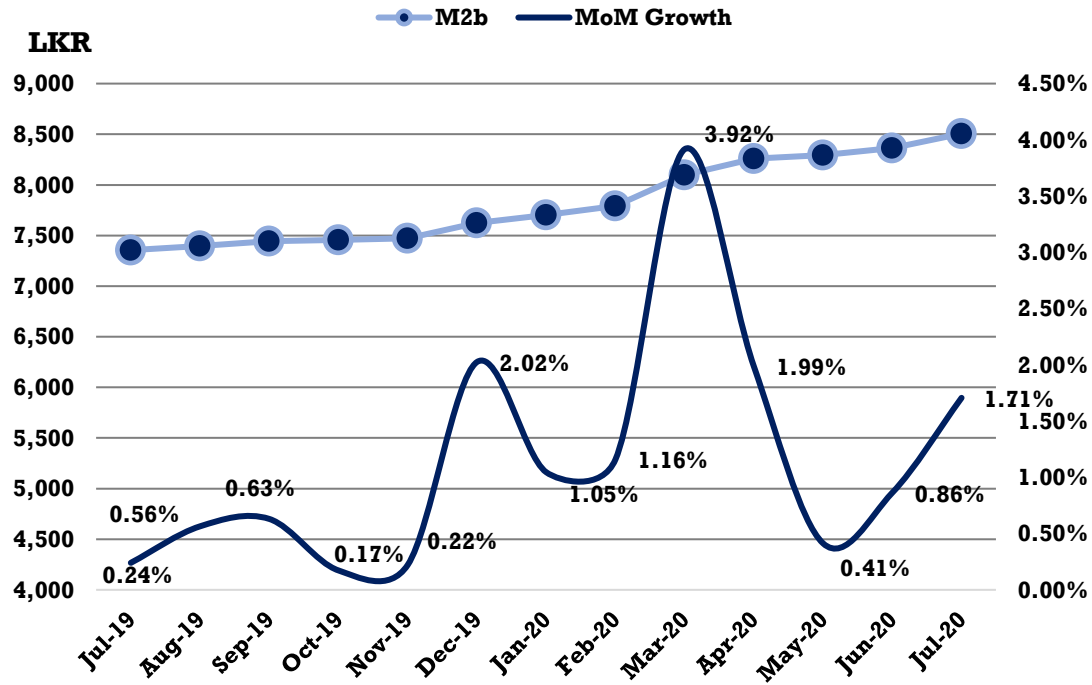
- NCPI for Jul 2020 decreased to 6.1% from 6.3% recorded in Jun 2020.
- Decrease in inflation was mainly driven by the decline in food inflation from 13.6% YoY to 12.9% YoY in Jul 2020. However, Non-Food inflation increased to 1.0% YoY from 0.8% YoY in Jun 2020 due to price increase in Education, Transport and Housing, Water, Electricity, Gas and Other fuels etc.

M2B AND CREDIT GROWTH

Private sector credit decreased by LKR 4Bn in Jul 2020, for the third consecutive month, although decline was marginal compared to the previous months. State credit reflected a net borrowing of LKR 203Bn with cumulative state credit amounting LKR 1,131Bn for the year of 2020.

M2b Growth – Jul 2020

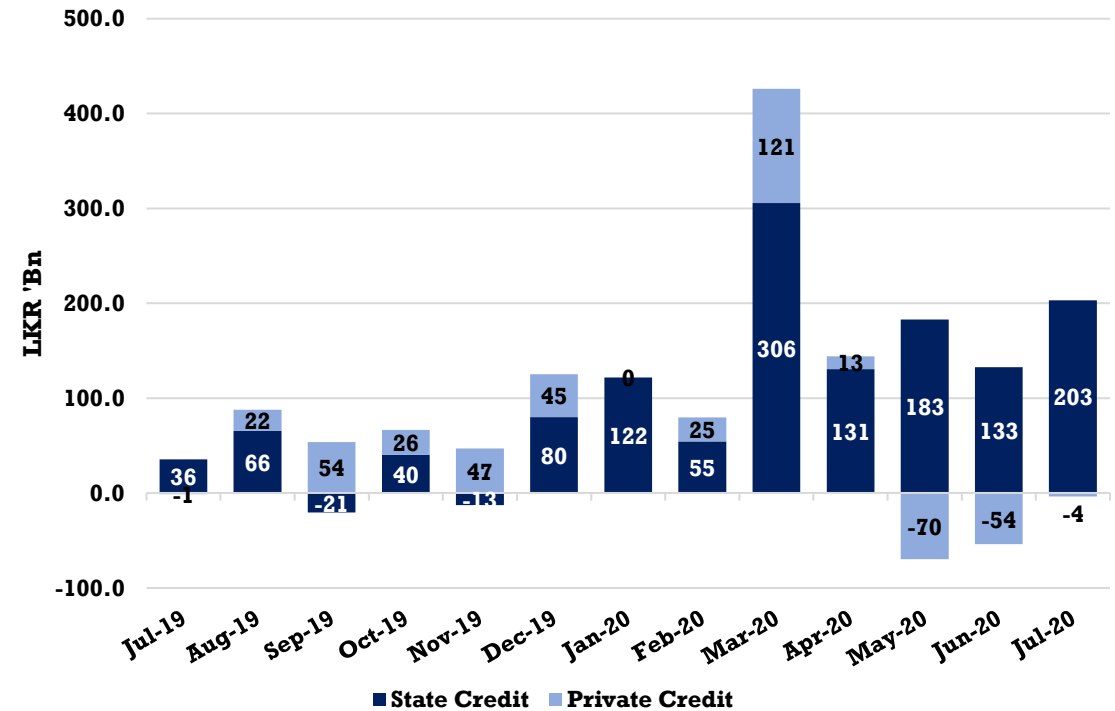
MoM +1.7%, YoY +15.6%, YTD +11.6%



Source: CBSL

State Credit & Private Credit – Jul 2020

Private credit MoM -0.1%, YoY +4.0%, YTD 0.6%

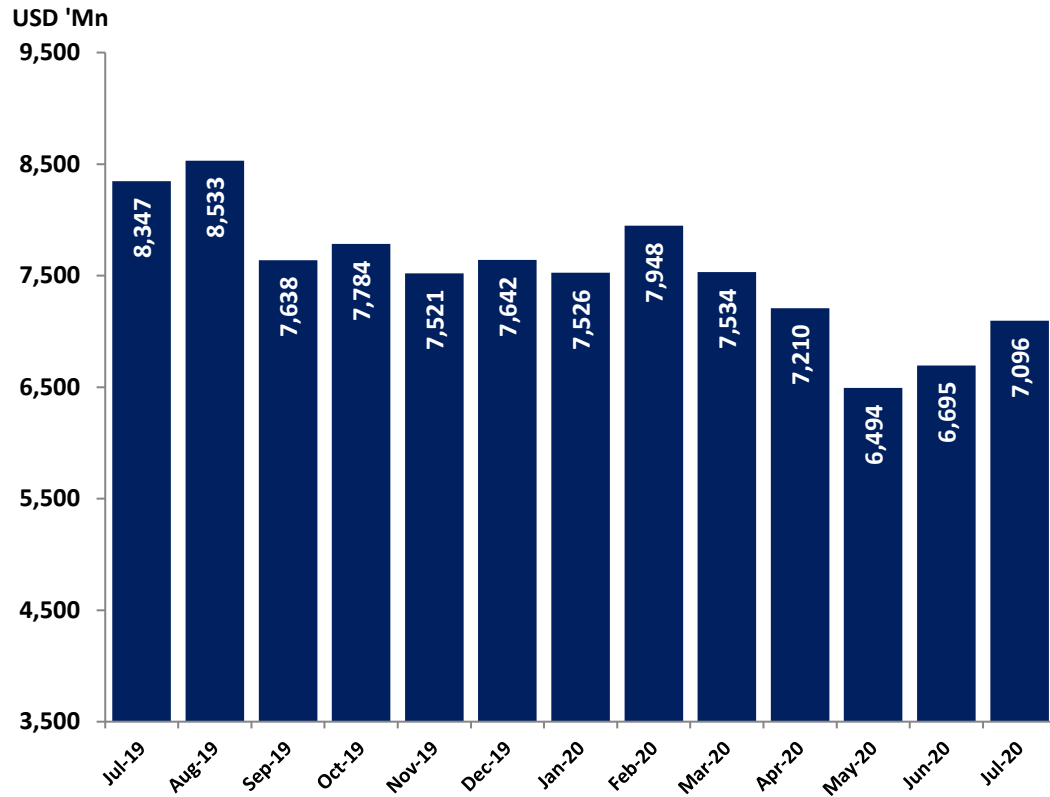


Source: CBSL

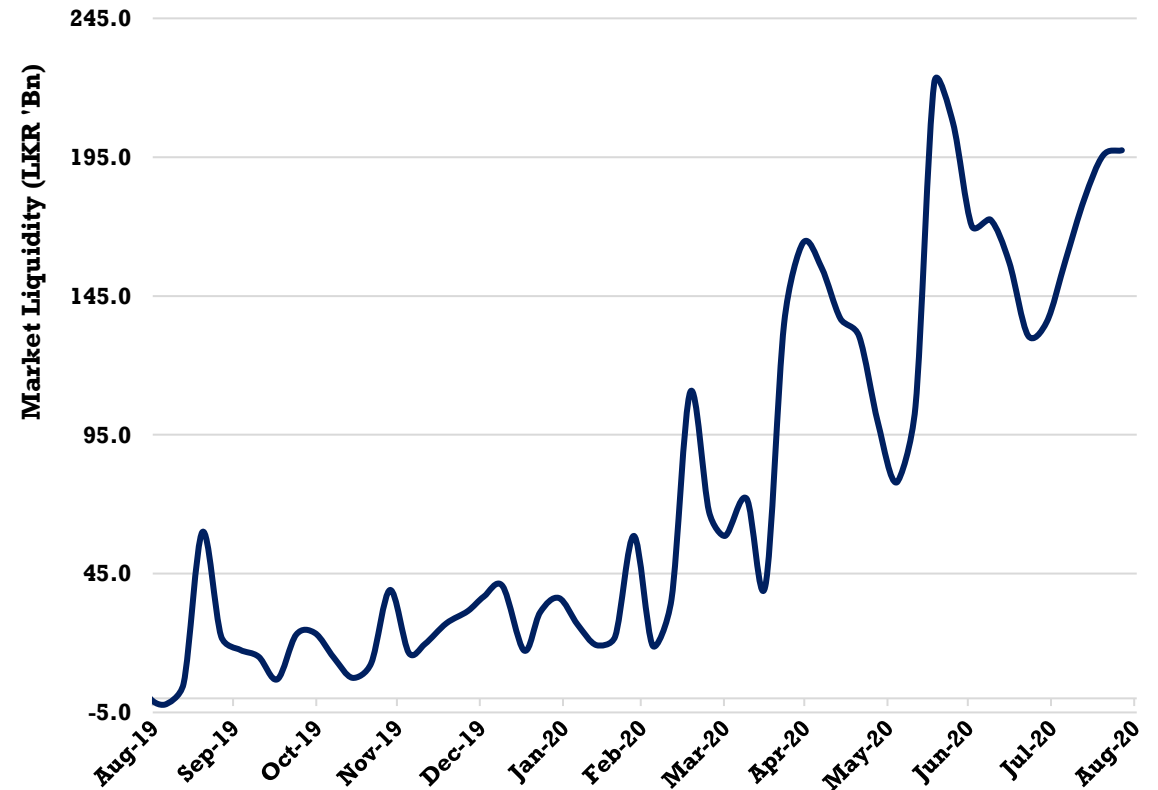
RESERVES & LIQUIDITY

- Foreign Reserves improved to USD 7.1Bn in Jul 2020 relative to USD 6.7Bn in Jun 2020 amidst the Swap with India and import controls.

- Liquidity remained positive and volatile throughout the month and recorded the highest surplus on 27th Aug amounting to LKR 201.1Bn.



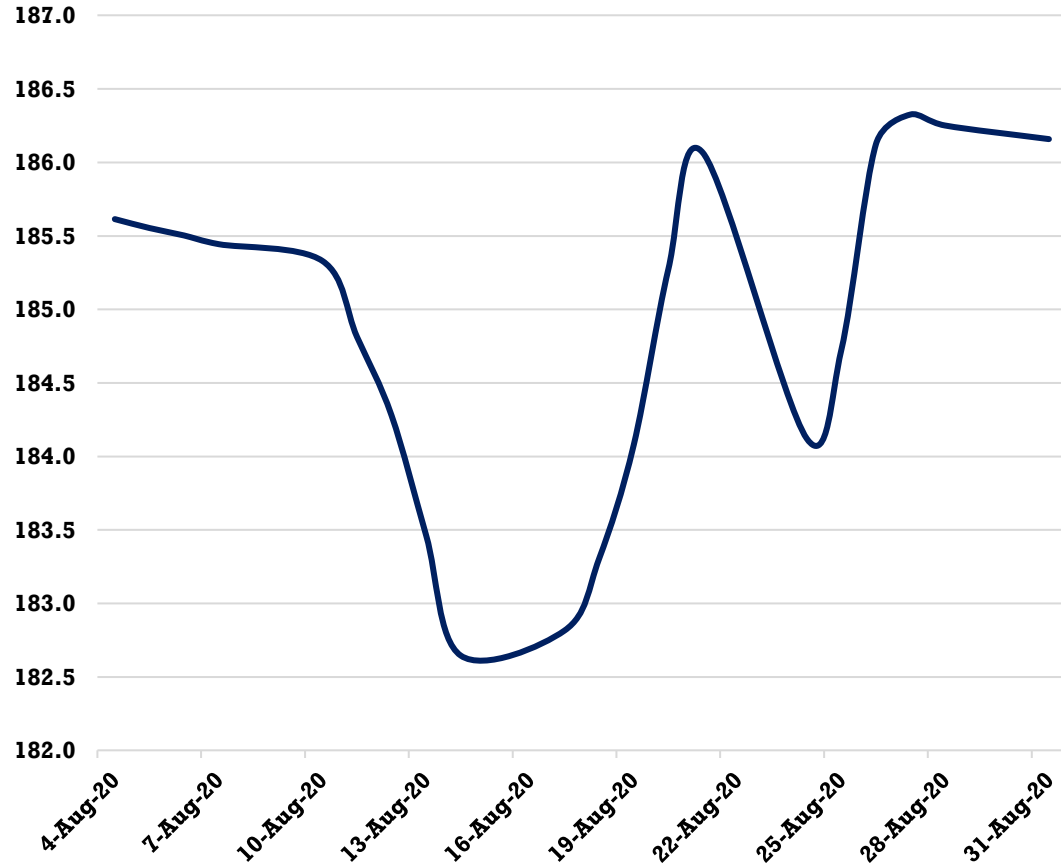
Source: CBSL



Source: CBSL

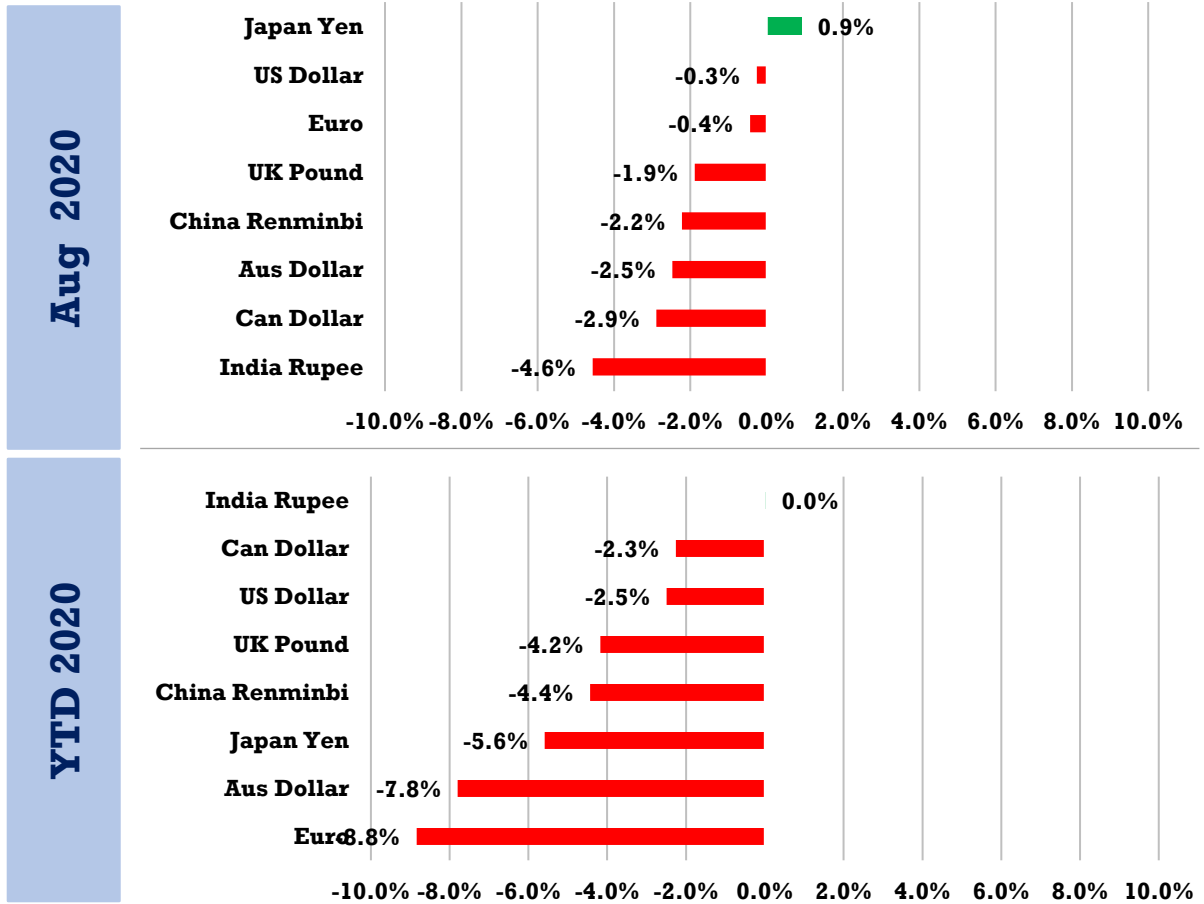
CURRENCY MOVEMENT

USD:LKR Movement



Source: CBSL

Sri Lankan Rupee vs Global Currencies



Source: CBSL

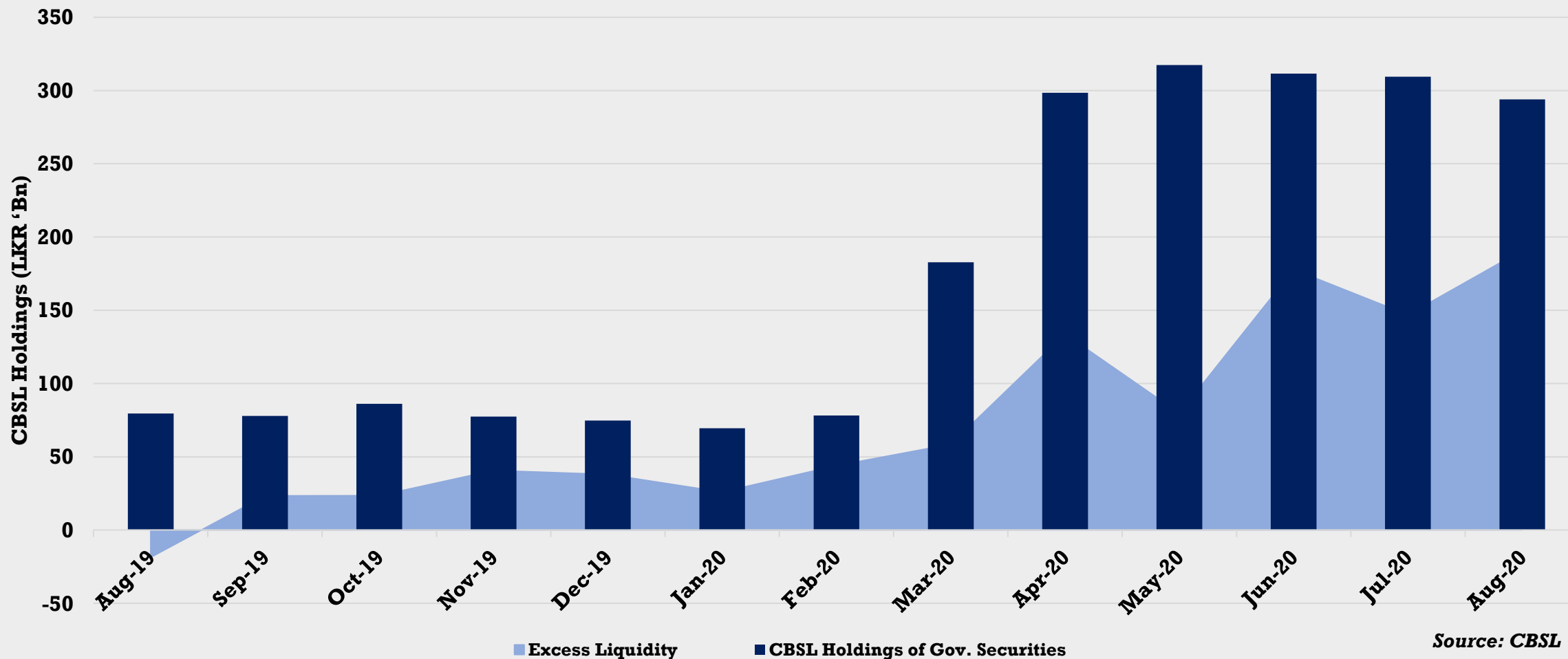
GOVERNMENT SECURITIES – NEW ISSUES

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
7-Aug-20	24,710	103,210	127,920
14-Aug-20	36,500		36,500
21-Aug-20	40,000		40,000
28-Aug-20	40,000		40,000
Total Issued			244,420

	Aug 2020	YTD
Maturities	195,122	1,046,840
New Issues	244,420	1,493,940
Excess/(Deficit)	49,298	447,100

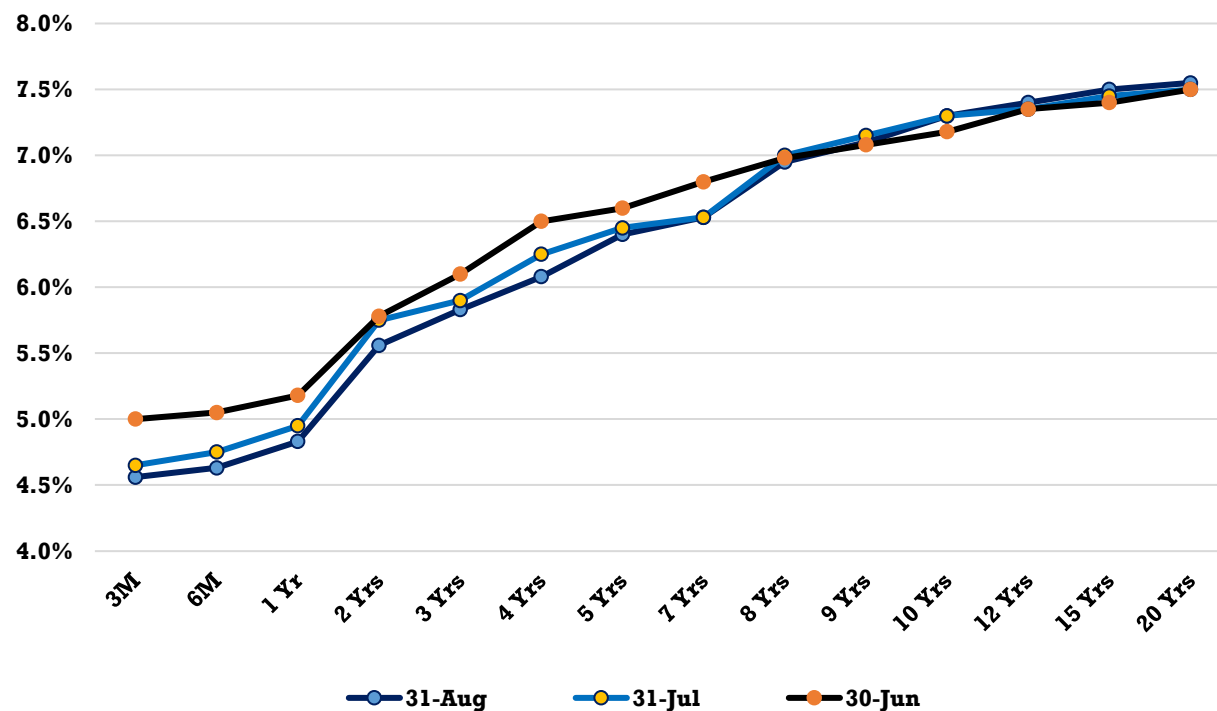
CBSL Holdings of Gov. Securities	YTD	
As at End Aug 2020	293,874	
As at End Jul 2020	309,414	
Increase/ (Decrease)	(15,540)	219,134

CBSL HOLDINGS OF GOV. SECURITIES MARGINALLY DECREASED IN AUG '20



TREASURY BILLS AND BONDS – AUG '20

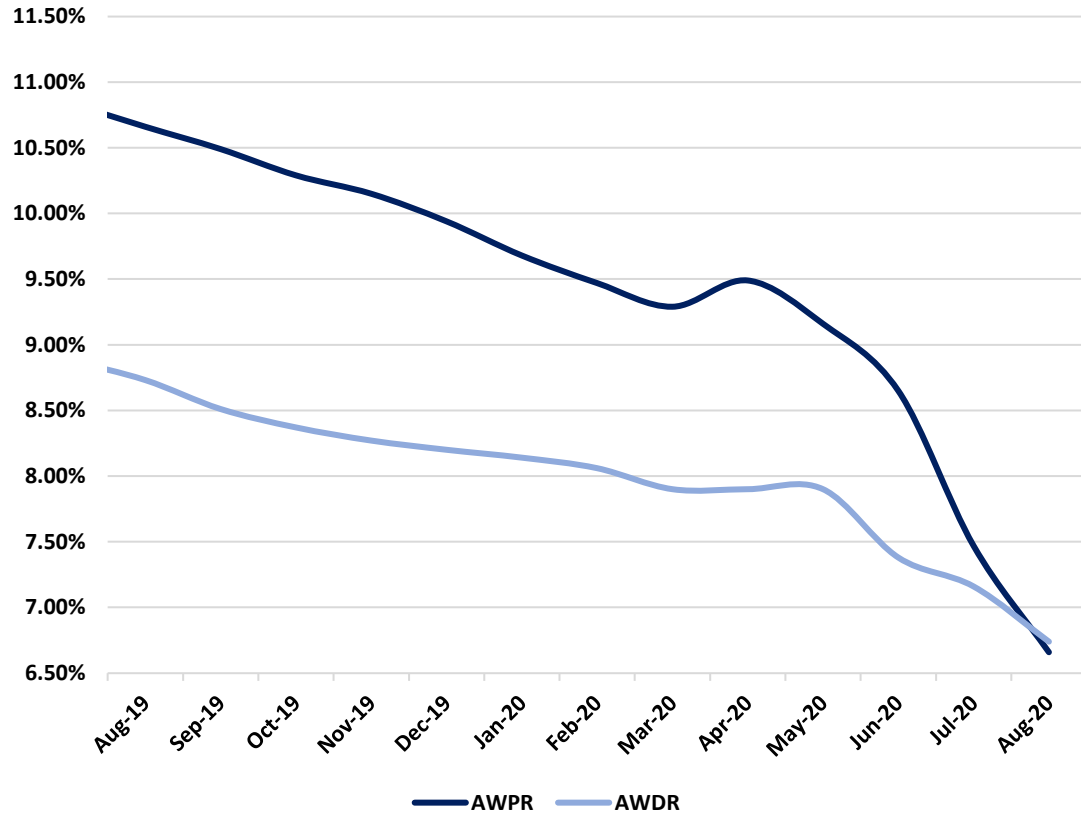
With the election tension around the corner, the secondary bond market witnessed selling pressure towards the beginning of the month as market participants remained cautious and focused on reshaping portfolios. Accordingly, on the bill auction on the election day, 1 Yr bill was undersubscribed as only 41% of the offered amount was accepted while the yield witnessed an 8bps increase to 4.94%. However, post elections yields eased to a certain extent although investor interest was mainly on the short tenor maturities resulting in a notable downward shift in the short end of the yield curve. Towards the end of the month, yields remained mostly stagnant as CBSL maintained its stance on steady policy rates.



Interest Rate Change (bps)					
Tenure	31-Aug	31-Jul	Change (bps)	30-Jun	Change (bps)
3M	4.56%	4.65%	-9	5.00%	-44
6M	4.63%	4.75%	-12	5.05%	-42
1 Yr	4.83%	4.95%	-12	5.18%	-35
2 Yrs	5.56%	5.75%	-19	5.78%	-22
3 Yrs	5.83%	5.90%	-7	6.10%	-27
4 Yrs	6.08%	6.25%	-17	6.50%	-42
5 Yrs	6.40%	6.45%	-5	6.60%	-20
7 Yrs	6.53%	6.53%	0	6.80%	-27
8 Yrs	6.95%	7.00%	-5	6.98%	-3
9 Yrs	7.10%	7.15%	-5	7.08%	2
10 Yrs	7.30%	7.30%	0	7.18%	12
12 Yrs	7.40%	7.35%	5	7.35%	5
15 Yrs	7.50%	7.45%	5	7.40%	10
20 Yrs	7.55%	7.50%	5	7.50%	5

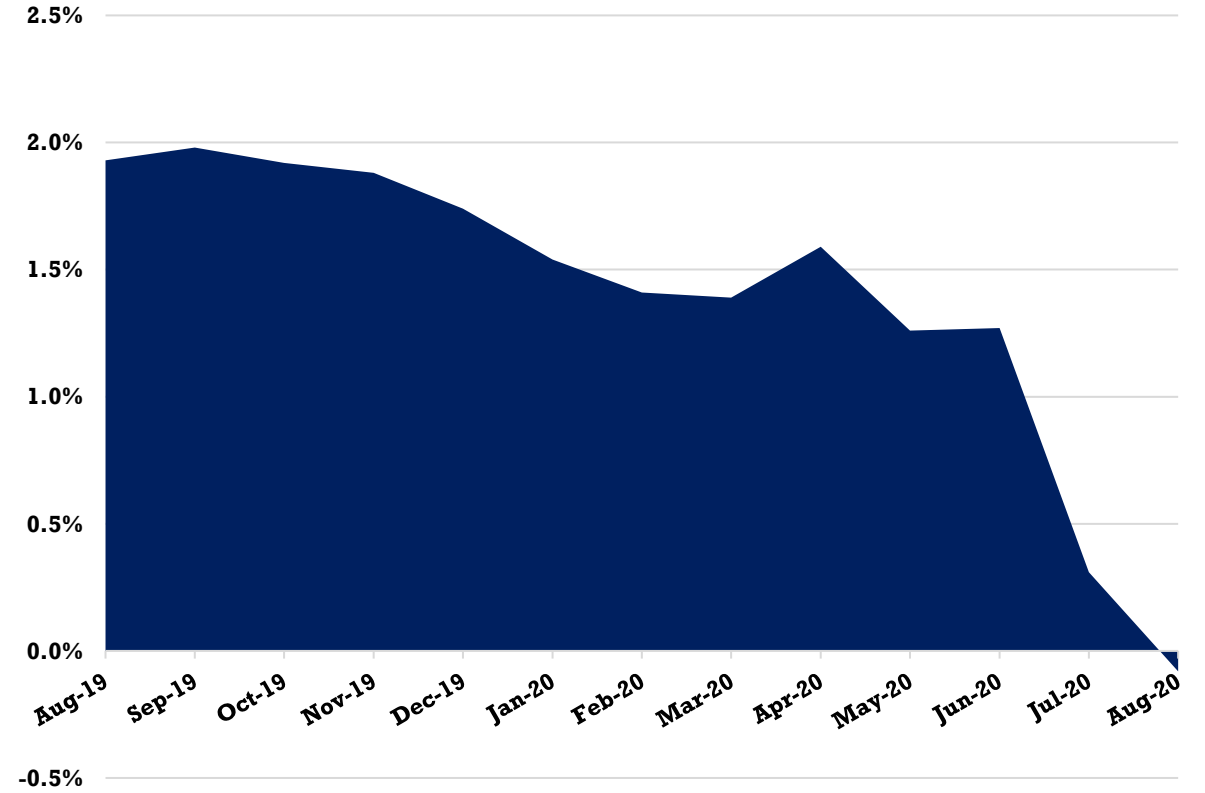
FINANCE SECTOR RATE MOVEMENTS

AWPR vs AWDR



Source: CBSL

Interest Spread

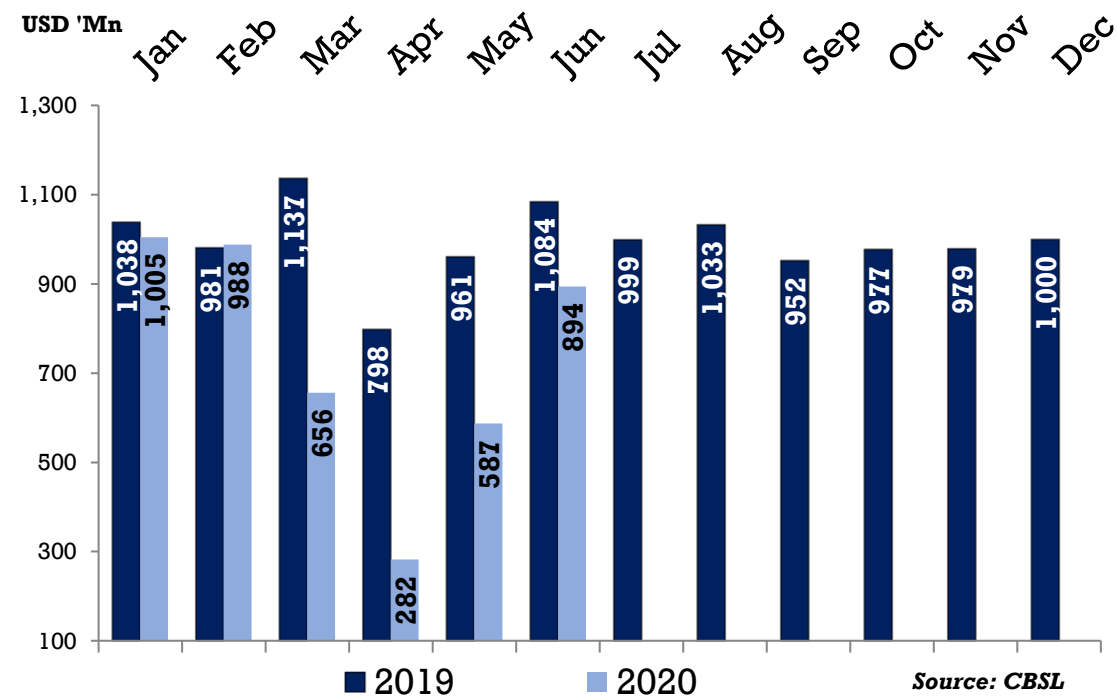


Source: CBSL

EXTERNAL SECTOR – JUN 20 – EXPORTS

Exports for Jun recorded a decline of 17.5%YoY to USD 894.1Mn mainly led by Industrial exports (-24.5%YoY). However, agricultural exports increased by 12.0%YoY. Earnings from textiles and garments contributed the most to the decline in Jun 2020, on a YoY basis, despite the increase in earnings from personal protective equipment. Earnings from most subcategories of industrial exports including transport equipment, petroleum products, gems, diamonds and jewellery and animal fodder declined, YoY, during the month. Earnings from agricultural exports increased led by all subcategories except for unmanufactured tobacco. Earnings from tea recorded a growth after 10 months in Jun 2020 driven by higher average export prices of tea although the volume exported recorded a minor decline.

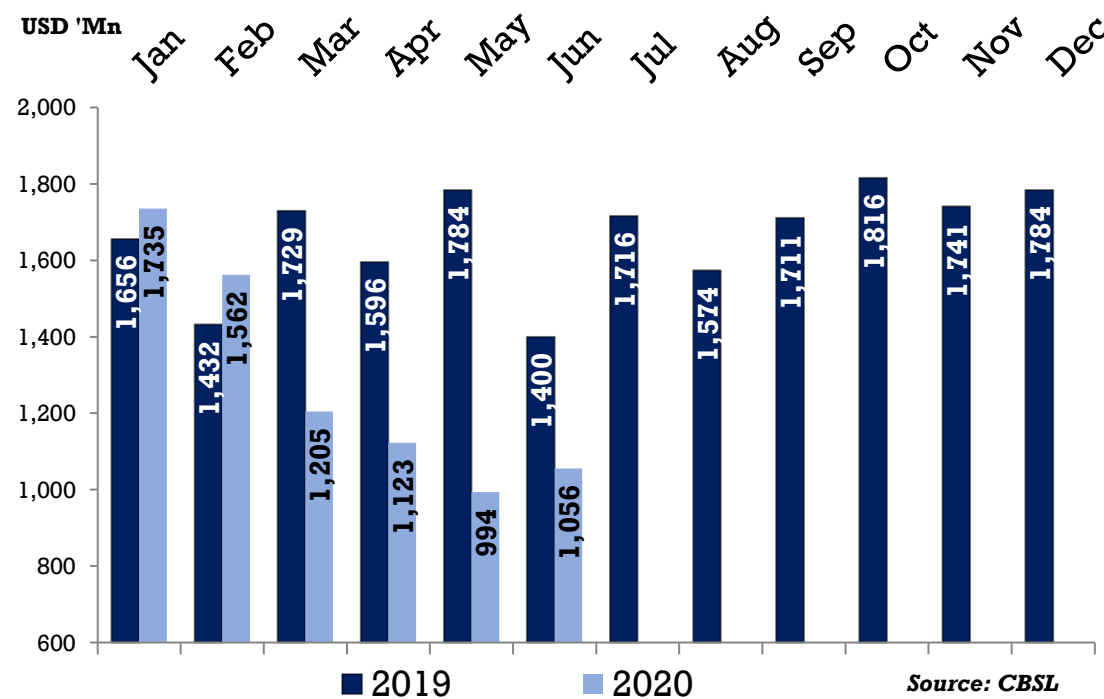
Category	2019 (USD 'Mn)	2020 (USD 'Mn)	Change (%)
Industrial Exports			
- Jun	875.4	661.3	(24.5)
- YTD	4,728.6	3,357.1	(29.0)
Agricultural			
- Jun	204.5	229.1	12.0
- YTD	1,245.1	1,039.0	(16.6)
Mineral and other			
- Jun	2.8	1.6	(42.7)
- YTD	16.7	9.7	(41.8)
Total			
- Jun	1,084.1	894.1	(17.5)
- YTD	5,999.2	4,412.8	(26.4)



EXTERNAL SECTOR – JUN 20 – IMPORTS

Import expenses for Jun declined to record at USD 1,055.5Mn (-24.6%YoY) led by the decline in all major import sectors, with intermediate (-33.0%YoY) and investment goods (-19.4%YoY) imports declining the most. Import of fuel in Jun 2020 declined significantly compared to Jun 2019 as a result of the decline in expenditure on refined and crude oil stemmed from both the reduction in volumes imported and the lower prices of fuel in the international market. Expenditure on imports of textile and textile articles declined significantly in Jun 2020 led by lower imports of fabric and yarn.

Category	2019 (USD 'Mn)	2020 (USD 'Mn)	Change (%)
Consumer goods			
- Jun	258.1	249.1	(3.5)
- YTD	1,811.0	1,782.1	(1.6)
Intermediate			
- Jun	842.6	564.8	(33.0)
- YTD	5,546.4	4,166.8	(24.9)
Investment goods			
- Jun	299.0	240.9	(19.4)
- YTD	2,235.6	1,715.2	(23.3)
Total			
- Jun	1,399.8	1,055.5	(24.6)
- YTD	9,596.0	7,674.6	(20.0)

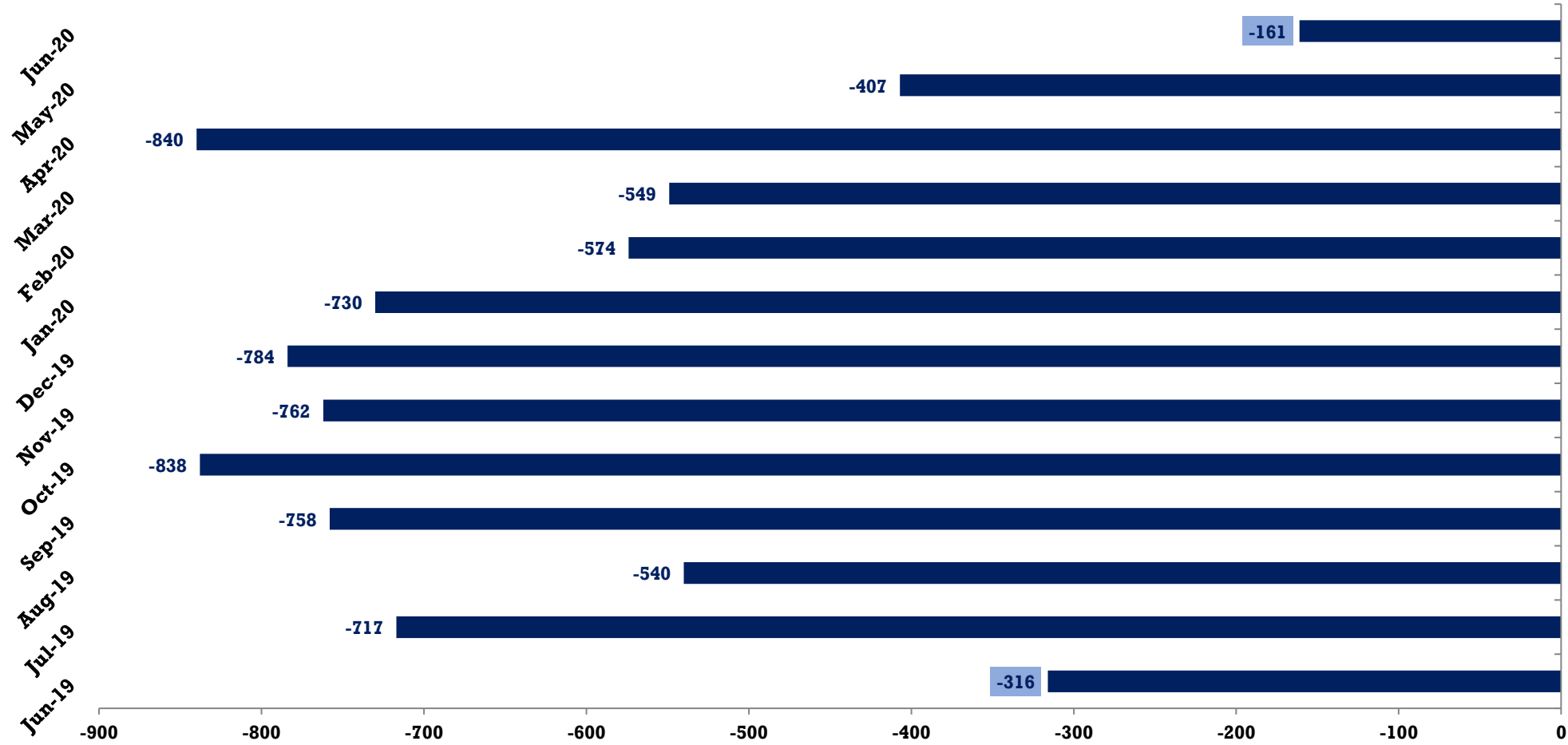


Source: CBSL

Sep 2020

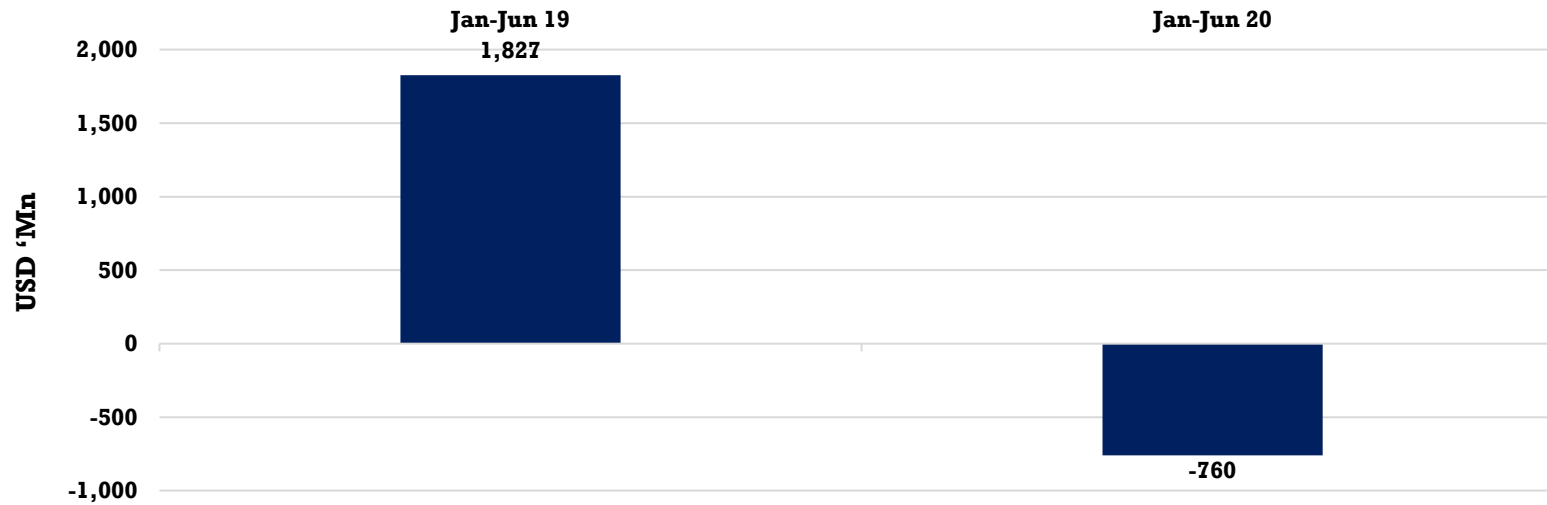
EXTERNAL SECTOR – JUN 20

Balance of Trade

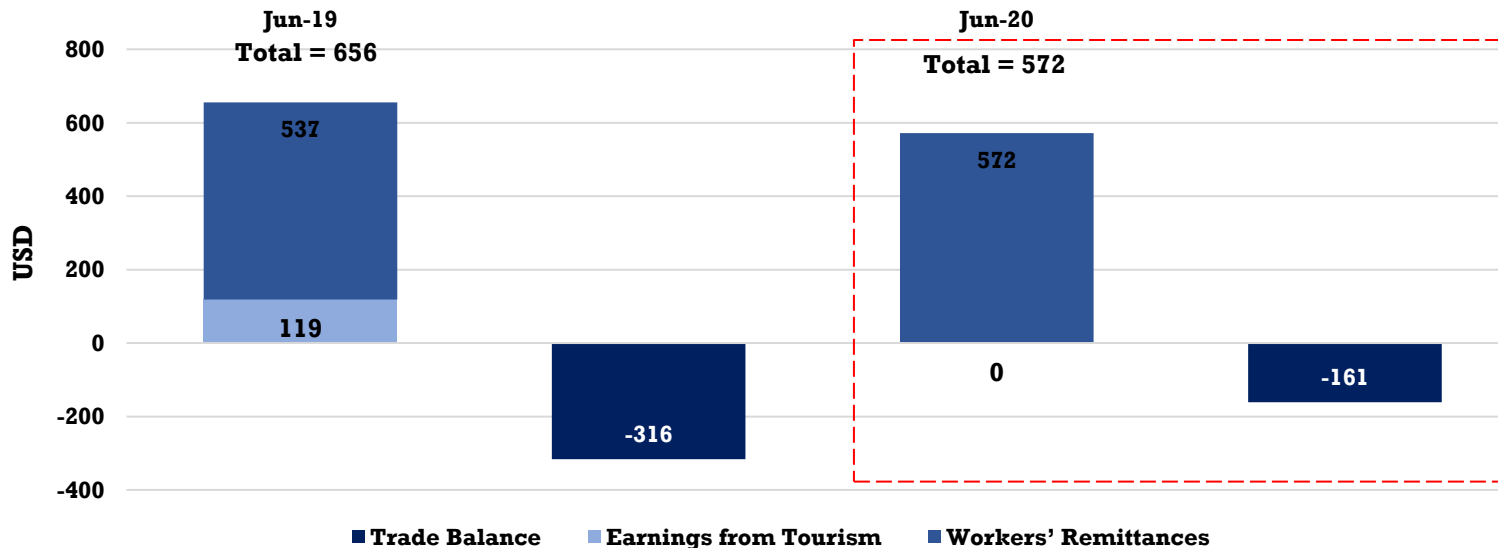


Source: Central Bank

BoP for Jan-Jun 20 recorded at USD -760.0Mn compared to Jan-May 20 amount of USD -797.0Mn indicating an inflow of USD 37.0Mn in Jun 20.



Worker Remittances increased to USD 572.0Mn (6.7%YoY). There was no earnings from tourism for the month of Jun reflecting an YoY dip of 100.0%



BALANCE OF PAYMENT DECREASED YOY IN JUN 2020

Jun USD 'Mn	2019	2020	Change (%)
Trade Balance	-316.0	-161.0	
Earnings from Tourism	119.0	0.0	-100.0
Workers' Remittances	537.0	572.0	6.7

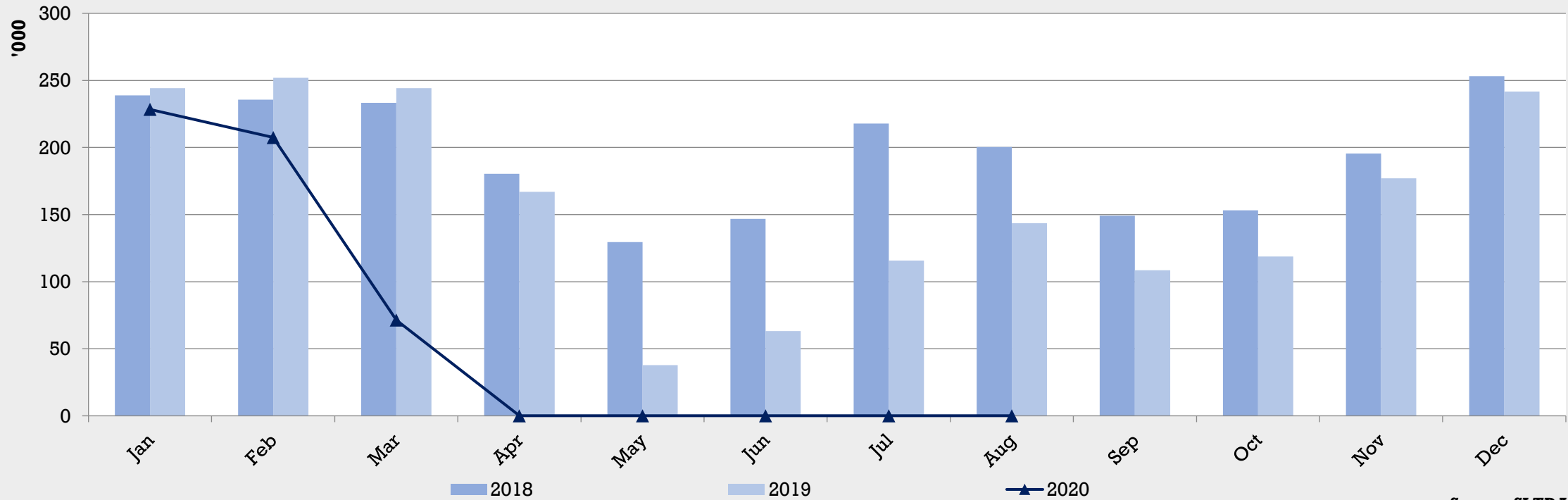
YTD USD 'Mn	2019	2020	Change (%)
Trade Balance	-3,597.0	-3,262.0	
Earnings from Tourism	1,901.0	956.0	-49.7
Workers' Remittances	3,270.0	2,980	-8.9

TOURIST ARRIVALS – AUG 2020

(0-AUG, YTD 507,311 - **DOWN 60.0%**)

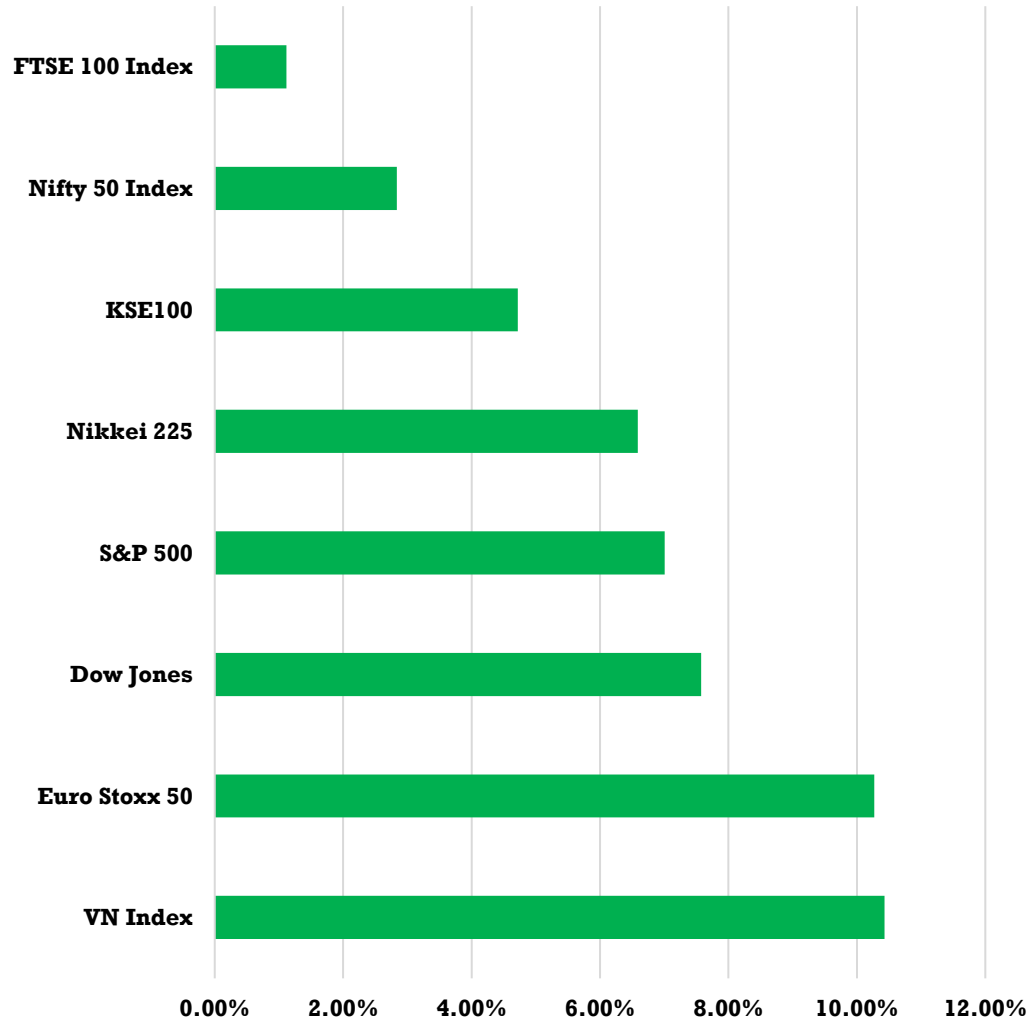
For the fifth consecutive month no tourist arrivals have been recorded due to the termination of all tourist flights & ship arrivals into Sri Lanka from 18th Mar 2020.

Tourist Arrivals



Source: SLTDA

GLOBAL MARKET



Source: Bloomberg

Singapore's economy could shrink 7.6% on-year in the third quarter, central bank survey shows

Singapore's economy is expected to shrink by 7.6% in the third quarter compared to a year ago, with the coronavirus pandemic remaining the top economic threat, according to a central bank survey of economists and analysts. That would be the Southeast Asian economy's third consecutive quarter of year-over-year contraction. But it will still be an improvement from the second quarter's 13.2% decline versus a year ago — which is the country's worst quarterly contraction on record, data by the Singapore Department of Statistics showed.

www.cnbc.com

The U.S. needs \$3 trillion in fiscal stimulus to support coronavirus-hit economy, says economist

The U.S. needs around \$3 trillion in fiscal stimulus to support its pandemic-hit economy, an economist said Thursday as Congress and the White House remain in a stalemate over what to include in the next relief package. William Lee, chief economist at Milken Institute, said the \$3 trillion should be spent on programs such as incentivizing businesses to increase remote working capabilities and helping the unemployed find jobs in companies with viable business models.

www.cnbc.com

Japan's rebounding July machinery orders tempered by fragile business outlook

Japan's machinery orders rebounded in July from a sharp fall in the previous month, a welcome relief for the coronavirus-stricken economy but the outlook for capital spending remained uncertain due to fragile global business conditions. Corporate Japan is facing strains from steep declines in earnings, discouraging business investment as the economy grapples with its worst postwar slump. Corporate Japan is facing strains from steep declines in earnings, discouraging business investment as the economy grapples with its worst postwar slump.

www.reuters.com

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Thank You

“Successful Investment Is About Managing Risk...”