



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Apr 2022

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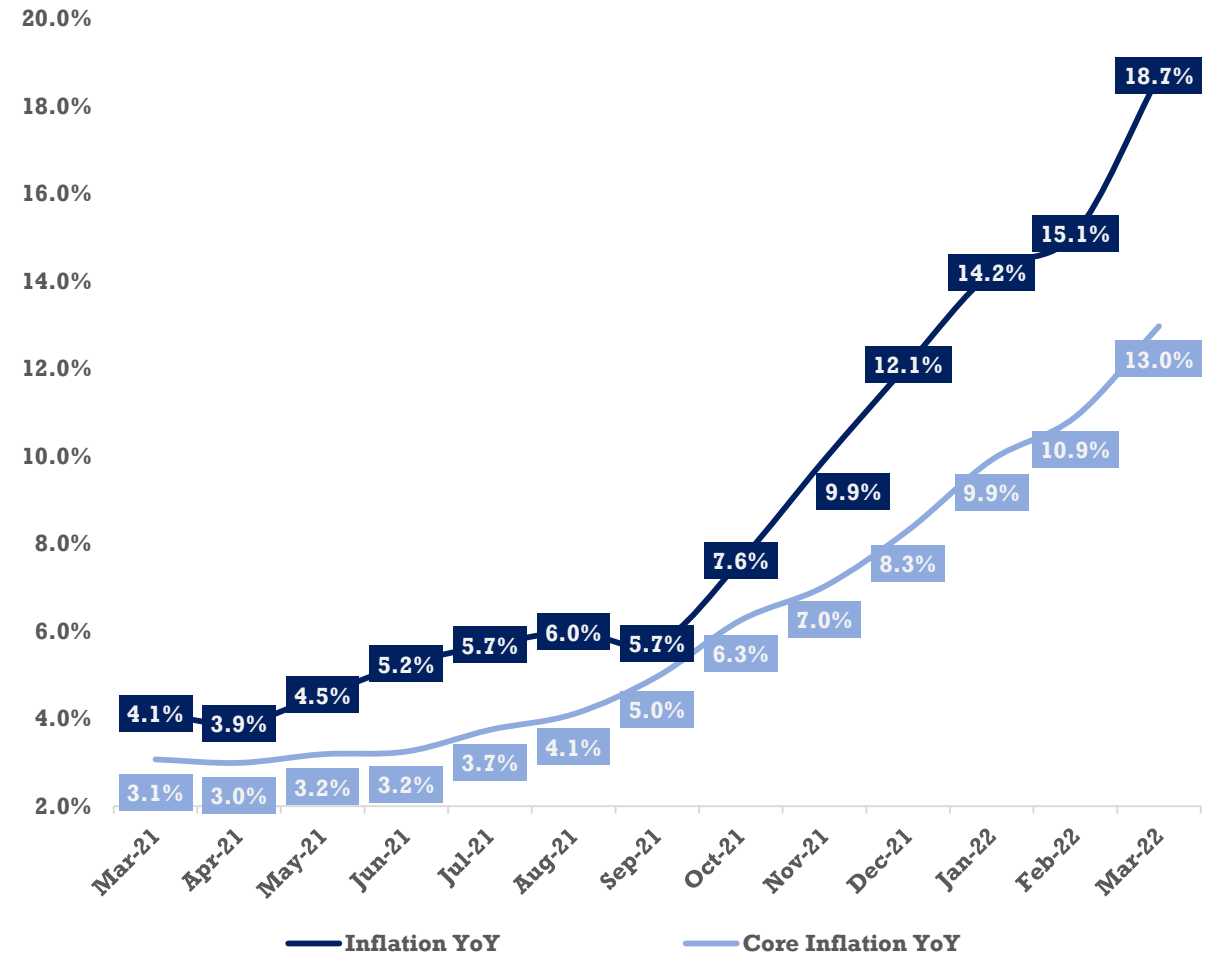
THE CENTRAL BANK OF SRI LANKA SIGNIFICANTLY TIGHTENS ITS MONETARY POLICY STANCE TO STABILISE THE ECONOMY

- The Monetary Board of the Central Bank of Sri Lanka (CBSL), at its meeting decided to increase the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 700bps to 13.5% and 14.5%, respectively effective from the close of business on 08 Apr 2022.
- The Monetary Board also decided to remove caps imposed on lending interest rates applicable to credit cards, pre-arranged temporary overdrafts, and pawning facilities to facilitate the effective transmission of the policy adjustment.
- The Board, having noted the inflationary pressures that could further intensify in the period ahead, driven by the build-up of aggregate demand, domestic supply disruptions, exchange rate depreciation and the elevated prices of commodities globally, was of the view that a substantial policy response is imperative to arrest the buildup of added demand driven inflationary pressures in the economy and preempt the escalation of adverse inflationary expectations, to provide the required impetus to stabilise the exchange rate and also to correct anomalies observed in the market interest rate structure.
- The Central Bank and the Government have already begun working closely with the International Monetary Fund (IMF) to formulate a sustainable solution to overcome the macroeconomic challenges faced by the country at present.

INFLATION – CCPI

**CCPI FOR MAR 2022:
MOM +3.0%,
YOY +18.7%**

- MoM inflation increased by 3.0% with the increase in expenditure value of Food items by 1.9% and the increase of Non-Food items by 3.6%.
- The YoY inflation increased to 18.7% in Mar 2022. YoY inflation of Food group has increased to 30.2% in Mar 2022 from 25.7% in Feb 2022 while Non-Food group increased to 13.4% from 10.1% in Feb 2022.



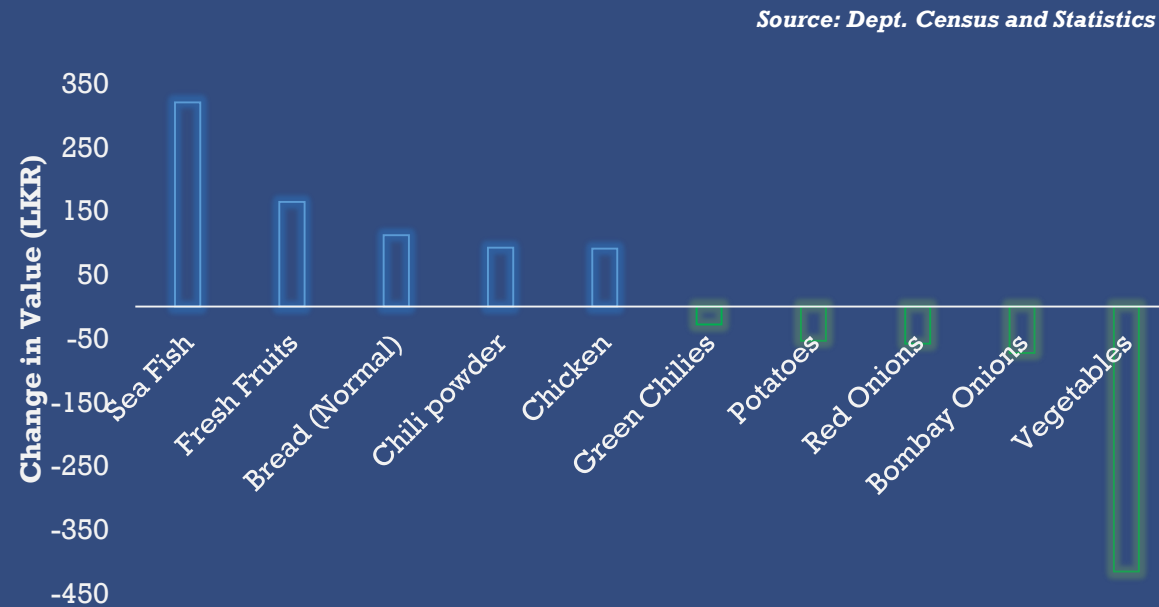
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

The CCPI index recorded an increase of 3.0%MoM contributed by the increase in expenditure value of Food items by 0.67% and Non-Food items by 2.33%. Within the Food items, increase in value changes were mainly reported for Sea Fish, Fresh Fruits, Bread (Normal), Chilli powder, Chicken and etc. Among Non-Food groups, increases in value changes were reported for the groups of Transport, Health, Clothing and Foot Wear, Miscellaneous Goods and Services, Restaurant and Hotels and etc.

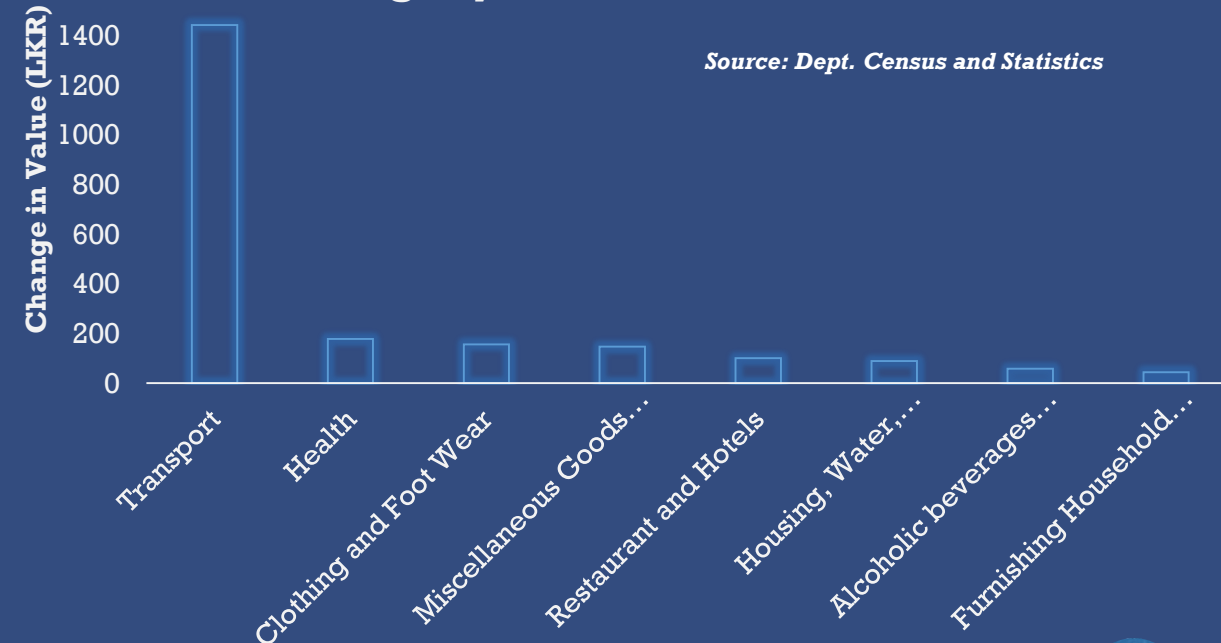


Food Category Inflation



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Non-Food Category Inflation



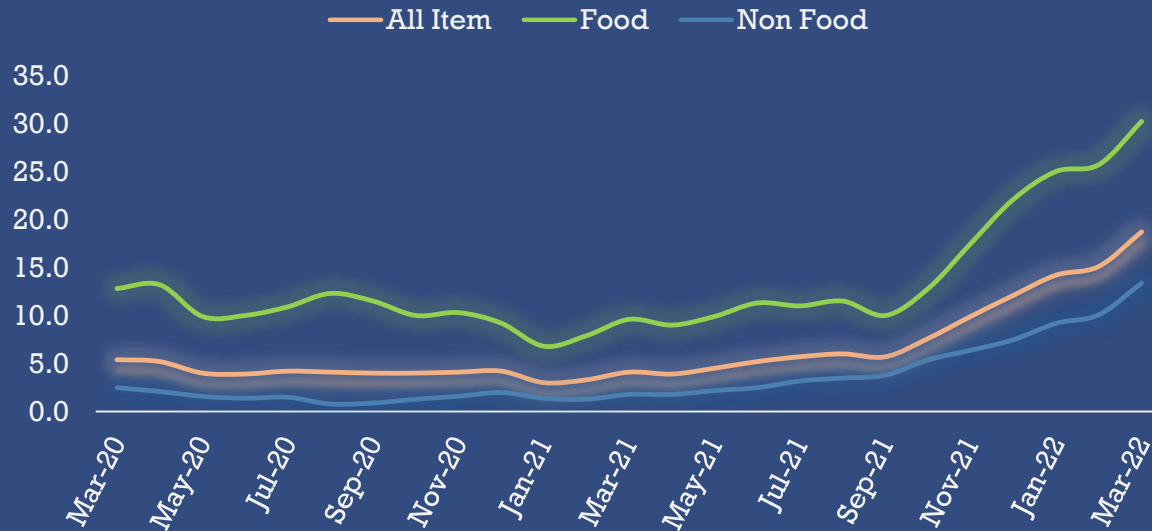
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INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Mar was 18.7% and has increased relative to the month of Feb. Food item prices have increased to 30.2%YoY in Mar 2022 from 25.7%YoY in Feb 2022 while the Non-Food item prices have increased to 13.4%YoY from 10.1%YoY in Feb 2022. The contribution from food category for YoY inflation was 9.25% while the contribution of Non-Food items stood at 9.23% mainly due to the increase in Restaurant & Hotels, Housing, Water, Electricity, Gas & Other Fuels, Transport, Health, Miscellaneous Goods and Services.

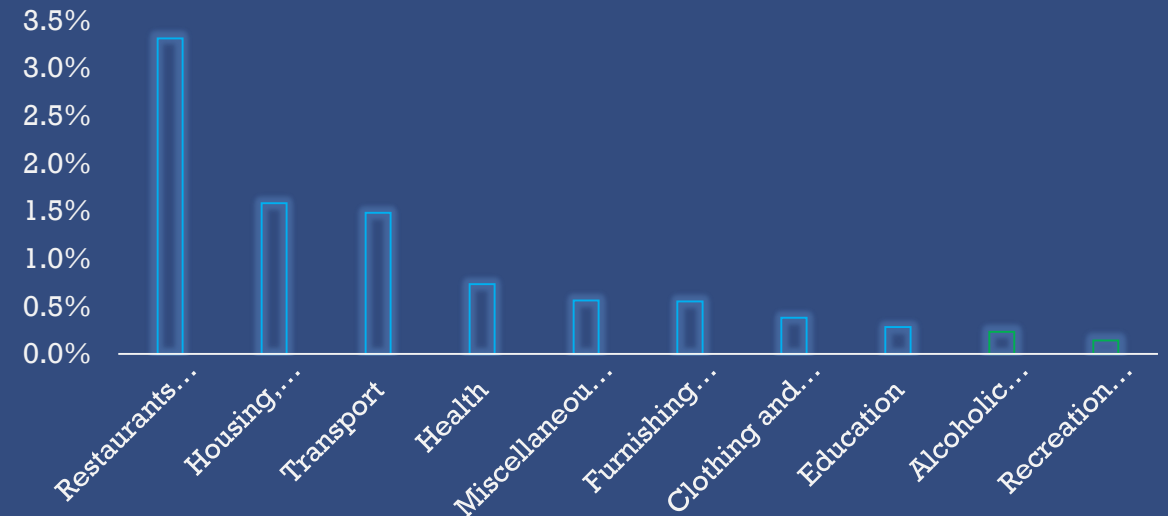


Inflation Analysis (YoY)



Source: Dept. Census and Statistics

Non-Food Category Inflation

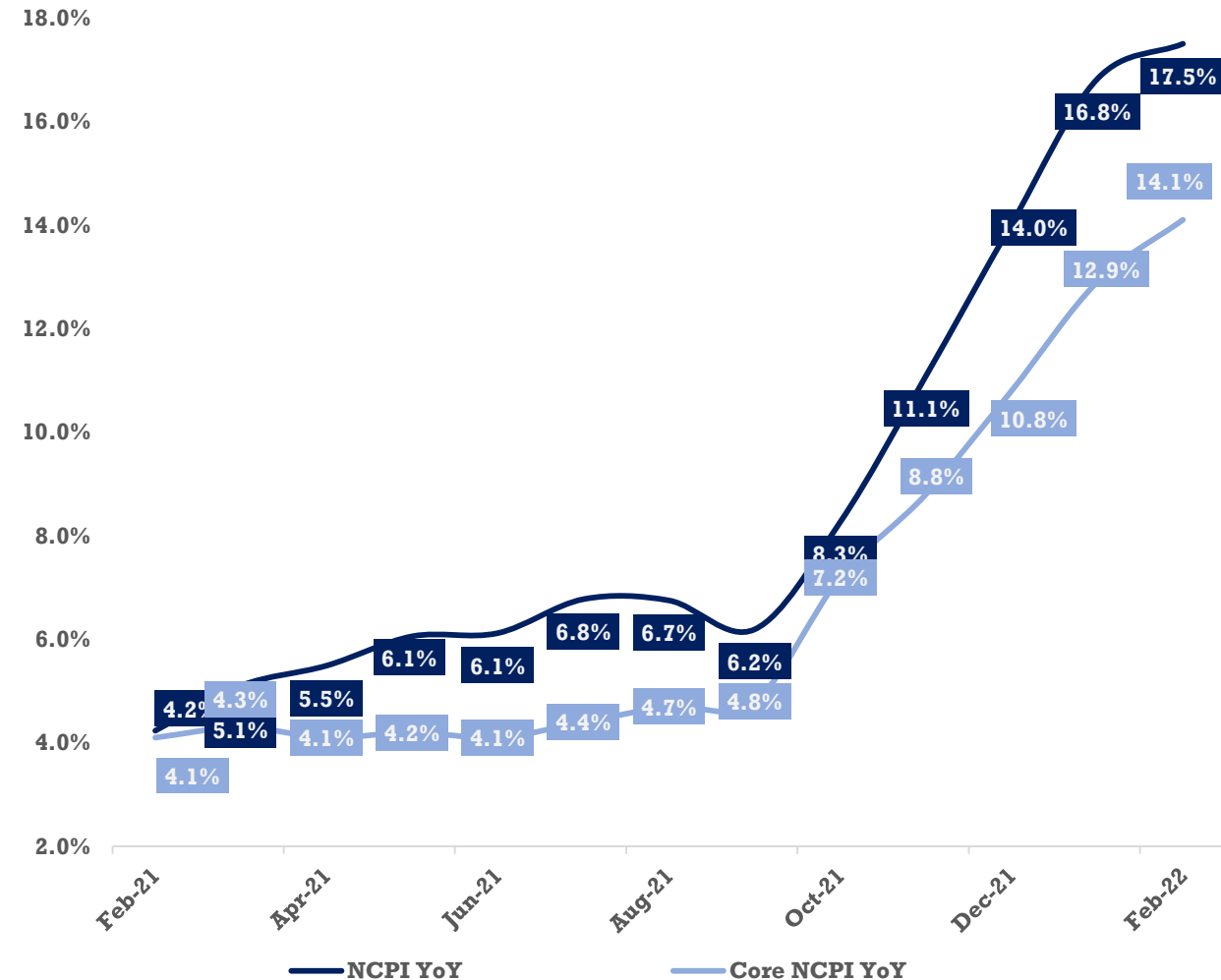


Source: Dept. Census and Statistics

INFLATION – NCPI

NCPI FOR FEB 2022: INCREASED TO 17.5%YOY

- NCPI for Feb 2022 increased to 17.5% compared to Jan 2022.
- Increase in inflation was mainly driven by the price increases in both Food commodities and Non-Food commodities. Accordingly, YoY Food inflation increased from 24.4% in Jan 2022 to 24.7% in Feb 2022 while Non-Food inflation increased from 10.2%YoY in Jan 2022 to 11.0% in Feb 2022.



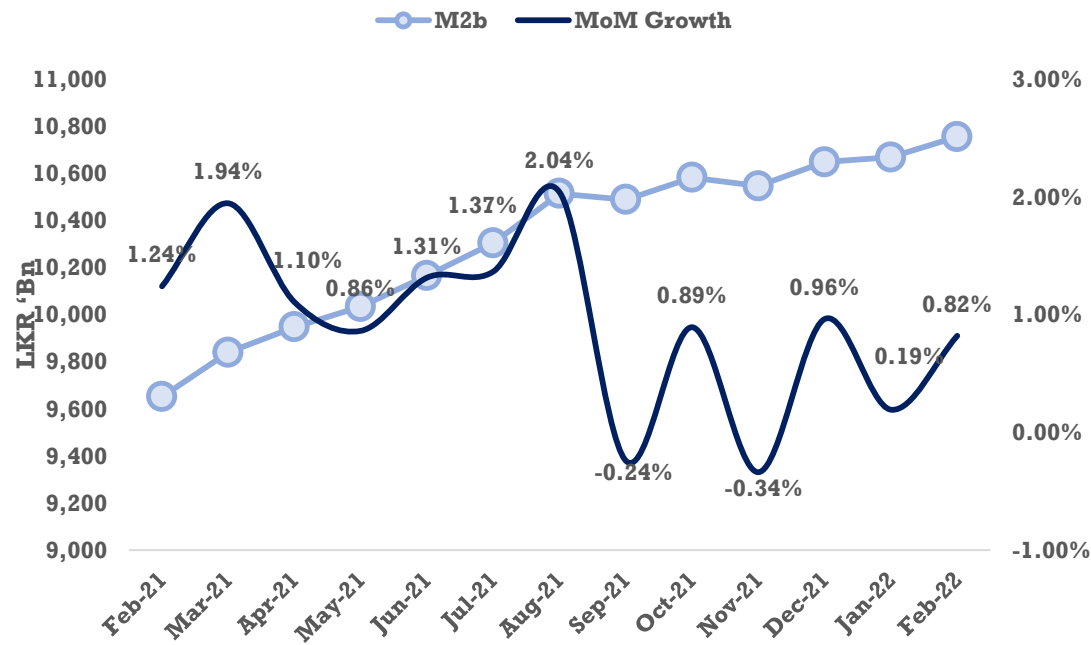
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit improved by LKR 33.5Bn in Feb 2022 sustaining the positive growth momentum for the 18th consecutive month. State credit reflected a net borrowing of LKR 94.6Bn.

M2b Growth – Feb 2022

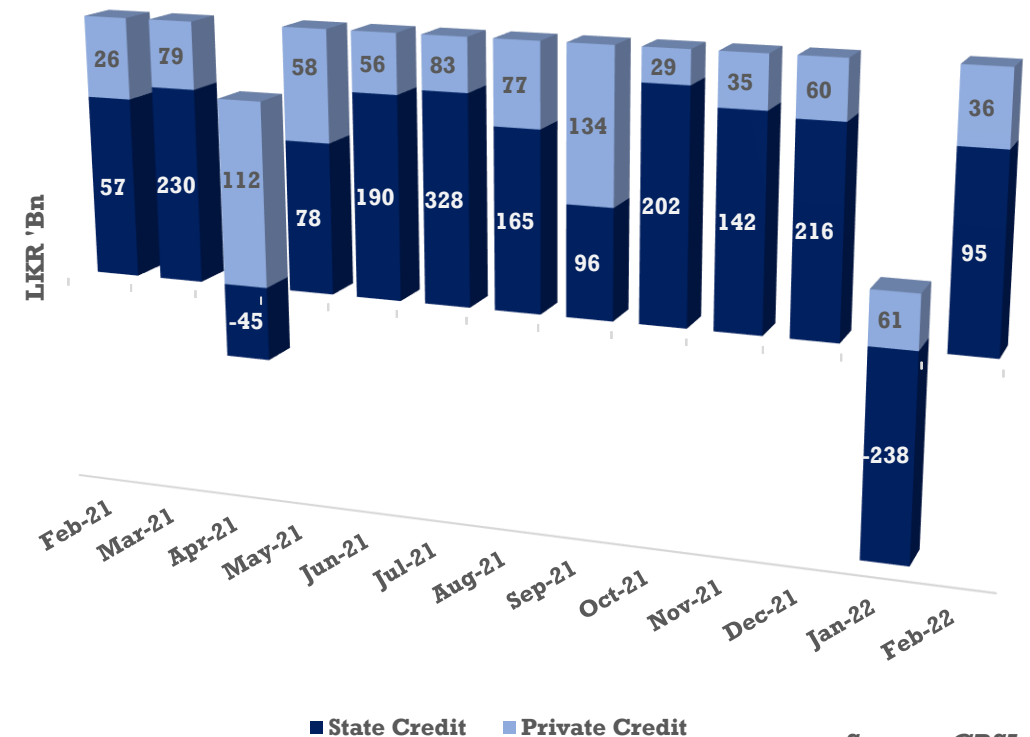
MoM +0.8%, YoY +11.4%, YTD +1.0%



Source: CBSL

State Credit & Private Credit – Feb 2022

Private Credit MoM +0.5%, YoY +12.3%, YTD +1.0%



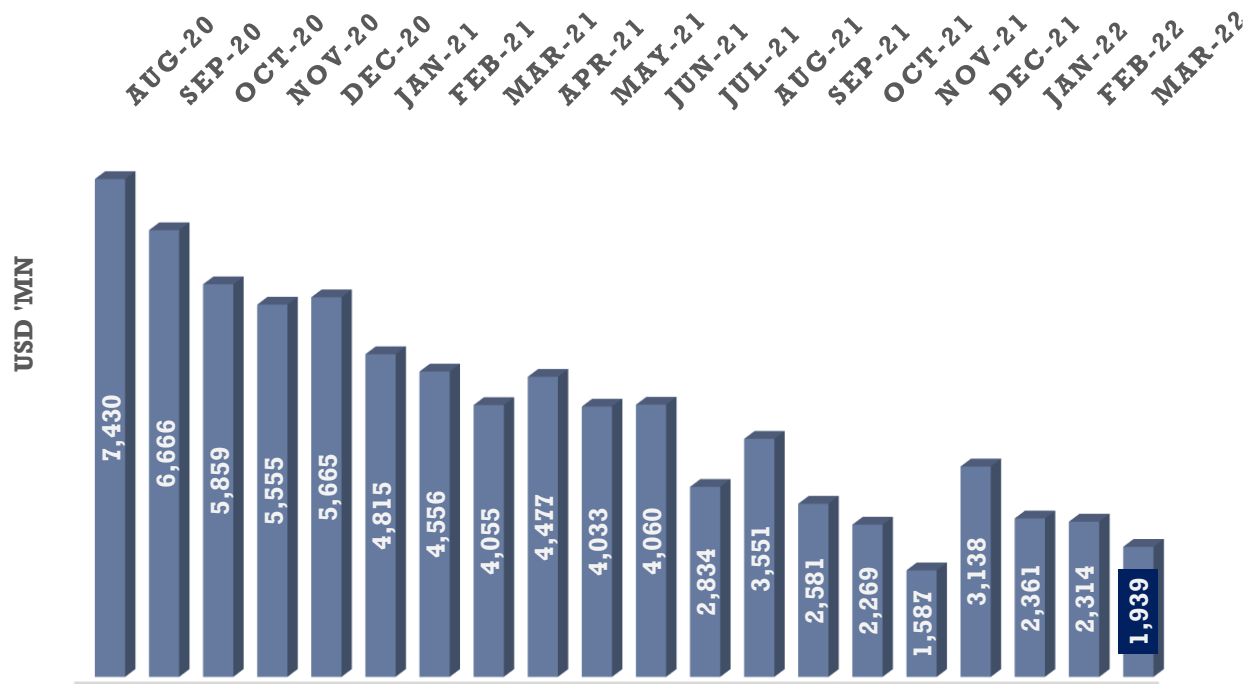
■ State Credit ■ Private Credit

Source: CBSL

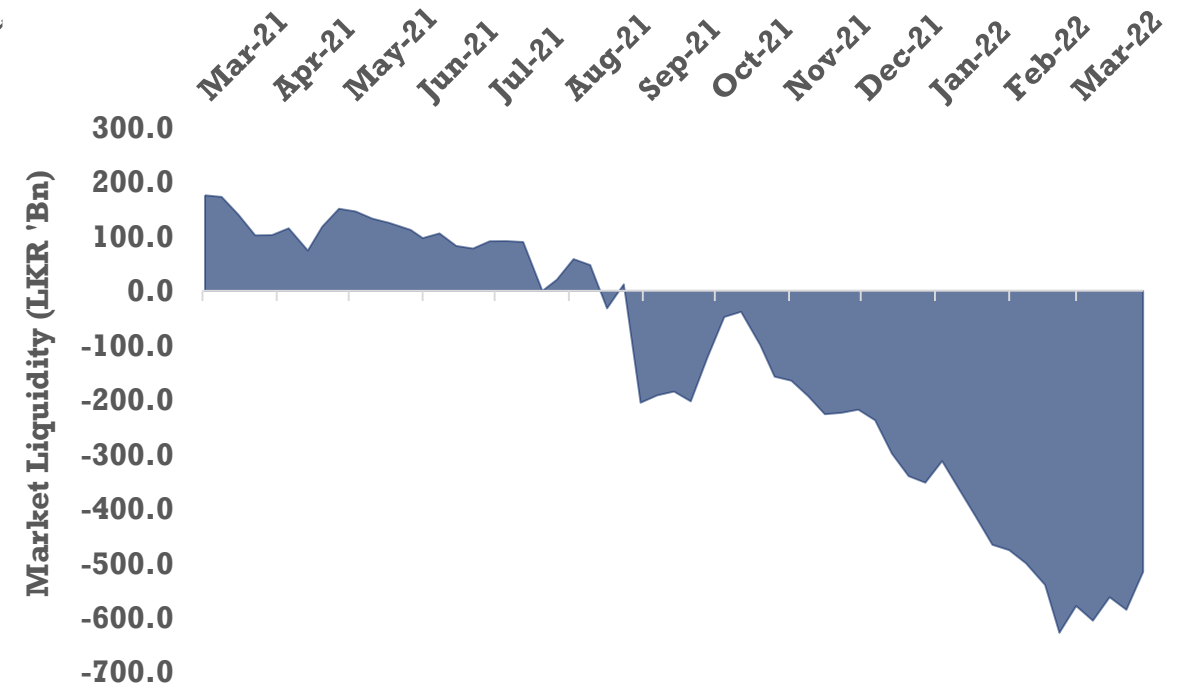
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LIQUIDITY & RESERVES

- Foreign Reserves declined to USD 1.9Bn in Mar 2022 relative to USD 2.3Bn in Feb 2022 amidst the soaring import bills and inadequate foreign inflows.
- Market liquidity remained negative and witnessed a slight volatility during Mar 2022.



Source: CBSL



Source: CBSL
Apr 2022

CURRENCY MOVEMENT

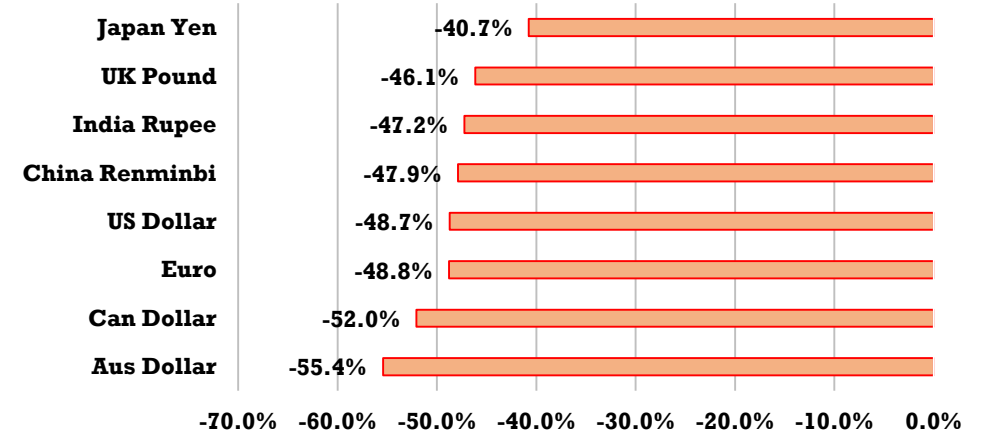
USD:LKR Movement



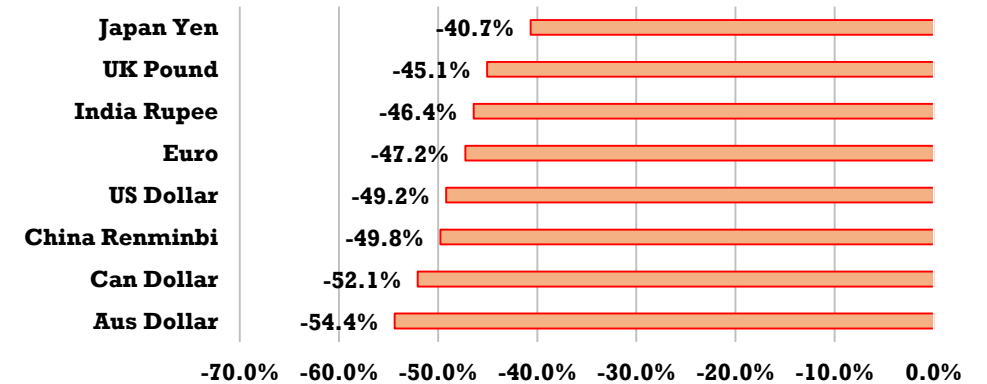
Source: CBSL

Sri Lankan Rupee vs Global Currencies

Mar 2022



YTD 2022

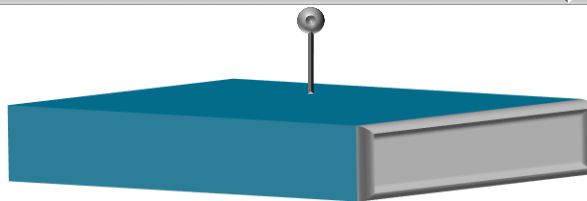


Source: CBSL

GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Mar 2022

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
4-Mar-22	35,953	32,400	68,353
11-Mar-22	60,000		60,000
18-Mar-22	54,838	74,059	128,897
25-Mar-22	56,500		56,500
Total Issued			313,750

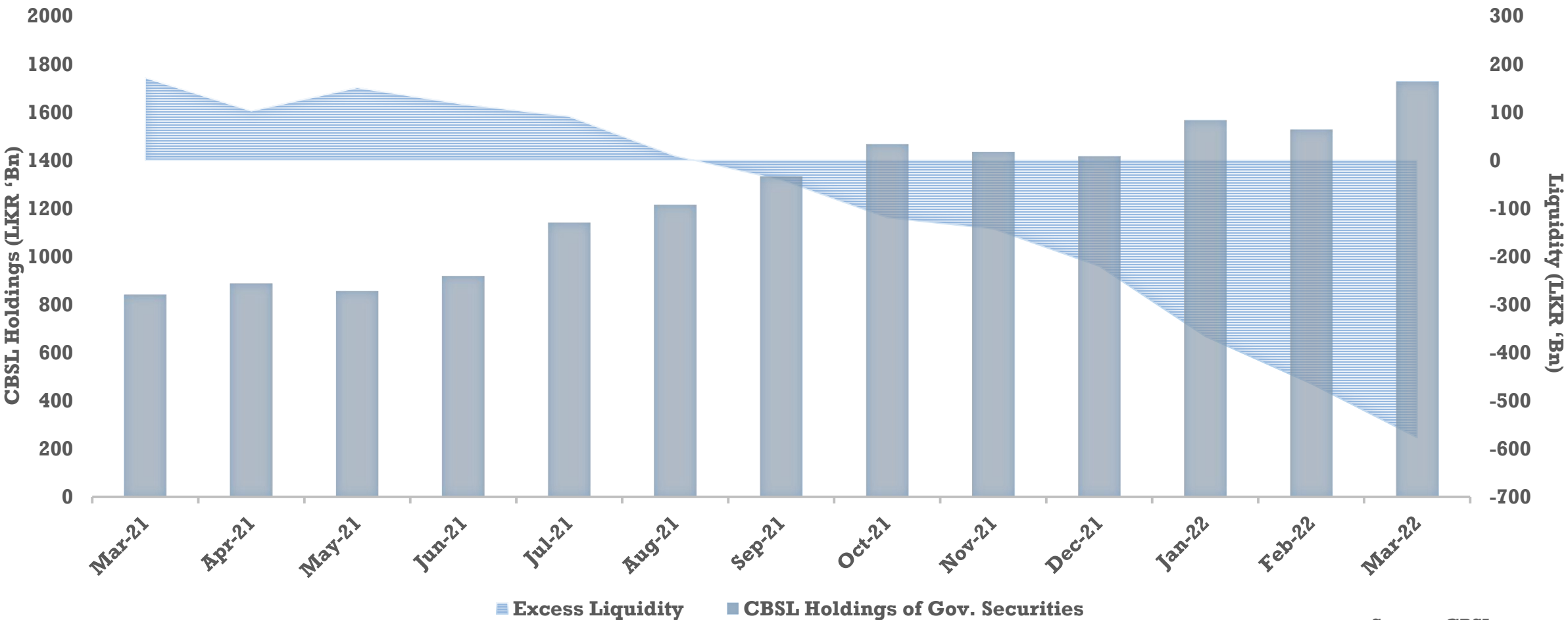


Net Settlement	Mar 2022	YTD
Maturities	410,339	1,329,868
New Issues	313,750	1,132,656
Excess/ (Deficit)	(96,589)	(197,212)

CBSL Holdings of Gov. Securities		YTD
As at End Mar 2022	1,727,838	
As at End Feb 2022	1,527,638	
Increase/ (Decrease)	200,200	311,086

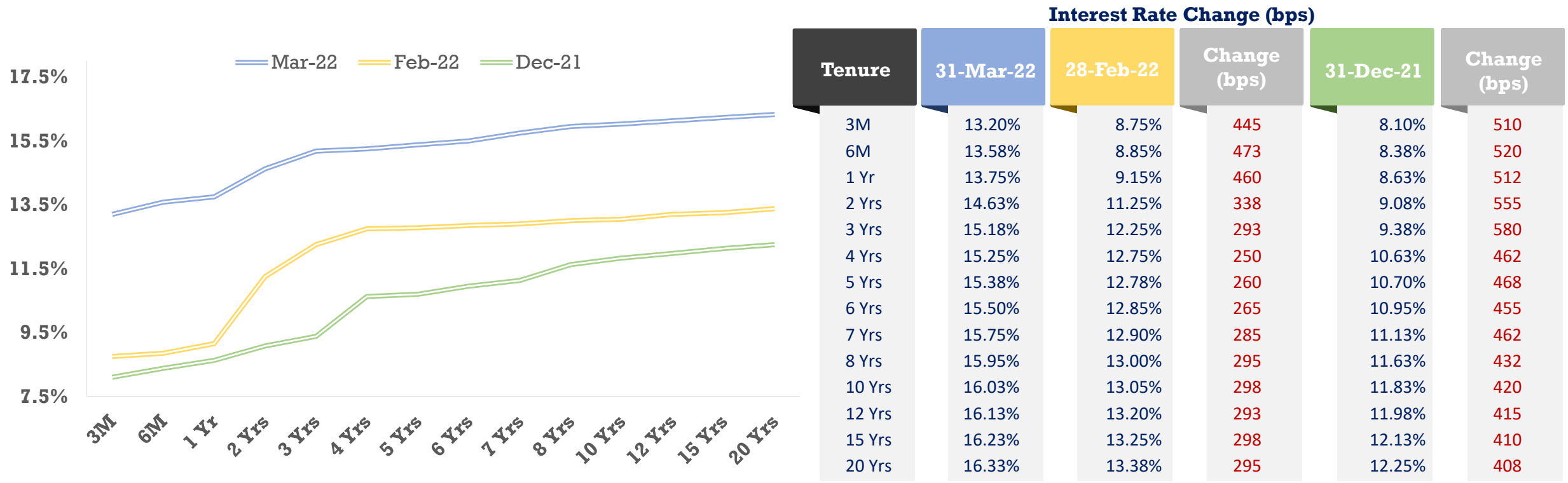
CBSL HOLDINGS OF GOV. SECURITIES...

...increased by LKR 200.2Bn in Mar 2022



TREASURY BILLS AND BONDS – MAR '22

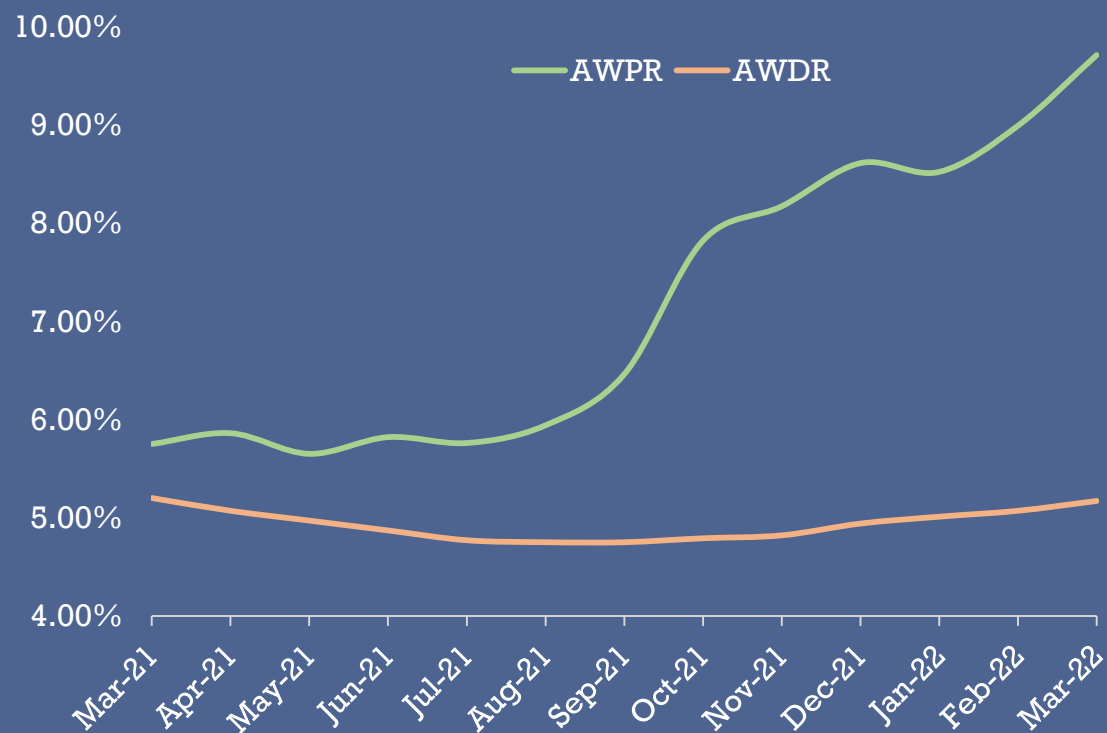
During the month of Mar, the secondary market yield curve displayed an unprecedented spike over 400bps on all the maturities. In the beginning of the month, yield curve slightly edged up towards belly-long end maturities while market participants opted to be on the sidelines. As the political and economic uncertainty mounted from the mid of the month, yields spiked upwards while the weekly bill auction yields continued to further advance. Out of the five bill auctions held during the month, only three auctions were fully accepted whereas out of the two bond auctions held, one was fully rejected.



Source: First Capital Research

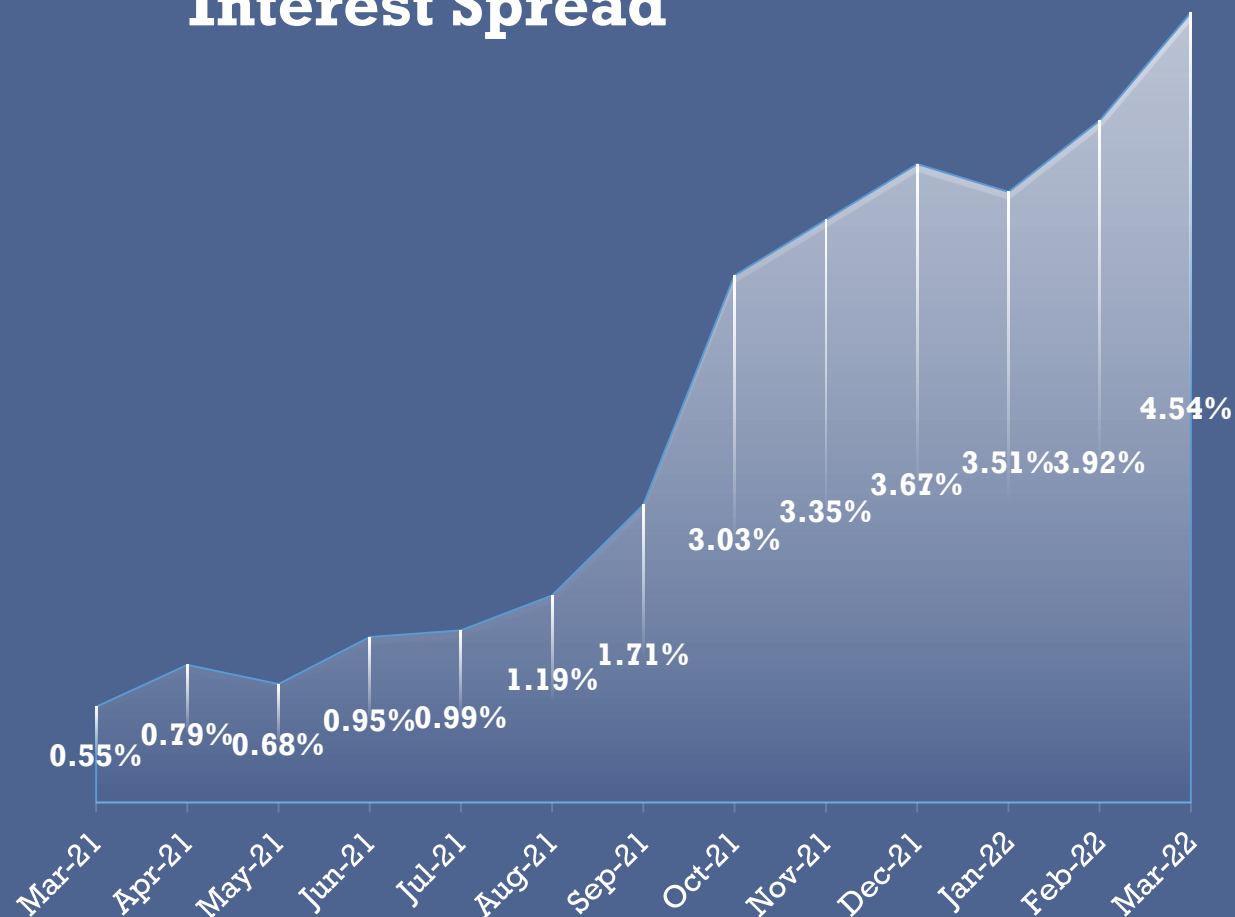
Source: First Capital Research

AWPR vs AWDR



Source: CBSL

Interest Spread



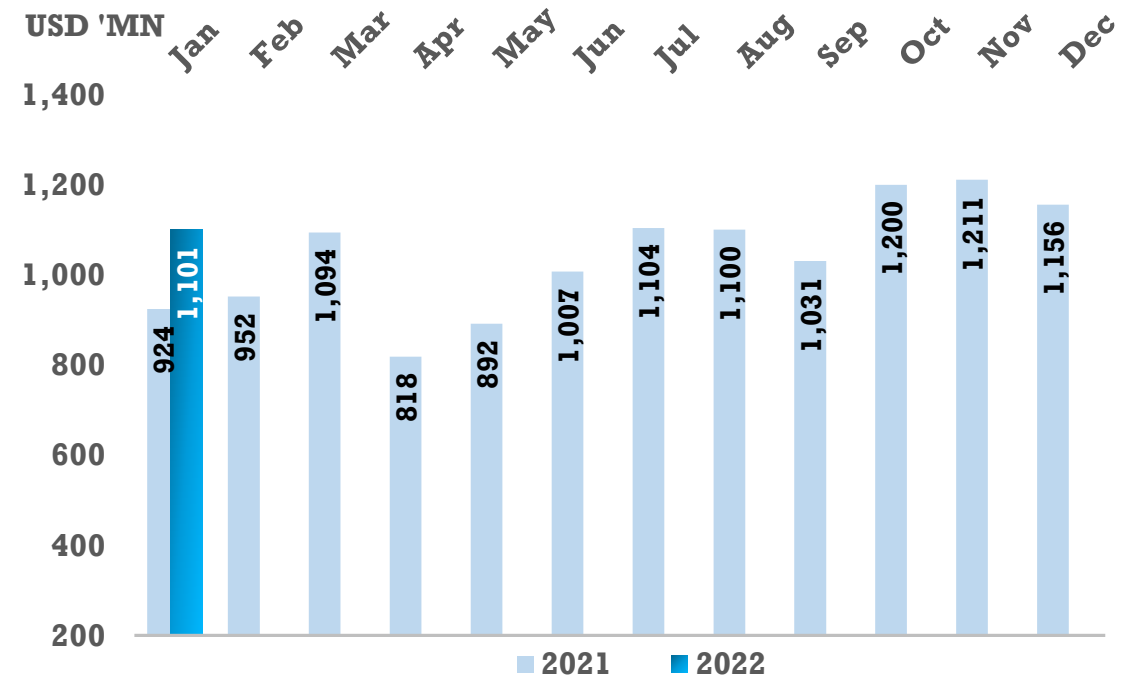
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – JAN 22 – EXPORTS

Exports for Jan recorded a growth of 17.5%YoY to USD 1.1Bn led by the improvements across all main categories with a notable contribution from Industrial Exports. Earnings from the export of industrial goods recorded an increase of 21.6%YoY in Jan 2022, led by garments and petroleum products. However, a decline in earnings was reported in the category of ceramic products. Export of garments to all major markets improved except for the UK. Total earnings from the export of agricultural goods in Jan 2022 improved by 2.3%YoY mainly due to the increased earnings from Coconut, seafood (mainly fresh and frozen tuna) and minor agricultural products (mainly areca nuts). Earnings from mineral exports increased by 24.0%YoY due to higher earnings from titanium ores, quartz and natural graphite powder.

Category	2021 (USD 'Mn)	2022 (USD 'Mn)	Change (%)
Industrial Exports			
- Jan	732.3	890.2	21.6
- YTD	732.3	890.2	21.6
Agricultural			
- Jan	199.9	204.5	2.3
- YTD	199.9	204.5	2.3
Mineral Exports			
- Jan	3.5	4.3	24.0
- YTD	3.5	4.3	24.0
Total			
- Jan	936.7	1,100.9	17.5
- YTD	936.7	1,100.9	17.5

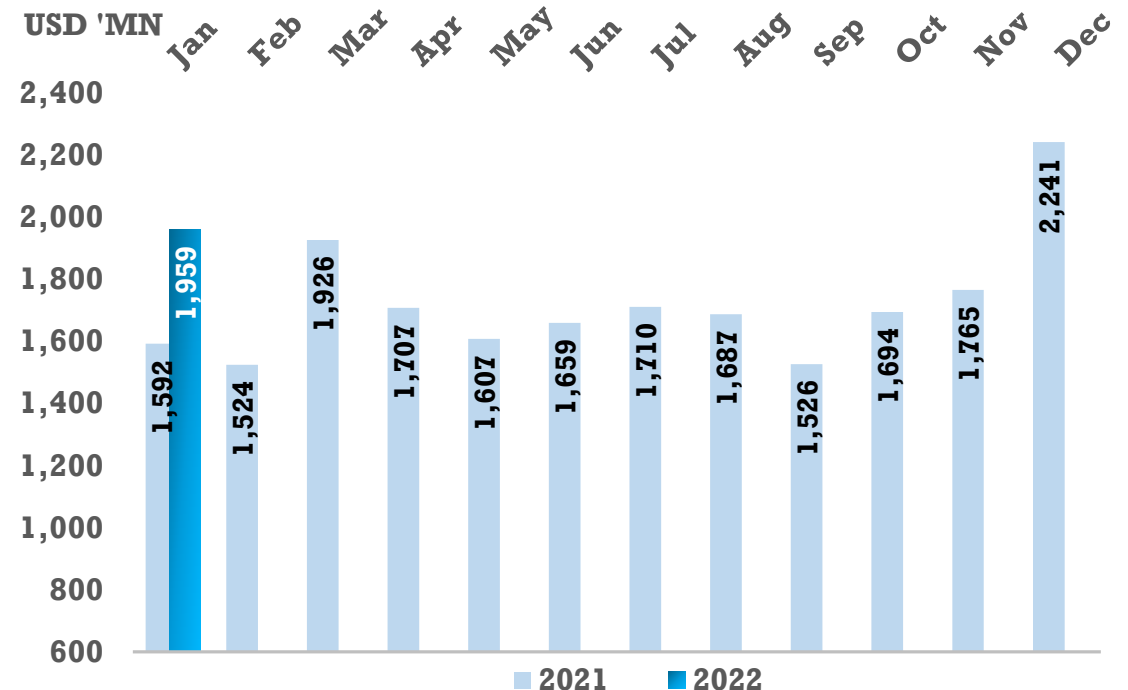


Source: CBSL
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EXTERNAL SECTOR – JAN 22 – IMPORTS

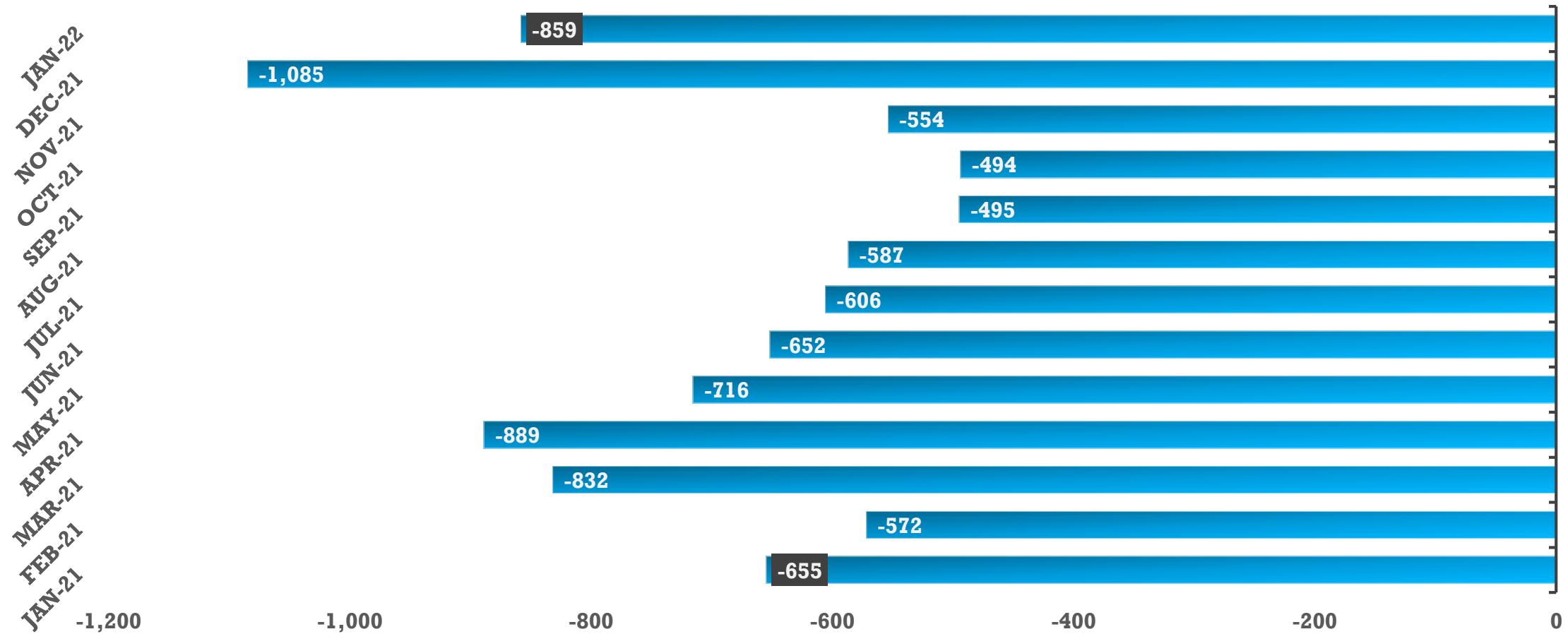
Import expenditure notably increased by 23.1%YoY to USD 2.0Bn in Jan 2022, led by the increase in expenditure across all main categories with a significant contribution from Intermediate Goods. Expenditure on the importation of consumer goods in Jan 2022 increased by 4.2%YoY driven by the increases in expenditure on both food and non-food consumer goods mainly led by food & beverages, medical & pharmaceuticals (mainly vaccines), clothing & accessories and rubber products. Expenditure on the importation of intermediate goods increased by 32.5%YoY, mainly driven by fuel, textiles and textile articles (mainly fabrics), base metals (mainly iron and steel) and etc. Expenditure on the importation of investment goods increased by 17.2% due to substantial increases in building materials and machinery and equipment.

Category	2021 (USD 'Mn)	2022 (USD 'Mn)	Change (%)
Consumer goods			
- Jan	345.6	360.0	4.2
- YTD	345.6	360.0	4.2
Intermediate			
- Jan	915.0	1,212.5	32.5
- YTD	915.0	1,212.5	32.5
Investment goods			
- Jan	330.1	386.7	17.2
- YTD	330.1	386.7	17.2
Total			
- Jan	1,591.6	1,959.4	23.1
- YTD	1,591.6	1,959.4	23.1



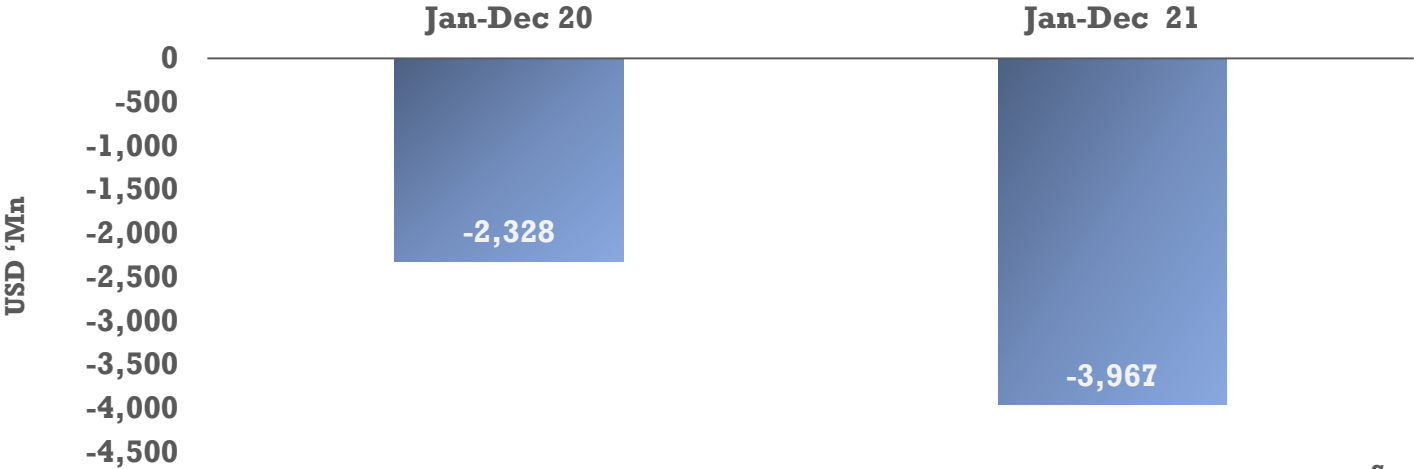
EXTERNAL SECTOR – JAN 22

Balance of Trade



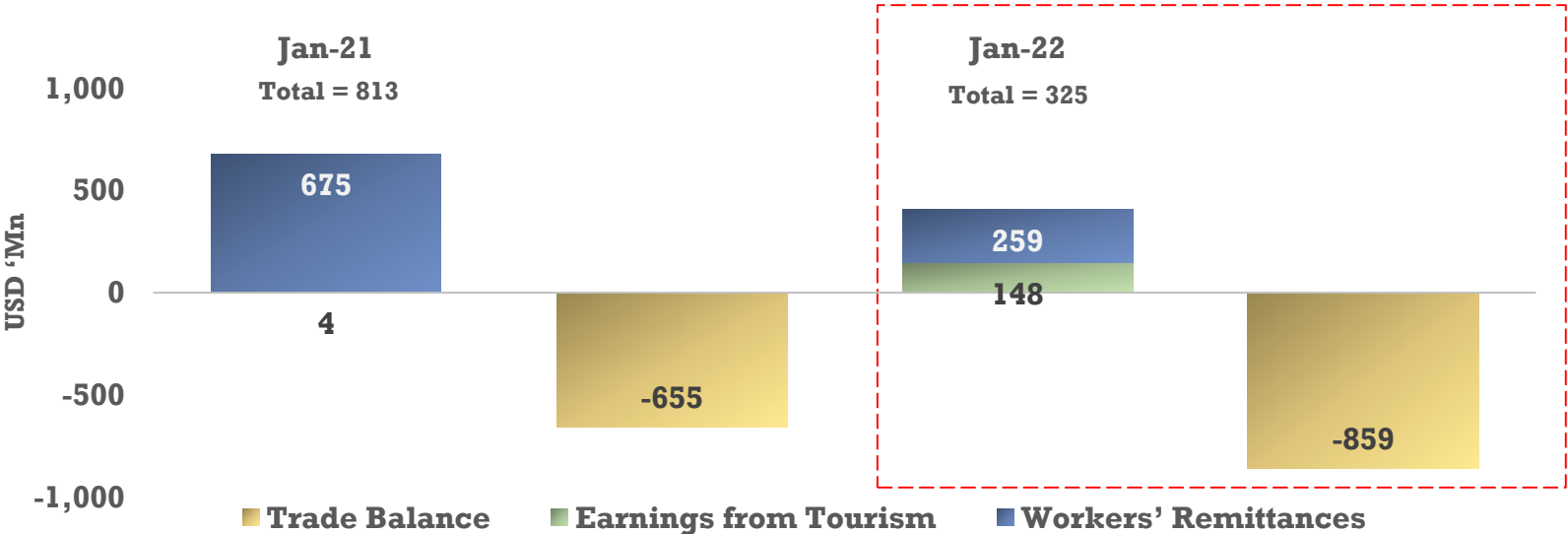
Source: Central Bank

BoP for Jan-Dec 21 recorded at USD -4.0Bn compared to Jan-Nov 21 amount of USD -3.7Bn recording a net outflow of USD 0.3Bn for the month of Dec 2021.



Source: CBSL

Workers' Remittances declined to USD 259.0Mn (-61.6%YoY). Earnings from Tourism for Jan 22 improved to USD 148.0Mn from USD 4.0Mn recorded in Jan 21.



Source: CBSL

BALANCE OF PAYMENT DEFICIT INCREASED YOY IN JAN 2022

Jan USD 'Mn	2021	2022	Change (%)
Trade Balance	-655	-859	
Earnings from Tourism	4	148	N/A
Workers' Remittances	675	259	-61.6

YTD USD 'Mn	2020	2021	Change (%)
Trade Balance	-6,008	-8,139	
Earnings from Tourism	682	507	-25.7
Workers' Remittances	7,104	5,491	-22.7

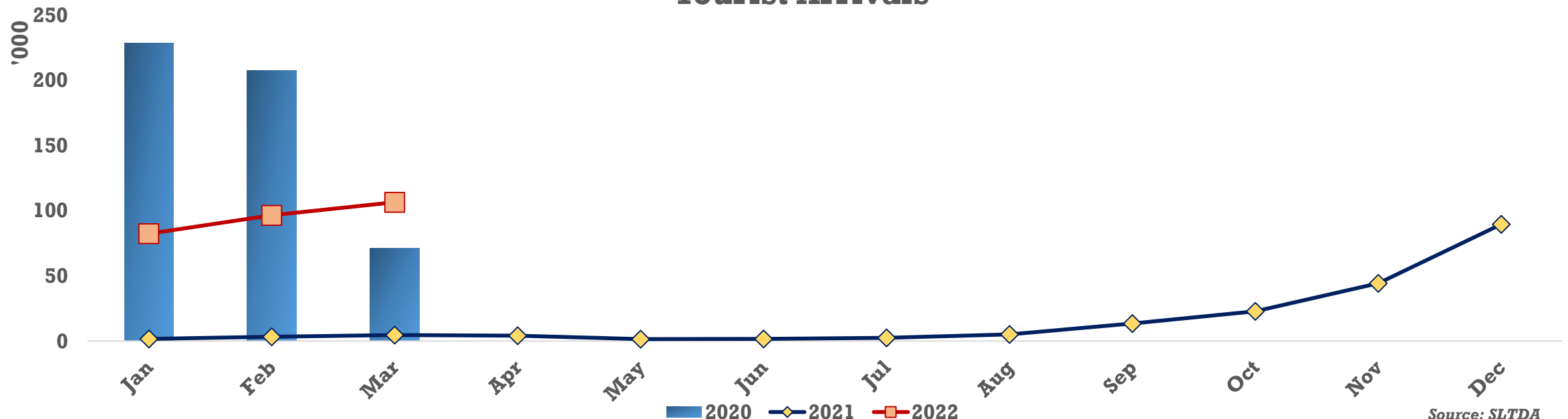
Source: CBSL

TOURIST ARRIVALS – MAR 2022

[106,500 – MAR, YTD 285,334 – MoM UP 10.4%]

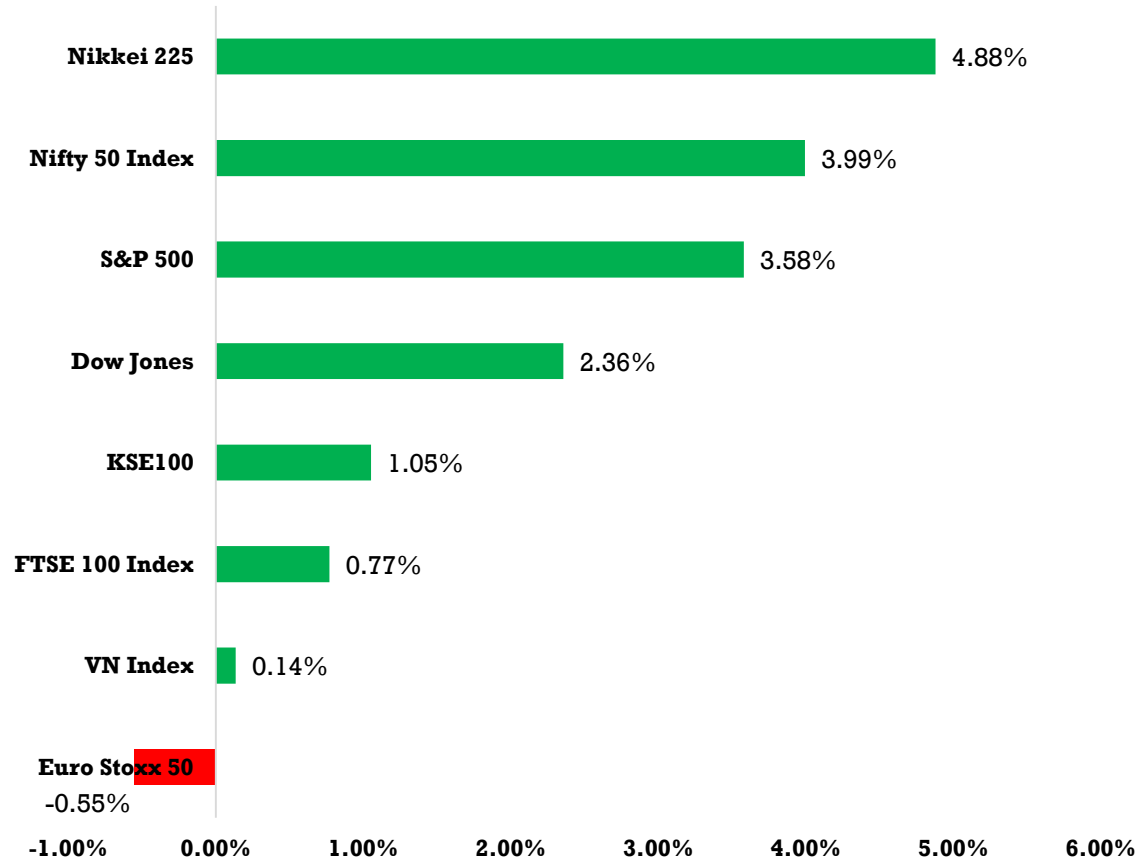
The total number of tourist arrivals to Sri Lanka during Mar 2022 were 106,500. A significant rebound in arrivals was observed during the month of Mar, as a result of the gradual improvement in traveller confidence, rapid vaccination rollout and lifting of travel restrictions in some outbound source markets. The largest source markets recorded for the month of Mar were India, United Kingdom, Germany, Russia and France.

Tourist Arrivals



Source: SLTDA

GLOBAL MARKET



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Source: Investing.com

Global Bond Selloff Deepens as Fed Steps Up Tightening Rhetoric

The U.S. central bank will likely step up policy tightening by swiftly reducing its massive debt holdings. The prospect of aggressive Fed action drove the yield on benchmark 10-year Treasuries up five basis points to 2.60%, propelling it back into ranges seen in 2018 and 2019. The yield spiked as much as 17 basis points on Tuesday. Australian bonds slumped, with 10-year yields climbing as much as 13 basis points to 2.98%, the highest since 2015.

Bloomberg



Global government debt set to soar to record \$71 trillion this year

Global sovereign debt is expected to climb by 9.5% to a record \$71.6 trillion in 2022, according to a new report, while fresh borrowing is also broadly set to remain elevated. In its second annual Sovereign Debt Index, British asset manager Janus Henderson projected a 9.5% rise in global government debt, driven primarily by the U.S., Japan and China but with the vast majority of countries expected to increase borrowing.

U.S. imposes sanctions on Russian darknet market and crypto exchange

The U.S. Treasury Department imposed sanctions on a prominent Russia-based darknet market site and a cryptocurrency exchange that it said operates primarily out of Moscow and St. Petersburg. Approximately 86% of illicit bitcoin received directly by Russian crypto exchanges in 2019 came from Hydra, which the Treasury Department described as the world's "largest and most prominent darknet market."



REUTERS
WORLD

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THANK YOU

“Successful Investment Is About Managing Risk...”

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