



# MONTHLY ECONOMIC WATCH

Aug 2021



First Capital

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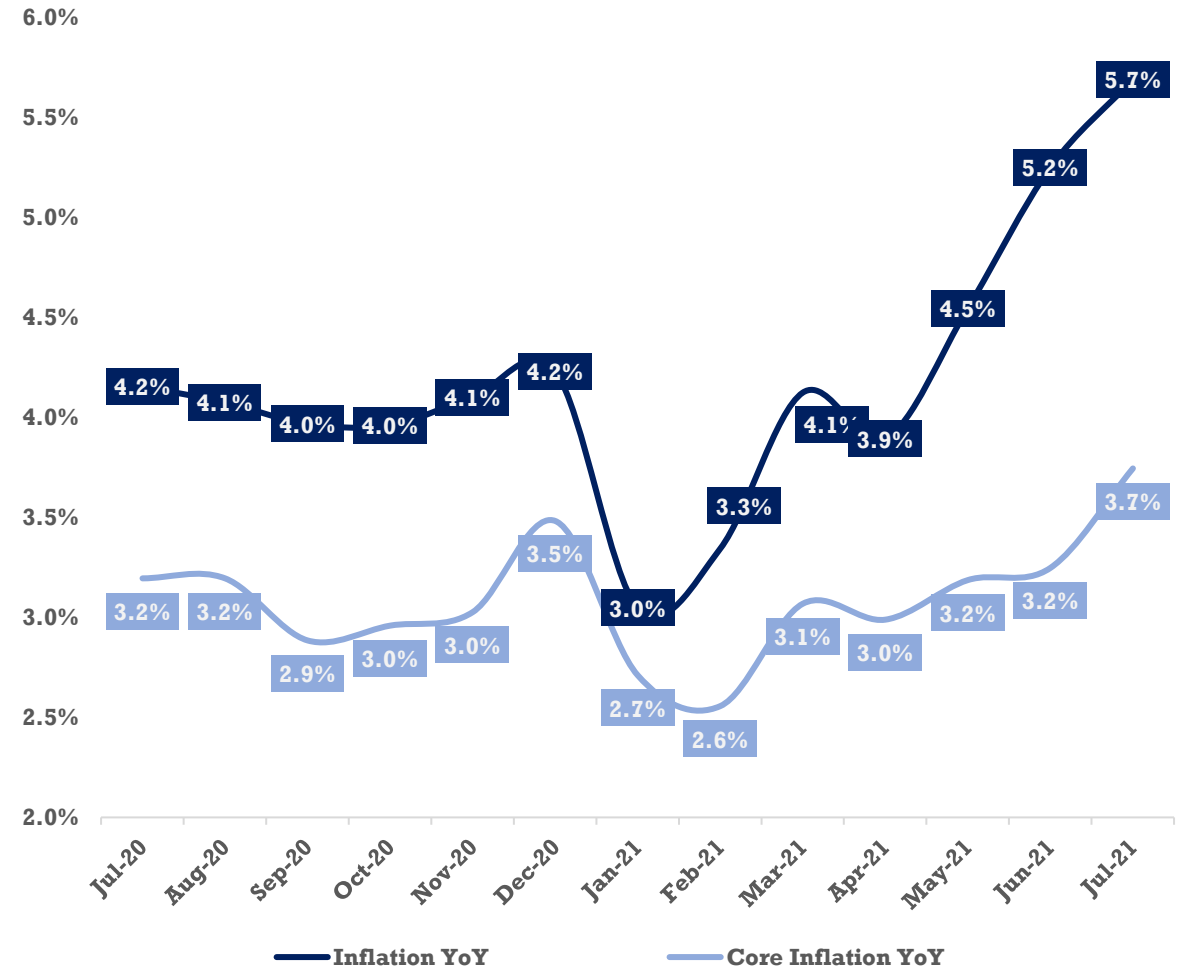
# LOCAL COMPANIES PERMITTED TO INVEST IN ISBS IN THE SECONDARY MARKET

- In terms of the provisions of the Foreign Exchange Act, No. 12 of 2017, the Hon. Minister of Finance has issued Regulations, with the approval of the Cabinet of Ministers, to permit companies incorporated in Sri Lanka under the Companies Act, No. 7 of 2007 (excluding companies engaged in finance business as per the Finance Business Act, No. 42 of 2011) to purchase International Sovereign Bonds issued by the Government of Sri Lanka (ISBs), in the secondary market.
- According to the above Regulations, companies can invest in ISBs utilizing 50% of the foreign currency borrowed from a person residing outside Sri Lanka in terms of the prevailing Foreign Exchange Regulations subject to certain terms and conditions, among which the following conditions appear as notable;
  - The balance fifty percent (50%) of the aforesaid borrowings shall be invested in the Sri Lanka Development Bonds issued by the Government of Sri Lanka (SLDBs).
  - Eligible companies shall open and maintain an External Commercial Borrowing Account with an Authorized Dealers (Licensed Commercial Banks and National Savings Bank) in Sri Lanka, subject to the prevailing foreign exchange regulations. The same External Commercial Borrowing Account shall be used to receive all inward remittances with respect to the investments made in ISBs and SLDBs.
  - Under no circumstances, repayment of the said foreign currency borrowings obtained from a person residing outside Sri Lanka for the purpose of investing in ISBs and SLDBs shall be made out of Sri Lanka Rupee conversions into foreign exchange.

# INFLATION – CCPI

**CCPI FOR JUL 2021:  
MOM +0.5%,  
YOY +5.7%**

- MoM inflation marginally increased by 0.5% with the decrease in expenditure value of Food items by 0.2% and an increase of Non-Food items by 0.8%.
- The YoY inflation increased to 5.7% in Jul 2021. YoY inflation of Food group has decreased to 11.0% in Jul 2021 from 11.3% in Jun 2021 while Non-Food group has increased to 3.2% from 2.5% in Jun 2021.



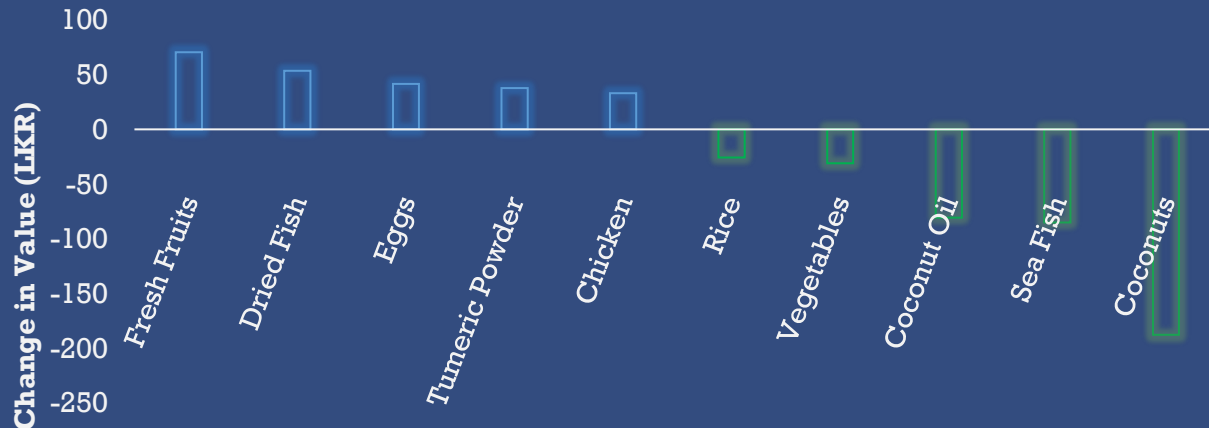
Source: Dept. Census and Statistics

# INFLATION ANALYSIS – CCPI-MOM

The CCPI index recorded an increase of 0.5% MoM contributed by the expenditure value increase of Non-Food items by 0.55% MoM, whereas Food items decreased by 0.05%. Within the Food items, decrease in value changes were reported for essential items such as Coconuts, Sea Fish, Coconut Oil, Vegetables, Rice etc. Among Non-Food groups, increase in value changes were reported for the groups of Transport, Restaurants & Hotels, Clothing & Footwear, etc.

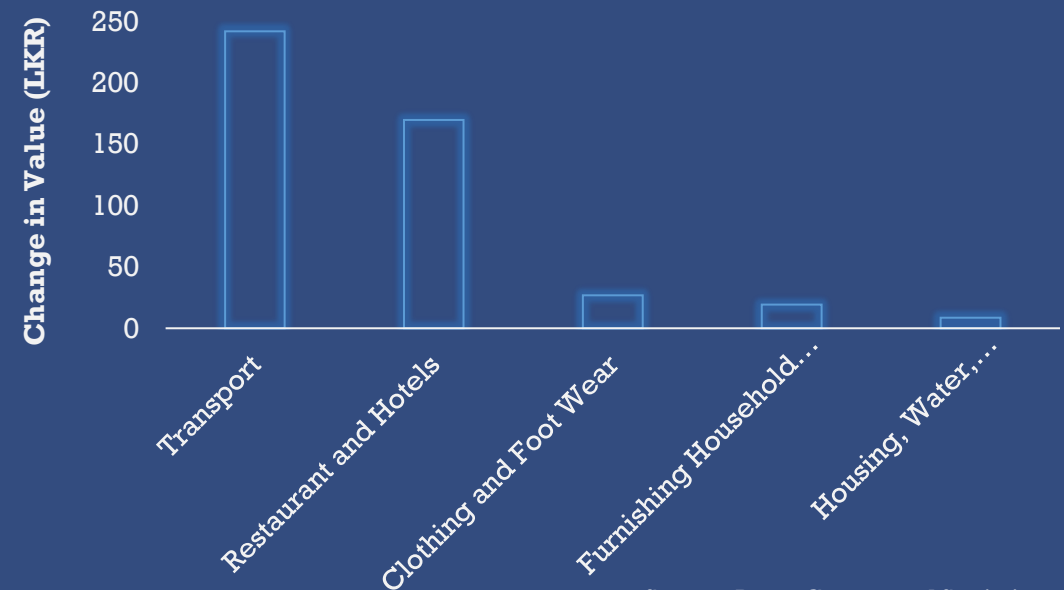


## Food Category Inflation



Source: Dept. Census and Statistics

## Non-Food Category Inflation



Source: Dept. Census and Statistics

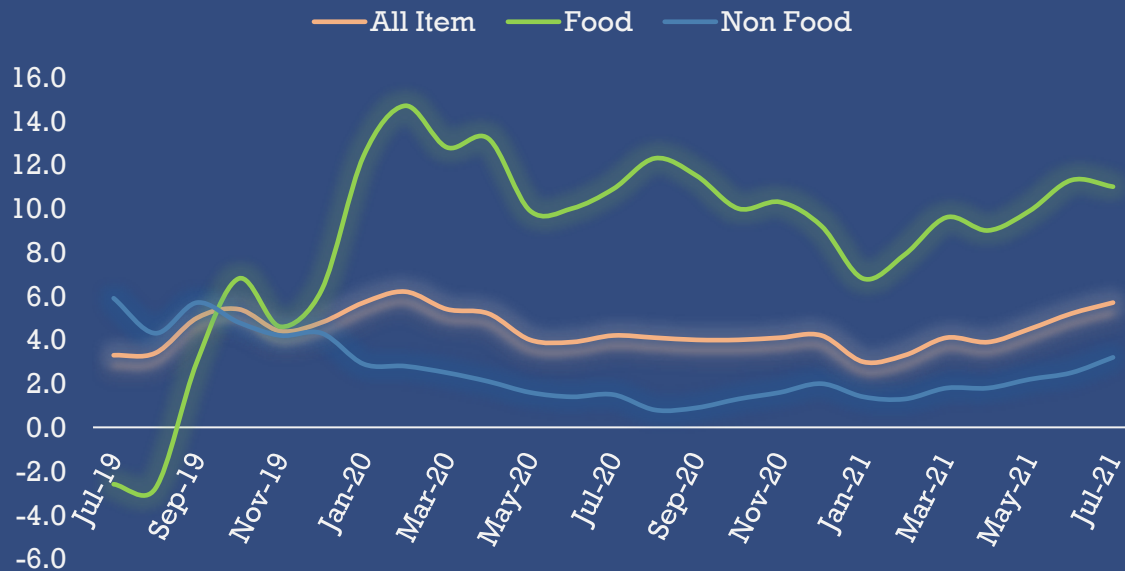


# INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Jul was 5.7% and has increased relative to the month of Jun. Food item prices have decreased to 11.0%YoY in Jul 2021 from 11.3%YoY in Jun 2021 while the Non-Food item prices have increased to 3.2%YoY from 2.5%YoY in Jun 2021. The contribution from food category for YoY inflation was 3.41% while the contribution of Non-Food items stood at 2.22% mainly due to the increase in Transport, Restaurants & Hotels, Health etc.

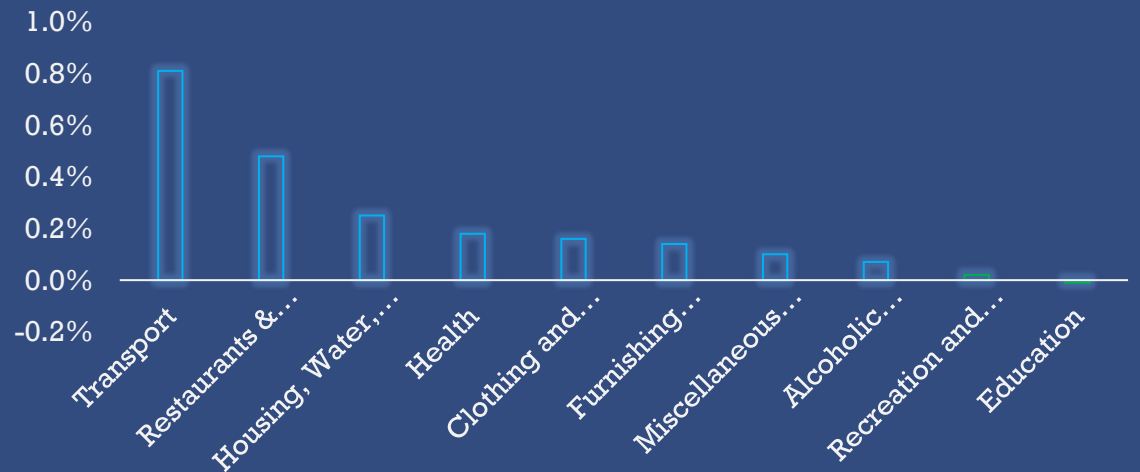


## Inflation Analysis (YoY)



Source: Dept. Census and Statistics

## Non-Food Category Inflation



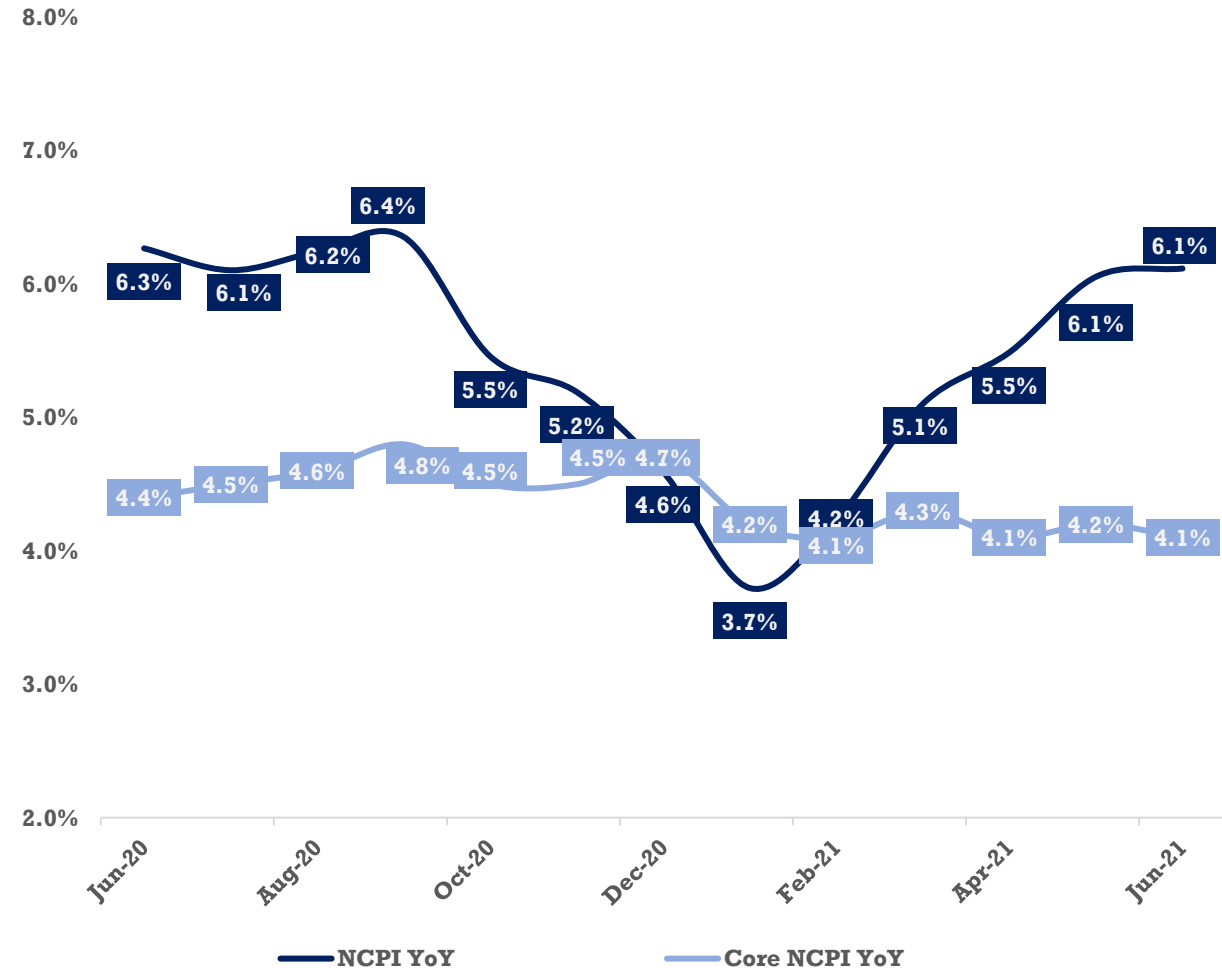
Source: Dept. Census and Statistics

# INFLATION – NCPI

## NCPI FOR JUN 2021: UNCHANGED AT 6.1%YOY

- NCPI for Jun 2021 remained unchanged at 6.1% compared to May 2021.
- The inflation was mainly driven by the increase in prices of Non-Food commodities while Food commodities reported a decline. YoY Food inflation decreased from 10.3% in May 2021 to 9.8% in Jun 2021. Non-Food inflation increased from 2.5%YoY to 2.9%YoY during May 2021 to Jun 2021.

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Source: Dept. Census and Statistics

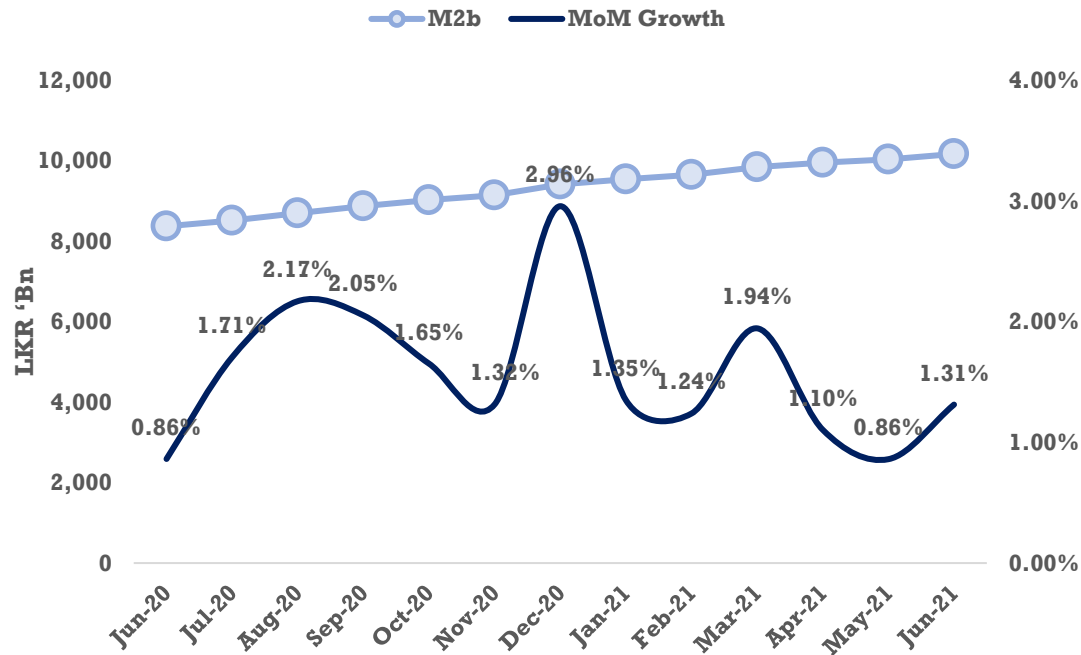
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# M2B AND CREDIT GROWTH

Private sector credit surged by LKR 83Bn in Jun 2021 sustaining the positive growth momentum for the 11<sup>th</sup> consecutive month. State credit reflected a net borrowing of LKR 190Bn.

## M2b Growth – Jun 2021

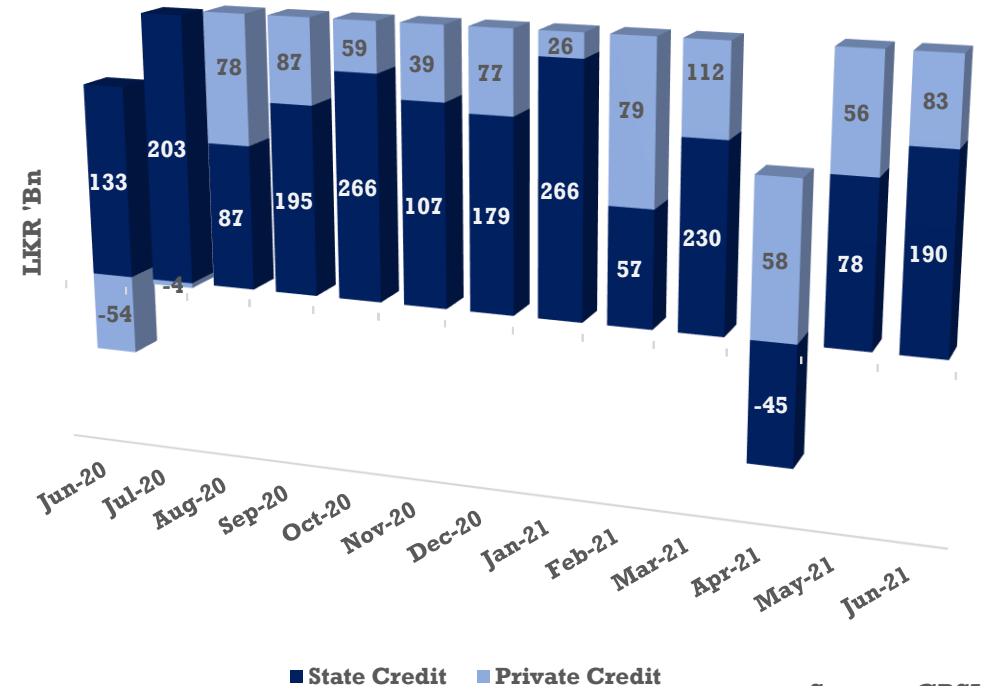
MoM +1.3%, YoY +21.5%, YTD +8.1%



Source: CBSL

## State Credit & Private Credit – Jun 2021

Private Credit MoM 1.3%, YoY +12.9%, YTD 6.7%

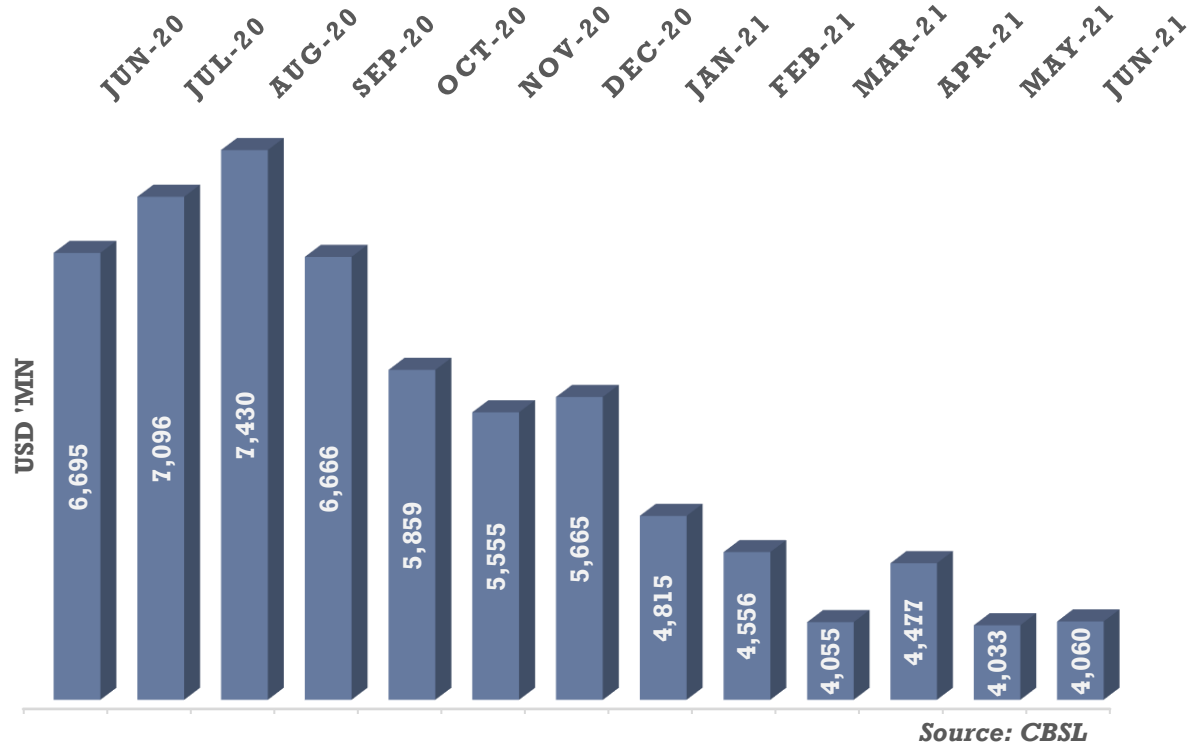


Source: CBSL

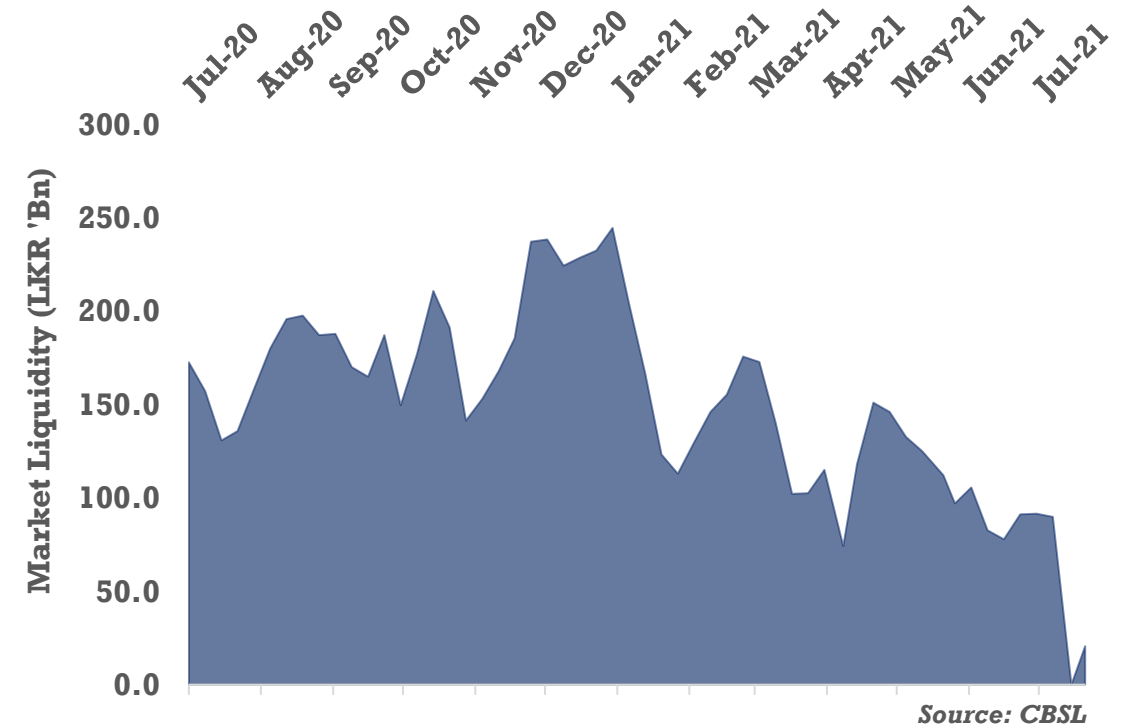


# LIQUIDITY & RESERVES

- Foreign Reserves slightly improved to USD 4.1Bn in Jun 2021 relative to USD 4.0Bn in May 2021.



- Market liquidity witnessed a significant contraction during Jul 2021 while recording a modest recovery towards the latter part of the month closing at LKR 8.7Bn. The overnight liquidity dipped to LKR 0.03Bn on 22<sup>nd</sup> Jul 2021, recording the lowest since 10<sup>th</sup> Sep 2019.



# CURRENCY MOVEMENT

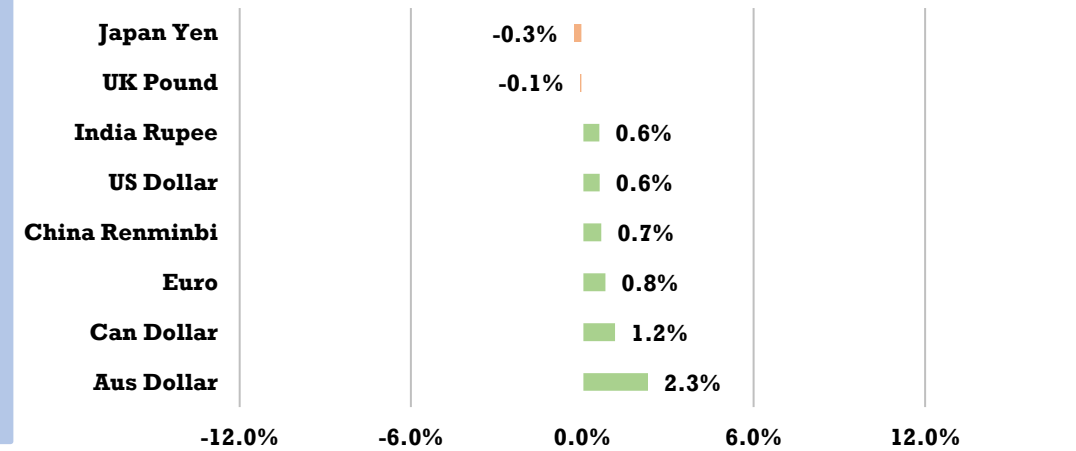
## USD:LKR Movement



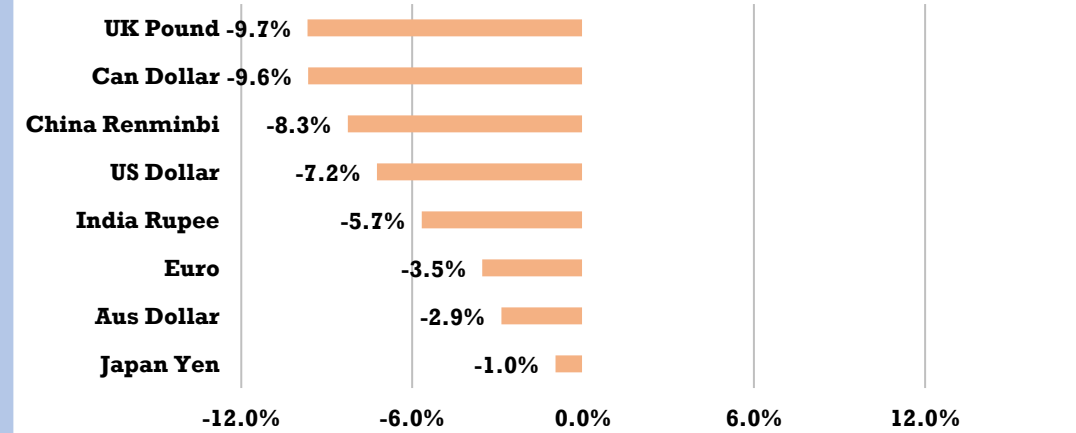
Source: CBSL

## Sri Lankan Rupee vs Global Currencies

Jul 2021



YTD 2021



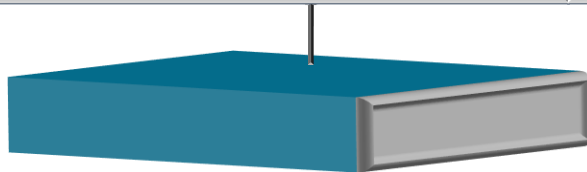
Source: CBSL

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# GOVERNMENT SECURITIES – NEW ISSUES

## Bill and Bond auctions for Jul 2021

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
2-Jul-21	29,895	38,775	68,670
9-Jul-21	44,940		44,940
16-Jul-21	56,000	50,000	106,000
23-Jul-21	46,145		46,145
30-Jul-21	27,694		27,694
<b>Total Issued</b>			<b>293,449</b>



Net Settlement	Jul 2021	YTD
Maturities	290,942	1,451,342
New Issues	293,449	1,315,806
<b>Excess/(Deficit)</b>	<b>2,507</b>	<b>(135,536)</b>

CBSL Holdings of Gov. Securities		YTD
As at End Jul 2021	1,141,053	
As at End Jun 2021	919,243	
<b>Increase/ (Decrease)</b>	<b>221,810</b>	<b>415,867</b>

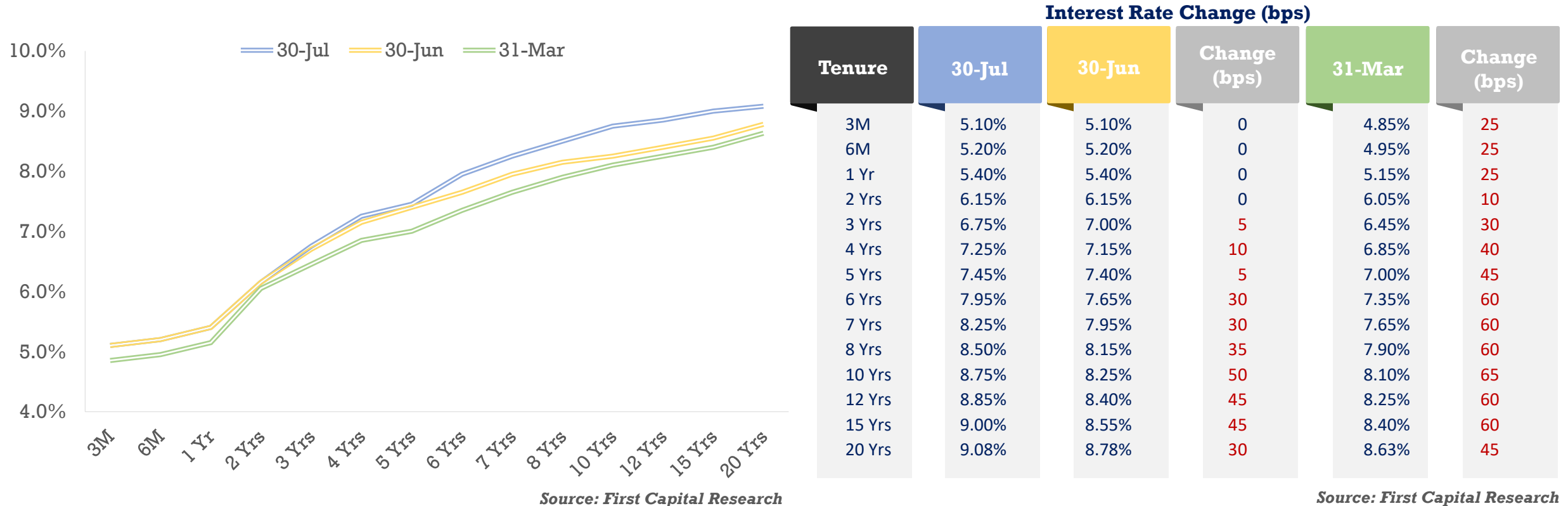
# CBSL HOLDINGS OF GOV. SECURITIES...

*...increased by LKR 222Bn in Jul 2021*

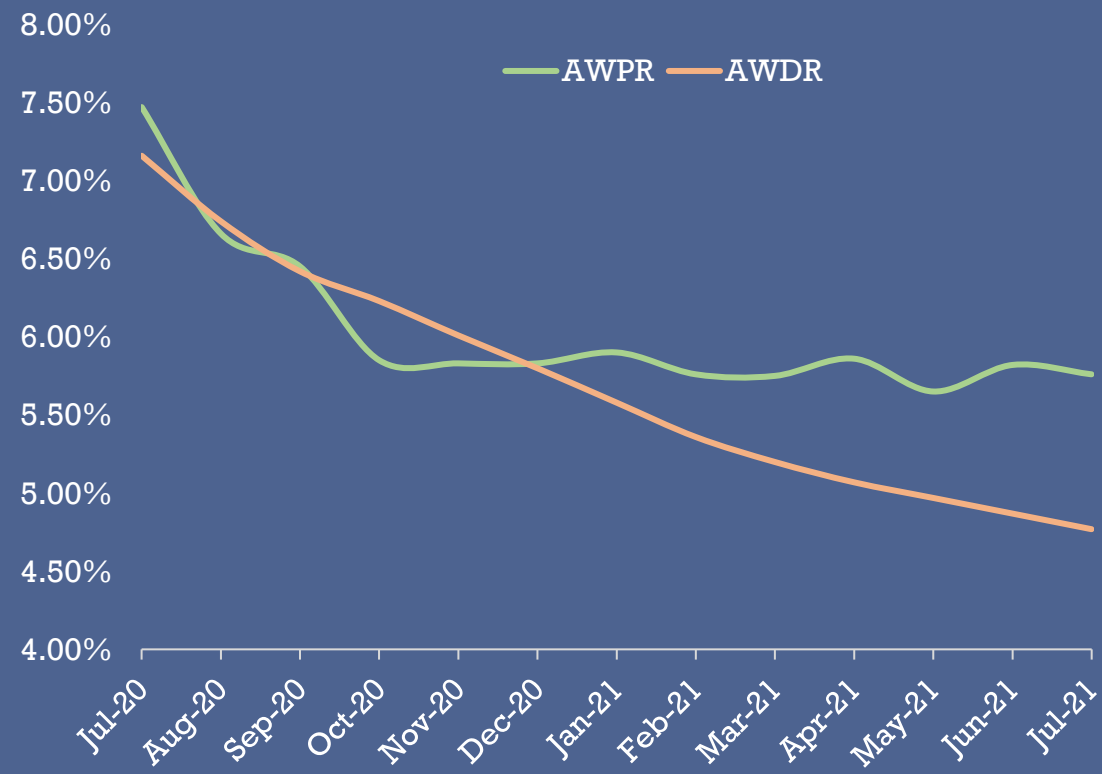


# TREASURY BILLS AND BONDS – JUL '21

During the month of Jul, the secondary bond market yields steered upwards primarily from the mid to long tenor maturities, thereby steepening the yield curve as a result of the increased selling pressure in the market amidst rising uncertainty. Only one bill auction and one bond auction out of all four bill auctions and two bond auctions held during the month got fully accepted. Yields of short tenors increased by 0-5bps, mid tenors by 5-35bps and long tenors by 30-50bps.

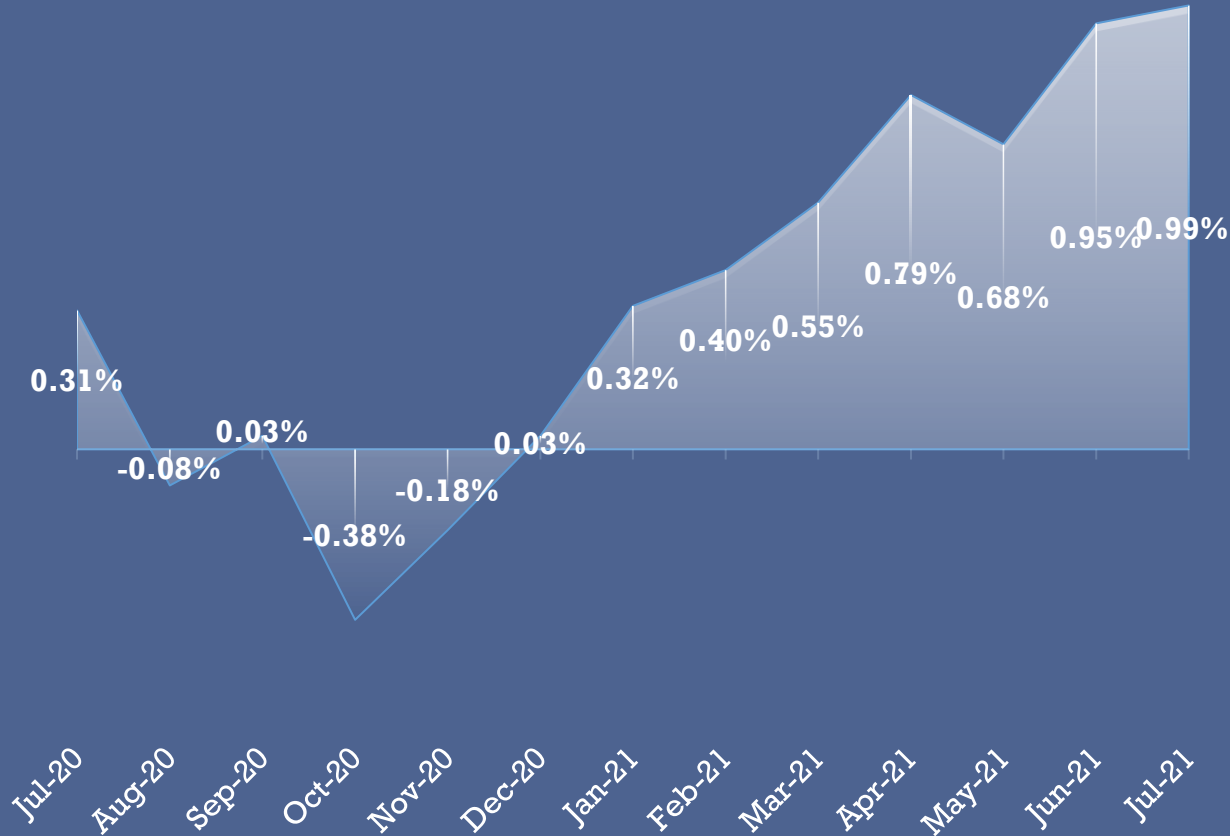


# AWPR vs AWDR



Source: CBSL

# Interest Spread



Source: CBSL

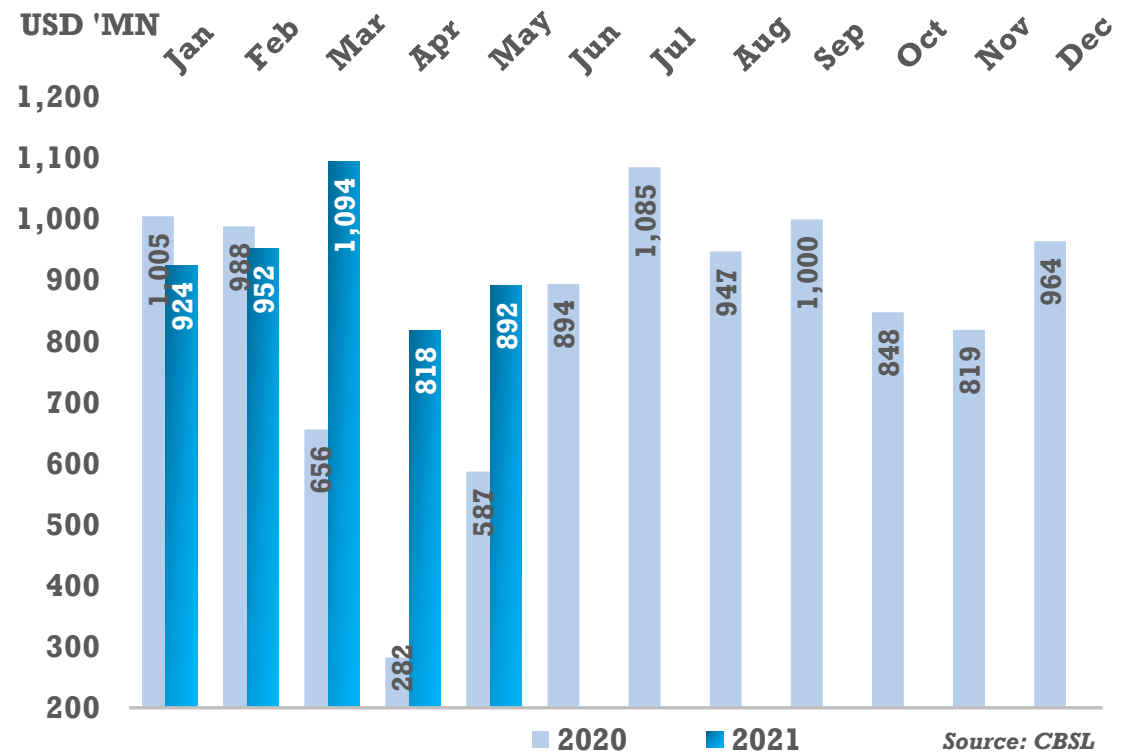
# FINANCE SECTOR RATE MOVEMENTS



# EXTERNAL SECTOR – MAY 21 – EXPORTS

Exports for May recorded an increase of 52.0% YoY to USD 0.9Bn mainly led by the increase in industrial exports. Earnings from the export of industrial goods recorded a notable increase by 71.3% YoY in May 2021, while MoM increase in earnings posted an increase of 6.2%. Earnings from rubber products, machinery and mechanical appliances, textiles and garments, chemical products and base metals improved compared to Apr 2021. Meanwhile, earnings from the export of petroleum products declined in May 2021 over the preceding month due to lower exports of naphtha despite earnings from bunker and aviation fuel recording an increase.

Category	2020 (USD 'Mn)	2021 (USD 'Mn)	Change (%)
Industrial Exports			
- May	401.0	687.0	71.3
- YTD	2,695.8	3,636.4	34.9
Agricultural			
- May	183.0	199.3	8.9
- YTD	809.8	1,028.7	27.0
Mineral Exports			
- May	2.2	4.5	99.0
- YTD	8.1	20.4	152.2
<b>Total</b>			
- May	586.7	891.7	52.0
- YTD	3,518.6	4,692.0	33.3



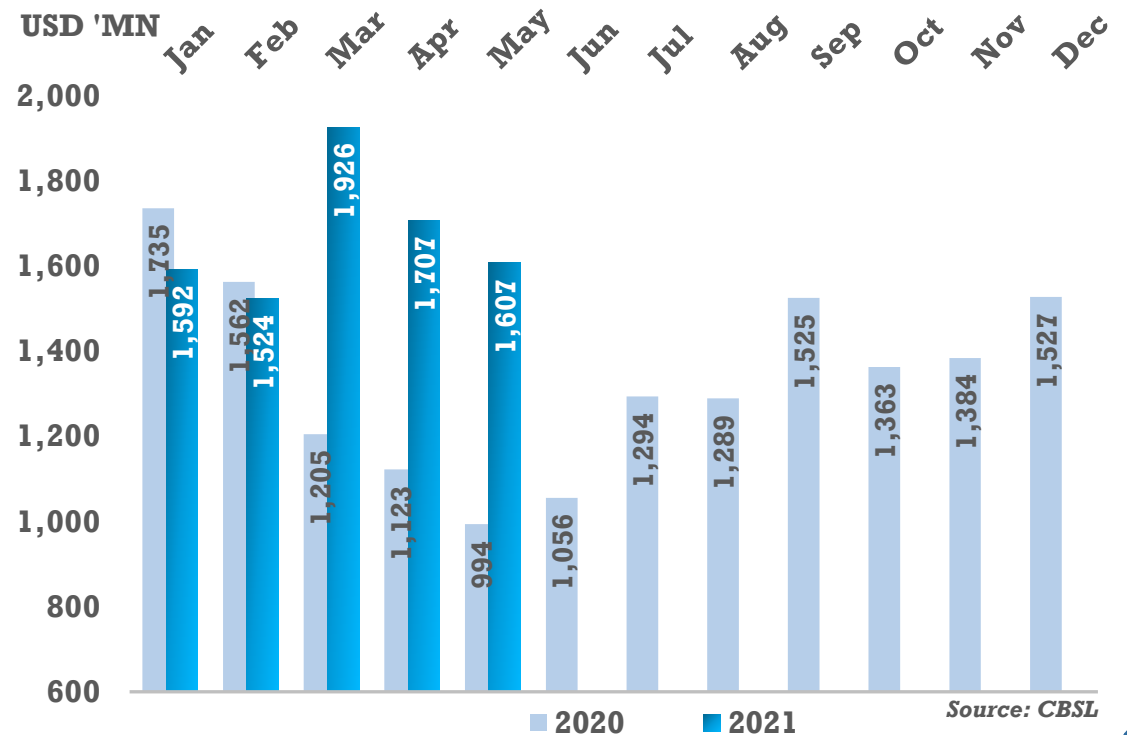
Source: CBSL

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# EXTERNAL SECTOR – MAY 21 – IMPORTS

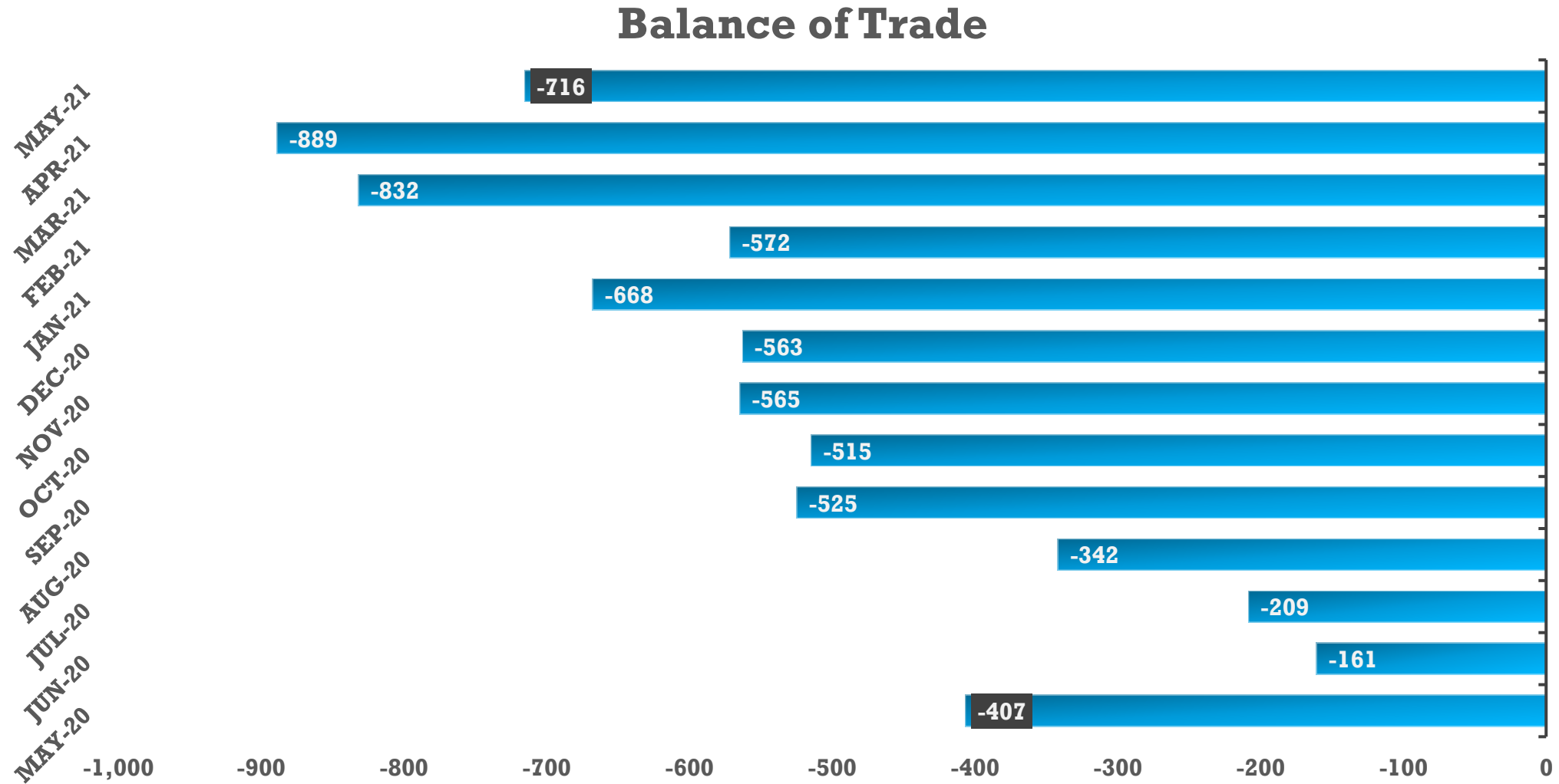
Despite the continuation of the import restriction measures, import expenditure increased by 61.7%YoY to USD 1.6Bn in May 2021 compared to May 2020 driven by the increase in imports of intermediate and investment goods. However, import expenditure in May 2021 was lower (by 6.2%) compared to Apr 2021 (USD 1.7Bn) aided by the lower expenditure values in major import sectors. With declines recorded in both food & beverages and non-food consumer good categories, expenditure on the importation of consumer goods in May 2021 declined by 0.2%YoY and 4.1%MoM. Import expenditure on intermediate goods increased by 115.0%YoY in May 2021, led by the increase in base metals, chemical products, plastics and articles, textiles & textile articles, etc., but declined by 2.8% over the previous month.

Category	2020 (USD 'Mn)	2021 (USD 'Mn)	Change (%)
Consumer goods			
- May	264.4	253.6	(4.1)
- YTD	1,553.0	1,530.1	(0.2)
Intermediate			
- May	486.3	1,045.4	115.0
- YTD	3,602.0	5,111.1	41.9
Investment goods			
- May	240.9	308.1	27.9
- YTD	1,474.3	1,711.2	16.1
<b>Total</b>			
- May	993.8	1,607.4	61.7
- YTD	6,619.1	8,355.5	26.2



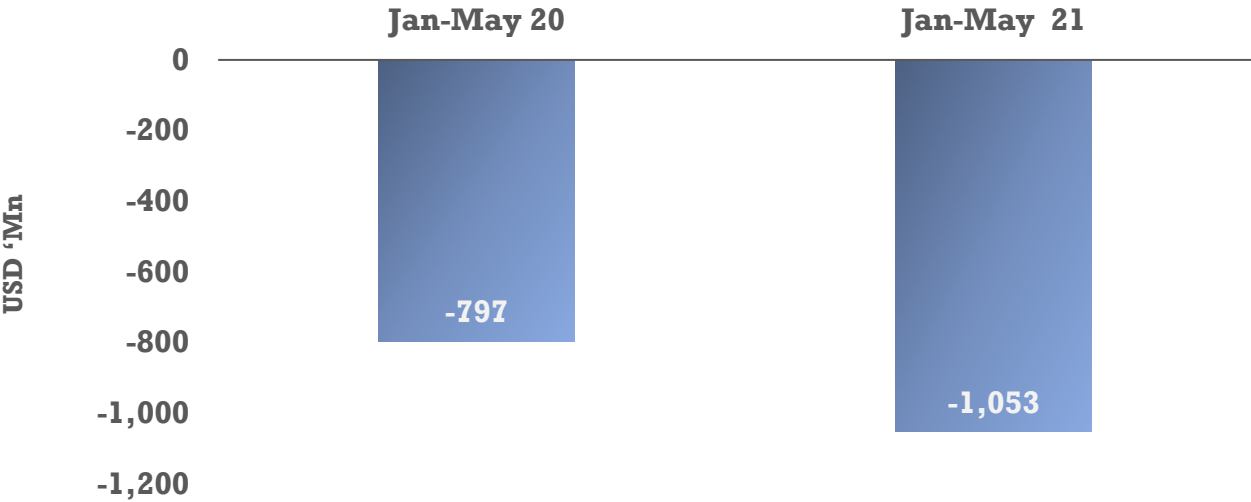
Source: CBSL

# EXTERNAL SECTOR – MAY 21



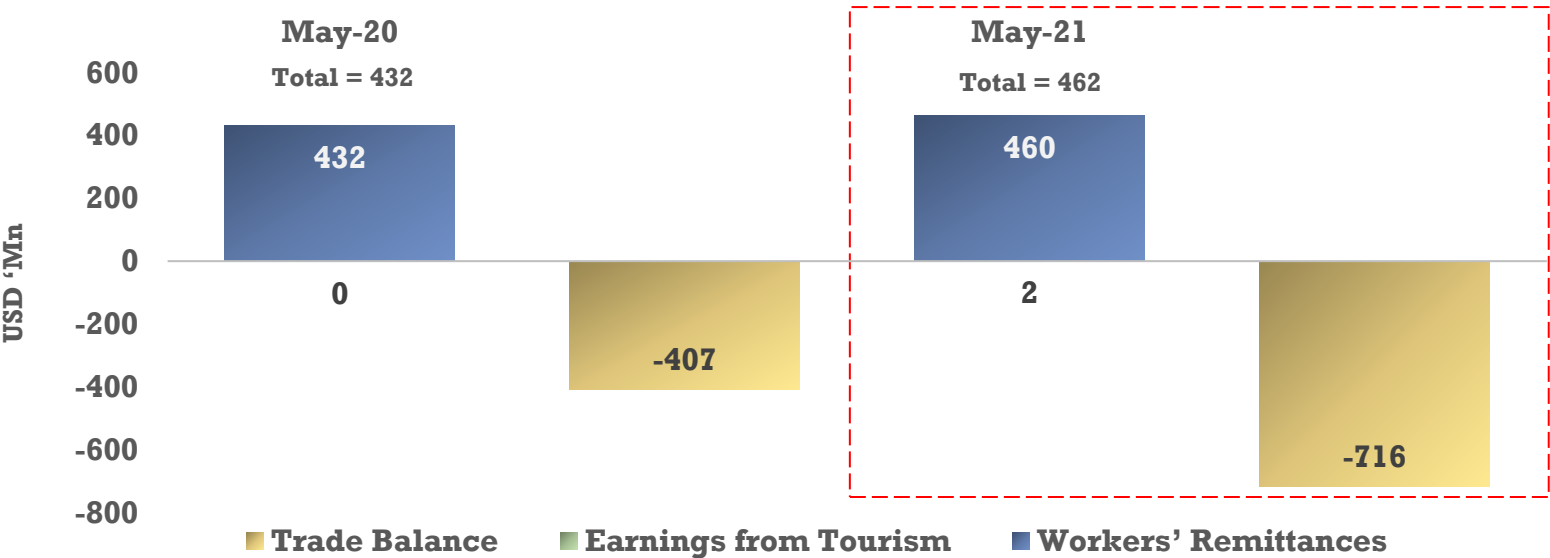
Source: Central Bank

BoP for Jan-May 21 recorded at USD -1.1Bn compared to Apr 21 amount of USD -0.9Bn recording an outflow of USD 124Mn for the month of May 2021.



Source: CBSL

Worker Remittances increased to USD 460.0Mn (6.6%YoY). Earnings from Tourism for May 21 improved to USD 2.0Mn although Jan-May 21 declined by -97.0 YoY%.



Source: CBSL

## BALANCE OF PAYMENT DECREASED YOY IN MAY 2021

May USD 'Mn	2020	2021	Change (%)
Trade Balance	-407	-716	
Earnings from Tourism	0	2	N/A
Workers' Remittances	432	460	6.6

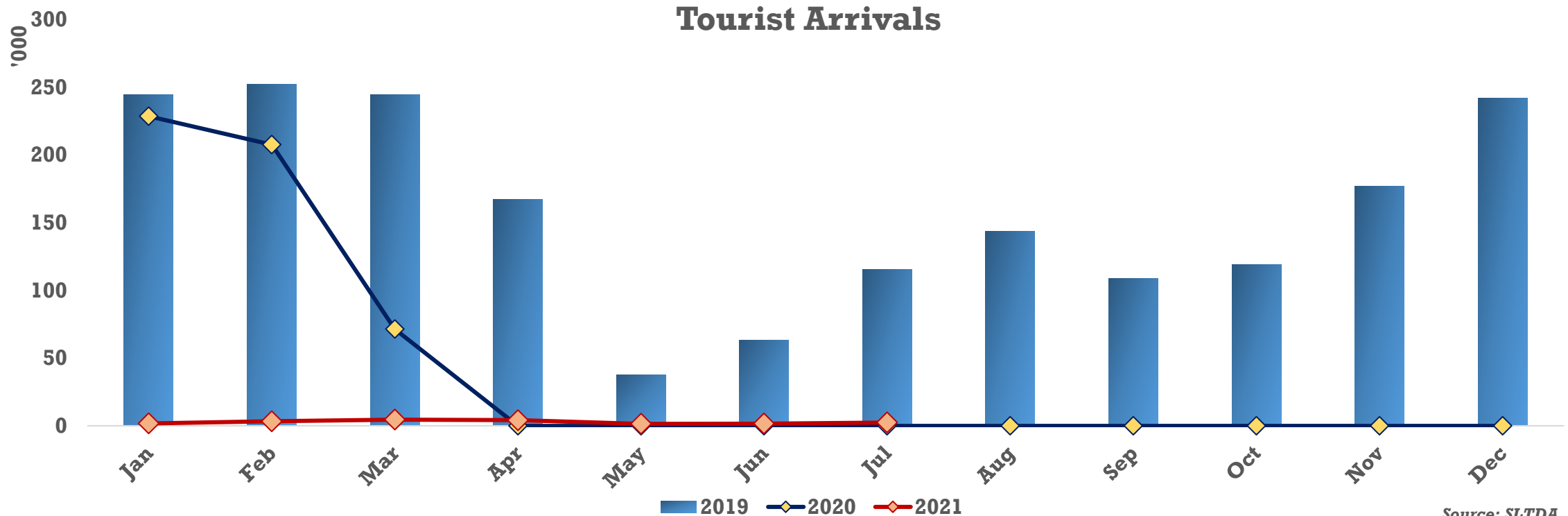
YTD USD 'Mn	2020	2021	Change (%)
Trade Balance	-3,101	-3,663	
Earnings from Tourism	682	21	-97.0
Workers' Remittances	2,407	2,846	18.2

Source: CBSL

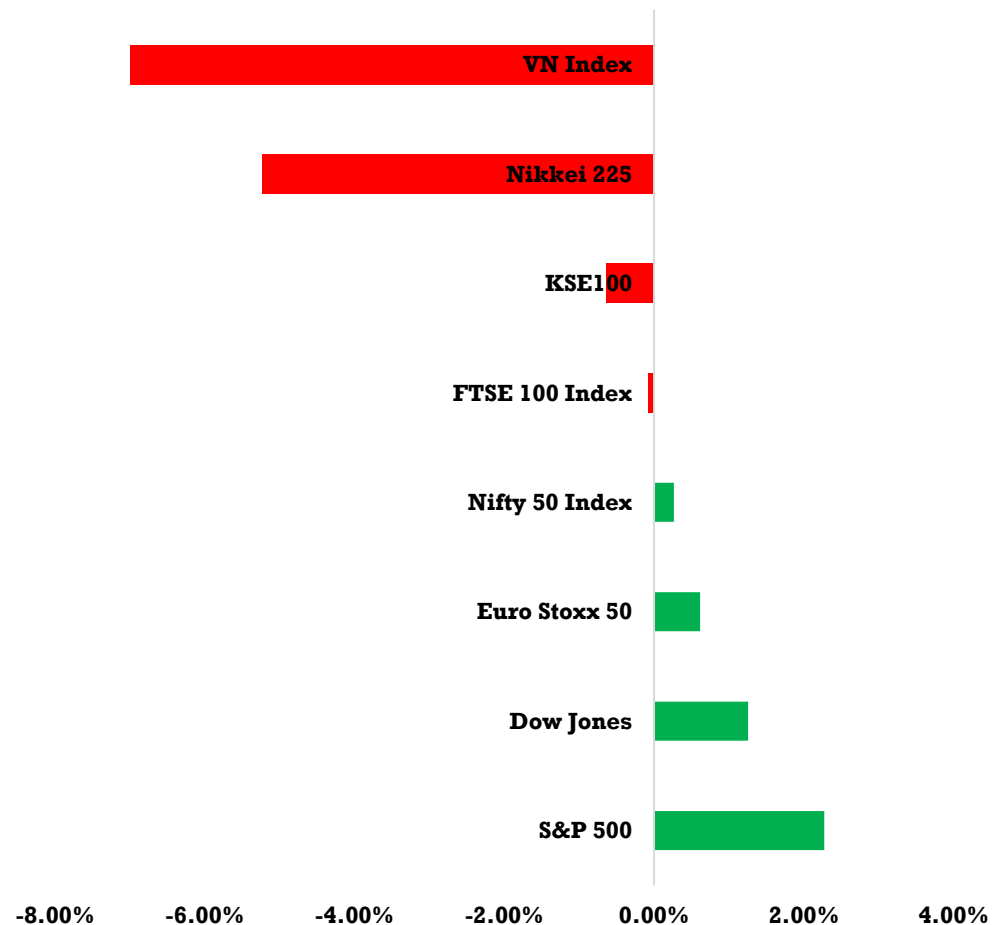
# TOURIST ARRIVALS – JUL 2021

[2,429 – JUL, YTD 19,337 – **MoM UP 50.5%**]

The total number of tourist arrivals to Sri Lanka during Jul 2021 was 2,429. A notable improvement in arrivals can be observed following a sharp contraction after the month of Apr, owing to the rapid vaccination programs taking place around the world. The largest source market recorded for the month of Jul was United Kingdom, followed by the Maldives and United States.



# GLOBAL MARKET



Source: Bloomberg

## Emerging-Market Currency Bulls Hit Snag as Policy Risks Pile Up

A burgeoning comeback in emerging-market currencies is encountering policy-related hurdles, with central banks in Asia and Turkey facing pressure to cut rates while its peers tighten to combat rising inflation. The Philippine peso and Thai baht led declines in the developing world as the spread of the delta strain fueled speculation for monetary easing. In Turkey, the lira extended its worst three-day slide since June, after President Recep Tayyip Erdogan's latest call for lower interest rates.

Bloomberg



## Biden pushes for EV to make up half of U.S. auto sales by 2030

President Joe Biden will set a new national target for the adoption of electric vehicles, calling for them to represent half of all new auto sales by 2030. Though the president will sign an executive order, the sales target is not mandatory. Instead, the document encourages the U.S. auto industry and government to promote legislation and the adoption of electrified vehicles. The target includes zero-emission vehicles powered by fuel cells and batteries as well as plug-in hybrid models with internal combustion engines.

## U.S. labor market recovery strengthening as unemployment rolls shrink

The number of Americans filing new claims for unemployment benefits declined further last week, while layoffs dropped to their lowest level in just over 21 years in July as companies held on to workers amid a labor shortage. "From an employment-estimating perspective, this suggests a hefty increase in nonfarm payrolls tomorrow," said Chris Low, chief economist at FHN Financial in New York.



REUTERS  
WORLD



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# *Thank You*

*“Successful Investment Is About Managing Risk...”*