



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Jan 2022

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REALISATION OF EXPECTED FOREIGN CURRENCY INFLOWS AND THE OFFICIAL RESERVES POSITION

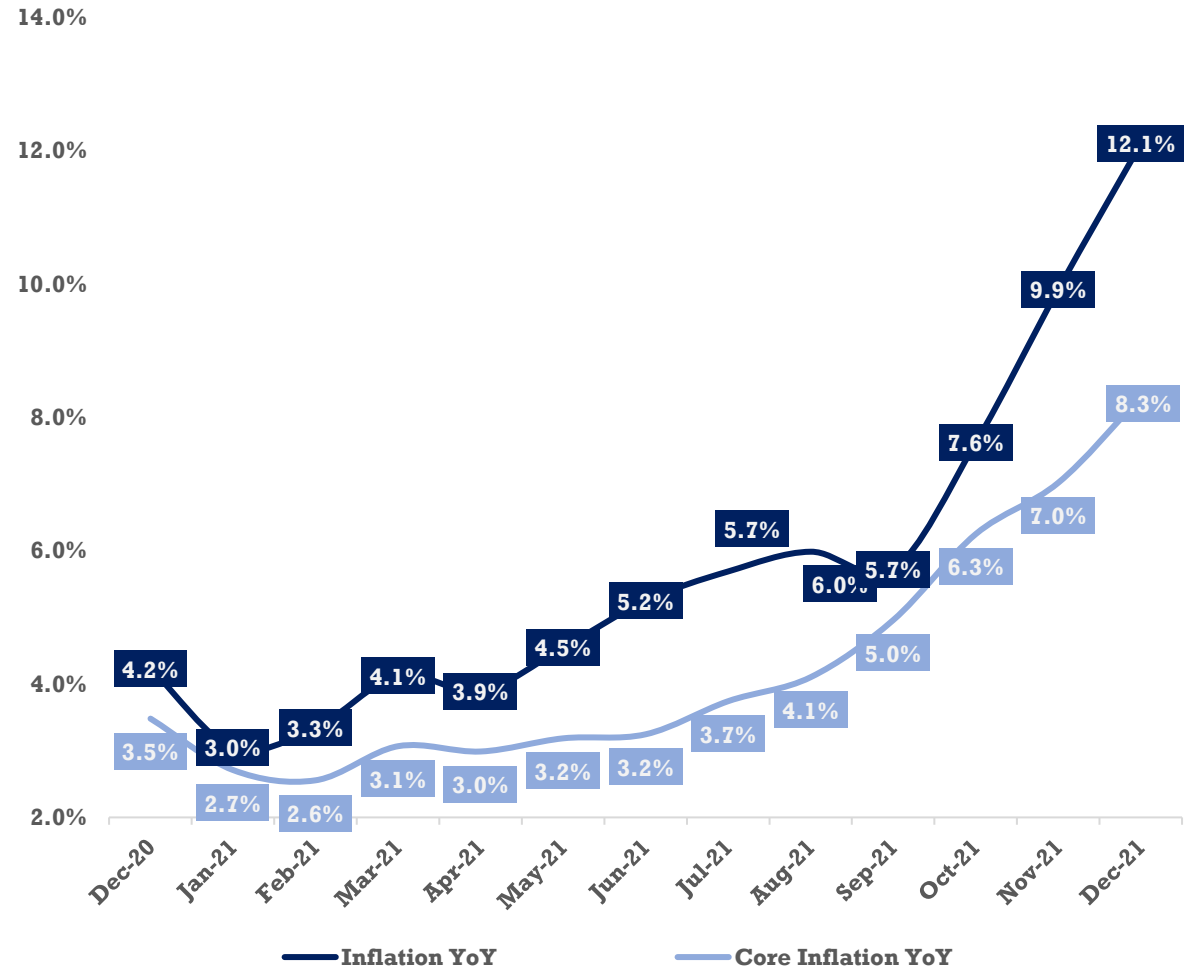
- The Central Bank of Sri Lanka informs that the expected foreign currency inflows are forthcoming and with the receipt of recent inflows, the official reserves position has reached around USD 3.1Bn and this was expected to maintain at the same level until the end of 2021.
- In addition, as articulated in the Six-Month Road Map for Ensuring Macroeconomic and Financial System Stability, foreign currency inflows in connection with several other facilities that are under negotiation at present, are also expected to be realised in Jan 2022.
- The measures taken by the Central Bank with a view to improve foreign exchange liquidity in the domestic market, such as the introduction of incentive schemes for workers' remittances, and the rules covering the repatriation and conversion of exports proceeds are also augmenting official reserves. Moreover, robust recovery in the tourism sector and the strong performance in exports are further buttressing the external sector.
- However, negative decisions of certain rating agencies to downgrade the Sovereign had caused losses in the secondary market while negatively affecting investor confidence. Nevertheless, the Government and the CBSL are confident that the reserve position will remain at comfortable levels throughout the year 2022.

Source: CBSL

INFLATION – CCPI

**CCPI FOR DEC 2021:
MOM +2.7%,
YOY +12.1%**

- MoM inflation increased by 2.7% with the increase in expenditure value of Food items by 5.4% and the increase of Non-Food items by 1.3%.
- The YoY inflation increased to 12.1% in Dec 2021. YoY inflation of Food group has increased to 22.1% in Dec 2021 from 17.5% in Nov 2021 while Non-Food group increased to 7.5% from 6.4% in Nov 2021.



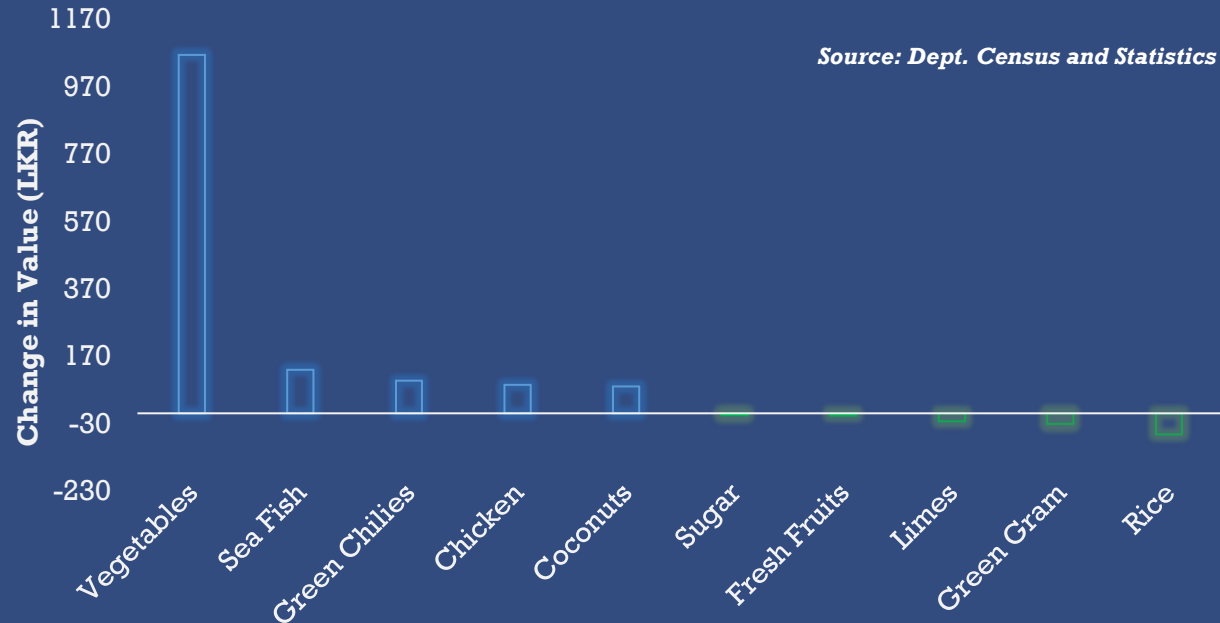
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

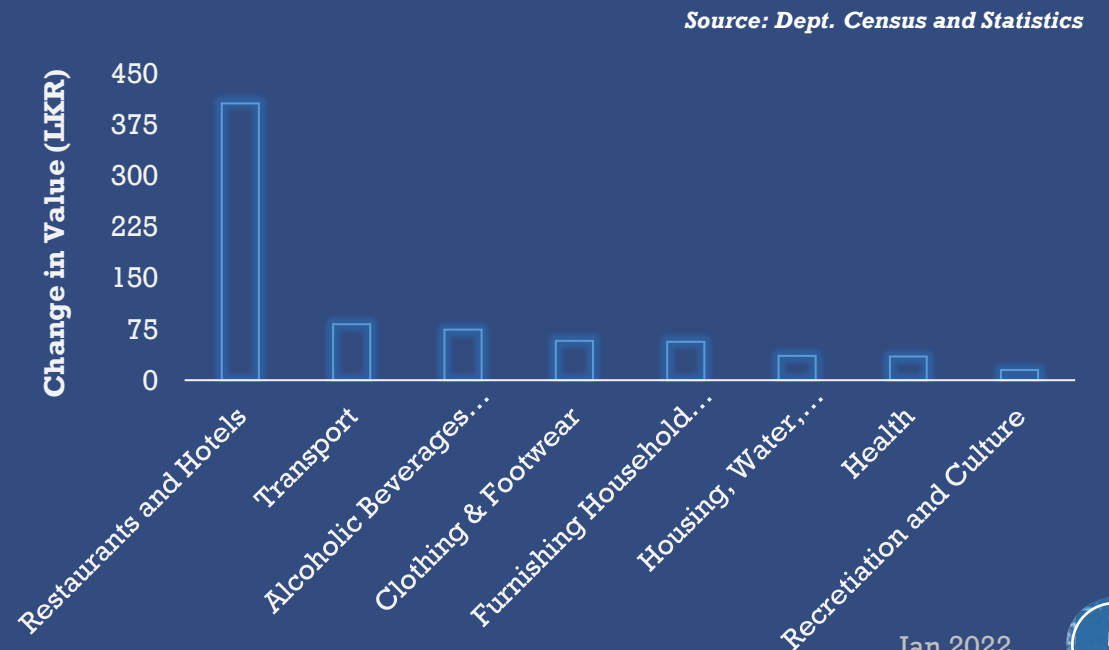
The CCPI index recorded an increase of 2.7%MoM contributed by the increase in expenditure value of Food items by 1.80% and Non-Food items by 0.84%. Within the Food items, increase in value changes were mainly reported for Vegetables, Sea Fish, Green Chilies, Chicken and Coconuts. Among Non-Food groups, increases in value change were reported for the groups of Restaurant and Hotels, Transport, Alcoholic Beverages Tobacco and Narcotic, Clothing and Footwear, Furnishing Household Equipment & Routine Household Maintenance, and etc.



Food Category Inflation



Non-Food Category Inflation

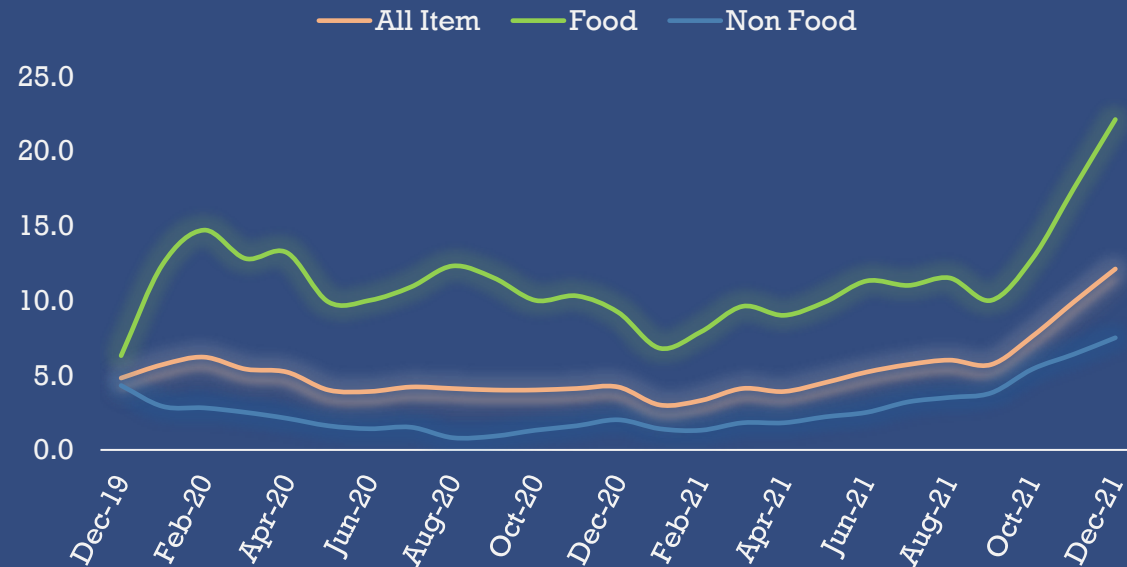


INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Dec was 12.1% and has increased relative to the month of Nov. Food item prices have increased to 22.1%YoY in Dec 2021 from 17.5%YoY in Nov 2021 while the Non-Food item prices have increased to 7.5%YoY from 6.4%YoY in Nov 2021. The contribution from food category for YoY inflation was 7.00% while the contribution of Non-Food items stood at 5.09% mainly due to the increase in Restaurant & Hotels, Housing, Water, Electricity, Gas & Other Fuels, Transport, Health, Furnishing Household Equipment and etc.

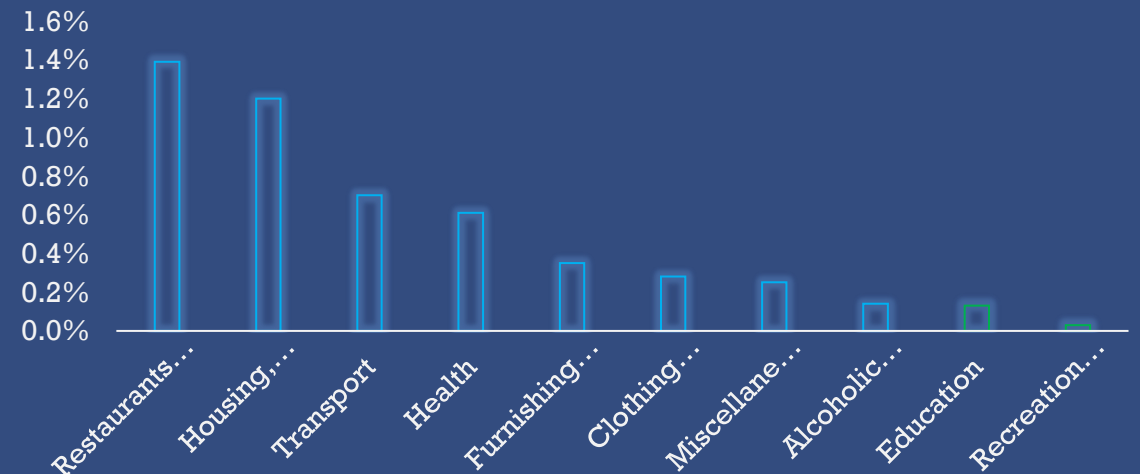


Inflation Analysis (YoY)



Source: Dept. Census and Statistics

Non-Food Category Inflation

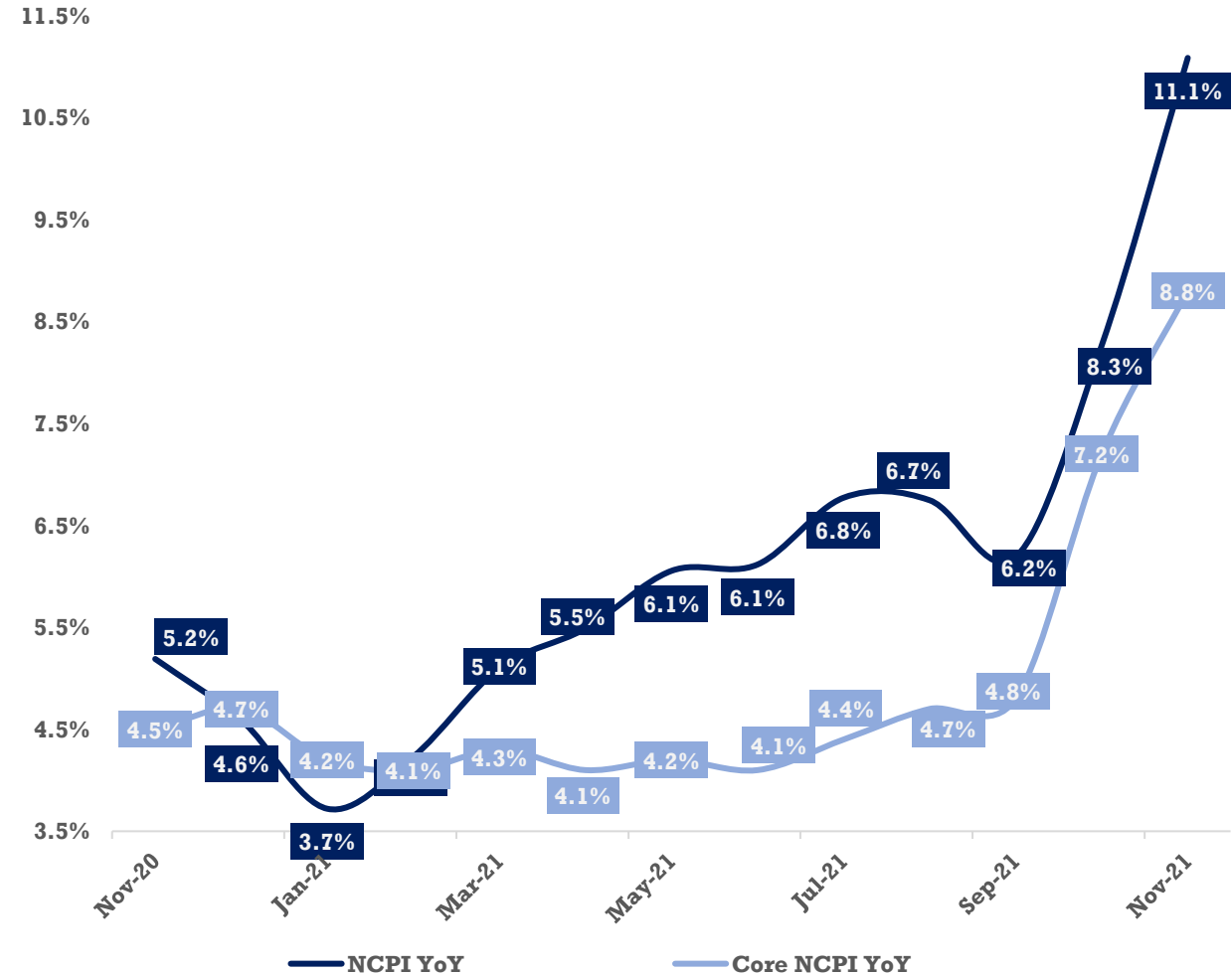


Source: Dept. Census and Statistics

INFLATION – NCPI

NCPI FOR NOV 2021: INCREASED TO 11.1%YOY

- NCPI for Nov 2021 increased to 11.1% compared to Oct 2021.
- Increase in inflation was mainly driven by the price increases in both Food commodities and Non-Food commodities. Accordingly, YoY Food inflation increased from 11.7% in Oct 2021 to 16.9% in Nov 2021 while Non-Food inflation increased from 5.4%YoY in Oct 2021 to 6.2% in Nov 2021.



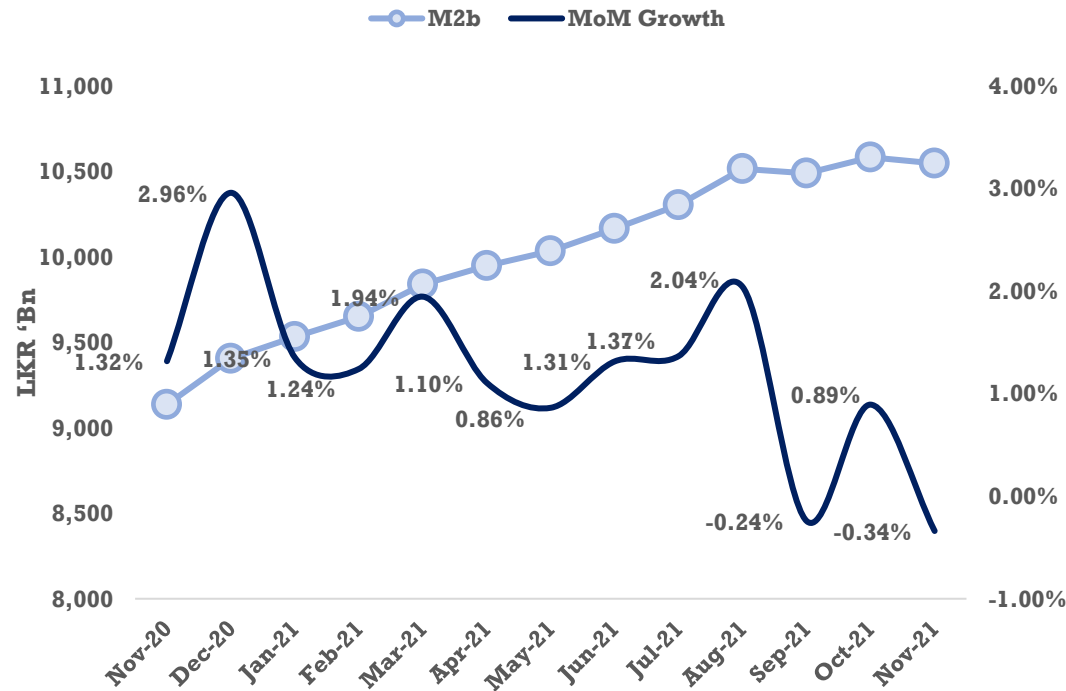
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit improved by LKR 60.4Bn in Nov 2021 sustaining the positive growth momentum for the 16th consecutive month. State credit reflected a net borrowing of LKR 142.2Bn.

M2b Growth – Nov 2021

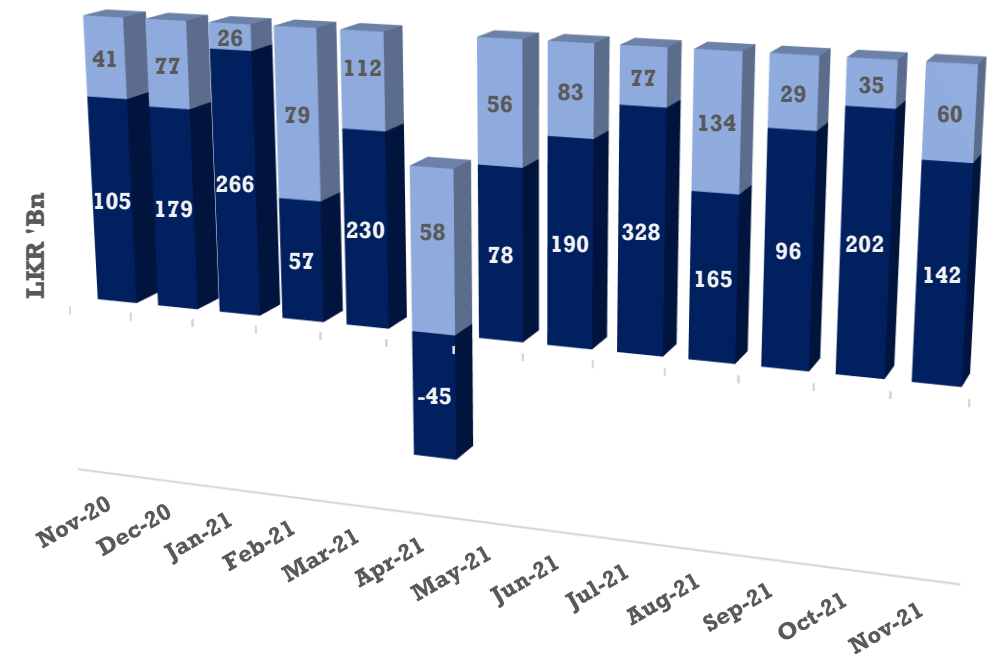
MoM -0.3%, YoY +15.4%, YTD +12.1%



Source: CBSL

State Credit & Private Credit – Nov 2021

Private Credit MoM +0.9%, YoY +13.5%, YTD +12.1%



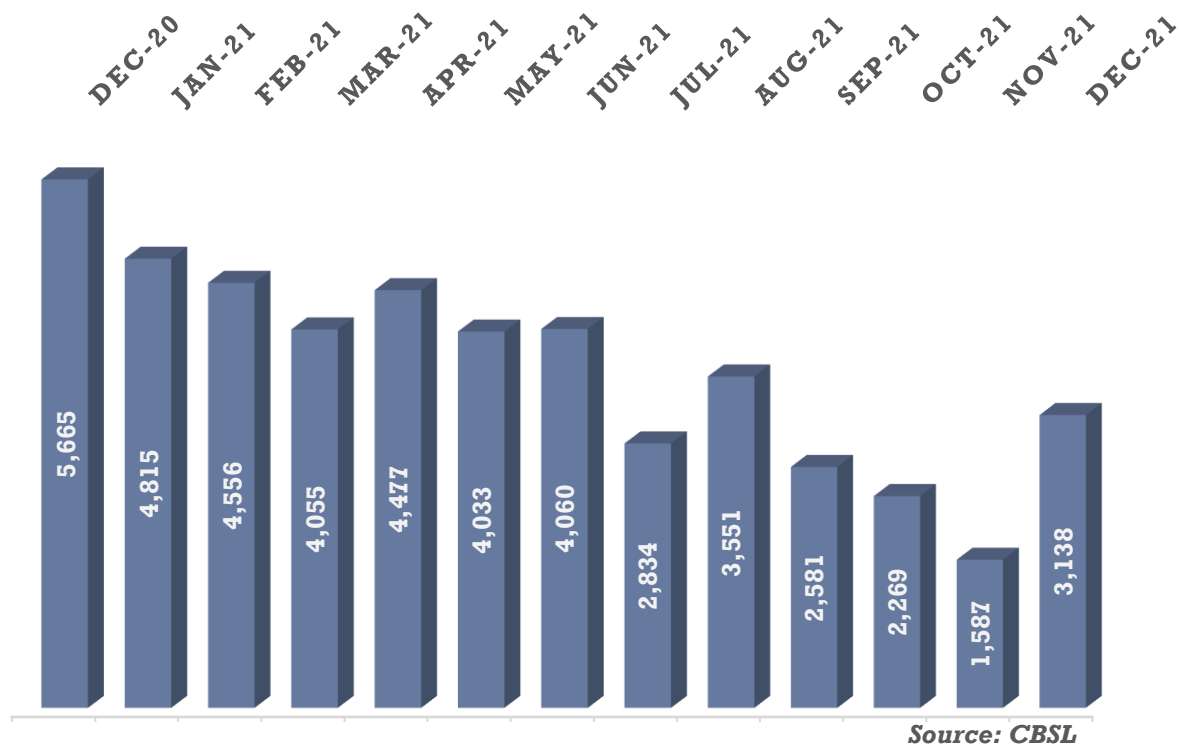
■ State Credit ■ Private Credit

Source: CBSL

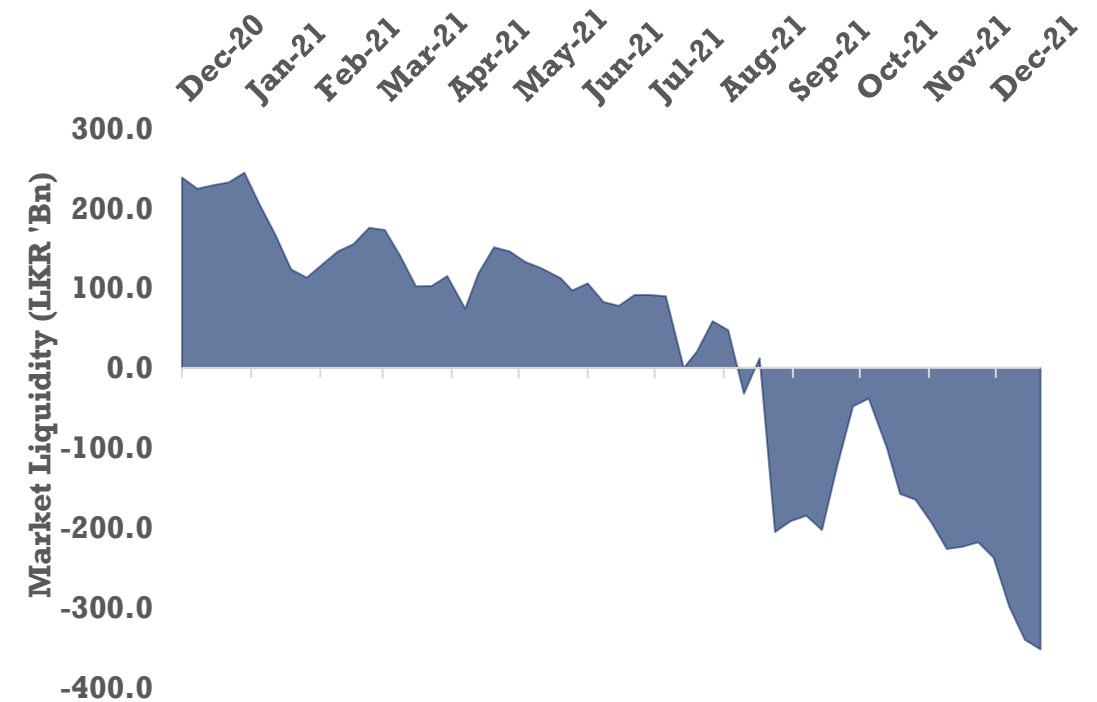
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LIQUIDITY & RESERVES

- Foreign Reserves further improved to USD 3.1Bn in Dec 2021 relative to USD 1.6Bn in Nov 2021 with the execution of the swap facility signed with the People's Bank of China (PBoC) for RMB 10.0Bn (equivalent to approximately USD 1.5Bn)



- Market liquidity remained negative and witnessed a continuous deterioration during Dec 2021 despite ongoing overnight liquidity injections by CBSL.



Source: CBSL

CURRENCY MOVEMENT

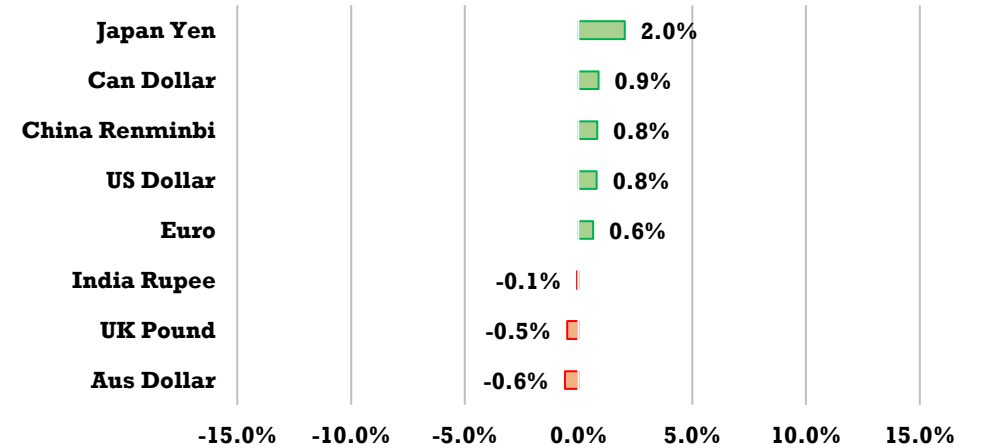
USD:LKR Movement



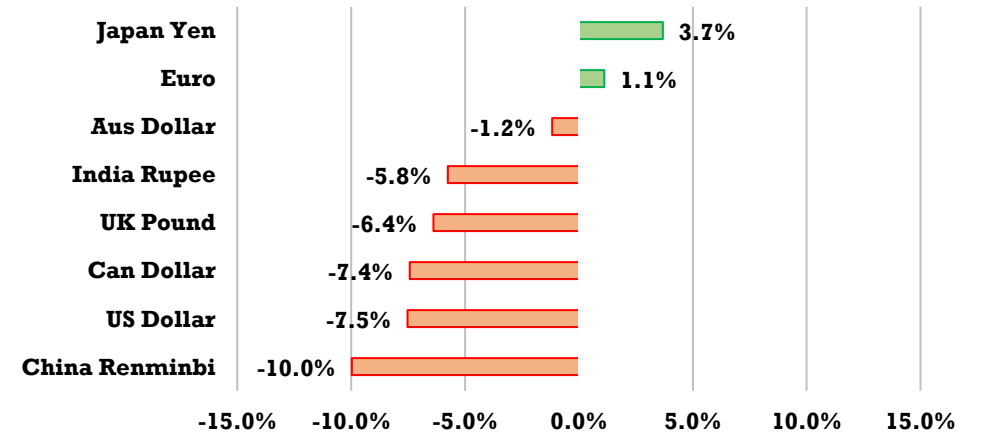
Source: CBSL

Sri Lankan Rupee vs Global Currencies

Dec 2021



YTD 2021



Source: CBSL

GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Dec 2021

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
3-Dec-21	60,000	33,000	93,000
10-Dec-21	66,000		66,000
17-Dec-21	56,919	120,950	177,869
24-Dec-21	40,118		40,118
31-Dec-21	33,566		33,566
Total Issued			410,553

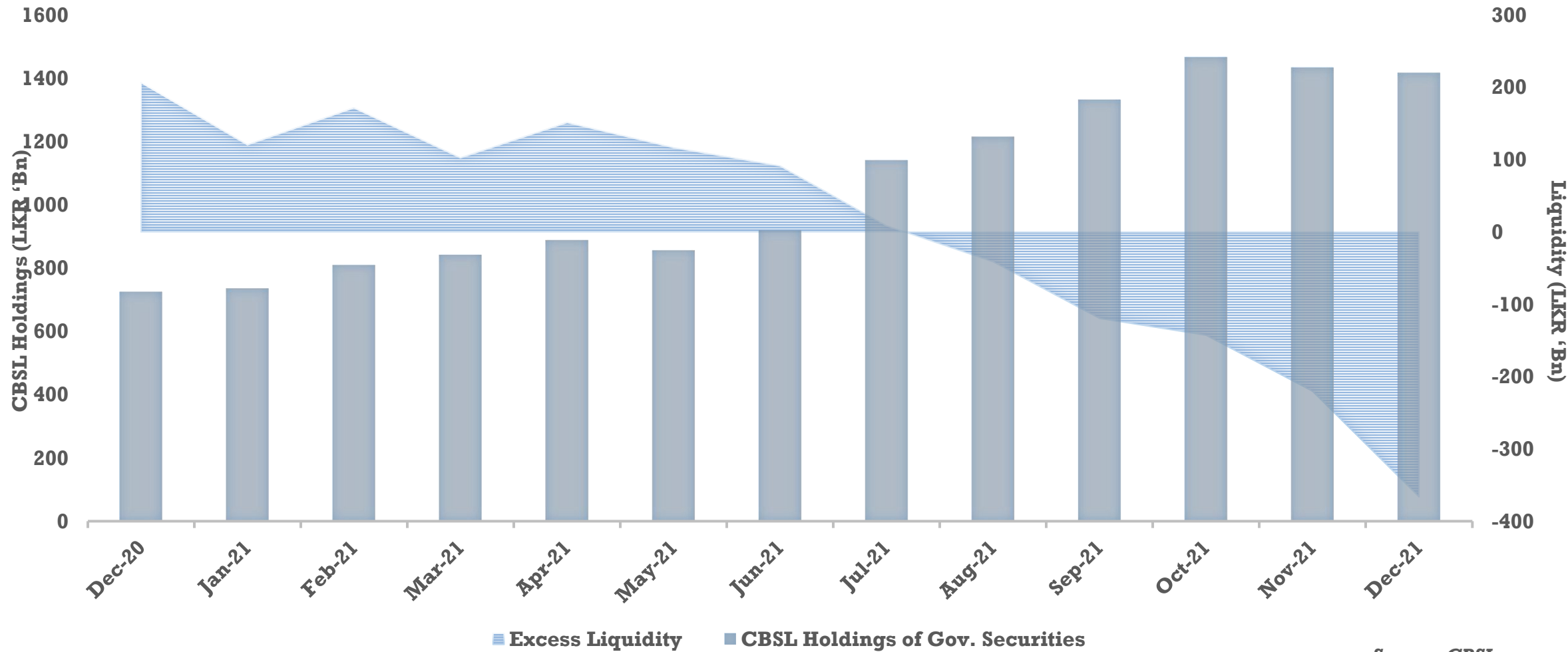


Net Settlement	Dec 2021	YTD
Maturities	461,451	3,117,917
New Issues	410,553	2,757,812
Excess/ (Deficit)	(50,898)	(360,105)

CBSL Holdings of Gov. Securities		YTD
As at End Dec 2021	1,416,752	
As at End Nov 2021	1,433,912	
Increase/ (Decrease)	(17,160)	691,566

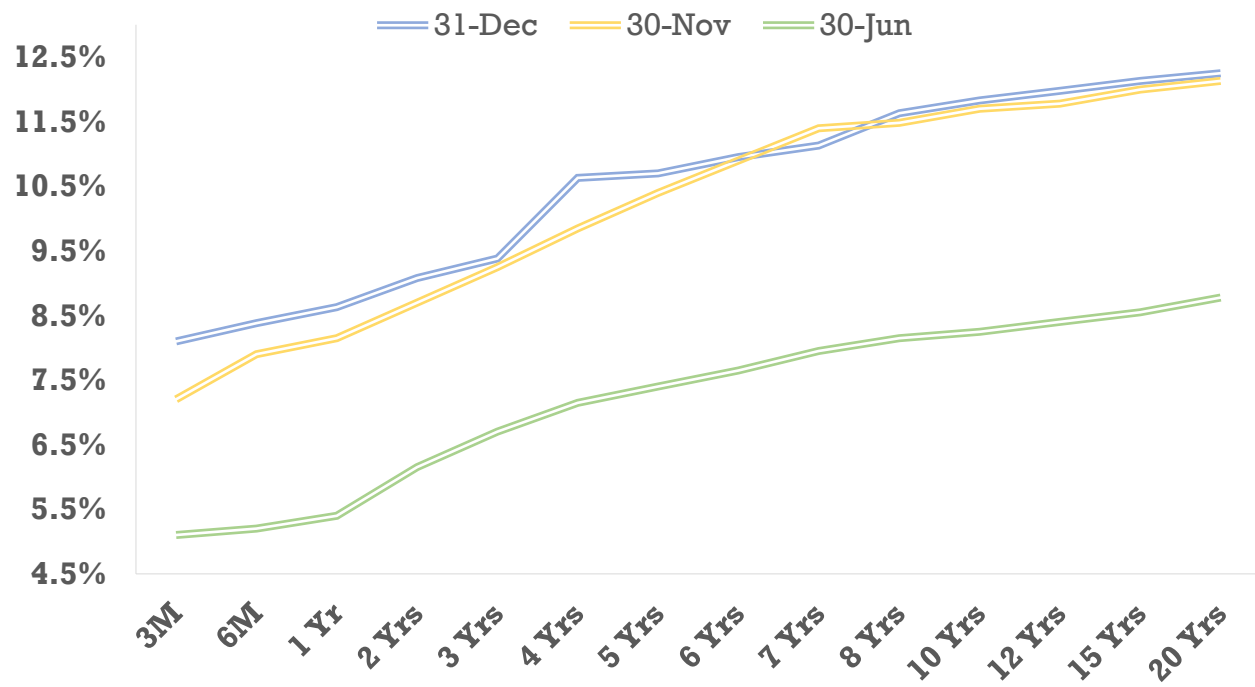
CBSL HOLDINGS OF GOV. SECURITIES...

...decreased by LKR 17.2Bn in Dec 2021



TREASURY BILLS AND BONDS – DEC '21

During the month of Dec, the secondary bond market activities displayed a mixed sentiment mainly centred on the mid-long tenor maturities. Towards the end of the month, yield curve positioned on a downward movement with the slight buying interest that emerged in the market following the CBSL announcement pertaining to the improved foreign reserve position. However, the overall market activities remained lackluster while generating low volumes. Three out of five bill auctions held during the month were partially accepted whereas the bond auction held was accepted in full. Yields of short tenors increased by 13-90bps, mid tenors moved around -27bps to 78bps and long tenors advanced by 12-20bps.

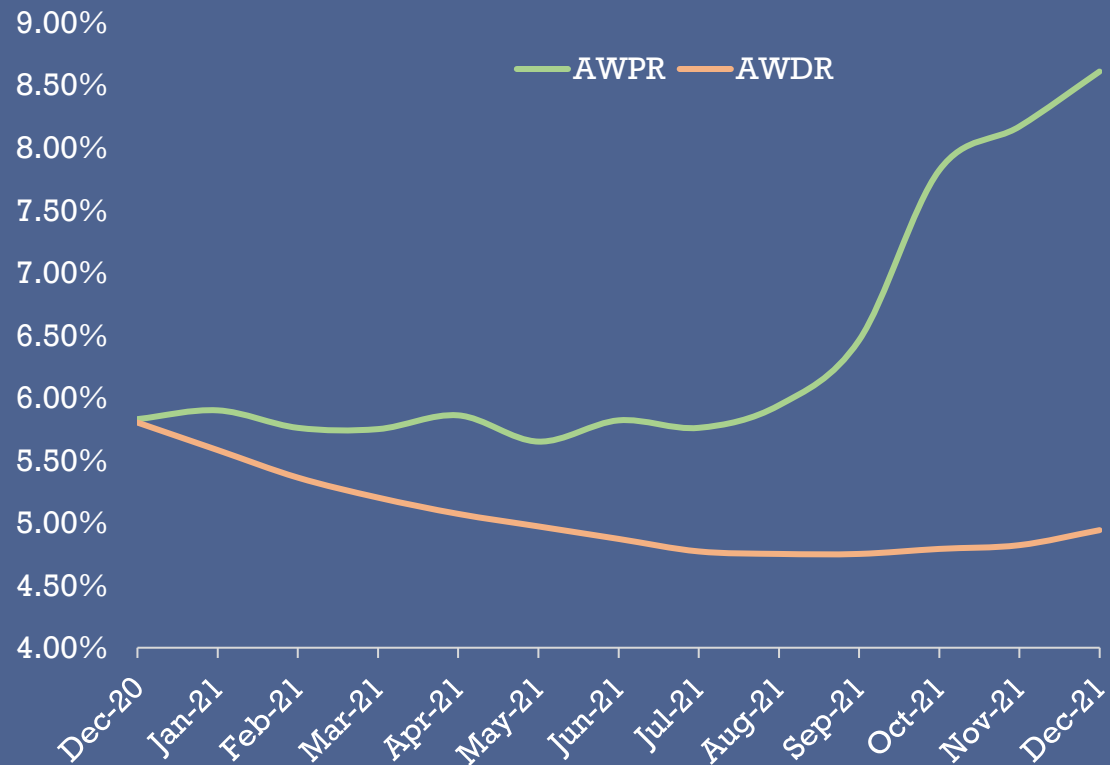


Source: First Capital Research

Tenure	Interest Rate Change (bps)				
	31-Dec	30-Nov	Change (bps)	30-Jun	Change (bps)
3M	8.10%	7.20%	90	5.10%	210
6M	8.38%	7.90%	48	5.20%	270
1 Yr	8.63%	8.15%	48	5.40%	275
2 Yrs	9.08%	8.70%	38	6.15%	255
3 Yrs	9.38%	9.25%	13	6.70%	255
4 Yrs	10.63%	9.85%	78	7.15%	270
5 Yrs	10.70%	10.40%	30	7.40%	300
6 Yrs	10.95%	10.90%	5	7.65%	325
7 Yrs	11.13%	11.40%	-27	7.95%	345
8 Yrs	11.63%	11.48%	15	8.15%	333
10 Yrs	11.83%	11.70%	13	8.25%	345
12 Yrs	11.98%	11.78%	20	8.40%	338
15 Yrs	12.13%	12.00%	13	8.55%	345
20 Yrs	12.25%	12.13%	12	8.78%	335

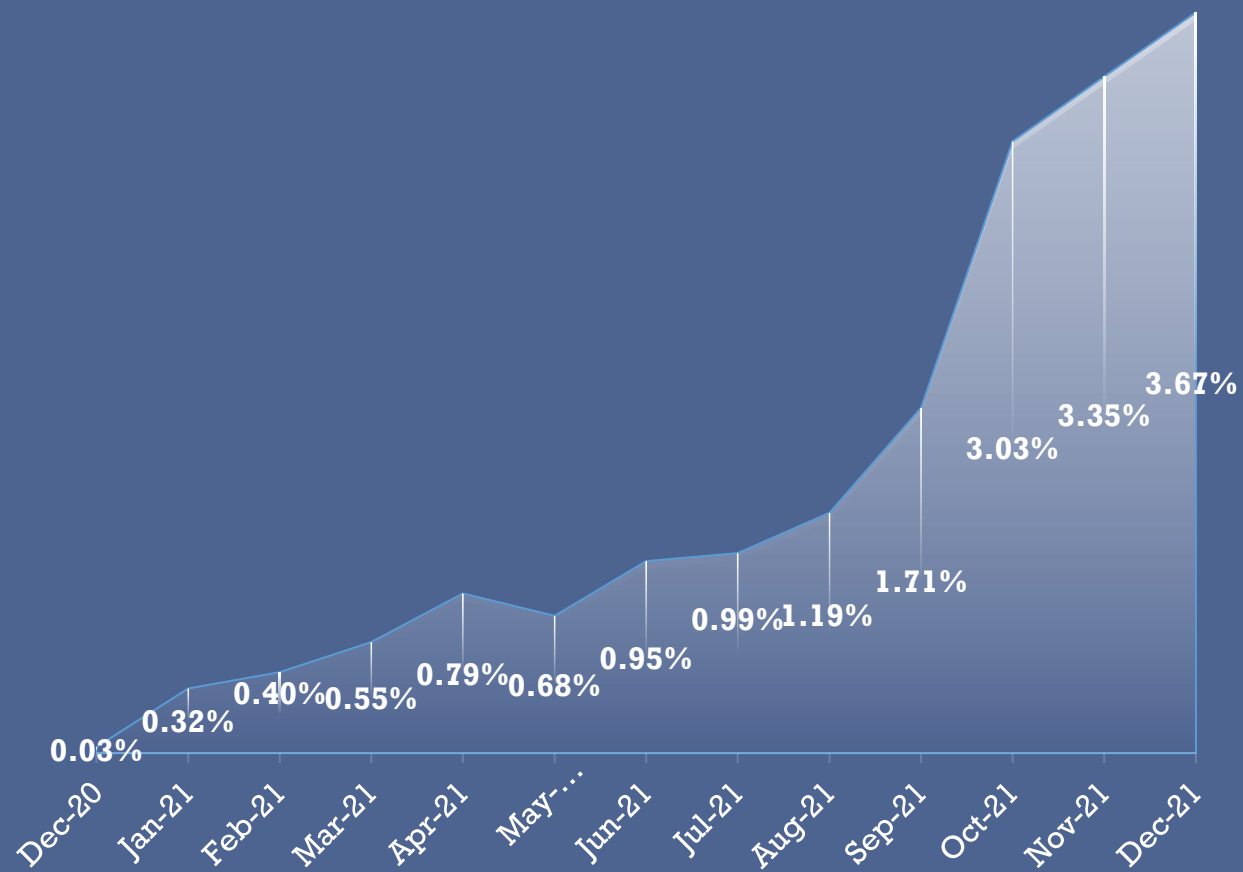
Source: First Capital Research

AWPR vs AWDR



Source: CBSL

Interest Spread



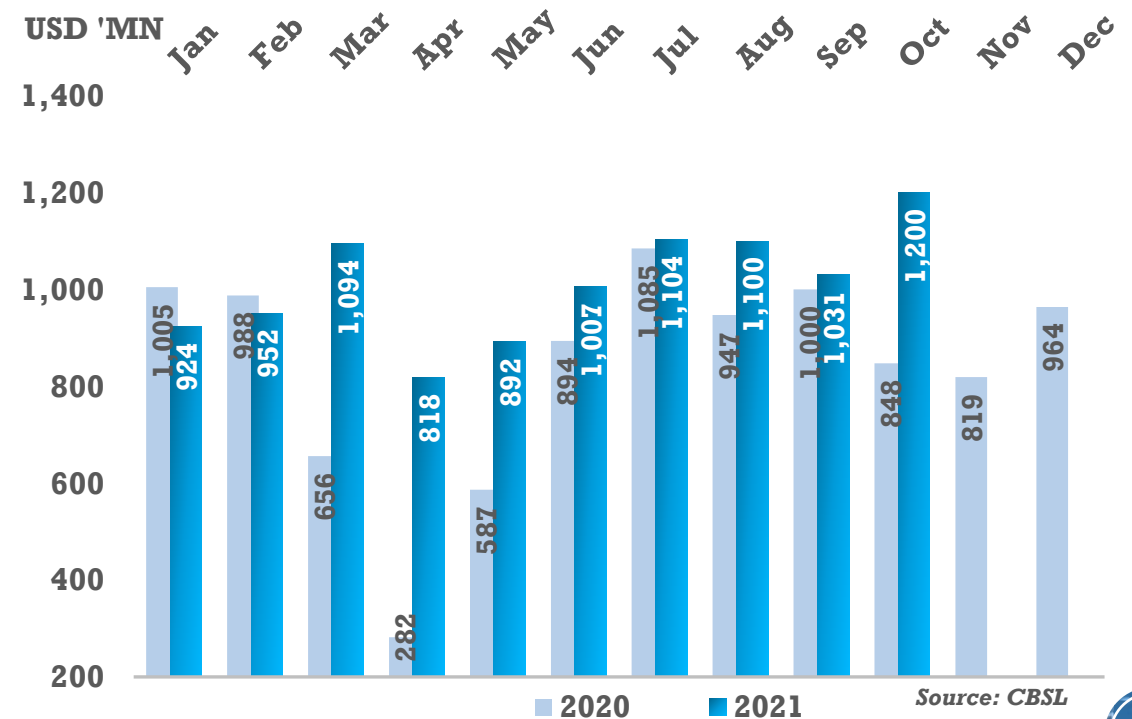
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – OCT 21 – EXPORTS

Exports for Oct recorded a massive growth of 40.4%YoY to USD 1.2Bn mainly led by improvements in Industrial Exports followed by Agricultural Exports. Earnings from the export of industrial goods recorded an increase by 49.3%YoY in Oct 2021, led by garments, food, beverages and tobacco, transport equipment, machinery and mechanical appliances, petroleum products and rubber products. Exports of garments to all major markets increased, and earnings from transport equipment increased mainly due to the export of two ships while earnings from petroleum products improved as a result of the increase in bunker fuel exports. Moreover, increase in earnings from rubber products were led by tyres and gloves. Total earnings from the export of agricultural goods in Oct 2021 improved by 14.3%YoY mainly due to the increased earnings from spices, seafood, coconut, etc. Total earnings from the export of minerals in Oct 2021 declined by 0.4% due to lower earnings from earths and stone.

Category	2020 (USD 'Mn)	2021 (USD 'Mn)	Change (%)
Industrial Exports			
- Oct	639.1	954.0	49.3
- YTD	6,319.1	7,853.0	24.3
Agricultural			
- Oct	211.4	241.6	14.3
- YTD	1,949.9	2,228.3	14.3
Mineral Exports			
- Oct	2.2	2.2	(0.4)
- YTD	18.1	36.0	98.5
Total			
- Oct	854.3	1,199.6	40.4
- YTD	8,299.3	10,133.9	22.1

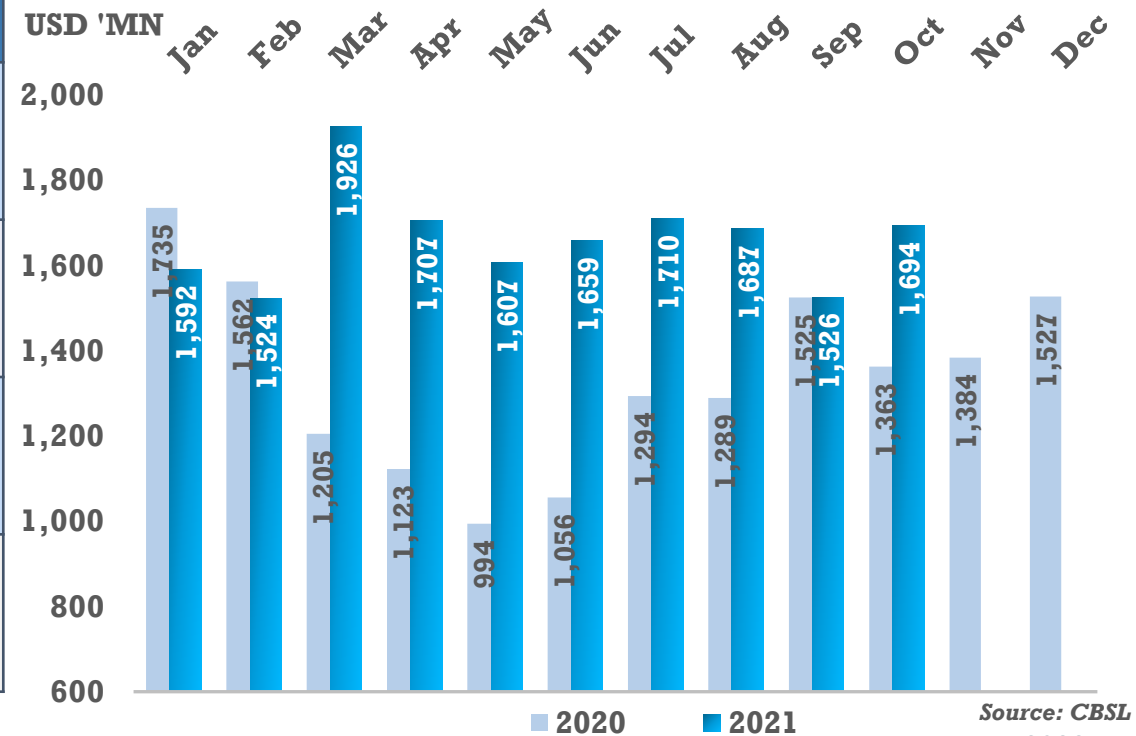


Source: CBSL
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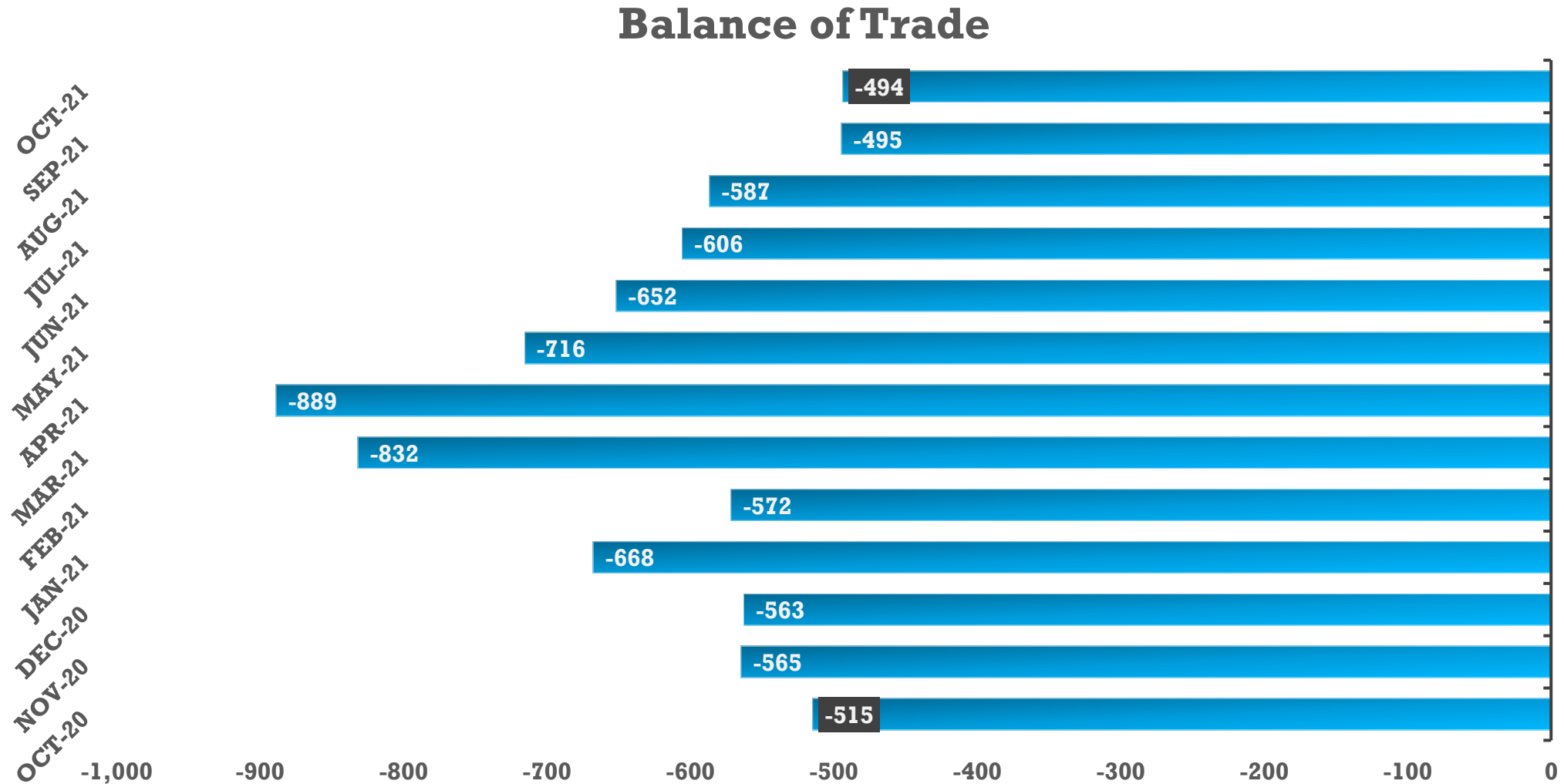
EXTERNAL SECTOR – OCT 21 – IMPORTS

Import expenditure notably increased by 24.3%YoY to USD 1.7Bn in Oct 2021, driven by the increase in Intermediate Goods followed by Investment Goods while reporting a decline in Consumer Goods. Expenditure on the importation of consumer goods in Oct 2021 declined by 7.1%YoY led by lower expenditure on food and beverages despite a higher expenditure value reported in non-food consumer goods. Expenditure on importation of intermediate goods significantly increased by 38.6%YoY driven by increased expenditure on fuel, textiles and textile articles, wheat, base metals, etc. Value of investment goods increased by 11.5%YoY led by the increase in expenditure on machinery and building materials while expenditure on transport equipment recorded a decline due to low commercial vehicle imports.

Category	2020 (USD 'Mn)	2021 (USD 'Mn)	Change (%)
Consumer goods			
- Oct	251.6	233.6	(7.1)
- YTD	2,818.4	3,123.6	10.8
Intermediate			
- Oct	817.5	1,132.6	38.6
- YTD	7,393.2	9,923.4	34.2
Investment goods			
- Oct	293.5	327.3	11.5
- YTD	2,920.9	3,576.1	22.4
Total			
- Oct	1,362.8	1,694.3	24.3
- YTD	13,145.0	16,631.8	23.9

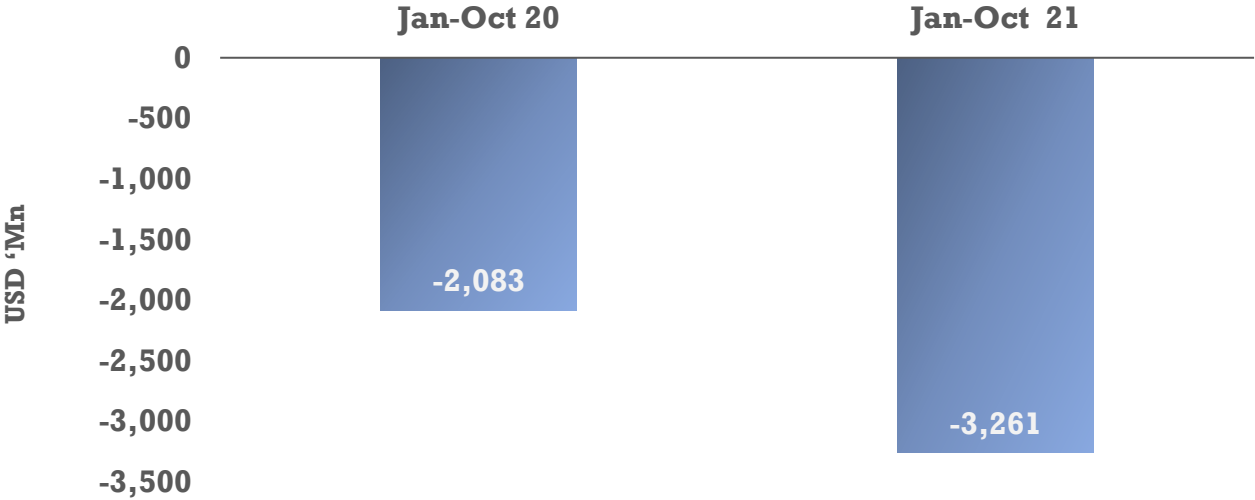


EXTERNAL SECTOR – OCT 21



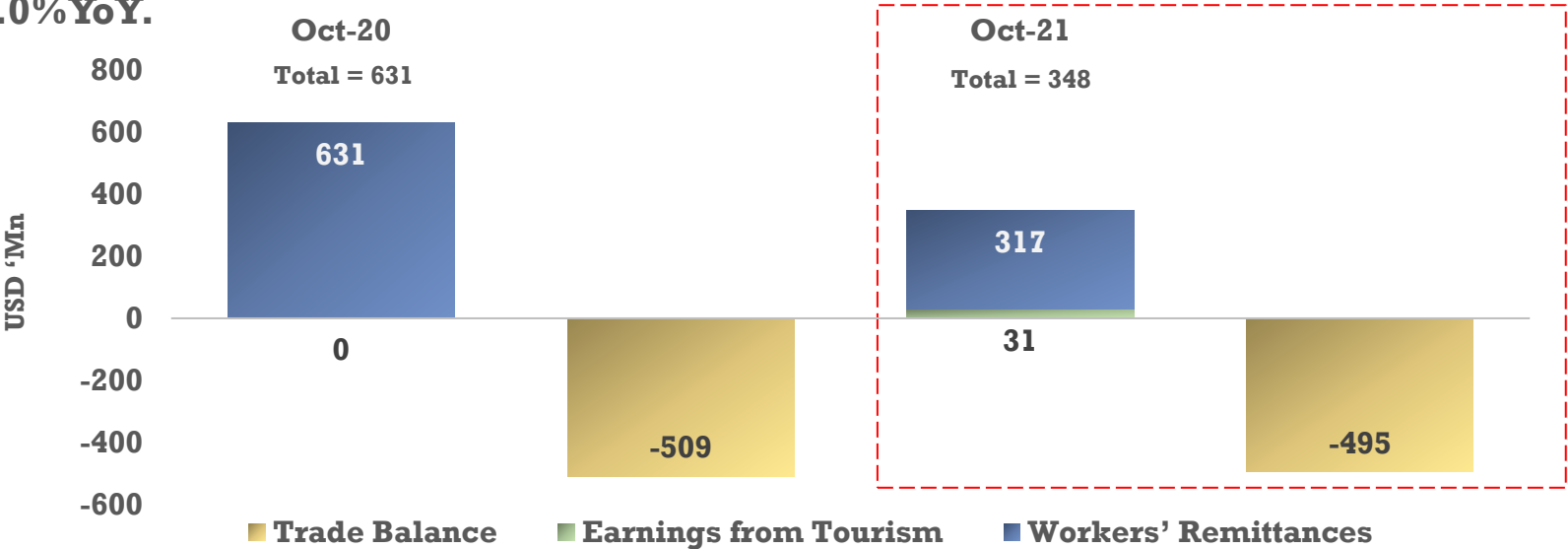
Source: Central Bank

BoP for Jan-Oct 21 recorded at USD -3.3Bn compared to Jan-Sep 21 amount of USD -2.6Bn recording a net outflow of USD 0.7Bn for the month of Oct 2021.



Source: CBSL

Workers' Remittances declined to USD 317.0Mn (-49.7%YoY). Earnings from Tourism for Oct 21 improved to USD 31.0Mn although Jan-Oct 21 declined by 88.0%YoY.



Source: CBSL

BALANCE OF PAYMENT DEFICIT INCREASED YOY IN OCT 2021

Oct USD 'Mn	2020	2021	Change (%)
Trade Balance	-509	-495	
Earnings from Tourism	0	31	N/A
Workers' Remittances	631	317	-49.7

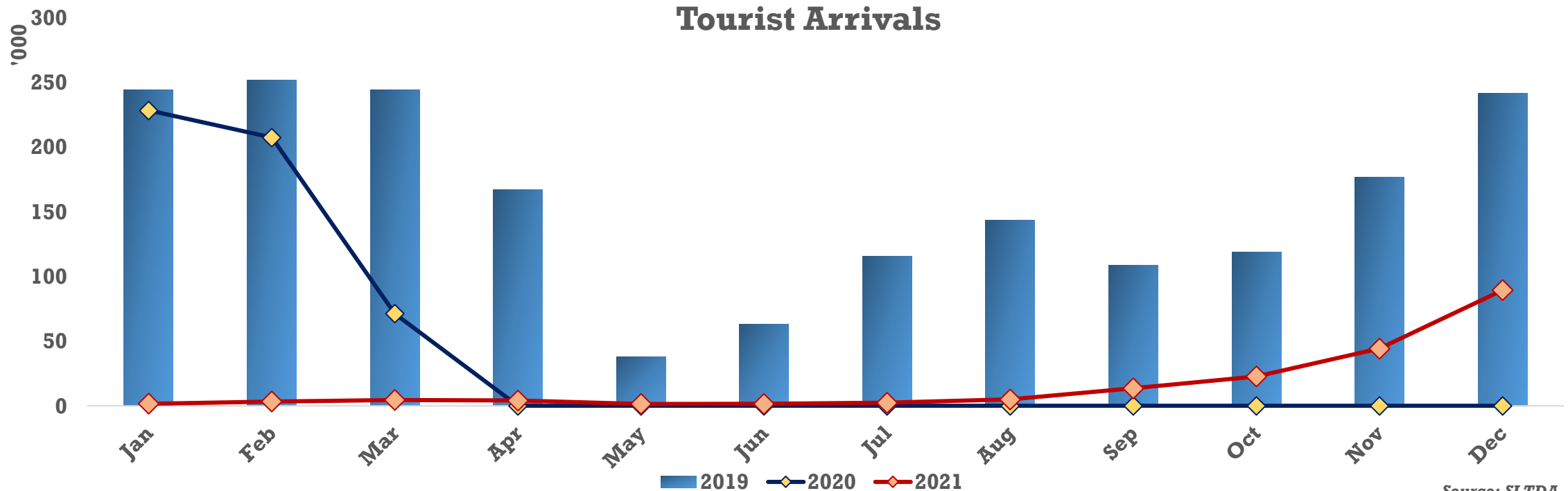
YTD USD 'Mn	2020	2021	Change (%)
Trade Balance	-4,846	-6,498	
Earnings from Tourism	682	82	-88.0
Workers' Remittances	5,680	4,895	-13.8

Source: CBSL

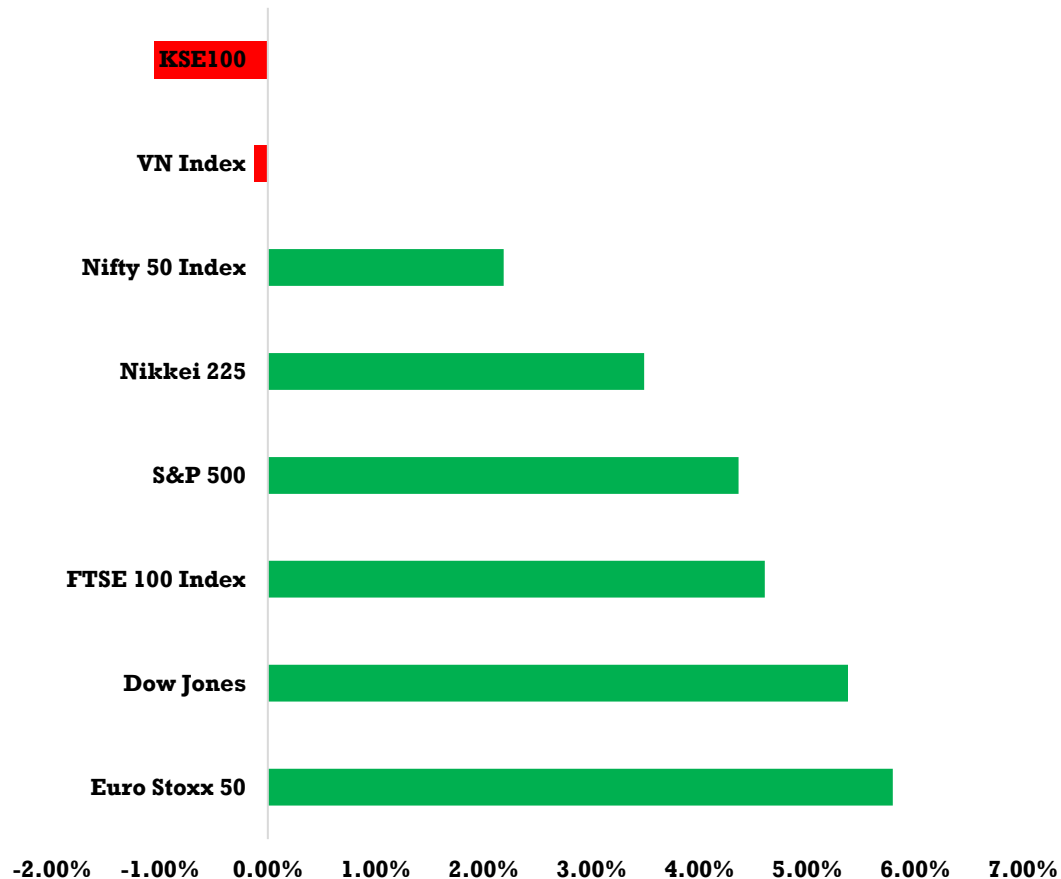
TOURIST ARRIVALS – DEC 2021

[89,506 – DEC, YTD 194,495 – MoM UP 102.1%]

The total number of tourist arrivals to Sri Lanka during Dec 2021 were 89,506. A significant improvement in arrivals was observed during the month of Dec, as a result of the gradual improvement in traveller confidence, rapid vaccination rollout, use of digital tools to facilitate safe travel, such as EU COVID Certificate. The largest source markets recorded for the month of Dec were India, Russia, United Kingdom, Germany and Ukraine.



GLOBAL MARKET



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Source: Investing.com

Fed's Hawkishness Catches On as Bond Yields Hit Multi-Year Peaks

Bond yields worldwide held near pre-pandemic highs as the Federal Reserve's hawkish stance prompts investors to brace for faster withdrawal of monetary stimulus from other central banks across the globe. U.K. five-year yields breached 1% on Monday to hit the highest since March 2019, while German 10-year yields came within three basis points of breaking into positive territory for the first time since May 2019 before pulling back. That came as benchmark Treasury yields held near levels last seen in early 2020.

Bloomberg



Experts cast doubts over reported 'deltacron' variant, say likely due to lab contamination

Global health experts are casting doubts over reports of a new possible Covid-19 mutation that appeared to be a combination of both the delta and omicron variants, dubbed as "deltacron," saying it's more likely that the "strain" is the result of a lab processing error. Leondios Kostrikis, professor of biological sciences at the University of Cyprus, had called the strain "deltacron," because of its omicron-like genetic signatures within the delta genomes.

EU scientists call for action as greenhouse gas levels hit high in 2021

Levels of planet-warming carbon dioxide and methane in the atmosphere hit record highs in 2021, which was one of the world's hottest years ever and underlined the need for change, the EU's Copernicus Climate Change Service (C3S) said. Globally, 2021 was the fifth hottest year on record, with an average temperature 1.1-1.2C above 1850-1900 levels. "These events are a stark reminder of the need to change our ways, take decisive and effective steps toward a sustainable society and work towards reducing net carbon emissions," C3S director Carlo Buontempo said.



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THANK YOU

“Successful Investment Is About Managing Risk...”

CONTACT US

First Capital Holdings PLC

No: 02, Deal Place, Colombo 00300, Sri Lanka.

E: research@firstcapital.lk

Dimantha Mathew

Head of Research

T: +94 11 2639 853

E: dimantha@firstcapital.lk

Hiruni Perera

Assistant Manager- Research

T: +94 11 2639 864

E: hiruni@firstcapital.lk

Vidushika Perera

Assistant Manager- Research

T: +94 11 2639 864

E: vidushika@firstcapital.lk

Tharusha Ashokgar

Junior Analyst-Research

T +94 11 2639 864

tharushaash@firstcapital.lk



First Capital

