

A wide-angle, nighttime photograph of a city skyline, likely Manila, Philippines. The sky is a deep blue with some light clouds. The city is illuminated by various lights, including streetlights and building lights. A prominent feature is a tall, dark skyscraper under construction, with its upper floors lit up and a construction crane visible at the top. Other buildings of varying heights are scattered across the horizon. In the foreground, there's a body of water reflecting the city lights.

# MONTHLY ECONOMIC WATCH

Jul 2021



First Capital

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# INVESTMENTS BY LICENSED BANKS IN INTERNATIONAL SOVEREIGN BONDS

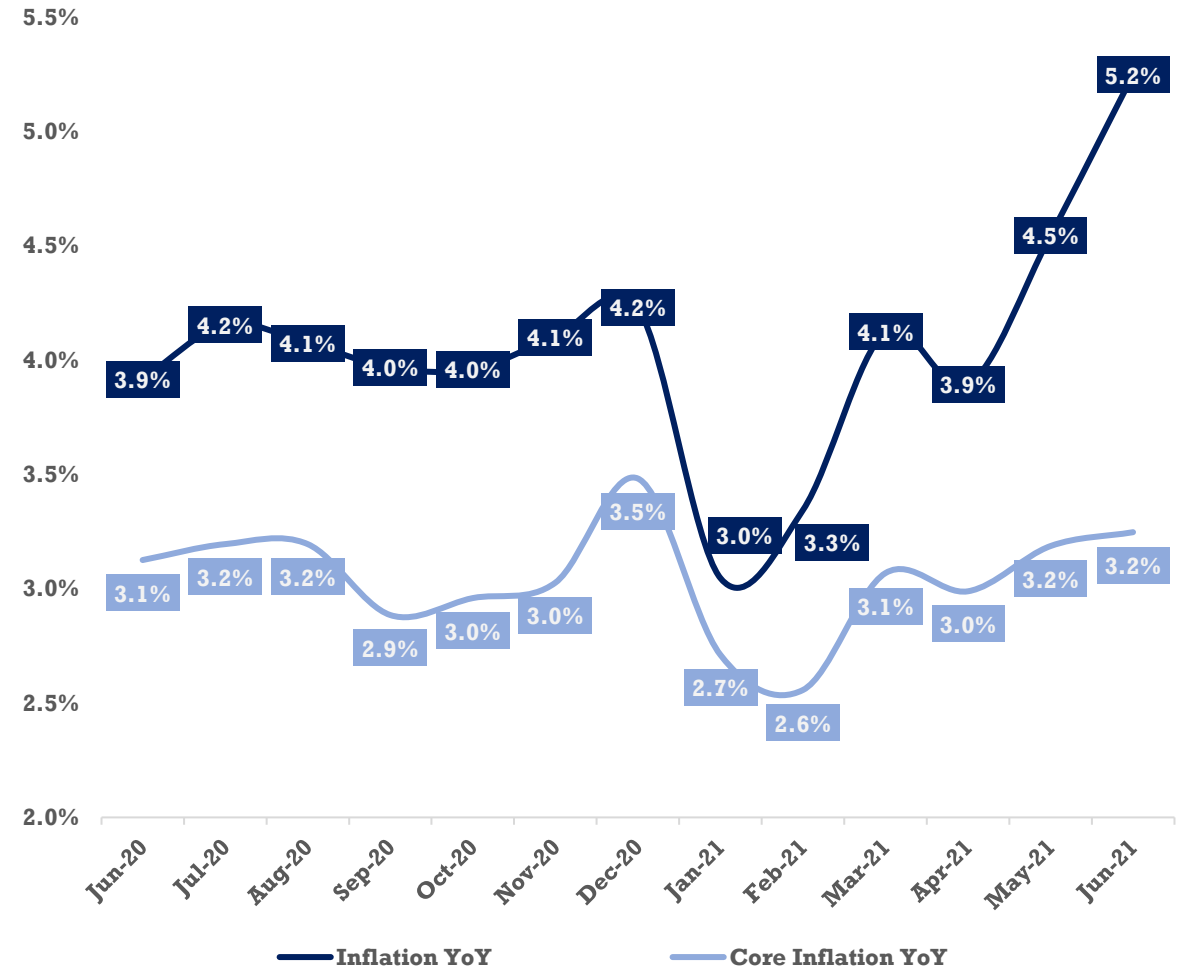
- With a view to facilitate investment opportunities in the country and to further encourage foreign currency inflows, the CBSL has allowed Licensed Commercial Banks (LCBs) and the National Savings Bank (NSB) to invest funds sourced externally in US Dollar denominated ISBs and SLDBs, equally splitting such investments into both ISBs and SLDBs, having considered all relevant risks involved including the following:
  - ❑ To mitigate the risk arising from the foreign currency exposure to the Govt., CBSL has specified a capital charge under the Basel III framework for credit risk arising from foreign currency exposure to the Govt. and specifying a general capital charge for market risk under the Basel III framework for trading book investments in Govt. Securities.
  - ❑ With a view to mitigate the risk arising from their foreign currency borrowings, LCBs are required to make such borrowings subject to a limit computed based on external credit rating and the capital adequacy ratios of the bank. The limit is expressed as a percentage of total assets, ranging between 5% and 10% as per the latest available audited accounts.
  - ❑ Foreign currency liquidity positions are monitored through Basel III Liquidity Coverage Ratio (LCR) and LCR monitoring tools to ensure that LCBs keep adequate foreign currency liquid stocks to meet their foreign currency obligations.

*Source: CBSL*

# INFLATION – CCPI

## CCPI FOR JUN 2021: MOM +1.5%, YOY +5.2%

- MoM inflation increased by 1.5% with the increase in expenditure value of Food items by 3.9% and an increase of Non-food items by 0.3%.
- The YoY inflation increased to 5.2% in Jun 2021. YoY inflation of Food group has increased to 11.3% in Jun 2021 from 9.9% in May 2021 while Non-food group also has increased to 2.5% from 2.2% in May 2021.



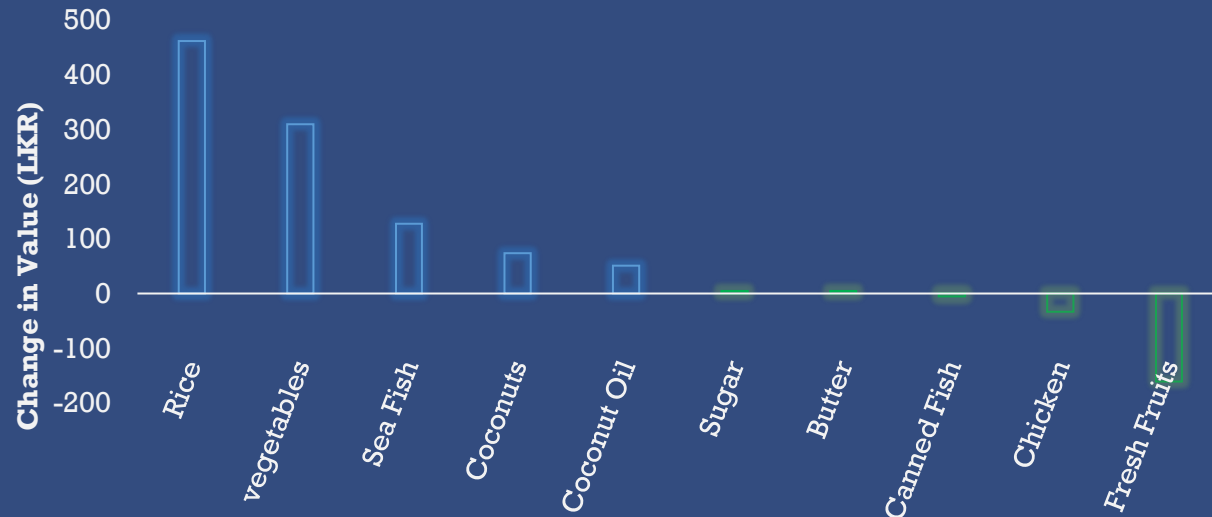
Source: Dept. Census and Statistics

# INFLATION ANALYSIS – CCPI-MOM

The CCPI index records an increase of 1.5% MoM contributed by the expenditure value increase of Food items by 1.25% MoM and an increase of Non-Food items by 0.21%. Within the Food items, increase in value changes were reported for essential items such as Rice, Vegetables, Sea Fish and Coconuts etc. Among Non-Food groups, increase in value changes were reported for the groups of Transport, Health and Miscellaneous Goods and Services.

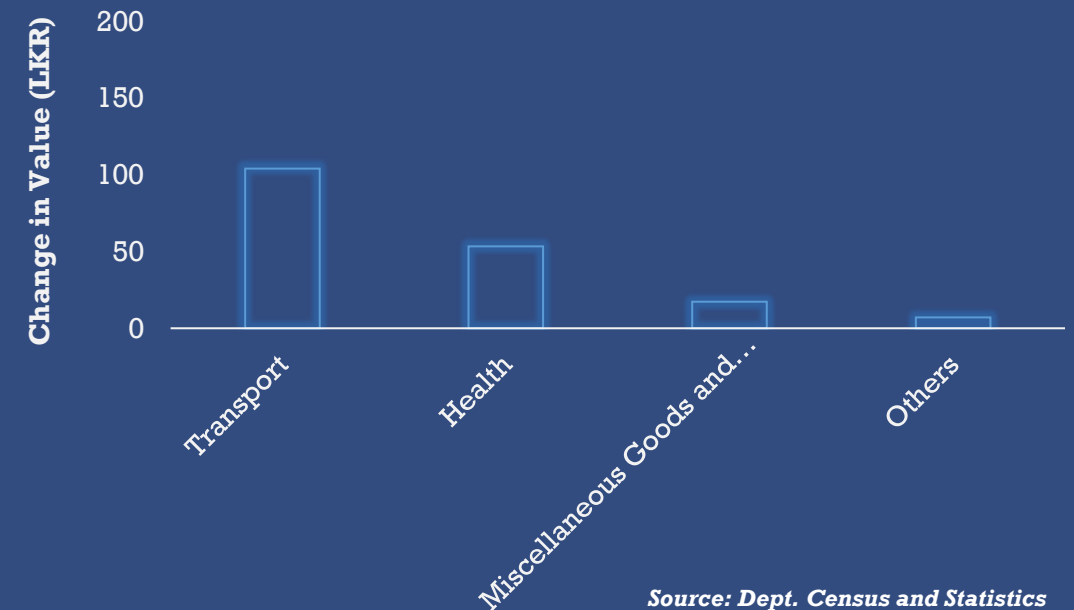


## Food Category Inflation



Source: Dept. Census and Statistics

## Non-Food Category Inflation



Source: Dept. Census and Statistics



# INFLATION ANALYSIS – CCPI-YOY

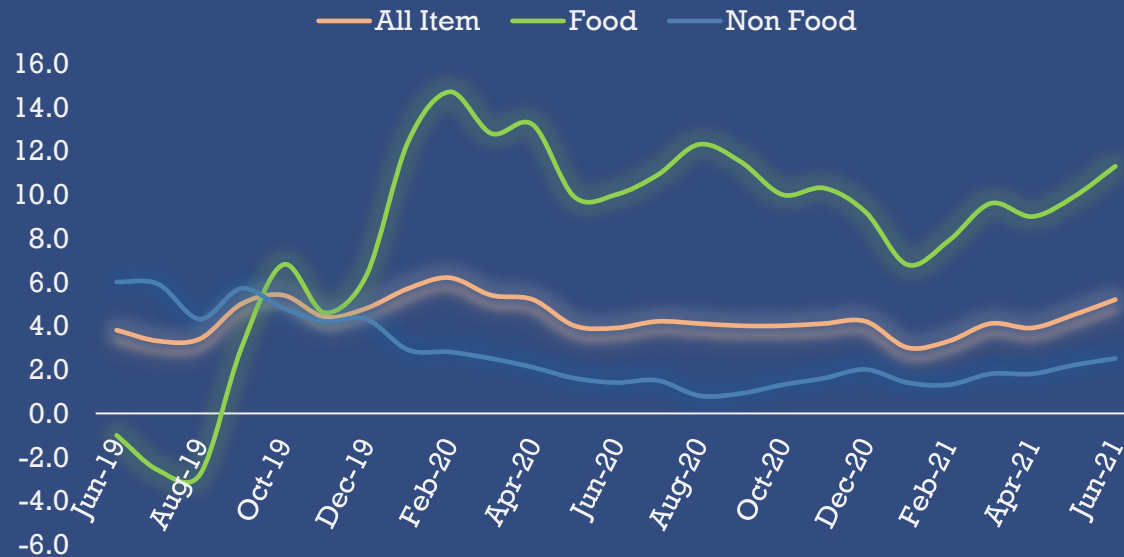
The YoY inflation of CCPI for Jun was 5.2% and has increased relative to the month of May. Food item prices have increased to 11.3% in Jun 2021 from 9.9% in May 2021 while the Non-Food item prices also have increased to 2.5% from 2.2% in May 2021. The contribution from food category for YoY inflation was 3.49% while the contribution of Non-Food items stood at 1.71% mainly due to the increase in Transport, Restaurants & Hotels and Health.

3.49%

1.71%

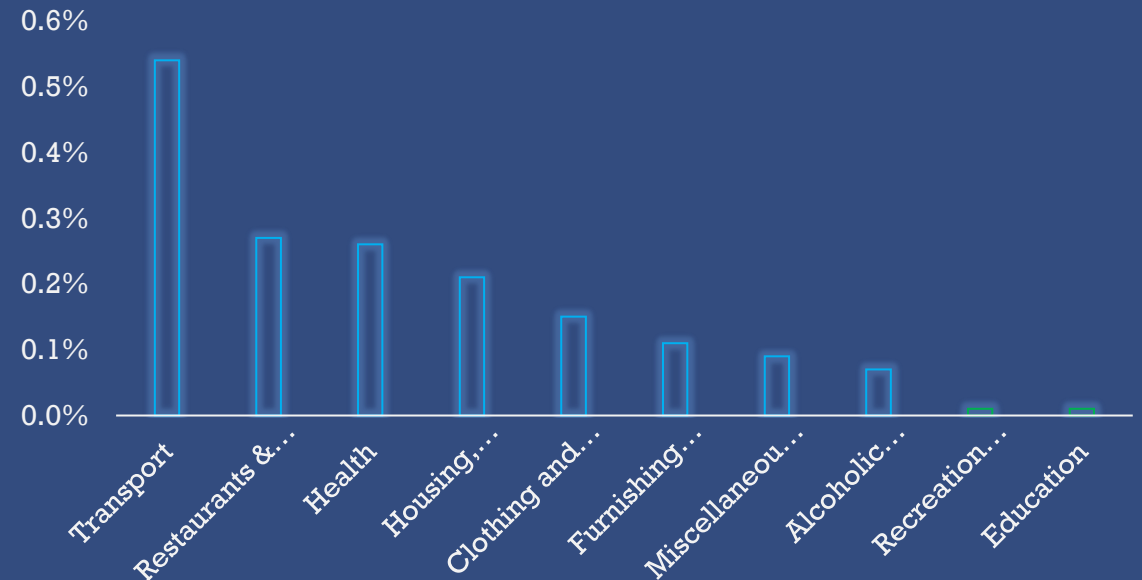
■ Food ■ Non Food

## Inflation Analysis (YoY)



Source: Dept. Census and Statistics

## Non-Food Category Inflation

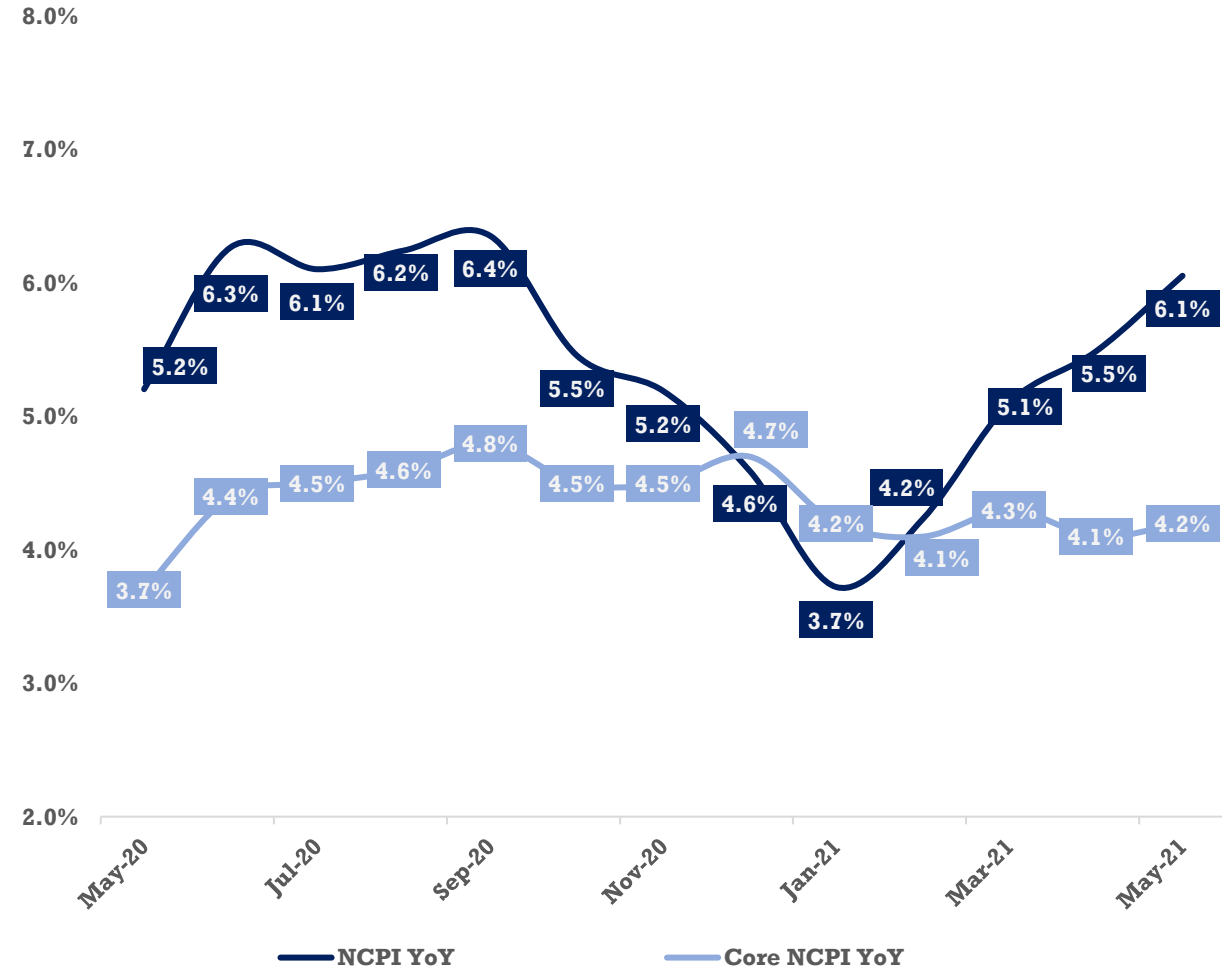


Source: Dept. Census and Statistics

# INFLATION – NCPI

## NCPI FOR MAY 2021: INCREASED TO 6.1%YOY

- NCPI for May 2021 increased to 6.1% from 5.5% recorded in Apr 2021.
- This increase was mainly driven by the increase in prices of Food commodities and Non-Food commodities. YoY Food inflation increased from 9.7% in Apr 2021 to 10.3% in May 2021. Non-Food inflation also increased from 2.2%YoY to 2.5%YoY during Apr 2021 to May 2021.



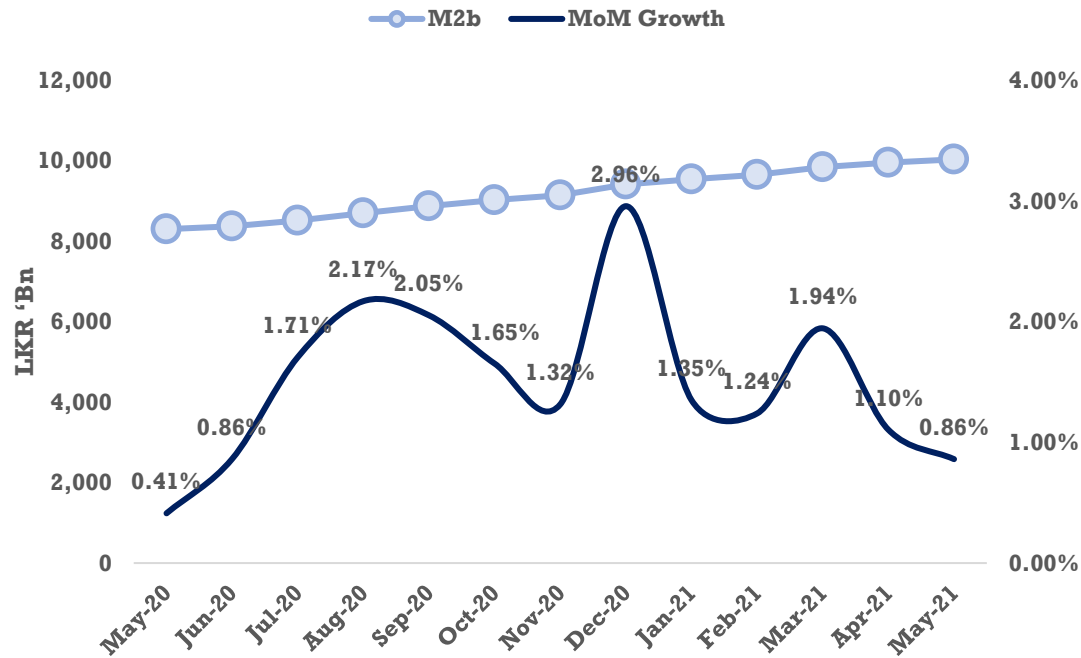
Source: Dept. Census and Statistics

# M2B AND CREDIT GROWTH

Private sector credit increased by LKR 56Bn in May 2021 sustaining the positive growth momentum for 10<sup>th</sup> consecutive month. State credit reflected a net borrowings of LKR 78Bn.

## M2b Growth – May 2021

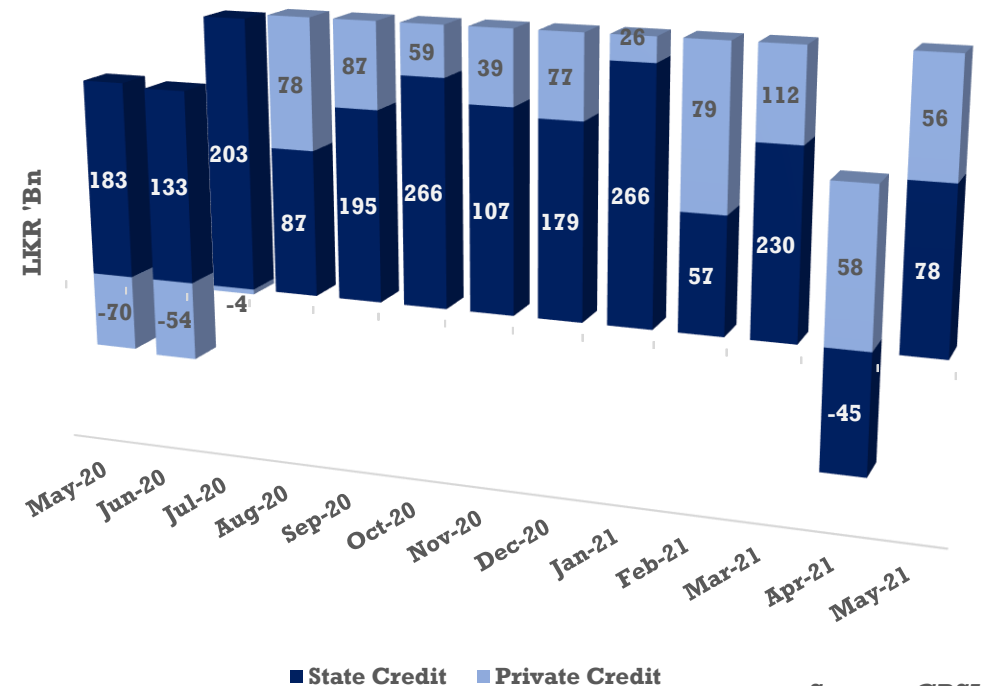
MoM +0.9%, YoY +20.9%, YTD +6.7%



Source: CBSL

## State Credit & Private Credit – May 2021

Private Credit MoM 0.9%, YoY +10.5%, YTD 5.4%



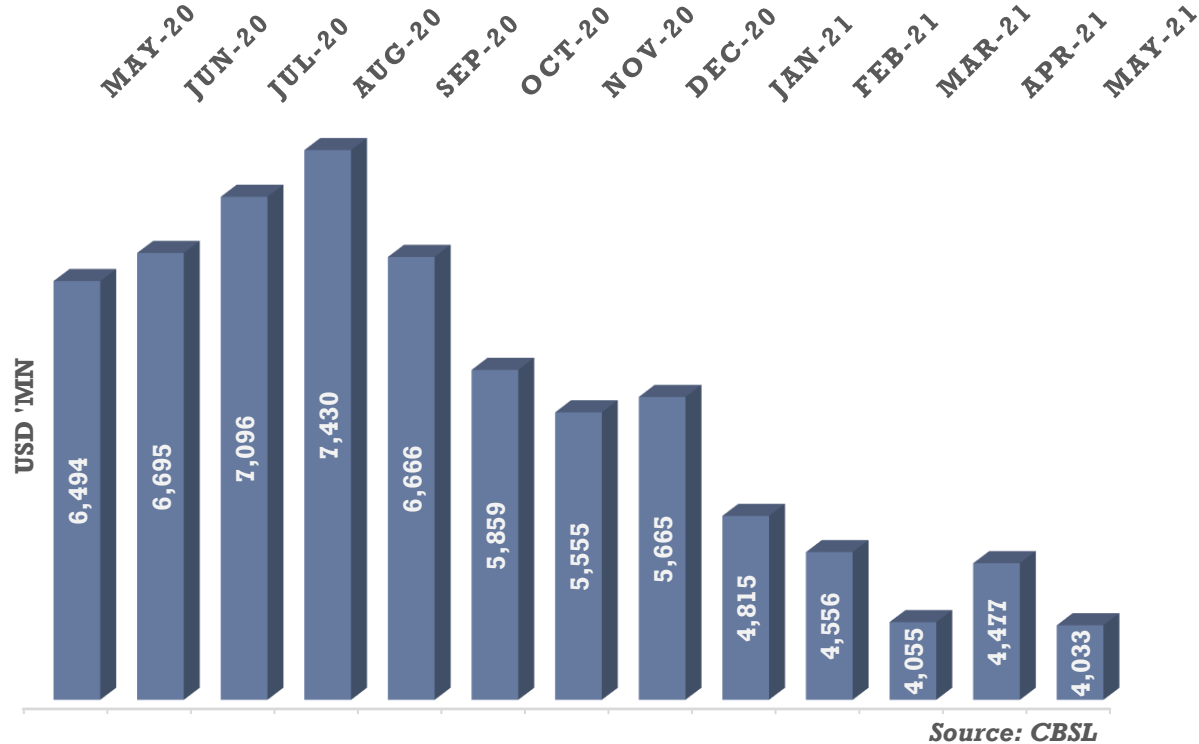
■ State Credit ■ Private Credit

Source: CBSL

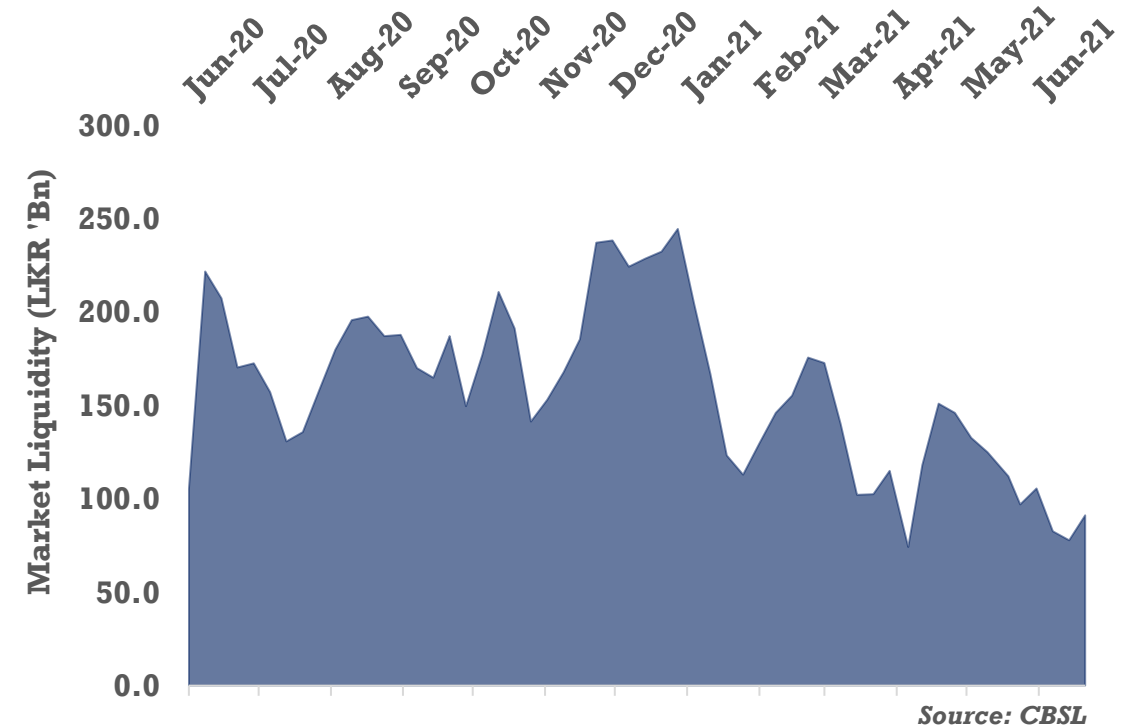


# LIQUIDITY & RESERVES

- Foreign Reserves declined again to USD 4.0Bn in May 2021 relative to USD 4.5Bn in Apr 2021, recording the 10-year lowest reserve value.



- Market liquidity witnessed a significant fluctuation during Jun while recording a gradual decline towards the latter part of the month and closing at LKR 91.2Bn. Highest liquidity was recorded on 29<sup>th</sup> Jun 2021 amounting to LKR 116.0Bn.



# CURRENCY MOVEMENT

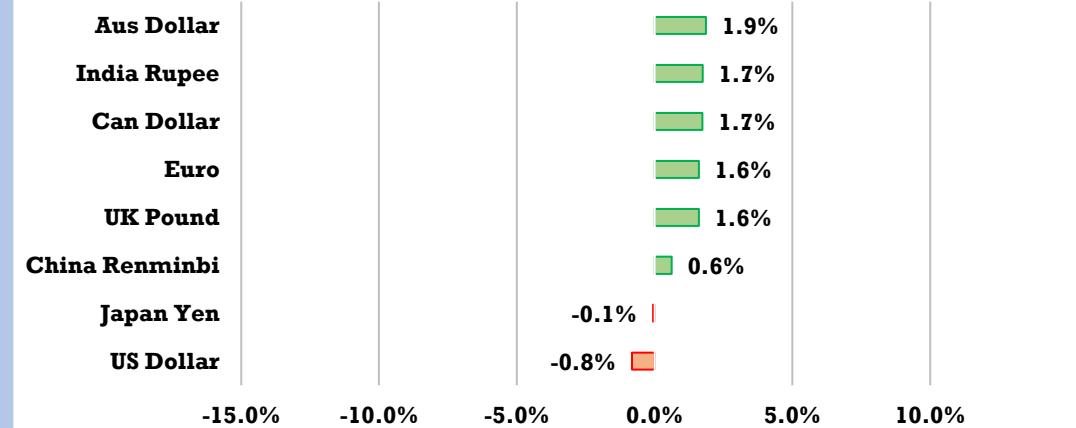
## USD:LKR Movement



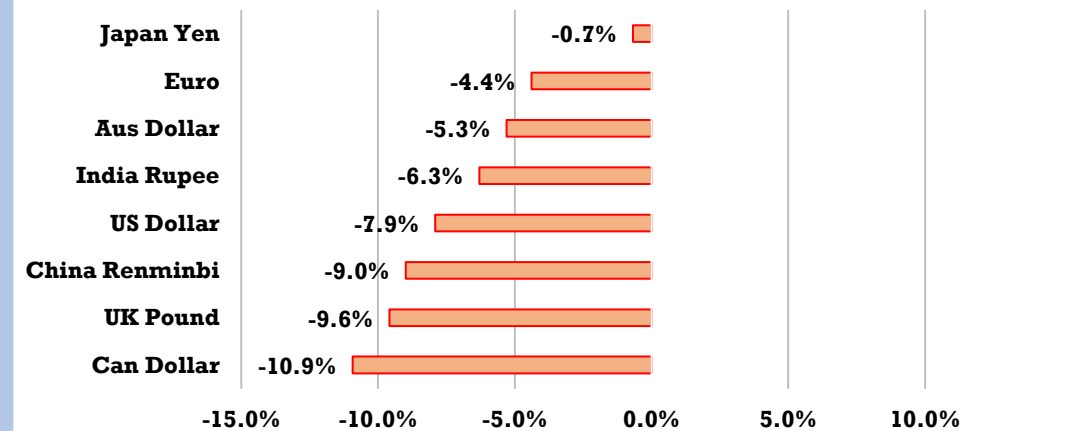
Source: CBSL

## Sri Lankan Rupee vs Global Currencies

Jun 2021



YTD 2021

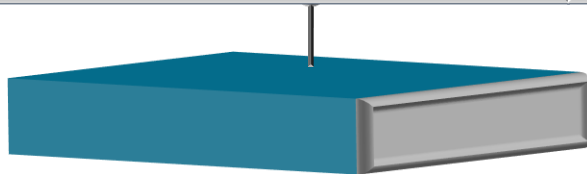


Source: CBSL

# GOVERNMENT SECURITIES – NEW ISSUES

## Bill and Bond auctions for Jun 2021

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
04-Jun-21	30,723	25,000	55,723
11-Jun-21	31,572		31,572
18-May-21	19,879	25,000	44,879
25-May-21	19,025		19,025
<b>Total Issued</b>			<b>151,199</b>



Net Settlement	Jun 2021	YTD
Maturities	202,395	1,160,400
New Issues	151,199	1,022,357
<b>Excess/(Deficit)</b>	<b>(51,196)</b>	<b>(138,043)</b>

CBSL Holdings of Gov. Securities		YTD
As at End Jun 2021	919,243	
As at End May 2021	856,646	
<b>Increase/ (Decrease)</b>	<b>62,597</b>	<b>194,057</b>

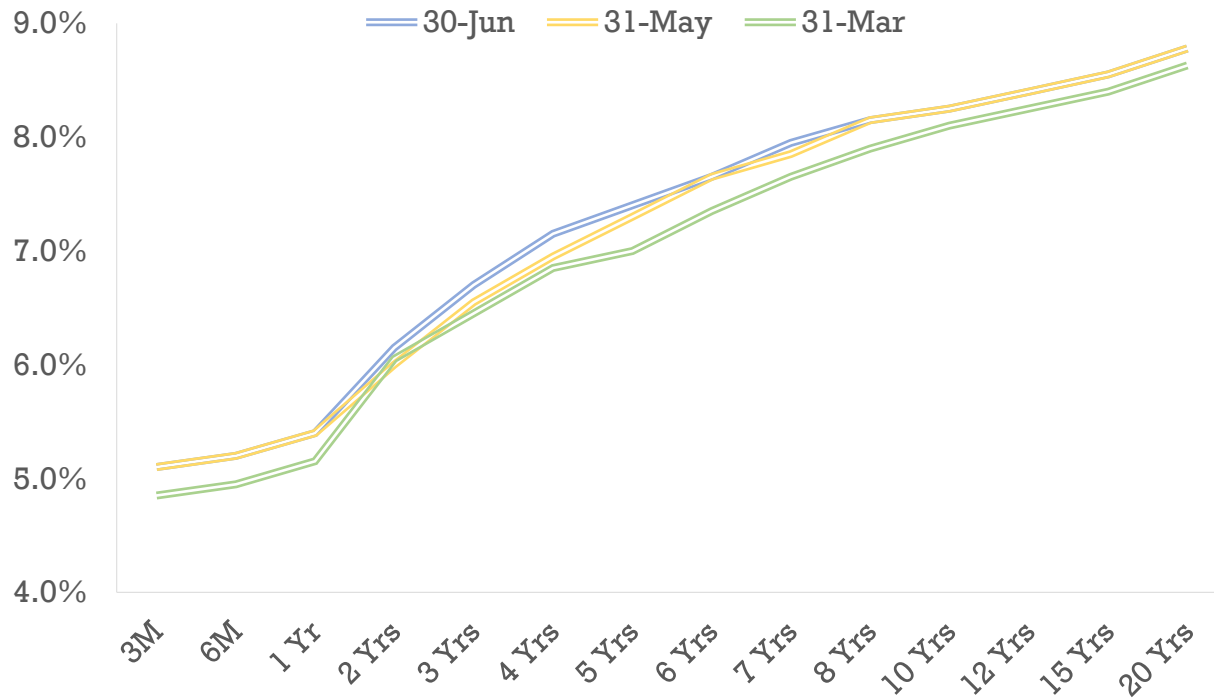
# CBSL HOLDINGS OF GOV. SECURITIES...

*...increased by LKR 63Bn in Jun 2021*



# TREASURY BILLS AND BONDS – JUN '21

The secondary bond market yield curve shifted upwards during the month of Jun with the selling interest mainly centred on the short to belly end of the yield curve amidst the rising uncertainty. All five-bill auctions and the final bond auction held during the month got undersubscribed while LKR 25.0Bn worth bond auctions held on 1<sup>st</sup> and 11<sup>th</sup> Jun being fully subscribed. Yields of short tenors increased by 15bps, mid tenors by 10-20bps while long tenor maturities remaining unchanged.

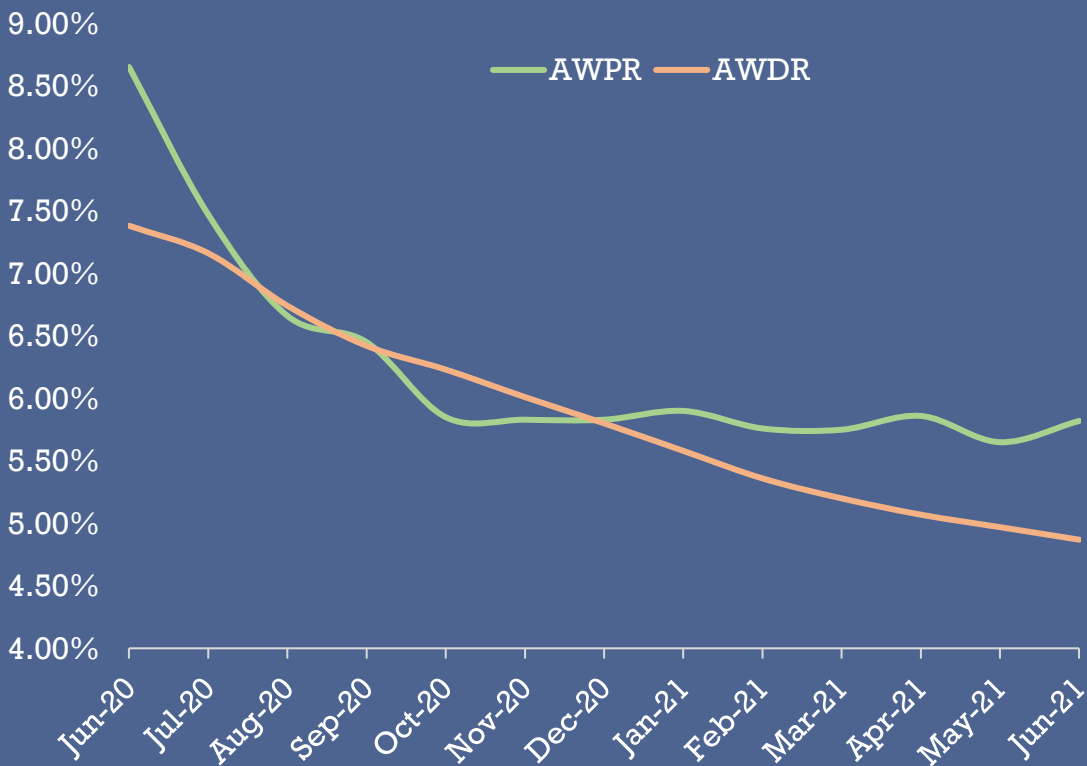


Source: First Capital Research

Tenure	Interest Rate Change (bps)				
	30-Jun	31-May	Change (bps)	31-Mar	Change (bps)
3M	5.10%	5.10%	0	4.85%	25
6M	5.20%	5.20%	0	4.95%	25
1 Yr	5.40%	5.40%	0	5.15%	25
2 Yrs	6.15%	6.00%	15	6.05%	10
3 Yrs	6.70%	6.55%	15	6.45%	25
4 Yrs	7.15%	6.95%	20	6.85%	30
5 Yrs	7.40%	7.30%	10	7.00%	40
6 Yrs	7.65%	7.65%	0	7.35%	30
7 Yrs	7.95%	7.85%	10	7.65%	30
8 Yrs	8.15%	8.15%	0	7.90%	25
10 Yrs	8.25%	8.25%	0	8.10%	15
12 Yrs	8.40%	8.40%	0	8.25%	15
15 Yrs	8.55%	8.55%	0	8.40%	15
20 Yrs	8.78%	8.78%	0	8.63%	15

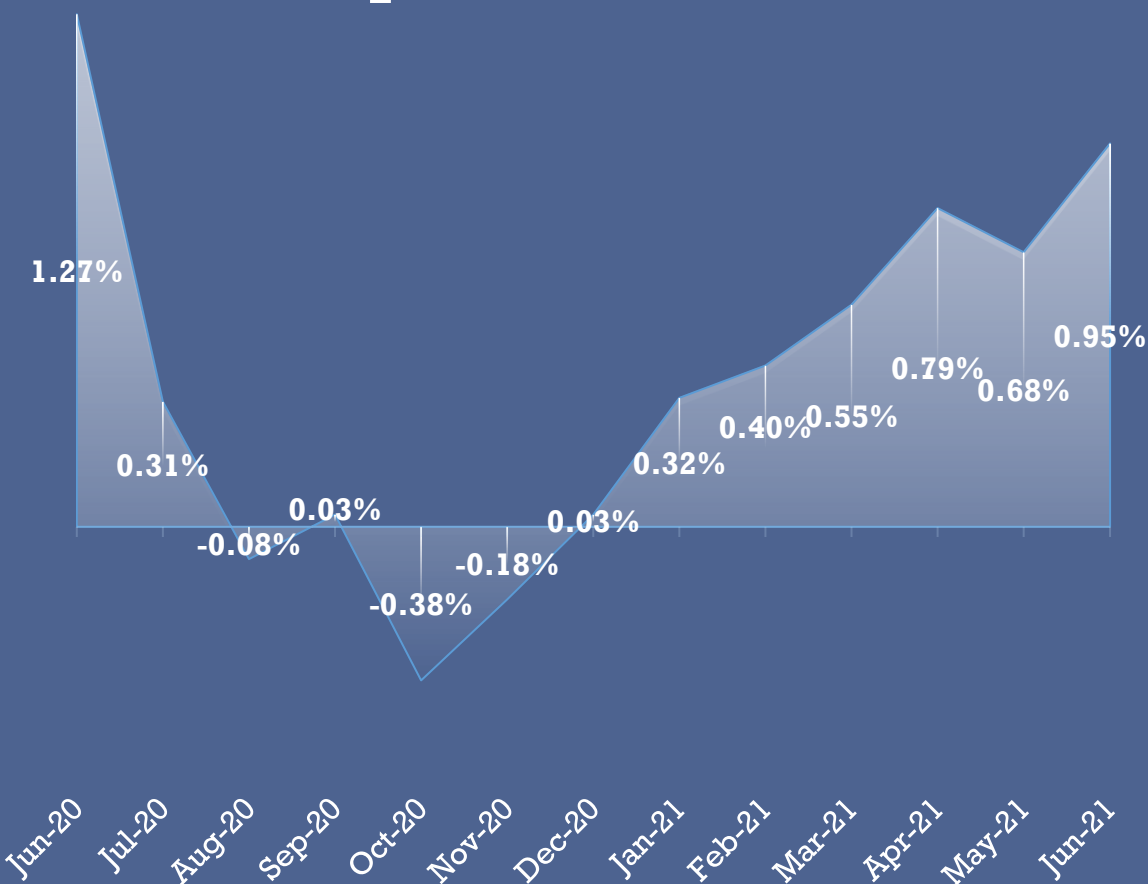
Source: First Capital Research

# AWPR vs AWDR



Source: CBSL

# Interest Spread



Source: CBSL

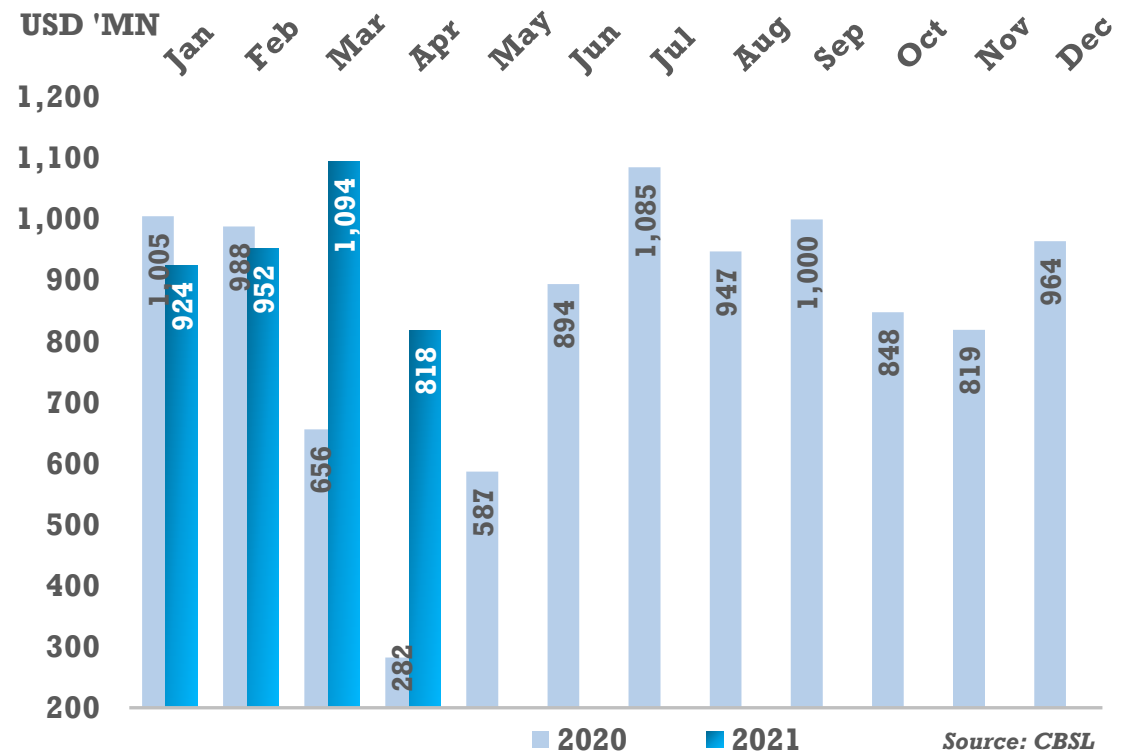
# FINANCE SECTOR RATE MOVEMENTS



# EXTERNAL SECTOR – APR 21 – EXPORTS

Exports for Apr recorded an increase of 189.8% YoY to USD 0.8Bn mainly led by the increase in industrial exports. Earnings from the export of industrial goods increased substantially by 302.5% YoY in Apr 2021, although earnings recorded a decline of 22% on a MoM basis. Earnings from textiles and garments; rubber products; machinery and mechanical appliances; and gems, diamonds and jewellery recorded declines compared to Mar 2021. Meanwhile, earnings from the export of petroleum products improved in Apr 2021 over the preceding month due to higher exports of naphtha, while earnings from bunker and aviation fuel declined with a significant reduction in volumes of aviation fuel and bunkering fuel supplied to aircraft and ship arrivals, despite the increase in the average prices of these export products.

Category	2020 (USD 'Mn)	2021 (USD 'Mn)	Change (%)
Industrial Exports			
- Apr	160.8	647.0	302.5
- YTD	2,294.8	2,949.4	28.5
Agricultural			
- Apr	120.3	165.6	37.7
- YTD	626.8	829.4	32.3
Mineral and other			
- Apr	1.0	4.2	332.9
- YTD	5.9	16.0	172.6
<b>Total</b>			
- Apr	282.3	818.2	189.8
- YTD	2,931.9	3,800.3	29.6



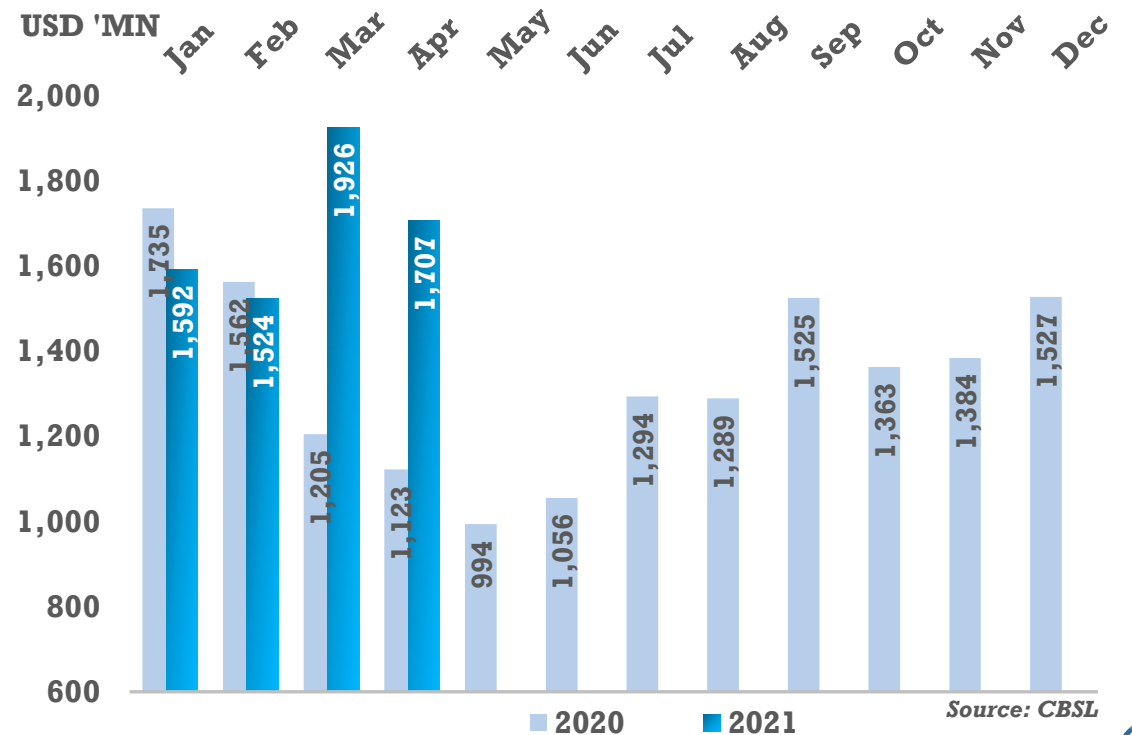
Source: CBSL

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# EXTERNAL SECTOR – APR 21 – IMPORTS

Despite the continuation of the import restriction measures, import expenditure increased by 52.1%YoY to USD 1.7Bn in Apr 2021 compared to Apr 2020 driven by the increase in imports of intermediate and investment goods. However, import expenditure in Apr 2021 was lower (by 11.4%) compared to Mar 2021 (USD 1.9Bn), although import values in both Mar 2021 and Apr 2021 were higher than pre-pandemic levels. With declines recorded in both food & beverages and non-food consumer good categories, expenditure on the importation of consumer goods in Apr 2021 declined by 7.9%YoY and 26.6%MoM. Import expenditure on intermediate goods increased by 88.6% in Apr 2021, led by increase in fuel and Textiles & textile articles, but declined by 4.9% over the previous month.

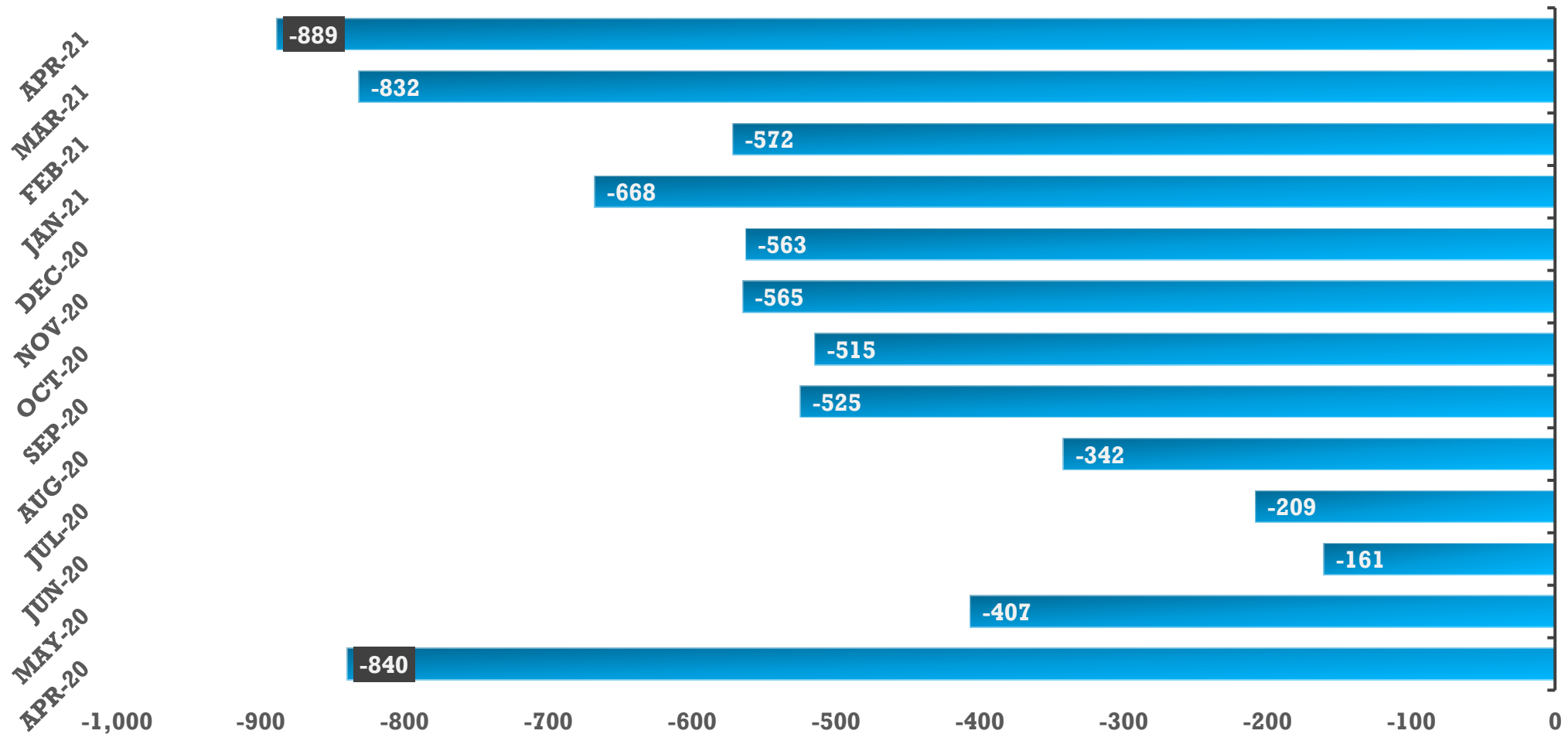
Category	2020 (USD 'Mn)	2021 (USD 'Mn)	Change (%)
Consumer goods			
- Apr	302.5	278.6	(7.9)
- YTD	1,268.6	1,276.5	0.6
Intermediate			
- Apr	570.0	1,075.0	88.6
- YTD	3,115.7	4,065.7	30.5
Investment goods			
- Apr	249.6	353.0	41.4
- YTD	1,233.4	1,403.1	13.8
<b>Total</b>			
- Apr	<b>1,122.6</b>	<b>1,707.0</b>	<b>52.1</b>
- YTD	<b>5,625.3</b>	<b>6,748.1</b>	<b>20.0</b>



Source: CBSL

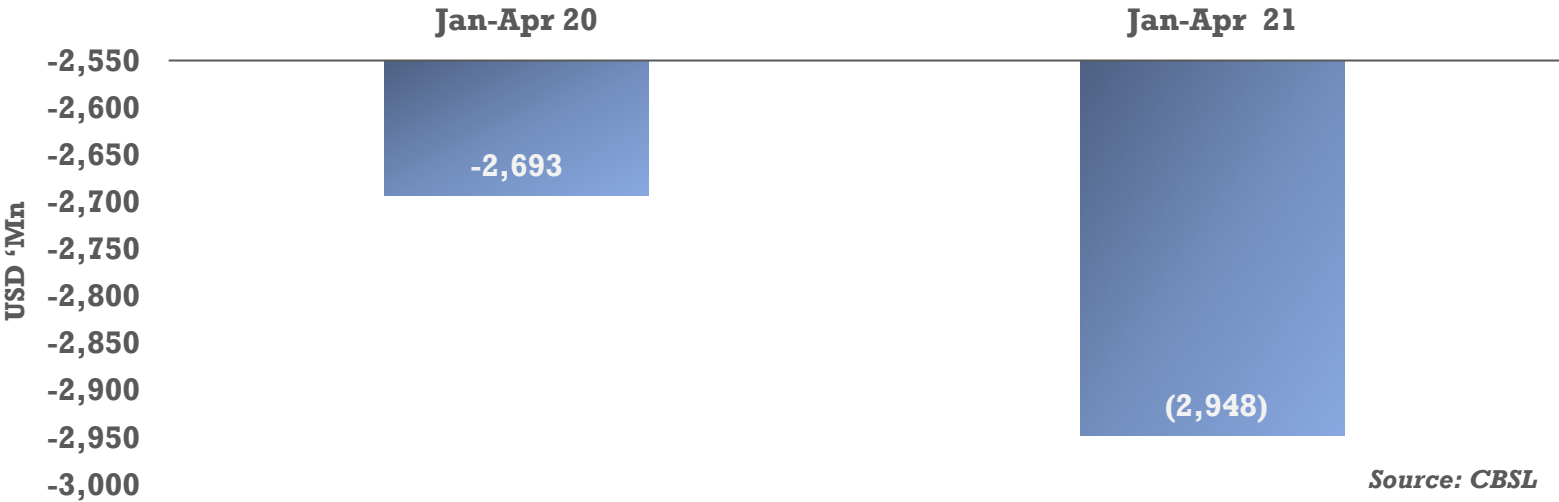
# EXTERNAL SECTOR – APR 21

## Balance of Trade

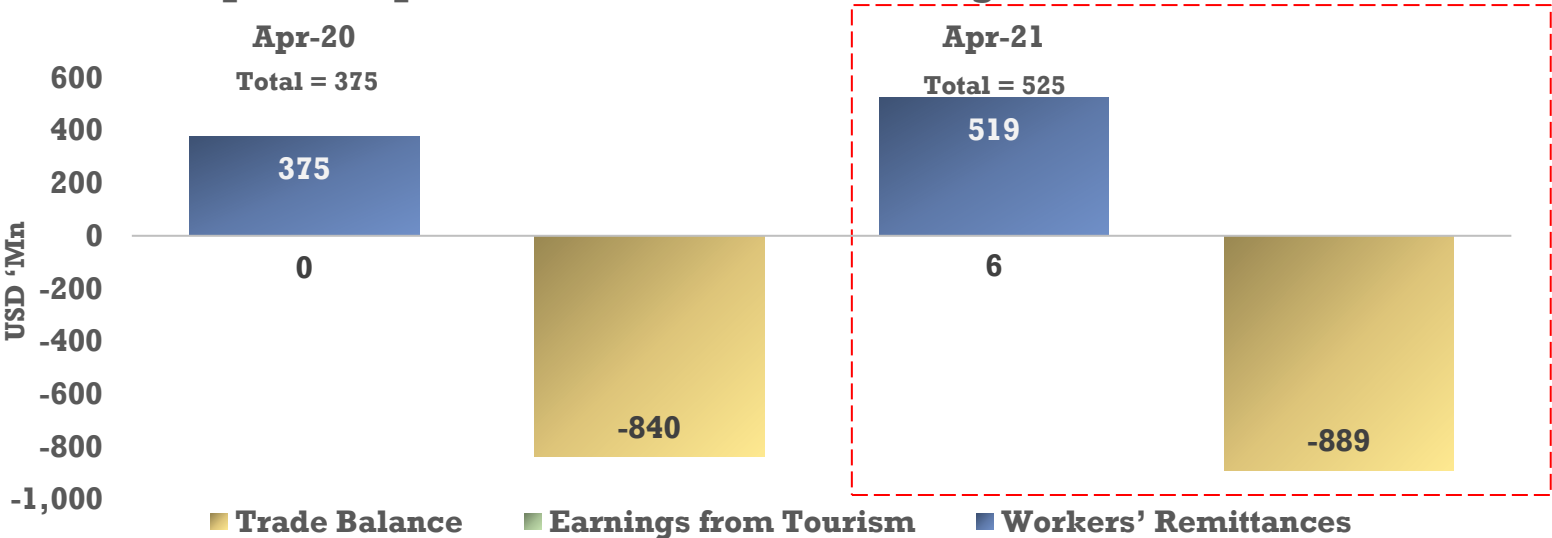


Source: Central Bank

BoP for Jan-APR 21 recorded at USD -2.9Bn compared to Mar 21 amount of USD -2.1Bn recording an outflow of USD 889Mn for the month of Apr 2021.



Worker Remittances increased to USD 519.0Mn (38.3%YoY). Earnings from tourism for Apr 21 improved to USD 6.0Mn although YTD reflected as -97.3%.



## BALANCE OF PAYMENT DECREASED YOY IN APR 2021

Apr USD 'Mn	2020	2021	Change (%)
Trade Balance	-840.0	-889.0	
Earnings from Tourism	0.0	6.0	N/A
Workers' Remittances	375.0	519.0	38.3

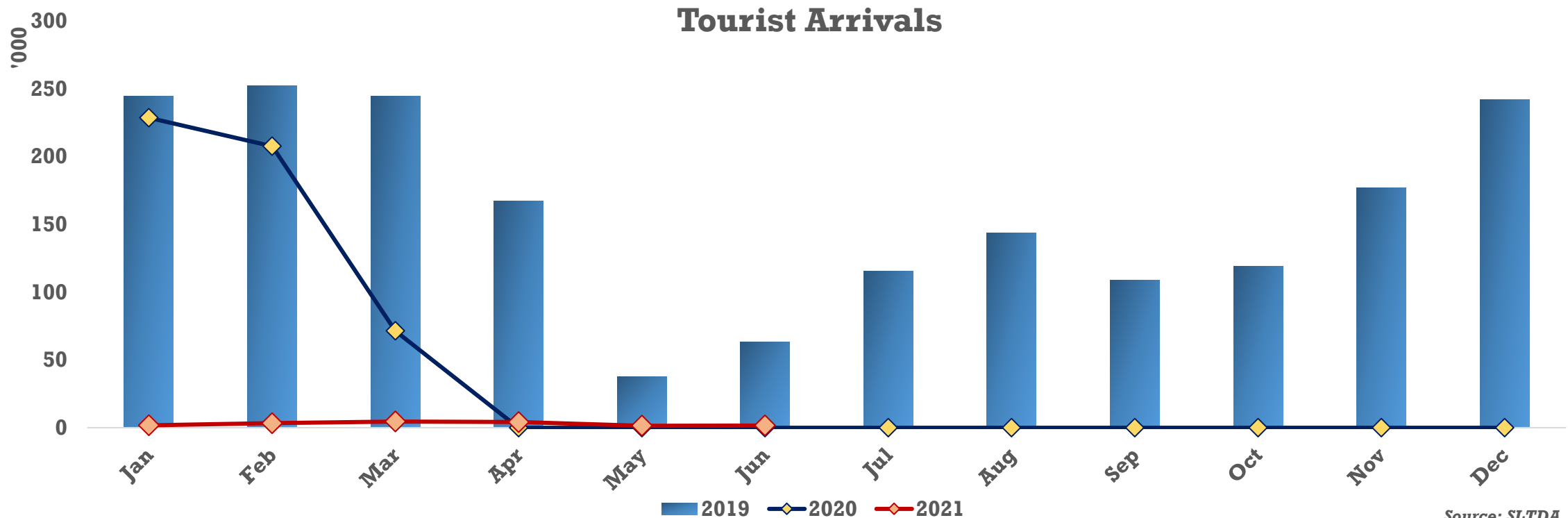
YTD USD 'Mn	2020	2021	Change (%)
Trade Balance	-2,693.0	-2,948.0	
Earnings from Tourism	682.0	19.0	-97.3
Workers' Remittances	1,975.0	2,386.0	20.8

Source: CBSL

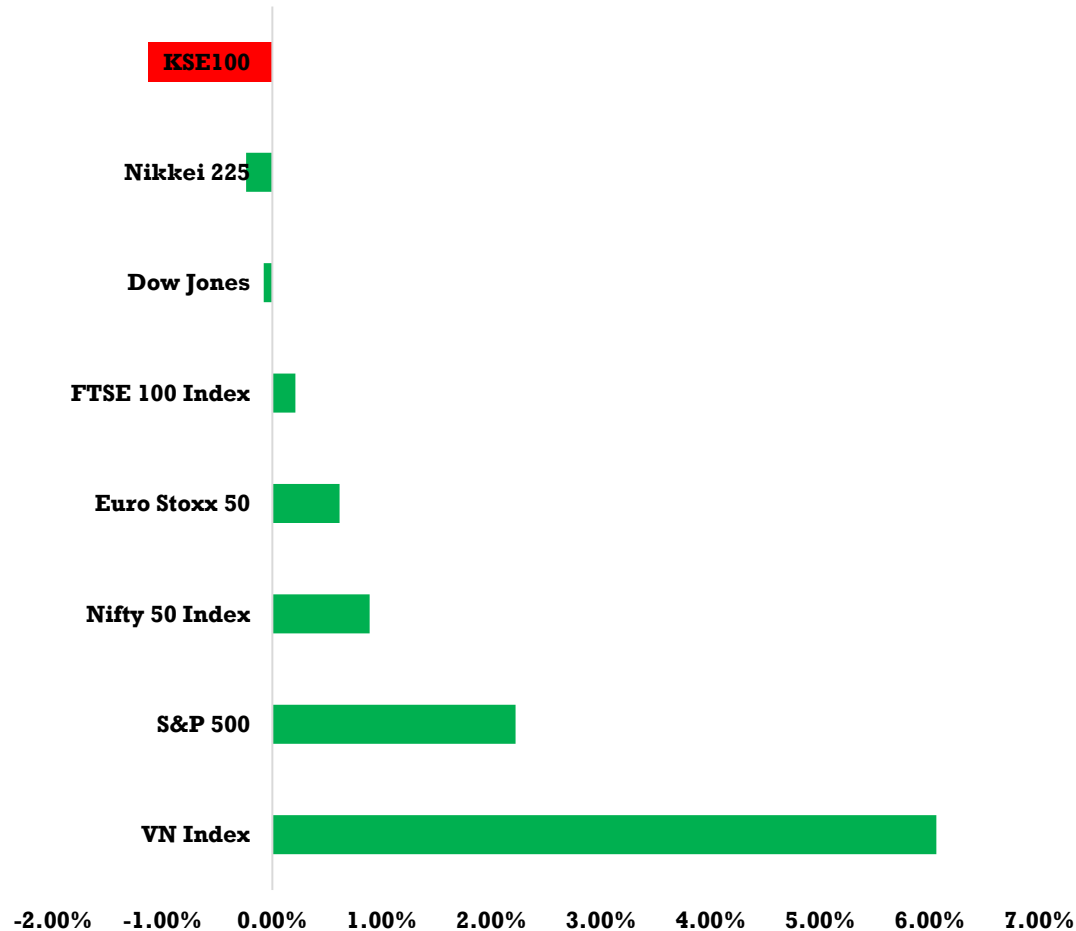
# TOURIST ARRIVALS – JUN 2021

[1,614 – JUN, YTD 16,908 – **MoM UP 7.8%**]

The total number of tourist arrivals to Sri Lanka during Jun 2021 was 1,614. The sharp contraction in arrivals observed after the month of Apr continued in the months of May and Jun owing to the closure of borders and travel restrictions from India, South Africa and South American region. The largest source market recorded for the month of Jun was France, followed by the China, and Germany.



# GLOBAL MARKET



Source: Bloomberg

## OPEC+ Crisis Propels Oil to Six-Year High as Market Tightens

Oil jumped to the highest in more than six years after a bitter fight between Saudi Arabia and the United Arab Emirates plunged OPEC+ into crisis and blocked a supply increase. West Texas Intermediate crude advanced to \$76.98 a barrel, the highest since November 2014, as the breakdown in talks left the market without the extra supplies for next month it had been counting on. What happens next will determine whether the standoff could escalate into a conflict as destructive as last year's price war.

Bloomberg



## Treasury yields climb as investor focus turns to Fed minutes

U.S. Treasury yields started the holiday-shortened week higher on Tuesday morning, as investor attention turned to the release of Federal Reserve meeting minutes on Wednesday. The yield on the benchmark 10-year Treasury note rose to 1.434% at 3:45 a.m. ET. The yield on the 30-year Treasury bond advanced to 2.055%. Yields move inversely to prices. Treasury yields climbed on Tuesday morning, after markets were closed on Monday for the July 4 Independence Day holiday.

## Israel sees drop in Pfizer vaccine protection against infections

Israel reported on Monday a decrease in the effectiveness of the Pfizer/BioNTech COVID-19 vaccine in preventing infections and symptomatic illness but said it remained highly effective in preventing serious illness. The decline coincided with the spread of the Delta variant and the end of social distancing restrictions in Israel. Vaccine effectiveness in preventing both infection and symptomatic disease fell to 64% since June 6, the Health Ministry said.



REUTERS  
WORLD



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Jul 2021



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# *Thank You*

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