



MONTHLY ECONOMIC WATCH

Jun 2021



First Capital

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MEASURES BY CBSL TO ENCOURAGE OFFSHORE BORROWINGS BY PRIVATE SECTOR

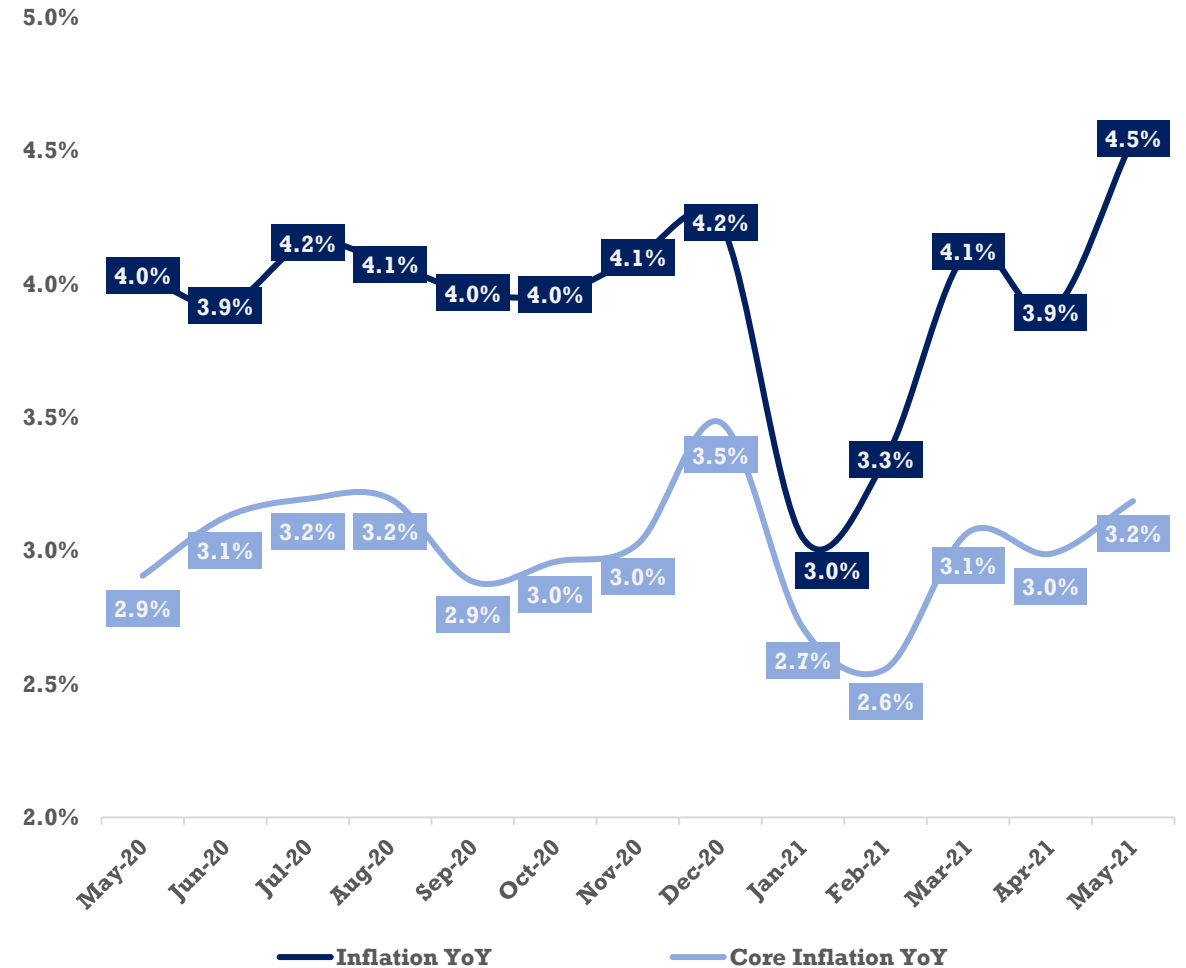
- CBSL, with a view of encouraging foreign currency inflows to the country, invites the private sector to pursue avenues to raise offshore funding leveraging on its strengths, with the consent of the Hon. Minister of Finance and in line with provisions of the Foreign Exchange Act No. 12 of 2017 (FEA).
- In this regard, to hedge the foreign exchange risk of offshore borrowing, a zero cost swap facility would be made available by CBSL for the private sector borrowers of foreign currency for the duration of the said borrowing, which may be reviewed and renewed annually.
- Alternatively, the private sector could invest the USD funds raised offshore in SLDBs matching the tenure of the offshore borrowing, in line with the Weighted Average Fixed Rate/ Weighted Average Margin determined at the immediately preceding SLDB auctions, or at levels mutually agreed through Designated Agents (DAs) appointed to market SLDBs.
- In terms of the general permission granted under the Regulations made under the FEA, companies incorporated in SL under the Companies Act, No. 7 of 2007 are permitted to obtain loans/issue debt instruments from/to non-residents in compliance with the procedures introduced under such Regulations.

Source: CBSL

INFLATION – CCPI

**CCPI FOR MAY 2021:
MOM +1.1%,
YOY +4.5%**

- MoM inflation increased by 1.1% with the increase in expenditure value of Food items by 2.2% and an increase of Non-food items by 0.5%.
- The YoY inflation increased to 4.5% in May 2021. YoY inflation of Food group has increased to 9.9% in May 2021 from 9.0% in Apr 2021 while Non-food group also has increased to 2.2% from 1.8% in Apr 2021.



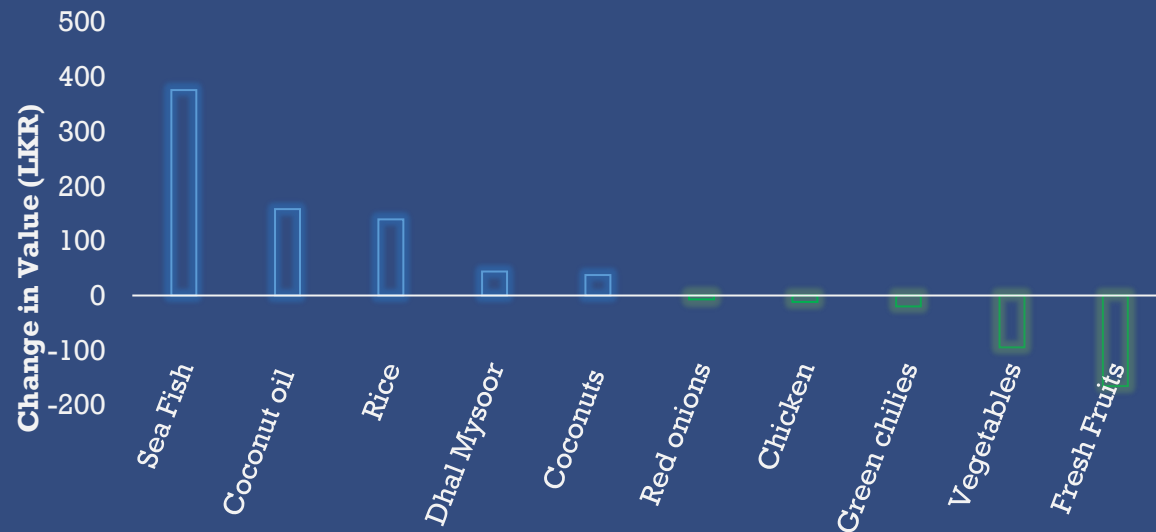
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

The CCPI index records an increase of 1.1% MoM contributed by the expenditure value increase of Food items by 0.69% MoM and an increase of Non-Food items by 0.36%. Within the Food items, increase in value changes were reported for essential items such as Sea Fish, Coconut Oil, Rice and Dhal Mysoor etc. Among Non-Food groups, increase in value changes were reported for the groups of 'Health' Payments to private hospitals/nursing homes room charges & Payments to medical laboratories and Housing, Water, Electricity, Gas & Other Fuels etc.

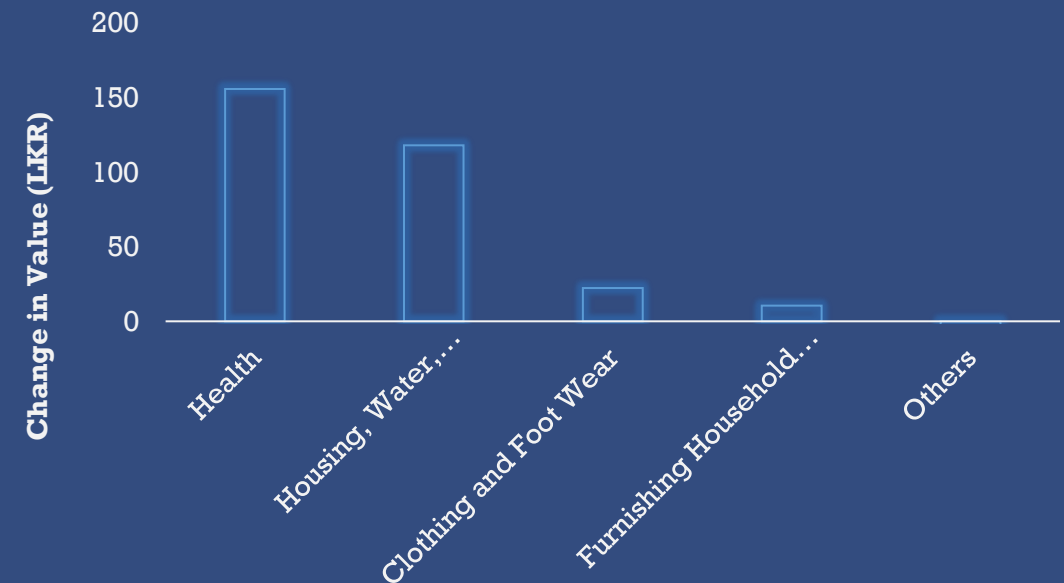


Food Category Inflation



Source: Dept. Census and Statistics

Non-Food Category Inflation



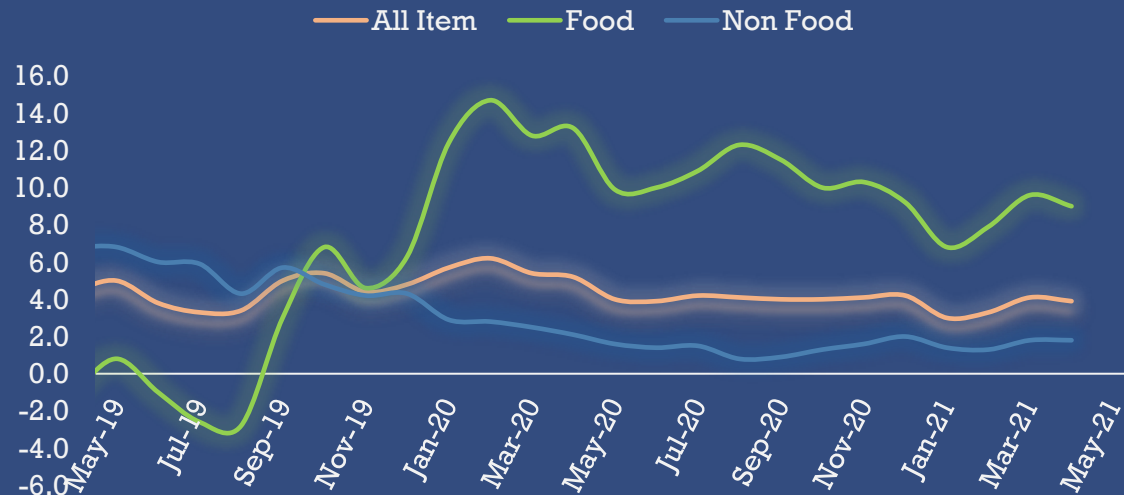
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for May was 4.5% and has increased relative to the month of Apr. Food item prices have increased to 9.9% in May 2021 from 9.0% in Apr 2021 while the Non-Food item prices also have increased to 2.2% from 1.8% in Apr 2021. The contribution from food category for YOY inflation was 3.00% while the contribution of Non-Food items stood at 1.52% mainly due to the increase in Transport, Restaurants & Hotels and Health.

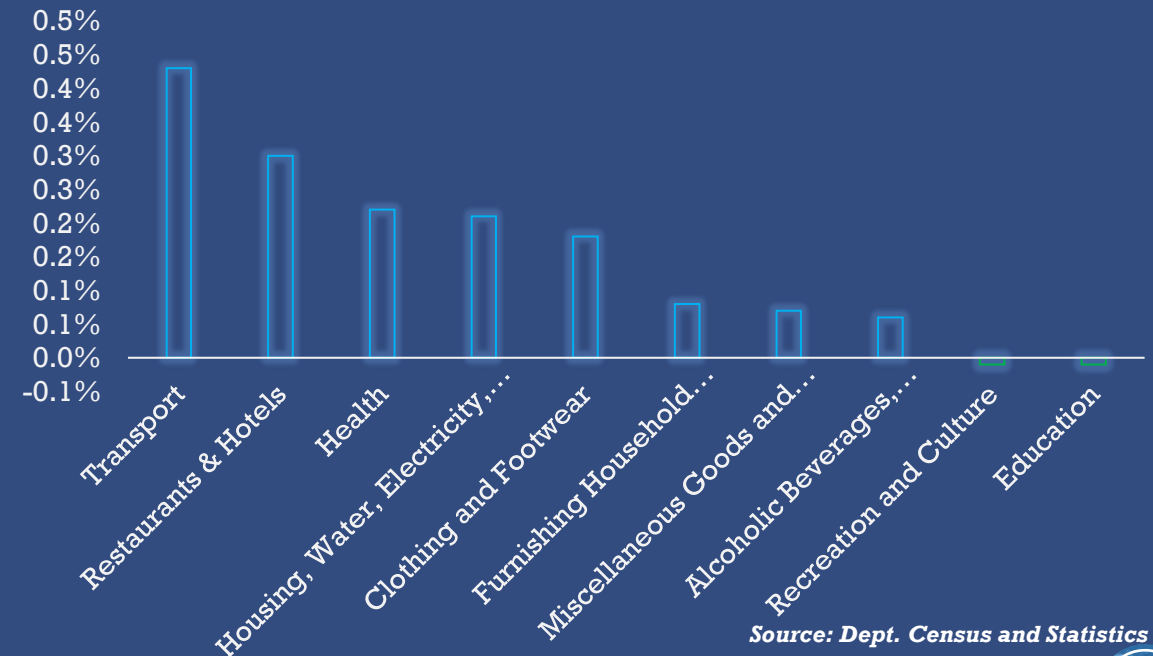


Inflation Analysis (YoY)



Source: Dept. Census and Statistics

Non-Food Category Inflation



Source: Dept. Census and Statistics

INFLATION – NCPI

NCPI FOR APR 2021: INCREASED TO 5.5%YOY

- NCPI for Apr 2021 increased to 5.5% from 5.1% recorded in Mar 2021.
- This increase was mainly driven by the increase in prices of Food commodities and Non-Food commodities. YoY Food inflation increased from 8.8% in Mar 2021 to 9.7% in Apr 2021. Non-Food inflation also increased from 2.0%YoY to 2.2%YoY during Mar 2021 to Apr 2021.



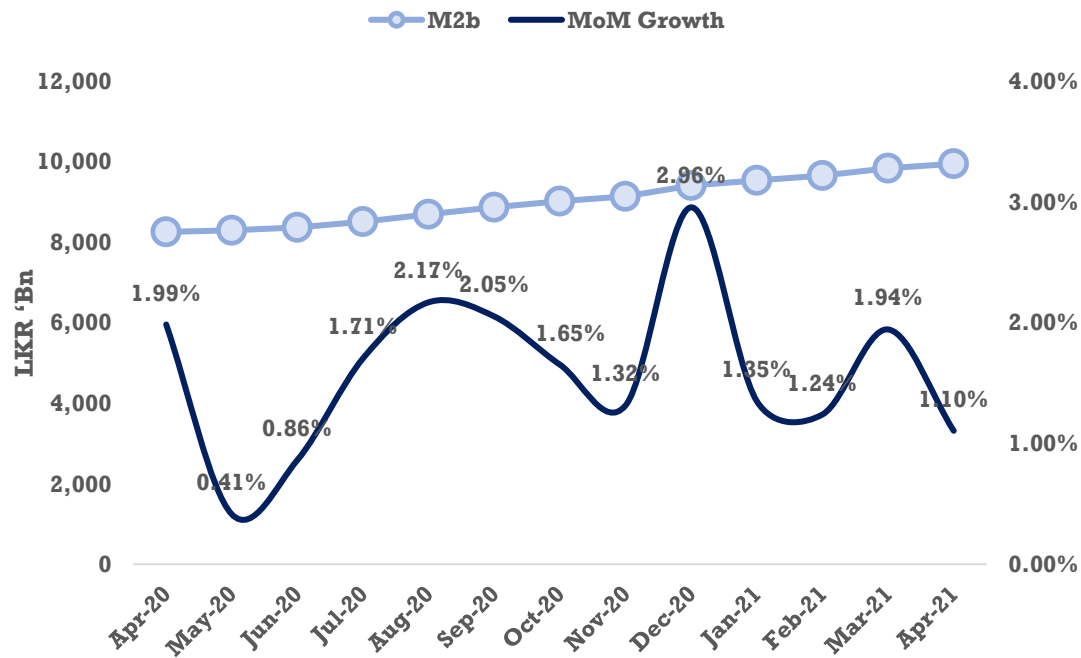
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit increased by LKR 58Bn in Apr 2021 sustaining the positive growth momentum for 09th consecutive month. State credit reflected a net settlement of LKR 45Bn.

M2b Growth – Apr 2021

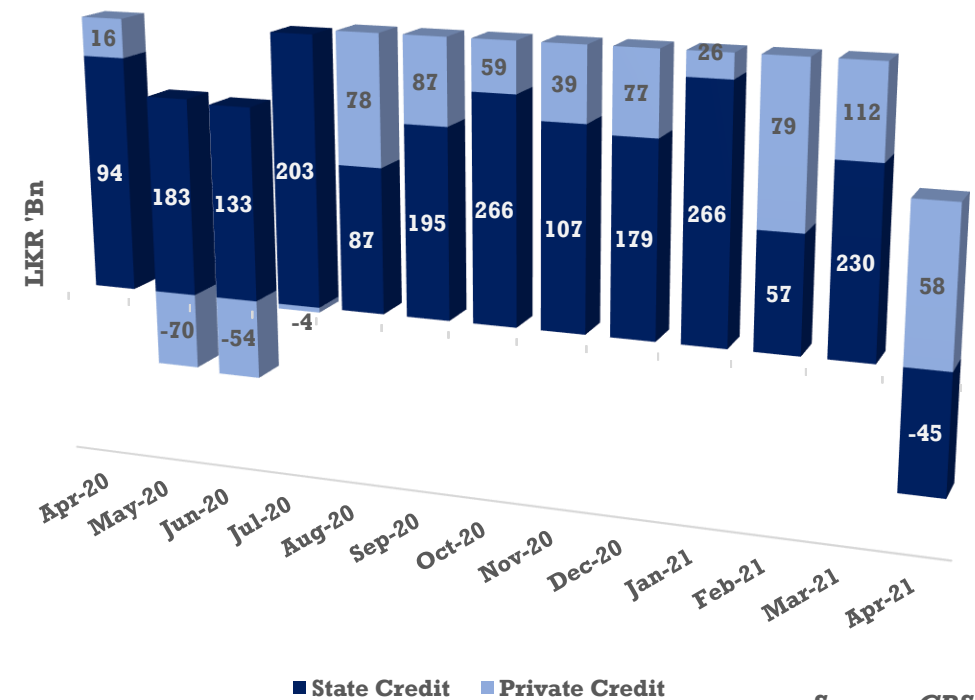
MoM +1.1%, YoY +20.4%, YTD +5.7%



Source: CBSL

State Credit & Private Credit – Apr 2021

Private Credit MoM 0.9%, YoY +8.2%, YTD 4.5%

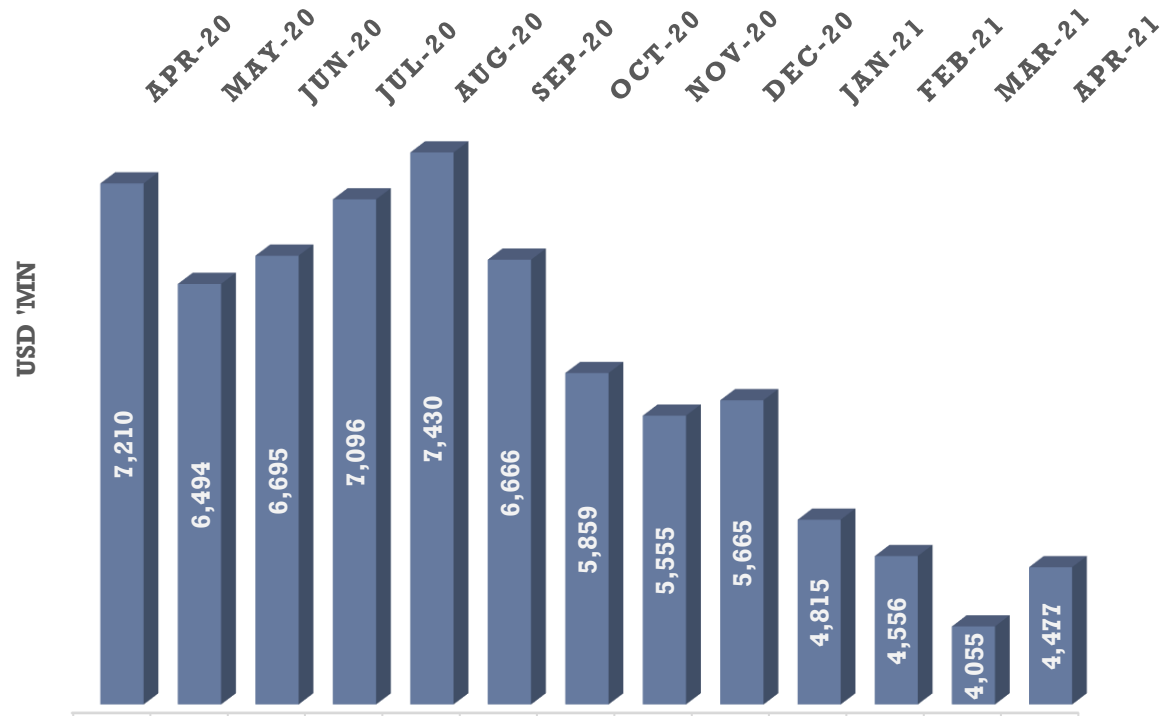


■ State Credit ■ Private Credit

Source: CBSL

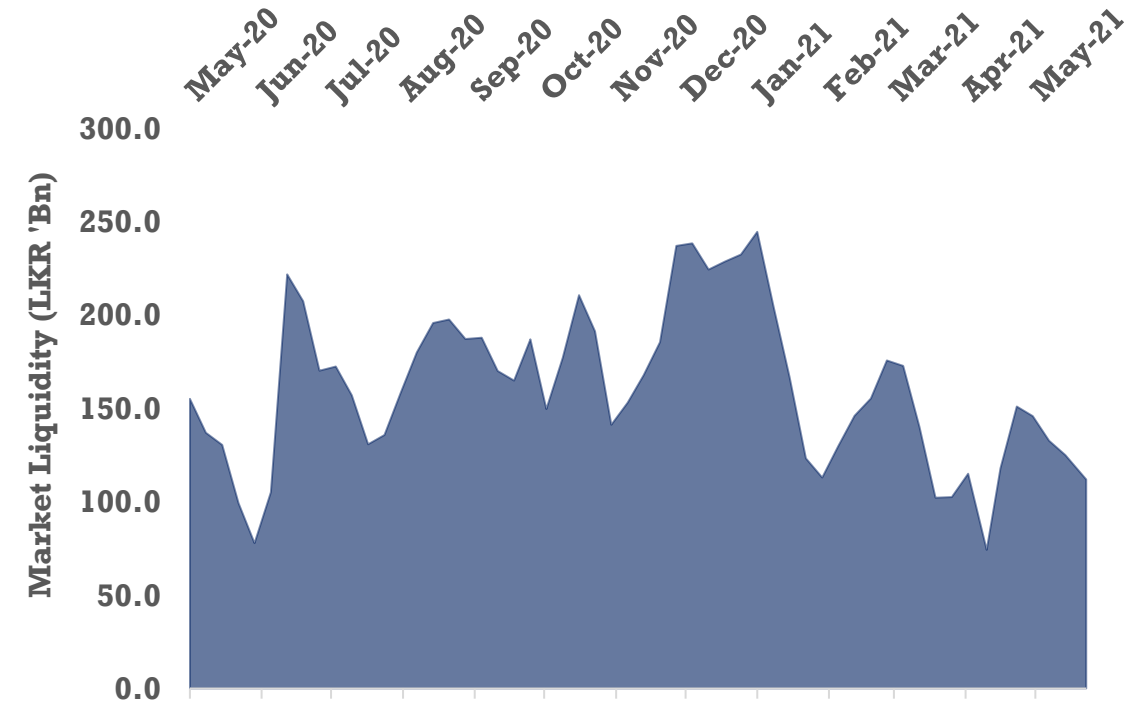
LIQUIDITY & RESERVES

- Foreign Reserves improved to USD 4.48Bn in Apr 2021 relative to USD 4.06Bn in Mar 2021, following the receipt of the 2nd tranche of China Development Bank loan.



Source: CBSL

- Market liquidity witnessed a significant fluctuation during the month and thereafter observed a gradual decline towards the latter part of the month while closing at LKR 116.46Bn. Highest was recorded on 06th May 2021 amounting to LKR 150.6Bn.



Source: CBSL

CURRENCY MOVEMENT

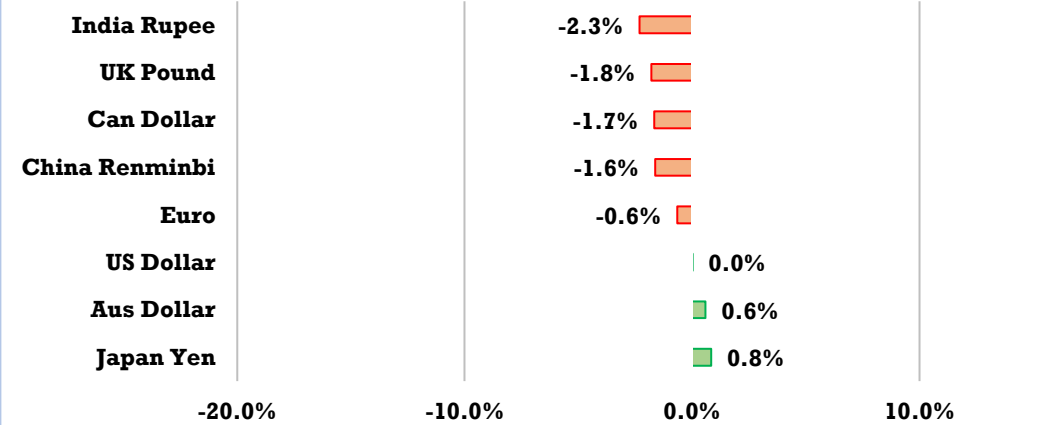
USD:LKR Movement



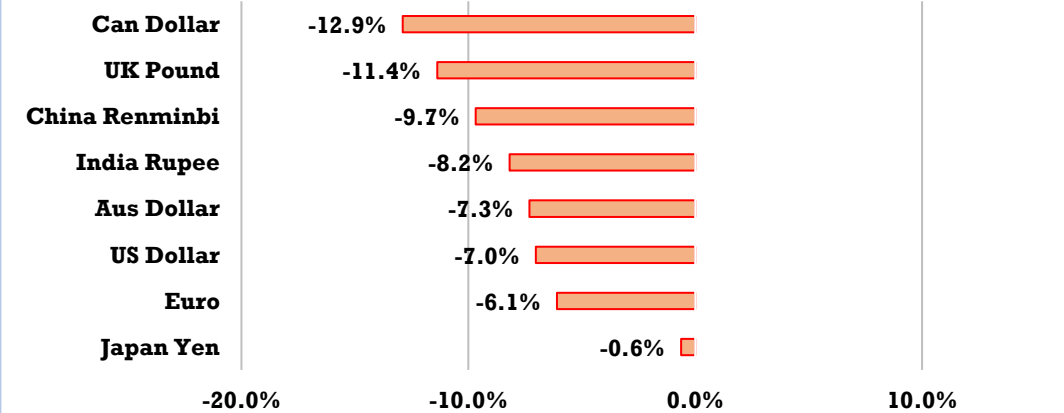
Source: CBSL

Sri Lankan Rupee vs Global Currencies

May 2021



YTD 2021

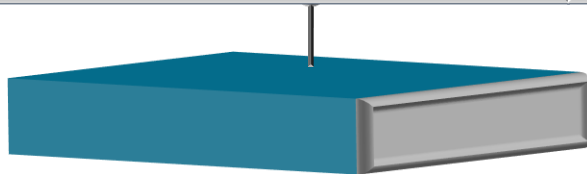


Source: CBSL

GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for May 2021

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
07-May-21	34,910	44,549	79,459
13-May-21	21,007		21,007
21-May-21	42,433	19,500	61,933
28-May-21	37,587		37,587
Total Issued			199,986

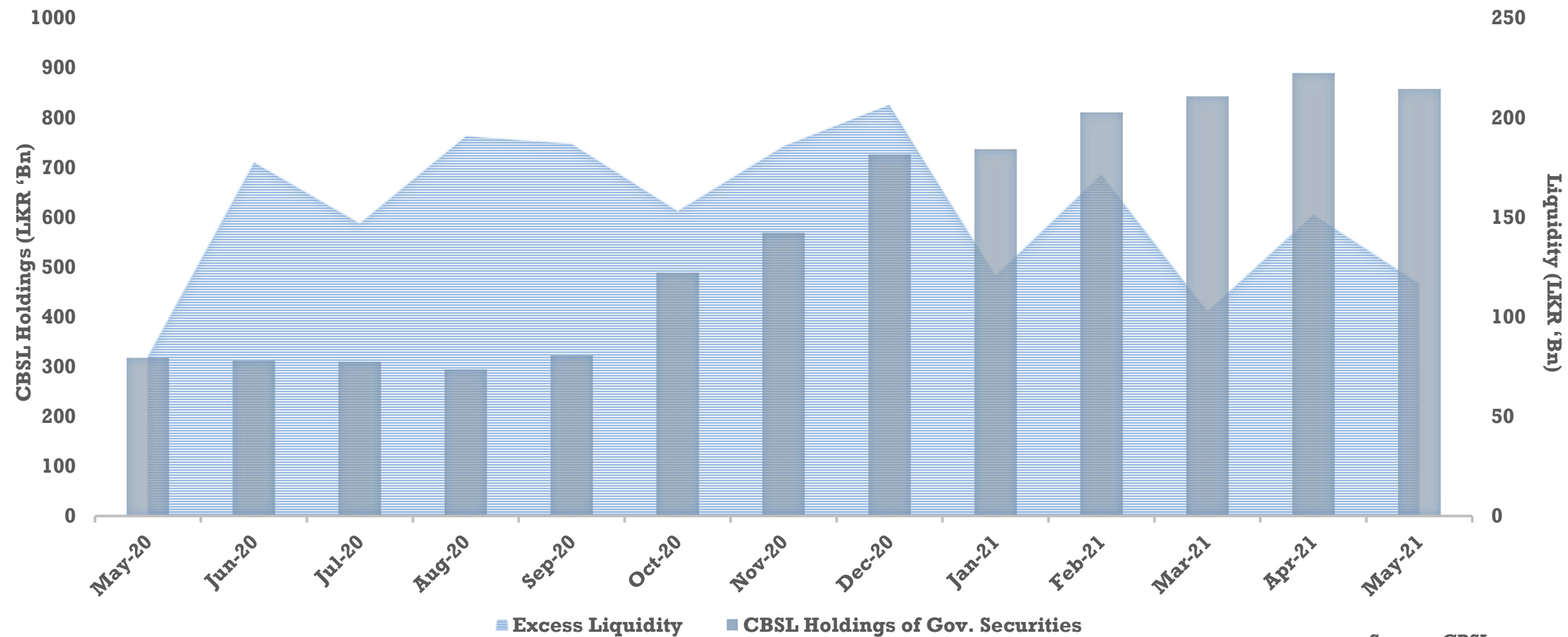


Net Settlement	May 2021	YTD
Maturities	199,986	958,005
New Issues	178,895	871,158
Excess/(Deficit)	21,091	(86,847)

CBSL Holdings of Gov. Securities		YTD
As at End May 2021	856,646	
As at End Apr 2021	888,699	
Increase/ (Decrease)	-32,053	131,460

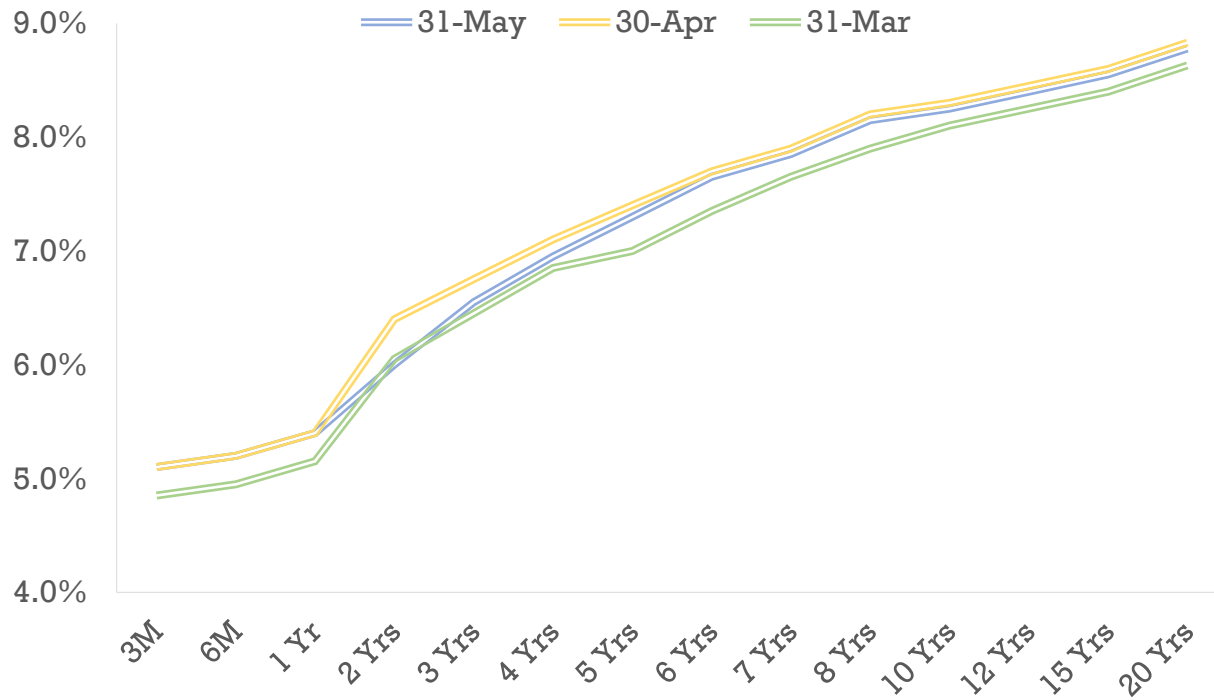
CBSL HOLDINGS OF GOV. SECURITIES...

...decreased by *LKR 32Bn* in May 2021



TREASURY BILLS AND BONDS – MAY '21

At the beginning of the month of May 2021, the secondary bond market yield curve shifted downwards with continued buying interest mainly centred on the short tenor of the yield curve amidst the Monetary Policy announcement scheduled on 20th May 2021. However, following the policy announcement bond market witnessed dried up activities with low volumes. During the month, yields of short tenors decreased by 20-40bps, mid tenors by 5-15bps and long tenor maturities by 5bps. All four bill auctions and bond auction held in May 2021 were undersubscribed.

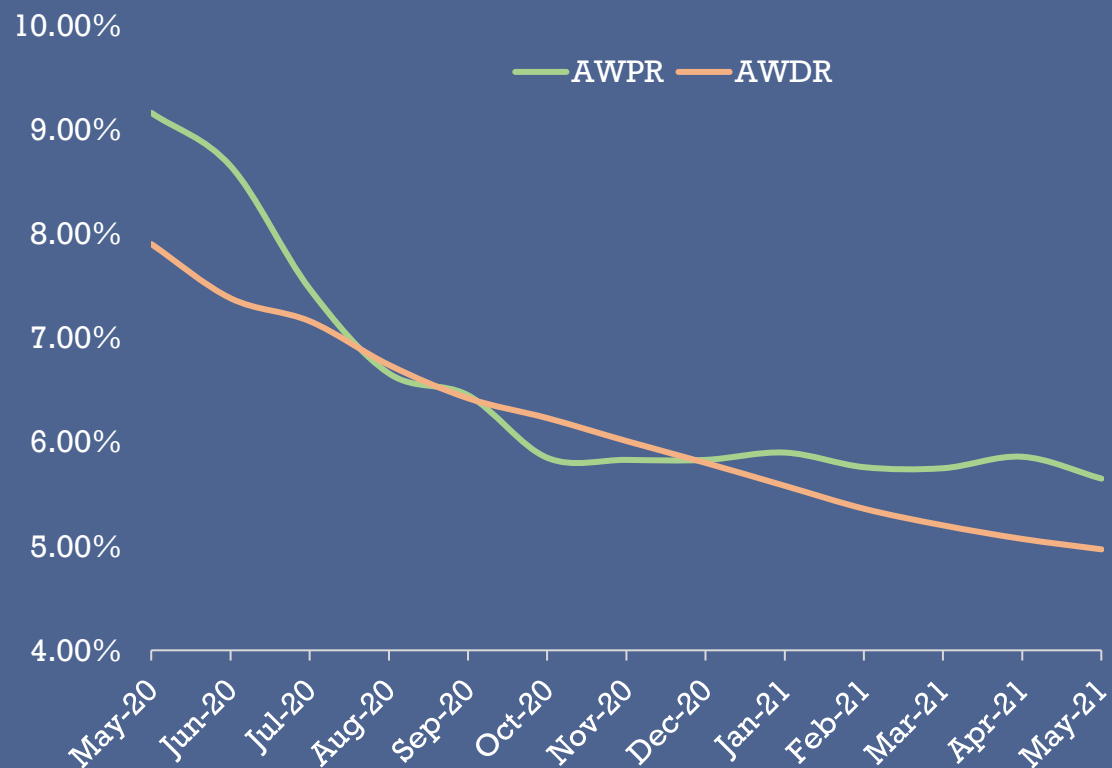


Source: First Capital Research

Tenure	Interest Rate Change (bps)				
	31-May	30-Apr	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	6.00%	6.40%	-40	6.05%	-5
3 Yrs	6.55%	6.75%	-20	6.45%	10
4 Yrs	6.95%	7.10%	-15	6.85%	10
5 Yrs	7.30%	7.40%	-10	7.00%	30
6 Yrs	7.65%	7.70%	-5	7.35%	30
7 Yrs	7.85%	7.90%	-5	7.65%	20
8 Yrs	8.15%	8.20%	-5	7.90%	25
10 Yrs	8.25%	8.30%	-5	8.10%	15
12 Yrs	8.40%	8.45%	-5	8.25%	15
15 Yrs	8.55%	8.60%	-5	8.40%	15
20 Yrs	8.78%	8.83%	-5	8.63%	15

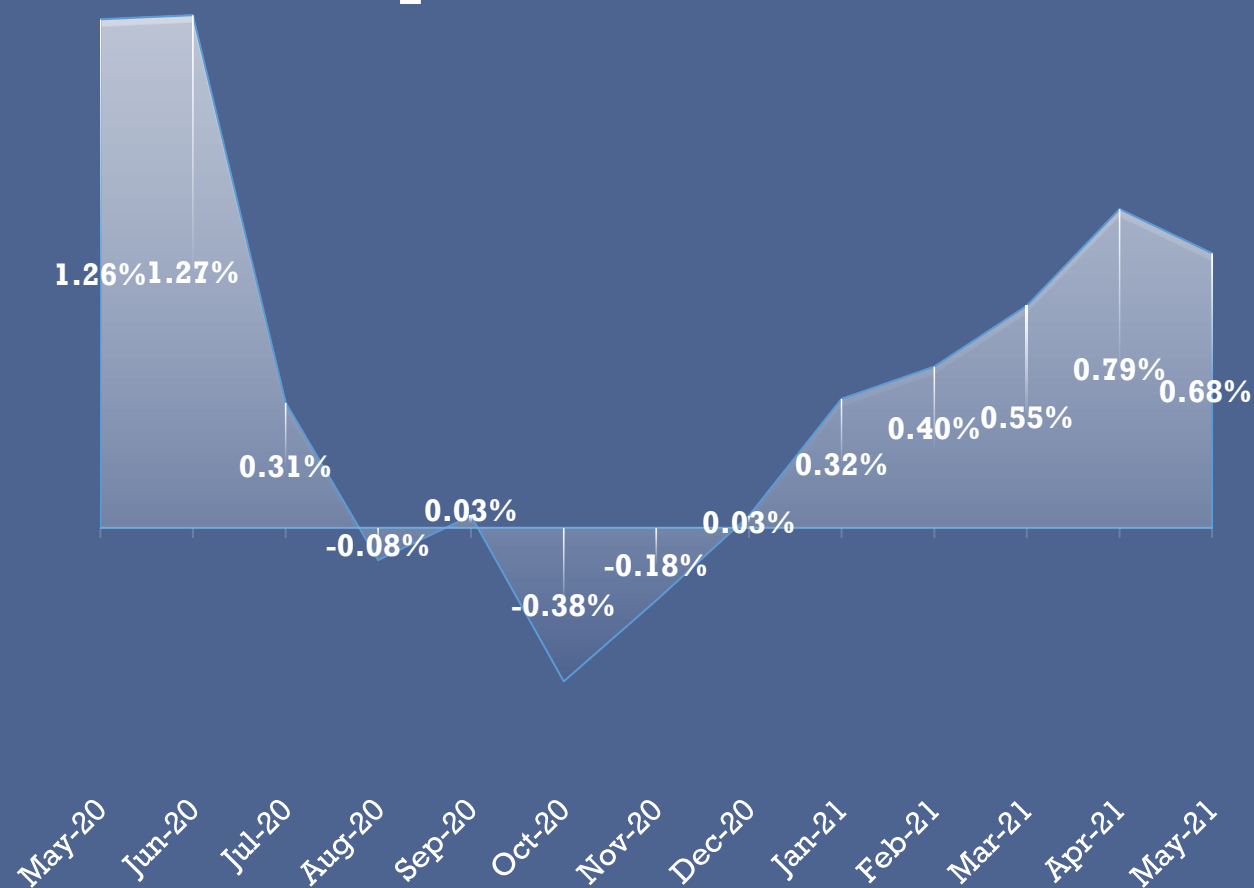
Source: First Capital Research

AWPR vs AWDR



Source: CBSL

Interest Spread



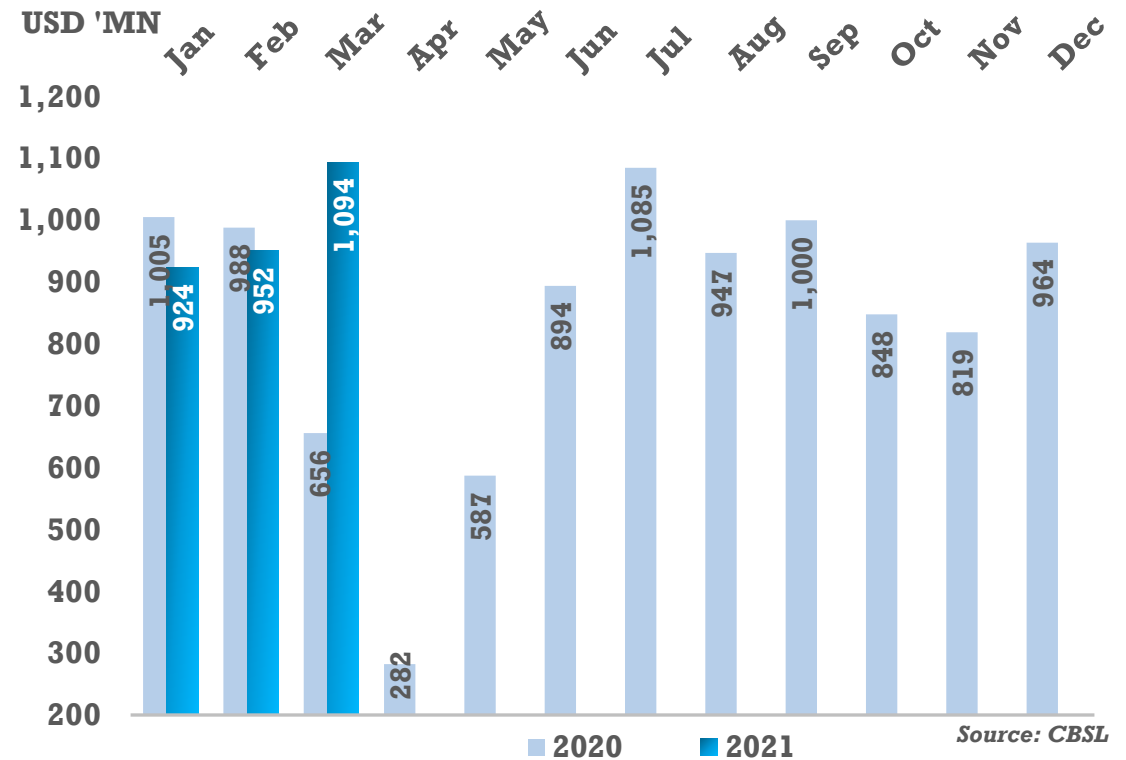
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – MAR 21 – EXPORTS

Exports for Mar recorded an increase of 66.7% YoY to USD 1.1Bn mainly led by the increase in industrial exports. Earnings from the export of industrial goods increased by 56.2% YoY in Mar 2021, mainly due to the earnings from textiles and garments, rubber products (mainly gloves and tyres), food, beverages and tobacco (mainly value added coconut products), base metals and articles, chemical products, and machinery and mechanical appliances. Meanwhile, earnings from the export of petroleum products declined on a year-on-year basis due to the 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. Export earnings from all subsectors related to agricultural goods increased in Mar 2021, compared to a year ago.

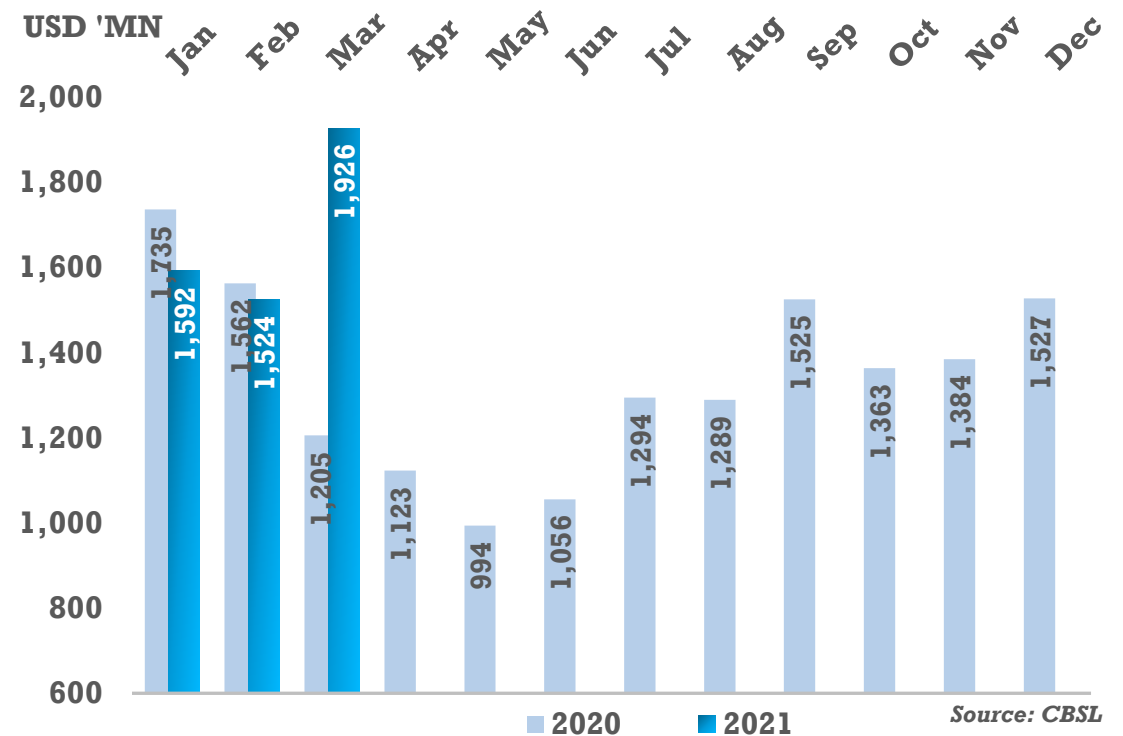
Category	2020 (USD 'Mn)	2021 (USD 'Mn)	Change (%)
Industrial Exports			
- Mar	531.4	829.8	56.2
- YTD	2,134.1	2,302.4	7.9
Agricultural			
- Mar	122.7	257.3	109.8
- YTD	506.5	663.8	31.0
Mineral and other			
- Mar	1.0	4.7	355.7
- YTD	4.9	11.8	140.9
Total			
- Mar	656.2	1,093.8	66.7
- YTD	2,649.6	2,982.2	12.6



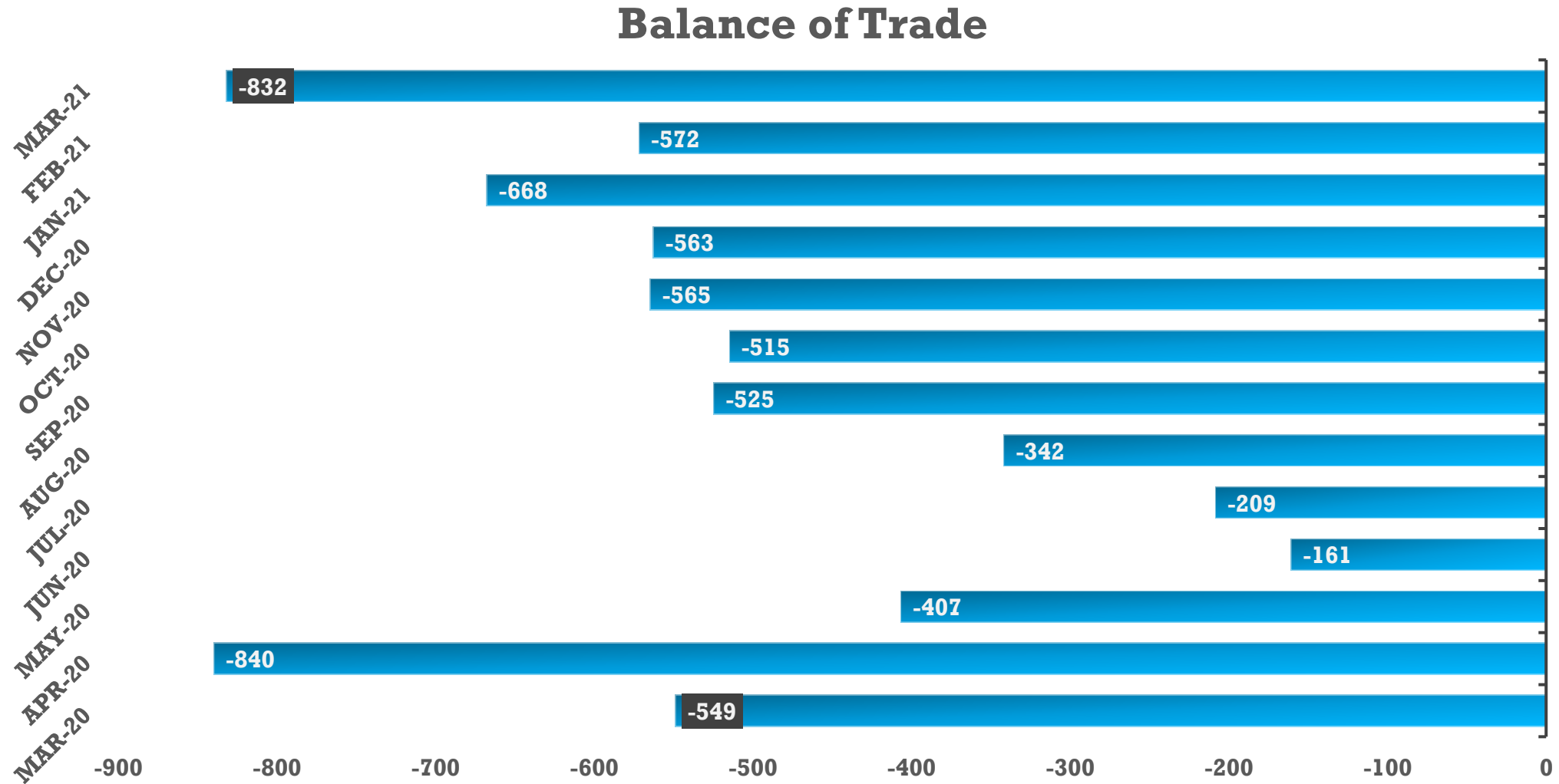
EXTERNAL SECTOR – MAR 21 – IMPORTS

Despite the continuation of the import restriction measures, import expenditure increased by 59.8%YoY to USD 1.9Bn in Mar 2021 compared to Mar 2020 recording the highest monthly import value since Mar 2018. Accordingly, the import expenditure in Mar 2021 was significantly high compared to the expenditure of USD 1.2Bn in Mar 2020, and USD 1.5Bn in Feb 2021. All major sectors of imports contributed to this increase. Import expenditure of intermediate goods increased by 61.5% in Mar due to expenditure on fuel which saw a rise due to higher import volumes and prices of refined petroleum and coal although crude oil was not imported in Mar 2021 due to maintenance work at the refinery. Import expenditure on many other intermediate goods increased, particularly base metals (mainly iron and steel); chemical products; textiles and textile articles; plastic and articles etc.

Category	2020 (USD 'Mn)	2021 (USD 'Mn)	Change (%)
Consumer goods			
- Mar	267.1	379.6	42.1
- YTD	966.1	997.9	3.3
Intermediate			
- Mar	699.7	1,129.9	61.5
- YTD	2,545.7	2,990.7	17.5
Investment goods			
- Mar	236.8	416.3	75.8
- YTD	983.8	1,050.1	6.7
Total			
- Mar	1,205.0	1,925.9	59.8
- YTD	4,502.7	5,041.1	12.0

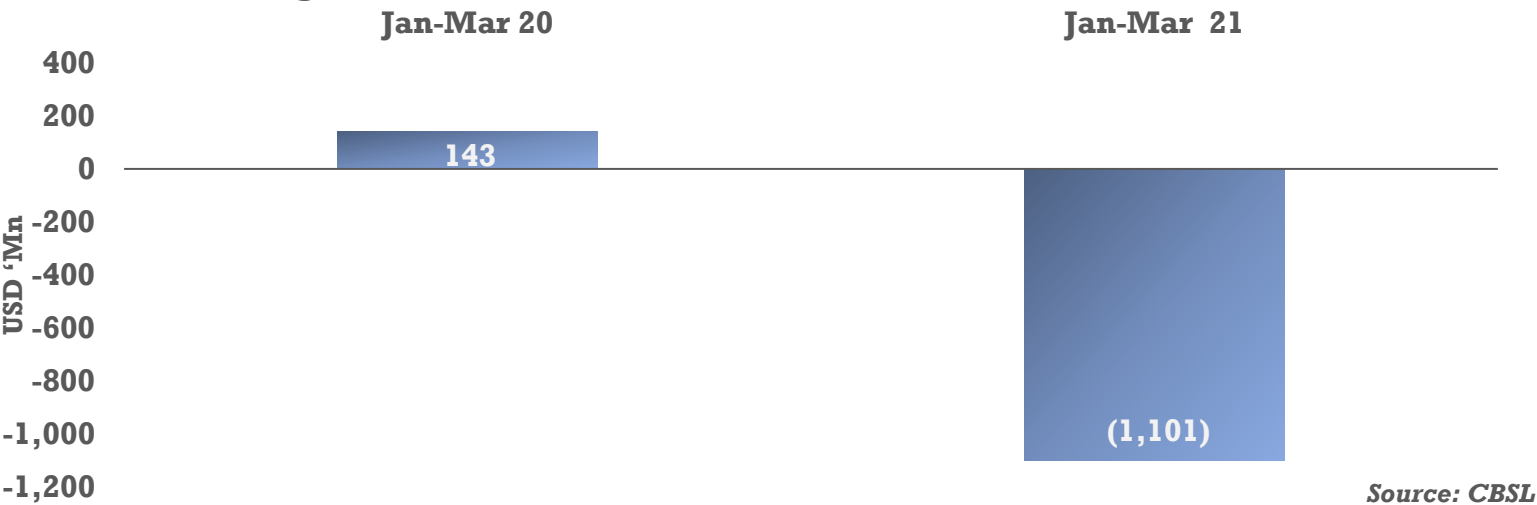


EXTERNAL SECTOR – MAR 21

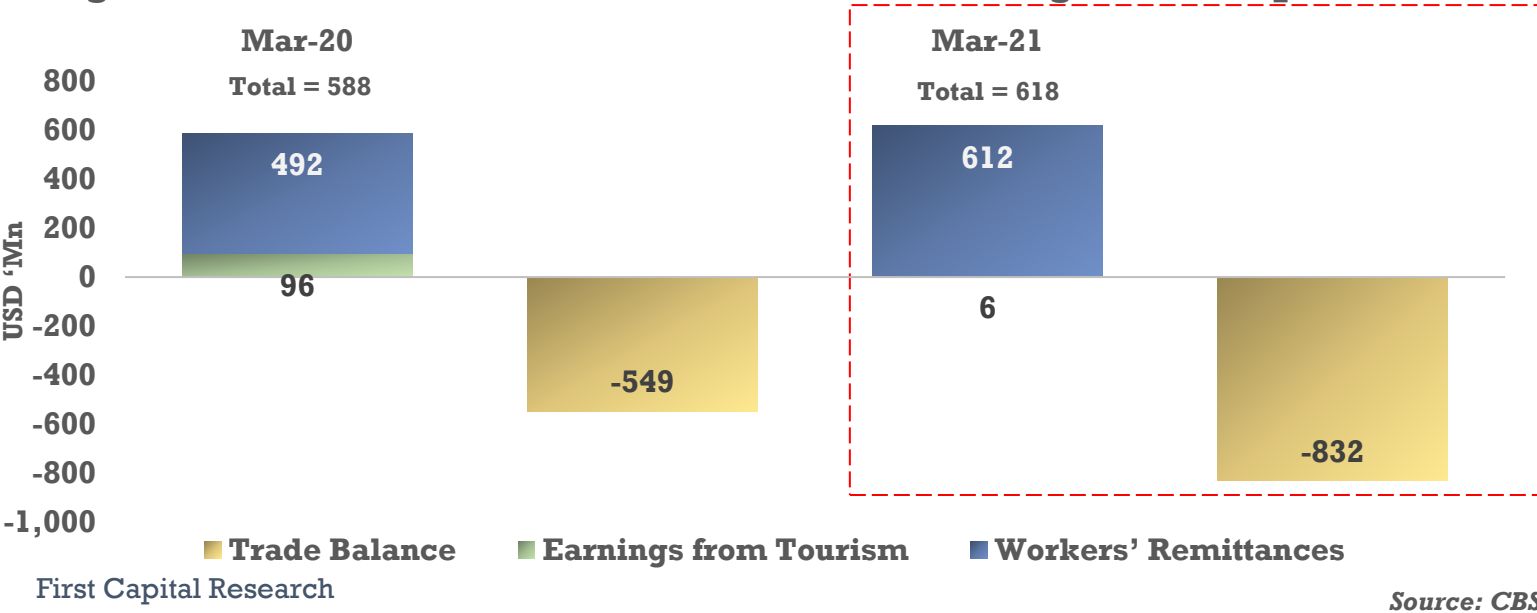


Source: Central Bank

BoP for Jan-Mar 21 recorded at USD -1.1Bn compared to Feb 21 amount of USD -774Mn recording an outflow of USD 327Mn for the month of Mar 2021.



Worker Remittances increased to USD 612.0Mn (24.4%YoY). There was minimal earnings from tourism for the month of Mar reflecting an YoY dip of 93.6%.



BALANCE OF PAYMENT
DECREASED YOY IN MAR 2021

Mar USD 'Mn	2020	2021	Change (%)
Trade Balance	-549.0	-832.0	
Earnings from Tourism	96.0	6.0	-93.6
Workers' Remittances	492.0	612.0	24.4

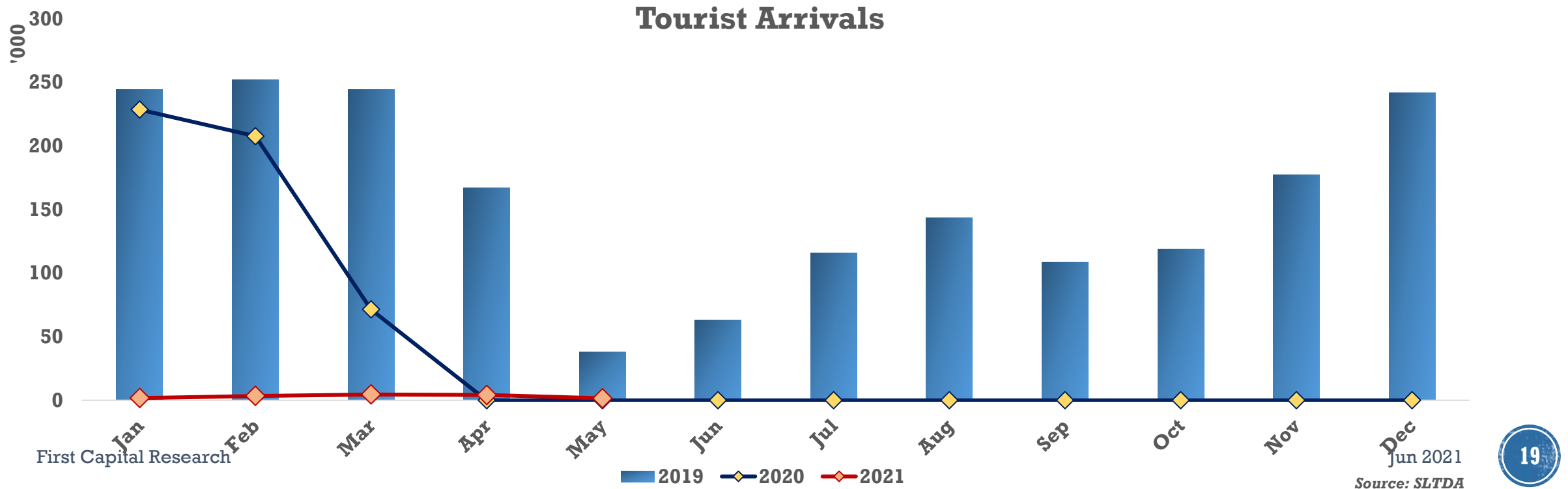
YTD USD 'Mn	2020	2021	Change (%)
Trade Balance	-1,853.0	-2,059.0	
Earnings from Tourism	682.0	13.0	-98.1
Workers' Remittances	1,600.0	1,867.0	16.7

Source: CBSL

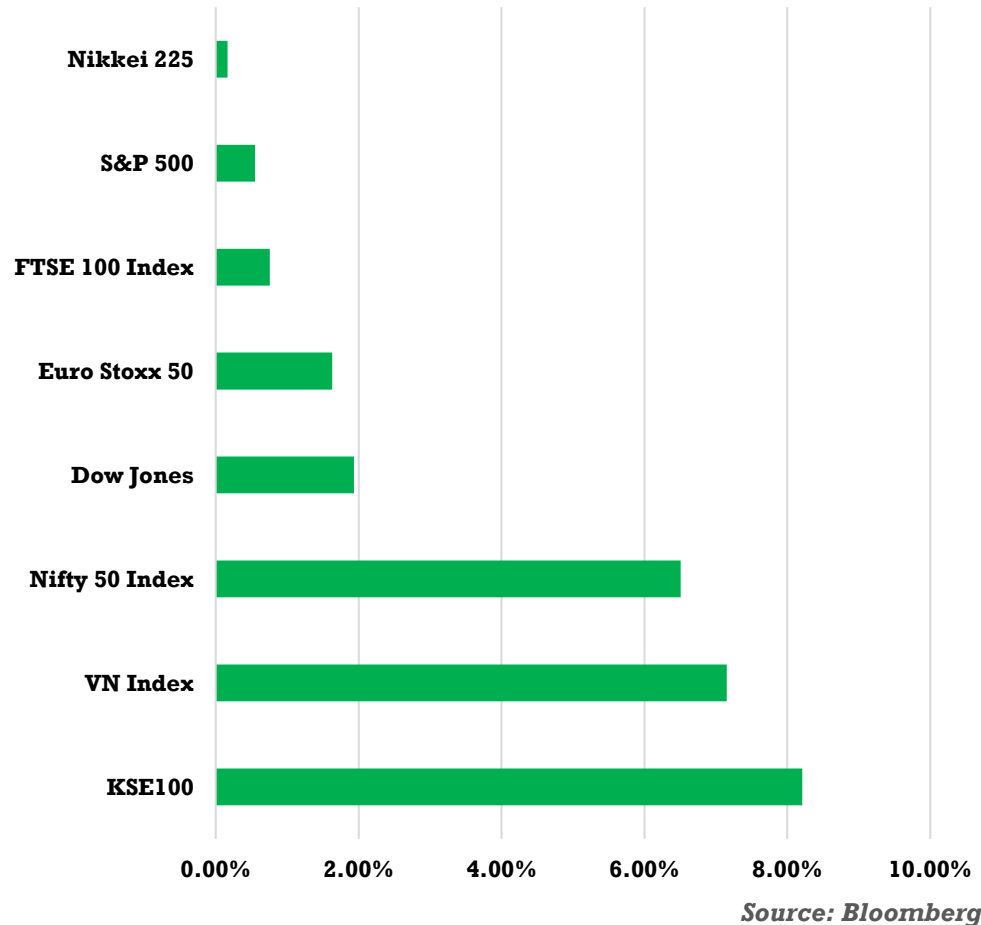
TOURIST ARRIVALS – MAY 2021

[1,497 – May, YTD 15,294 – MoM DOWN 64.0%]

Despite the fact that SL was on the path to gradual recovery in terms of the tourist arrivals during the first 04 months, in the month of May 2020, tourist arrivals were recorded at 1,497 due to the closure of borders from 21st of May to 31st of May, imposed with a view to control the COVID-19 situation in the country. China became the largest source of tourist traffic to SL followed by Germany, United States, United Kingdom, and Russian Federation.



GLOBAL MARKET



Higher interest rates would be good for the country, Treasury Secretary Yellen says

U.S. Treasury Secretary Janet Yellen said that President Joe Biden's \$4 trillion spending proposal would be positive for the country, even if it leads to a rise in interest rates. During an interview with Bloomberg News, the former Federal Reserve chair said the president's plans would total about \$400 billion each year — a level of spending she argued was not enough to create an inflation over-run. "If we ended up with a slightly higher interest rate environment it would actually be a plus for society's point of view and the Fed's point of view,".

Bloomberg



Major Chinese city battles Delta Covid variant first detected in India with lockdowns, mass testing

Authorities in the southern Chinese province of Guangdong are carrying out mass testing and have locked down areas to try to control a flare up of coronavirus cases in Guangzhou. The city has cited the Delta variant of the coronavirus, first detected in India, as a driver behind the uptick in cases it has reported since the latter part of May. The Delta strain is known to be highly transmissible.

India re-opens major cities as new COVID-19 infections hit 2-mth low

Key Indian cities re-opened for business on Monday, with long queues for buses in the financial hub of Mumbai while traffic returned to the roads of New Delhi after a devastating second wave of coronavirus that killed hundreds of thousands. The 100,636 new infections of the past 24 hours were the lowest in the world's second most populous nation since April 6, and well off last month's peaks of more than 400,000, allowing authorities to re-open parts of the economy.



REUTERS
WORLD

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Thank You

“Successful Investment Is About Managing Risk...”