



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

May 2022

CONTENT BRIEFING

• Regulation of selected payment terms related to imports.....	3
• Inflation.....	4
• M2B & Sector Credit.....	8
• Reserves & Liquidity.....	9
• Currency Movement.....	10
• Government Securities.....	11
• Finance Sector Rate Movement.....	14
• External Sector.....	15
• Tourist Arrivals.....	19
• Global Markets.....	20

REGULATION OF SELECTED PAYMENT TERMS RELATED TO IMPORTS

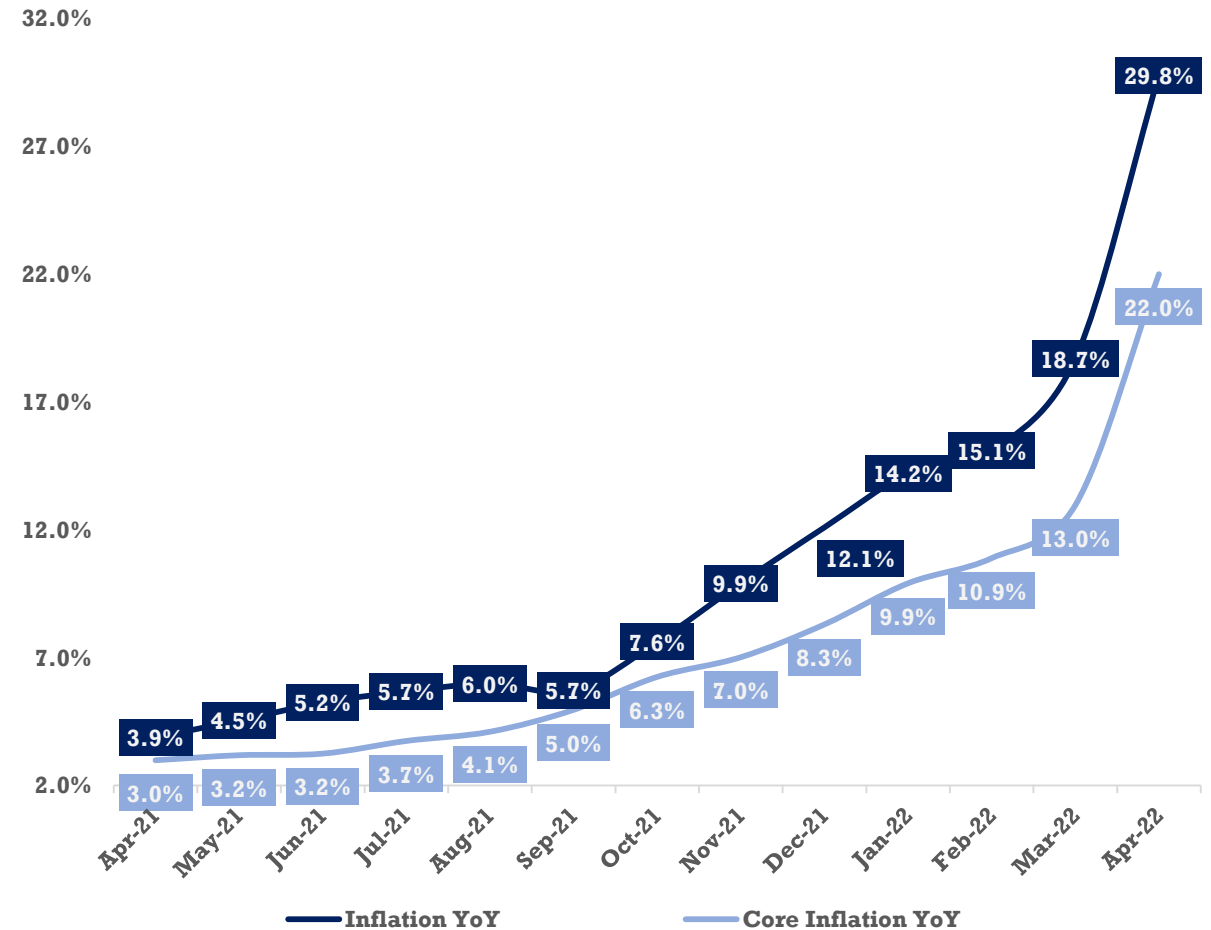
- Regulations have been promulgated under the Imports and Exports Control Act, No. 01 of 1969 and published in the Gazette No. 2278/21 dated 6th May 2022 to regulate selected payment terms related to importation of goods with a view to curb opportunities for under-invoicing at the time of customs clearance of imported goods.
- As per these regulations,
 - a) Operation of the open account payment terms as been limited to exporters and indirect exporters.
 - b) Documents against payment (DP) and documents against acceptance (DA) terms have been regularized to use on foreign exchange available basis.
 - c) Director General, Sri Lanka customs has been instructed to keep a system in place to monitor and reconcile the declared import value at the time of customs declaration by the importers and settlement value of such import bills in collaboration with the respective importers' banks.
- These regulations will curb opportunities for the importers to under-invoice (declare lesser value than the actual value of the imported consignment) to get benefit from the lesser payment of duties at the time of customs clearance and use of grey foreign exchange market (undiya/hawala method) to settle the undeclared part of the import bills.

Source: Ministry of Finance

INFLATION – CCPI

CCPI FOR APR 2022: MOM +9.3%, YOY +29.8%

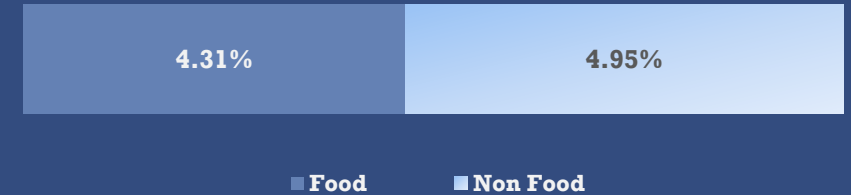
- MoM inflation increased by 9.3% with the increase in expenditure value of Food items by 12.5% and the increase of Non-Food items by 7.6%.
- The YoY inflation increased to 29.8% in Apr 2022. YoY inflation of Food group has increased to 46.6% in Apr 2022 from 30.2% in Mar 2022 while Non-Food group increased to 22.0% from 13.4% in Mar 2022.



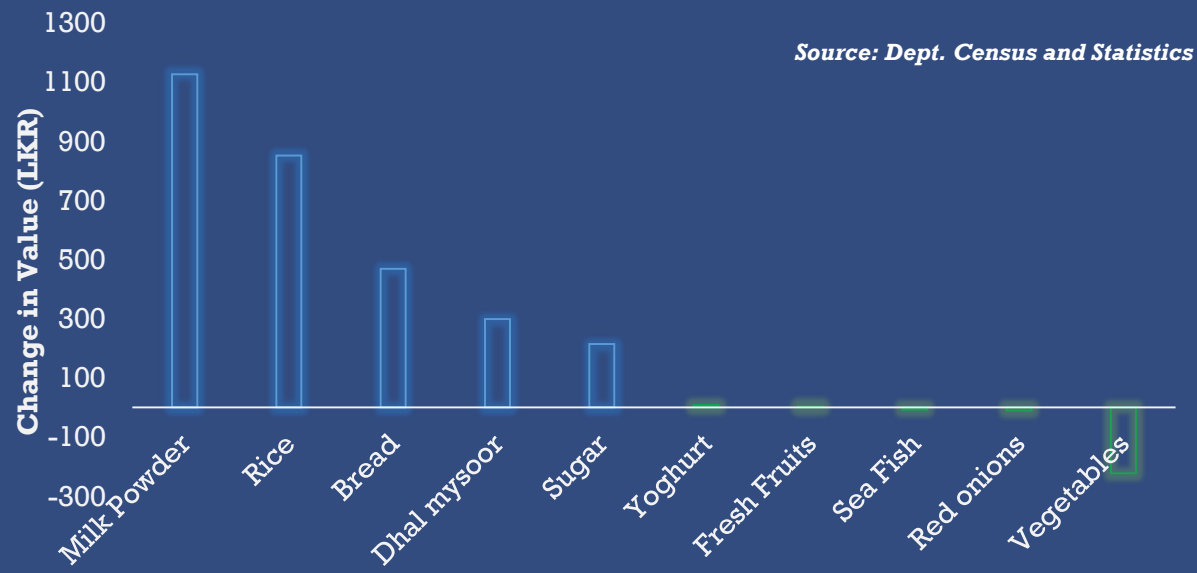
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

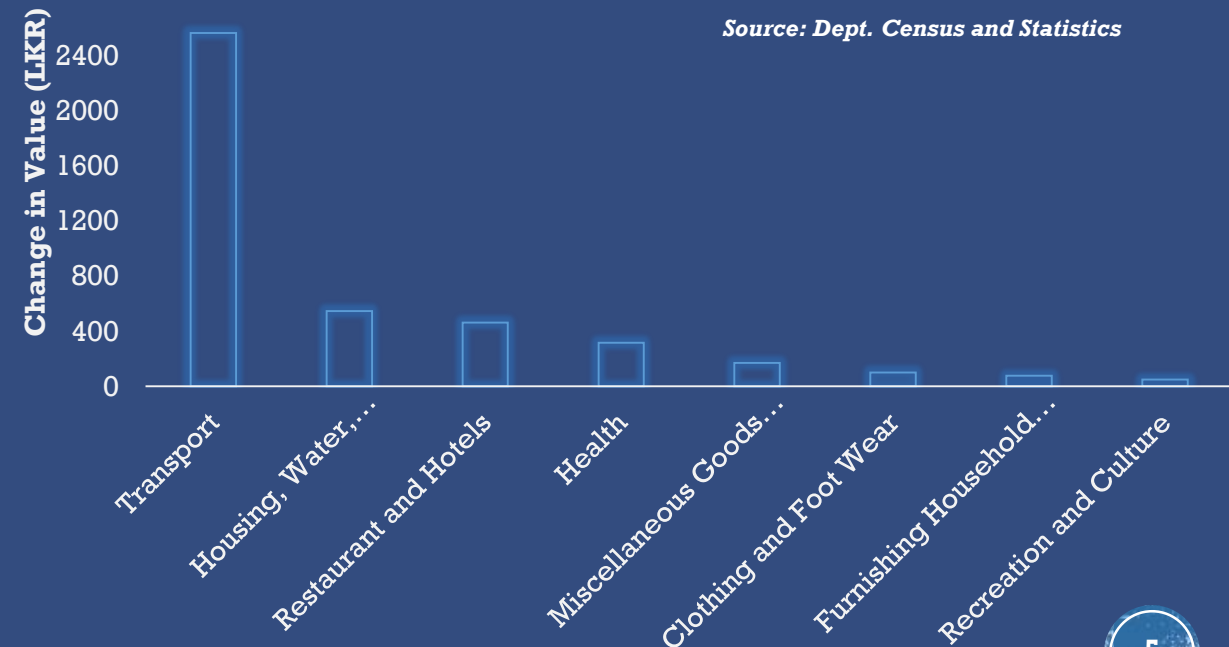
The CCPI index recorded an increase of 9.3%MoM contributed by the increase in expenditure value of Food items by 4.31% and Non-Food items by 4.95%. Within the Food items, increase in value changes were mainly reported for Milk Powder, Rice, Bread, Dhal mysoor, Sugar and etc. Among Non-Food groups, increases in value changes were reported for the groups of Transport, Housing, Restaurant and Hotels, Health and etc.



Food Category Inflation



Non-Food Category Inflation

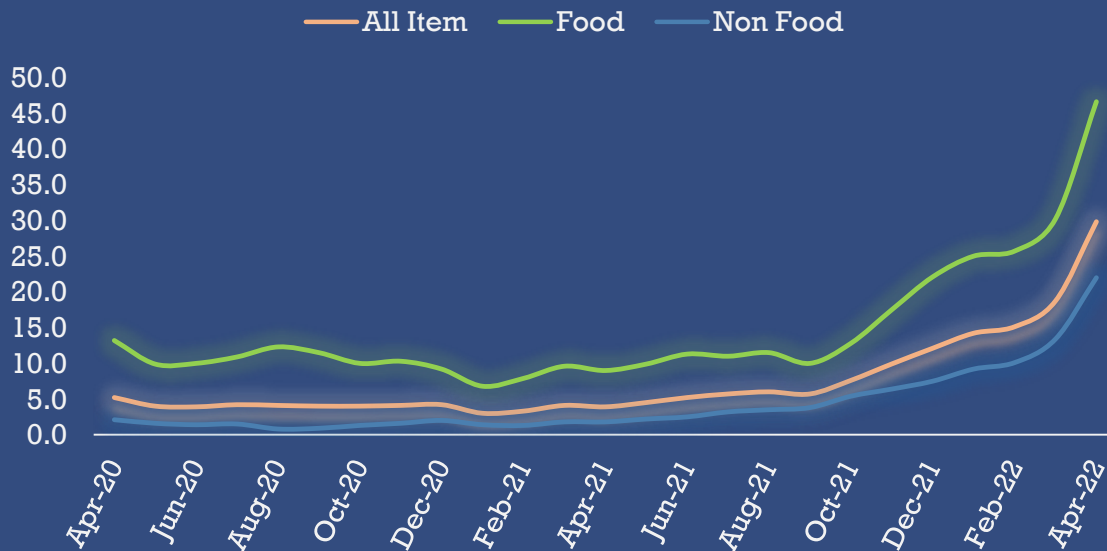


INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Apr was 29.8% and has increased relative to the month of Mar. Food item prices have increased to 46.6%YoY in Apr 2022 from 30.2%YoY in Mar 2022 while the Non-Food item prices have increased to 22.0%YoY from 13.4%YoY in Mar 2022. The contribution from food category for YoY inflation was 14.69% while the contribution of Non-Food items stood at 15.10% mainly due to the increase in Transport, Housing, Water, Electricity, Gas & Other Fuels, Restaurants & Hotels, Education and Health.

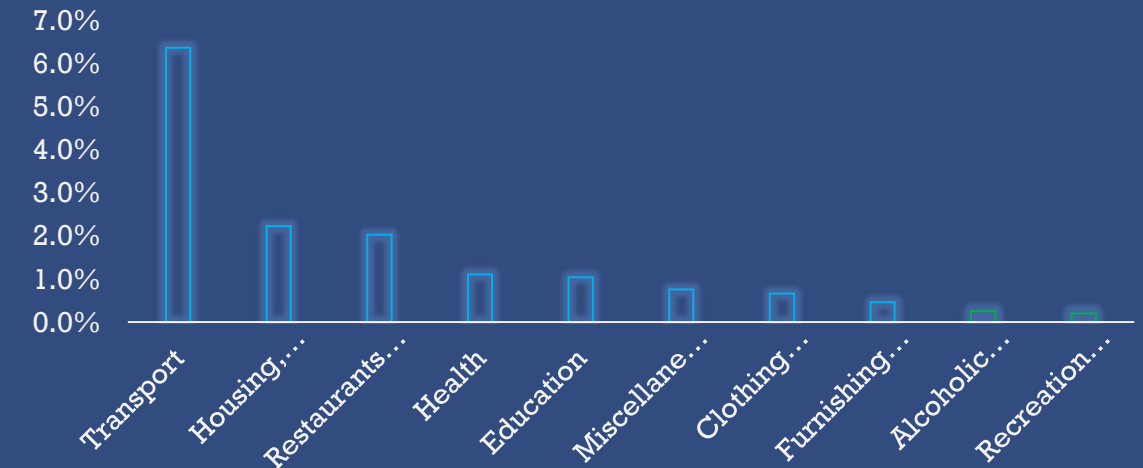


Inflation Analysis (YoY)



Source: Dept. Census and Statistics

Non-Food Category Inflation

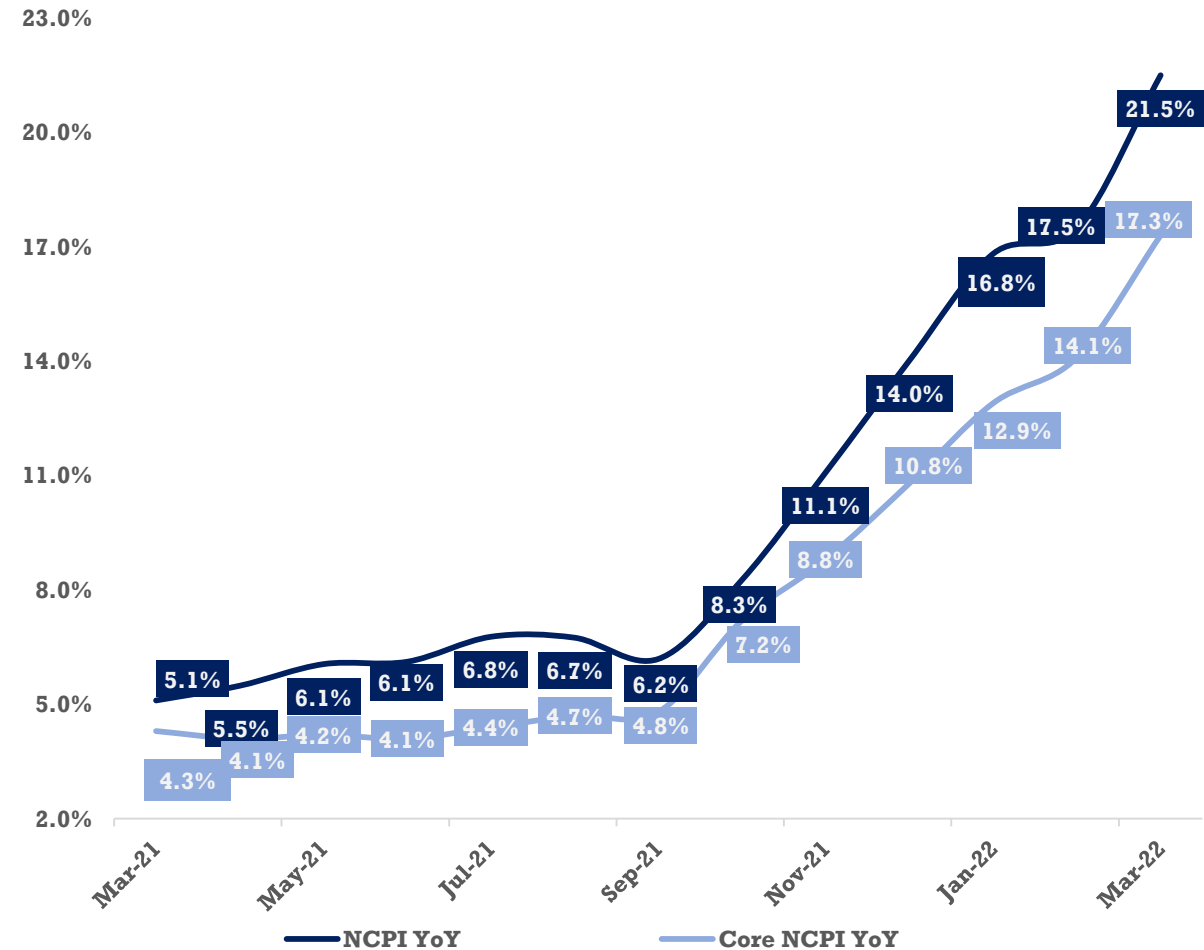


Source: Dept. Census and Statistics
May 2022

INFLATION – NCPI

NCPI FOR MAR 2022: INCREASED TO 21.5%YOY

- NCPI for Mar 2022 increased to 21.5% compared to Feb 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 24.7% in Feb 2022 to 29.5% in Mar 2022 while Non-Food inflation increased from 11.0%YoY in Feb 2022 to 14.5% in Mar 2022.



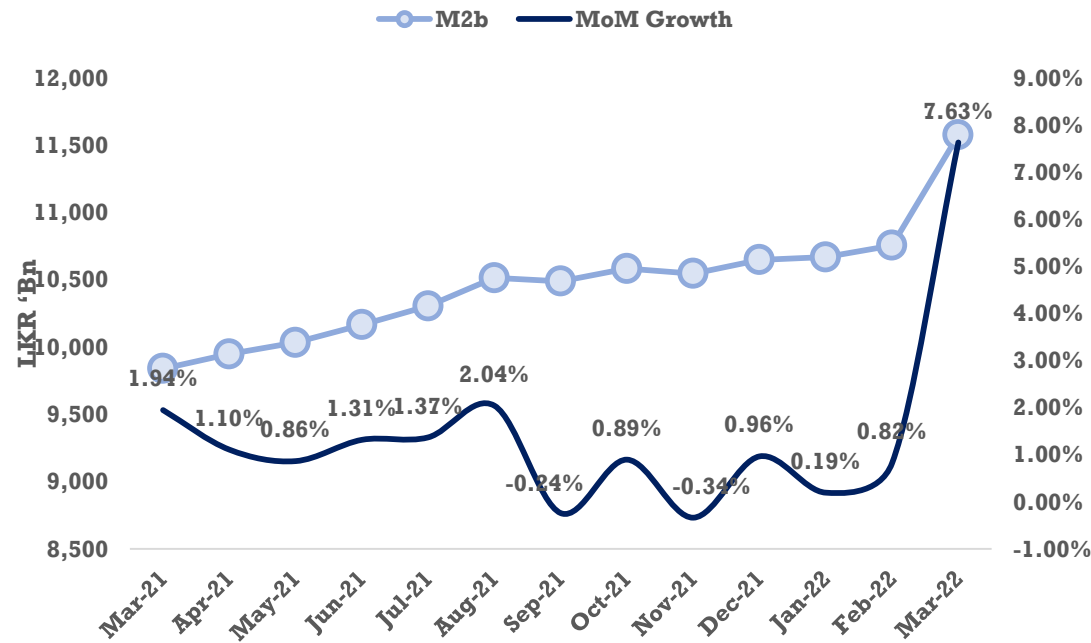
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit improved by LKR 478.0Bn in Mar 2022 sustaining the positive growth momentum for the 20th consecutive month. State credit reflected a net borrowing of LKR 759.6Bn.

M2b Growth – Mar 2022

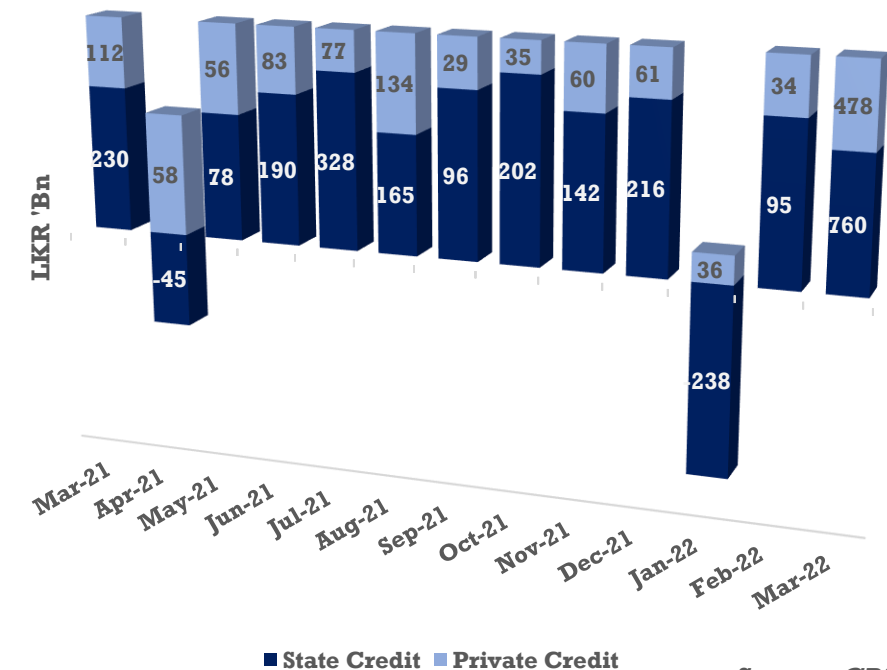
MoM +7.6%, YoY +17.7%, YTD +8.7%



Source: CBSL

State Credit & Private Credit – Mar 2022

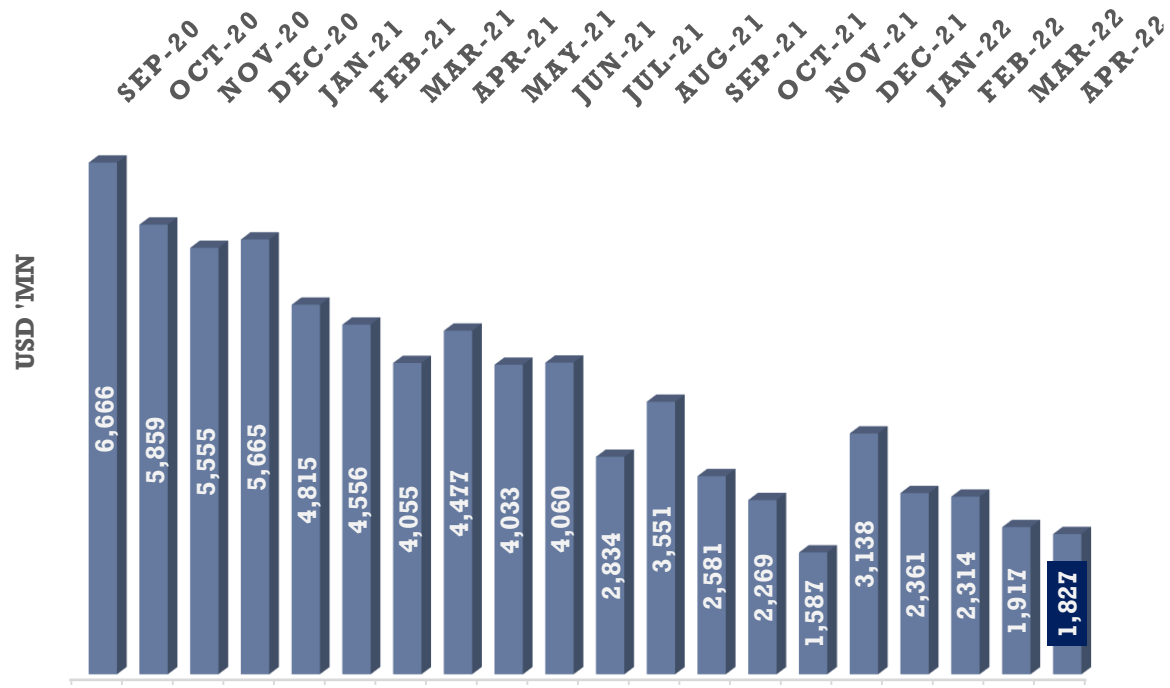
Private Credit MoM +6.8%, YoY +17.9%, YTD +7.8%



Source: CBSL

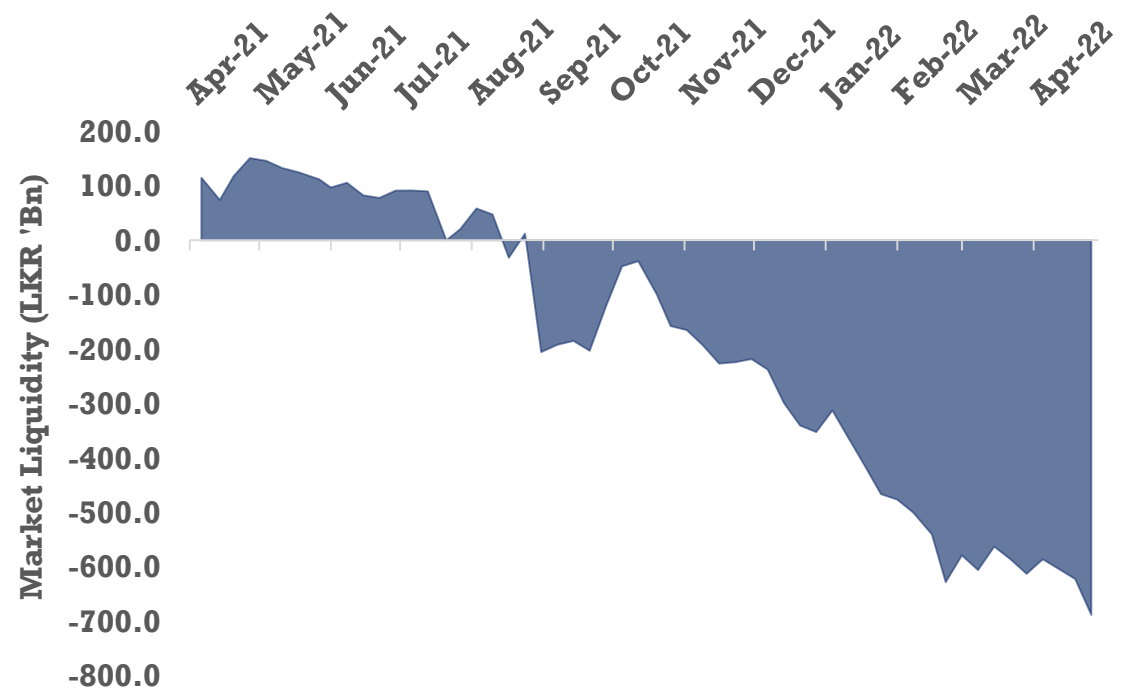
LIQUIDITY & RESERVES

- Foreign Reserves declined to USD 1.8Bn in Apr 2022 relative to USD 1.9Bn in Mar 2022 amidst the soaring import bills and inadequate foreign inflows.



Source: CBSL

- Market liquidity remained negative and witnessed a slight volatility during Apr 2022.



Source: CBSL
May 2022

CURRENCY MOVEMENT

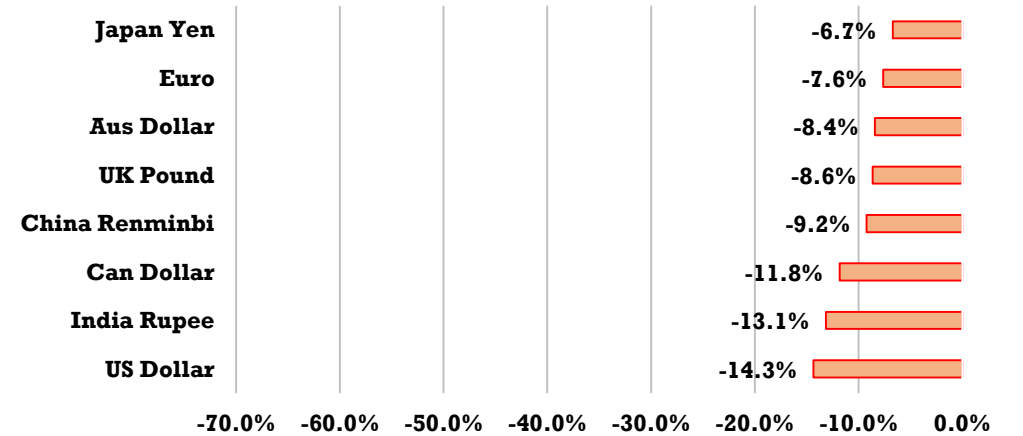
USD:LKR Movement



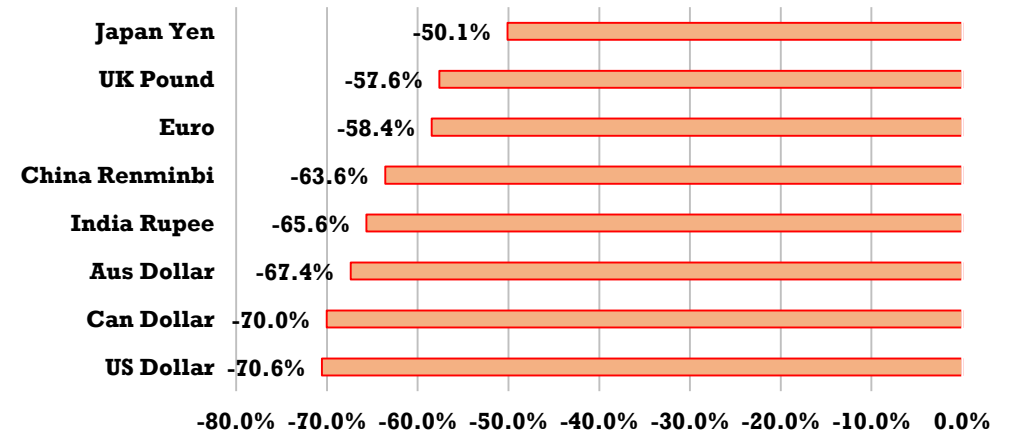
Source: CBSL

Sri Lankan Rupee vs Global Currencies

Apr 2022



YTD 2022

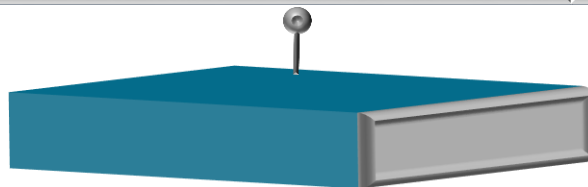


Source: CBSL

GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Apr 2022

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
1-Apr-22	48,000		48,000
8-Apr-22	72,880		72,880
22-Apr-22	130,064	13,117	143,181
29-Apr-22	87,500		87,500
Total Issued			351,561

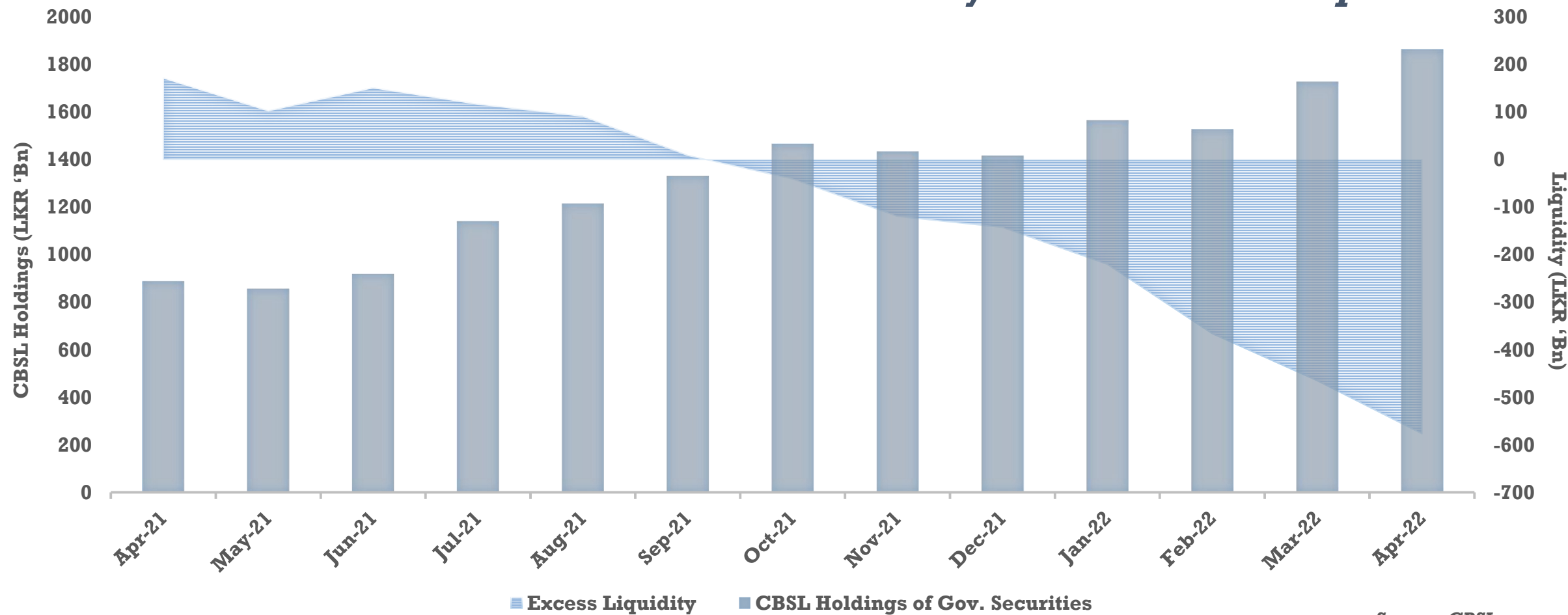


Net Settlement	Apr 2022	YTD
Maturities	630,627	1,960,495
New Issues	351,561	1,484,217
Excess/ (Deficit)	(279,066)	(476,278)

CBSL Holdings of Gov. Securities		YTD
As at End Apr 2022	1,864,601	
As at End Mar 2022	1,727,838	
Increase/ (Decrease)	136,763	336,963

CBSL HOLDINGS OF GOV. SECURITIES...

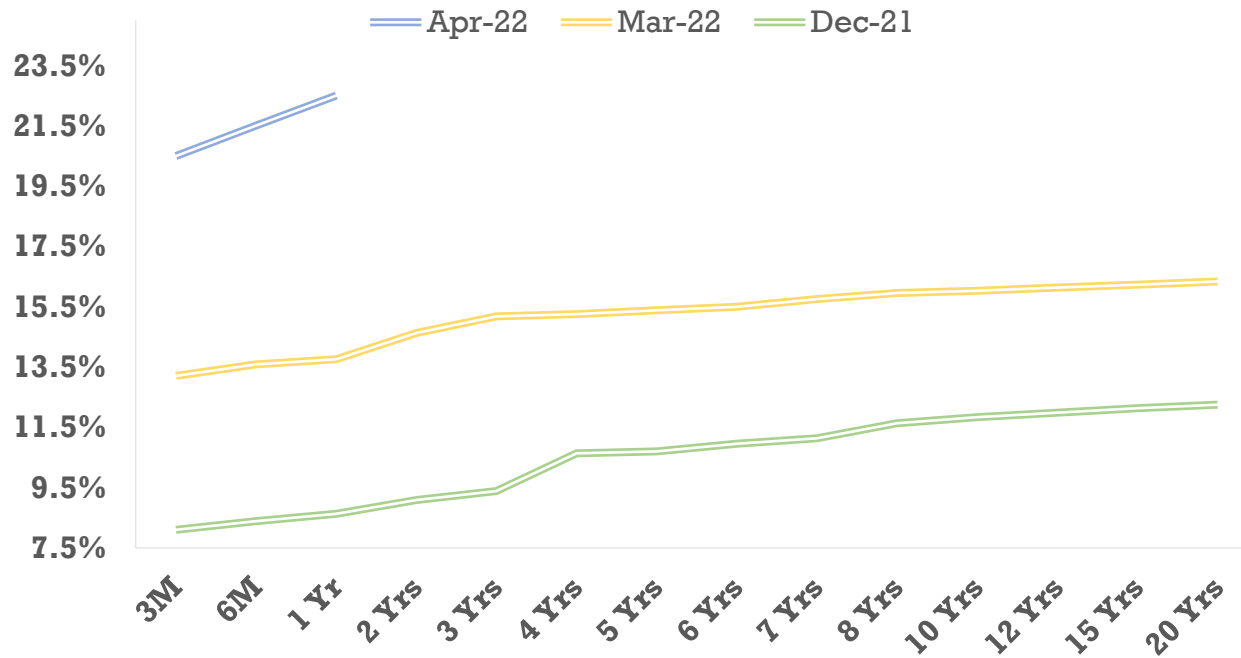
...increased by LKR 136.8Bn in Apr 2022



Source: CBSL

TREASURY BILLS AND BONDS – APR '22

During the month of Apr, the secondary market yield curve displayed an unprecedented spike over 700bps on short tenor maturities and no rates were quoted for bonds maturing beyond 1Yr . As the month progressed, short end of the yield curve edged up significantly while market participants opted to be on the sidelines. As the political and economic uncertainty mounted since last month, yields spiked upwards while the weekly bill auction yields continued to further advance. Out of the four bill auctions held during the month, only one auction was fully accepted whereas out of the two bond auctions held, both were only partially accepted.

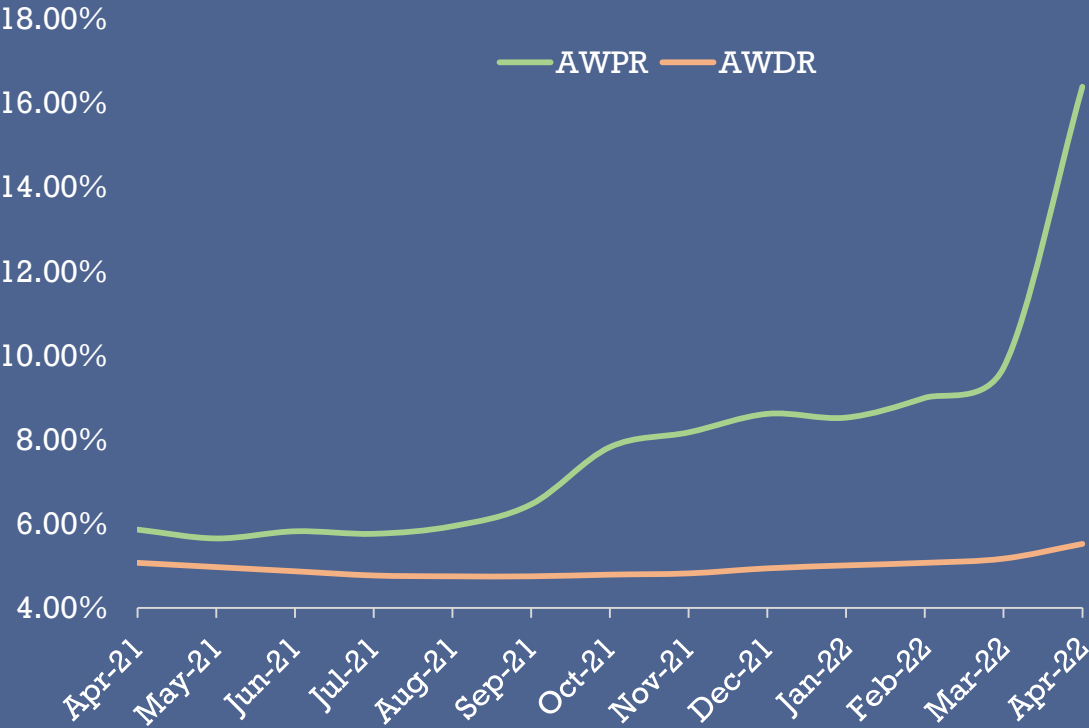


Source: First Capital Research

Tenure	Interest Rate Change (bps)				
	29-Apr-22	31-Mar-22	Change (bps)	31-Dec-21	Change (bps)
3M	20.50%	13.20%	730	8.10%	1240
6M	21.50%	13.58%	792	8.38%	1312
1 Yr	22.50%	13.75%	875	8.63%	1387
2 Yrs	N/A	14.63%	N/A	9.08%	N/A
3 Yrs	N/A	15.18%	N/A	9.38%	N/A
4 Yrs	N/A	15.25%	N/A	10.63%	N/A
5 Yrs	N/A	15.38%	N/A	10.70%	N/A
6 Yrs	N/A	15.50%	N/A	10.95%	N/A
7 Yrs	N/A	15.75%	N/A	11.13%	N/A
8 Yrs	N/A	15.95%	N/A	11.63%	N/A
10 Yrs	N/A	16.03%	N/A	11.83%	N/A
12 Yrs	N/A	16.13%	N/A	11.98%	N/A
15 Yrs	N/A	16.23%	N/A	12.13%	N/A
20 Yrs	N/A	16.33%	N/A	12.25%	N/A

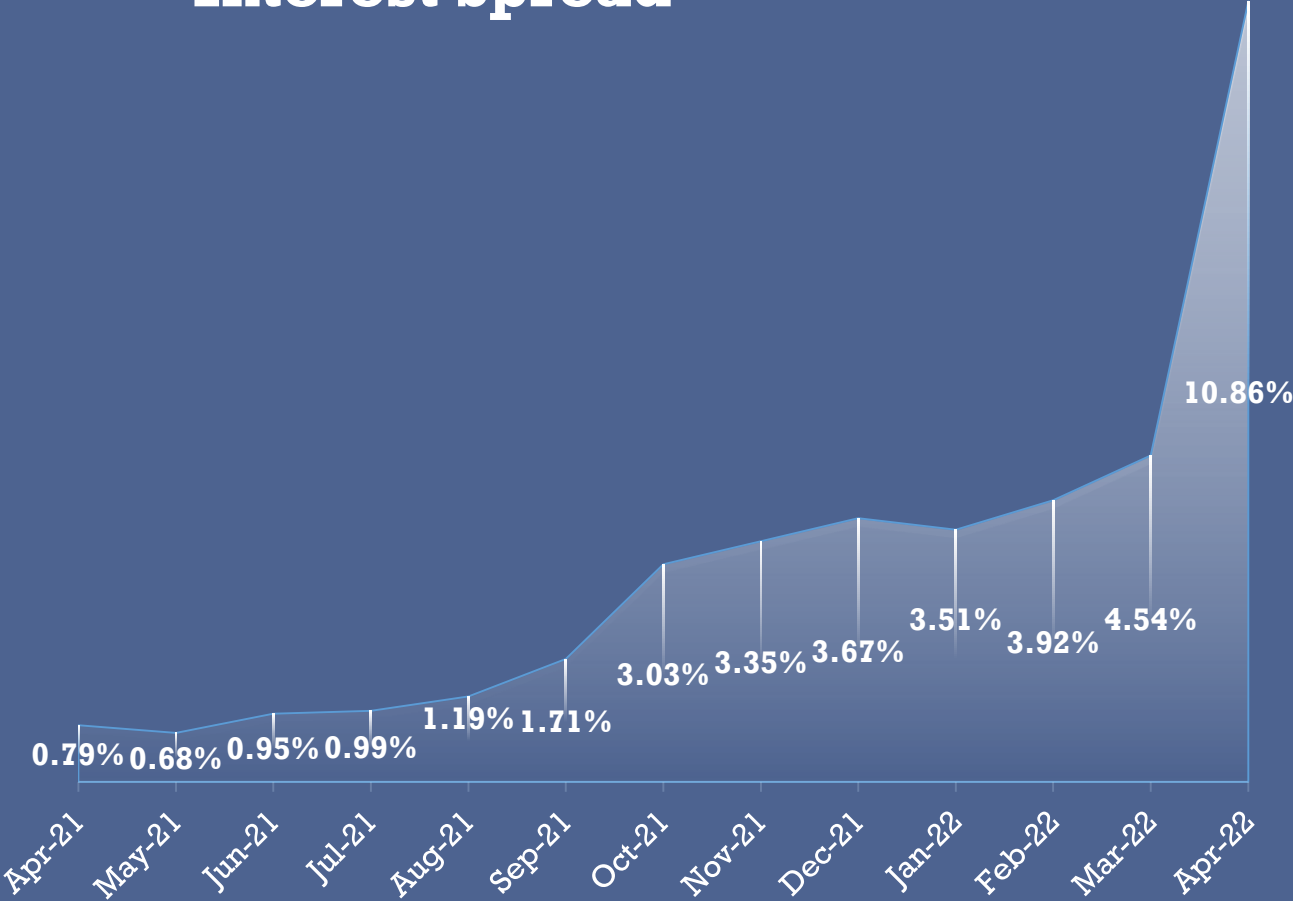
Source: First Capital Research

AWPR vs AWDR



Source: CBSL

Interest Spread



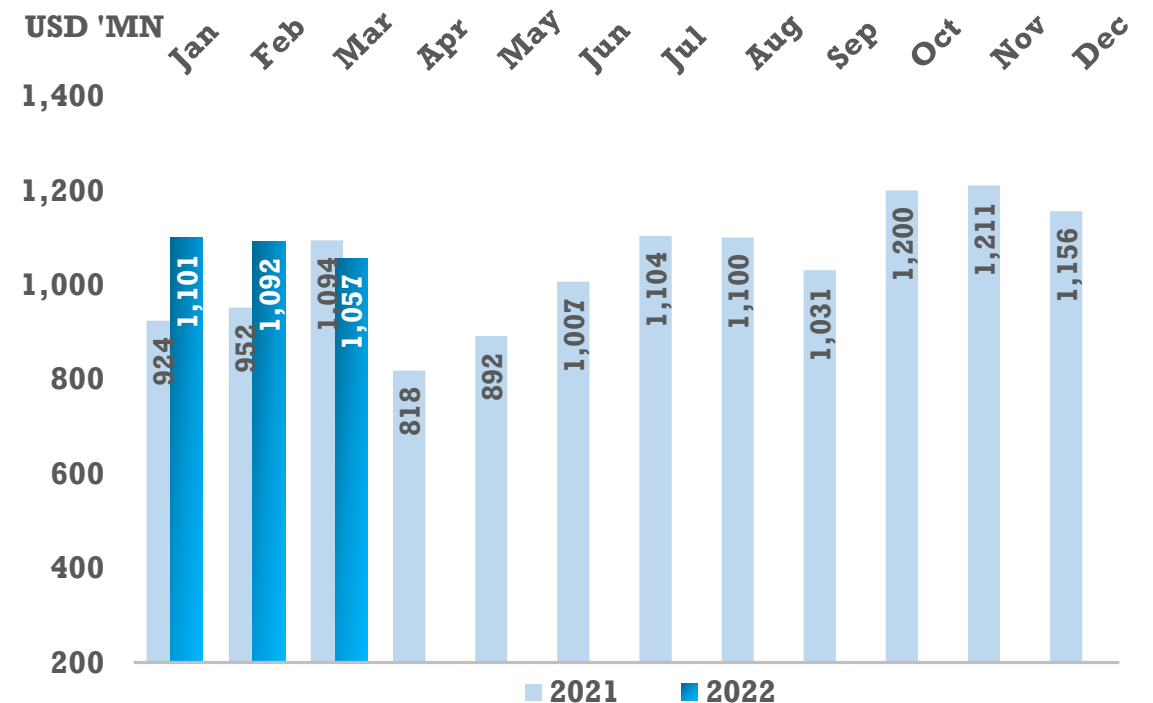
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – MAR 22 – EXPORTS

Exports for Mar declined by 3.4%YoY to USD 1.1Bn owing to a decrease in earnings in agricultural exports and mineral exports, although an increase was recorded in industrial exports. Earnings from the export of industrial goods recorded an increase of 2.9%YoY in Mar 2022, led by petroleum products and gems, diamonds and jewellery (mainly gems). Export of garments to most major markets improved, though a marginal decline was observed in garment exports. However, a decline in earnings was reported in the categories of rubber products (mainly household rubber gloves), food, beverages and tobacco, textiles, printing industry products and etc. Total earnings from the export of agricultural goods in Mar 2022 declined by 22.6%YoY with a broad-based decrease in export earnings in all sub-categories driven by lower volumes. Earnings from mineral exports decreased by 57.1%YoY due to a decline in export earnings from titanium ores categorized under ores, slag and ash.

Category	2021 (USD 'Mn)	2022 (USD 'Mn)	Change (%)
Industrial Exports			
- Mar	829.8	853.9	2.9
- YTD	2,302.4	2,627.8	14.1
Agricultural			
- Mar	257.3	199.3	-22.6
- YTD	663.8	605.9	-8.7
Mineral Exports			
- Mar	4.7	2.0	-57.1
- YTD	11.8	10.4	-11.6
Total			
- Mar	1,093.8	1,056.9	-3.4
- YTD	2,982.2	3,249.3	9.0

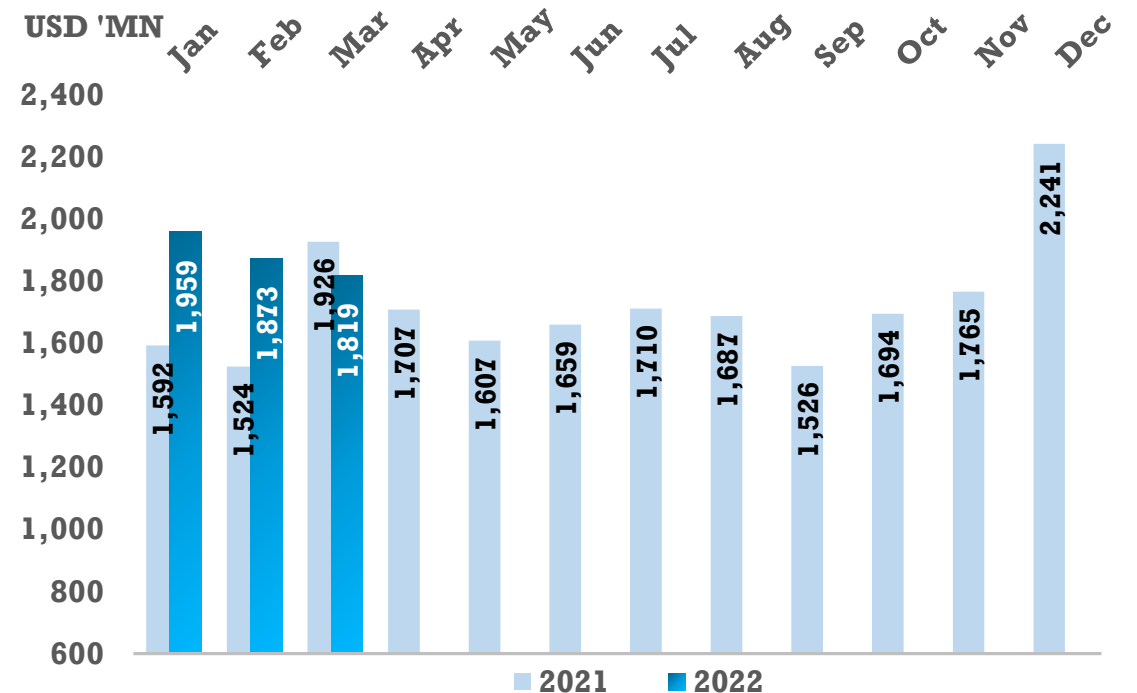


Source: CBSL
May 2022

EXTERNAL SECTOR – MAR 22 – IMPORTS

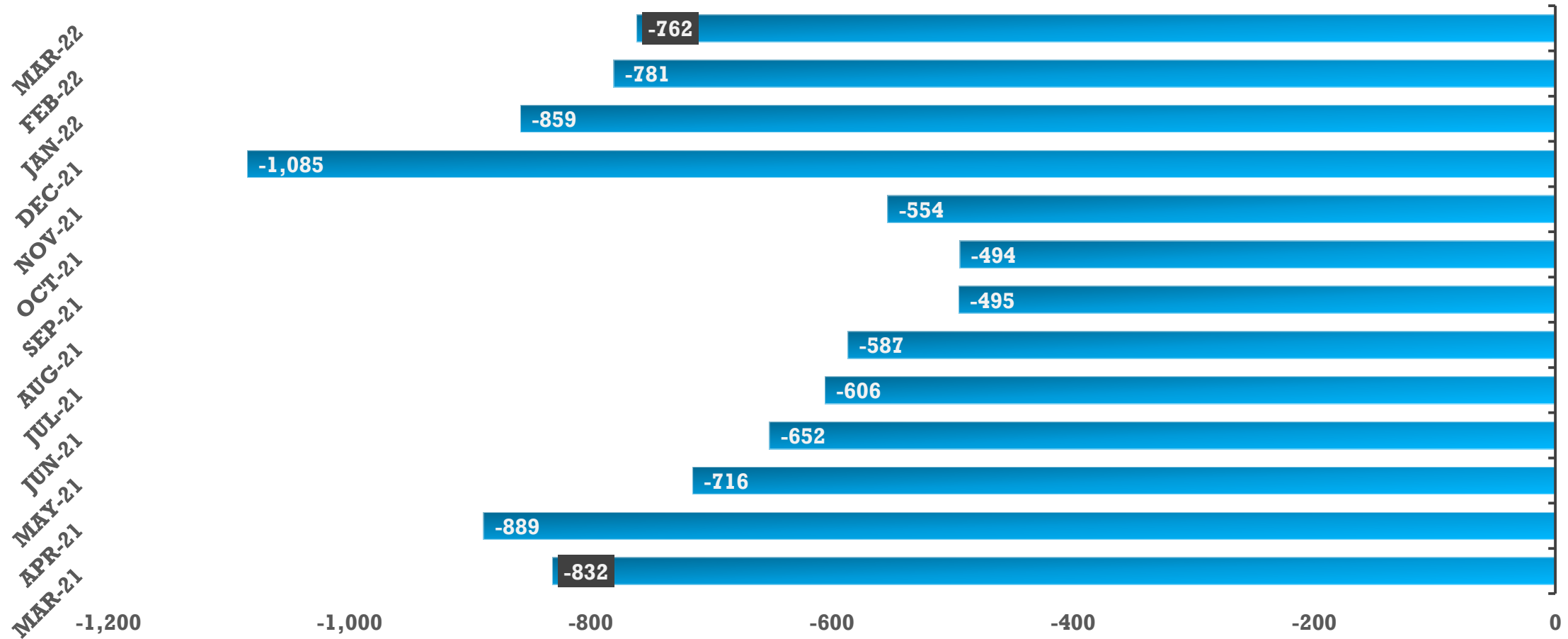
Import expenditure declined by 5.6%YoY to USD 1.8Bn in Mar 2022, owing to a decline in expenditure in import of consumer goods and investment goods, while an increase was recorded in import of intermediate goods. Expenditure on the importation of consumer goods in Mar 2022 decreased by 25.7%YoY driven by the reduction in food and beverages and reduction in non-food consumer goods. However, expenditure on cereals and milling industry products remained high in Mar 2022, mainly due to the increase in expenditure on rice imports. Expenditure on the importation of intermediate goods increased by 4.2%YoY, mainly driven by fuel although import expenditure on many other intermediate goods decreased, particularly base metals, chemical products and etc. Expenditure on the importation of investment goods decreased by 13.9%YoY as a result of the decline in all three types of investment goods, namely machinery and equipment, building material and transport equipment.

Category	2021 (USD 'Mn)	2022 (USD 'Mn)	Change (%)
Consumer goods			
- Mar	379.6	282.0	-25.7
- YTD	997.9	940.8	-5.7
Intermediate			
- Mar	1,129.9	1,177.8	4.2
- YTD	2,990.7	3,610.1	20.7
Investment goods			
- Mar	416.3	358.5	-13.9
- YTD	1,050.1	1,098.8	4.6
Total			
- Mar	1,925.9	1,818.9	-5.6
- YTD	5,041.1	5,651.2	12.1



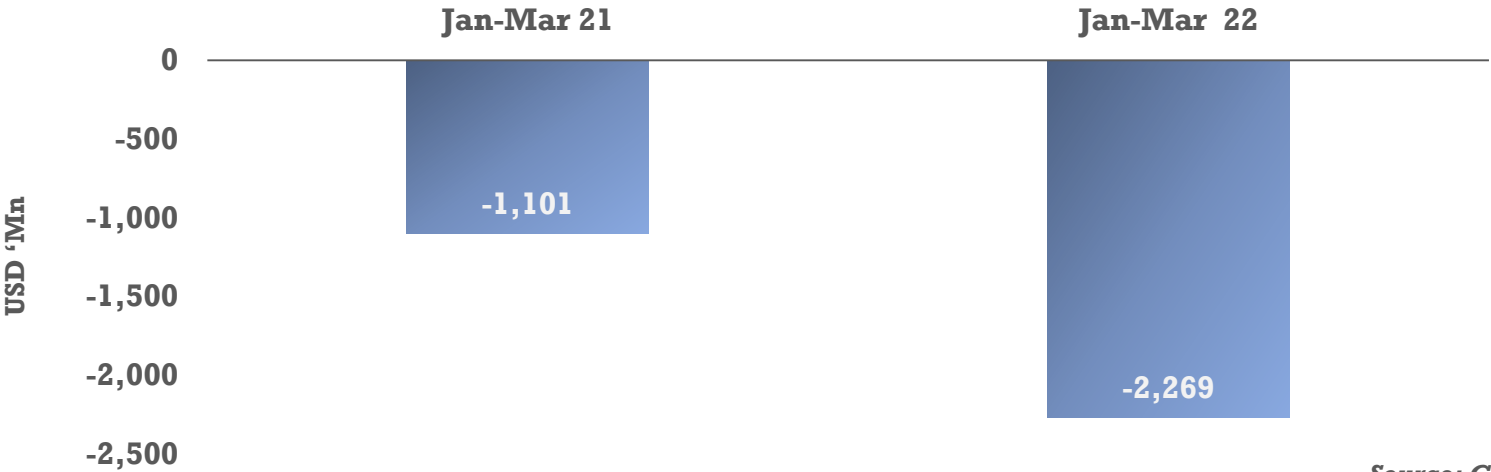
EXTERNAL SECTOR – MAR 22

Balance of Trade



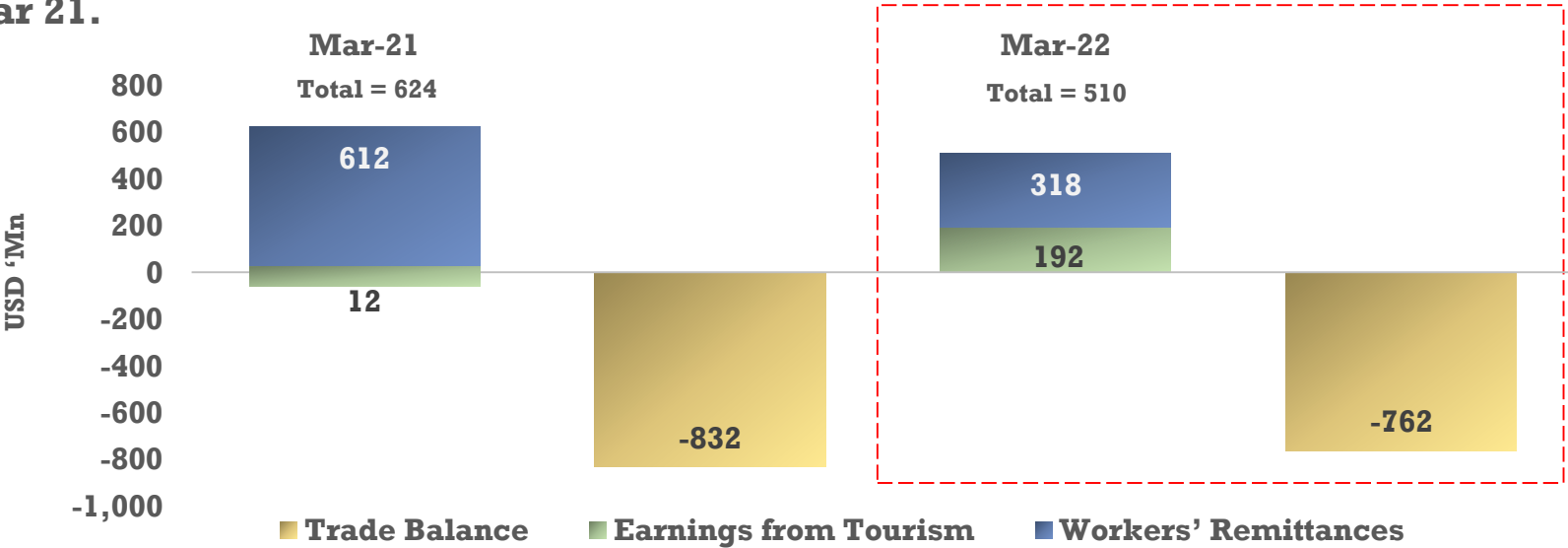
Source: Central Bank

BoP for Jan-Mar 22 recorded at USD -2.3Bn compared to Jan-Mar 21 amount of USD -1.1Bn.



Source: CBSL

Workers' Remittances declined to USD 318.0Mn in Mar 22 (-48.0%YoY). Earnings from Tourism for Mar 22 improved to USD 192.0Mn from USD 12.0Mn recorded in Mar 21.



Source: CBSL

BALANCE OF PAYMENT
DEFICIT INCREASED YOY IN
MAR 2022

Mar USD 'Mn	2021	2022	Change (%)
Trade Balance	-832	-762	
Earnings from Tourism	12	192	N/A
Workers' Remittances	612	318	-48.0

YTD USD 'Mn	2021	2022	Change (%)
Trade Balance	-2,059	-2,402	
Earnings from Tourism	25	513	N/A
Workers' Remittances	1,867	783	-58.1

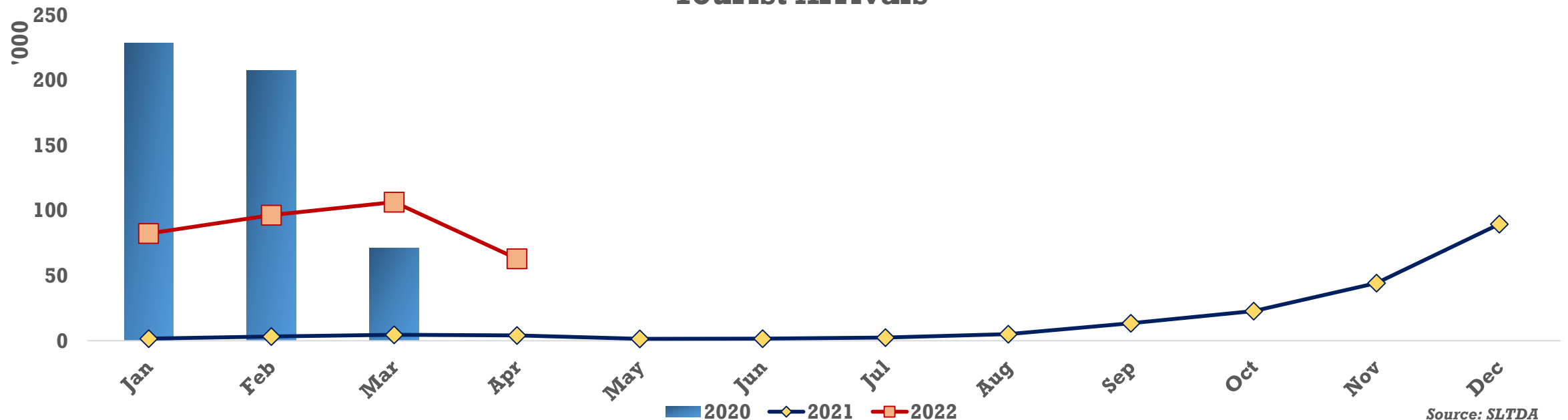
Source: CBSL

TOURIST ARRIVALS – APR 2022

[62,980 – APR, YTD 348,314 – MoM DOWN -40.9%]

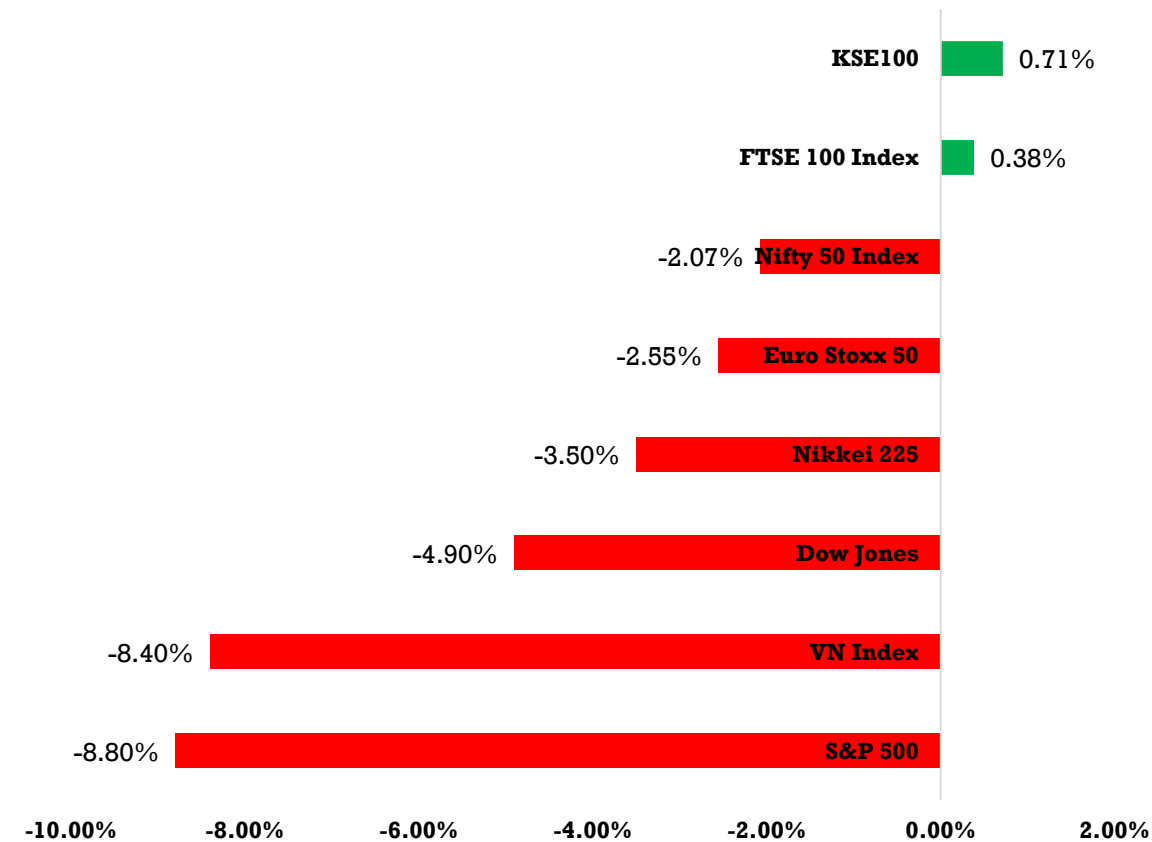
The total number of tourist arrivals to Sri Lanka during Apr 2022 were 62,980. A sharp contraction in arrivals was observed during the month of Apr, as a result of the current economic crisis and political unrest in the country along with the gradual cessation of the peak travel season. The largest source markets recorded for the month of Apr were United Kingdom, India, Germany, France and the Russian Federation.

Tourist Arrivals



Source: SLTDA

GLOBAL MARKET



Source: Investing.com

First Capital Research

Charting the global economy: Fed leads rate hike-heavy week

The Federal Reserve led a host of central banks in hiking interest rates this week with its strongest move yet to curb decades-high inflation. Policy makers in the U.S. boosted rates by the most since 2000, while those in Australia delivered a bigger-than-expected increase. India surprised markets with its first unscheduled rate change since the depths of the pandemic, and the Bank of England raised interest rates to their highest level since the financial crisis and warned of a possible recession.

Bloomberg



OPEC+ agrees to another modest production increase after EU outlines Russian oil ban

Oil producer group OPEC+ on Thursday agreed to rubber-stamp another small production increase for June, amid persistent concerns over weaker Chinese demand and shortly after the world's largest trading bloc outlined proposals for new sanctions against Russian crude. The influential energy alliance of OPEC and non-OPEC partners decided to raise production targets by 432,000 barrels per day for next month, sticking to an existing strategy of gradually unwinding record supply cuts.

Somalia seeks three-month extension of its IMF support programme

Somalia's government has asked the International Monetary Fund (IMF) to extend its financial support by three months to Aug 17, the head of the IMF's country mission told Reuters. The Washington-based fund warned in February that Somalia's delayed legislative and presidential elections put the renewal of the three-year budget support programme, worth nearly USD 400Mn, at risk of automatic expiration this month.



REUTERS
WORLD

May 2022

20

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THANK YOU

“Successful Investment Is About Managing Risk...”

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