



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Jun 2022

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CBSL REASSURES ITS COMMITMENT TO ENSURING THE AVAILABILITY OF FOREIGN EXCHANGE THROUGH THE BANKING SYSTEM FOR IMPORTATION OF ESSENTIAL FOOD ITEMS

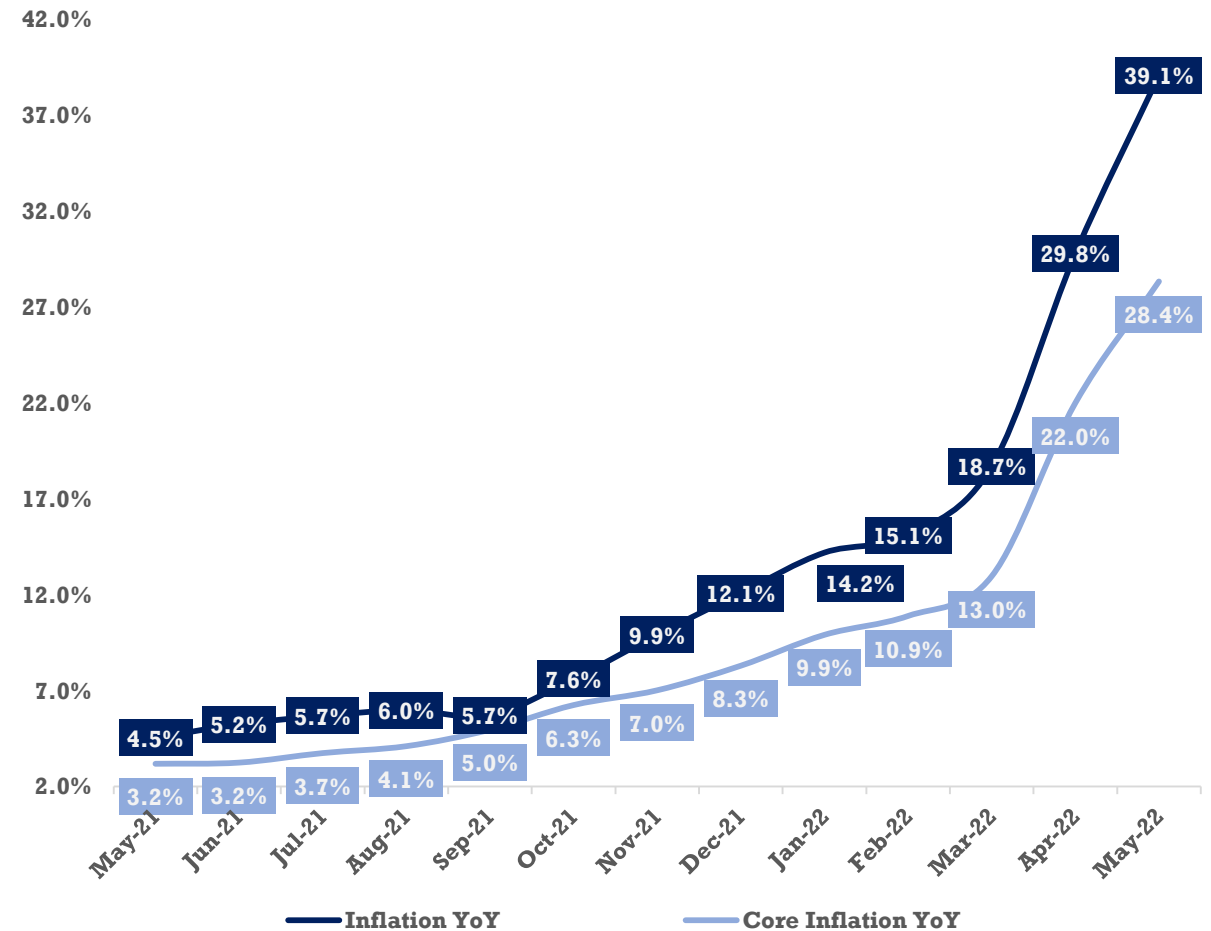
- The CBSL is in a continuous dialogue with the banking community in order to ensure the facilitation of essential goods imports. Following the restrictions imposed on payment terms and the introduction of the exchange rate determination mechanism, there has been significant moderation of activity in the grey market. This has resulted in foreign exchange inflows routing through to the banking system, thereby increasing foreign exchange liquidity conditions in the banking system.
- The CBSL has commenced negotiations with the trade Association and other parties who are engaged in importing essential goods. Accordingly, a preliminary assessment is being carried out, with the participation of several govt. authorities to identify the availability of stocks of essential goods at present and the monthly requirement of the same in the ensuing period. Based on such findings, an arrangement would be put in place to ensure imports of essential goods in required quantities and frequency, along with the existing arrangement agreed by the Government of India to utilise the existing line of credit to import essential goods.
- The CBSL, the Sri Lanka Customs, and the Ministry of Trade, along with other agencies, are taking measures to clear the imported goods that are being held at the Customs, thereby minimizing costs to traders while releasing stocks to the market as a matter of priority.

Source: CBSL

INFLATION – CCPI

CCPI FOR MAY 2022: MOM +8.3%, YOY +39.1%

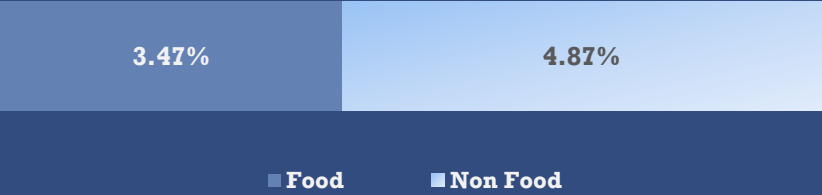
- MoM inflation increased by 8.3% with the increase in expenditure value of Food items by 9.7% and the increase of Non-Food items by 7.5%.
- The YoY inflation increased to 39.1% in May 2022. YoY inflation of Food group has increased to 57.4% in May 2022 from 46.6% in Apr 2022 while Non-Food group increased to 30.6% from 22.0% in Apr 2022.



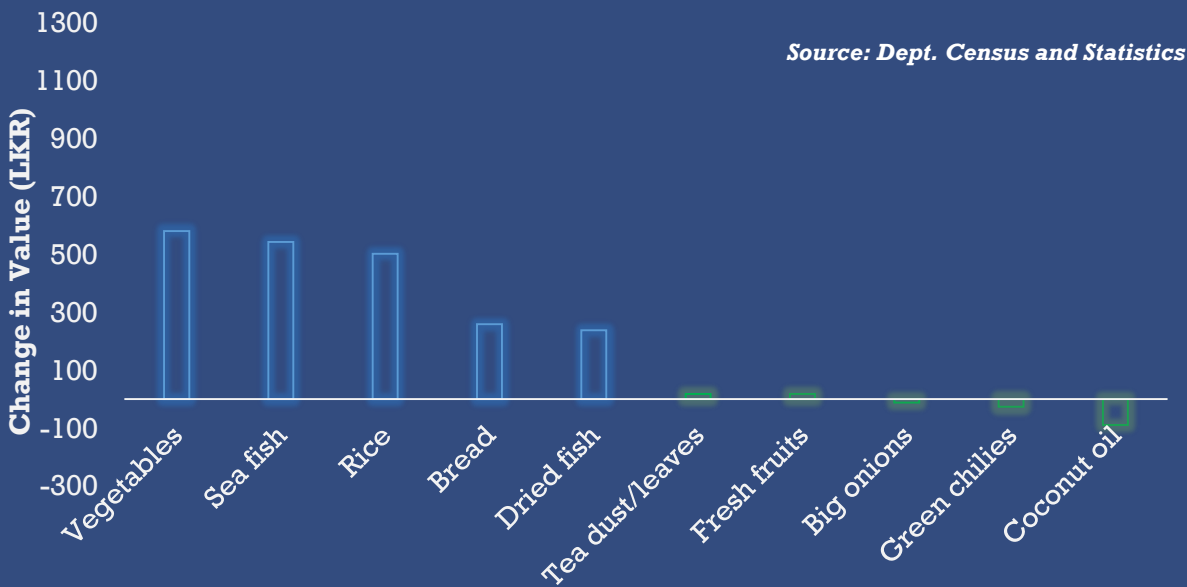
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

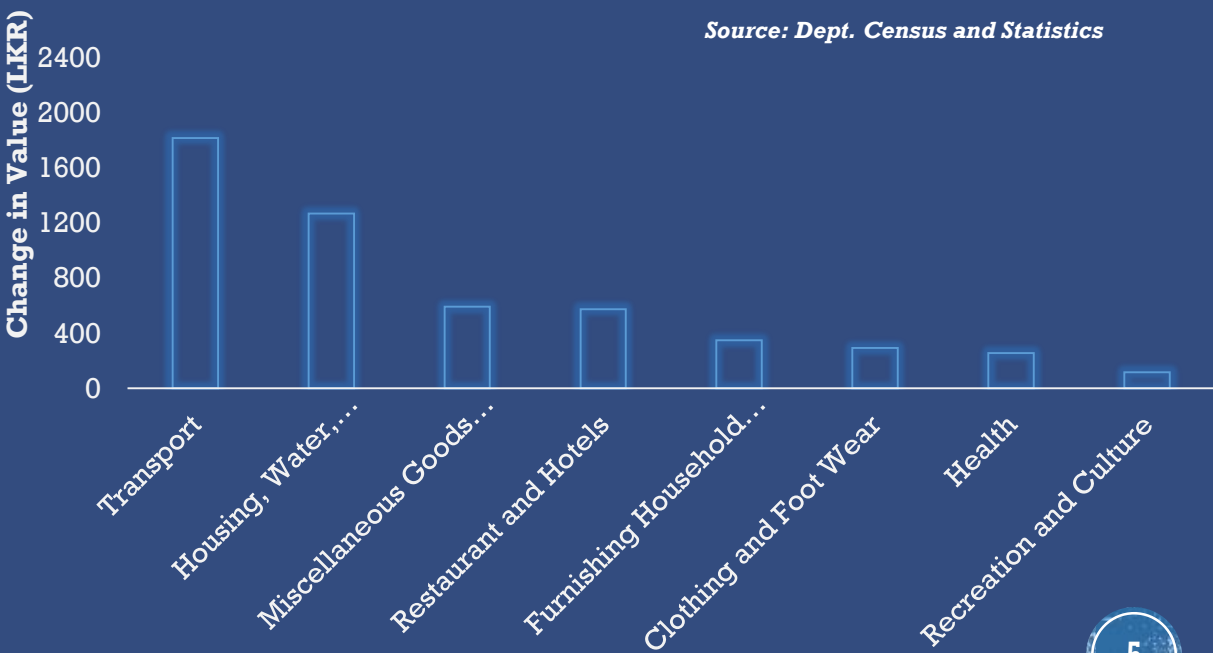
The CCPI index recorded an increase of 8.3%MoM contributed by the increase in expenditure value of Food items by 3.47% and Non-Food items by 4.87%. Within the Food items, increase in value changes were mainly reported for Vegetables, Sea fish, Rice, Bread, Dried fish and etc. Among Non-Food groups, increases in value changes were reported for the groups of Transport, Housing, water, Electricity, Gas and Other Fuels, Miscellaneous Goods and Services, Restaurant and Hotels, and etc.



Food Category Inflation



Non-Food Category Inflation



INFLATION ANALYSIS – CCPI-YOY

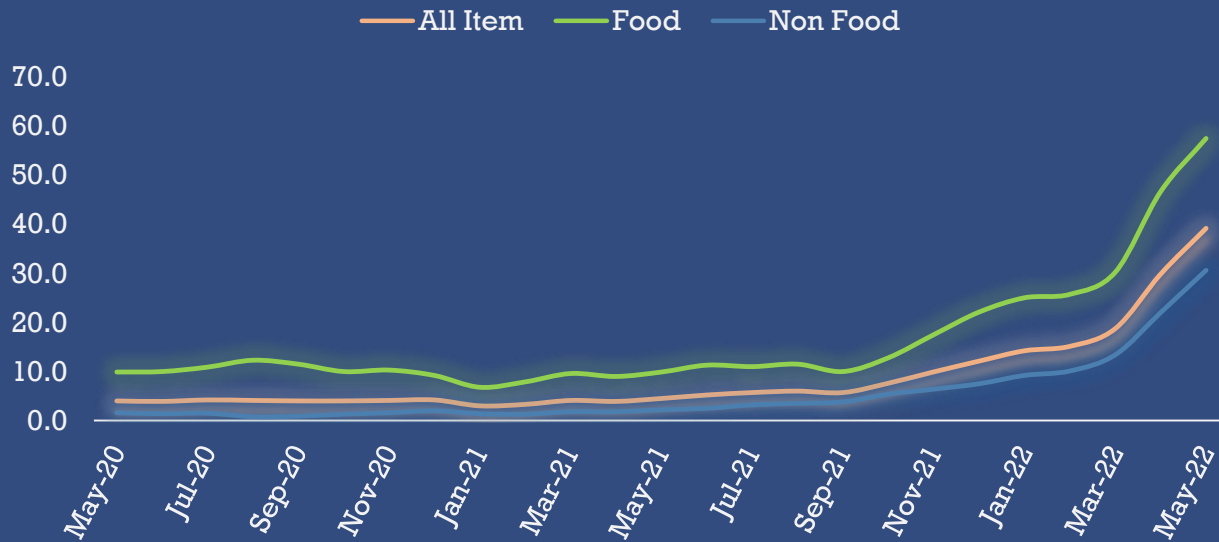
The YoY inflation of CCPI for Apr was 39.1% and has increased relative to the month of Apr. Food item prices have increased to 57.4%YoY in May 2022 from 46.6%YoY in Apr 2022 while the Non-Food item prices have increased to 30.6%YoY from 22.0%YoY in Apr 2022. The contribution from food category for YoY inflation was 18.30% while the contribution of Non-Food items stood at 20.84% mainly due to the increase in Transport, Housing, Water, Electricity, Gas & Other Fuels, Restaurants & Hotels, Miscellaneous goods and services and etc.

18.30%

20.84%

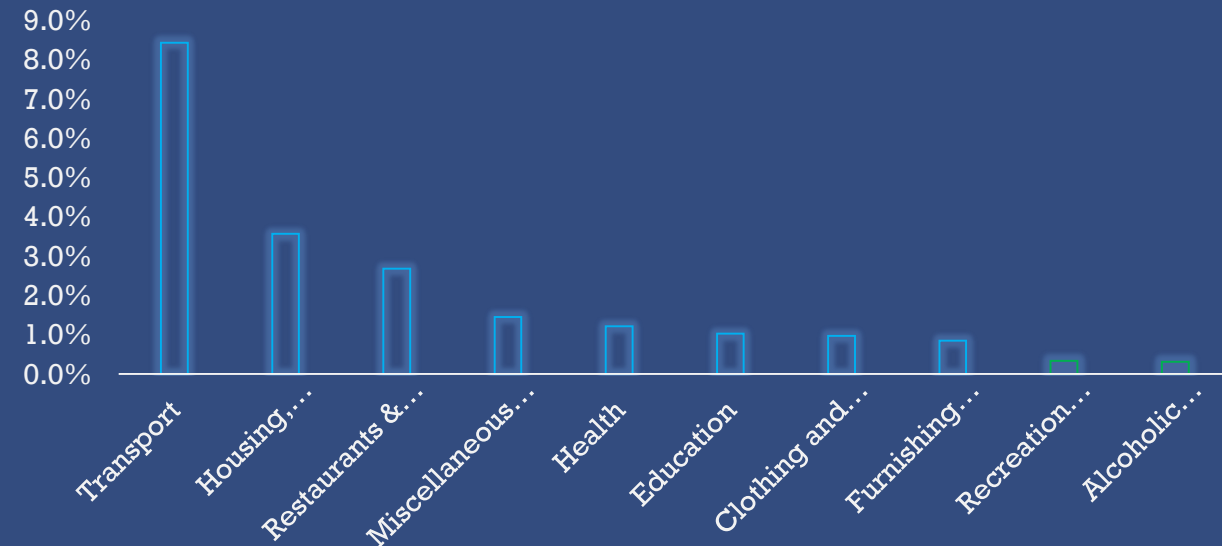
■ Food ■ Non Food

Inflation Analysis (YoY)



Source: Dept. Census and Statistics

Non-Food Category Inflation

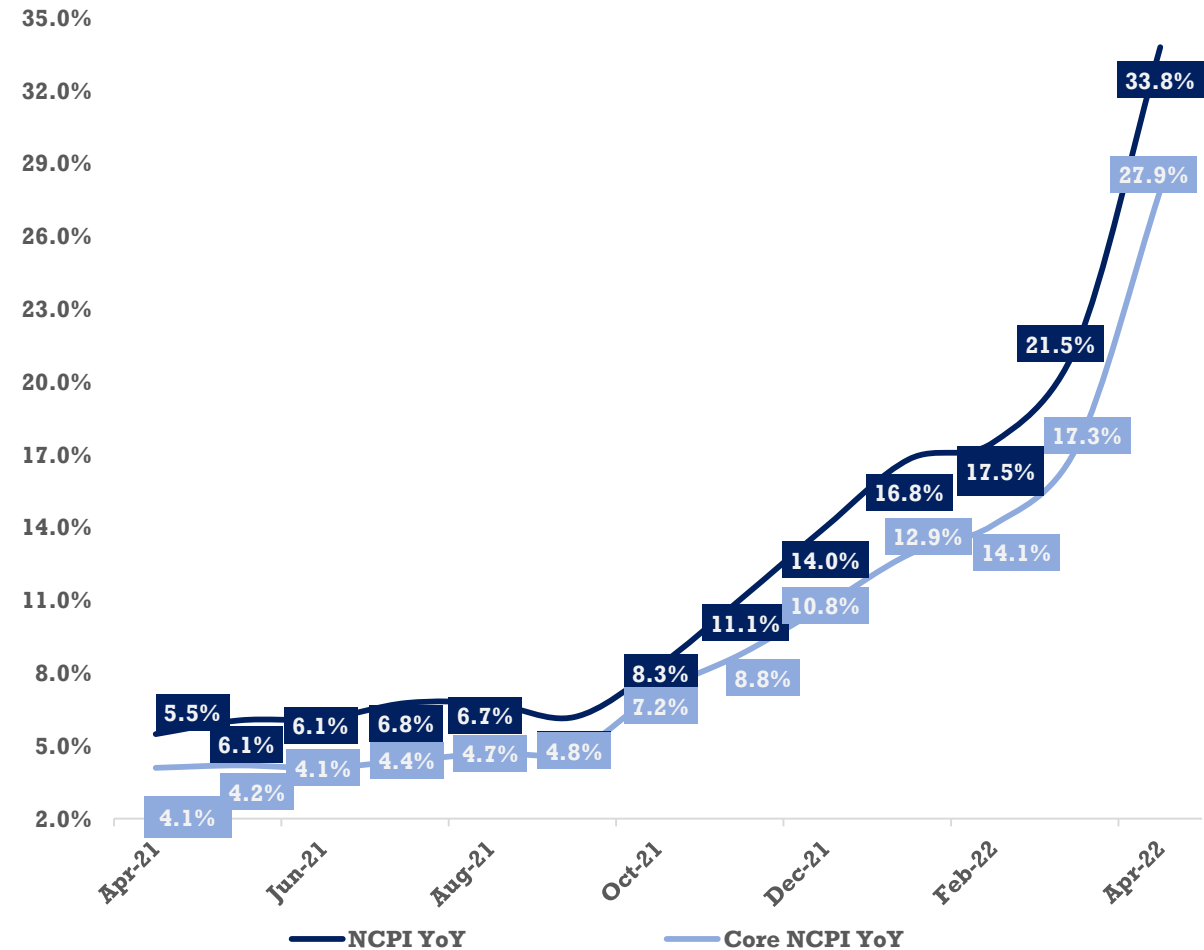


Source: Dept. Census and Statistics

INFLATION – NCPI

NCPI FOR APR 2022: INCREASED TO 33.8%YOY

- NCPI for Apr 2022 increased to 33.8% compared to Mar 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 29.5% in Mar 2022 to 45.1% in Apr 2022 while Non-Food inflation increased from 14.5%YoY in Mar 2022 to 23.9% in Apr 2022.



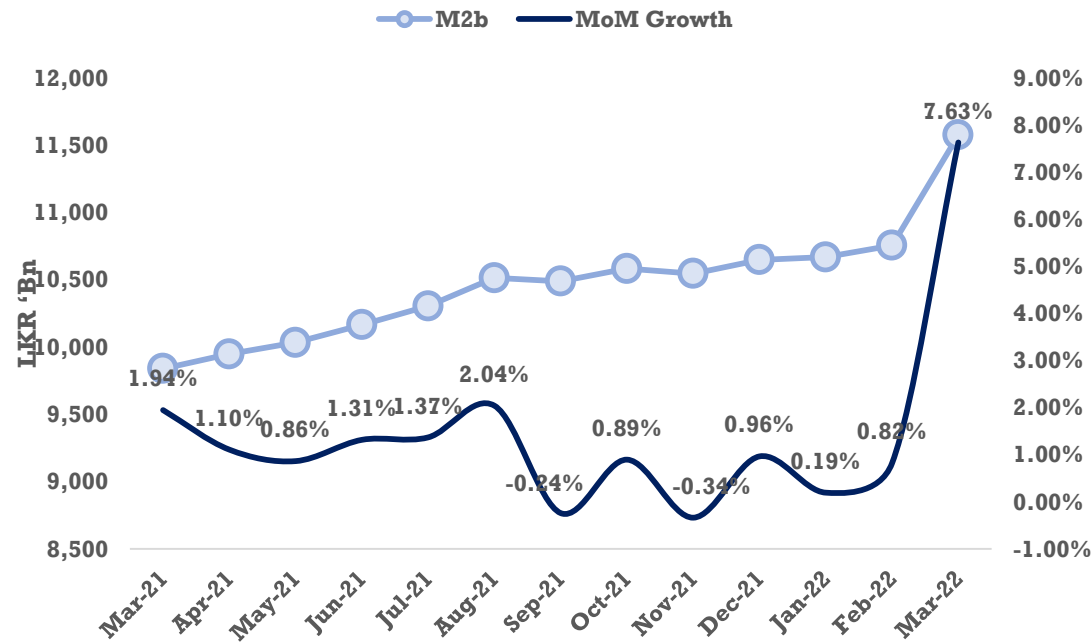
Source: Dept. Census and Statistics

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

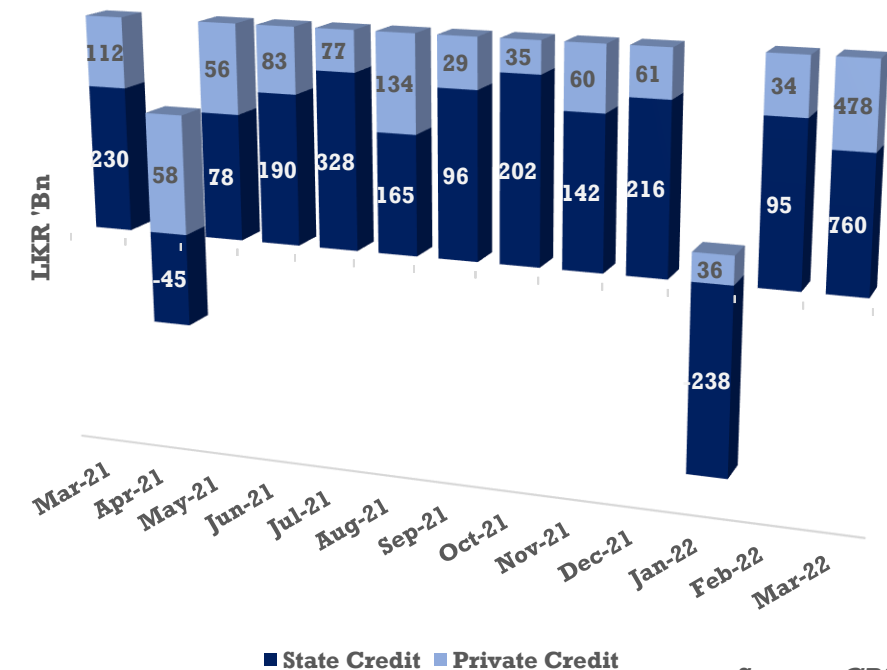
MoM +7.6%, YoY +17.7%, YTD +8.7%



Source: CBSL

State Credit & Private Credit – Mar 2022

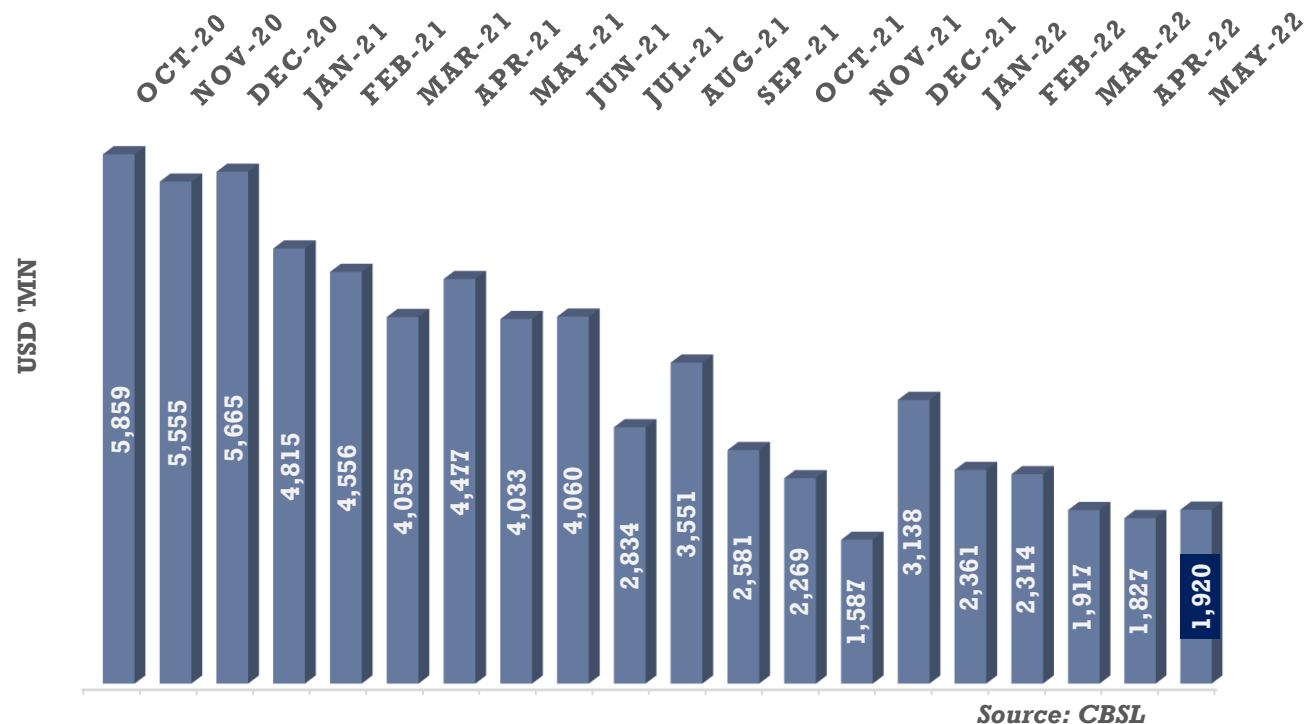
Private Credit MoM +6.8%, YoY +17.9%, YTD +7.8%



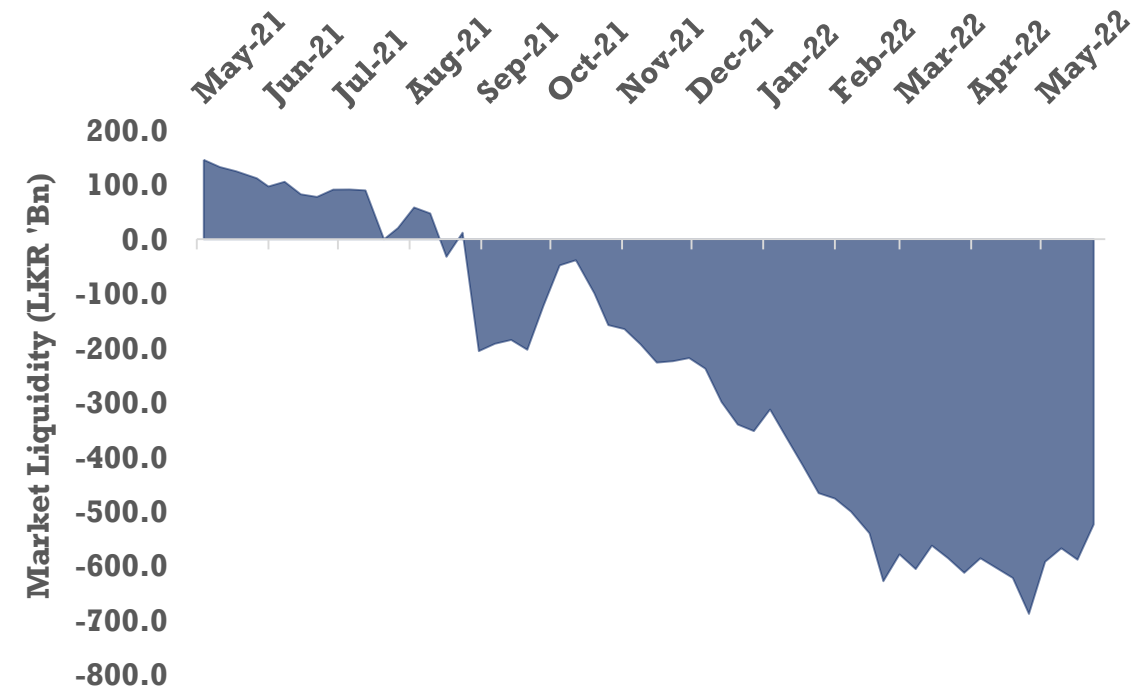
Source: CBSL

LIQUIDITY & RESERVES

- Foreign Reserves improved to USD 1.9Bn in May 2022 relative to USD 1.8Bn in Apr 2022 over deferment of payments to India under an Asian Clearing Union.
- Market liquidity remained negative and witnessed a slight volatility during May 2022.



First Capital Research



Source: CBSL
Jun 2022

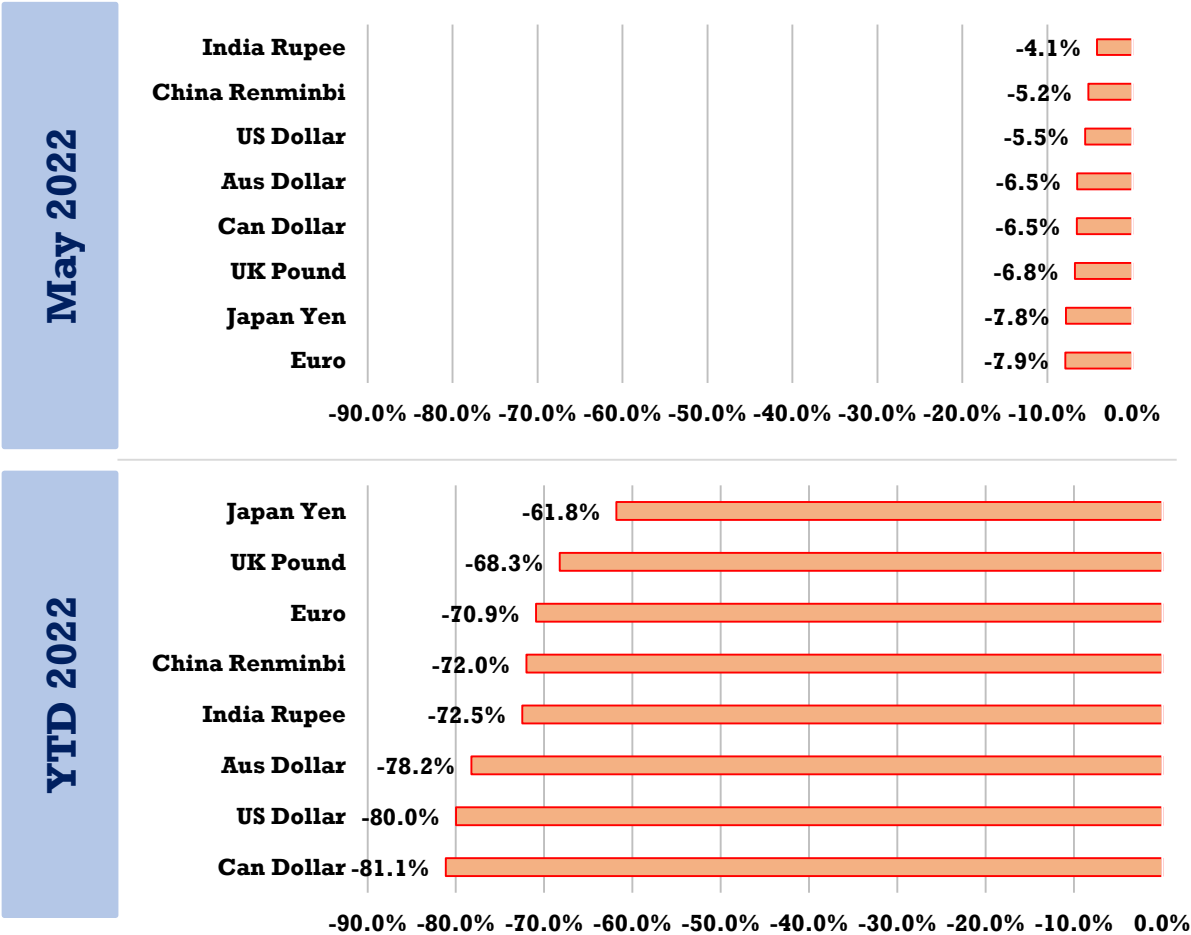
CURRENCY MOVEMENT

USD:LKR Movement



Source: CBSL

Sri Lankan Rupee vs Global Currencies

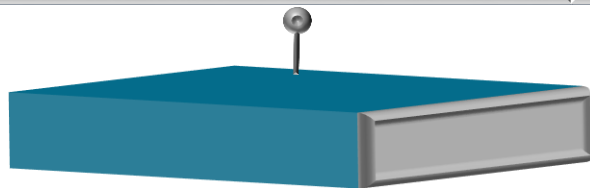


Source: CBSL

GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for May 2022

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
6-May-22	97,500	31,108	128,608
13-May-22	85,399		85,399
20-May-22	16,475	35,718	52,193
27-May-22	90,000		90,000
Total Issued			356,200

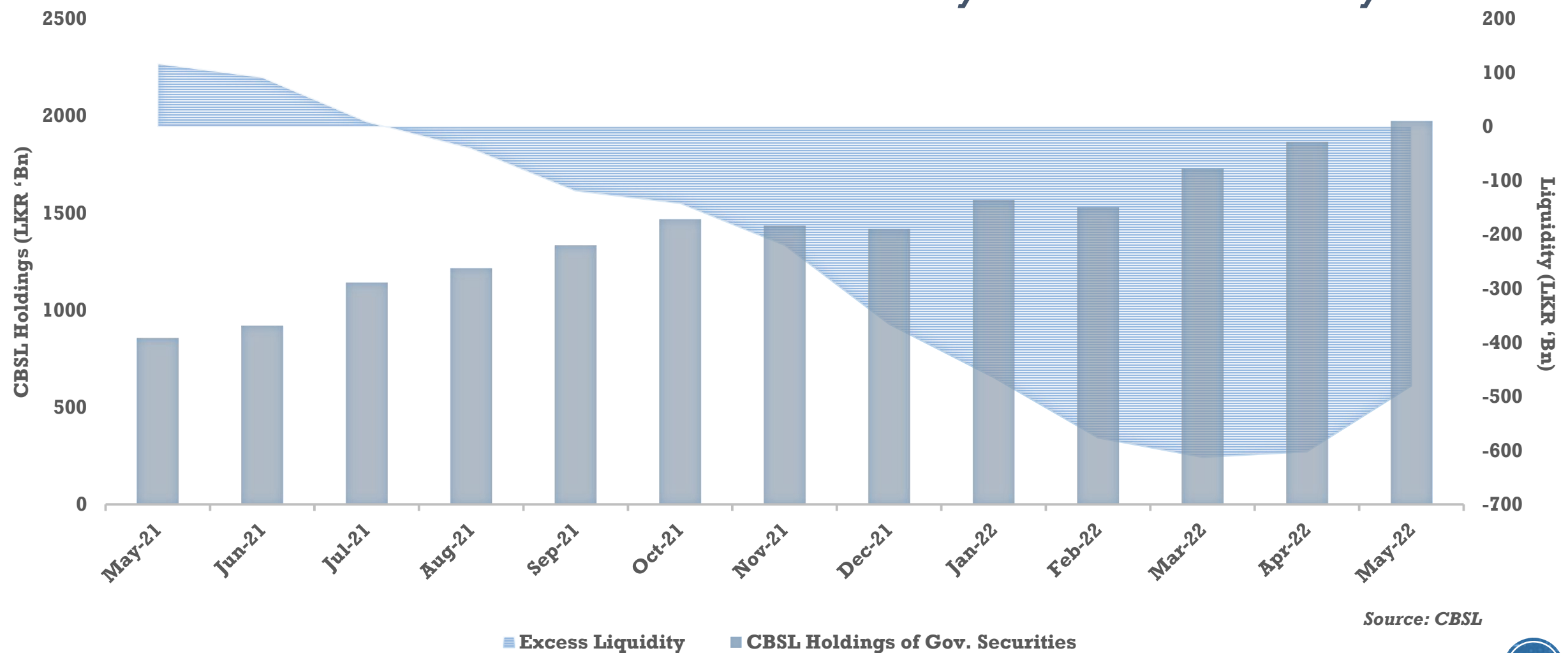


Net Settlement	May 2022	YTD
Maturities	406,929	2,367,424
New Issues	356,200	1,840,417
Excess/ (Deficit)	(50,729)	(527,007)

CBSL Holdings of Gov. Securities		YTD
As at End May 2022	1,971,457	
As at End Apr 2022	1,864,601	
Increase/ (Decrease)	106,855	243,618

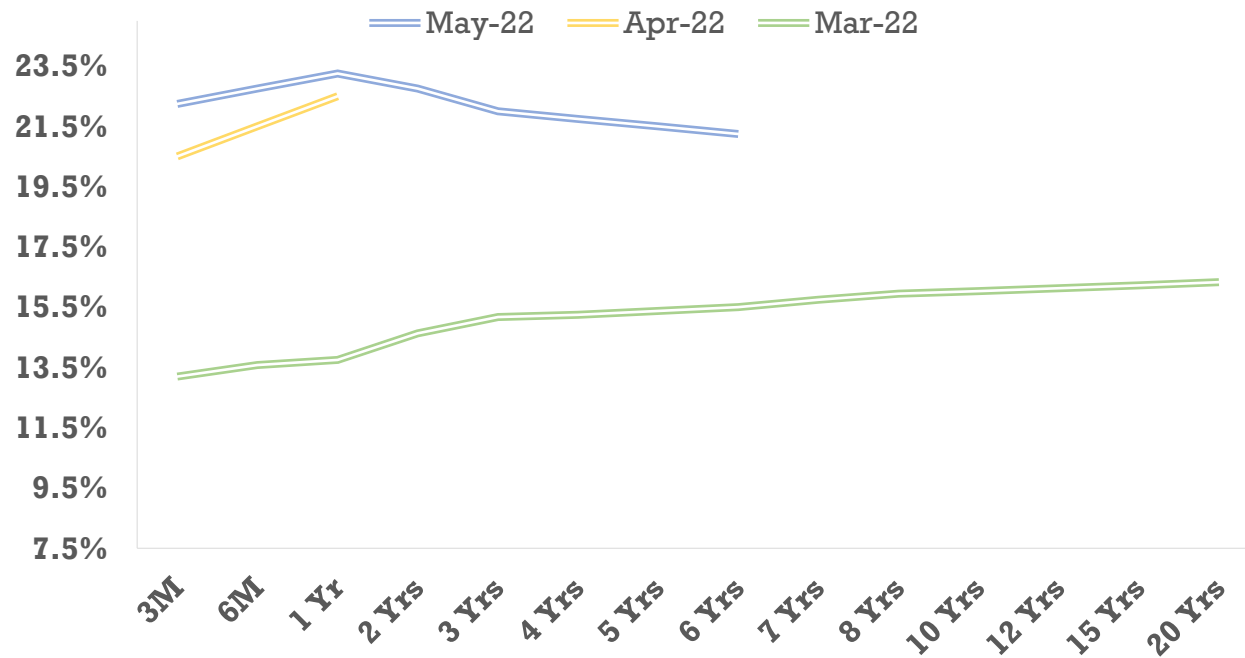
CBSL HOLDINGS OF GOV. SECURITIES...

...increased by LKR 106.9Bn in May 2022



TREASURY BILLS AND BONDS – MAY '22

During the month of May, the secondary market yield curve started to invert on mid tenor maturities and no rates were quoted for bonds maturing beyond 7Yr . As the month progressed, belly end of the yield curve edged down gradually while market participants opted to be on the sidelines. With the emerged buying interest along with CBSL decision to keep policy rates unchanged, yields tailed off while the weekly bill auction yields tapered. Out of the four bill auctions held during the month, two auctions were fully accepted whereas out of the two bond auctions held, one was fully accepted after 10 previous auctions of partial acceptance levels.

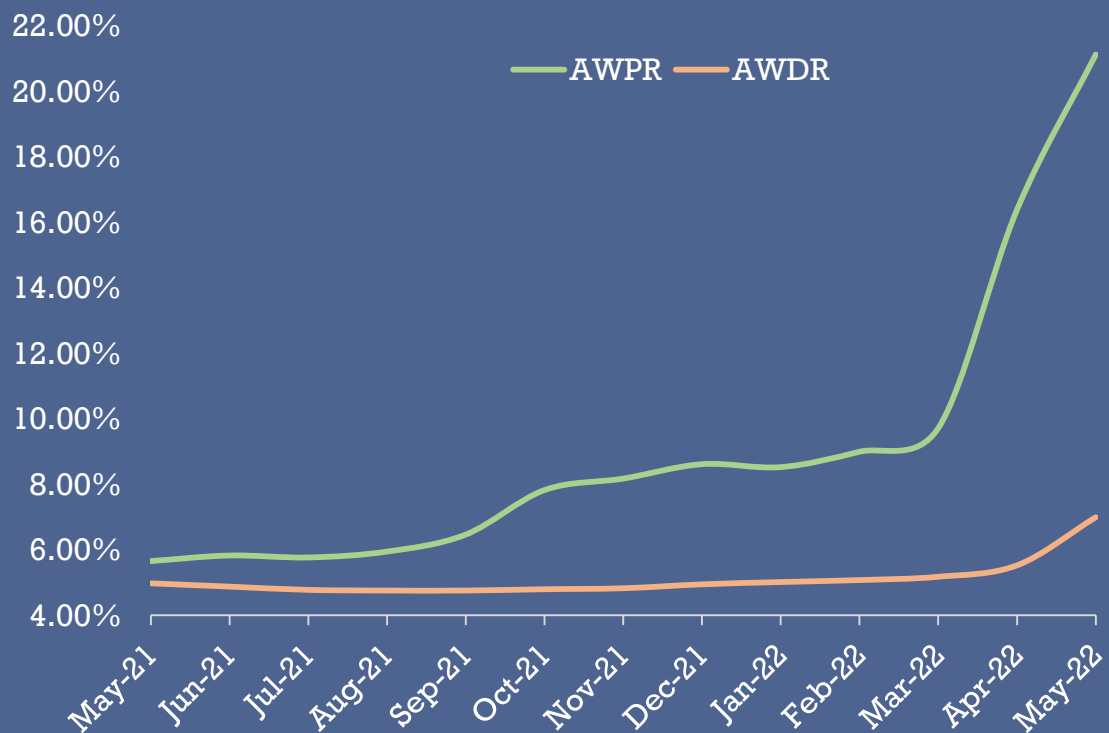


Source: First Capital Research

Tenure	Interest Rate Change (bps)				
	31-May-22	29-Apr-22	Change (bps)	31-Mar-22	Change (bps)
3M	22.25%	20.50%	175	13.20%	905
6M	22.75%	21.50%	125	13.58%	917
1 Yr	23.25%	22.50%	75	13.75%	950
2 Yrs	22.75%	N/A	N/A	14.63%	812
3 Yrs	22.00%	N/A	N/A	15.18%	682
4 Yrs	21.75%	N/A	N/A	15.25%	650
5 Yrs	21.50%	N/A	N/A	15.38%	612
6 Yrs	21.25%	N/A	N/A	15.50%	575
7 Yrs	N/A	N/A	N/A	15.75%	N/A
8 Yrs	N/A	N/A	N/A	15.95%	N/A
10 Yrs	N/A	N/A	N/A	16.03%	N/A
12 Yrs	N/A	N/A	N/A	16.13%	N/A
15 Yrs	N/A	N/A	N/A	16.23%	N/A
20 Yrs	N/A	N/A	N/A	16.33%	N/A

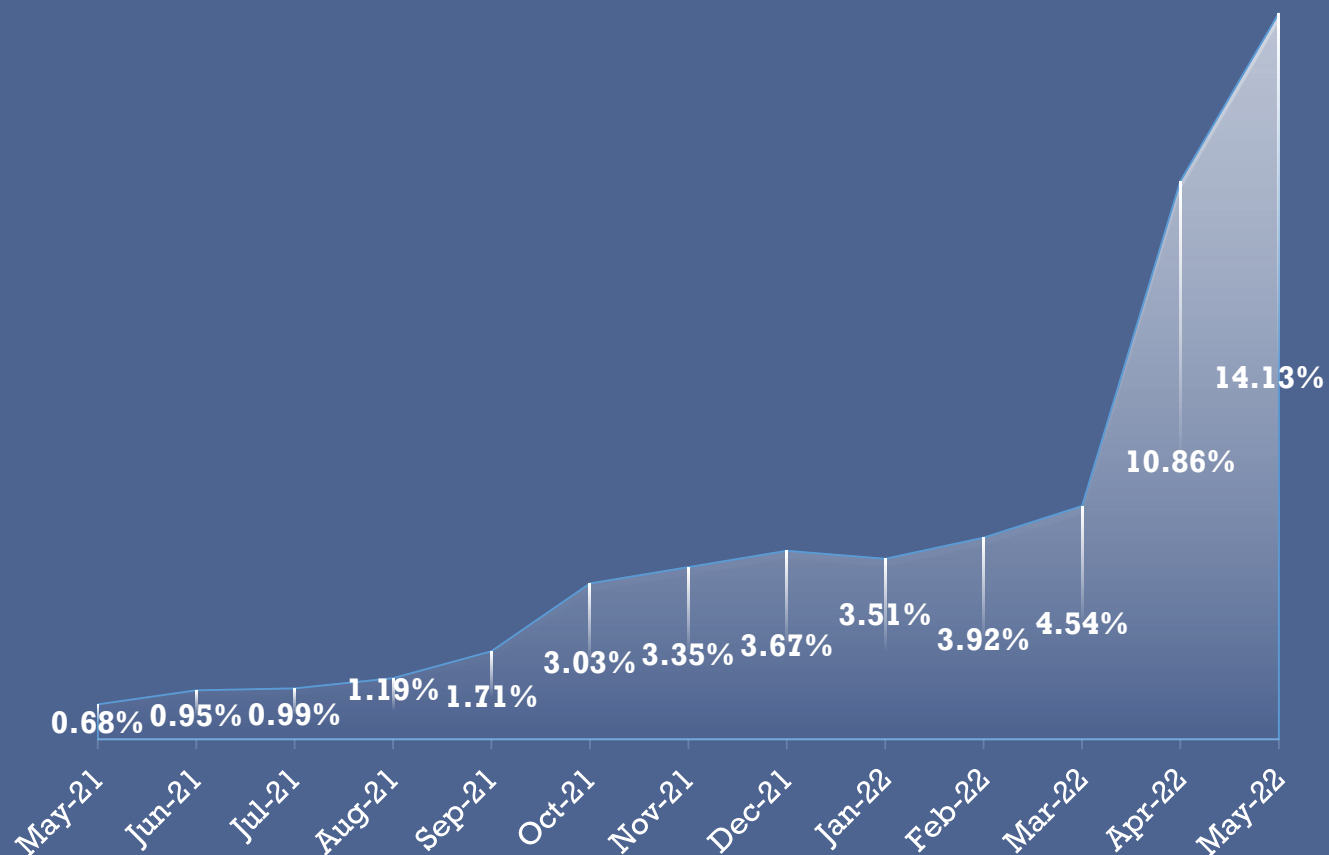
Source: First Capital Research

AWPR vs AWDR



Source: CBSL

Interest Spread



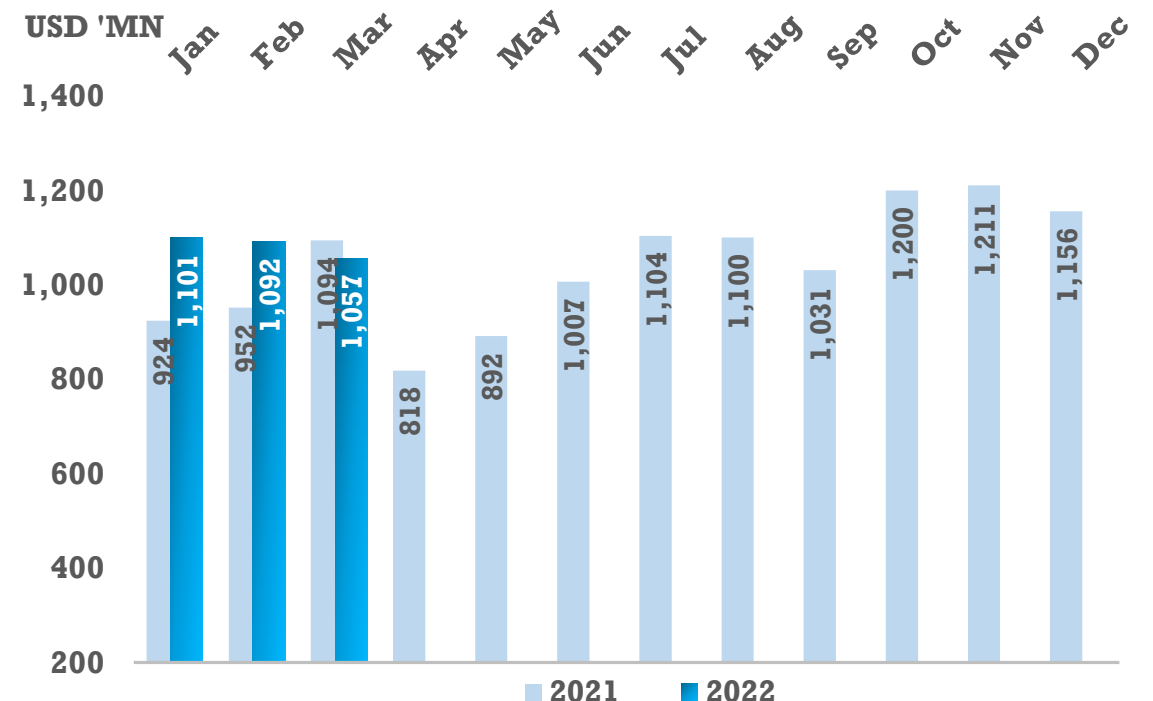
Source: CBSL

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

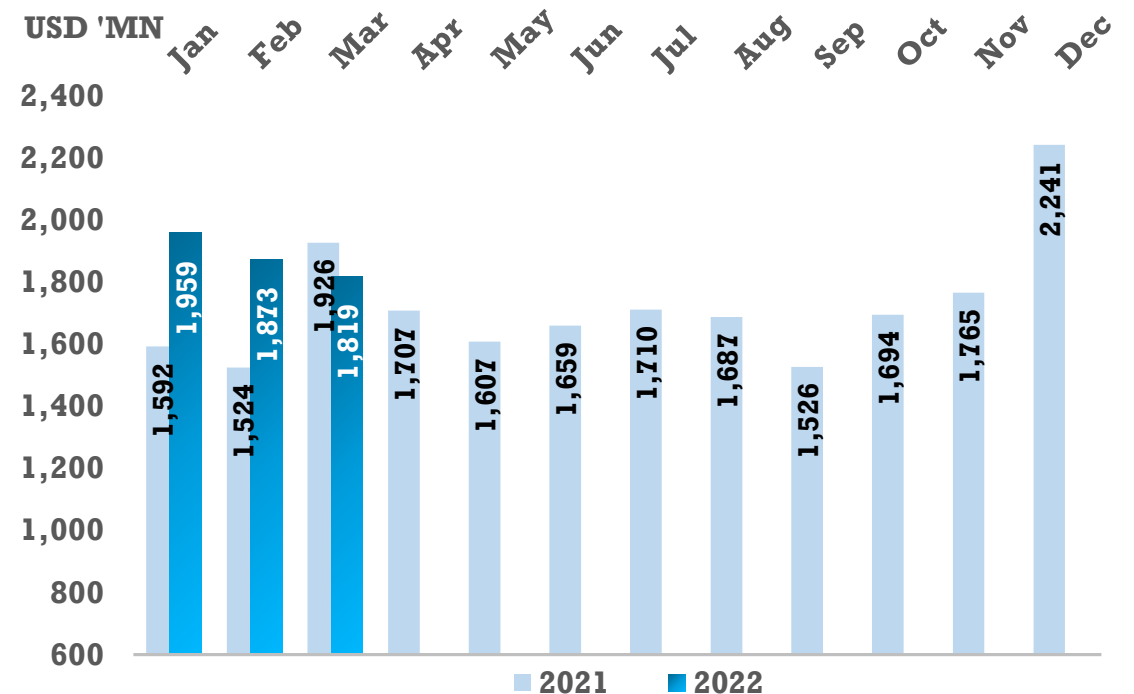


Source: CBSL
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EXTERNAL SECTOR – MAR 22 – IMPORTS

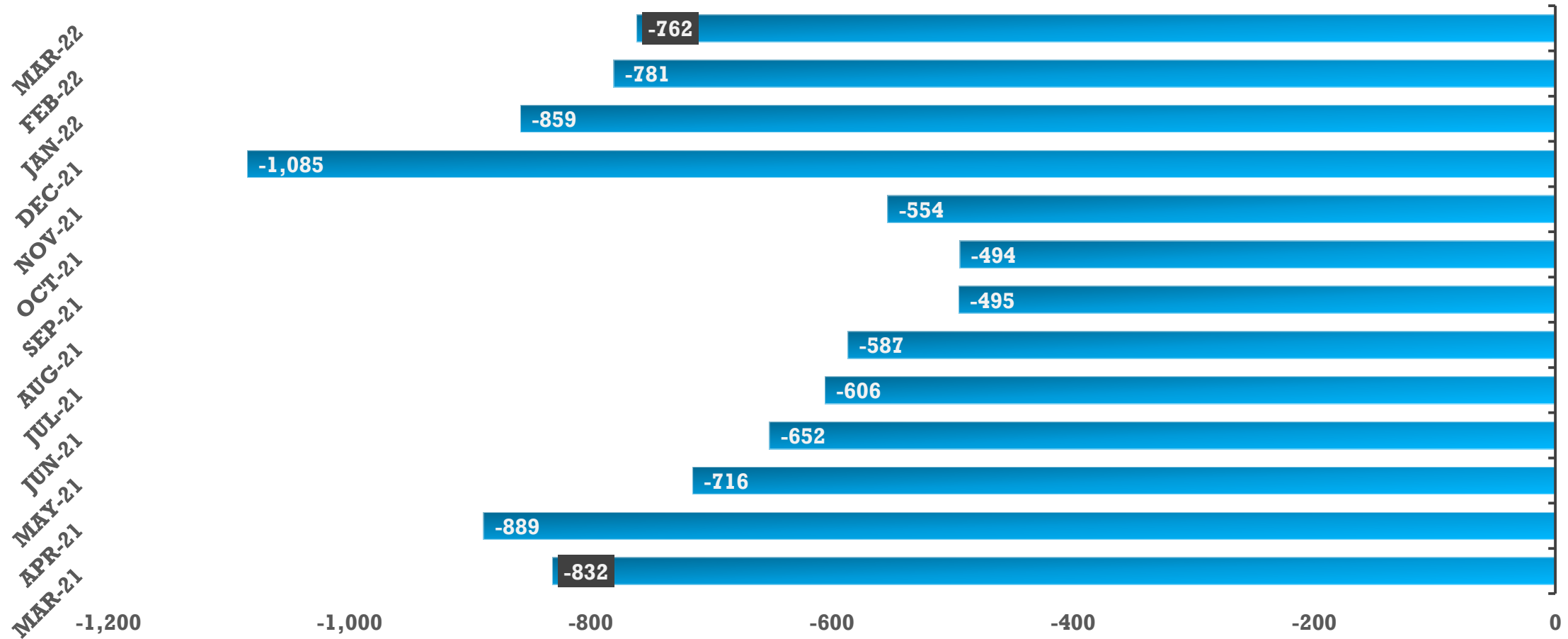
Import expenditure declined by 5.6%YoY to USD 1.8Bn in Mar 2022, owing to a decline in expenditure in import of consumer goods and investment goods, while an increase was recorded in import of intermediate goods. Expenditure on the importation of consumer goods in Mar 2022 decreased by 25.7%YoY driven 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



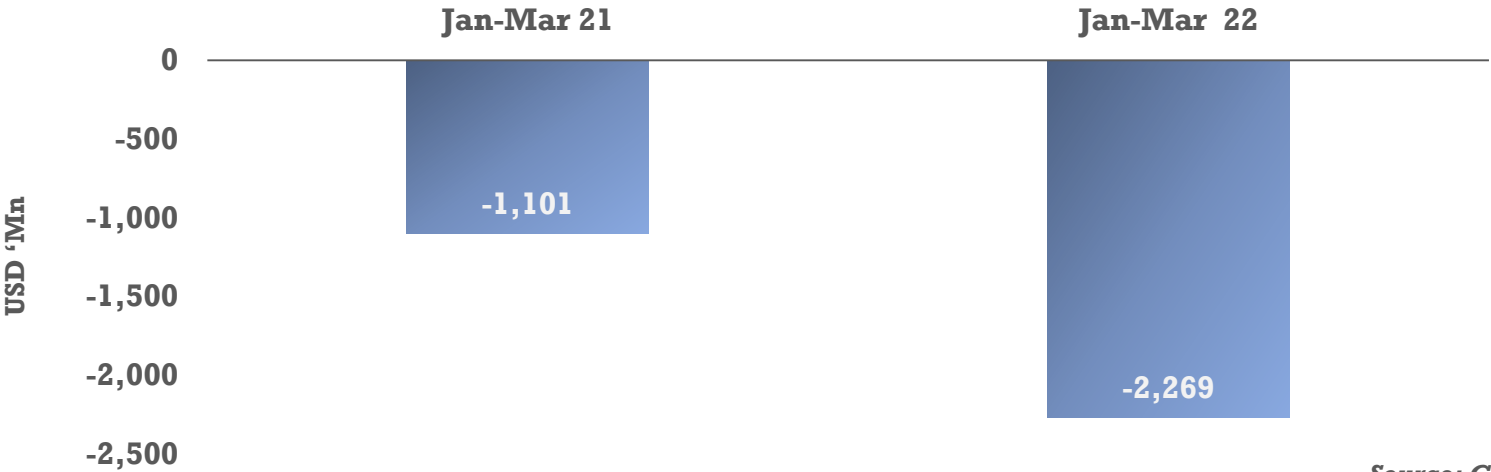
EXTERNAL SECTOR – MAR 22

Balance of Trade



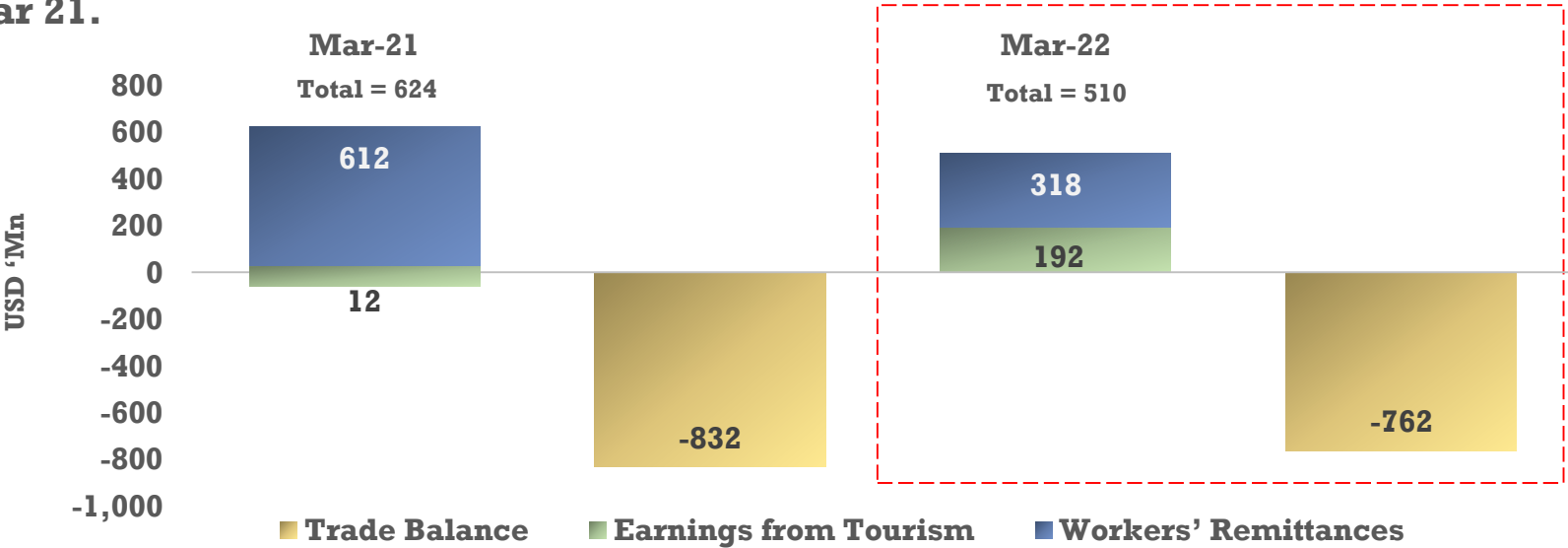
Source: Central Bank

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

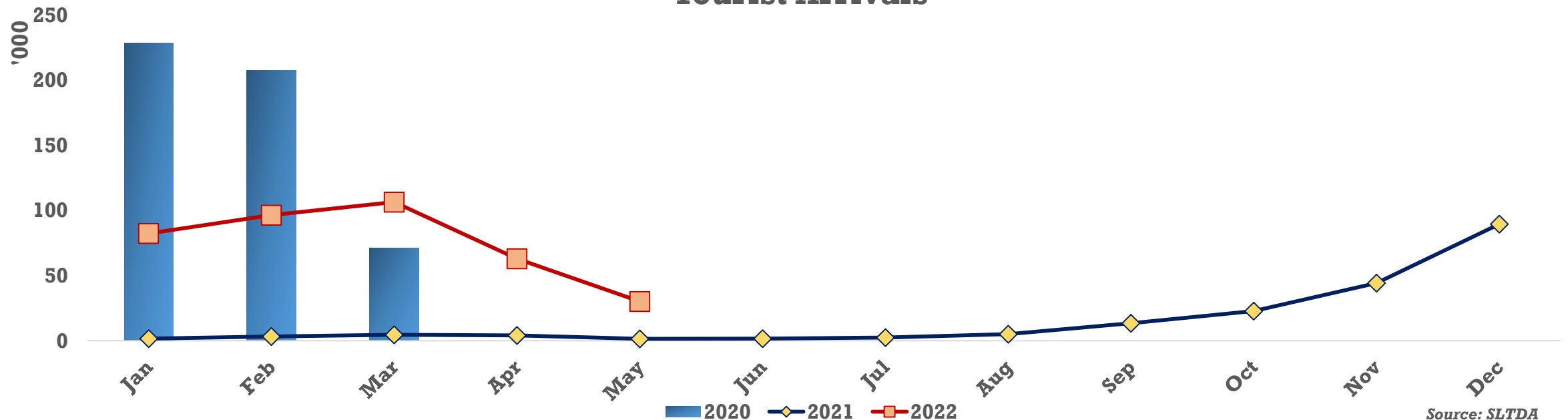
Source: CBSL

TOURIST ARRIVALS – MAY 2022

[30,207 – MAY, YTD 378,521 – MoM DOWN -52.0%]

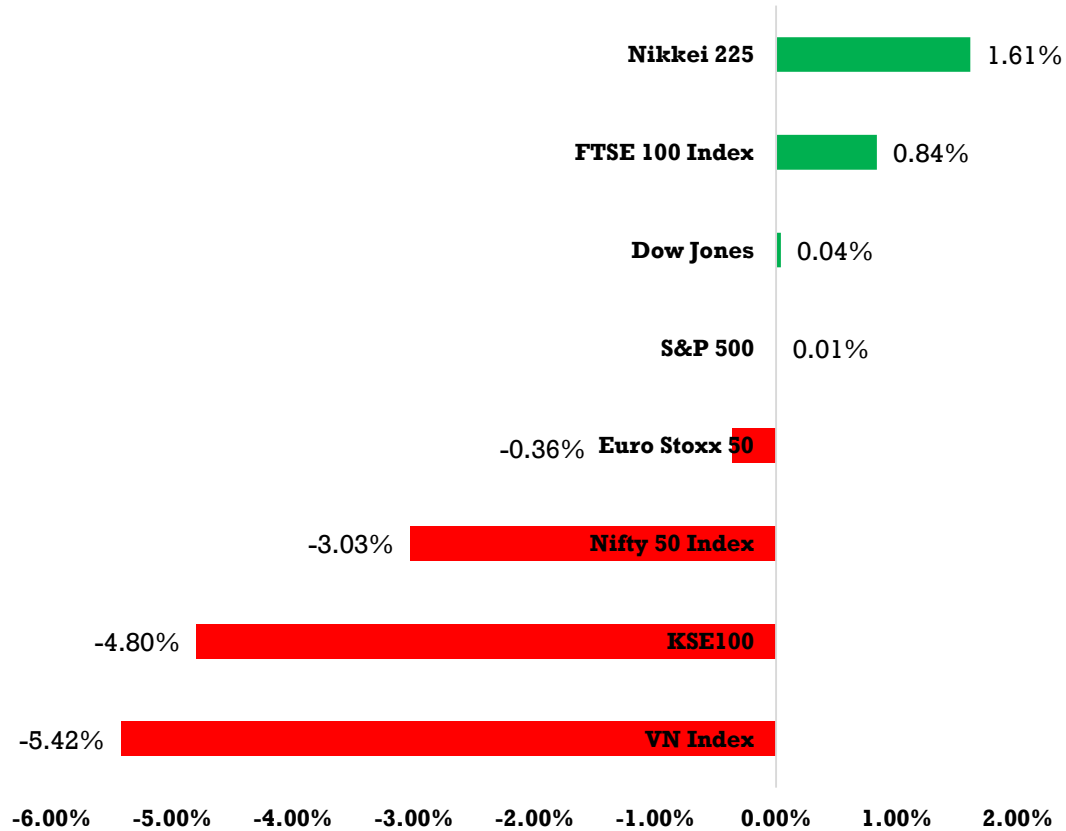
The total number of tourist arrivals to Sri Lanka during Apr 2022 were 30,207. A sharp contraction in arrivals was observed during the month of May, as a result of the current economic crisis and political unrest in the country along with the gradual cessation of the peak travel season. The largest source markets recorded for the month of May were India, United Kingdom, Russia, Germany and Canada

Tourist Arrivals



Source: SLTDA

GLOBAL MARKET



Source: Investing.com

First Capital Research

US firms left hanging as ban on some china imports nears

Plenty of forces are to blame for the world's supply shocks. The next disruptions may come from an unintended source: a US campaign against human-rights abuses in China. That's because there's a law taking effect 21st June that will bar imported goods partly or wholly made in the Chinese manufacturing hub of Xinjiang, unless companies can prove the products have no ties to forced labor.

Bloomberg



China faces a nearly \$1 trillion funding gap. It will need more debt to fill it.

The Chinese government faces a growing shortfall of cash, analysts say, as they predict an increase of debt to fill the gap. The analysts did not share specific figures on how much additional debt might be needed. But they pointed to growing pressure on growth that would require more support from debt. They estimate a funding gap of about 6.0Tn yuan (USD 895.52Bn.) roughly 2.5Tn. yuan in decreased revenue due to tax refunds and weaker economic production, and another 3.5 trillion yuan of lost land sales revenue.

Pfizer to spend USD 120Mn to boost U.S. COVID pill manufacturing

Pfizer Inc. said on it would spend USD 120Mn to expand manufacturing of its COVID-19 antiviral treatment at its Michigan plant, as demand ramps up. Use of the pill, Paxlovid, authorized to treat newly infected, at-risk people to prevent severe illness, has soared recently as infections rise. Biden administration officials have pushed for the wider use of Paxlovid, which the government distributes for free.



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THANK YOU

“Successful Investment Is About Managing Risk...”

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