



First Capital  
A Janashakthi Group Company

# MONTHLY ECONOMIC WATCH

Jul 2022

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# THE CENTRAL BANK OF SRI LANKA FURTHER TIGHTENS ITS MONETARY POLICY STANCE

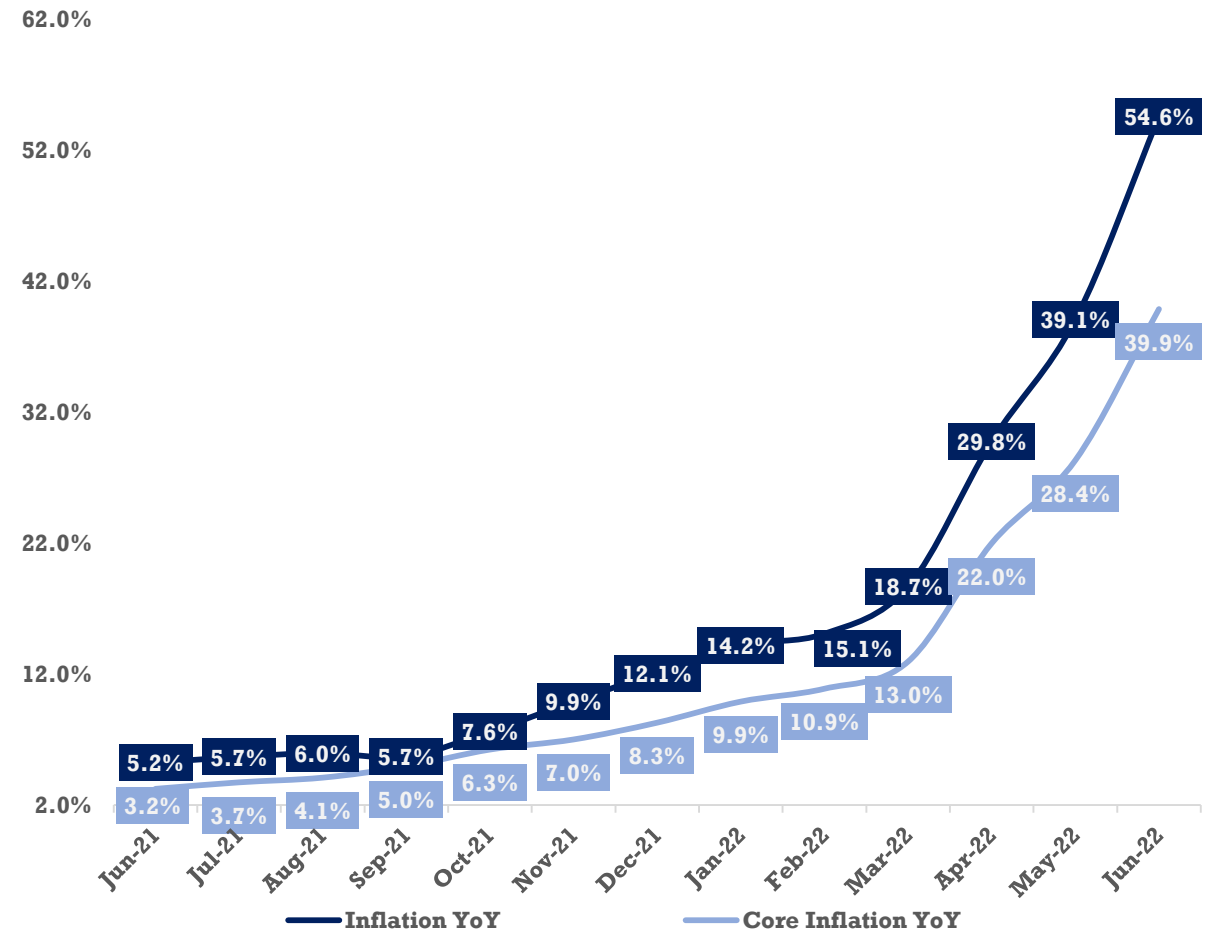
- The Monetary Board of the Central Bank of Sri Lanka (CBSL), at its meeting held on 6<sup>th</sup> Jul 2022, decided to increase the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 100bps to 14.50% and 15.50%, respectively.
- In arriving at this decision, the Board weighed the impact of tighter monetary conditions on overall economic activity, including the micro, small, and medium scale businesses, and the financial sector performance, among others, against far reaching adverse consequences of any escalation of price pressures across all sectors of the economy in the near term.
- The Central Bank would continue to closely monitor domestic and global macroeconomic and financial market developments and be prepared to take further policy measures as appropriate to help reinforce greater stability in the economy in the period ahead, while ensuring a faster return of inflation to the targeted 4%-6% range over the medium term, under the flexible inflation targeting framework.

*Source: CBSL*

# INFLATION – CCPI

## CCPI FOR JUN 2022: MOM +12.8%, YOY +54.6%

- MoM inflation increased by 12.8% with the increase in inflation of Food group by 18.9% and the increase in inflation of Non-Food group by 9.4%.
- The YoY inflation increased to 54.6% in Jun 2022. YoY inflation of Food group has increased to 80.1% in Jun 2022 from 57.4% in May 2022 while Non-Food group increased to 42.4% from 30.6% in May 2022.



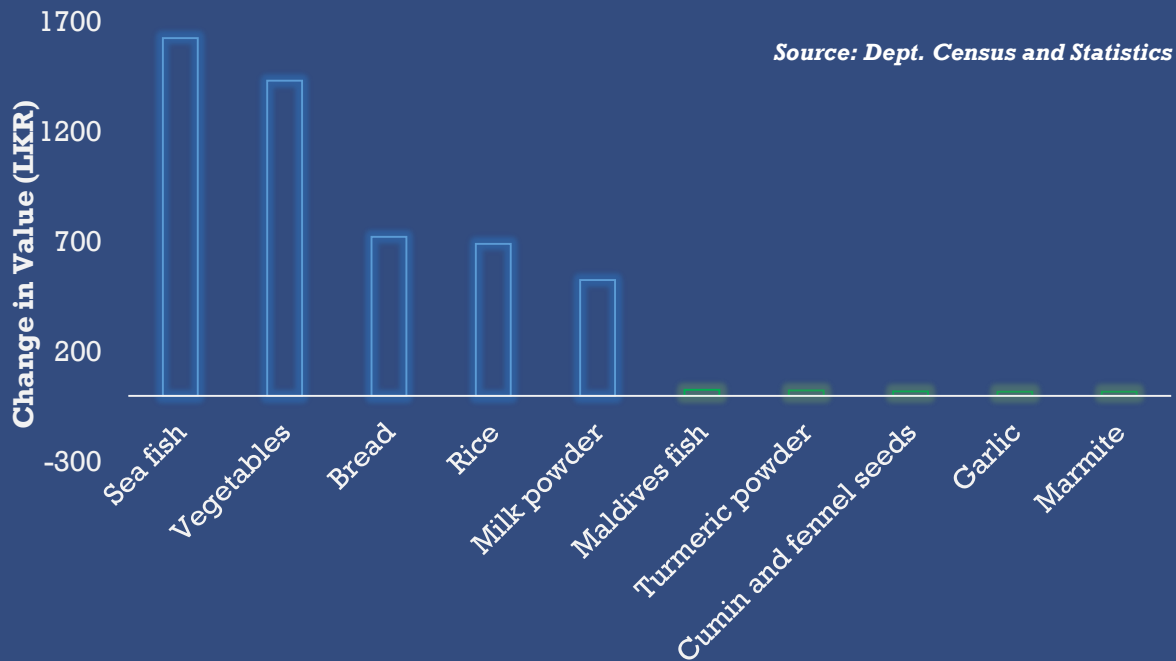
Source: Dept. Census and Statistics

# INFLATION ANALYSIS – CCPI-MOM

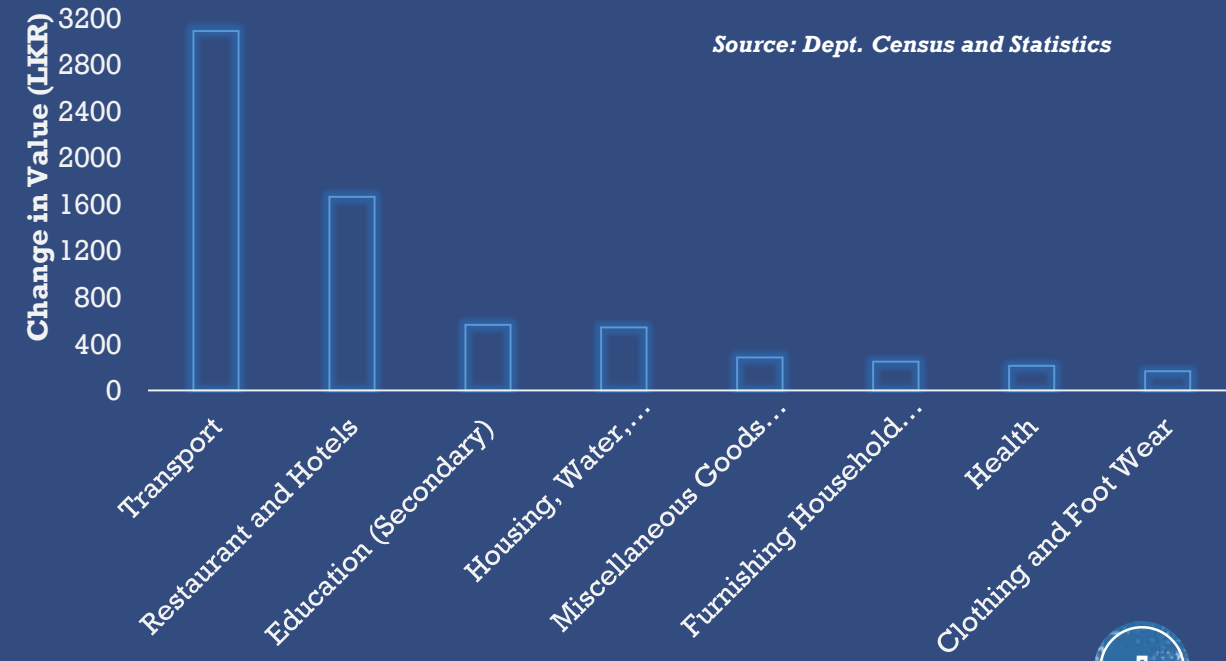
The CCPI index recorded an increase of 12.8%MoM contributed by the increase in expenditure value of Food items by 6.81% and Non-Food items by 5.99%. Within the Food items, increase in value changes were mainly reported for Sea fish, Vegetables, Bread, Rice, Milk powder and etc. Among Non-Food groups, increases in value changes were reported for the groups of Transport, Restaurant and Hotels, Education (Secondary), Housing, water, Electricity, Gas and Other Fuels, Miscellaneous Goods and Services, and etc.



## Food Category Inflation



## Non-Food Category Inflation

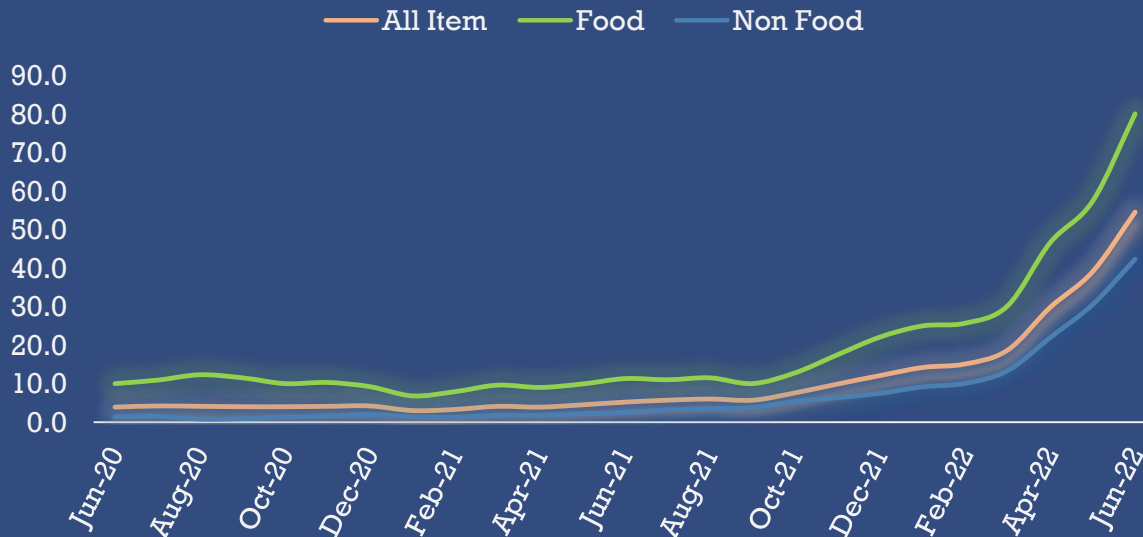


# INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Jun was 54.6% and has increased relative to the month of May. Food item prices have increased to 80.1%YoY in Jun 2022 from 57.4%YoY in May 2022 while the Non-Food item prices have increased to 42.4%YoY from 30.6%YoY in May 2022. The contribution from food category for YoY inflation was 26.15% while the contribution of Non-Food items stood at 28.55% mainly due to the increase in Transport, Housing, Water, Electricity, Gas & Other Fuels, Restaurants & Hotels, Miscellaneous goods and services and etc.

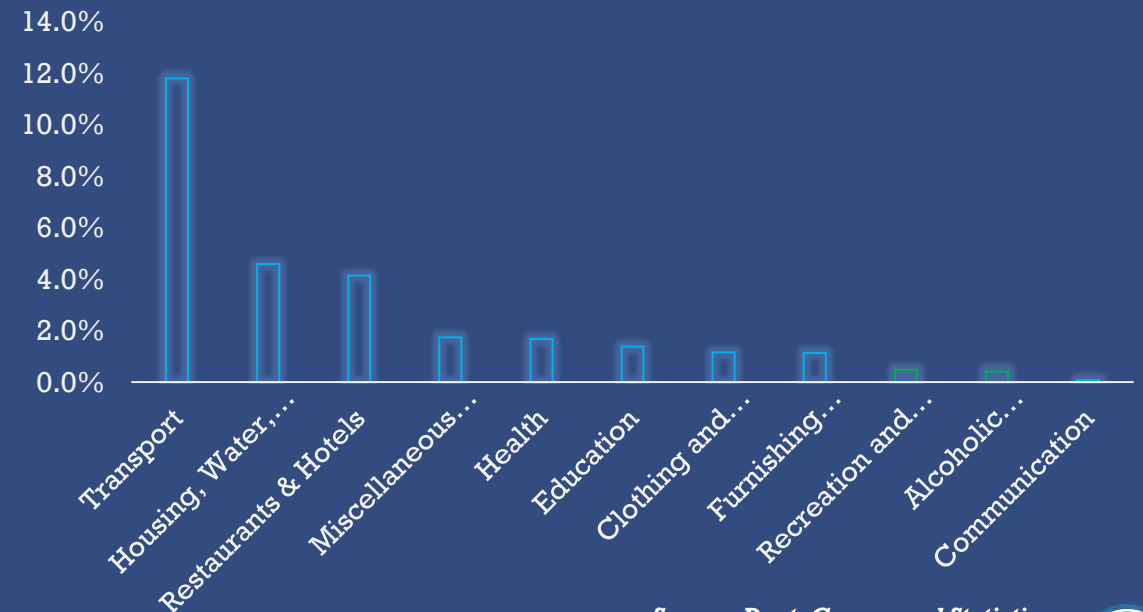


## Inflation Analysis (YoY)



Source: Dept. Census and Statistics

## Non-Food Category Inflation



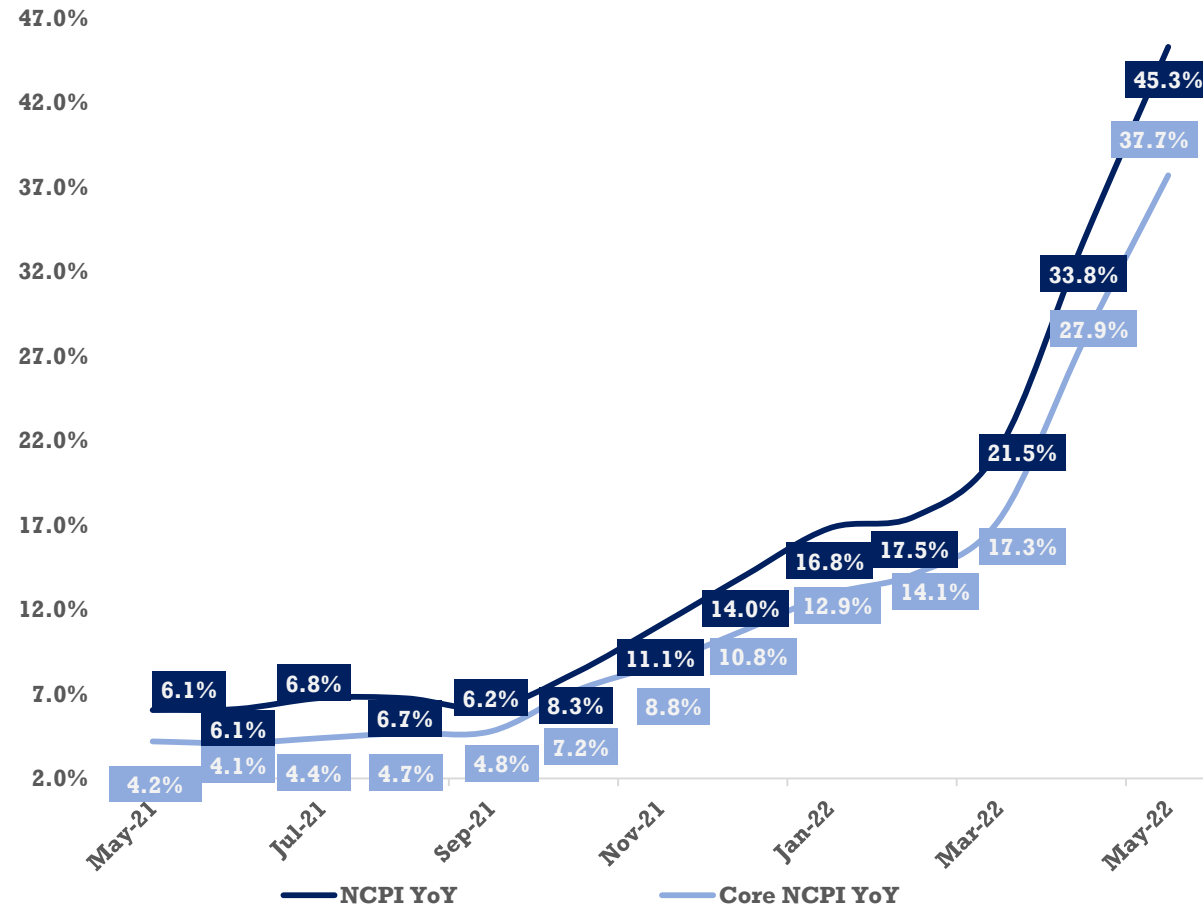
Source: Dept. Census and Statistics



# INFLATION – NCPI

## NCPI FOR MAY 2022: INCREASED TO 45.3%YOY

- NCPI for May 2022 increased to 45.3% compared to Apr 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 45.1% in Apr 2022 to 58.0% in May 2022 while Non-Food inflation increased from 23.9% in Apr 2022 to 34.2% in May 2022.



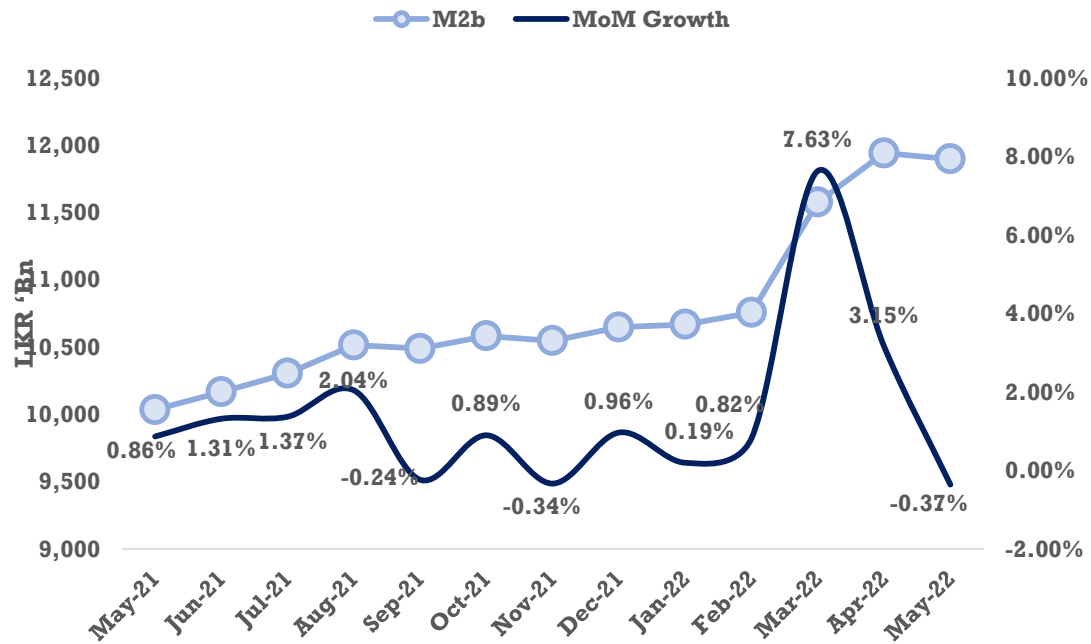
Source: Dept. Census and Statistics

# M2B AND CREDIT GROWTH

Private sector credit marginally improved by LKR 2.0Bn in May 2022 yet displaying a slowdown amidst elevated lending rates. State credit reflected a net settlement of LKR 23.9Bn.

## M2b Growth – May 2022

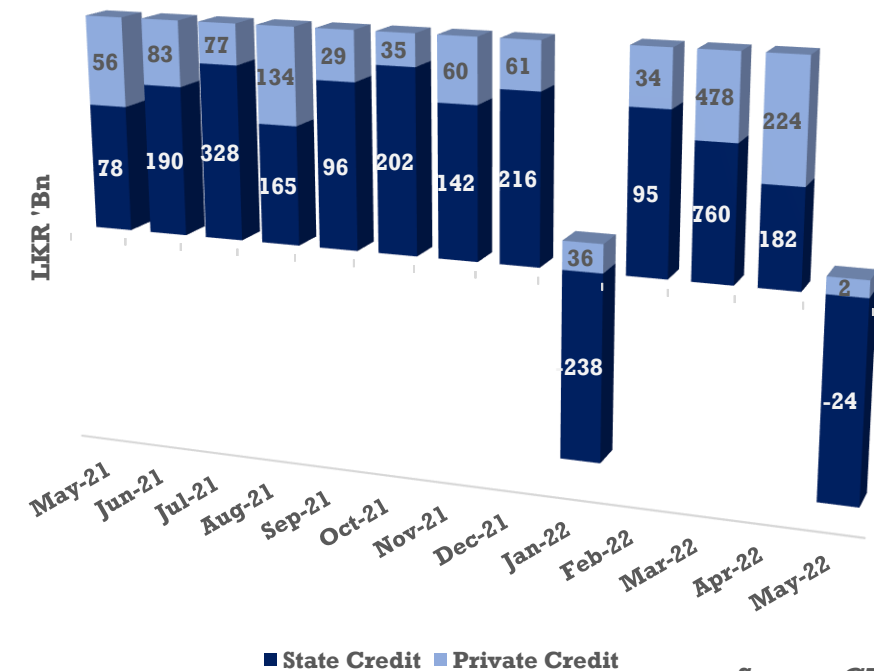
MoM -0.37%, YoY +18.6%, YTD +11.7%



Source: CBSL

## State Credit & Private Credit – May 2022

Private Credit MoM +0.03%, YoY +19.3%, YTD +11.1%



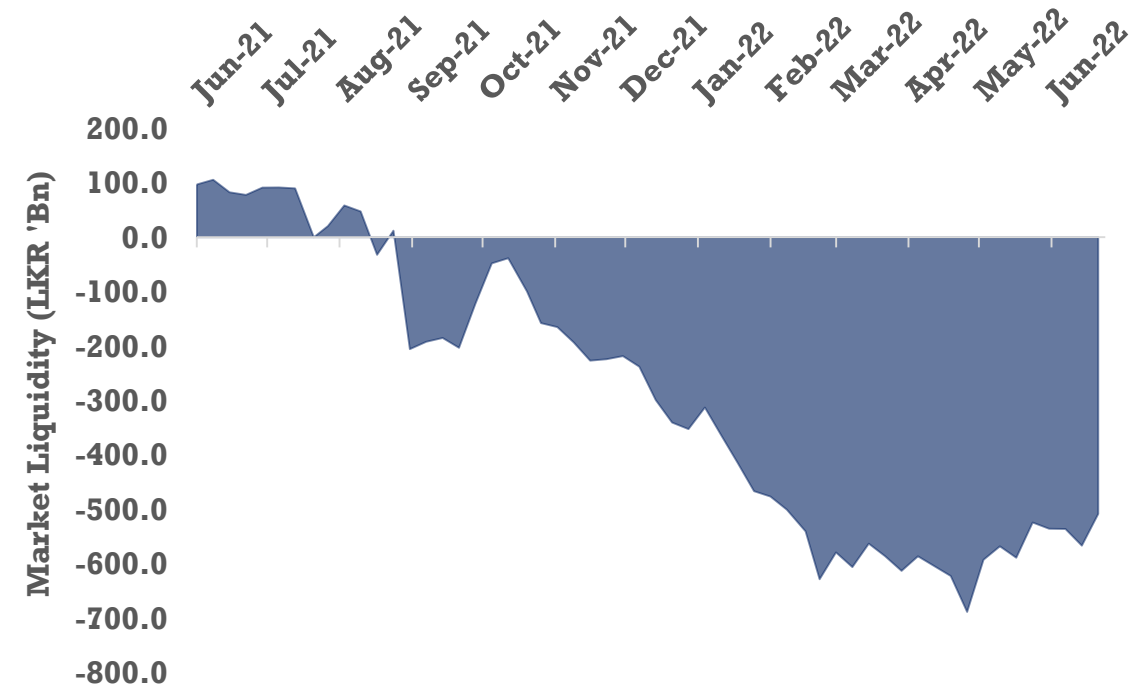
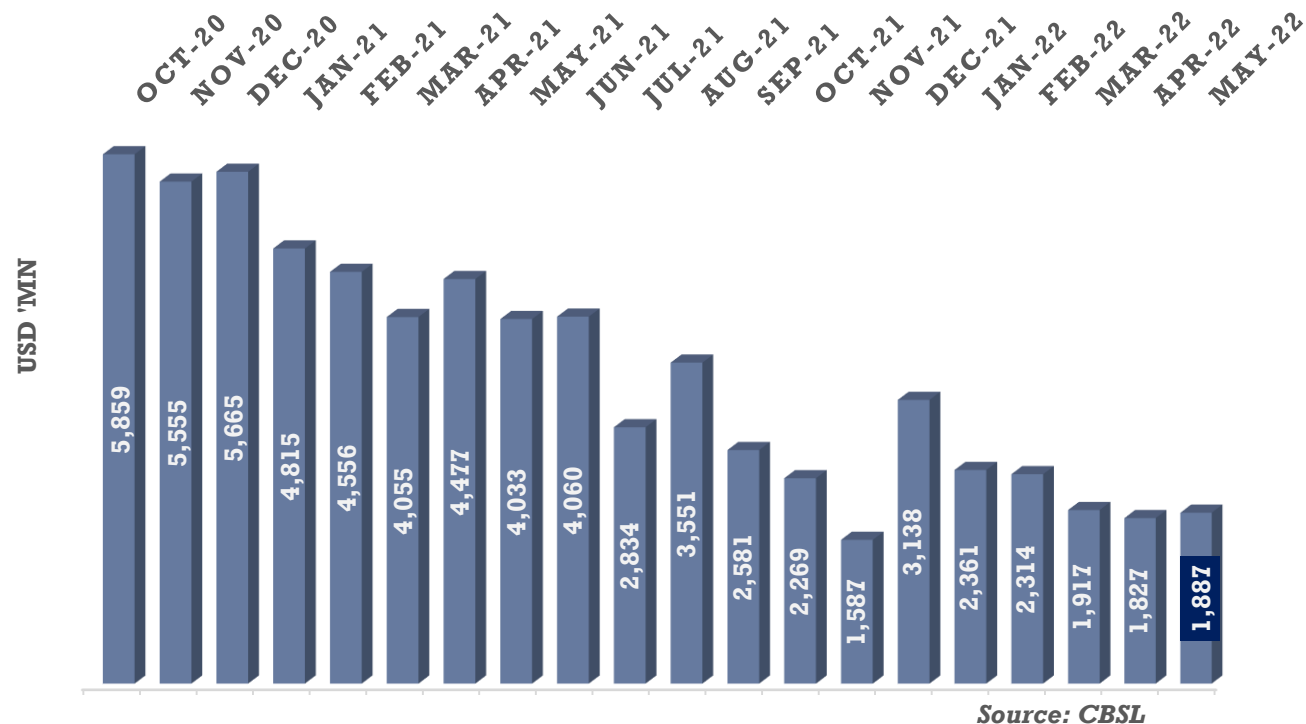
Source: CBSL



# 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 Jun 2022.



# CURRENCY MOVEMENT

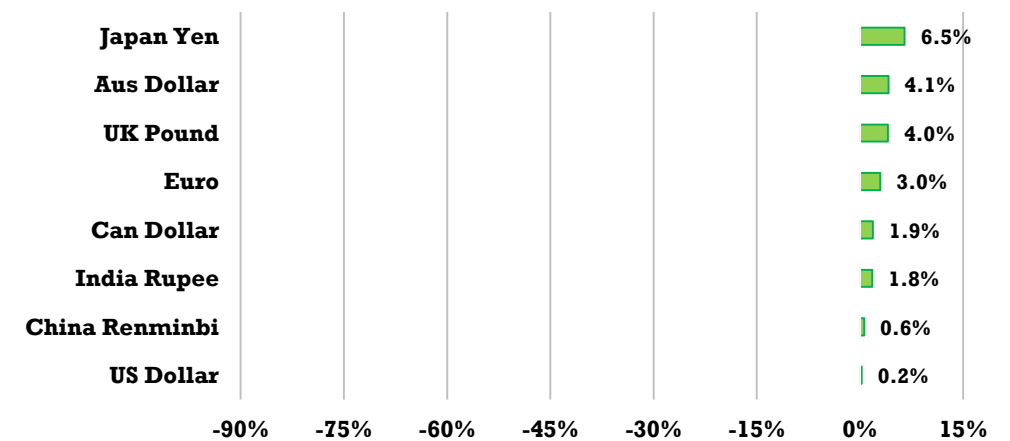
## USD:LKR Movement



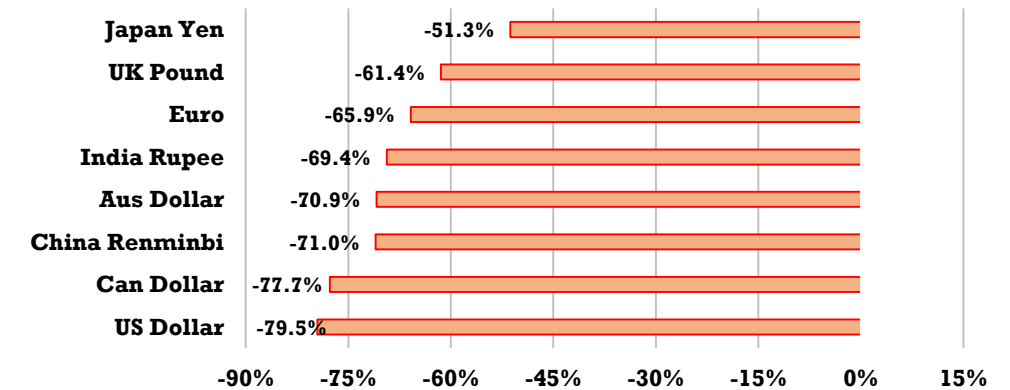
Source: CBSL

## Sri Lankan Rupee vs Global Currencies

Jun 2022



YTD 2022

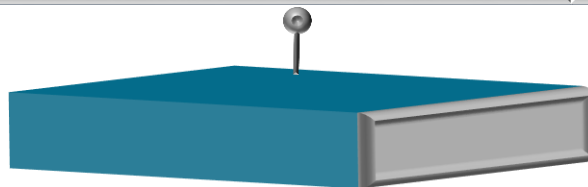


Source: CBSL

# GOVERNMENT SECURITIES – NEW ISSUES

## Bill and Bond auctions for Jun 2022

| Week Ending         | Bills ('Mn) | Bonds ('Mn) | Total          |
|---------------------|-------------|-------------|----------------|
| 3-Jun-22            | 83,000      | 48,000      | 131,000        |
| 10-Jun-22           | 98,000      |             | 98,000         |
| 17-Jun-22           | 98,000      | 60,000      | 158,000        |
| 24-Jun-22           | 31,989      |             | 31,989         |
| <b>Total Issued</b> |             |             | <b>418,989</b> |



| Net Settlement           | Jun 2022        | YTD              |
|--------------------------|-----------------|------------------|
| Maturities               | 450,465         | 2,817,889        |
| New Issues               | 418,989         | 2,259,406        |
| <b>Excess/ (Deficit)</b> | <b>(31,476)</b> | <b>(558,483)</b> |

| CBSL Holdings of Gov. Securities |                | YTD            |
|----------------------------------|----------------|----------------|
| As at End Jun 2022               | 2,086,318      |                |
| As at End May 2022               | 1,971,457      |                |
| <b>Increase/ (Decrease)</b>      | <b>114,861</b> | <b>358,479</b> |

# CBSL HOLDINGS OF GOV. SECURITIES...

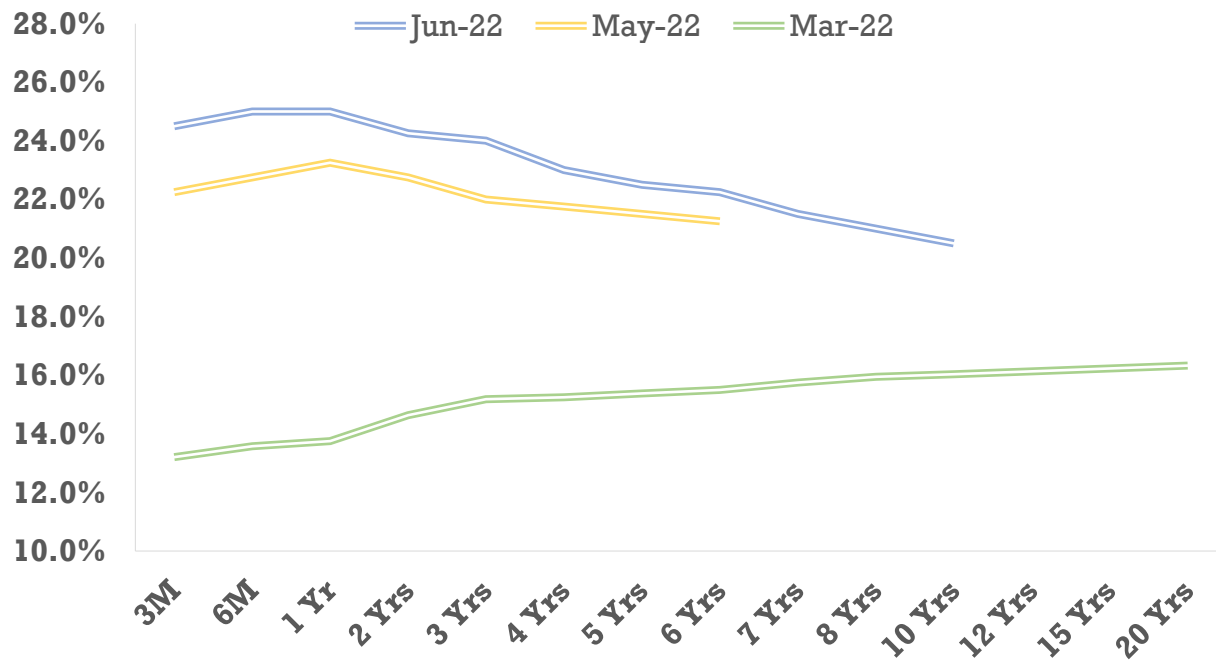
*...increased by LKR 114.9Bn in Jun 2022*



Source: CBSL

# TREASURY BILLS AND BONDS – JUN '22

During the month of Jun, the secondary market yield curve displayed an unprecedented spike over 100bps on all the maturities and no rates were quoted for bonds maturing beyond 10Yrs. In the beginning of the month, yield curve slightly edged down towards belly-long end maturities while market participants opted to be on the sidelines. As the economic conditions remain uncertain, yields spiked upwards towards the end of the month, following the hike of the bill auction yields. Out of the five bill auctions held during the month, three auctions were fully accepted whereas out of the two bond auctions held, one was fully accepted.



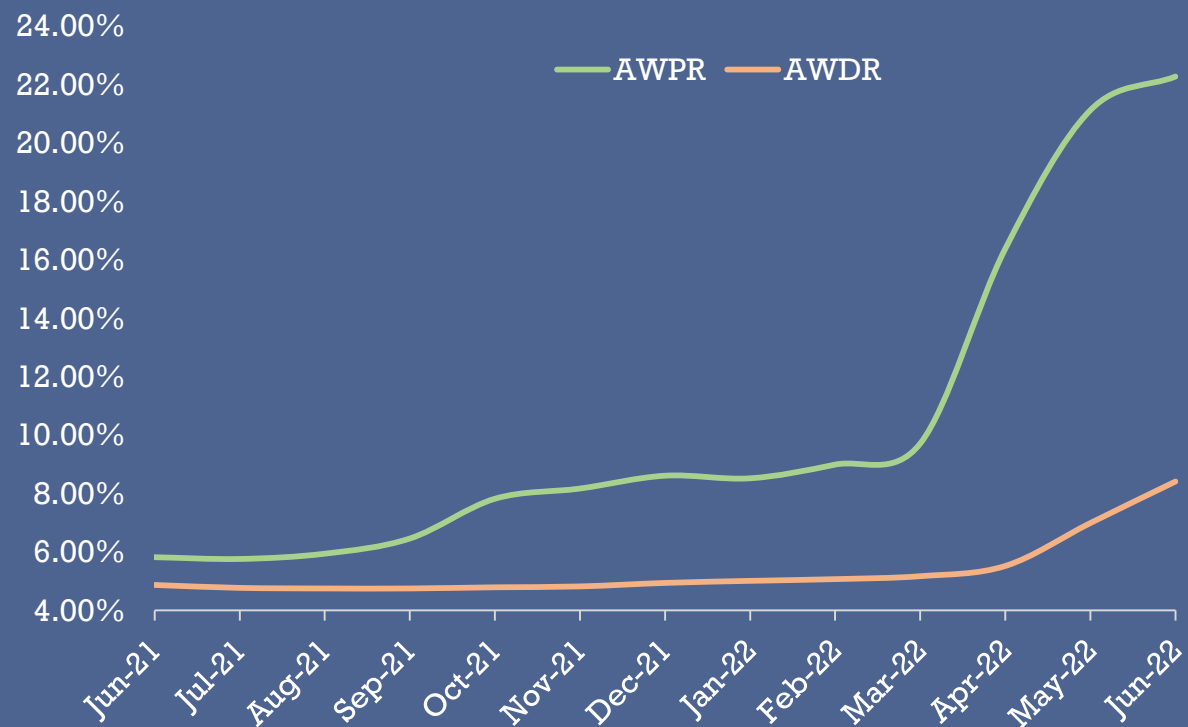
Source: First Capital Research

| Tenure | Interest Rate Change (bps) |           |              |           |              |
|--------|----------------------------|-----------|--------------|-----------|--------------|
|        | 30-Jun-22                  | 31-May-22 | Change (bps) | 31-Mar-22 | Change (bps) |
| 3M     | 24.50%                     | 22.25%    | 225          | 13.20%    | 1130         |
| 6M     | 25.00%                     | 22.75%    | 225          | 13.58%    | 1142         |
| 1 Yr   | 25.00%                     | 23.25%    | 175          | 13.75%    | 1125         |
| 2 Yrs  | 24.25%                     | 22.75%    | 150          | 14.63%    | 962          |
| 3 Yrs  | 24.00%                     | 22.00%    | 200          | 15.18%    | 882          |
| 4 Yrs  | 23.00%                     | 21.75%    | 125          | 15.25%    | 775          |
| 5 Yrs  | 22.50%                     | 21.50%    | 100          | 15.38%    | 712          |
| 6 Yrs  | 22.25%                     | 21.25%    | 100          | 15.50%    | 675          |
| 7 Yrs  | 21.50%                     | N/A       | N/A          | 15.75%    | 575          |
| 8 Yrs  | 21.00%                     | N/A       | N/A          | 15.95%    | 505          |
| 9 Yrs  | 20.50%                     | N/A       | N/A          | N/A       | 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

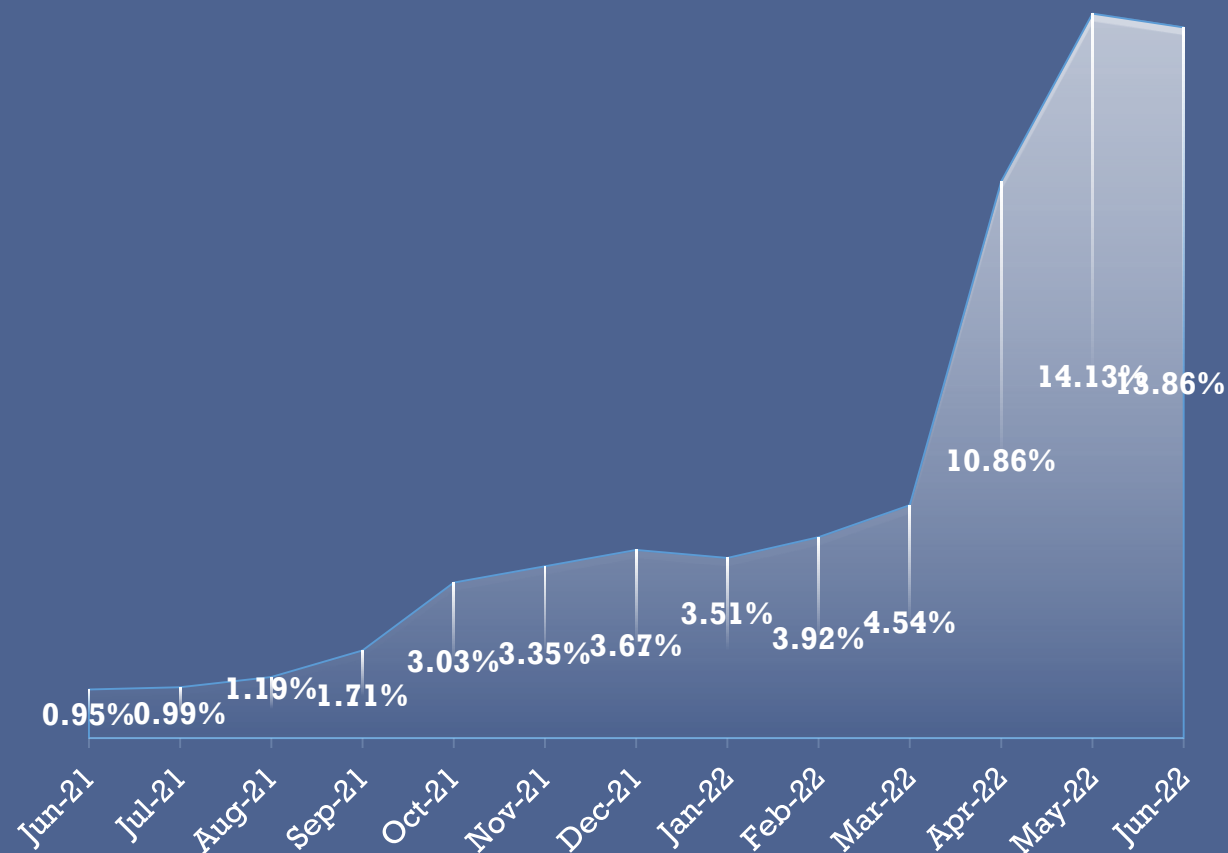
Jul 2022

## AWPR vs AWDR



Source: CBSL

## Interest Spread



Source: CBSL

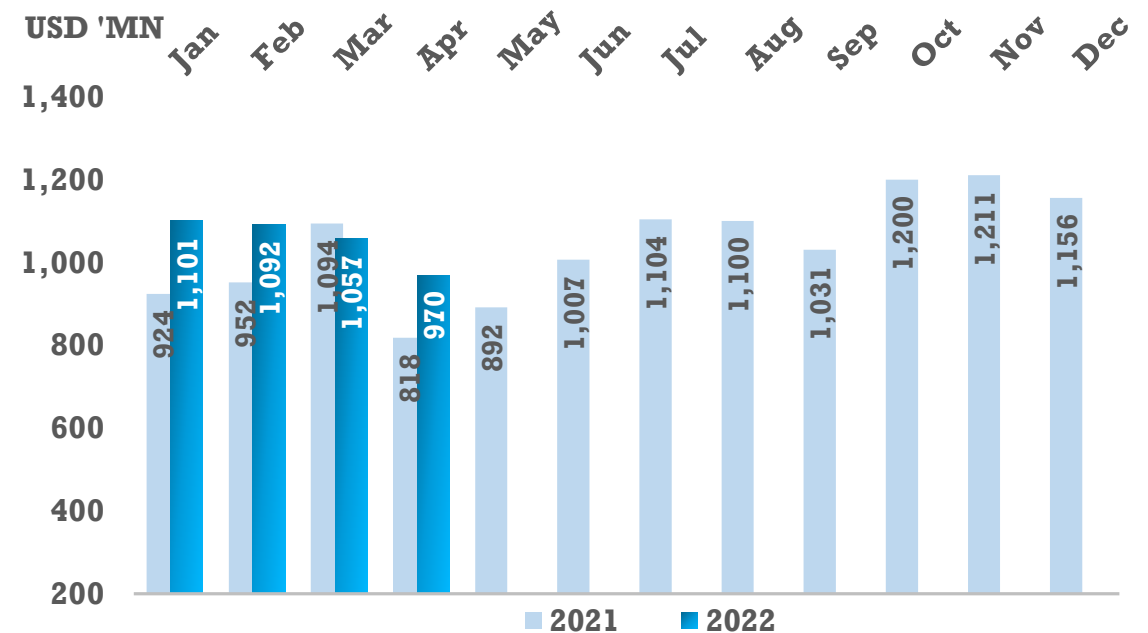
# FINANCE SECTOR RATE MOVEMENTS



# EXTERNAL SECTOR – APR 22 – EXPORTS

Exports for Apr increased by 18.5%YoY to USD 969.8Mn owing to an increase in earnings in industrial exports and agricultural exports, although a decline was recorded in mineral exports. Earnings from the export of industrial goods recorded an increase of 21.9%YoY in Apr 2022, led by garments and petroleum products while export of garments to most major markets improved. However, a decline in earnings was reported in the categories of printing industry products and plastics products. Earnings from the export of petroleum products improved due to the increase in both prices and volumes of bunker and aviation fuel exports. Total earnings from the export of agricultural goods in Apr 2022 increased by 7.3%YoY mainly due to the increased earnings from coconut products (mainly coconut fibre, coconut oil), minor agricultural products (mainly areca nuts) and seafood. Earnings from mineral exports decreased by 54.2%YoY due to a decline in export earnings from titanium ores categorised under ores, slag, and ash.

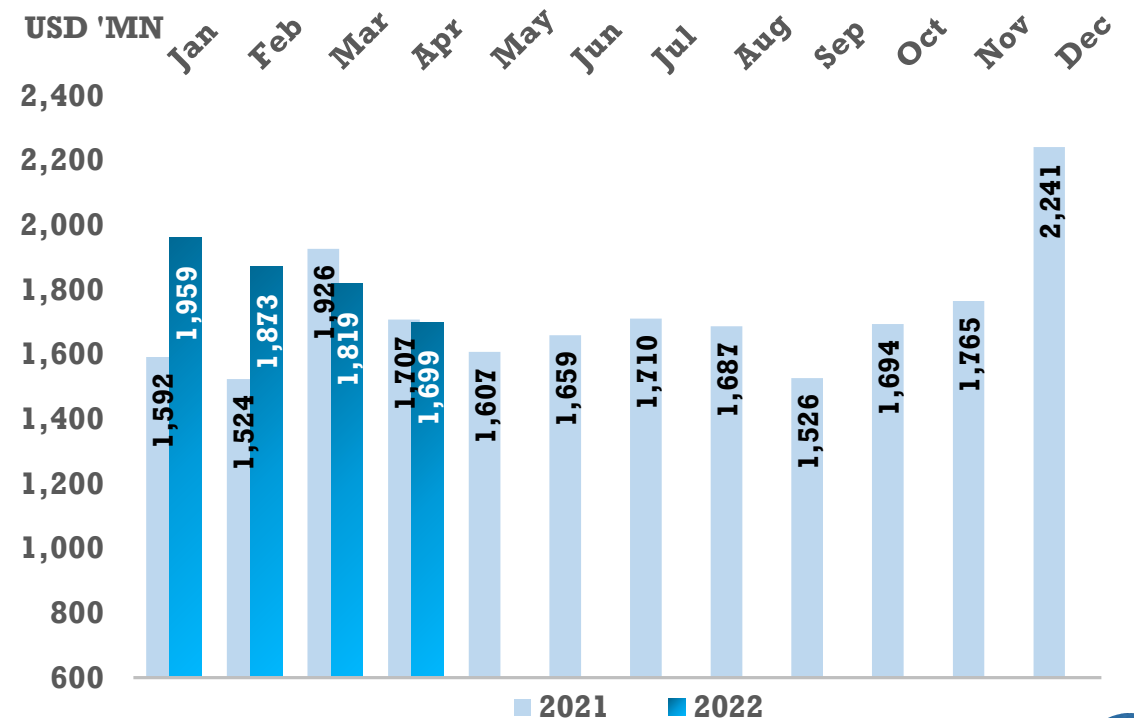
| Category           | 2021<br>(USD 'Mn) | 2022<br>(USD 'Mn) | Change<br>(%) |
|--------------------|-------------------|-------------------|---------------|
| Industrial Exports |                   |                   |               |
| - Apr              | 647.1             | 789.0             | 21.9          |
| - YTD              | 2,949.4           | 3,416.9           | 15.8          |
| Agricultural       |                   |                   |               |
| - Apr              | 165.6             | 177.7             | 7.3           |
| - YTD              | 829.4             | 783.5             | -5.5          |
| Mineral Exports    |                   |                   |               |
| - Apr              | 4.2               | 1.9               | -54.2         |
| - YTD              | 16.0              | 12.3              | -22.8         |
| <b>Total</b>       |                   |                   |               |
| - Apr              | 818.2             | 969.8             | 18.5          |
| - YTD              | 3,800.3           | 4,219.1           | 11.0          |



# EXTERNAL SECTOR – APR 22 – IMPORTS

Import expenditure marginally declined by 0.5%YoY to USD 1.7Bn in Apr 2022, owing to a decline in expenditure in import of Non-food consumer goods and investment goods, while an increase was recorded in import of food and intermediate goods. Expenditure on the importation of consumer goods in Apr 2022 decreased by 15.4%YoY driven by the reduction in non-food consumer goods imports (telecommunication devices and home appliances). However, expenditure on food and beverages import remained high in Apr 2022, mainly due to milled rice imports. Expenditure on the importation of intermediate goods increased by 11.3%YoY, mainly driven by fuel and textile articles. The categories of intermediate goods that recorded an increase include agricultural inputs, chemical products and plastics and articles thereof. Expenditure on the importation of investment goods decreased by 24.6%YoY as a result of the decline in all three types of investment goods, namely machinery and equipment, building material and transport equipment.

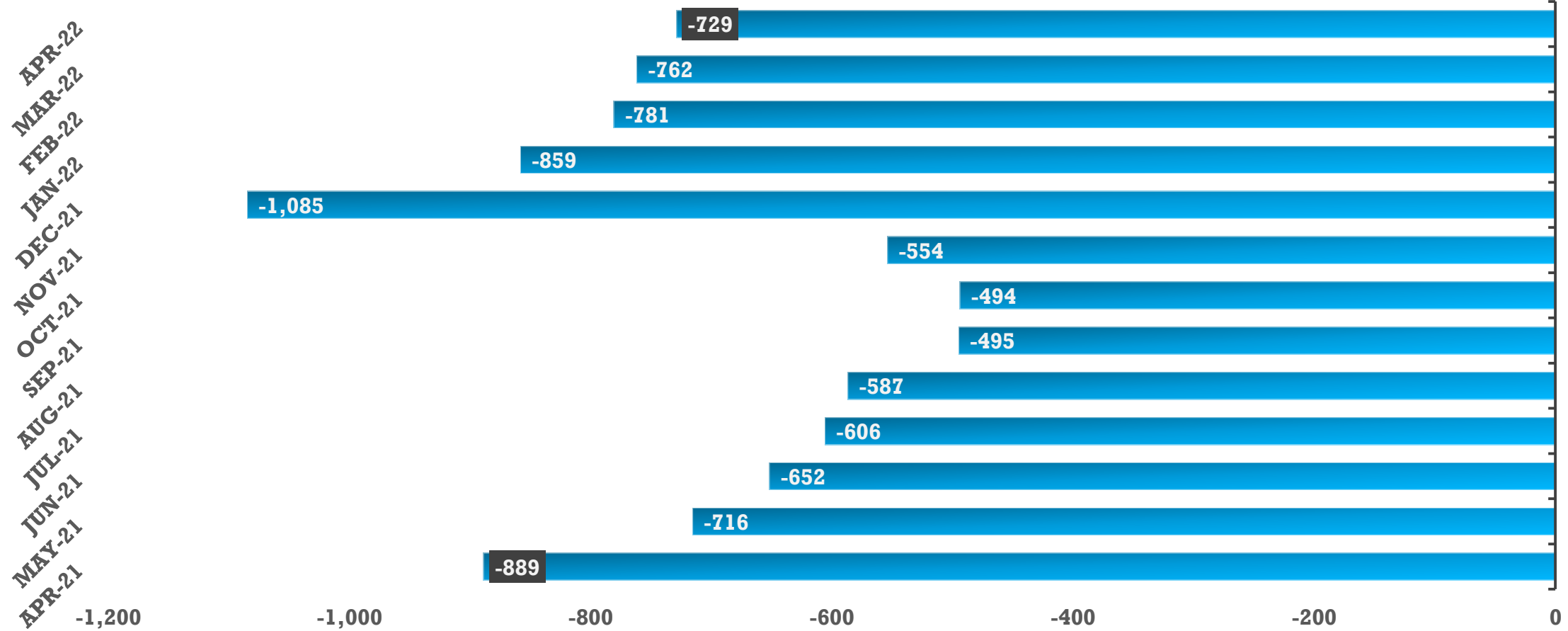
| Category         | 2021<br>(USD 'Mn) | 2022<br>(USD 'Mn) | Change<br>(%) |
|------------------|-------------------|-------------------|---------------|
| Consumer goods   |                   |                   |               |
| - Apr            | 278.6             | 235.8             | -15.4         |
| - YTD            | 1,276.5           | 1,176.6           | -7.8          |
| Intermediate     |                   |                   |               |
| - Apr            | 1,075.0           | 1,196.6           | 11.3          |
| - YTD            | 4,065.7           | 4,806.6           | 18.2          |
| Investment goods |                   |                   |               |
| - Apr            | 353.0             | 266.3             | -24.6         |
| - YTD            | 1,403.1           | 1,365.2           | -2.7          |
| <b>Total</b>     |                   |                   |               |
| - Apr            | 1,707.0           | 1,699.0           | -0.5          |
| - YTD            | 6,748.1           | 7,350.2           | 8.9           |



Source: CBSL  
Jul 2022

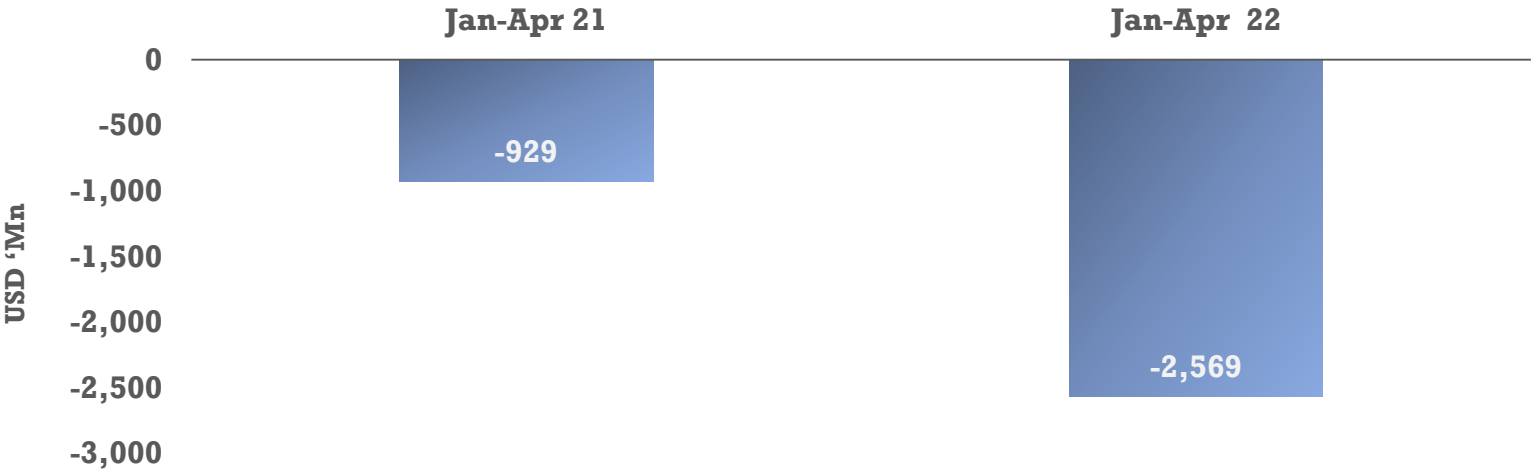
# EXTERNAL SECTOR – APR 22

## Balance of Trade



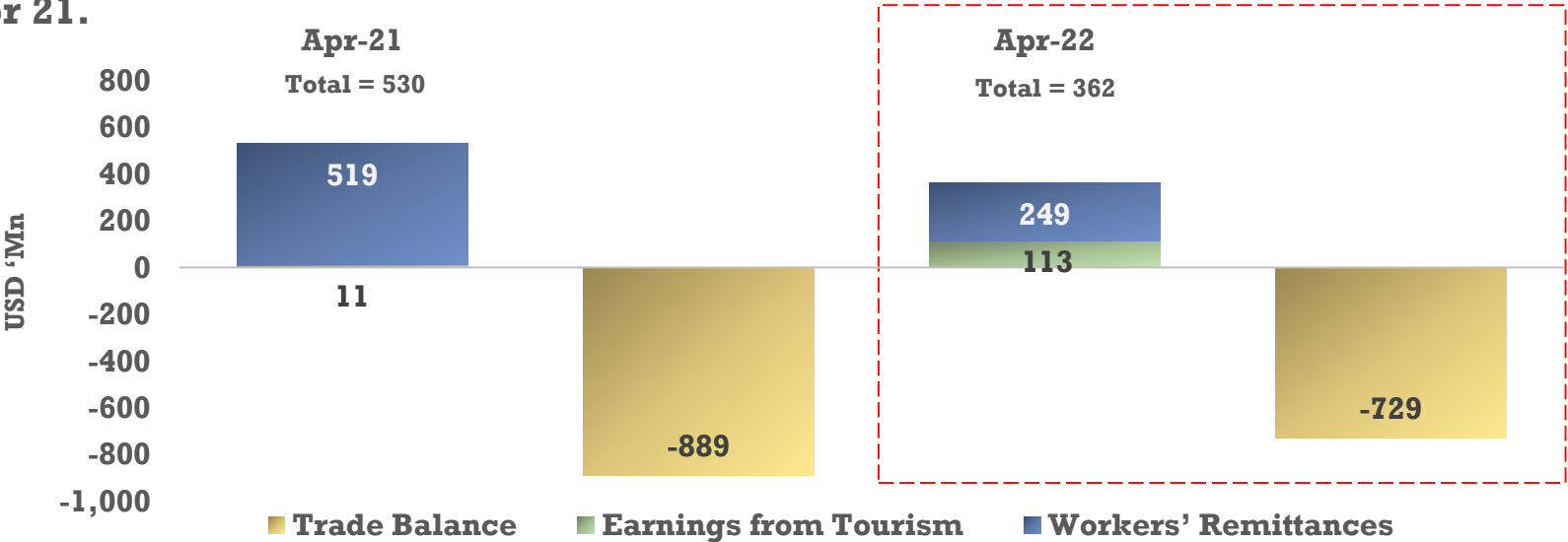
Source: Central Bank

BoP for Jan-Apr 22 recorded at USD -2.6Bn compared to Jan-Mar 22 amount of USD -2.3Bn recording a net outflow of USD 0.3Bn for the month of Apr 22.



Source: CBSL

Workers' Remittances declined to USD 249.0Mn in Apr 22 (-52.0%YoY). Earnings from Tourism for Apr 22 improved to USD 113.0Mn from USD 11.0Mn recorded in Apr 21.



Source: CBSL

## BALANCE OF PAYMENT DEFICIT INCREASED YOY IN APR 2022

| Apr USD 'Mn           | 2021 | 2022 | Change (%) |
|-----------------------|------|------|------------|
| Trade Balance         | -889 | -729 |            |
| Earnings from Tourism | 11   | 113  | >100       |
| Workers' Remittances  | 519  | 249  | -52.0      |

| YTD USD 'Mn           | 2021   | 2022   | Change (%) |
|-----------------------|--------|--------|------------|
| Trade Balance         | -2,948 | -3,131 |            |
| Earnings from Tourism | 36     | 626    | >100       |
| Workers' Remittances  | 2,386  | 1,031  | -56.8      |

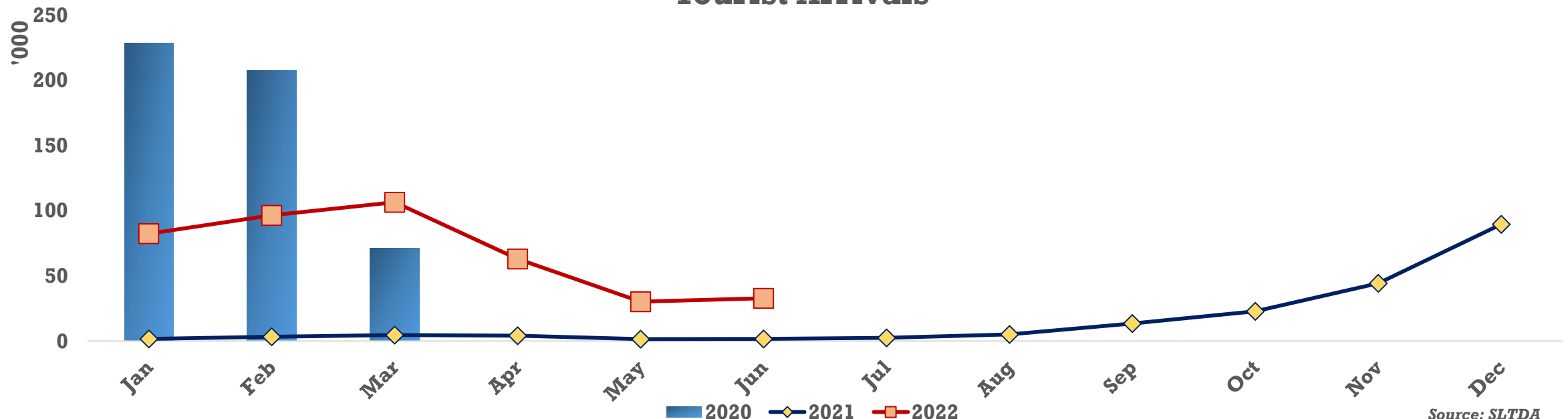
Source: CBSL

# TOURIST ARRIVALS – JUN 2022

[ JUN 32,856 – **UP +1,1935.7%YoY** ] [ YTD 411,377 – **UP +2,333.0%YoY** ]

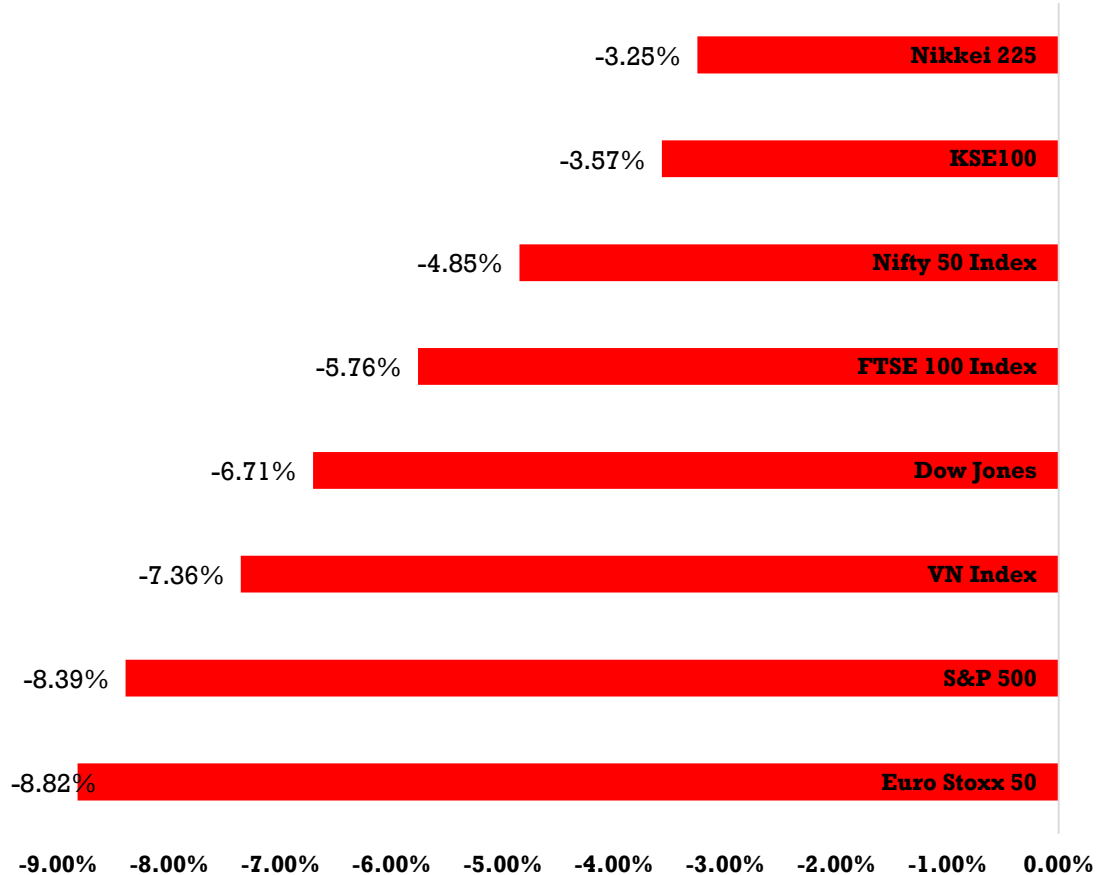
The total number of tourist arrivals to Sri Lanka during Jun 2022 were 32,856 (source: 5<sup>th</sup> Jul article on Daily Mirror). A slight improvement in arrivals was observed during the month of Jun, as a result of the increased arrivals from Australia amidst the Sri Lanka Vs Australia cricket match series held in the country during the month. Total tourist arrivals for the 1H2022 crossed the 400,000 mark with the Jun arrivals. The largest source markets recorded for the month of Jun were India, United Kingdom and Australia.

**Tourist Arrivals**



Source: SLTDA

# GLOBAL MARKET



Source: Investing.com

First Capital Research

## Oil steadies near USD 100 after plunging on recession concerns

Oil steadied near USD100 a barrel as banks including Goldman Sachs Group Inc. said a plunge driven by fears a recession will hurt demand was overdone, and the outlook for energy consumption in China improved. Goldman Sachs said global consumption was running ahead of supply, and inventories were nearing critically low levels, although Citigroup Inc. has warned prices could fall below USD 70 a barrel.

Bloomberg



## Euro slides to 20-year low against the dollar as recession fears build

The euro fell to its lowest level in two decades on 5<sup>th</sup> Jul as fears of a recession in the euro zone ramped up, with gas prices soaring and the Ukraine war showing no signs of abating. The euro shed around 1.5% for the session to hit USD 1.0265 against the dollar, while the dollar index gained 1.29% to 106.49. Euro zone inflation hit a record 8.6% in June, prompting the European Central Bank to give markets advance notice of its intention to hike interest rates for the first time in 11 years at its July meeting.

## U.S. yield curve inverts again: What is it telling us?

A closely watched part of the U.S. Treasury yield curve inverted again on 5<sup>th</sup> Jul, as investors continue to price in the chance that the Federal Reserve's aggressive move to bring down inflation will push the economy into recession. Yields on two-year treasuries briefly rose above those of 10-year Treasuries for the third time this year, a phenomenon known as a yield curve inversion that has in the past preceded U.S. recessions.



REUTERS  
WORLD

Jul 2022

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## Contact Us

### First Capital Holdings PLC

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

E: [research@firstcapital.lk](mailto:research@firstcapital.lk)



#### Dimantha Mathew

Head of Research

T: +94 11 2639 853

E: [dimantha@firstcapital.lk](mailto:dimantha@firstcapital.lk)

#### Hiruni Perera

Assistant Manager- Research

T: +94 11 2639 864

E: [hiruni@firstcapital.lk](mailto:hiruni@firstcapital.lk)

#### Ranjan Ranatunga

Assistant Manager- Research

T: +94 11 2639 863

E: [ranjan@firstcapital.lk](mailto:ranjan@firstcapital.lk)

#### Vidushika Perera

Assistant Manager- Research

T: +94 11 2639 865

E: [vidushika@firstcapital.lk](mailto:vidushika@firstcapital.lk)

#### Tharusha Ashokgar

Research Analyst

T: +94 11 2639 866

E: [tharushaash@firstcapital.lk](mailto:tharushaash@firstcapital.lk)

#### Zaeema Jihan

Research Analyst

T: +94 11 2639 868

E: [zaheema@firstcapital.lk](mailto:zaheema@firstcapital.lk)



**First Capital**  
A Janashakthi Group Company

