



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Aug 2022

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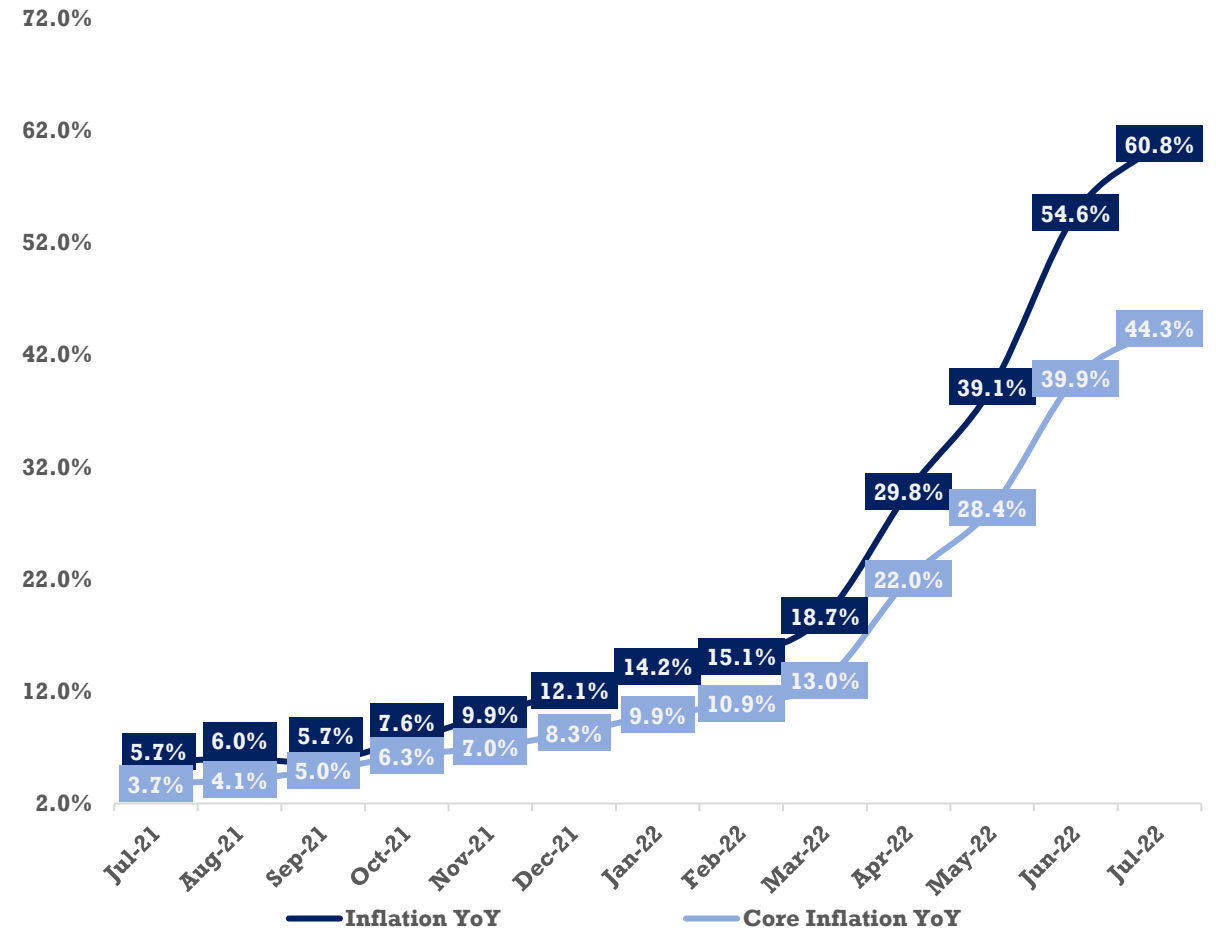
RELAXATION OF THE MANDATORY CONVERSION REQUIREMENT ON SERVICE EXPORT RECEIPTS/PROCEEDS

- With the view of encouraging service exporters to repatriate their export proceeds into the country, the CBSL has withdrawn the mandatory requirement to convert service export receipts/proceeds, that are received in Sri Lanka on or after 12th Aug 2022.
- The service exporters may use their export proceeds so repatriated to Sri Lanka for the permitted purposes. The mandatory requirement to receive proceeds of service exports to the country within 180 days from the date of provision of services remains unchanged.
- As per records by the Banks, out of the total service export receipts of USD 1,533Mn in 1H2022, only USD 406Mn has been converted to LKR. The highest monthly service export proceeds of USD 324Mn was received in March 2022.
- All exporters are encouraged to bring in all export proceeds to the country at this time of need, while taking note of the mandatory requirement to receive such proceeds within the stated timeline. The CBSL has also intensified its monitoring on compliance with the relevant requirements with respect to exporters and Authorised Dealers.

INFLATION – CCPI

**CCPI FOR JUL 2022:
MOM +4.5%,
YOY +60.8%**

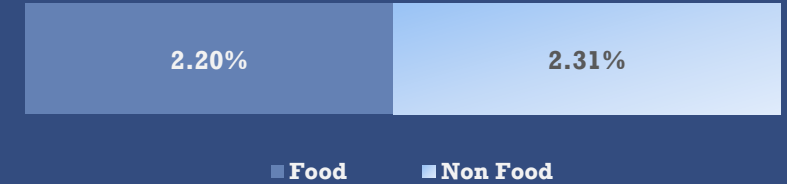
- MoM inflation increased by 4.5% with the increase in inflation of Food group by 5.8% and the increase in inflation of Non-Food group by 3.7%.
- The YoY inflation increased to 60.8% in Jul 2022. YoY inflation of Food group has increased to 90.9% in Jul 2022 from 80.1% in Jun 2022 while Non-Food group increased to 46.5% from 42.4% in Jun 2022.



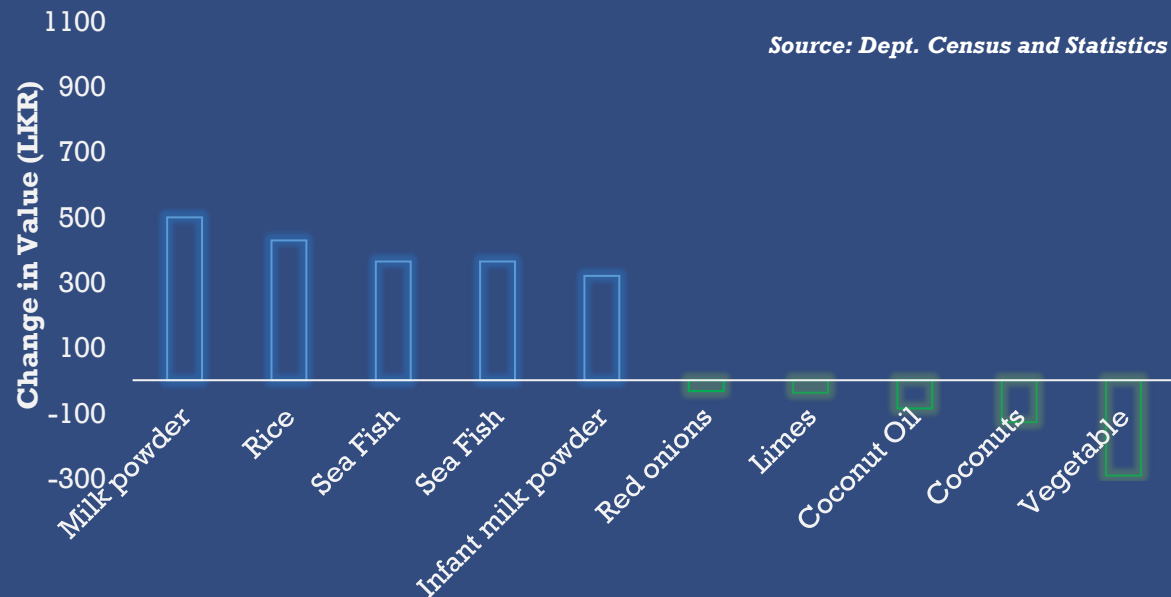
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

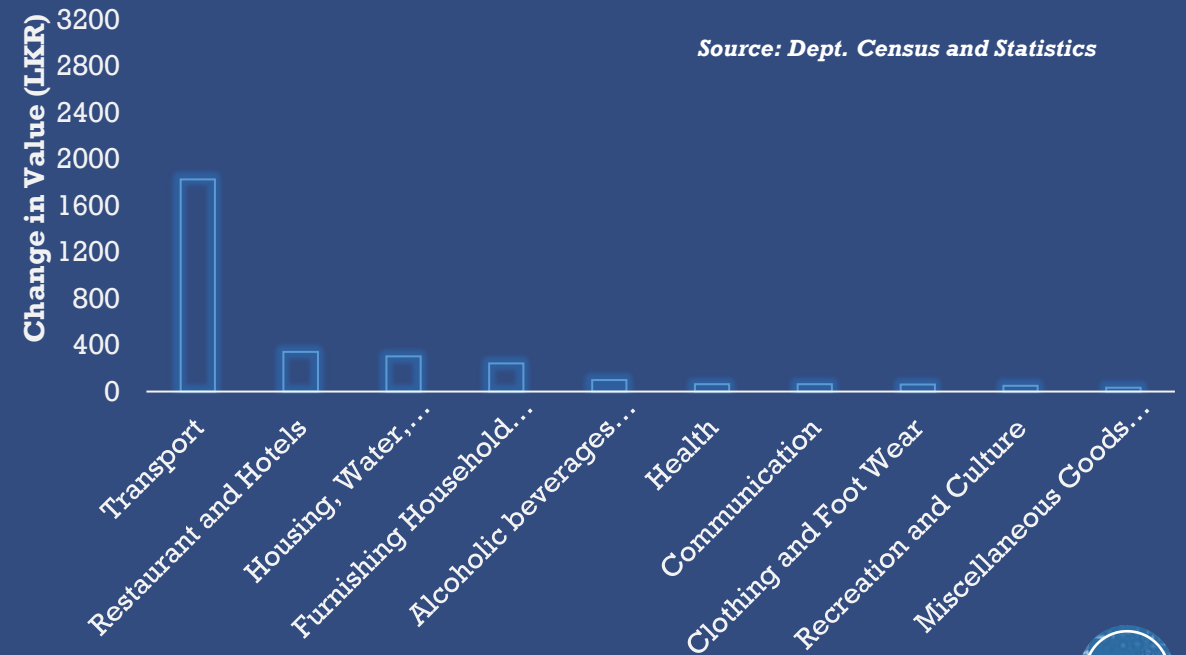
The CCPI index recorded an increase of 4.5%MoM contributed by the increase in expenditure value of Food items by 2.20% and Non-Food items by 2.31%. Within the Food items, increase in value changes were mainly reported for Milk Powder, Rice, Sea Fish, Infant Milk Powder and etc. Among Non-Food groups, increases in value changes were mainly reported in Transport, with only marginal increases in categories of Restaurant and Hotels, Housing, water, Electricity, Gas and Other Fuels, Furnishing Household Equipment and Routine Household Maintenance, and etc.



Food Category Inflation



Non-Food Category Inflation

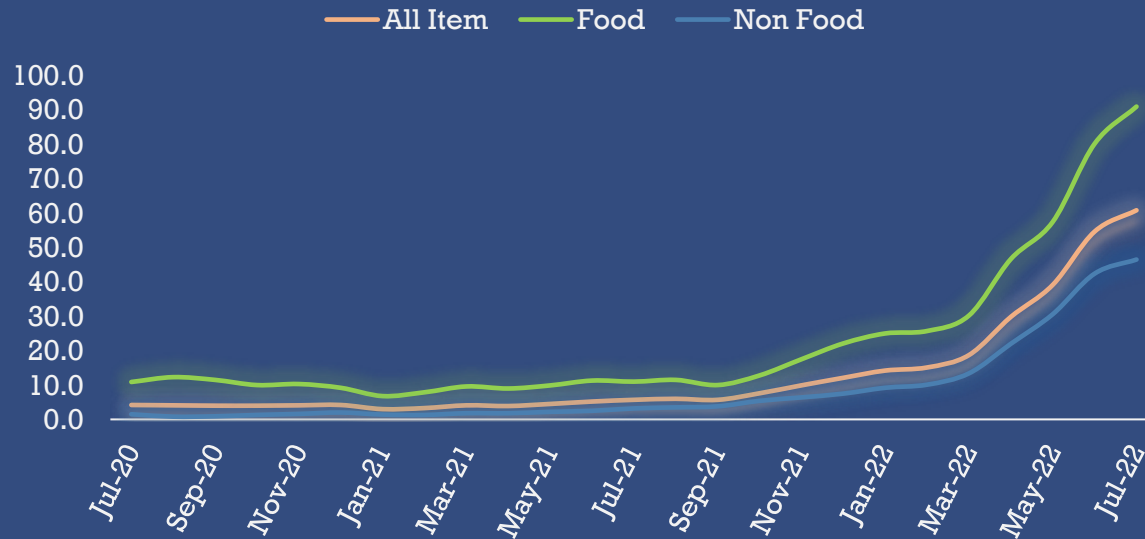


INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Jul was 60.8% and has increased relative to the month of Jun. Food item prices have increased to 90.9%YoY in Jul 2022 from 80.1%YoY in Jun 2022 while the Non-Food item prices have increased to 46.5%YoY from 42.4%YoY in Jun 2022. The contribution from food category for YoY inflation was 29.46% while the contribution of Non-Food items stood at 31.40% mainly due to the increase in Transport, Restaurants & Hotels, Housing, Water, Electricity, Gas & Other Fuels, Miscellaneous Goods and Services and etc.

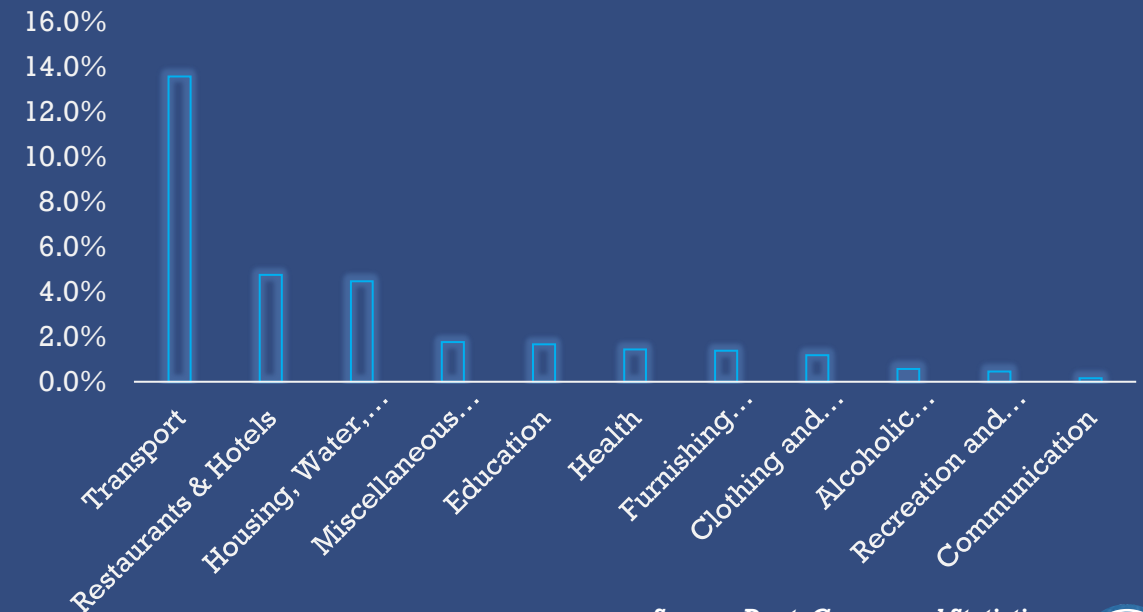


Inflation Analysis (YoY)



Source: Dept. Census and Statistics

Non-Food Category Inflation



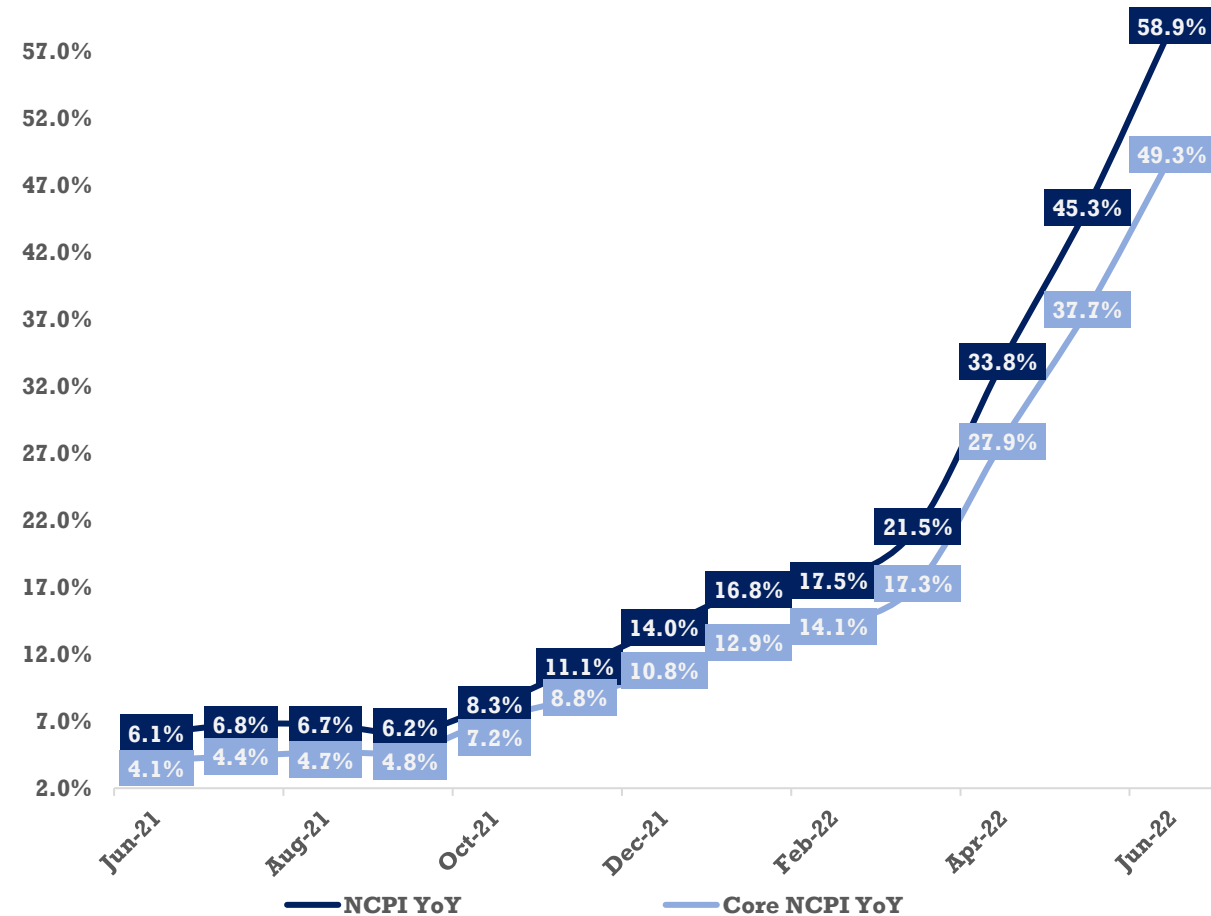
Source: Dept. Census and Statistics

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INFLATION – NCPI

NCPI FOR JUN 2022: INCREASED TO 58.9%YOY

- NCPI for Jun 2022 increased to 58.9% compared to 45.3% in May 2022.
- Increase in inflation was mainly driven by the price increases in both Food commodities and Non-Food commodities. Accordingly, YoY Food inflation increased to 75.8% in Jun 2022 from 58.0% in May 2022 while Non-Food inflation increased to 43.6% in Jun 2022 from 34.2% in May 2022.



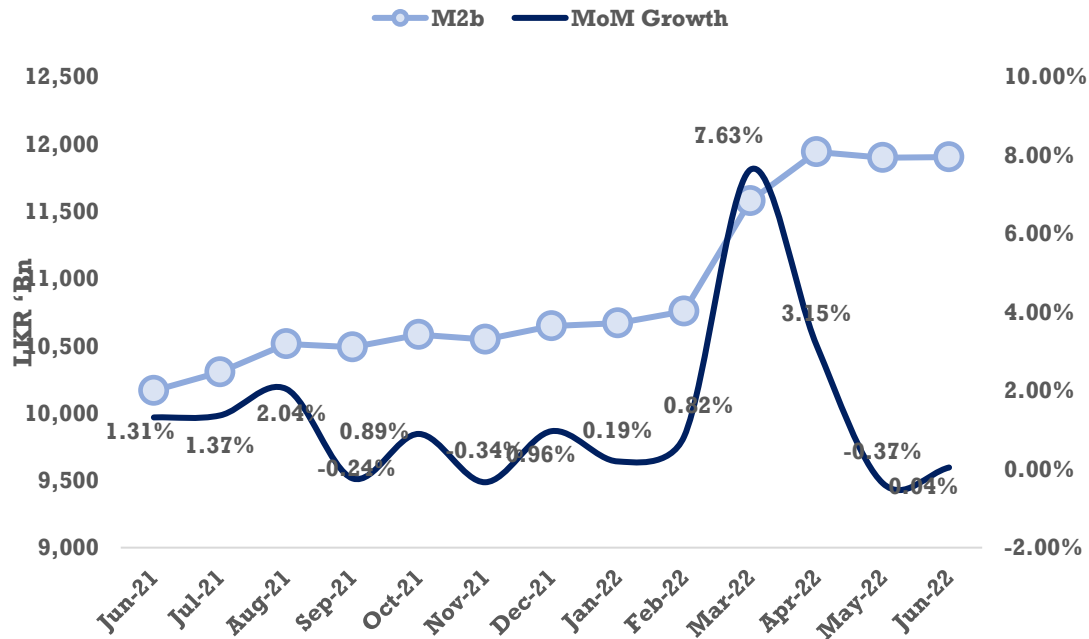
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit deteriorated by LKR 40.6Bn in Jun 2022 amidst the continuous spike in lending rates. State credit reflected a net borrowing of LKR 157.2Bn.

M2b Growth – Jun 2022

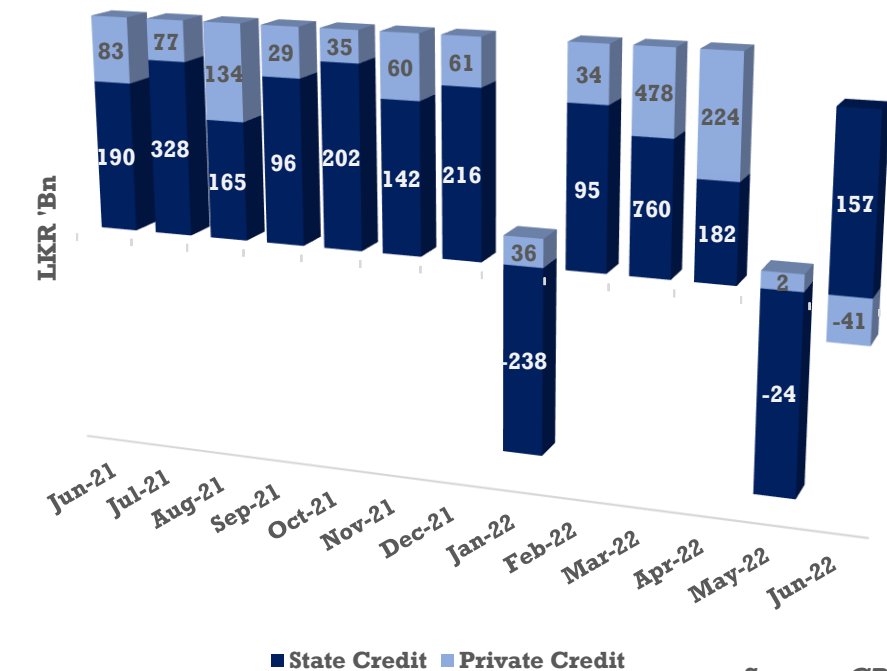
MoM +0.04%, YoY +17.1%, YTD +11.8%



Source: CBSL

State Credit & Private Credit – Jun 2022

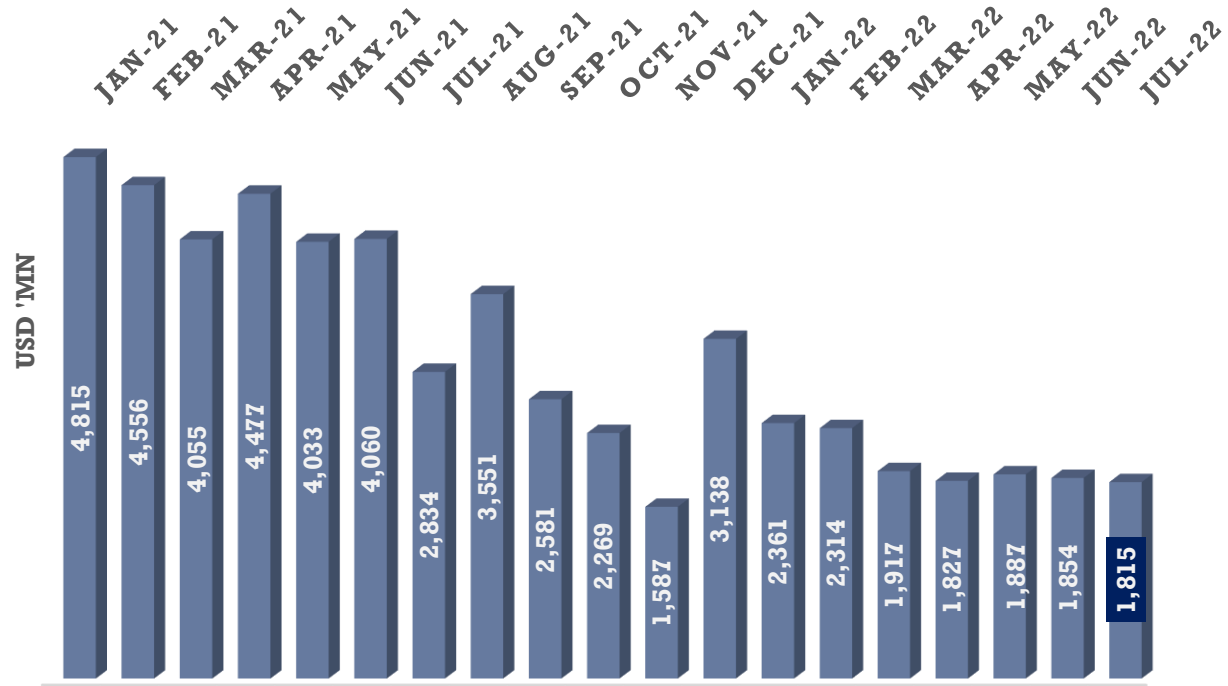
Private Credit MoM -0.5%, YoY +17.2%, YTD +10.5%



Source: CBSL

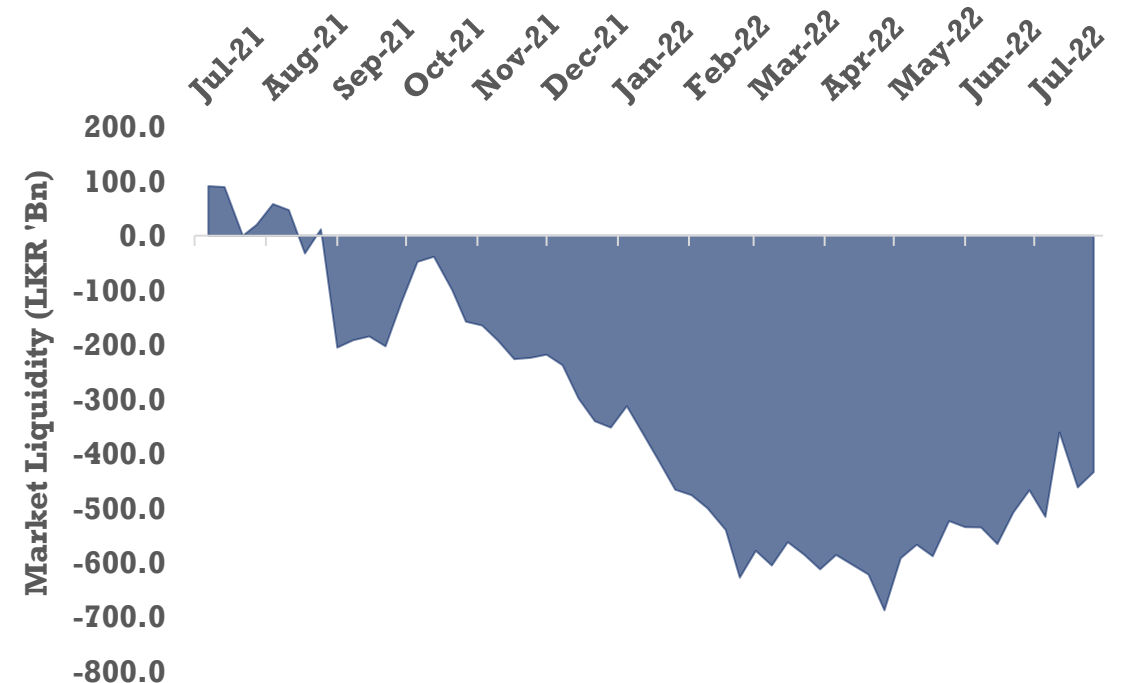
LIQUIDITY & RESERVES

- Foreign Reserves slightly declined by USD 39.0Mn to USD 1.8Bn in Jul 2022. This figure is inclusive of the swap facility from the People's Bank of China equivalent to ~USD 1.5Bn which is currently unusable.



Source: CBSL

- Market liquidity remained negative but witnessed a slight improvement despite some volatility during Jul 2022.



Source: CBSL

CURRENCY MOVEMENT

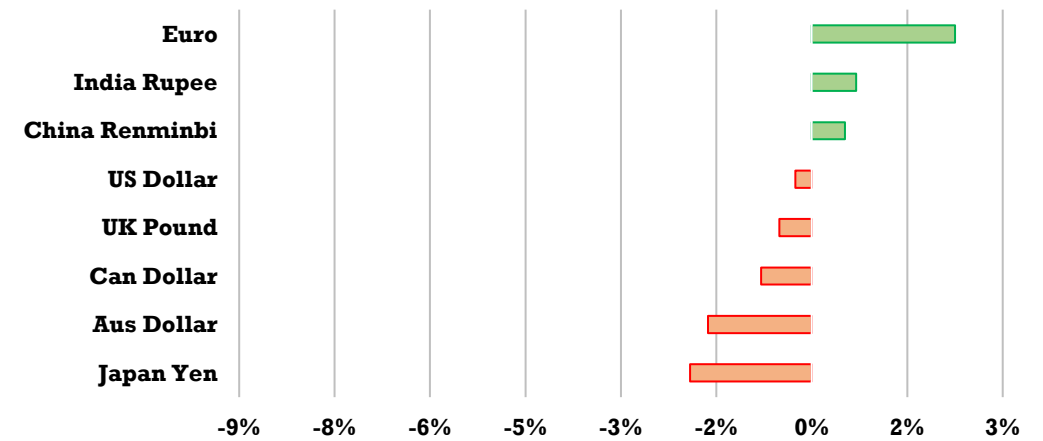
USD:LKR Movement



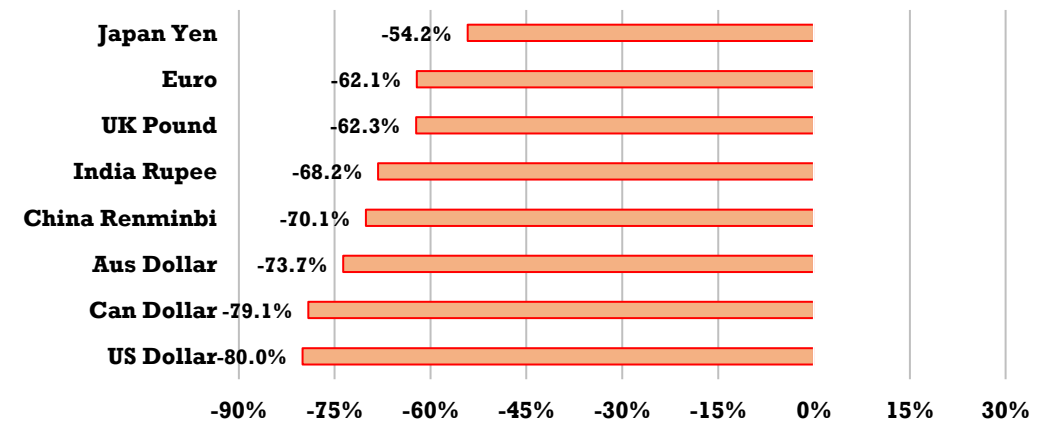
Source: CBSL

Sri Lankan Rupee vs Global Currencies

Jul 2022



YTD 2022



Source: CBSL

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GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Jul 2022

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
1-Jul-22	76,169	157,766	233,935
8-Jul-22	87,500		87,500
15-Jul-22	54,502	51,548	106,050
22-Jul-22	68,750		68,750
29-Jul-22	106,250		106,250
Total Issued			602,485



Net Settlement	Jul 2022	YTD
Maturities	812,713	3,630,603
New Issues	602,485	2,861,891
Excess/ (Deficit)	(210,228)	(768,712)

CBSL Holdings of Gov. Securities		YTD
As at End Jul 2022	2,261,362	
As at End Jun 2022	2,086,446	
Increase/ (Decrease)	174,915	844,610

CBSL HOLDINGS OF GOV. SECURITIES...

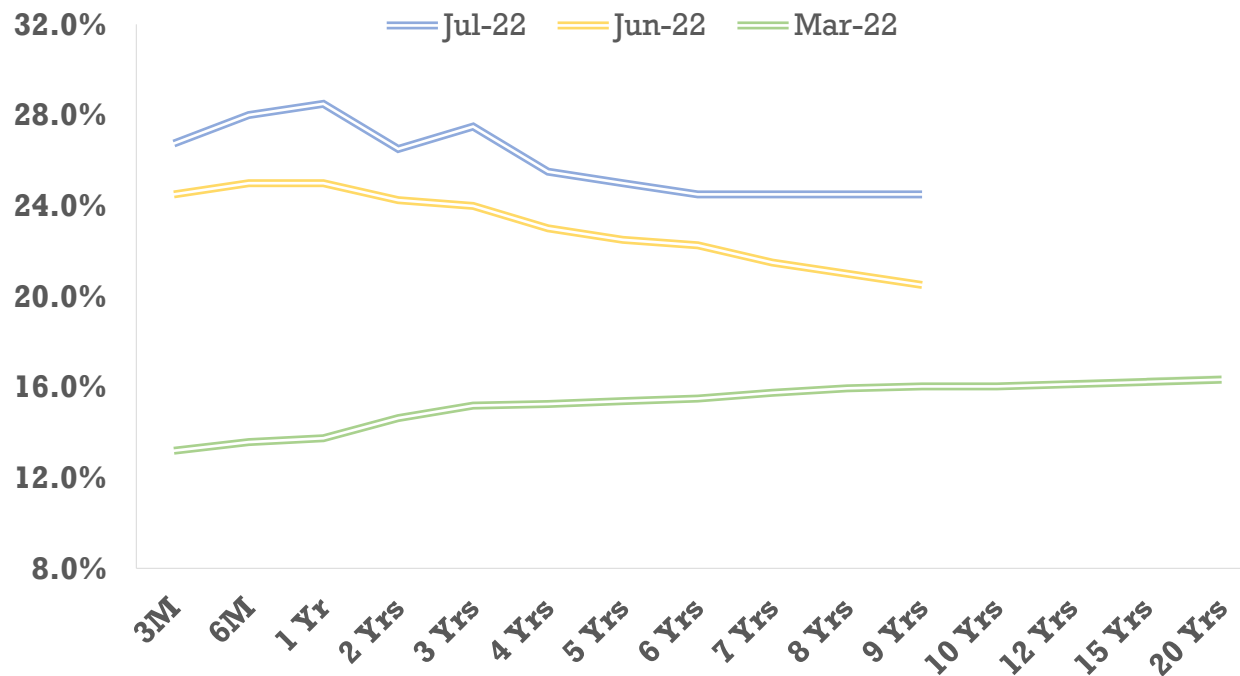
...increased by LKR 174.9Bn in Jul 2022



Source: CBSL

TREASURY BILLS AND BONDS – JUL 2022

During the month of Jul, the secondary market yield curve shifted upwards by about 225-350bps steered by CBSL's tightening of monetary policy rates by a further 100bps which was announced at the beginning of the month. However, during the latter half of the month, the secondary market exhibited some buying appetite cooling off the yields while also edging down the bill auction yields after 5-weeks of bearishness. Subsequently, towards the end of the month, overall market activities displayed a dull sentiment as investors opted to stay on the sidelines during most of the sessions.

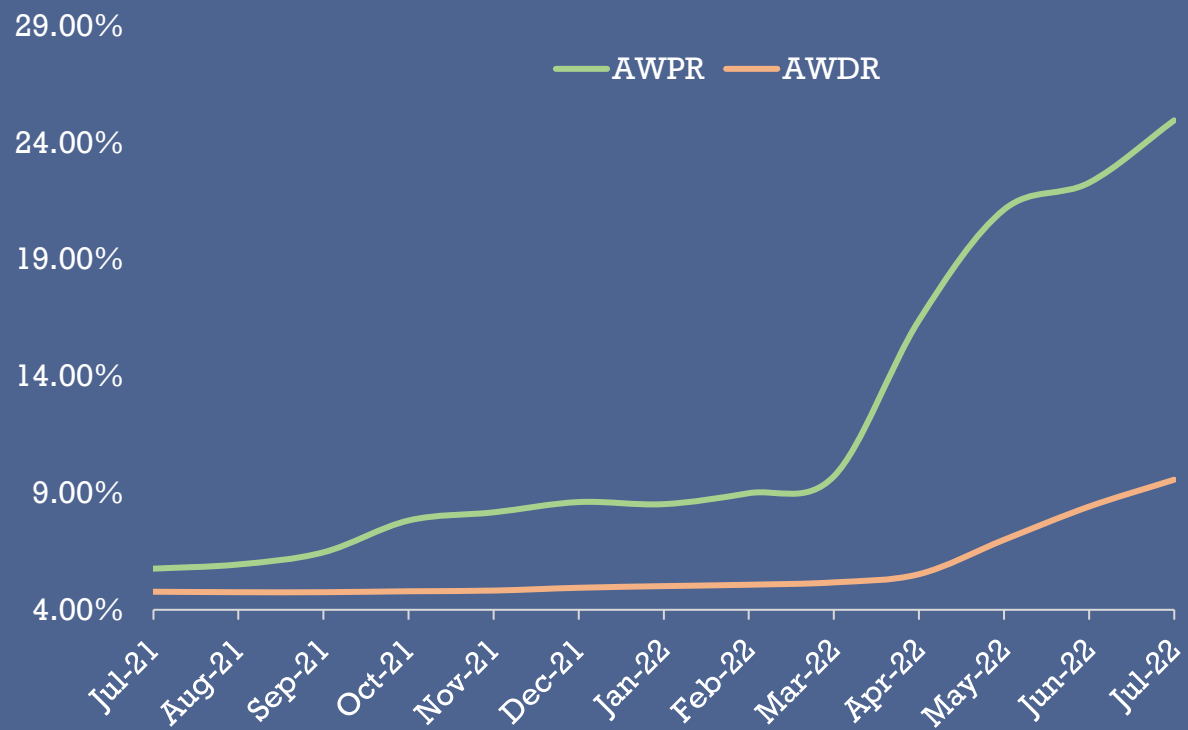


Source: First Capital Research

Interest Rate Change (bps)

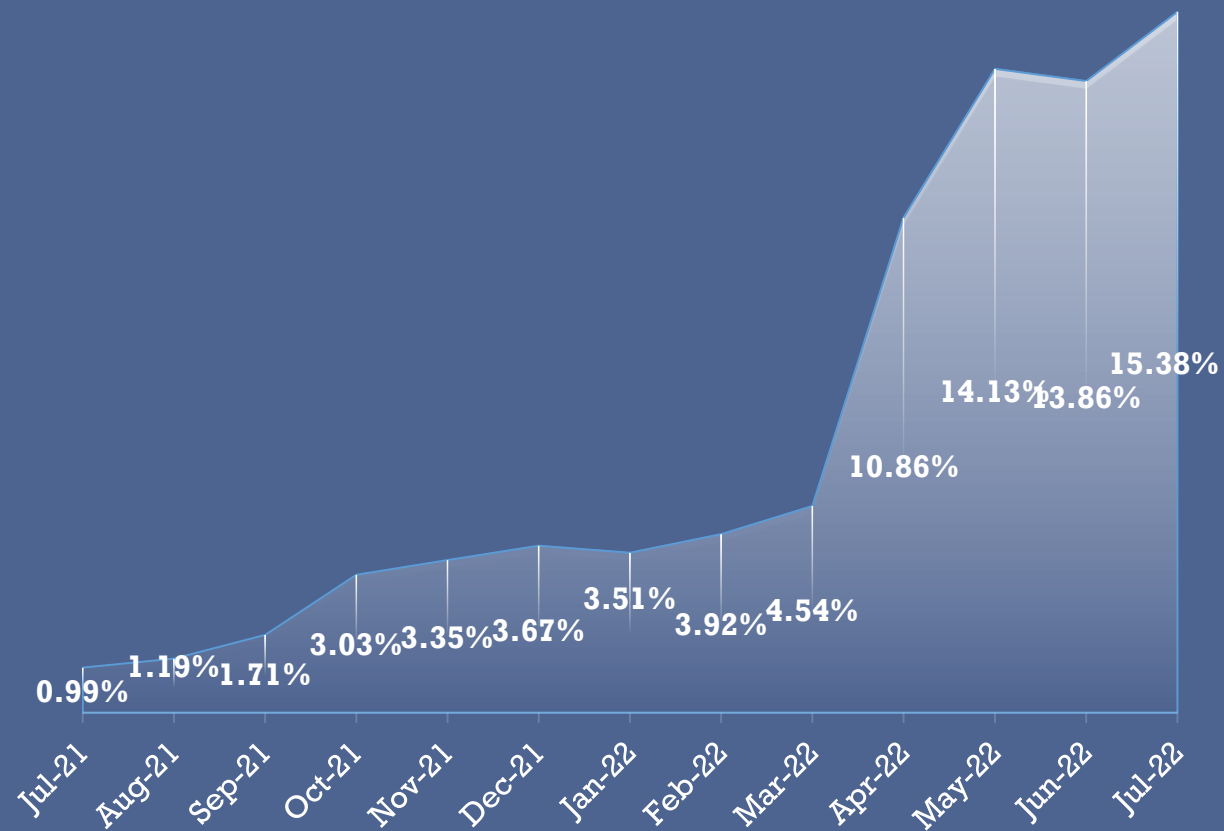
Tenure	Jul-22	Jun-22	Change (bps)	Mar-22	Change (bps)
3M	26.75%	24.50%	225	13.20%	1,355
6M	28.00%	25.00%	300	13.58%	1,442
1 Yr	28.50%	25.00%	350	13.75%	1,475
2 Yrs	26.50%	24.25%	225	14.63%	1,187
3 Yrs	27.50%	24.00%	350	15.18%	1,232
4 Yrs	25.50%	23.00%	250	15.25%	1,025
5 Yrs	25.00%	22.50%	250	15.38%	962
6 Yrs	24.50%	22.25%	225	15.50%	900
7 Yrs	24.50%	21.50%	300	15.75%	875
8 Yrs	24.50%	21.00%	350	15.95%	855
9 Yrs	24.50%	20.50%	400	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

AWPR vs AWDR



Source: CBSL

Interest Spread



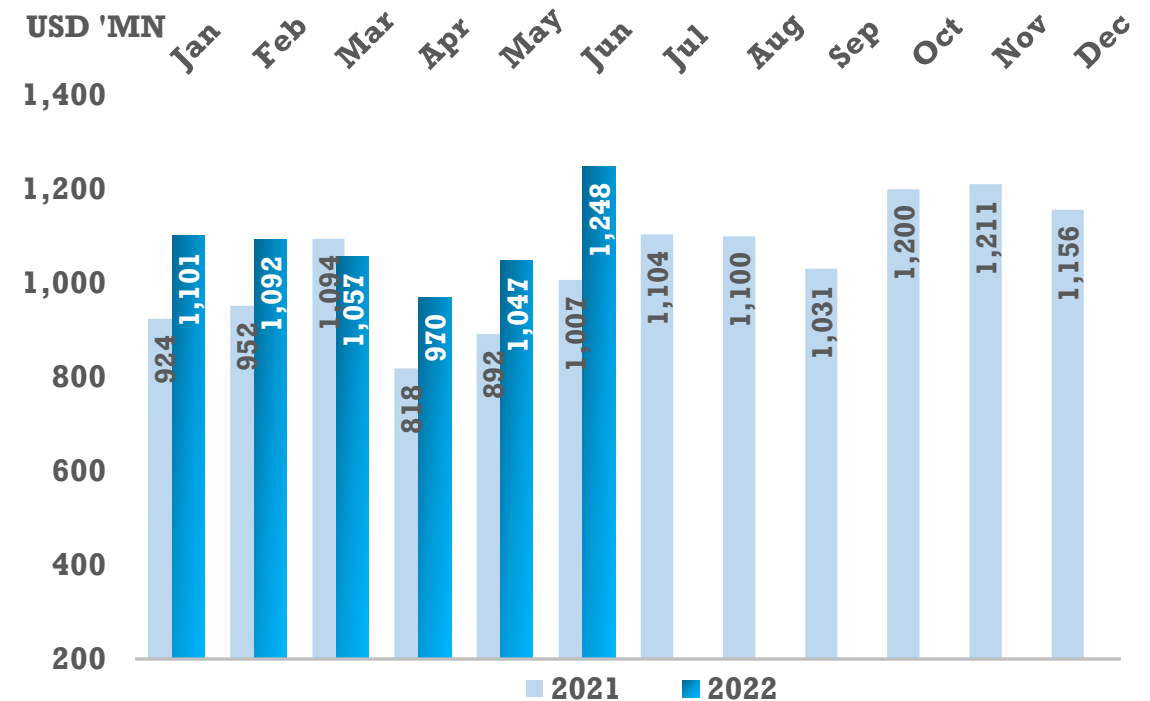
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – JUN 22 – EXPORTS

Exports for Jun increased by 23.9%YoY to USD 1,247.8Mn owing to the notable increase in earnings from industrial exports with a marginal increase in agricultural exports. Mineral exports recorded a decline for the month. Earnings from the export of industrial goods were mainly led by the higher export earnings from garments to all major markets. Earnings from other industrial export categories such as, gems, diamonds & jewellery, petroleum products, animal fodder and food, beverage & tobacco also recorded an improvement. Export earnings from petroleum products were mainly led by the price increases in both aviation and bunker fuel exports. Overall export earnings on agricultural goods were mainly led by seafood, areca nuts, coconut kernel products, vegetables and natural rubber while earnings from tea and spices recorded a decline due to the reduction in volumes. Mineral exports lowered due to the decline in earnings from titanium ores.

Category	2021 (USD 'Mn)	2022 (USD 'Mn)	Change (%)
Industrial Exports			
- Jun	771.4	990.3	28.4
- YTD	4,407.7	5,260.3	19.3
Agricultural			
- Jun	230.3	251.5	9.2
- YTD	1,258.9	1,226.0	-2.6
Mineral Exports			
- Jun	4.4	2.9	-34.8
- YTD	24.9	17.1	-31.3
Total			
- Jun	1,007.0	1,247.8	23.9
- YTD	5,699.1	6,514.2	14.3

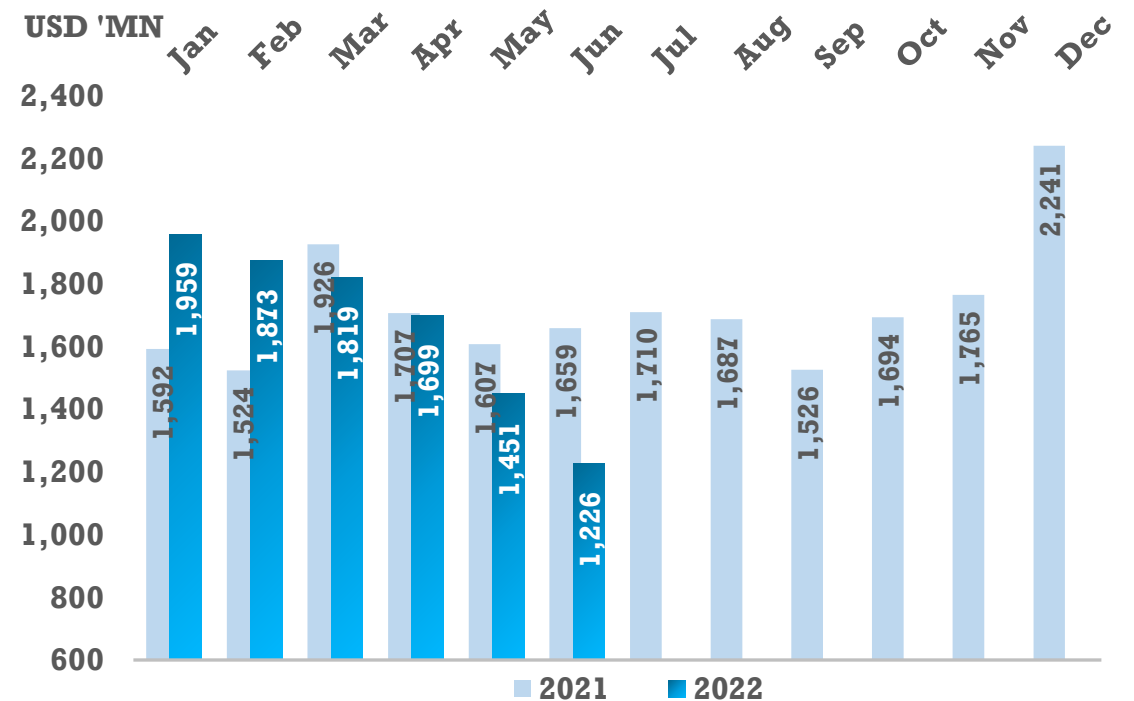


Source: CBSL
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EXTERNAL SECTOR – JUN 22 – IMPORTS

Import expenditure declined by 26.1%YoY to USD 1.2Bn in Jun 2022, owing to the regulatory measures to discourage non-urgent imports, diminished foreign liquidity and depreciation of LKR against USD. Decline in expenditure on consumer goods were largely attributable to the decline in food & beverages imports such as dairy products, oil & fats, vegetables, and sugar, and non-food consumer imports such as medical & pharmaceuticals, telecommunication devices and home appliances. Significant reduction in expenditure on intermediate goods were noted in base metals, plastics, wheat grain and chemical products. However, the effect of these reductions were largely offset by the heightened expenditure on fuel imports. Decline in import expenditure on investment goods was observed with a decline across all subcategories namely, machinery & equipment, building material and transport equipment.

Category	2021 (USD 'Mn)	2022 (USD 'Mn)	Change (%)
Consumer goods			
- Jun	382.2	176.5	-53.8
- YTD	1,912.3	1,530.2	-20.0
Intermediate			
- Jun	839.0	815.7	-2.8
- YTD	5,950.1	6,658.4	11.9
Investment goods			
- Jun	436.2	234.1	-46.3
- YTD	2,147.4	1,837.4	-14.4
Total			
- Jun	1,659.2	1,226.5	-26.1
- YTD	10,014.7	10,028.1	0.1

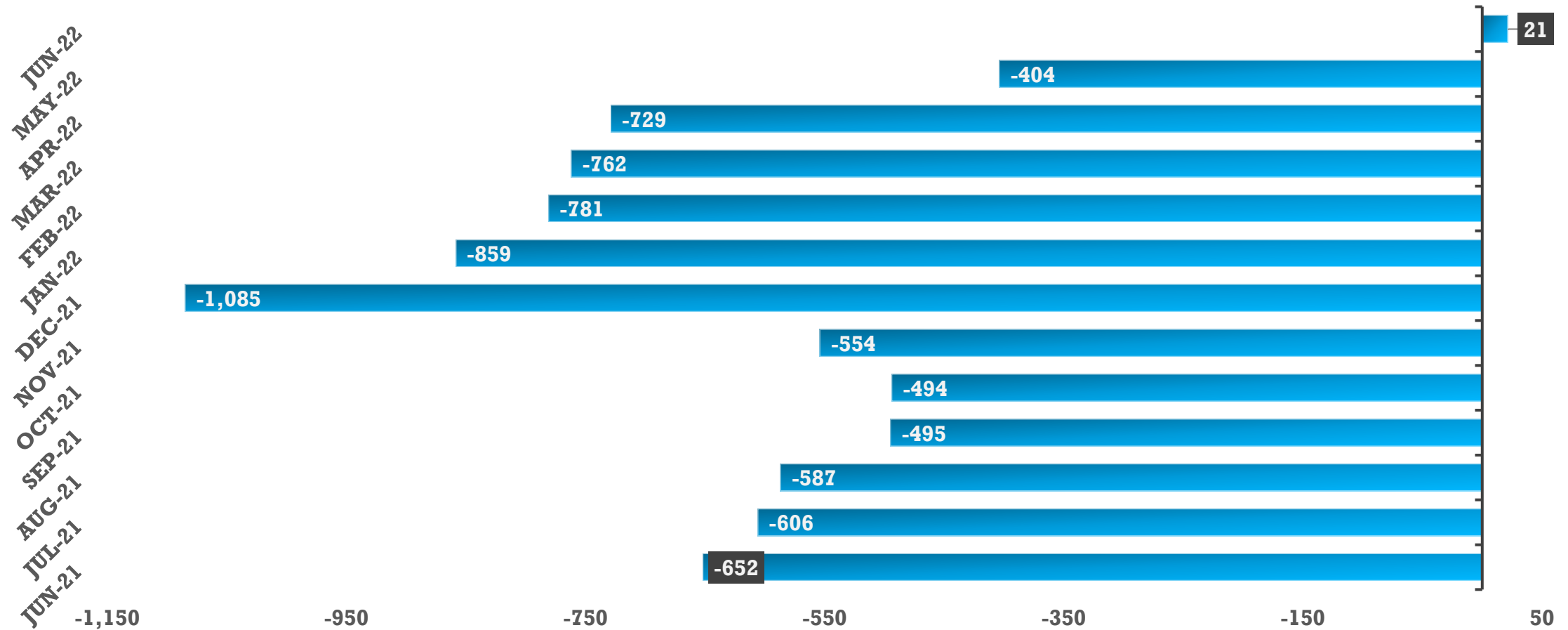


Source: CBSL

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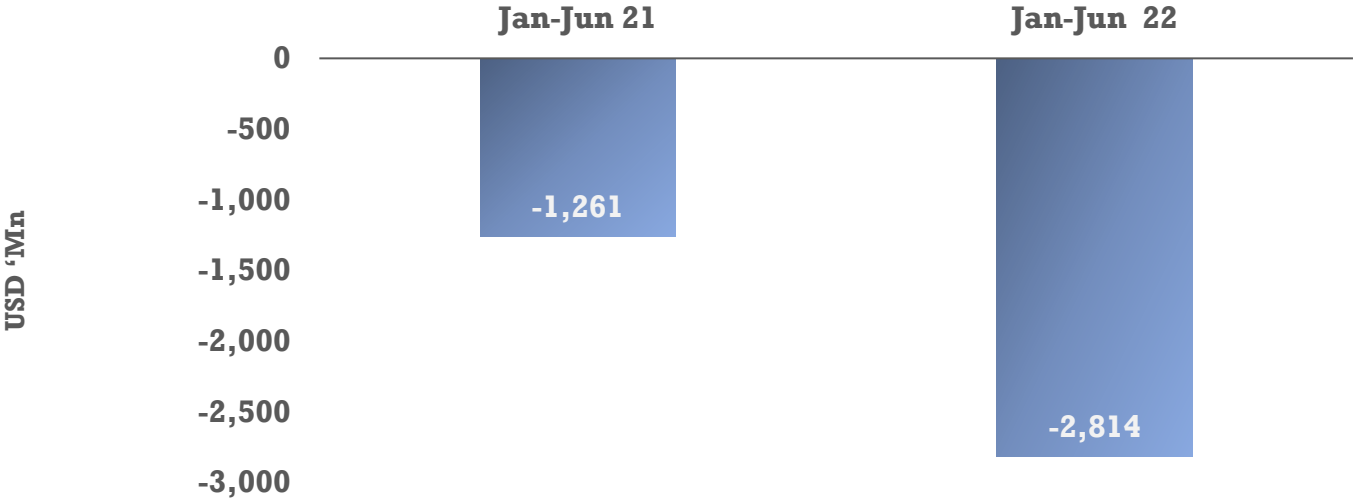
EXTERNAL SECTOR – JUN 22

Balance of Trade



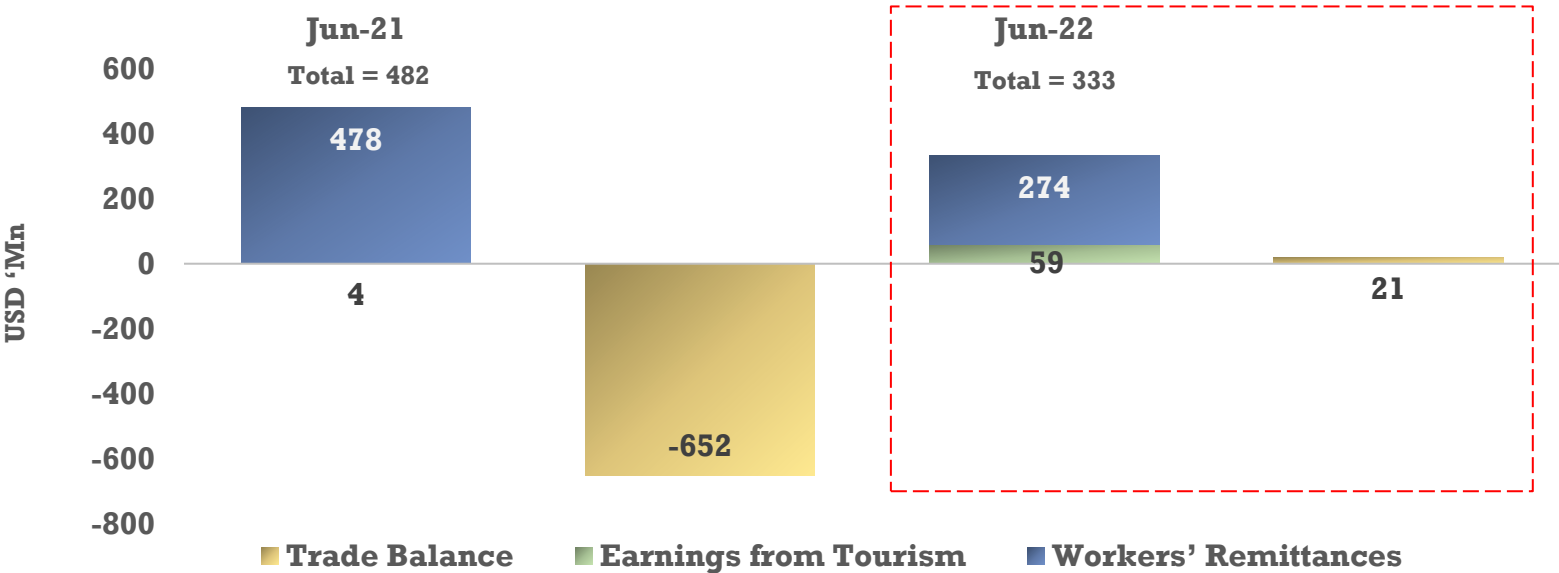
Source: CBSL

BoP for Jan-Jun 22 recorded at USD -2.8Bn compared to Jan-May 22 amount of USD -2.6Bn recording a net outflow of USD 0.2Bn for the month of Jun 22.



Source: CBSL

Workers' Remittances declined to USD 274.0Mn in Jun 22 (-42.7%YoY). Earnings from Tourism for Apr 22 improved to USD 59.0Mn from USD 4.0Mn in Jun 21.



Source: CBSL

BALANCE OF PAYMENT DEFICIT INCREASED YOY IN JUN 2022

Jun USD 'Mn	2021	2022	Change (%)
Trade Balance	-652	21	
Earnings from Tourism	4	59	>100
Workers' Remittances	478	274	-42.7

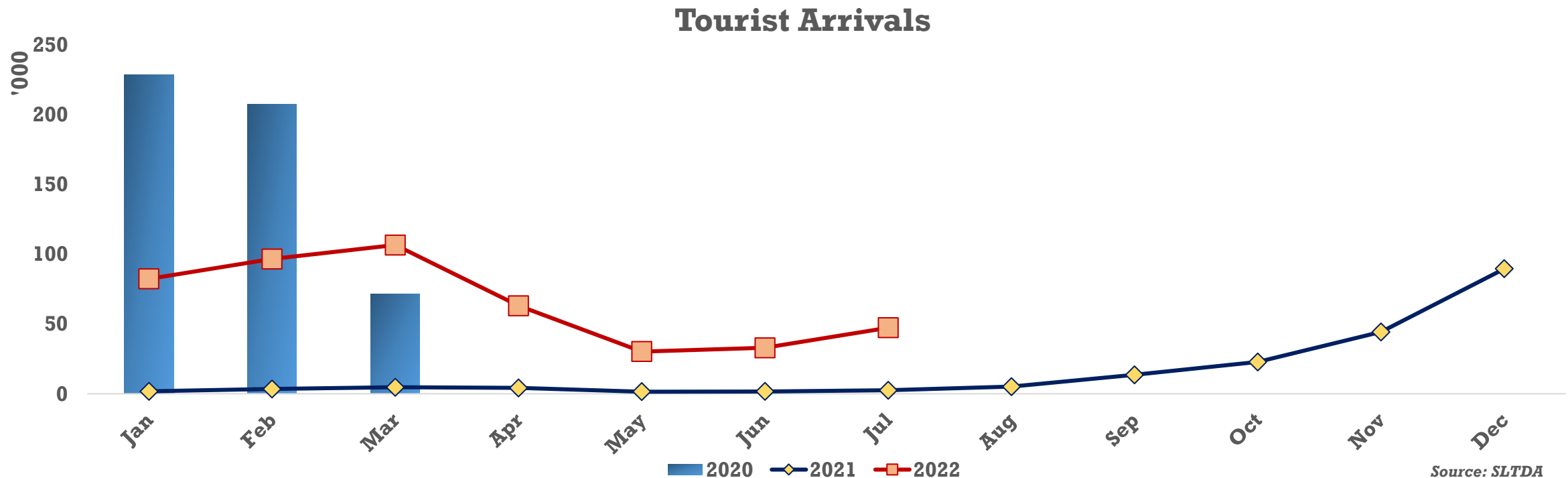
YTD USD 'Mn	2021	2022	Change (%)
Trade Balance	-1,261	-2,814	
Earnings from Tourism	44	740	>100
Workers' Remittances	3,324	1,610	-51.6

Source: CBSL

TOURIST ARRIVALS – JUL 2022

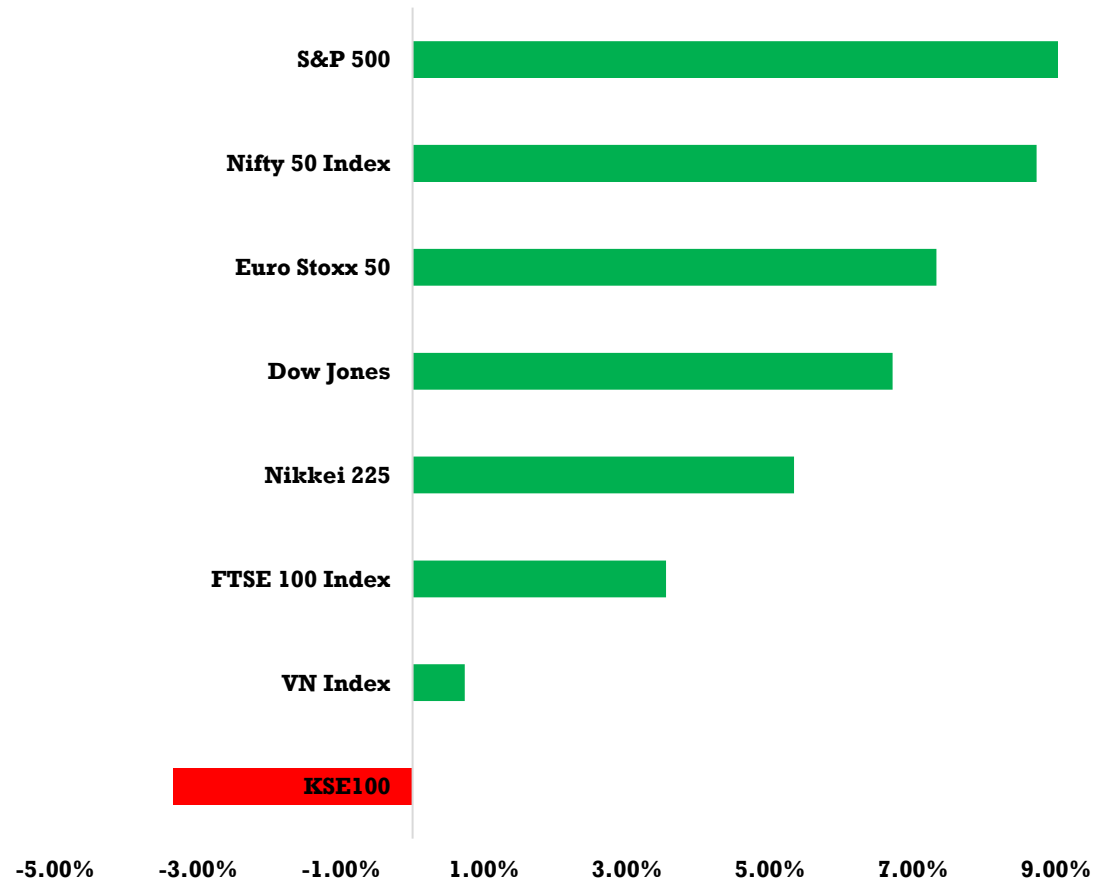
[JUL 47,293 – **UP +43.9%MoM**] [YTD 458,670 – **UP +135.8%YoY**]

The total number of tourist arrivals to Sri Lanka during Jul 2022 was recorded at 47,293 displaying a notable improvement compared to the previous month. However, it is 55.6% lower than Mar 2022 which recorded the highest number of arrivals YTD. The largest source markets reported for July 2022 were the UK, India, Germany, France and Canada.



Source: SLTDA

GLOBAL MARKET



Source: Investing.com

First Capital Research

New Monkeypox shot technique to get emergency US approval to extend supply

US health officials are issuing emergency clearance to a technique for extending the supply of monkeypox vaccine made by Bavarian Nordic A/S amid ongoing shortages.

The action will allow the US Food and Drug Administration to "exercise additional authorities that may increase availability of vaccines to prevent monkeypox while continuing to ensure the vaccine meets high standards for safety, effectiveness and manufacturing quality,"

Bloomberg



Business travel costs are expected to rise through 2023

The cost of business travel, from hotels to airfare, is set to rise through 2023 as demand returns more than two years after the Covid pandemic began, according to an industry report published Wednesday. Business travel airfare is on track to rise nearly 50% this year over 2021, following two years of steep declines, according to a report from travel management company CWT and the Global Business Travel Association. Next year, fares are set to increase more than 8%, the organizations said.

Indian companies swapping dollar for Asian currencies to buy Russian coal

Indian companies are using Asian currencies more often to pay for Russian coal imports, according to customs documents and industry sources, avoiding the US dollar and cutting the risk of breaching Western sanctions against Moscow. India has aggressively stepped up purchases of Russian oil and coal since the war in Ukraine began, helping to cushion Moscow from the effects of sanctions and allowing New Delhi to secure raw materials at discounts compared to supplies from other countries.



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