



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Sep 2022

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IMF STAFF REACHES STAFF-LEVEL AGREEMENT ON AN EXTENDED FUND FACILITY ARRANGEMENT WITH SRI LANKA

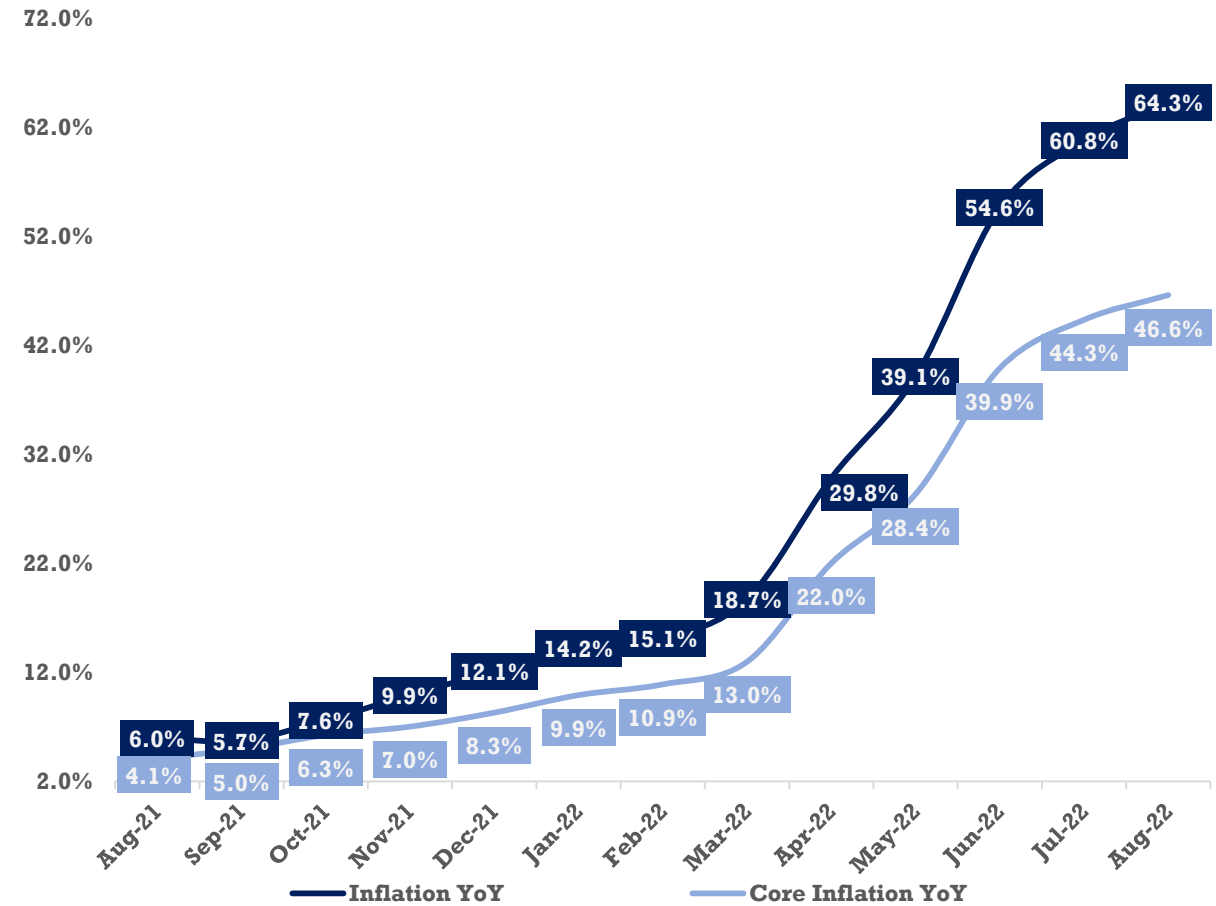
- IMF staff and the Sri Lankan authorities have reached a staff-level agreement to support Sri Lanka's economic policies with a 48-month arrangement under the Extended Fund Facility (EFF) of about USD 2.9Bn.
- The objectives of Sri Lanka's new Fund-supported program are to restore macroeconomic stability and debt sustainability, while safeguarding financial stability, protecting the vulnerable, and stepping up structural reforms to address corruption vulnerabilities and unlock Sri Lanka's growth potential.
- Debt relief from Sri Lanka's creditors and additional financing from multilateral partners will be required to help ensure debt sustainability and close financing gaps. Financing assurances to restore debt sustainability from Sri Lanka's official creditors and making a good faith effort to reach a collaborative agreement with private creditors are crucial before the IMF can provide financial support to Sri Lanka.

Source: CBSL

INFLATION – CCPI

**CCPI FOR AUG 2022:
MOM +2.5%,
YOY +64.3%**

- MoM inflation increased by 2.5% with the increase in inflation of Food group by 2.1% and the increase in inflation of Non-Food group by 2.6%.
- The YoY inflation increased to 64.3% in Aug 2022. YoY inflation of Food group has increased to 93.7% in Aug 2022 from 90.9% in Jul 2022 while Non-Food group increased to 50.2% from 46.5% in Jul 2022.



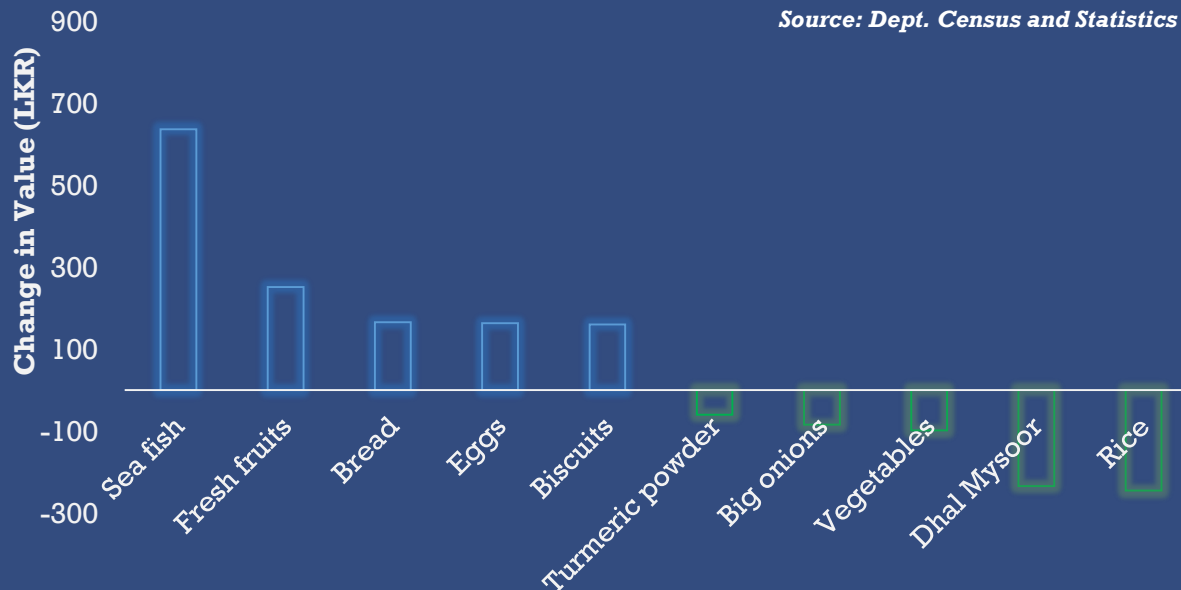
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

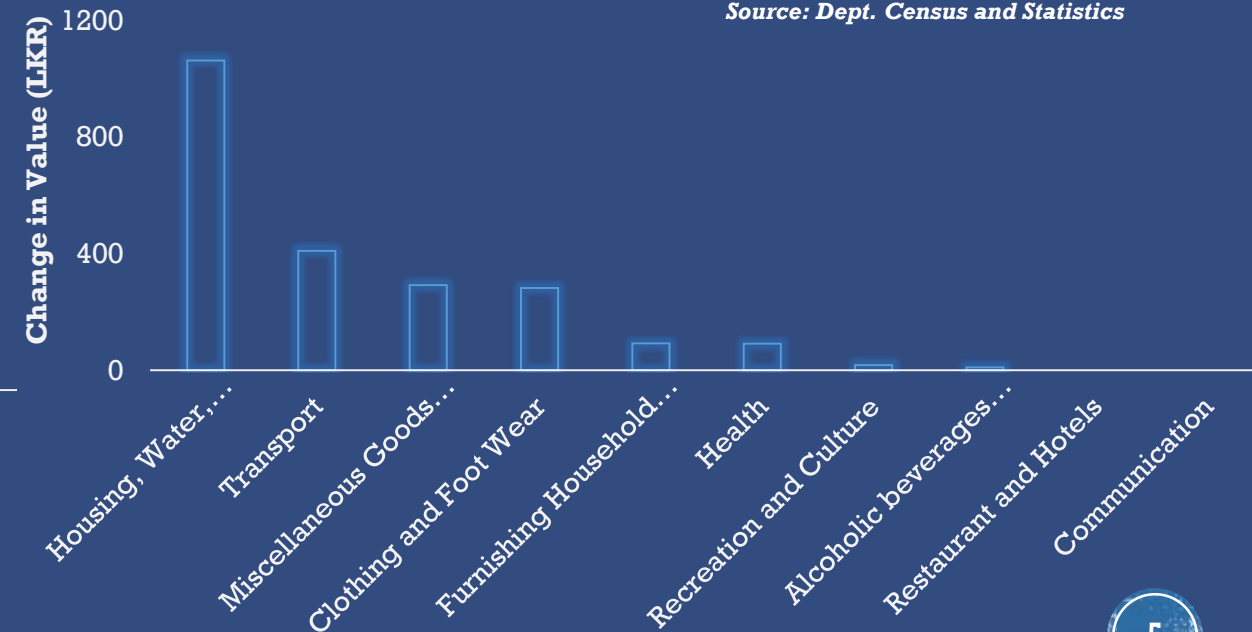
The CCPI index recorded an increase of 2.5%MoM contributed by the increase in expenditure value of Food items by 0.83% and Non-Food items by 1.62%. Within the Food items, increase in value changes were mainly reported for Sea fish, Fresh fruits, Bread, Eggs, Biscuits and etc. Among Non-Food groups, increases in value changes were mainly reported in Housing, Water, Electricity, Gas and Other Fuels, Transport, Miscellaneous Goods and Services, Clothing and Footwear and etc.



Food Category Inflation



Non-Food Category Inflation

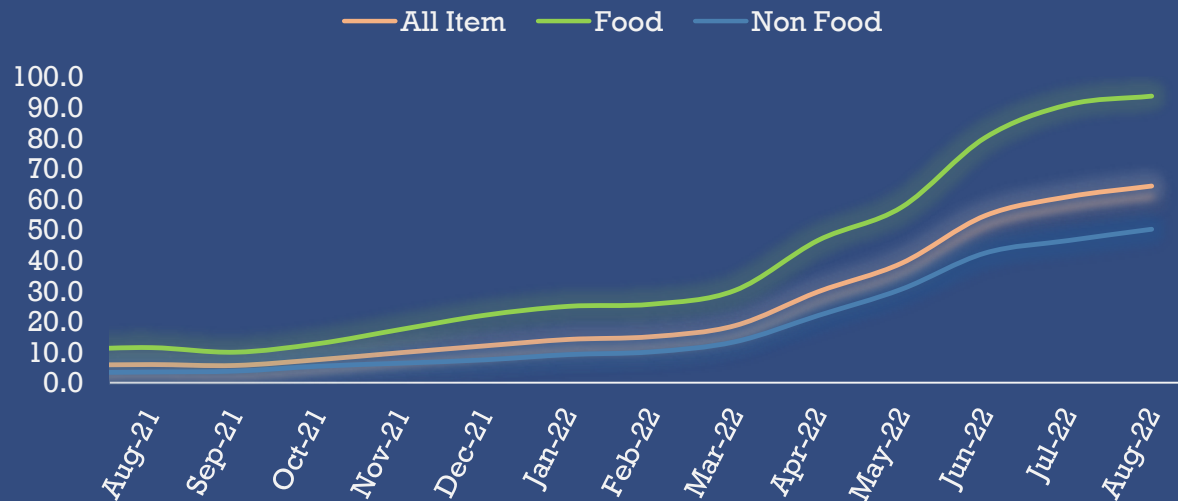


INFLATION ANALYSIS – CCPI-YOY

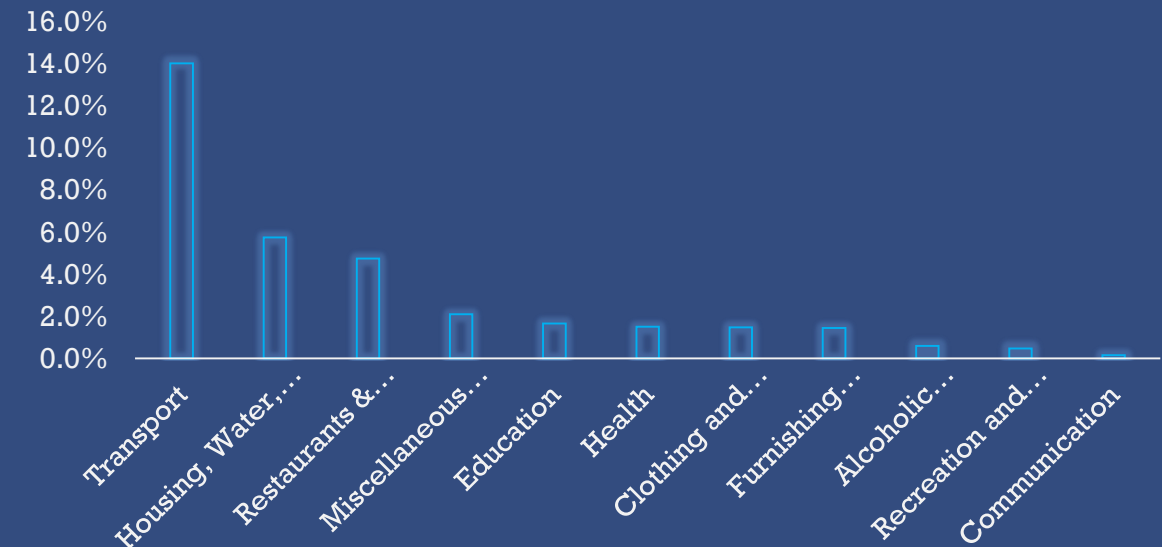
The YoY inflation of CCPI for August was 64.3% and has increased relative to the month of Jul. Food item prices have increased to 93.7%YoY in Aug 2022 from 90.9%YoY in Jul 2022 while the Non-Food item prices have increased to 50.2%YoY from 46.5%YoY in Jul 2022. The contribution from food category for YoY inflation was 30.49% while the contribution of Non-Food items stood at 33.86% mainly due to the increase in Transport, Housing, Water, Electricity, Gas & Other Fuels, Restaurants & Hotels, Miscellaneous Goods and Services and etc.



Inflation Analysis (YoY)



Non-Food Category Inflation



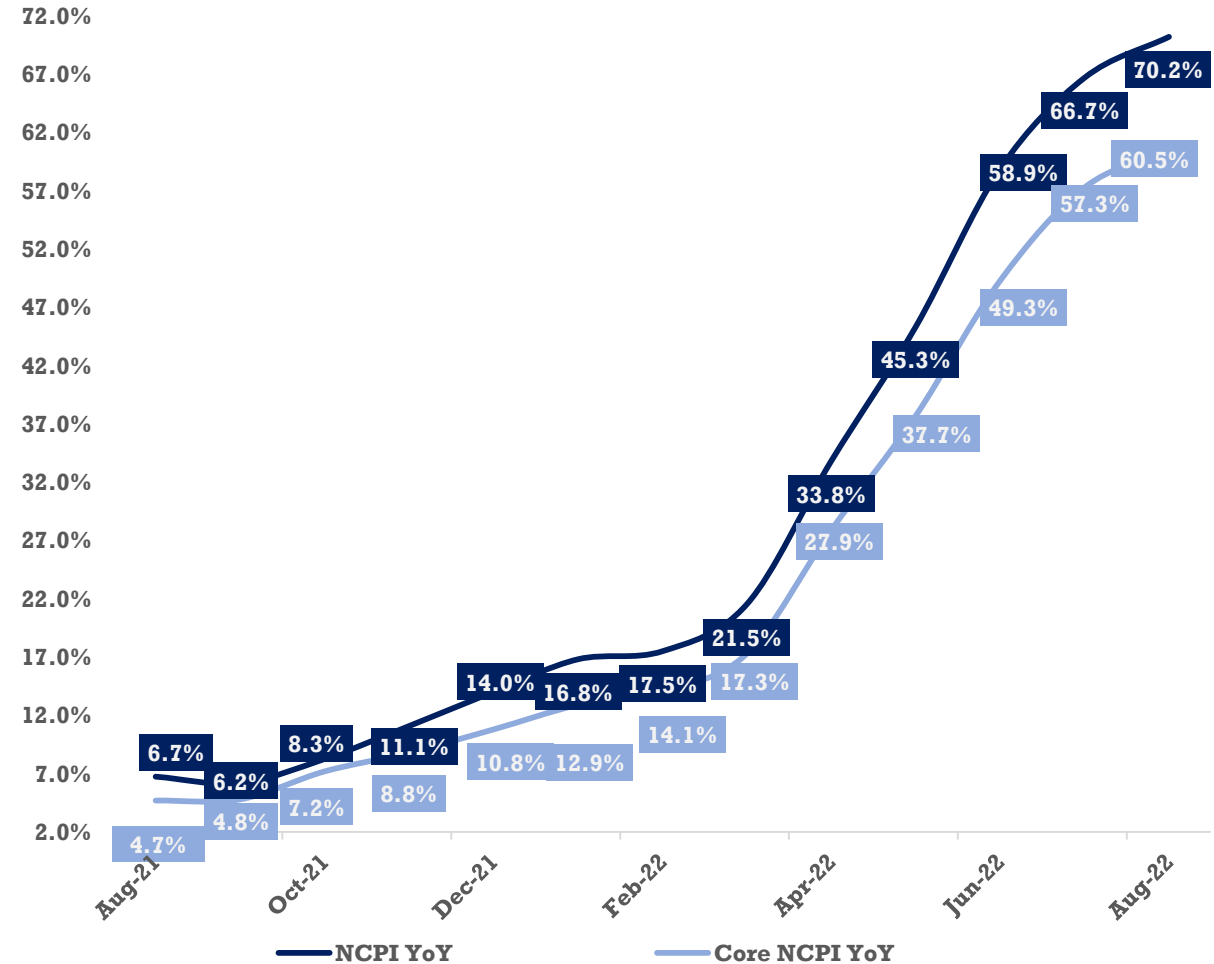
Source: Dept. Census and Statistics

Source: Dept. Census and Statistics

INFLATION – NCPI

NCPI FOR AUG 2022: INCREASED TO 70.2%YOY

- NCPI for Aug 2022 increased to 70.2% compared to 66.7% in Jul 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 84.6% in Aug 2022 from 82.5% in Jul 2022 while Non-Food inflation increased to 57.1% in Aug 2022 from 52.4% in Jul 2022.



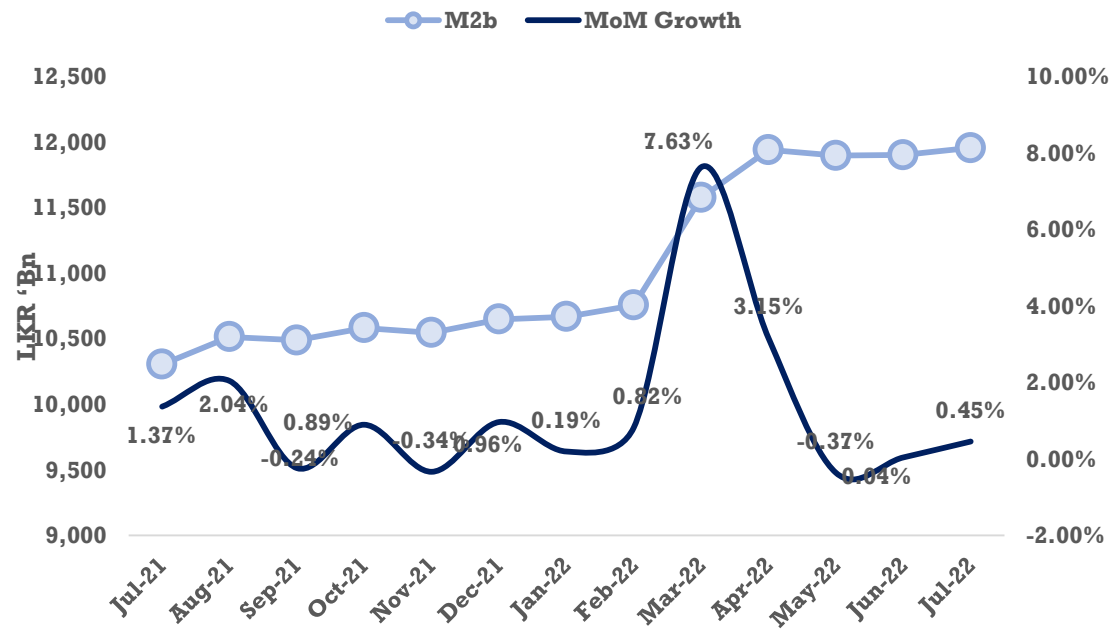
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit deteriorated by LKR 41.1Bn in Jul 2022 amidst the continuous spike in lending rates. State credit reflected a net borrowing of LKR 154.4Bn.

M2b Growth – Jul 2022

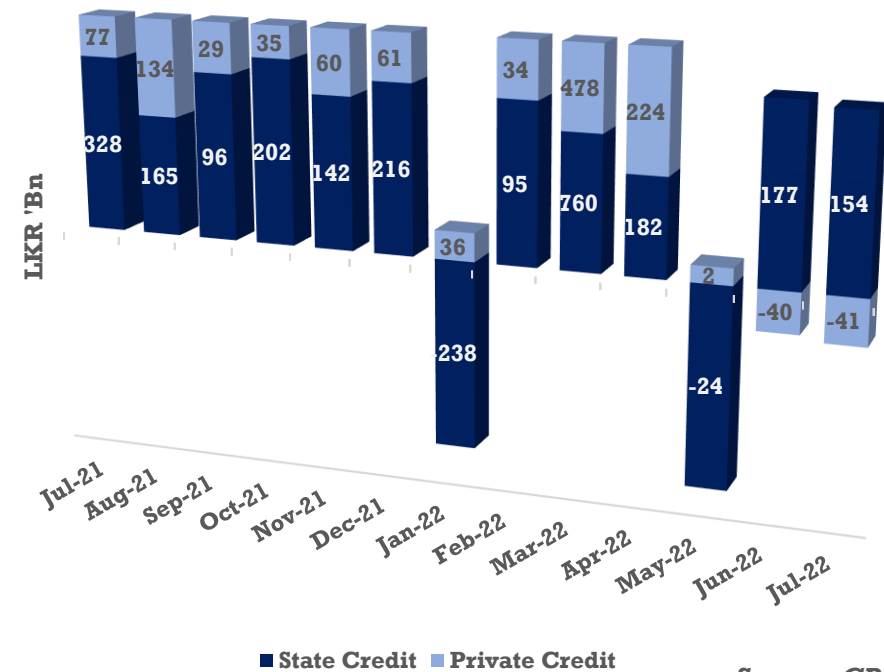
MoM +0.45%, YoY +16.0%, YTD +12.3%



Source: CBSL

State Credit & Private Credit – Jul 2022

Private Credit MoM -0.5%, YoY +15.2%, YTD +9.9%

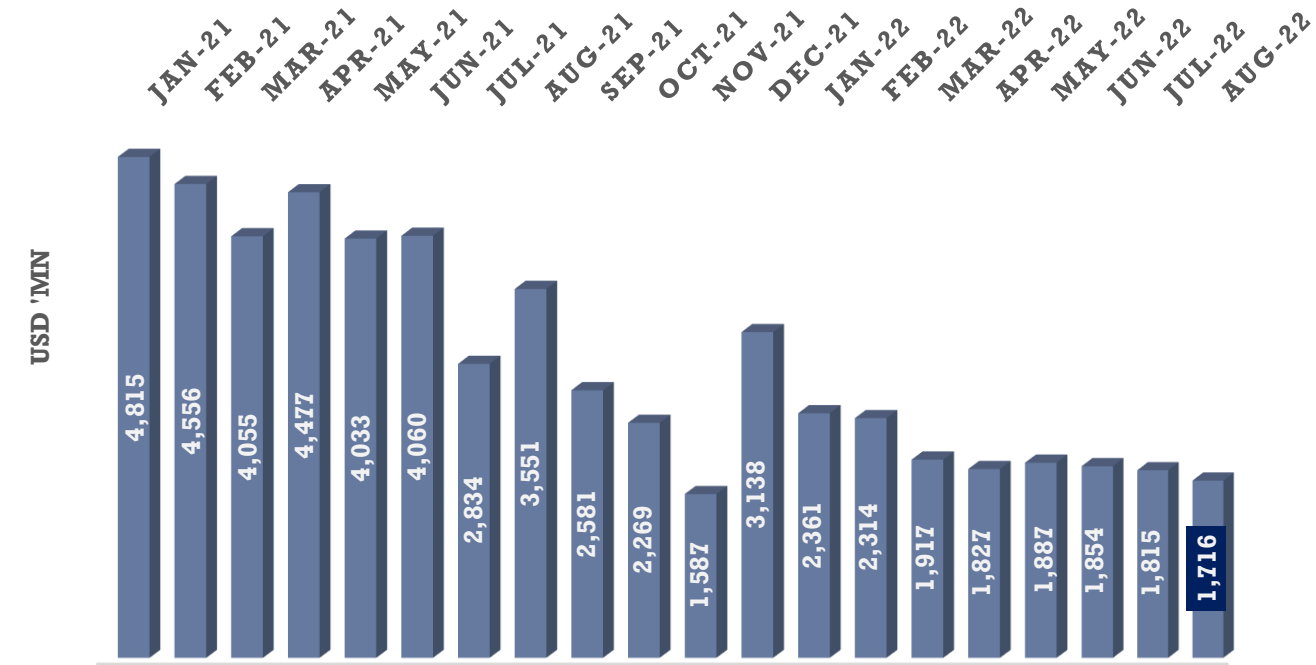


Source: CBSL

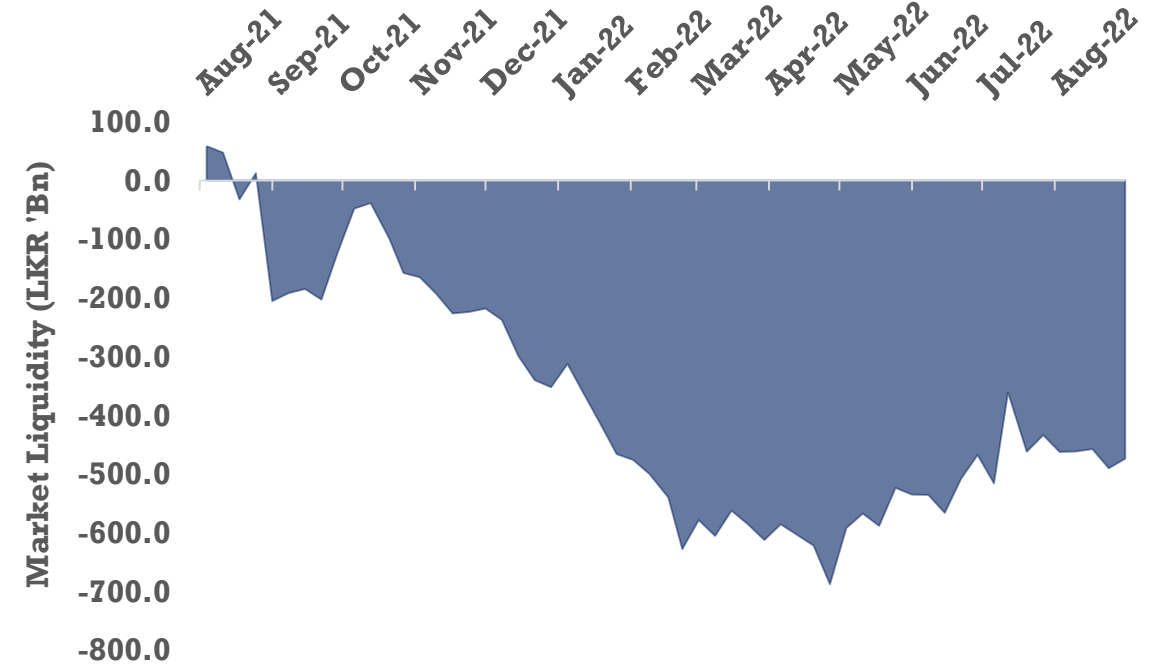
LIQUIDITY & RESERVES

- Foreign Reserves declined by USD 99.0Mn to USD 1.7Bn in Aug 2022 amidst inadequate foreign inflows.

- Market liquidity remained negative and continued to deteriorate amidst some volatility during Aug 2022.



Source: CBSL



Source: CBSL

CURRENCY MOVEMENT

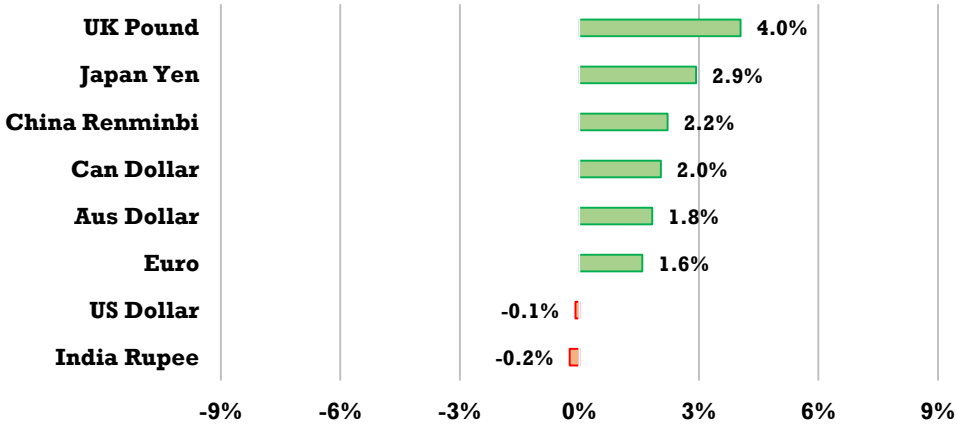
USD:LKR Movement



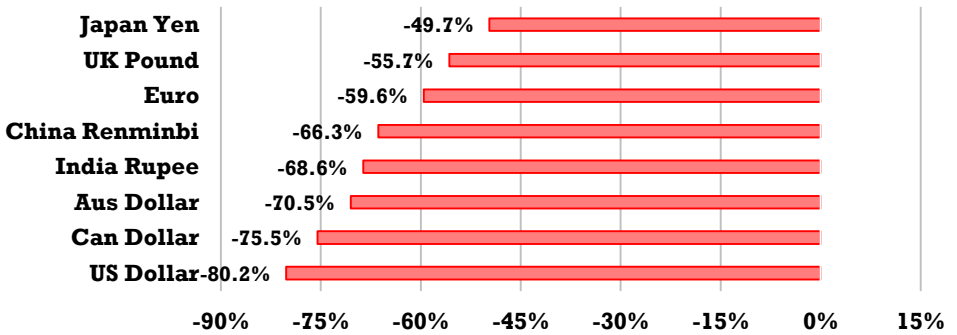
Source: CBSL

Sri Lankan Rupee vs Global Currencies

Aug 2022



YTD 2022



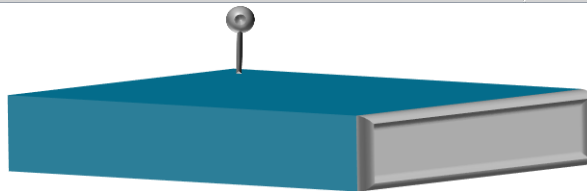
Source: CBSL

Sep 2022

GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Aug 2022

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
5-Aug-22	87,500	50,000	137,500
12-Aug-22	65,899		65,899
19-Aug-22	60,000	16,955	76,955
26-Aug-22	56,713		56,713
Total Issued			337,067

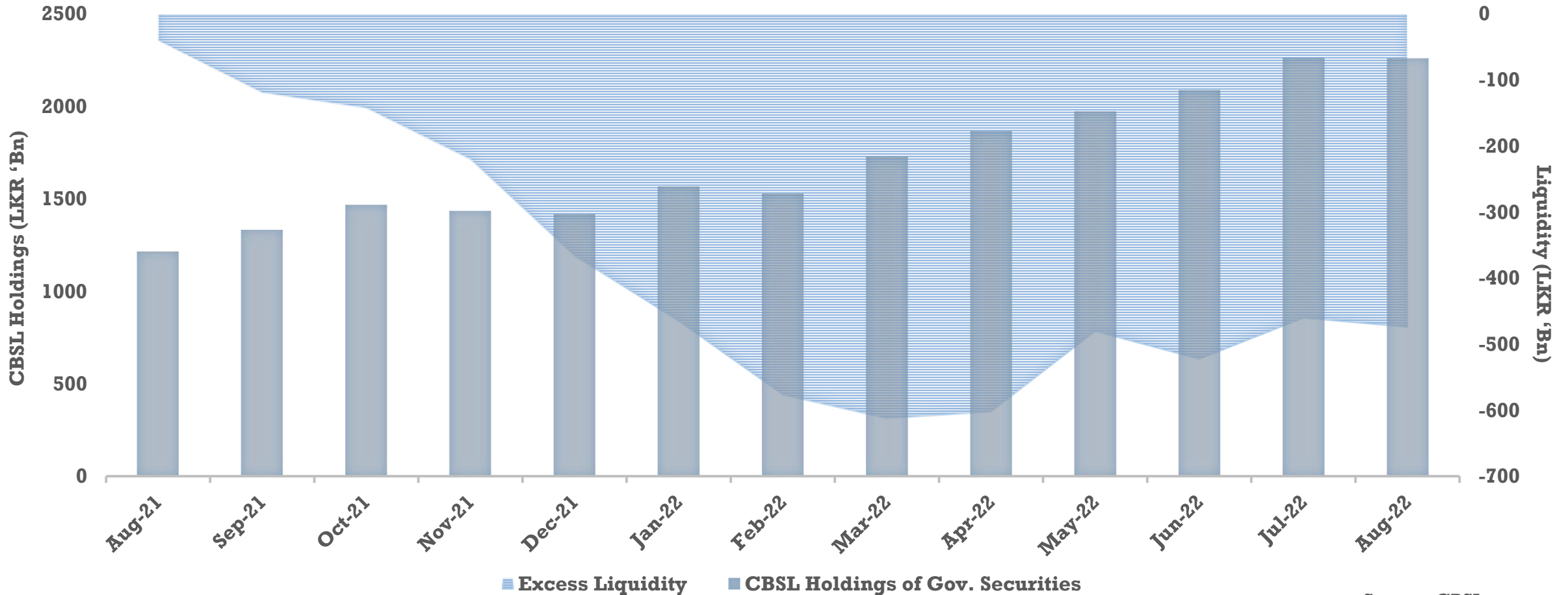


Net Settlement	Aug 2022	YTD
Maturities	596,243	4,226,846
New Issues	337,067	3,198,958
Excess/ (Deficit)	(259,176)	(1,027,888)

CBSL Holdings of Gov. Securities		YTD
As at End Aug 2022	2,258,114	
As at End Jul 2022	2,261,362	
Increase/ (Decrease)	-3,248	841,362

CBSL HOLDINGS OF GOV. SECURITIES...

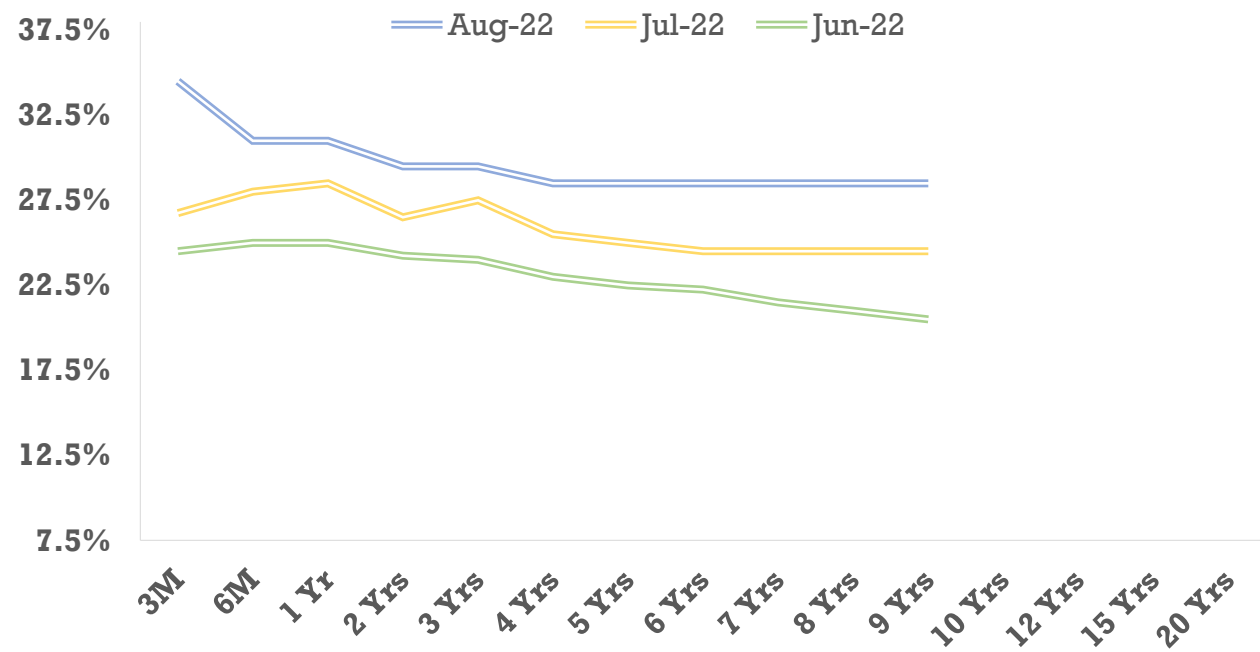
...decreased by LKR 3.2Bn in Aug 2022



Source: CBSL

TREASURY BILLS AND BONDS – AUG 2022

During the month of Aug, the secondary market yield curve shifted upwards by over 700bps with the 03M bill crossing the benchmark of 30.00% during the latter part of the month. Moreover, ambiguity rose as a result of local debt restructuring fears, causing the secondary market activities to take a sluggish note throughout the month as investors mostly remained sidelined. During the last T-Bill auction, yields across the board surged above the 30.00% benchmark registering a 25-year high.

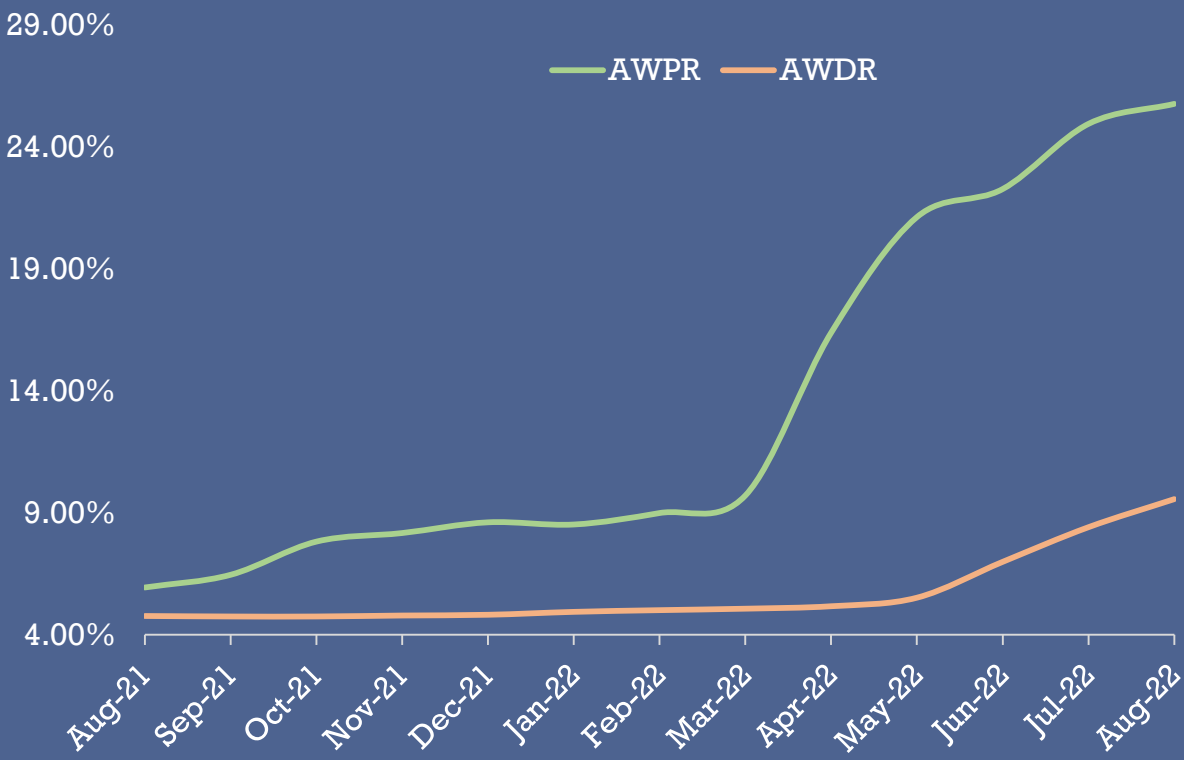


Source: First Capital Research

Tenure	Interest Rate Change (bps)				
	Aug-22	Jul-22	Change (bps)	Jun-22	Change (bps)
3M	34.50%	26.75%	775	24.50%	1000
6M	31.00%	28.00%	300	25.00%	600
1 Yr	31.00%	28.50%	250	25.00%	600
2 Yrs	29.50%	26.50%	300	24.25%	525
3 Yrs	29.50%	27.50%	200	24.00%	550
4 Yrs	28.50%	25.50%	300	23.00%	550
5 Yrs	28.50%	25.00%	350	22.50%	600
6 Yrs	28.50%	24.50%	400	22.25%	625
7 Yrs	28.50%	24.50%	400	21.50%	700
8 Yrs	28.50%	24.50%	400	21.00%	750
9 Yrs	28.50%	24.50%	400	20.50%	800
10 Yrs	N/A	N/A	N/A	N/A	N/A
12 Yrs	N/A	N/A	N/A	N/A	N/A
15 Yrs	N/A	N/A	N/A	N/A	N/A
20 Yrs	N/A	N/A	N/A	N/A	N/A

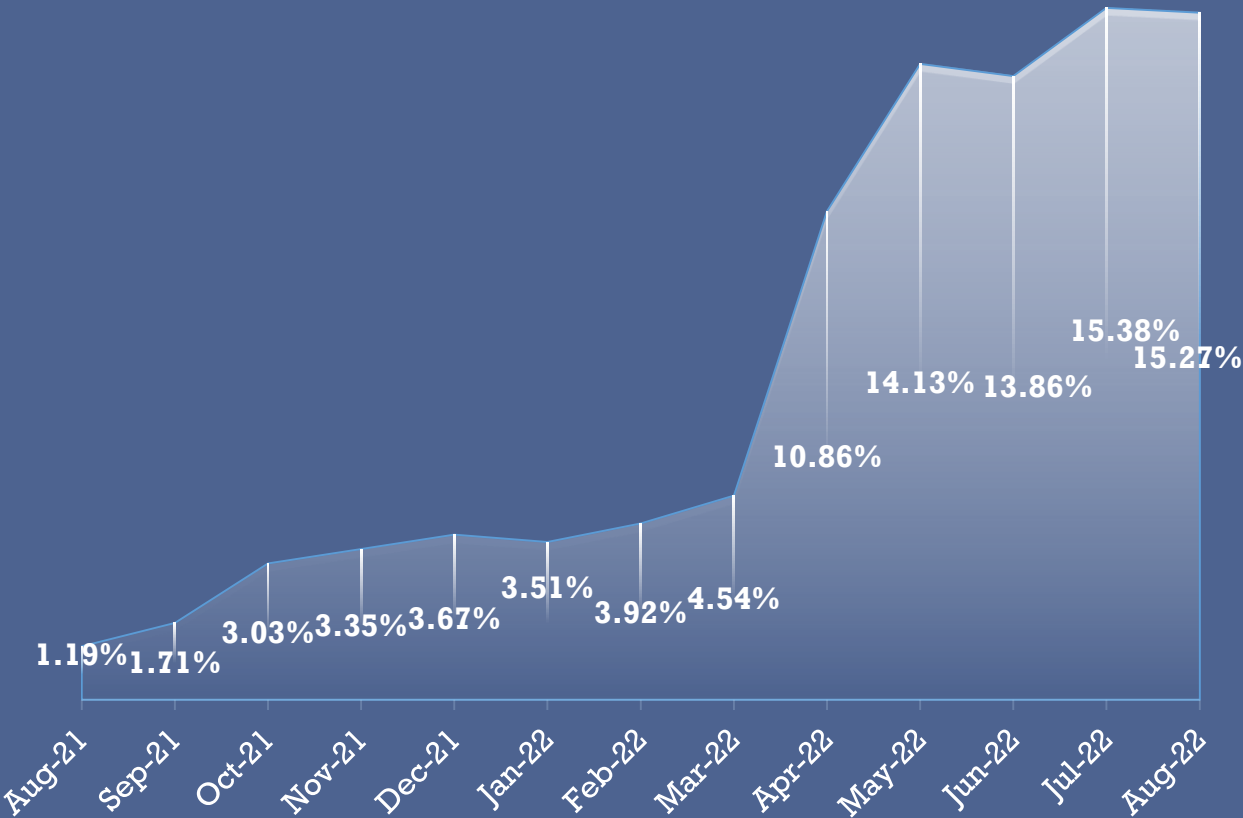
Source: First Capital Research
Sep 2022

AWPR vs AWDR



Source: CBSL

Interest Spread



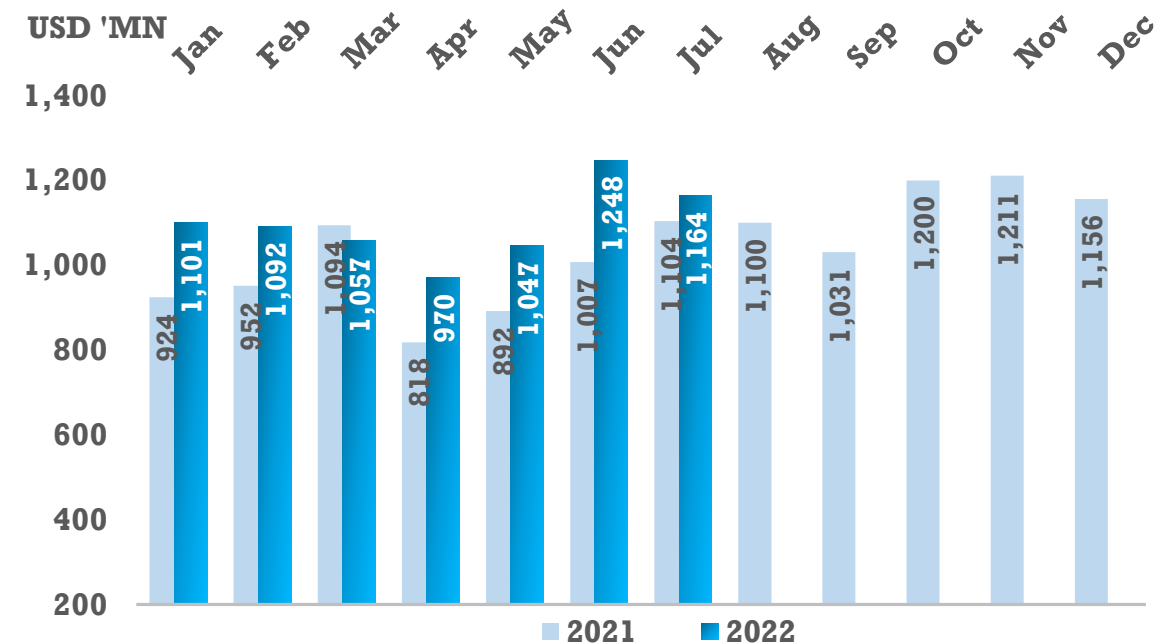
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – JUL 22 – EXPORTS

Exports for Jul increased by 5.4%YoY to USD 1,163.6Mn owing to the increase in earnings from industrial exports while agricultural and mineral exports recorded a decline. Earnings from the export of industrial goods were mainly led by higher export earnings from garments as exports to all major markets improved while gems, diamonds and jewelry exports too increased. Earnings from other industrial export categories such as, machinery and mechanical appliances, chemical products (mainly activated carbon), transport equipment also recorded an improvement. However, export earnings from petroleum products recorded a decline as quantities of bunker and aviation fuel supplied reduced. Overall export earnings on agricultural goods declined mainly with a substantial share of the decline stemming from seafood and spices, while export earnings from tea increased only slightly. Mineral exports lowered due to the decline in earnings from titanium ores.

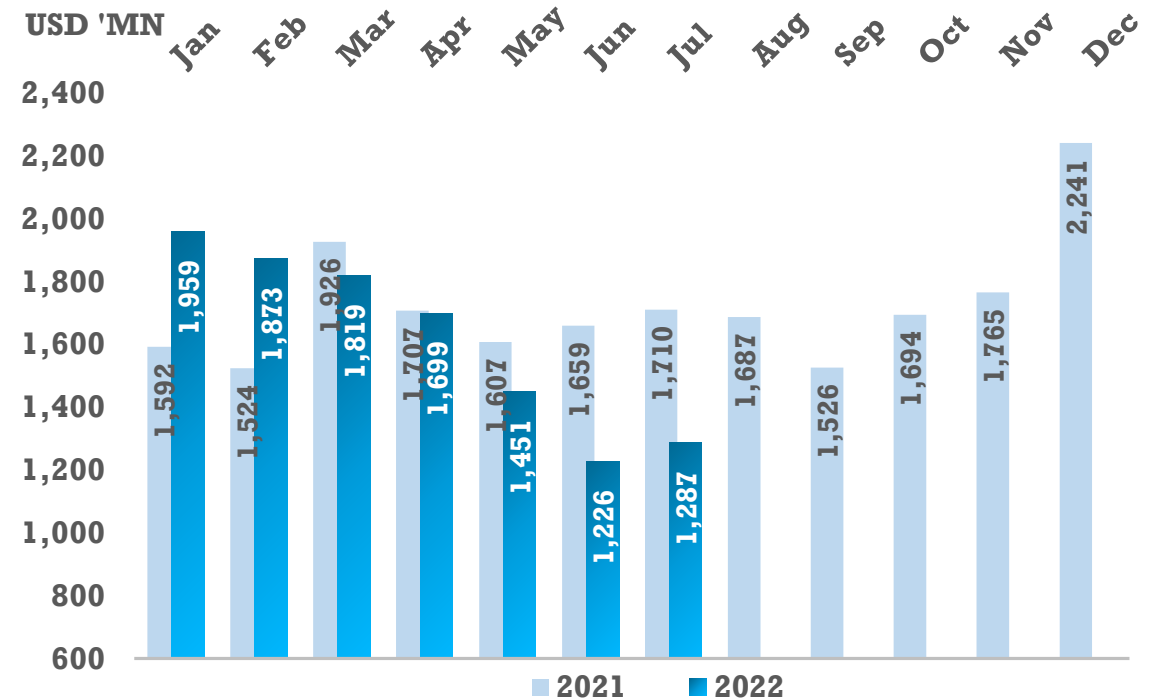
Category	2021 (USD 'Mn)	2022 (USD 'Mn)	Change (%)
Industrial Exports			
- Jul	829.1	932.2	12.4
- YTD	5,236.9	6,192.5	18.2
Agricultural			
- Jul	267.1	228.3	-14.5
- YTD	1,526.0	1,454.3	-4.7
Mineral Exports			
- Jul	2.7	1.6	-42.8
- YTD	27.6	18.6	-32.4
Total			
- Jul	1,103.9	1,163.6	5.4
- YTD	6,803.0	7,677.8	12.9



EXTERNAL SECTOR – JUL 22 – IMPORTS

Import expenditure declined by 24.8%YoY to USD 1.3Bn in Jul 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 non-food consumer goods such as medical & pharmaceuticals, telecommunication devices (Mainly mobile phones), and home appliances (mainly televisions). Meanwhile, expenditure on importation on food and beverages also declined with the reduction in imports of oils and fats, seafood and vegetables. Expenditure on importation of intermediate goods declined owing to the reduction in expenditure on base metals (mainly, iron and steel), textile and textile articles, wheat and maize, etc. However, import expenditure on fuel increased as volumes and average import prices of refined petroleum products increased. Import expenditure on investment goods substantially declined on the back of reduced imports in machinery and equipment, transmission apparatus, etc.

Category	2021 (USD 'Mn)	2022 (USD 'Mn)	Change (%)
Consumer goods			
- Jul	342.7	184.3	-46.2
- YTD	2,255.0	1,714.4	-24.0
Intermediate			
- Jul	982.3	889.0	-9.5
- YTD	6,932.4	7,547.5	8.9
Investment goods			
- Jul	383.2	213.5	-44.3
- YTD	2,530.6	2,050.9	-19.0
Total			
- Jul	1,710.1	1,286.8	-24.8
- YTD	11,724.8	11,315.0	-3.5

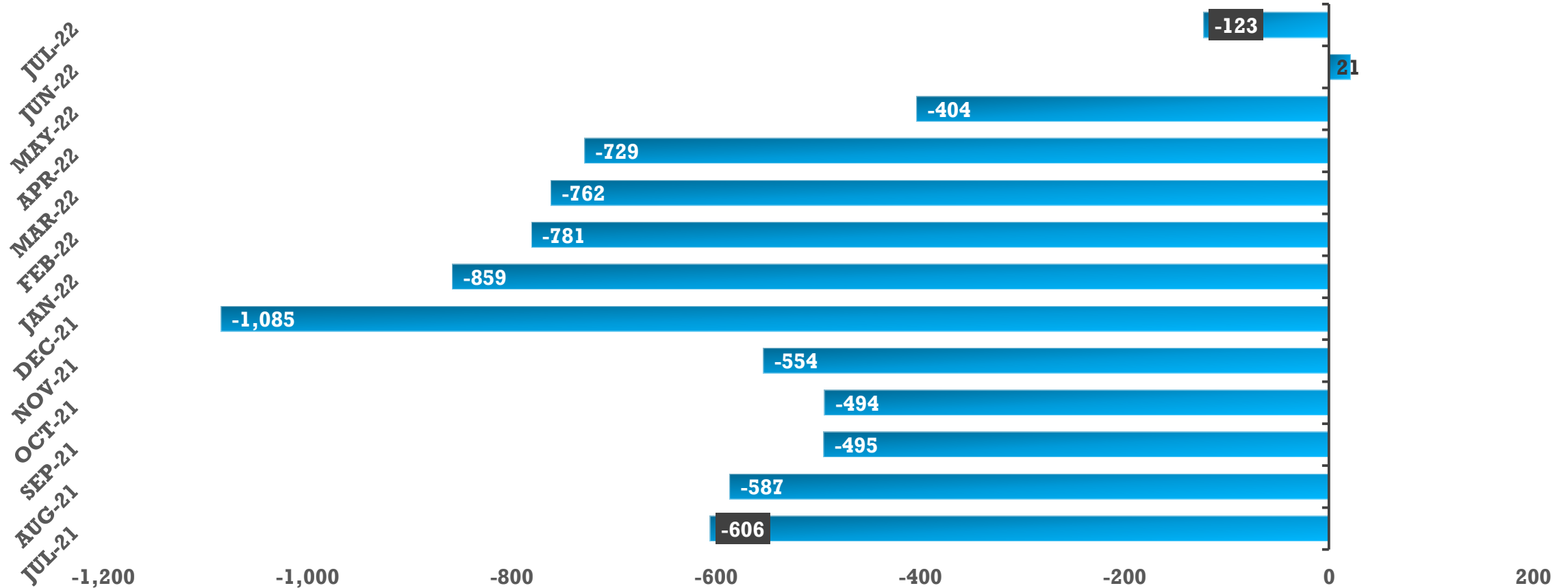


Source: CBSL

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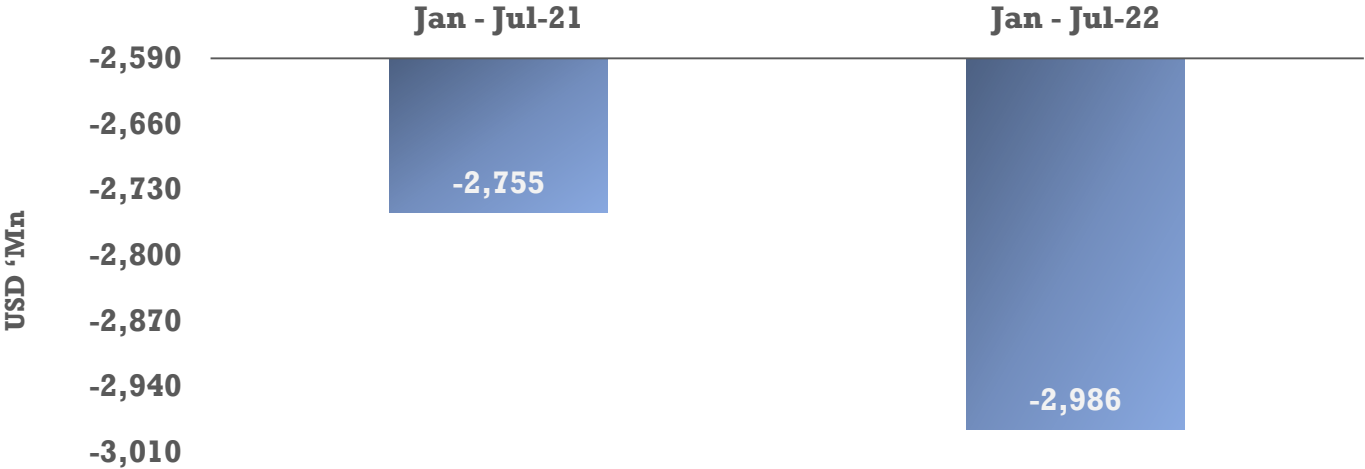
EXTERNAL SECTOR – JUL 22

Balance of Trade



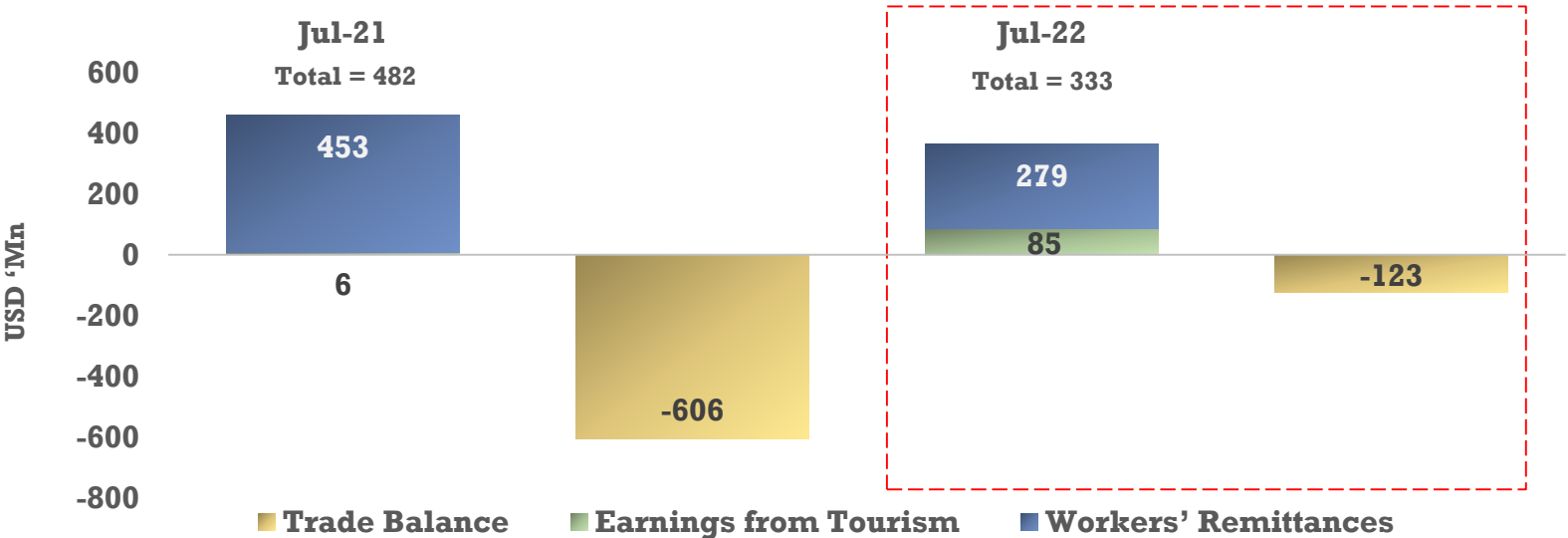
Source: Central Bank

BoP for Jan – Jul-22 recorded at USD -3.0Bn compared to Jan – Jun-22 amount of USD -2.8Bn recording a net outflow of USD 0.2Bn for the month of Jul-22.



Source: CBSL

Workers' Remittances declined to USD 279.0Mn in Jul-22 (-38.3%YoY). Earnings from Tourism for Jul-22 improved to USD 85.0Mn from USD 6.0Mn in Jul-21.



Source: CBSL

BALANCE OF PAYMENT DEFICIT INCREASED YOY IN JUL 2022

Jul USD 'Mn	2021	2022	Change (%)
Trade Balance	-606	-123	
Earnings from Tourism	6	85	>100
Workers' Remittances	453	279	-38.3

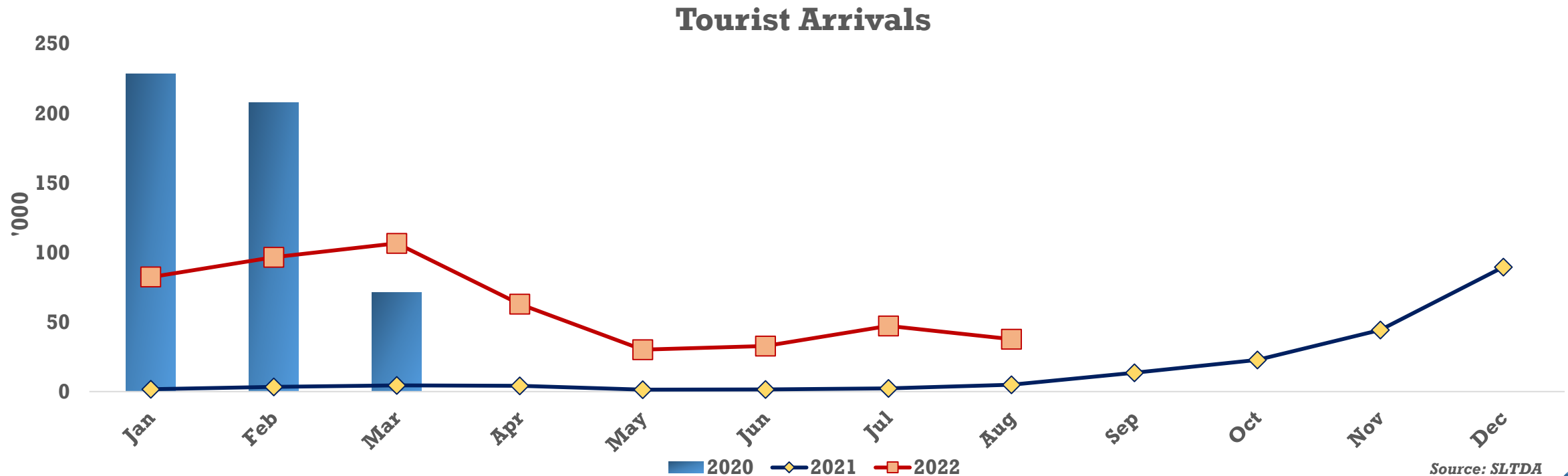
YTD USD 'Mn	2021	2022	Change (%)
Trade Balance	-4,922	-3,637	
Earnings from Tourism	50	825	>100
Workers' Remittances	3,778	1,889	-50.0

Source: CBSL

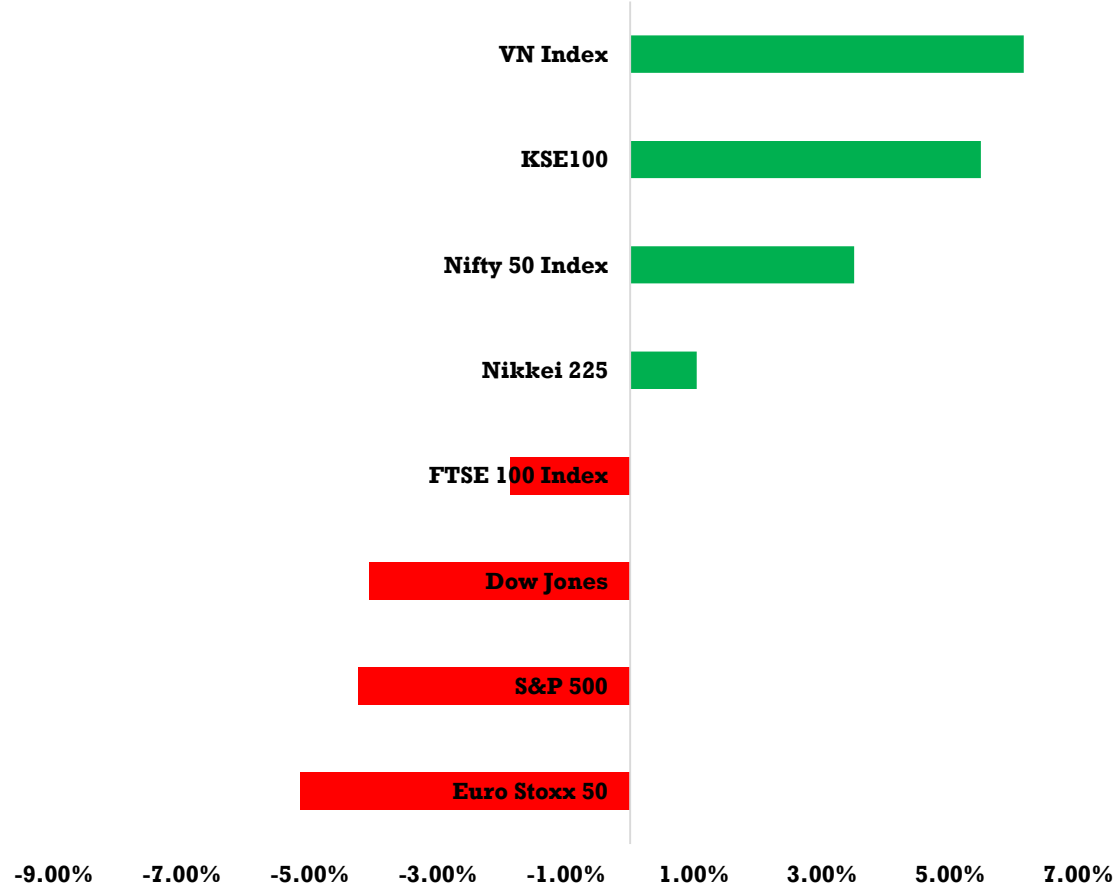
TOURIST ARRIVALS – AUG 2022

[AUG 37,760 – UP +649.2%YoY] [YTD 496,430 – UP +1,936.5%YoY]

The total number of tourist arrivals to Sri Lanka during Aug 2022 was recorded at 37,760 displaying a reduction compared to the previous month. Moreover, it is 65.5% lower than Mar 2022 which recorded the highest number of arrivals YTD possibly owing to the effects of the current economic and political situation in Sri Lanka, and the gradual cessation of the peak travel season. The largest source markets reported for Aug 2022 were the UK, India, Germany, France and Canada.



GLOBAL MARKET



Source: Investing.com

First Capital Research

China losing appeal as European firms rethink future investments

China's focus of political goals like Covid Zero over economic objectives is making the country less appealing to European companies as a place to invest, a business group said, calling on Beijing to refocus on reform. Recent Chinese policy decisions mean the country is now seen as "less predictable, less reliable and less efficient" according to the report published by the European Union Chamber of Commerce in China.

Bloomberg



Australia's Central Bank has equity wiped out by billions in bond losses

Australia's central bank said its equity had been wiped out by losses suffered on pandemic-era bond buying, but its ability to create money meant it was not insolvent and would continue as normal. Reserve Bank of Australia (RBA) Deputy Governor Michele Bullock said the bank had taken a mark-to-market valuation loss on its bond holdings of AUD 44.9Bn (USD 30.02Bn) in 2021/22.

U.S. senators want secondary sanctions on Russian oil

Democratic and Republican senators proposed that U.S. President Joe Biden's administration use secondary sanctions on international banks to strengthen a price cap G7 countries plan to impose on Russian oil over Moscow's invasion of Ukraine. Democratic Senator Chris Van Hollen and Republican Senator Pat Toomey announced a framework for legislation to impose the secondary sanctions, which would target financial institutions involved in trade finance, insurance, reinsurance and brokerage of Russia oil and petroleum products sold at prices exceeding the cap.



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MANAGING RISKS"*

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