



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

JUN 2023

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CBSL COMMENCES MONETARY EASING BY IMPLEMENTING RATE CUTS

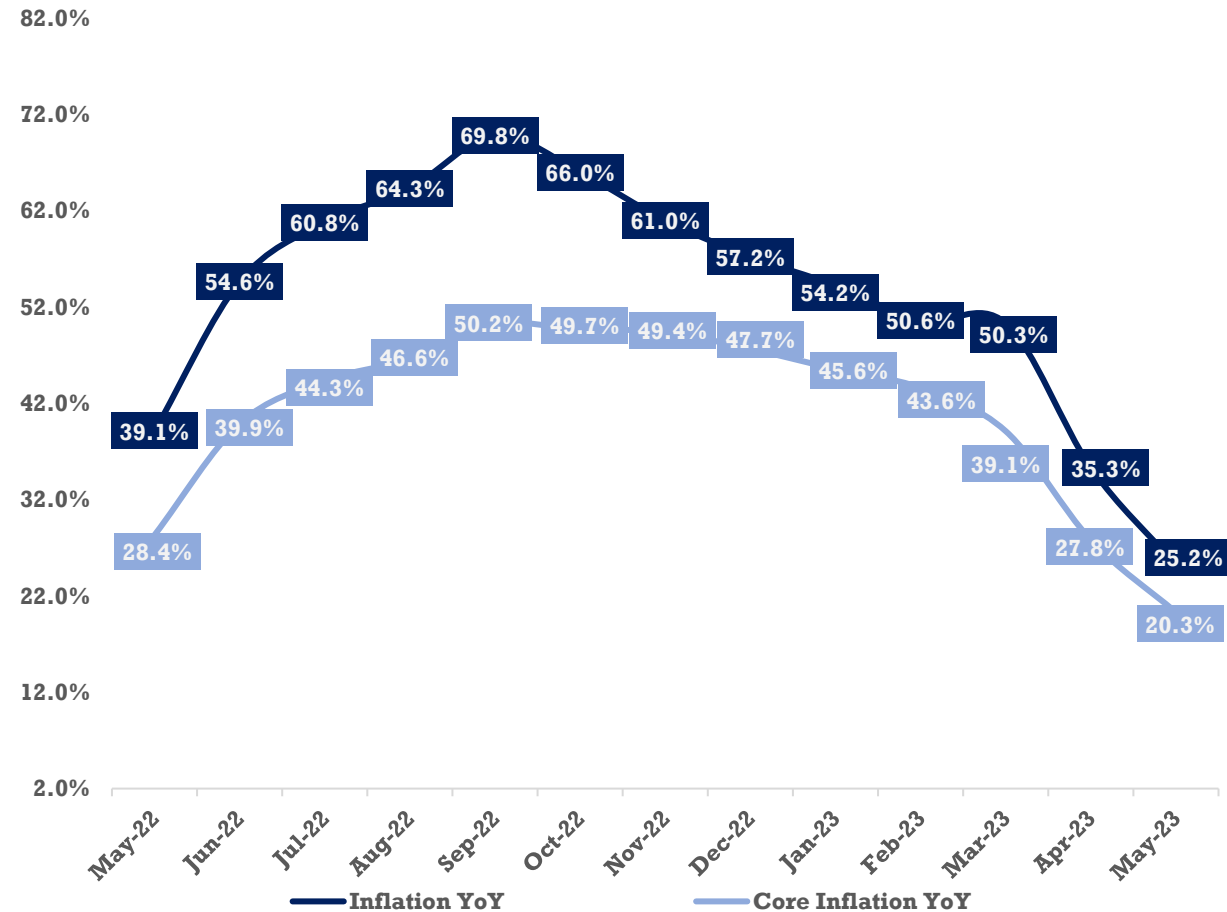
- Sri Lanka's Central Bank has decided to aggressively reduce the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR), for the first time in 3 years, by 250bps to 13.00% and 14.00%, respectively.
- The monetary board of the central bank has come upon this decision mainly due to the faster than expected slowing of inflation, gradual dissipation of inflationary pressures and further anchoring of inflation expectations. The commencing of such monetary easing is expected to provide an incentive for the economy to rebound from the worst economic collapse that took place back in 2022.
- CCPI has been on a strong, faster than projected decelerating path mainly supported by the lagged impact of tightened monetary and fiscal policies, normalization of food prices, reduction in fuel and gas prices, strengthening of the LKR and the favourable impact of the statistical base year. Moreover, the effect of the exchange rates are yet to be displayed in the prices where it will quicken the disinflation process. Taking the above into consideration, the CBSL predicts the headline inflation to hit a single digit in 3Q2023 and stabilize during the medium term.
- The downward adjustments of the market interest rates will accelerate with the expected single digit inflation, thereby supporting credit to the private sector and will soften the pressure in the financial sector. Moreover, steering the economy towards the rebound phase, faster deceleration of inflation and lower probability of excessive demand pressure will create gradual policy relaxation in the period ahead.

Source: CBSL

INFLATION – CCPI

CCPI FOR MAY 2023:
MOM 0.0%
YOY +25.2%

- MoM inflation stood muted at 0.0% with the increase in inflation of Food group by 1.7% while Non-Food group decreased by 0.8%.
- The YoY inflation drastically decreased for the 8th consecutive month to 25.2% in May 2023. YoY inflation of Food group has decreased to 21.5% in May 2023 from 30.6% in Apr 2023 while Non-Food group decreased to 27.0% from 37.6% in April 2023.



Source: Dept. Census and Statistics

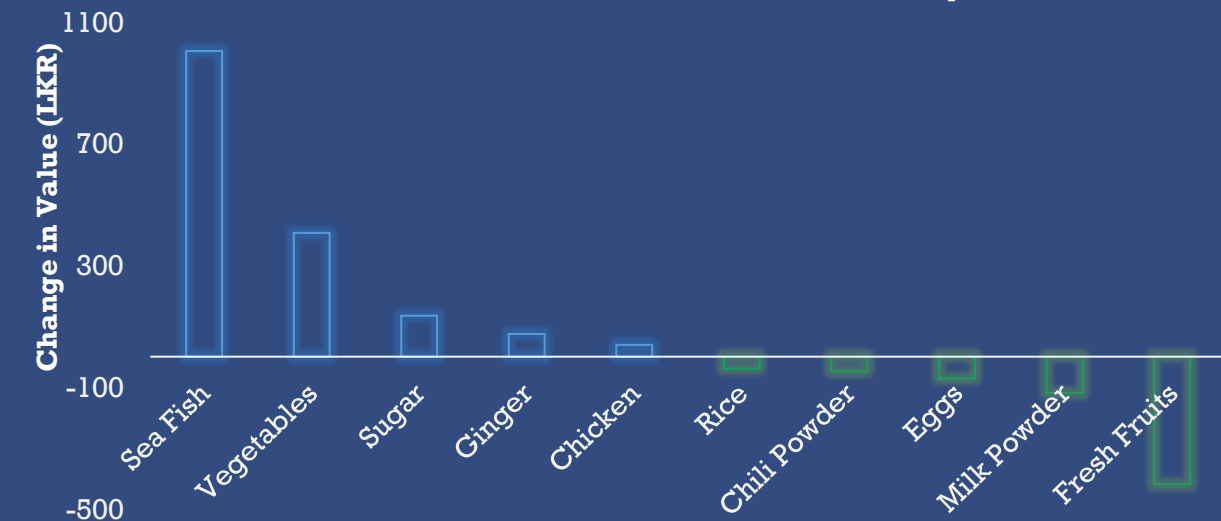
INFLATION ANALYSIS – CCPI-MOM

The CCPI index recorded a stand still inflation of 0.0%MoM contributed by the decrease in expenditure of Non-Food items by 0.56% and increase in expenditure of Food items by 0.53%. Within the Food items, increase in value changes were mainly reported for Sea Fish, Vegetables, Sugar, Ginger, Chicken. Among Non-Food groups, decreases in value changes were mainly reported in Housing, Water, Electric, Gas and Other Fuels, Restaurants and Hotels, Furnishing Household Equipment and routine Household Maintenance and Clothing and Footwear.



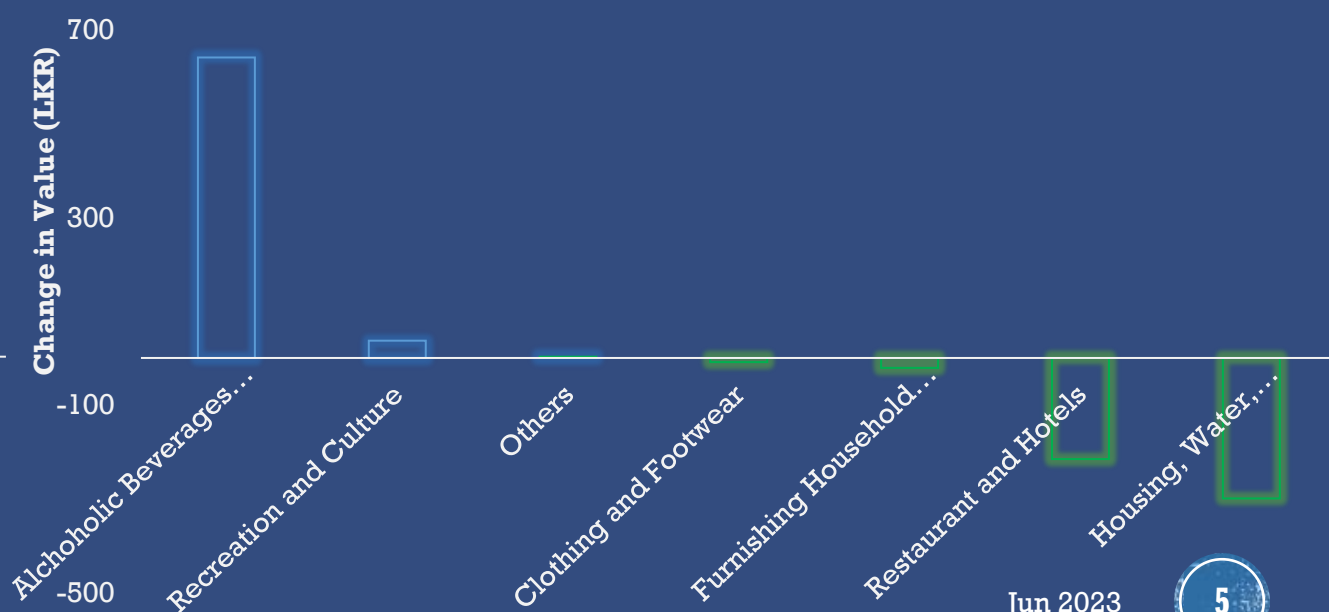
Food Category Inflation

Source: Dept. Census and Statistics



Non-Food Category Inflation

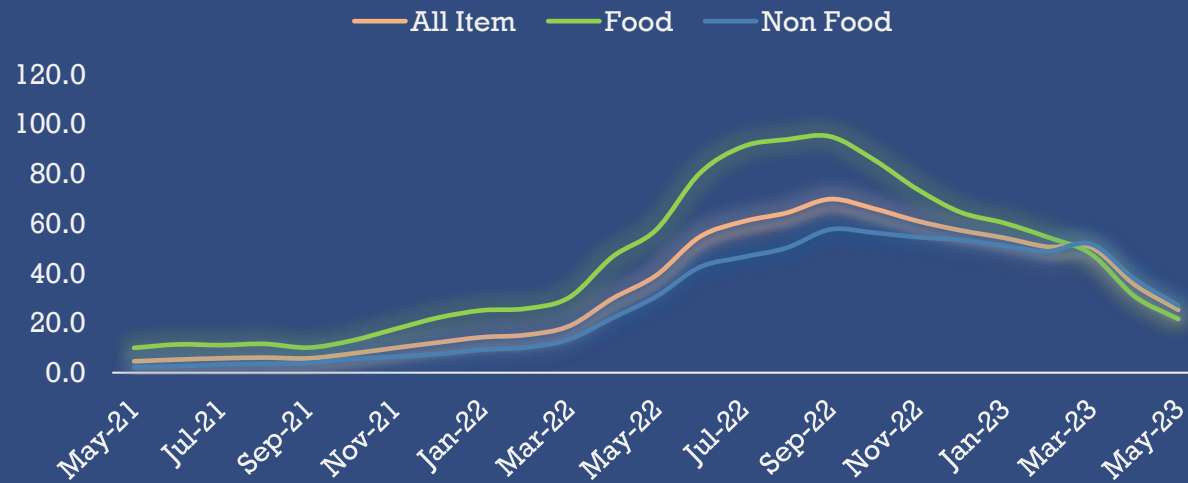
Source: Dept. Census and Statistics



INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for May was 25.2% and has decreased relative to the month of Apr 2023. Food item prices have decreased to 21.5%YoY in May 2023 from 30.6%YoY in Apr 2023 while the Non-Food item prices decreased to 27.0%YoY in May 2023 from 37.6%YoY in Apr 2023. The contribution from food category for YoY inflation was 7.02% while the contribution of Non-Food items stood at 18.13% mainly due to the increase in prices of Housing, Water, Electricity, Gas & Other Fuels, Transport, Restaurants & Hotels, Clothing & Footwear, etc.

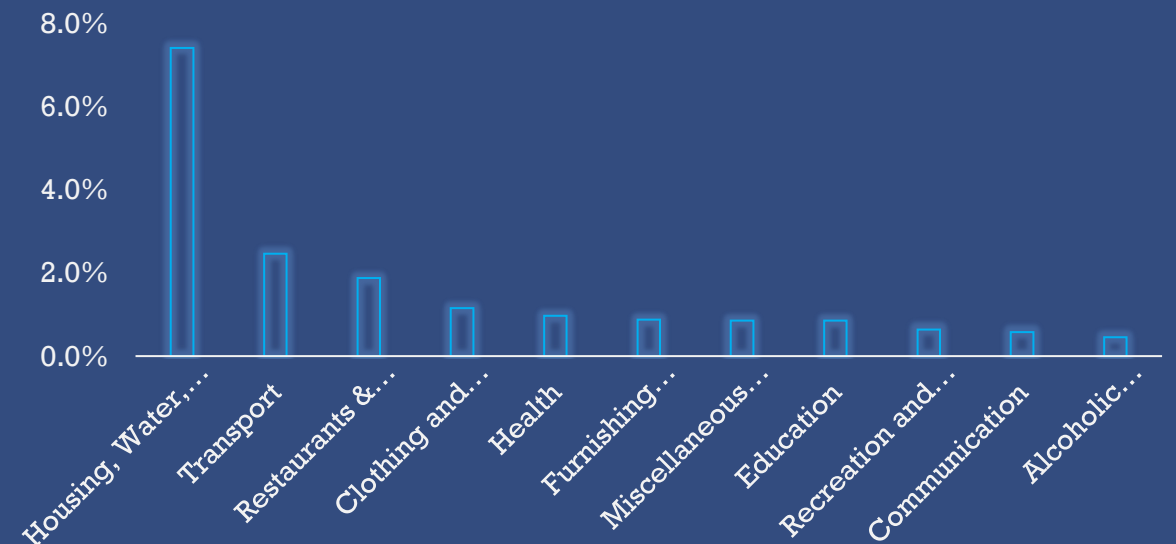
Inflation Analysis (YoY)



Source: Dept. Census and Statistics



Non-Food Category Inflation

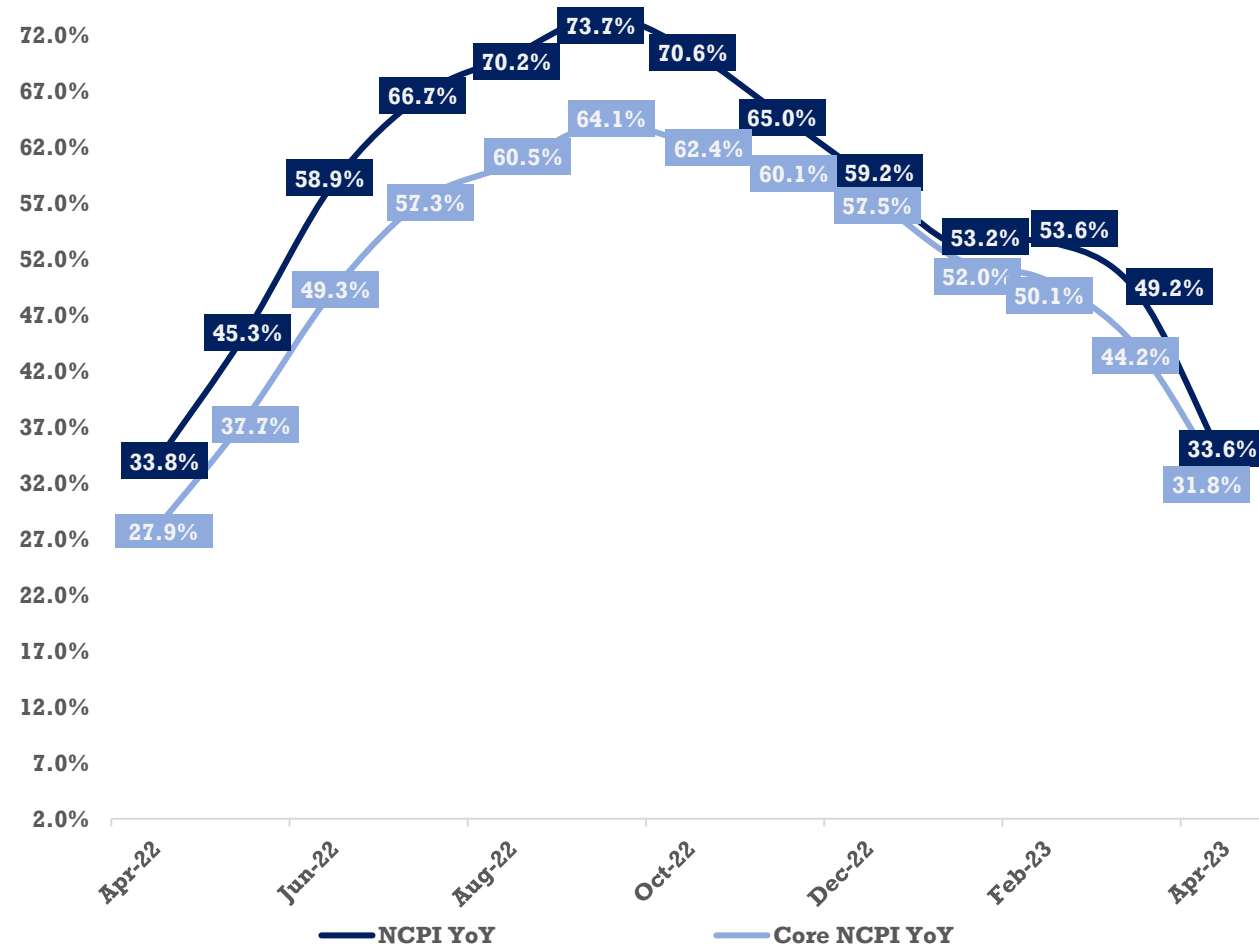


Source: Dept. Census and Statistics

INFLATION – NCPI

NCPI FOR APR 2023: DECREASED TO 33.6%YOY

- NCPI for Apr 2023 decreased to 33.6% compared to 49.2% in Mar 2023.
- Decrease in inflation was mainly driven by the price decrease in both Food and Non-Food commodities. Accordingly, YoY Food inflation decreased to 27.1% in Apr 2023 from 42.3% in Mar 2023 while Non-Food inflation decreased to 39.0% in Apr 2023 from 54.9% in Mar 2023.



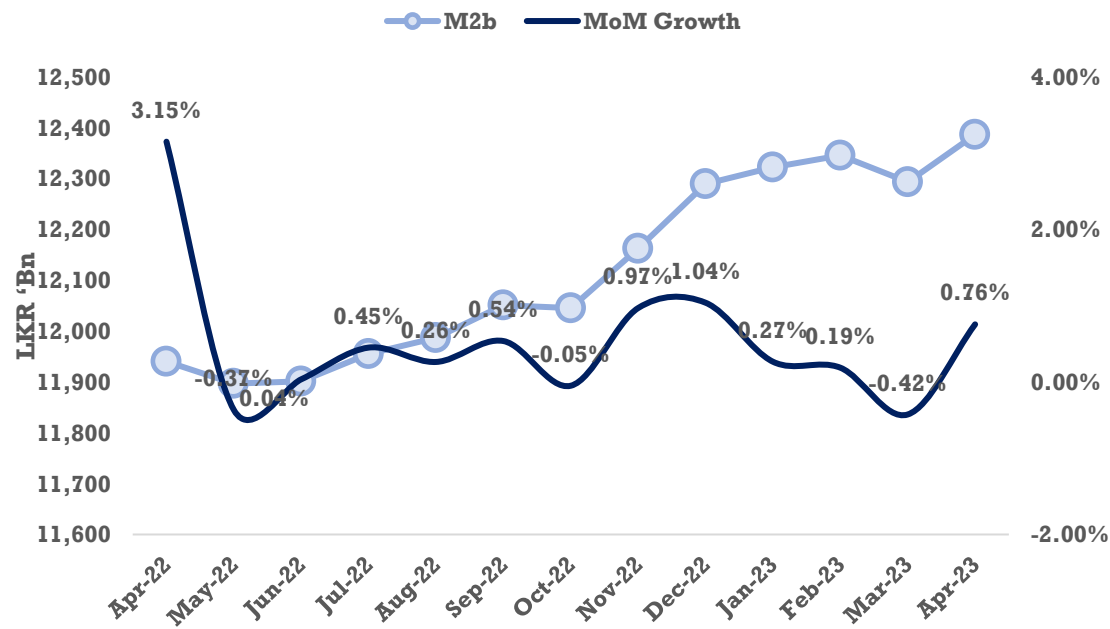
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit further deteriorated by LKR 43.2Bn in Apr 2023 amidst the higher lending rates and conservative lending stance adapted by banks and NBFIs. State credit reflected a net borrowing of LKR 60.0Bn.

M2b Growth – Apr 2023

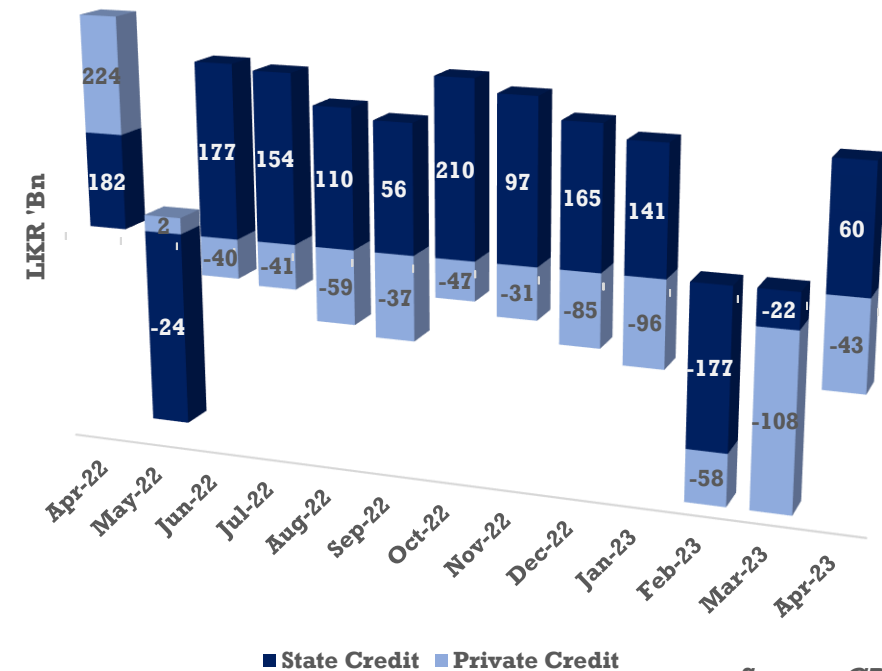
MoM +0.76%, YoY +3.74%, YTD +0.79%



Source: CBSL

State Credit & Private Credit – Apr 2023

Private Credit MoM -0.6%, YoY -8.29%, YTD -4.11%



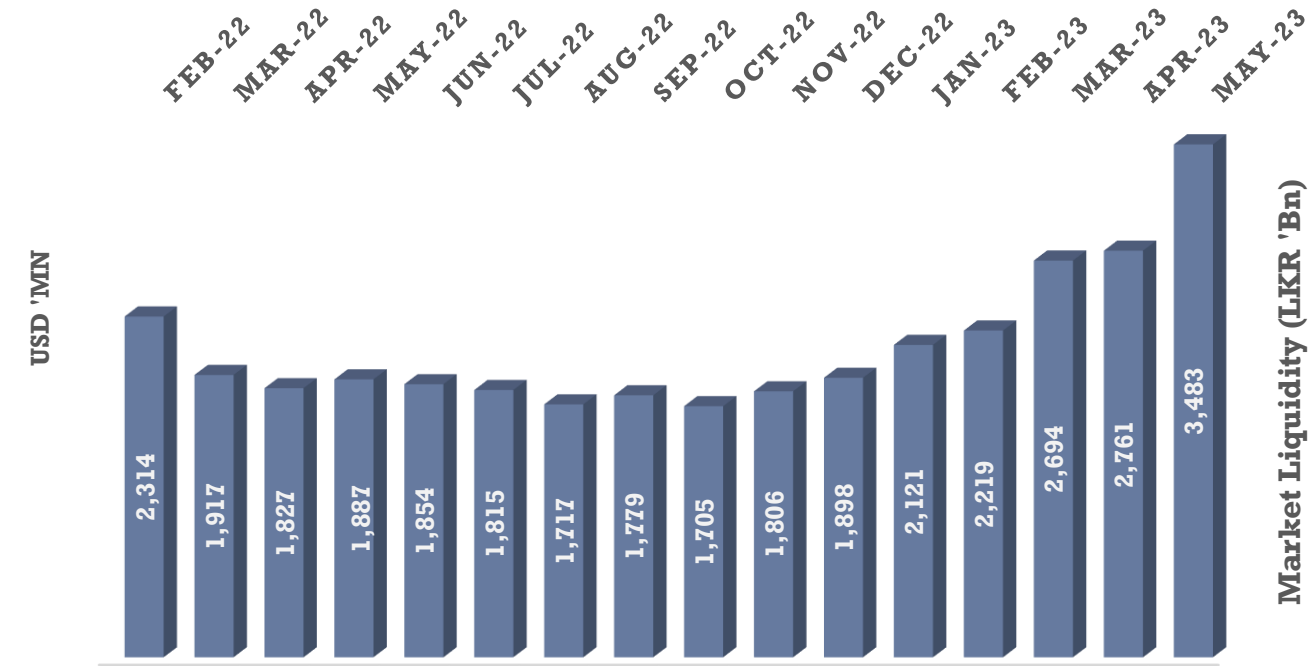
State Credit Private Credit

Source: CBSL

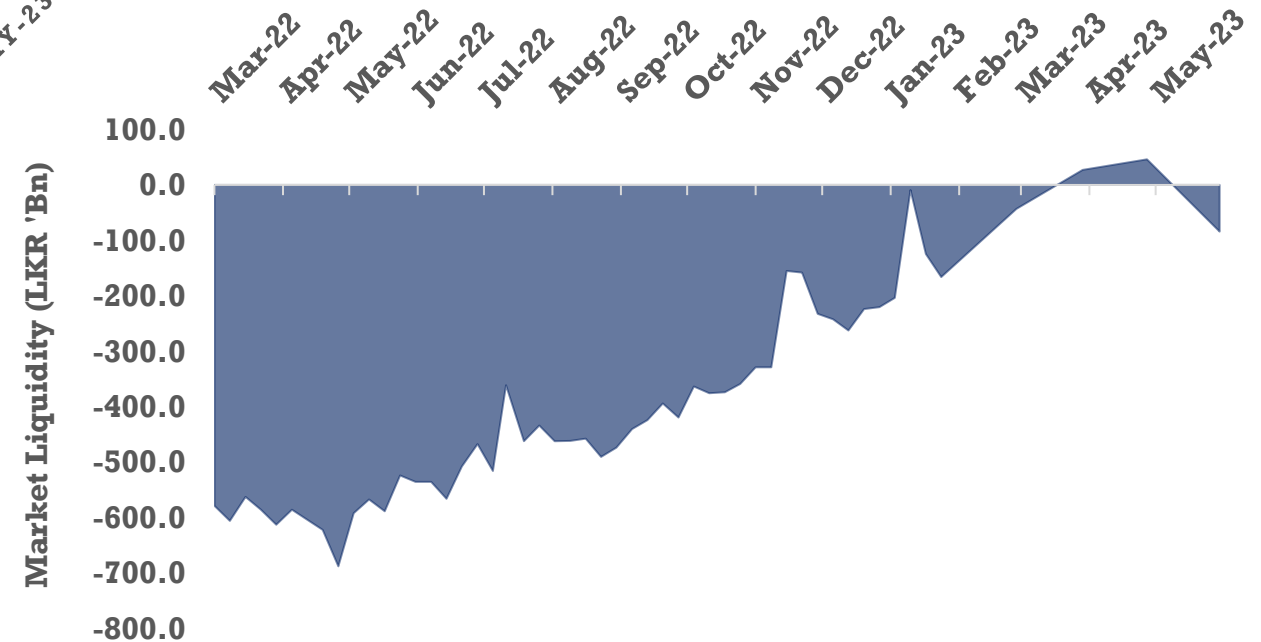
LIQUIDITY & RESERVES

- Foreign Reserves increased by 722.0Mn to USD 3.5Bn in May 2023, recording the highest in 21 months.

- Market Liquidity displayed volatility and turned negative during the month of May 2023.



Source: CBSL



Source: CBSL

CURRENCY MOVEMENT

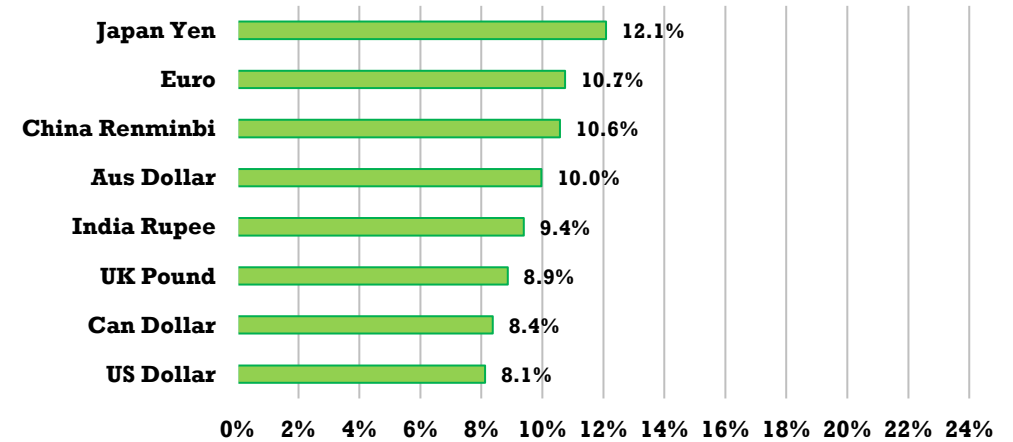
USD:LKR Movement



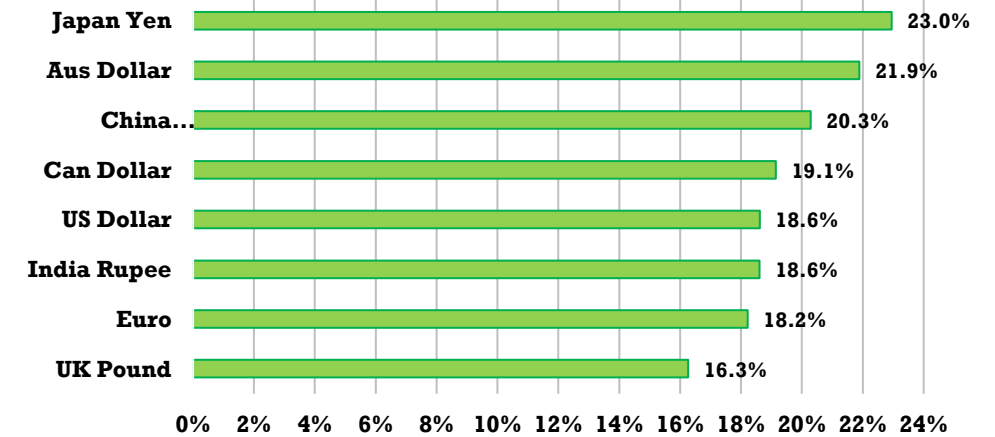
Source: CBSL

Sri Lankan Rupee vs Global Currencies

MAY 2023



YTD 2023



Source: CBSL

GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for May 2023

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
05-May-23	-	-	-
12-May-23	375,000	-	375,000
19-May-23	201,285	-	201,285
26-May-23	149,416	-	149,416
Total Issued			725,701

Net Settlement	May 2023	YTD
Maturities	1,258,642	6,042,793
New Issues	725,701	3,004,425
Excess/ (Deficit)	(532,941)	(3,038,368)

CBSL Holdings of Gov. Securities		YTD
As at End May 2023	2,628,459	
As at End Apr 2023	2,667,363	
Increase/ (Decrease)	(38,904)	30,281

CBSL HOLDINGS OF GOV. SECURITIES...

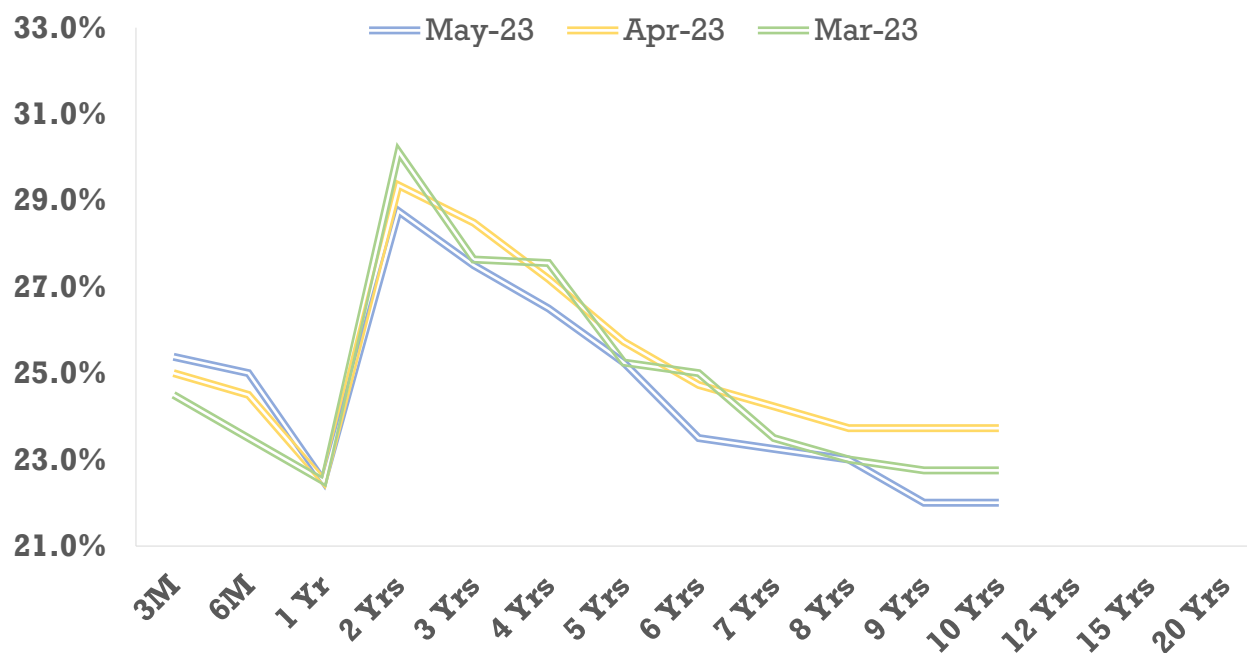
...decreased by LKR 38.9Bn in May 2023



Source: CBSL

TREASURY BILLS AND BONDS – MAY 2023

The secondary market initiated its activities with lingering selling pressure which resulted in the yield curve to stretch high on the back of surrounding uncertainties over DDR strategies. Moreover, the market further continued with limited activity throughout the 2nd week on the back of thin volumes over DDO decisions taking over investor interactions, which resulted in a weary market sentiment. Although towards the 3rd week and the latter part of the month, buying interest was restored as the yield curve dived down over revitalized buying interest mainly on the short to mid tenors. 2025 maturity budged lower by 60bps whilst 3M and 6M maturities rose over 20+bps. A dip of more than 50+bps were recorded in long term tenures as the month ended.



Source: First Capital Research

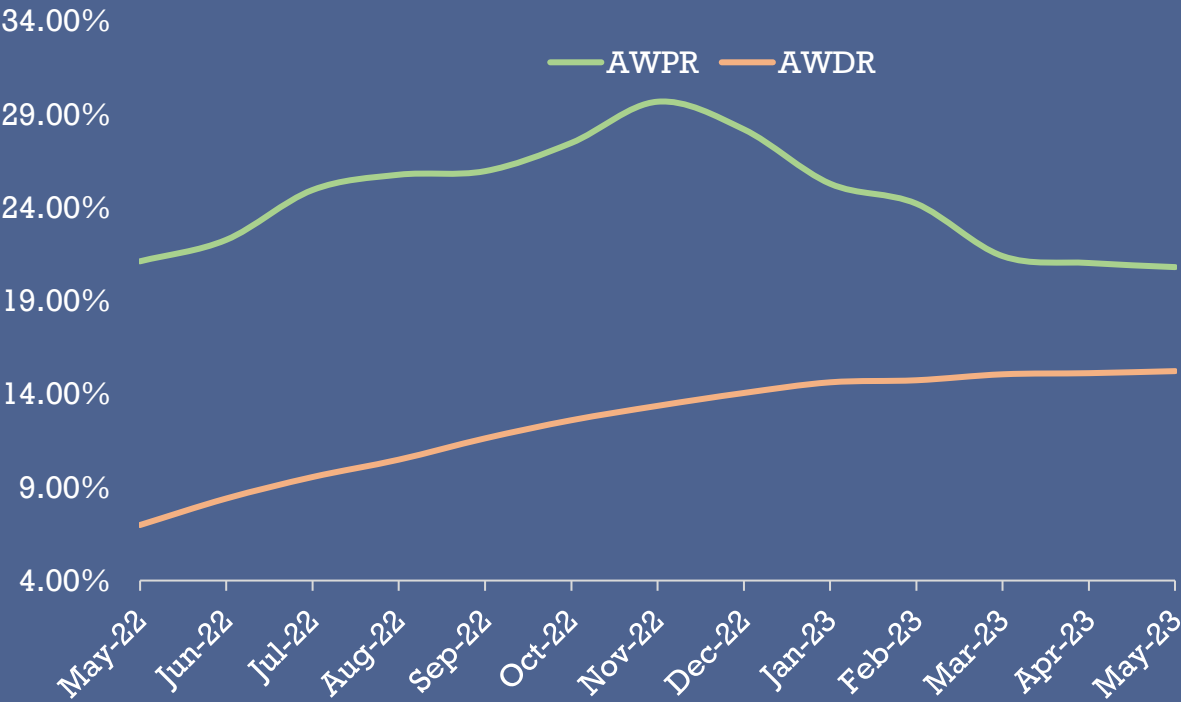
Interest Rate Change (bps)

Tenure	May-23	Apr-23	Change (bps)	Mar-23	Change (bps)
3M	25.38%	25.00%	38	24.50%	88
6M	25.00%	24.50%	50	23.50%	150
1 Yr	22.50%	22.50%	0	22.50%	0
2 Yrs	28.75%	29.35%	-60	30.13%	-138
3 Yrs	27.50%	28.48%	-98	27.63%	-13
4 Yrs	26.50%	27.18%	-68	27.55%	-105
5 Yrs	25.25%	25.73%	-48	25.25%	0
6 Yrs	23.50%	24.73%	-123	25.00%	-150
7 Yrs	23.25%	24.23%	-98	23.50%	-25
8 Yrs	23.00%	23.73%	-73	23.00%	0
9 Yrs	22.00%	23.73%	-173	22.75%	-75
10 Yrs	22.00%	23.73%	-173	22.75%	-75
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

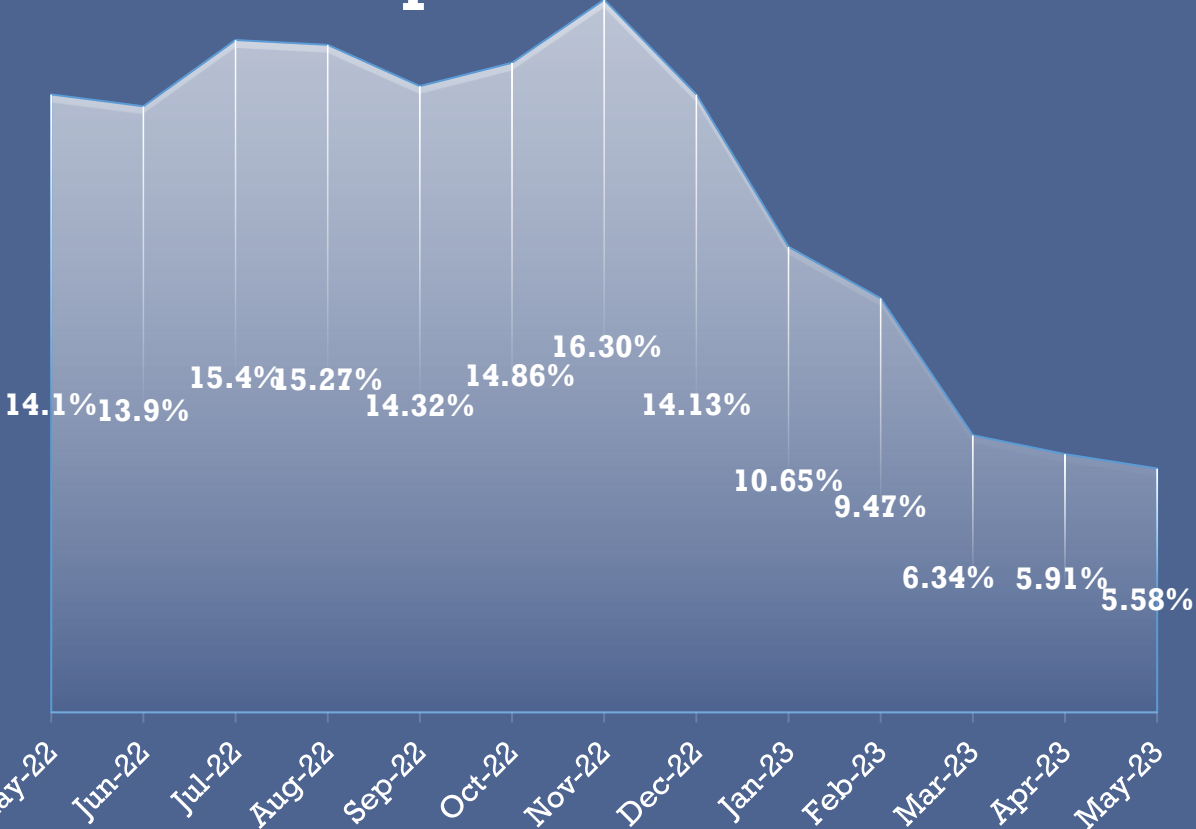
Jun 2023

AWPR vs AWDR



Source: CBSL

Interest Spread



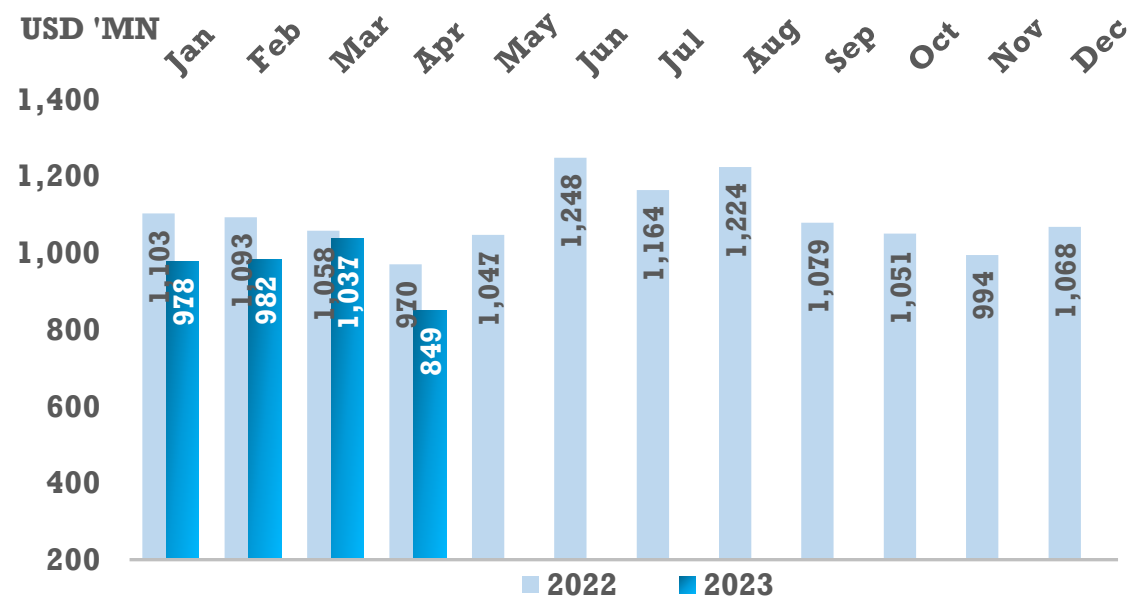
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – APR 23 – EXPORTS

Earnings from exports declined by 12.6% in Apr 2023, recording a decline for the 3rd consecutive month, to USD 849Mn, lowest since April 2021 primarily owing to the decrease in earnings in industrial exports, including garments amidst slowing external demand. The decline in earnings from industrial exports were mainly led by lower export earnings from garments as exports to major markets declined, while decline in export of petroleum products was recorded due to the reduction in average export prices of bunker fuel along with a decline in rubber products too. However, this decline was partially offset by improved earnings in the agricultural sector mainly from tea, additionally backed by the earnings from gem, diamond and jewellery. The increase in earnings from tea was led by the rise in average export prices of tea, although the volumes registered a decline due to fertilizer shortages. Meanwhile, earnings from mineral exports declined in Apr 2023 mainly due to the decline in exports of ores, slag and ash.

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Industrial Exports			
- Apr	790.1	660.9	-16.4
- YTD	3,422.9	3,035.6	-11.3
Agricultural			
- Apr	177.7	184.0	3.6
- YTD	783.5	792.3	1.1
Mineral Exports			
- Apr	1.9	1.4	-26.3
- YTD	12.3	9.1	-26.1
Total			
- Apr	970.9	848.6	-12.6
- YTD	4,225.1	3,846.2	-9.0

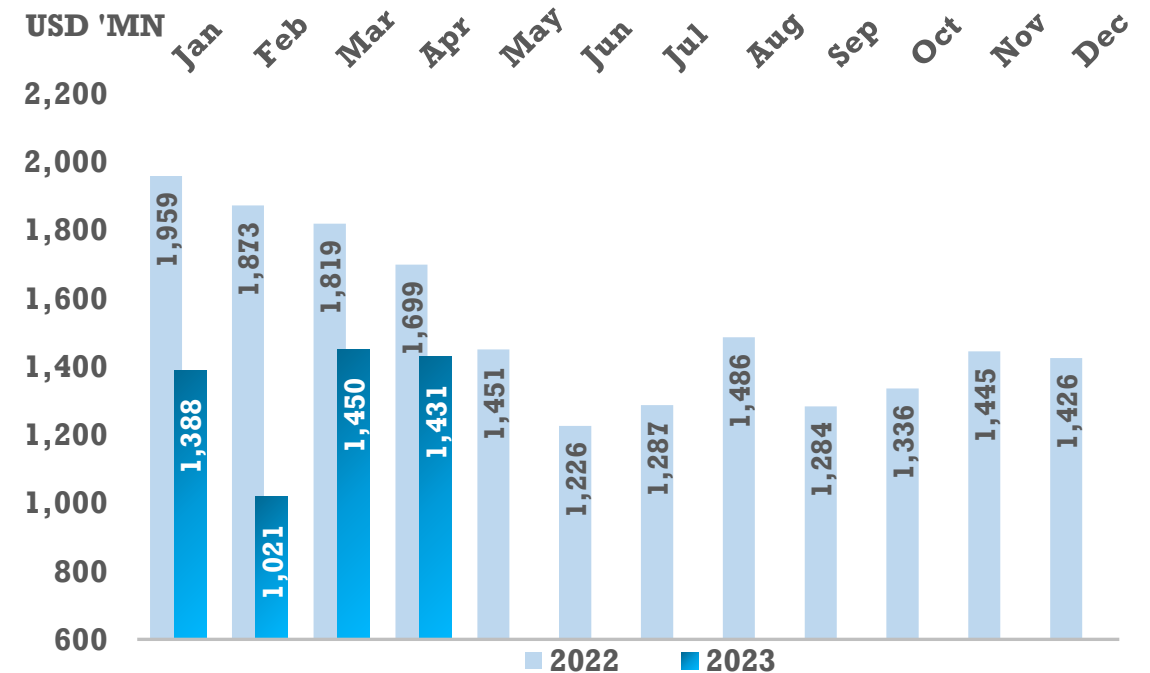


Source: CBSL
Jun 2023

EXTERNAL SECTOR – APR 23 – IMPORTS

Import expenditure declined by 15.8%YoY to USD 1,431Mn in Apr 2023 as a decline in expenditure was observed in imports of intermediate and investment goods, whilst an increase was witnessed in imports of consumer goods. The increase in consumer goods expenditure was led by higher expenditure in non-food consumer goods although food and beverage imports reported a decline. There was a major decline in expenditure for intermediate goods driven by lower imports of textiles and textile articles highlighting a possible further slowdown in garments exports in the future. Meanwhile importation of investment goods dipped due to the decline in all three main investment good subcategories, namely machinery and equipment, building material and transport equipment.

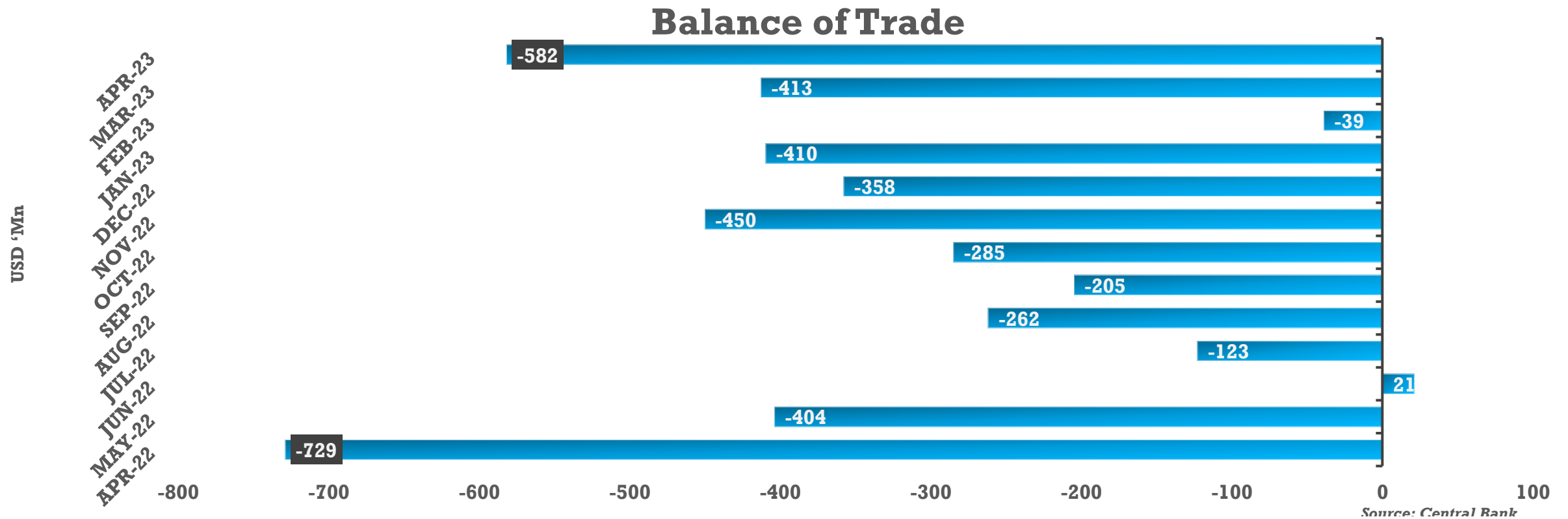
Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Consumer goods			
- Apr	235.8	262.1	11.2
- YTD	1,176.6	948.8	-19.4
Intermediate			
- Apr	1,196.6	985.2	-17.7
- YTD	4806.6	3,565.2	-25.8
Investment goods			
- Apr	266.3	180.3	-32.3
- YTD	1365.2	769.9	-43.6
Total			
- Apr	1,699.0	1,431.2	-15.8
- YTD	7350.2	5289.8	-28.0



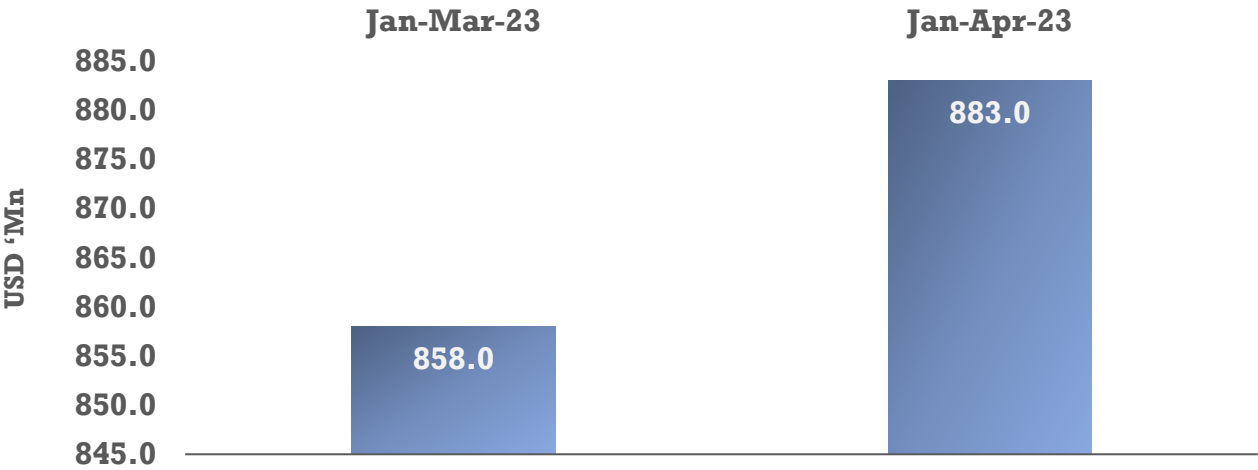
Source: CBSL

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EXTERNAL SECTOR – APR 23

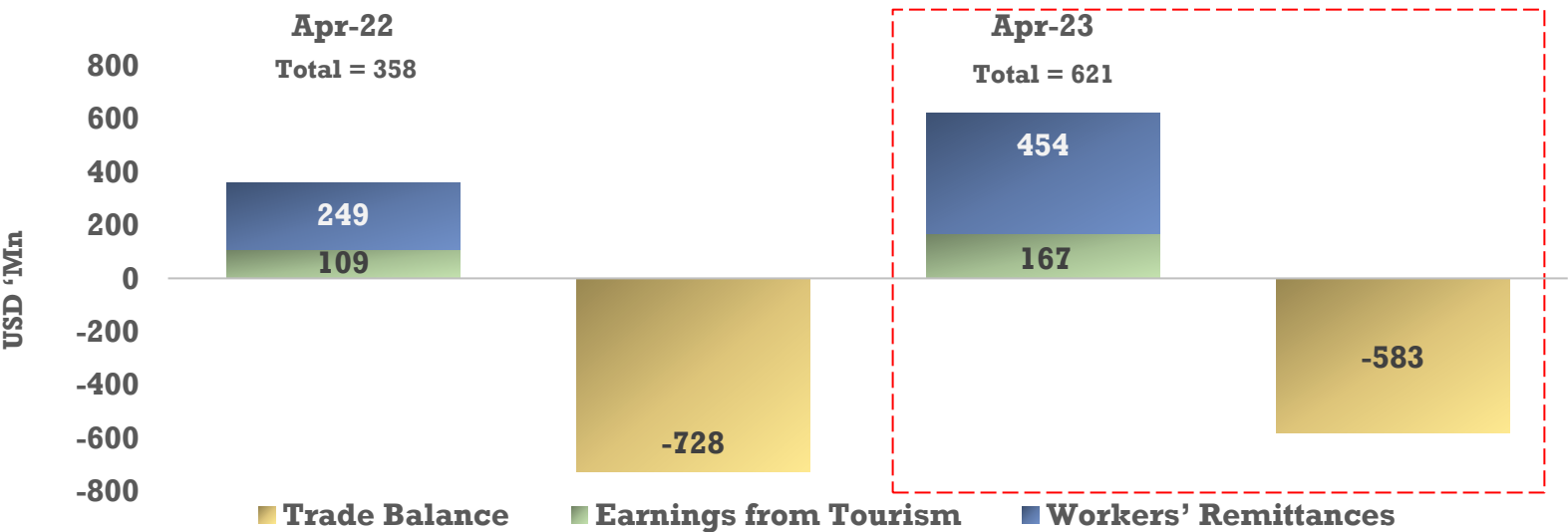


BoP for Jan-Apr-23 recorded at USD 883.0Mn compared to Jan-Mar-23 amount of USD 858.0Mn resulting in a net inflow of USD 25.0Mn, for the month of Apr-23.



Source: CBSL

Workers' Remittances increased to USD 454.0Mn in Apr-23 (+82.3%YoY). Earnings from Tourism for Apr-23 increased to USD 167.0Mn from USD 109.0Mn in Apr-22.



Source: CBSL

BALANCE OF PAYMENT DEFICIT DECREASED YOY IN APR-23

Apr USD 'Mn	2022	2023	Change (%)
Trade Balance	-728	-583	
Earnings from Tourism	109	167	+53.2
Workers' Remittances	249	454	+82.3

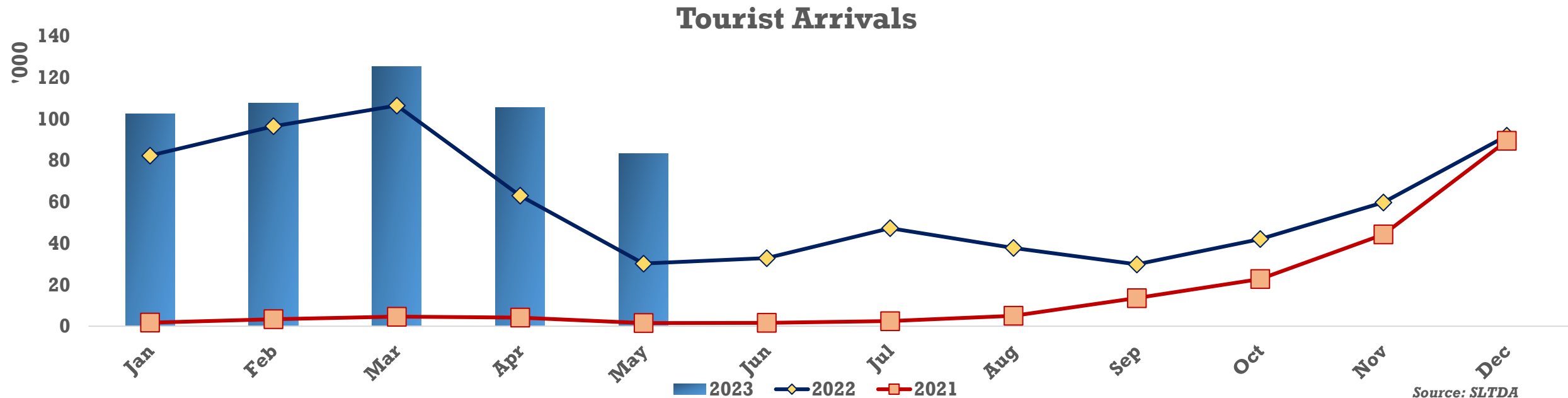
YTD USD 'Mn	2022	2023	Change (%)
Trade Balance	-3,125	-1,444	
Earnings from Tourism	591	696	+17.8
Workers' Remittances	1,031	1,867	+81.0

Source: CBSL

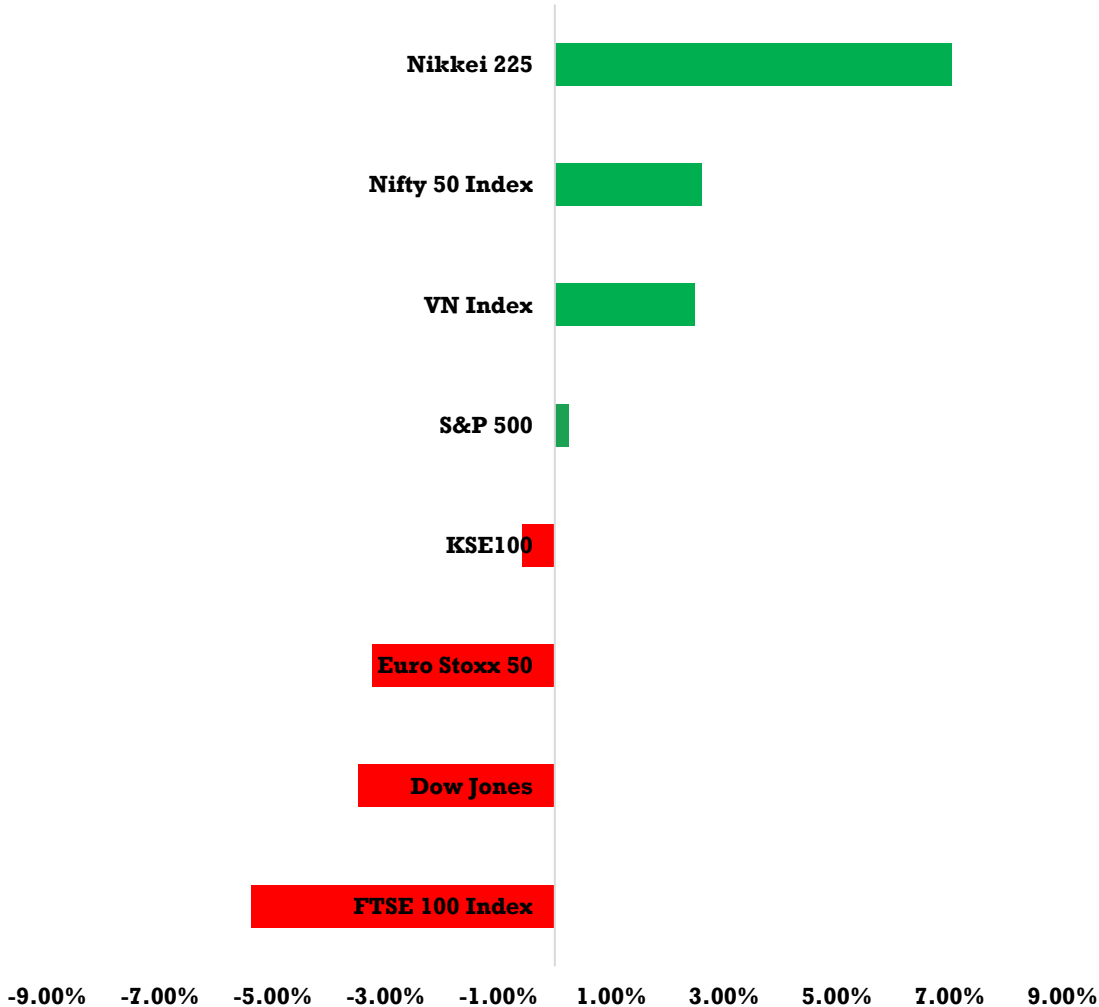
TOURIST ARRIVALS – MAY 2023

[May 83,309 – **UP +175.8%YoY**] [MoM– **DOWN -21.0%**]

The total arrivals for the month was recorded at 83,309 displaying an increase of 175.8%YoY compared to May 2022, owing to the factors such as improved socio-economic conditions, continuous enhancement of air connectivity followed by China's recent reopening and the strong pent-up demand. The total number of tourist arrivals on a MoM basis recorded a dip in May, indicating the end of peak season. The largest source market for tourist arrivals in May were India, Russian Federation, Germany, the United Kingdom and Australia.



GLOBAL MARKET – MAY 2023



China's producer prices slump 4.6% in May, worse than expected

In May, China experienced low levels of inflation, primarily due to a sluggish recovery from strict COVID-19 lockdown measures, resulting in weakened demand and declining exports. Unlike other major economies that have aggressively raised interest rates to combat inflation, China has maintained a low-interest-rate policy. However, this week, Canada and Australia surprised expectations by increasing interest rates.

Bloomberg



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Britain and the United States have announced their support for the "Atlantic Declaration"

A new partnership between Britain and the US was formed to enhance the cooperation on important economic issues such as clean energy, critical minerals, and artificial intelligence. This declaration is unique in its comprehensive coverage of various aspects of economic, technological, commercial, and trade relations between the two countries. As part of this initiative, Britain and the United States will work together to reinforce their supply chains, advance future technologies, and make investments in each other's industries. The declaration is seen as a significant step towards strengthening the economic ties between the two nations.



REUTERS
WORLD

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