



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Jul 2023

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THE CENTRAL BANK OF SRI LANKA FURTHER RELAXES POLICY INTEREST RATES

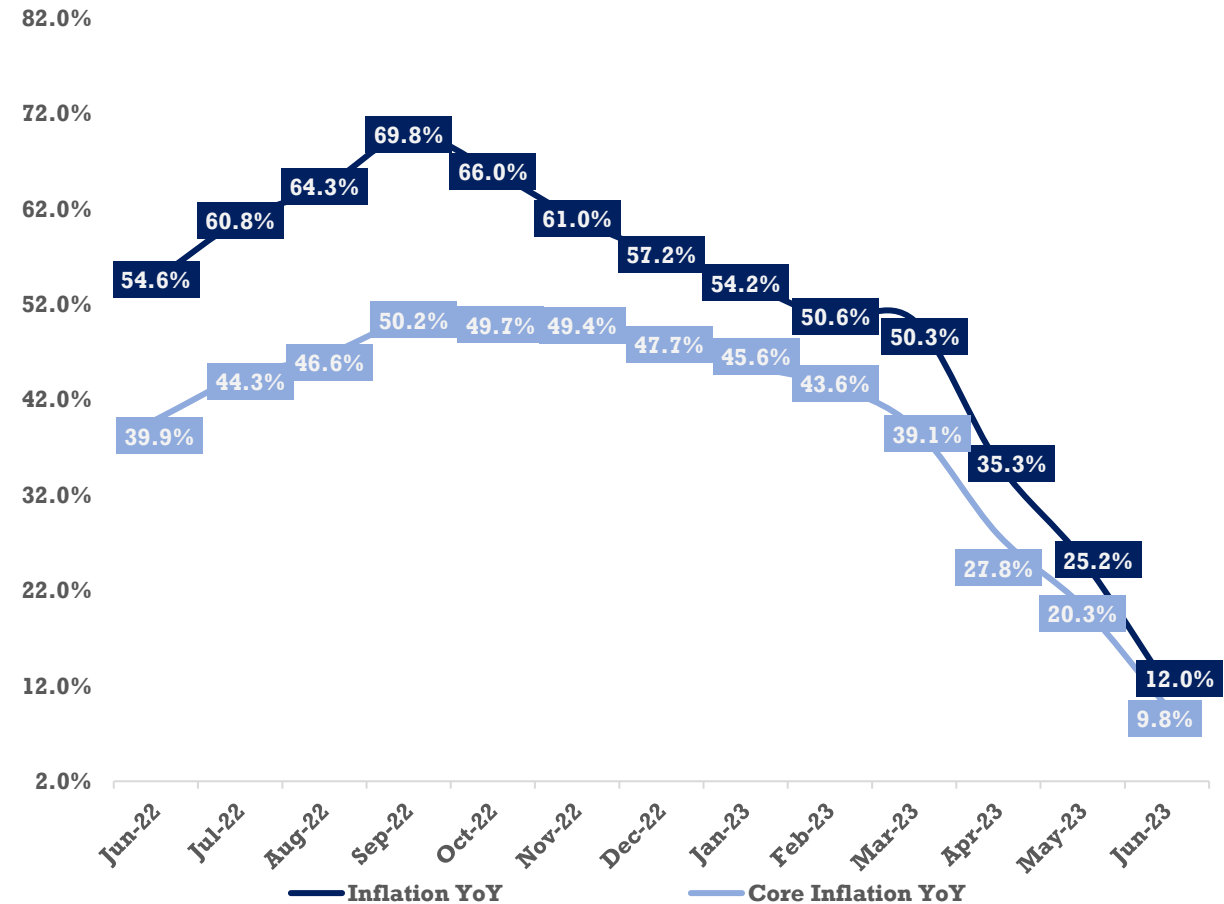
- Sri Lanka's Central Bank has decided to further reduce the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 200bps to 11.00% and 12.00%, respectively.
- The Board arrived at this decision to revise down policy rates following a careful analysis of the current and expected developments, including the faster-than-envisaged disinflation process and benign inflation expectations in the domestic economy, with the aim of enabling the economy to reach its potential and stabilizing inflation at mid-single digit levels in the medium term, while easing pressures in the financial markets.
- Moreover, the consecutive rate cuts during the latest two policy meetings are expected to reduce the market interest rates, particularly the lending rates in-line with the reduction in risk premia observed on the government securities during the recent few days, which is expected to aid the rebound in the economic activity in the coming months.
- The banking and financial sector is urged to pass on the benefits of this significant easing of monetary policy by the Central Bank to individuals and businesses, thereby supporting economic activity to rebound in the period ahead.

Source: CBSL

INFLATION – CCPI

CCPI FOR JUN 2023:
MOM 0.0%
YOY +12.0%

- MoM inflation stood muted at 0.0% with the increase in inflation of Food group by 1.3% while Non-Food group decreased by 0.6%.
- The YoY inflation drastically decreased for the 9th consecutive month to 12.0% in Jun 2023. YoY inflation of Food group has decreased to 4.1% in Jun 2023 from 21.5% in May 2023 while Non-Food group decreased to 16.2% from 27.0% in May 2023.



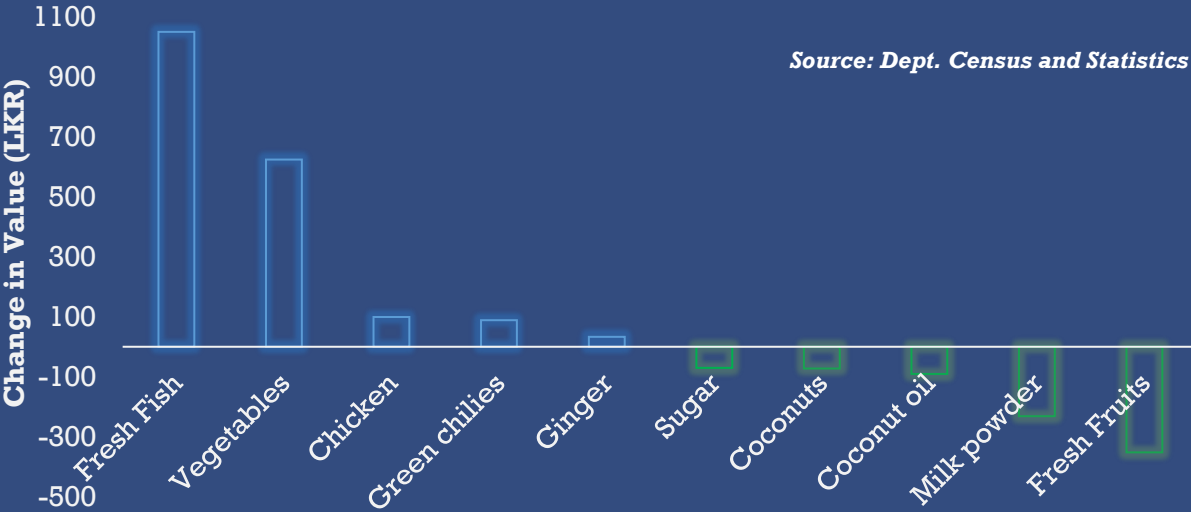
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

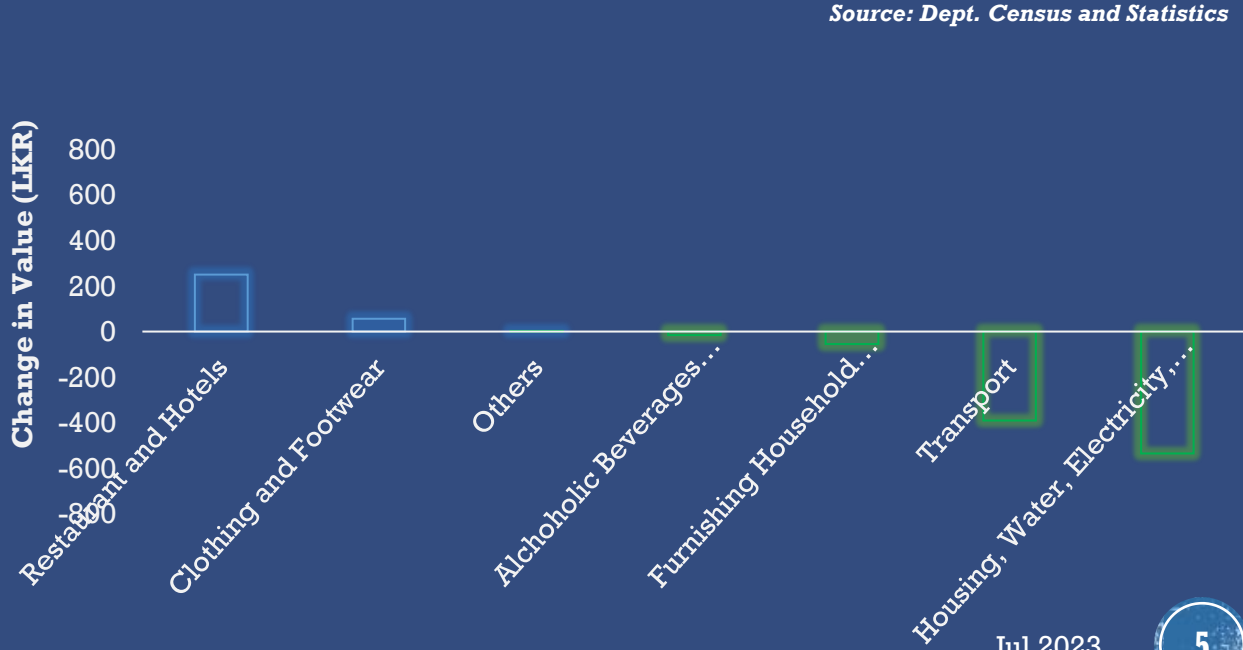
The CCPI index recorded a stand still inflation of 0.0%MoM contributed by the decrease in expenditure of Non-Food items by 0.39% and increase in expenditure of Food items by 0.41%. Within the Food items, increase in value changes were mainly reported for Fresh Fish, Vegetables, Chicken, Green Chilies and Ginger. Among Non-Food groups, decreases in value changes were mainly reported in Housing, Water, Electric, Gas and Other Fuels, Transport, Furnishing Household Equipment and Alcoholic Beverages Tobacco and Narcotic.



Food Category Inflation



Non-Food Category Inflation

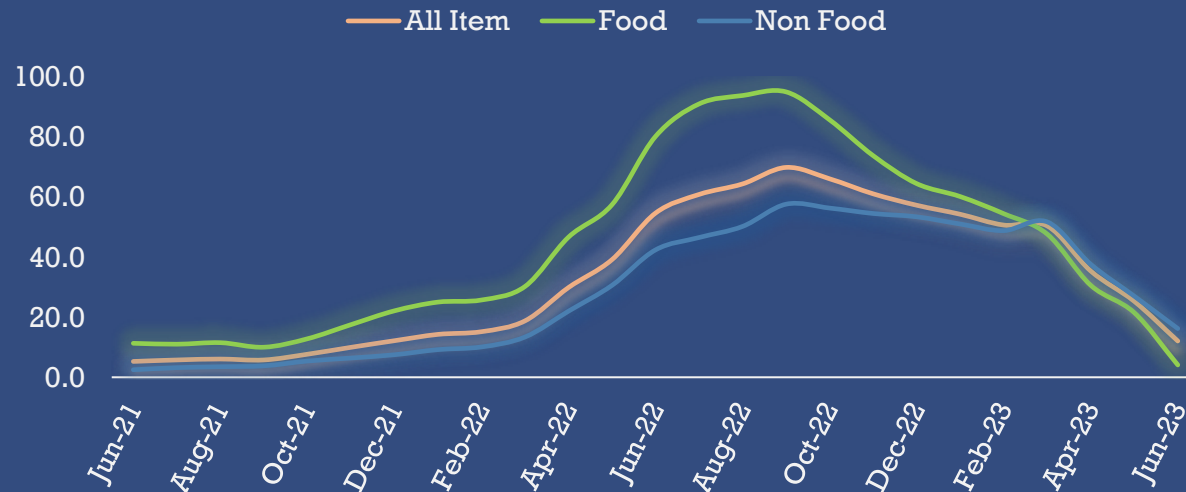


INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Jun was 12.0% and has decreased relative to the month of May 2023. Food item prices have decreased to 4.1%YoY in Jun 2023 from 21.5%YoY in May 2023 while the Non-Food item prices decreased to 16.2%YoY in Jun 2023 from 27.0%YoY in May 2023. The contribution from food category for YoY inflation was 1.42% while the contribution of Non-Food items stood at 10.59% mainly due to the increase in prices of Housing, Water, Electricity, Gas & Other Fuels, Restaurants & Hotels, Clothing & Footwear, etc.

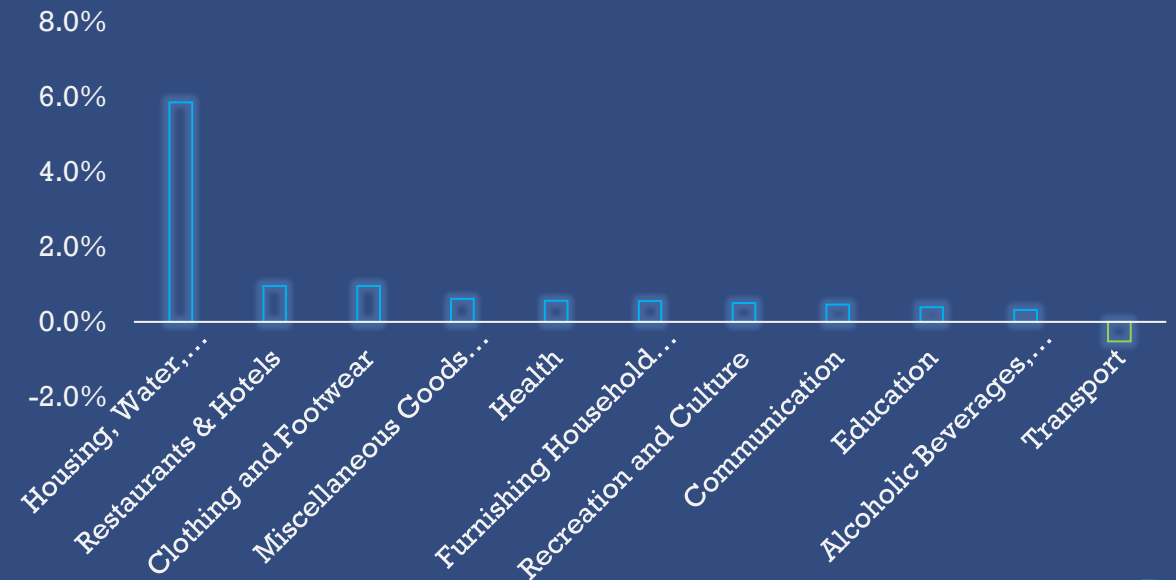


Inflation Analysis (YoY)



Source: Dept. Census and Statistics

Non-Food Category Inflation

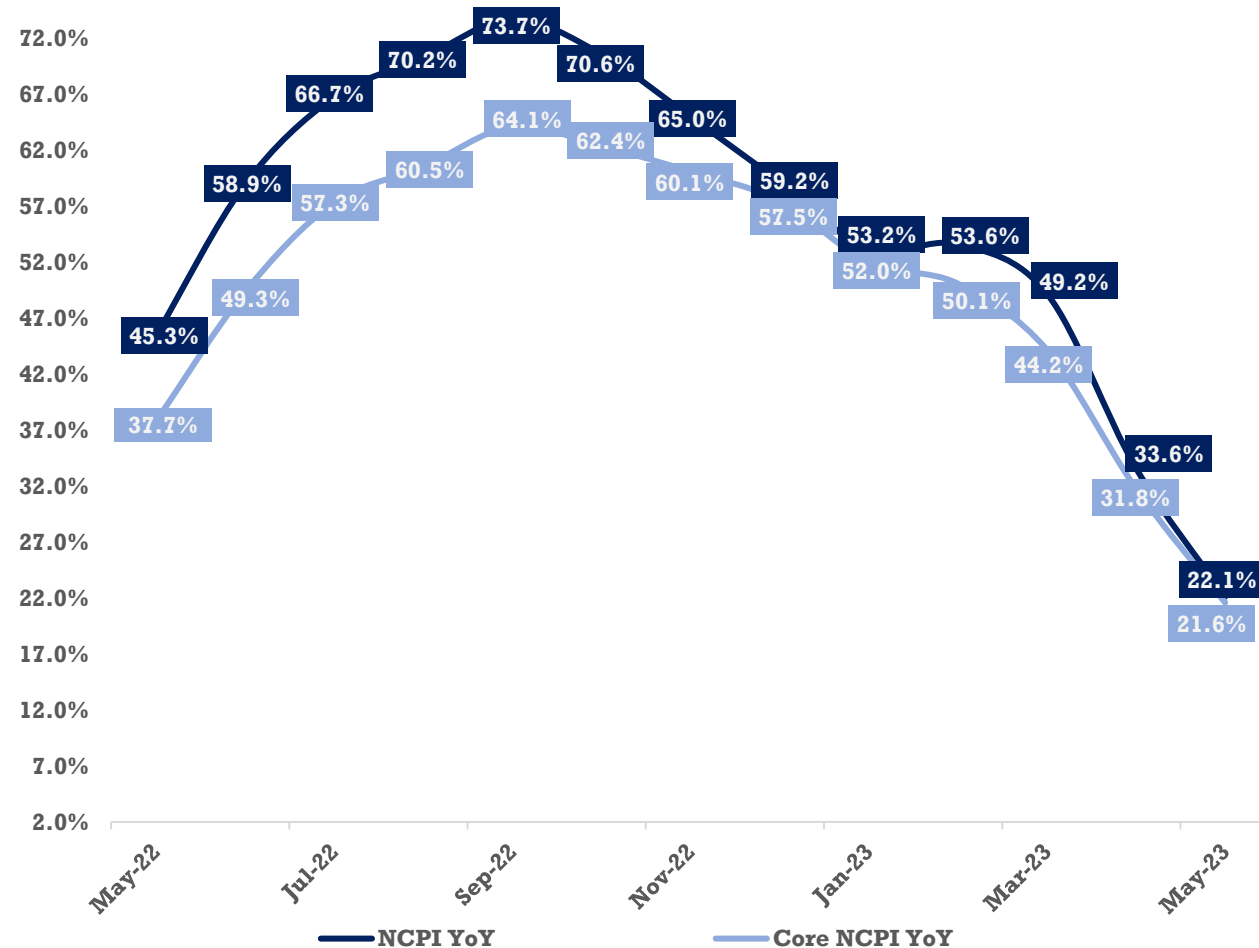


Source: Dept. Census and Statistics

INFLATION – NCPI

NCPI FOR MAY 2023: DECREASED TO 22.1%YOY

- NCPI for May 2023 decreased to 22.1% compared to 33.6% in Apr 2023.
- Decrease in inflation was mainly driven by the price decrease in both Food and Non-Food commodities. Accordingly, YoY Food inflation decreased to 15.8% in May 2023 from 27.1% in Apr 2023 while Non-Food inflation decreased to 27.6% in May 2023 from 39.0% in Apr 2023.



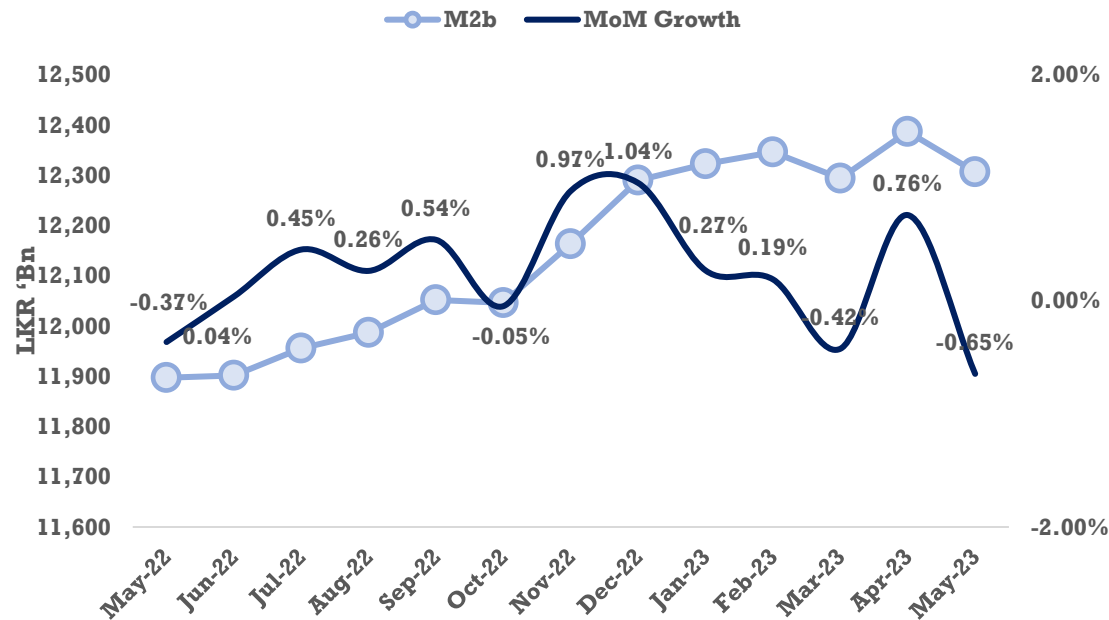
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit further deteriorated by LKR 88.9Bn in May 2023 amidst the higher lending rates and conservative lending stance adapted by banks and NBFIs. Meanwhile, State credit also deteriorated by LKR 43.4Bn.

M2b Growth – May 2023

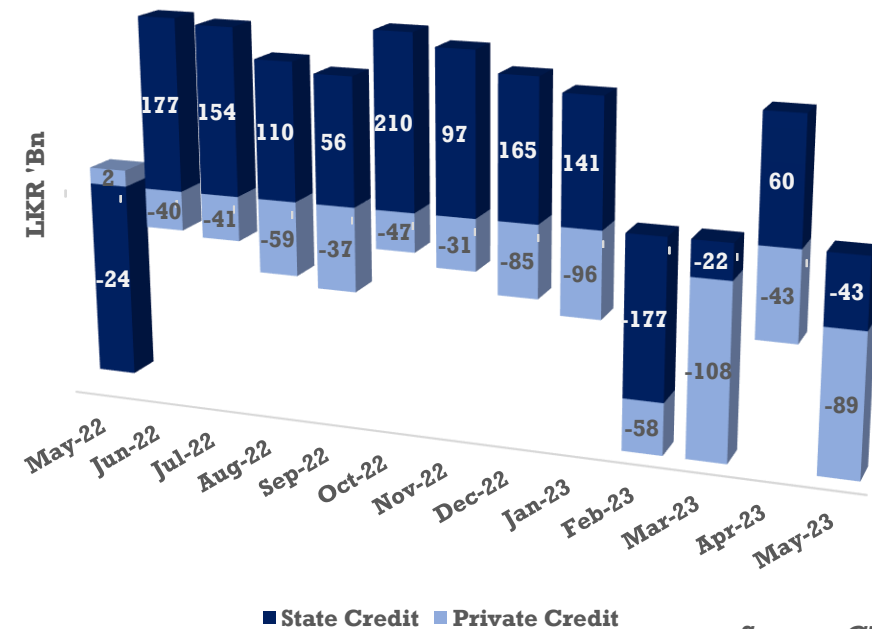
MoM -0.65%, YoY +3.44%, YTD +0.14%



Source: CBSL

State Credit & Private Credit – May 2023

Private Credit MoM -1.3%, YoY -9.46%, YTD -5.31%



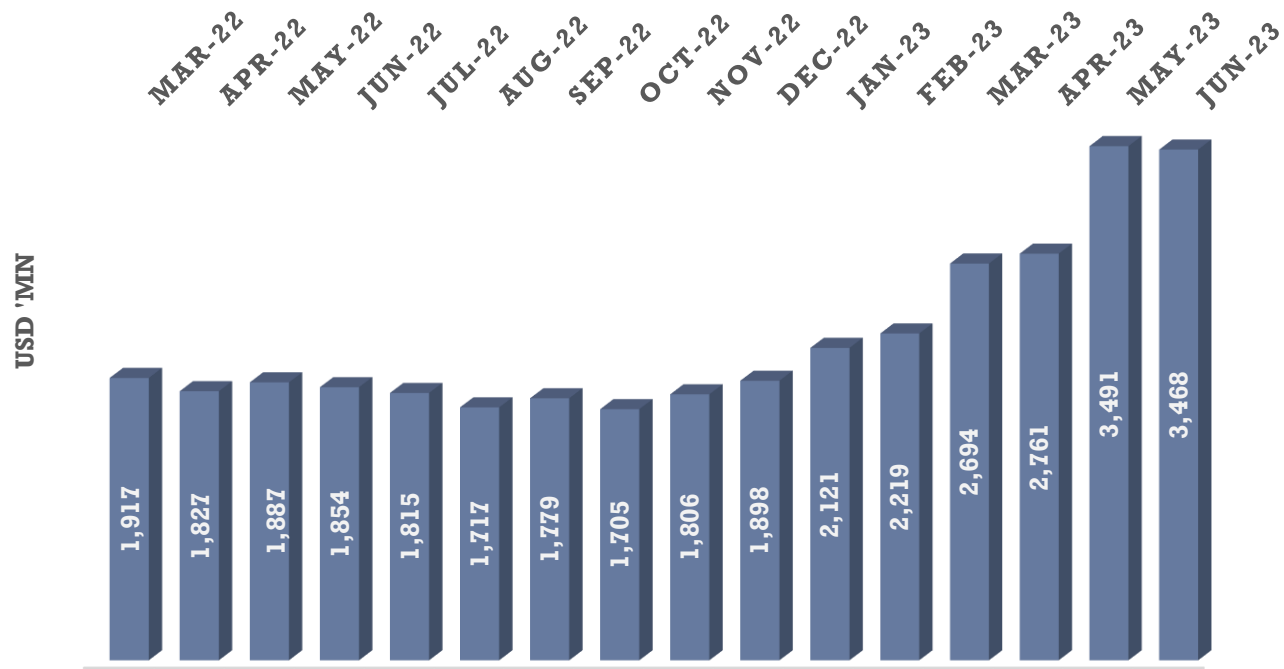
State Credit Private Credit

Source: CBSL

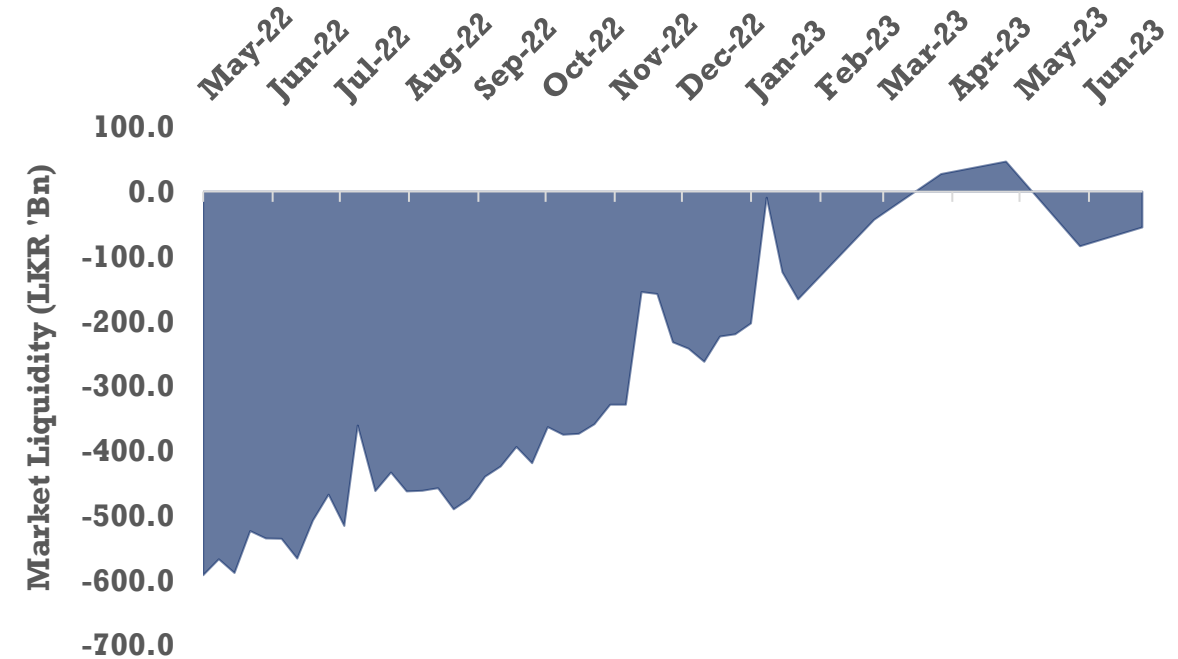
LIQUIDITY & RESERVES

- Foreign Reserves marginally dipped by USD 23.0Mn to USD 3.5Bn in Jun 2023.

- Market Liquidity displayed volatility and remained negative during the month of Jun 2023.



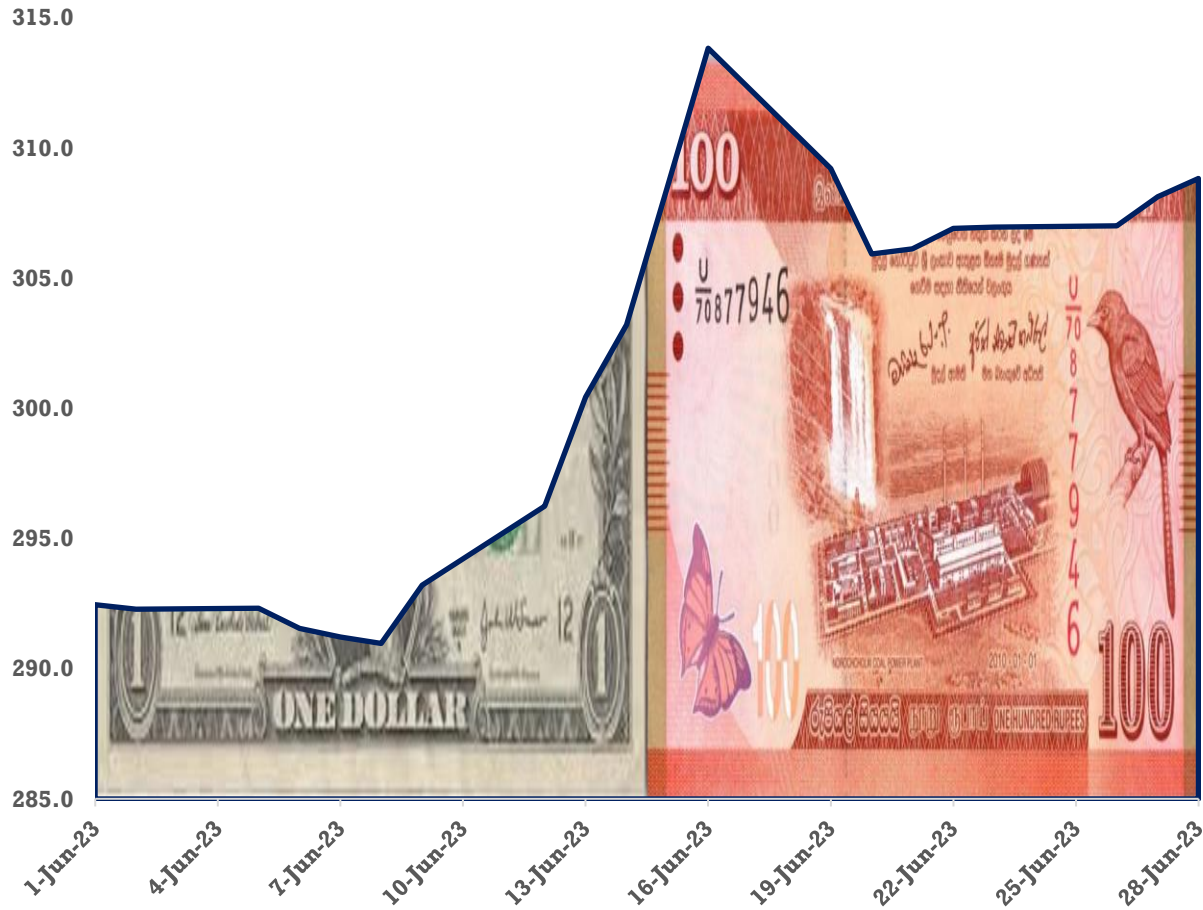
Source: CBSL



Source: CBSL

CURRENCY MOVEMENT

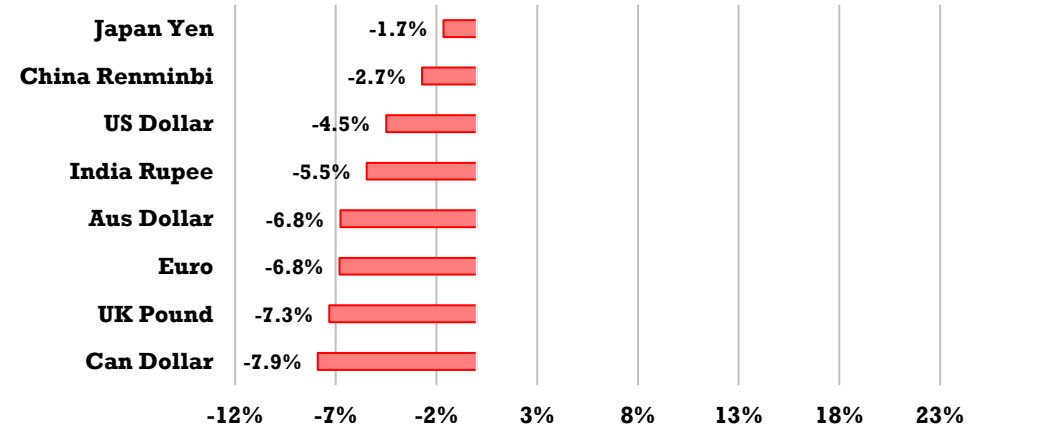
USD:LKR Movement



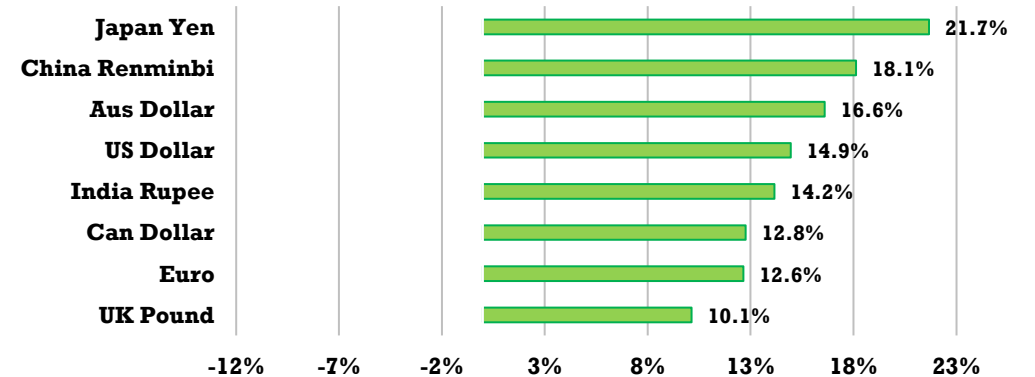
Source: CBSL

Sri Lankan Rupee vs Global Currencies

Jun 2023



YTD 2023



Source: CBSL

GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Jun 2023

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
02-Jun-23	200,000		200,000
09-Jun-23	175,000		175,000
16-Jun-23	225,000		225,000
23-Jun-23	137,500		137,500
Total Issued			737,500

Net Settlement	Jun 2023	YTD
Maturities	666,513	6,709,305
New Issues	737,500	3,741,925
Excess/ (Deficit)	70,987	(2,967,380)

CBSL Holdings of Gov. Securities		YTD
As at End Jun 2023	2,456,561	
As at End May 2023	2,628,459	
Increase/ (Decrease)	-171,897	-141,617

CBSL HOLDINGS OF GOV. SECURITIES...

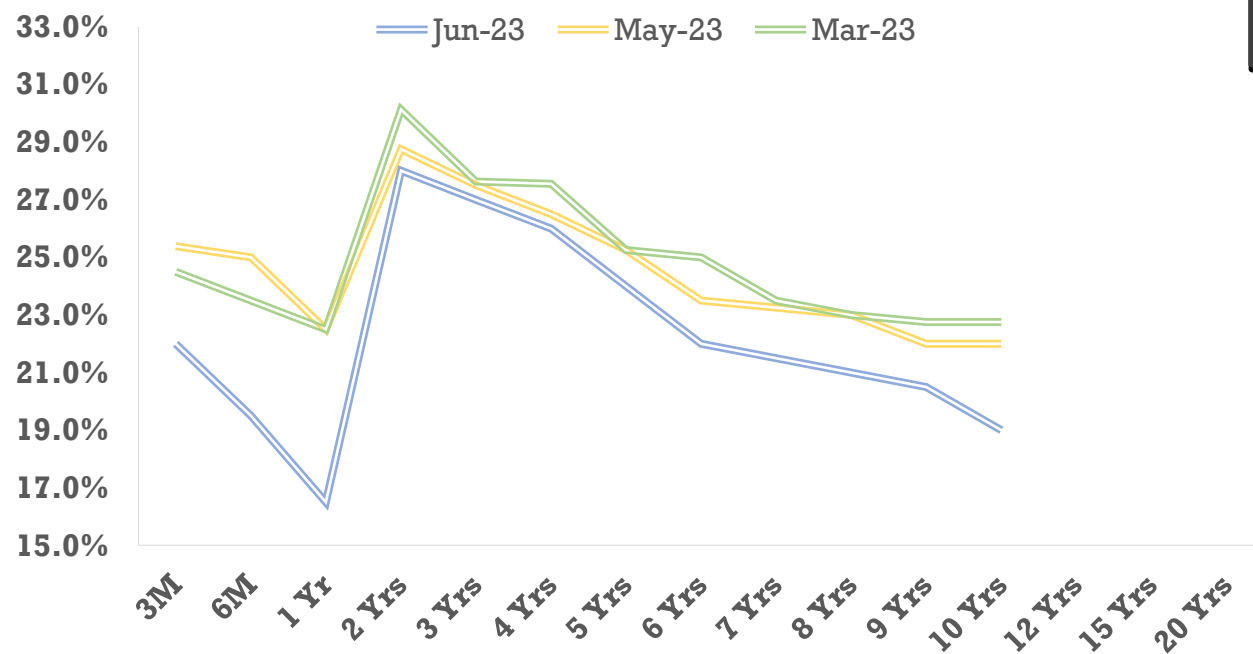
...decreased by LKR 172.0Bn in Jun 2023



Source: CBSL

TREASURY BILLS AND BONDS – JUN 2023

The secondary market commenced the month on a bullish note as buying appetite emerged among investors after the CBSL eased monetary policy rates by 250bps. As a result, the yield curve plunged across the board up to 115bps to 460bps. However, as the month progressed, the market displayed lackluster trading and thin volumes as investors took a breather note awaiting clarity on the DDO process. Hence, the secondary market yields remained broadly stable whilst weighted average yields at the weekly T-Bill auction, normalized to near pre-crisis level where 1Yr maturity plunged below 17.00% after near 13 months.

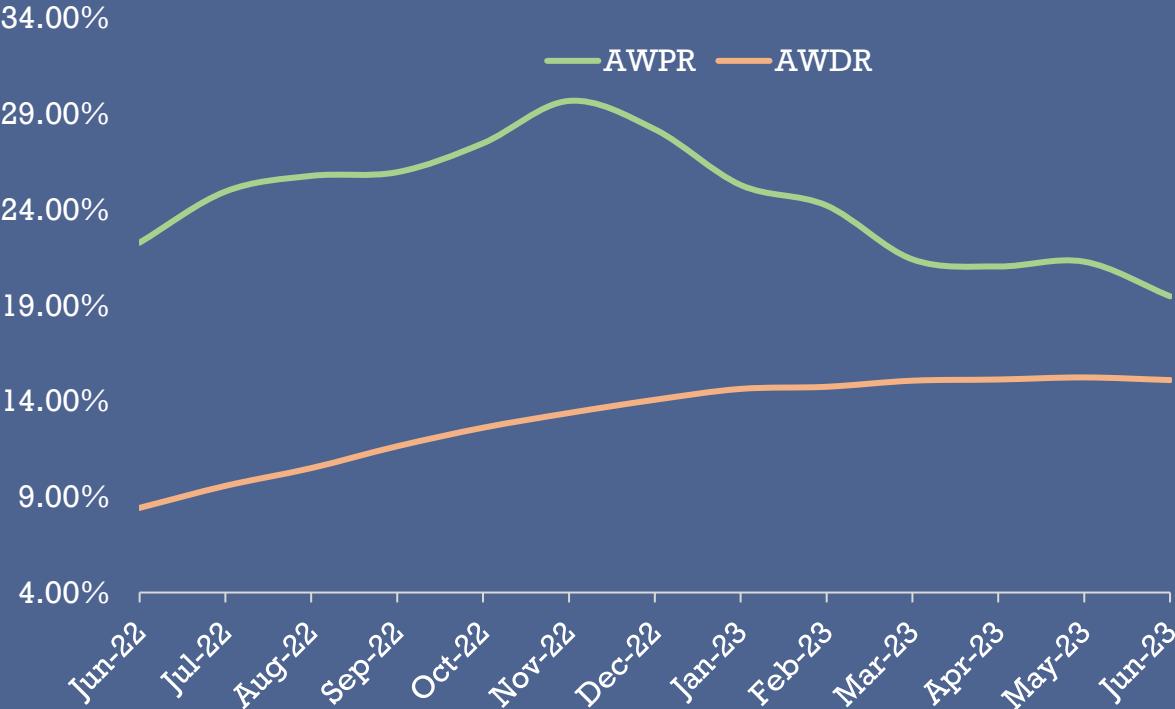


Source: First Capital Research

Interest Rate Change (bps)

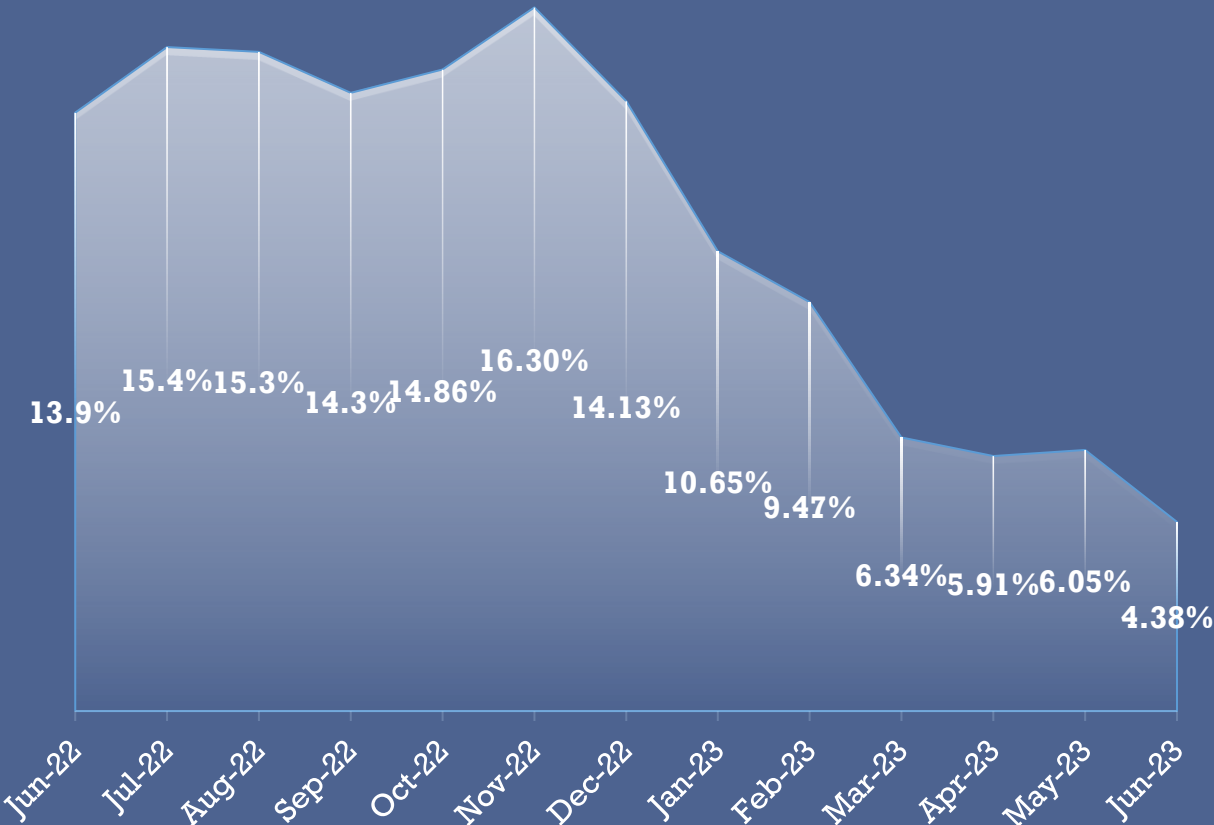
Tenure	Jun-23	May-23	Change (bps)	Mar-23	Change (bps)
3M	22.00%	25.38%	-338	24.50%	-250
6M	19.50%	25.00%	-550	23.50%	-400
1 Yr	16.50%	22.50%	-600	22.50%	-600
2 Yrs	28.00%	28.75%	-75	30.13%	-213
3 Yrs	27.00%	27.50%	-50	27.63%	-63
4 Yrs	26.00%	26.50%	-50	27.55%	-155
5 Yrs	24.00%	25.25%	-125	25.25%	-125
6 Yrs	22.00%	23.50%	-150	25.00%	-300
7 Yrs	21.50%	23.25%	-175	23.50%	-200
8 Yrs	21.00%	23.00%	-200	23.00%	-200
9 Yrs	20.50%	22.00%	-150	22.75%	-225
10 Yrs	19.00%	22.00%	-300	22.75%	-375
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

AWPR vs AWDR



Source: CBSL

Interest Spread



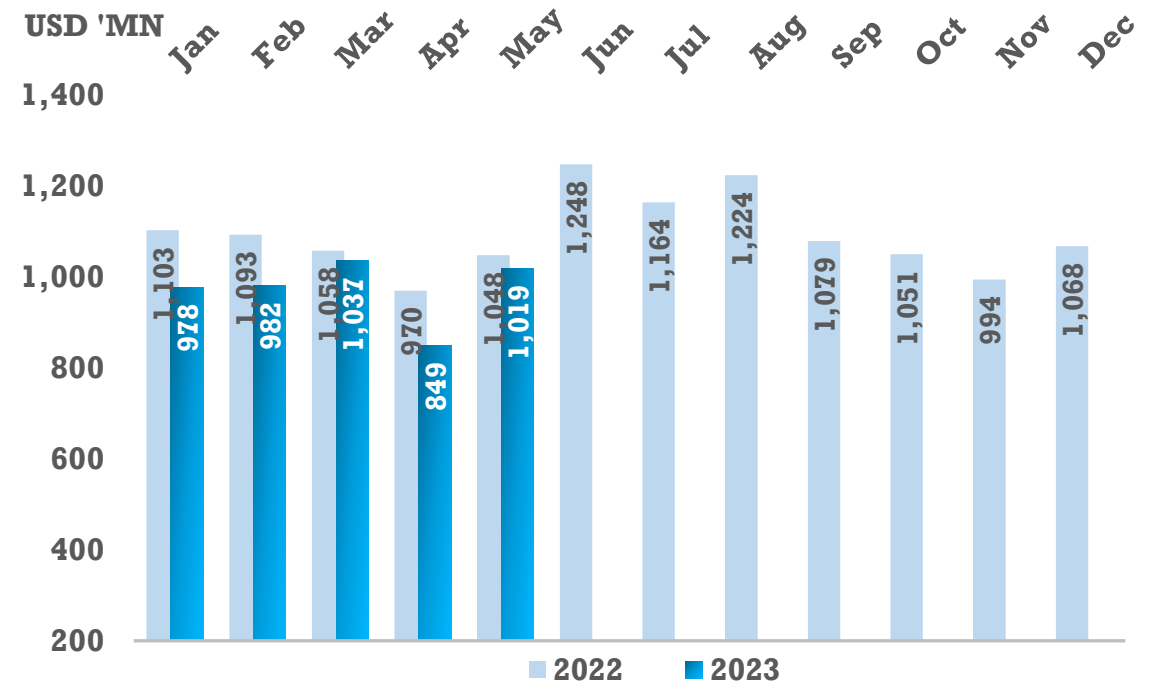
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – MAY 23 – EXPORTS

Earnings from exports declined by 2.7%YoY in May 2023 to USD 1,019.5Mn 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. However, this decline was partially offset by improved earnings in the agricultural sector mainly from tea (led by higher average export prices and volumes), additionally backed by the earnings from seafood and spices. Meanwhile, earnings from mineral exports declined in May 2023 mainly due to the decline in exports of ores, slag and ash.

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Industrial Exports			
- May	854.2	789.7	-7.5
- YTD	4,277.0	3,825.2	-10.6
Agricultural			
- May	190.9	225.7	18.2
- YTD	974.5	1,017.9	4.5
Mineral Exports			
- May	1.9	1.7	-10.5
- YTD	14.2	10.8	-24.1
Total			
- May	1,048.3	1,019.5	-2.7
- YTD	5,273.4	4,865.7	-7.7

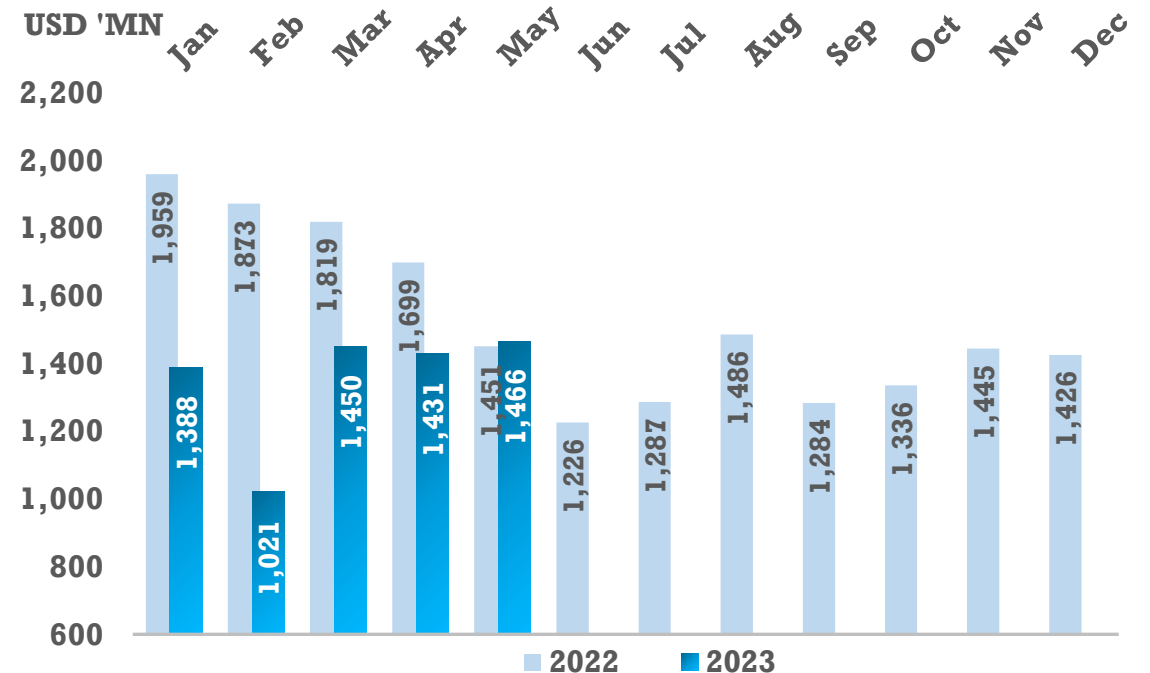


Source: CBSL
Jul 2023

EXTERNAL SECTOR – MAY 23 – IMPORTS

Import expenditure increased marginally by 1.0%YoY to USD 1,446.3Mn in May 2023, recording the first YoY increase since Feb 2022. The increase in expenditure on consumer goods contributed to the increase in import expenditure, whilst a decline in expenditure was observed in imports of intermediate and investment goods. The increase in consumer goods expenditure was driven by the increases in expenditure on both food and non-food items. There was a slight decline in expenditure for intermediate goods driven by lower imports of fuel led by refined petroleum and 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.

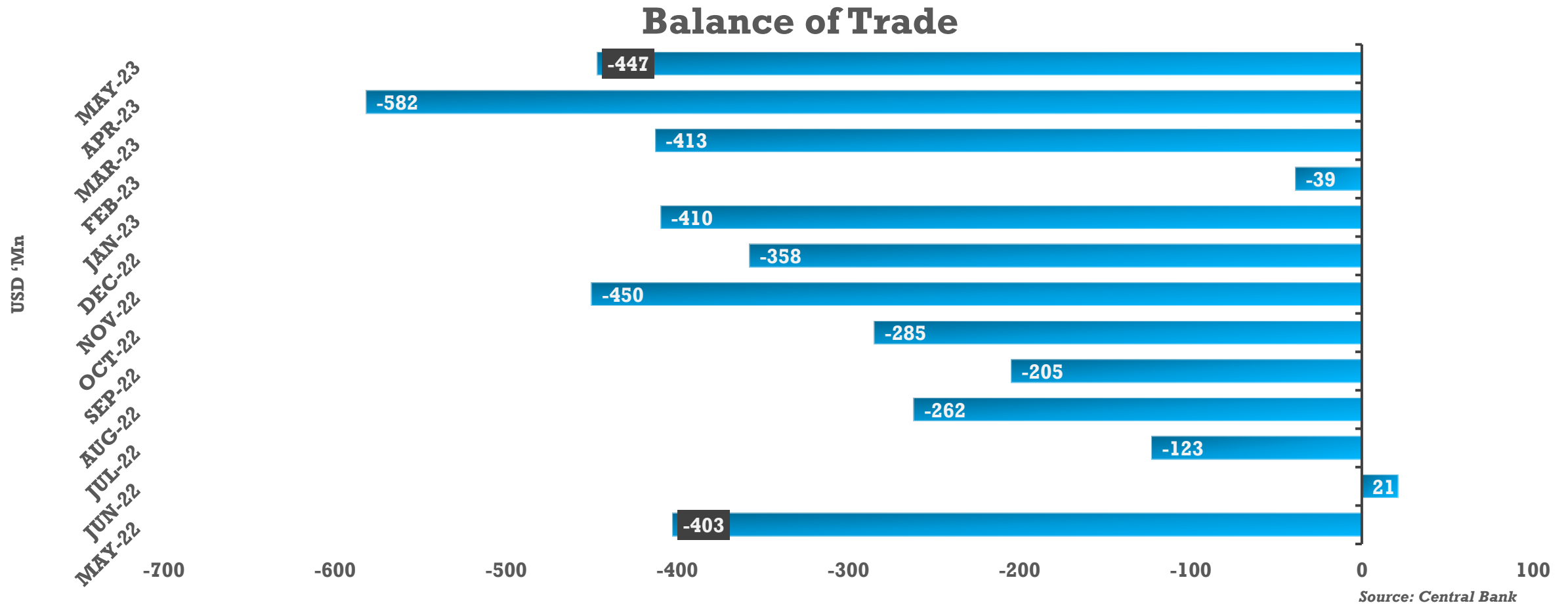
Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Consumer goods			
- May	177.1	292.9	65.4
- YTD	1,353.7	1,241.7	-8.3
Intermediate			
- May	1,036.1	970.5	-6.3
- YTD	5,842.7	4,571.1	-21.8
Investment goods			
- May	238.2	201.5	-15.4
- YTD	1,603.3	971.3	-39.4
Total			
- May	1,451.5	1,466.3	1.0
- YTD	8,801.7	6,791.4	-22.8



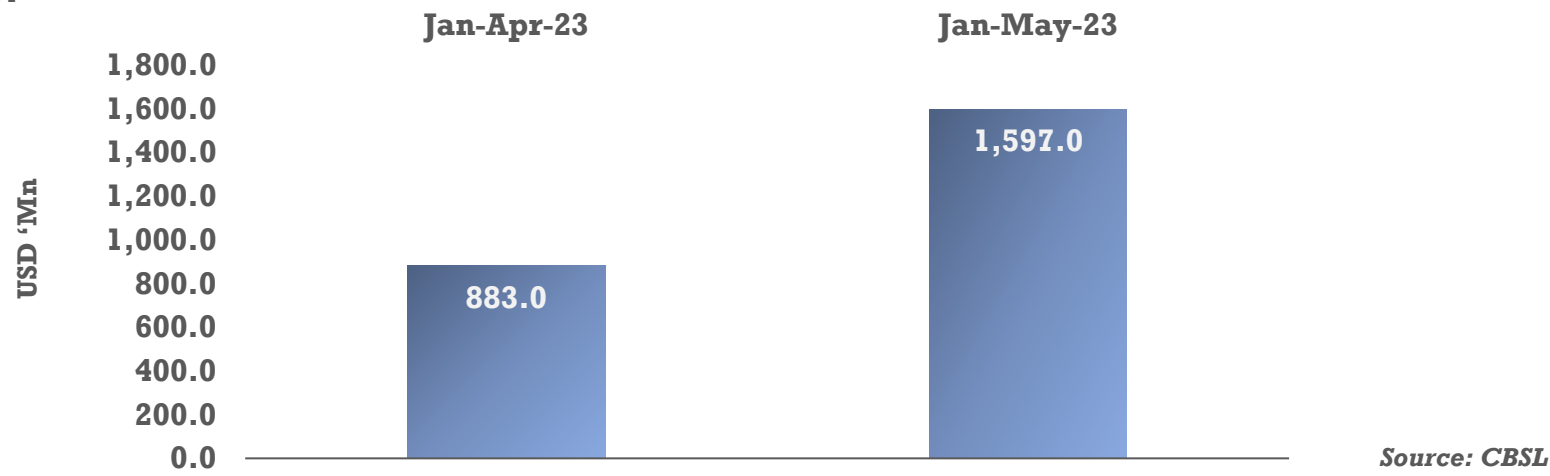
Source: CBSL

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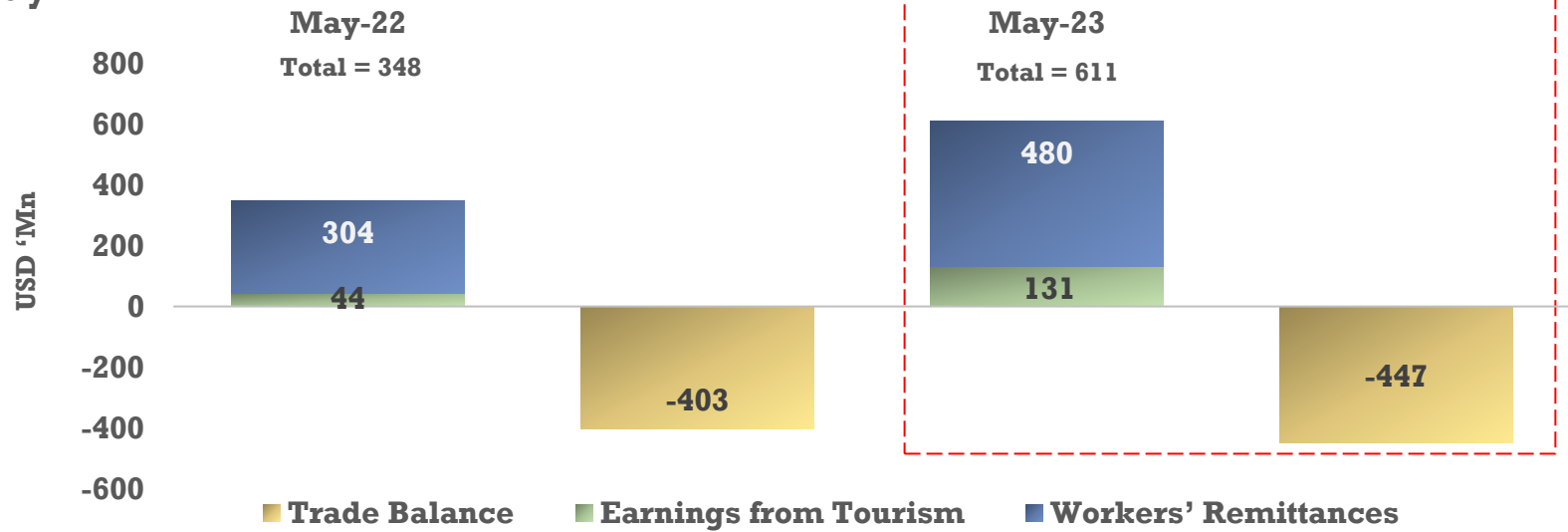
EXTERNAL SECTOR – MAY 23



BoP for Jan-May-23 recorded at USD 1,597.0Mn compared to Jan-Apr-23 amount of USD 883.0Mn resulting in a net inflow of USD 714.0Mn, for the month of May-23.



Workers' Remittances increased to USD 480.0Mn in May-23 (+57.7%YoY). Earnings from Tourism for May-23 increased to USD 131.0Mn from USD 44.0Mn in May-22.



BALANCE OF PAYMENT
DEFICIT DECREASED YOY IN
MAY-23

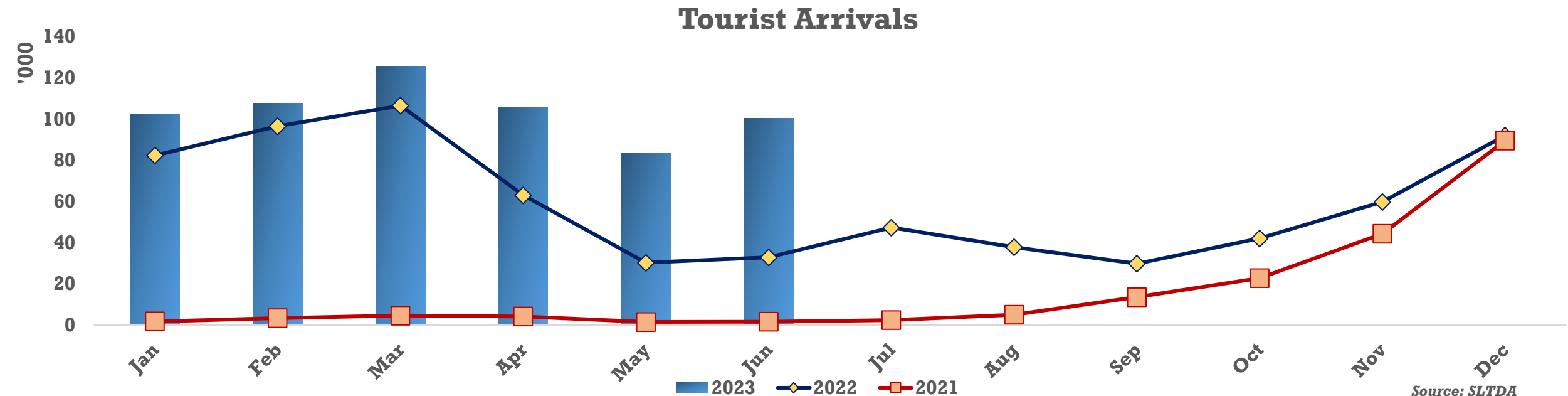
May USD 'Mn	2022	2023	Change (%)
Trade Balance	-403	-447	
Earnings from Tourism	44	131	+197.7
Workers' Remittances	304	480	+57.7

YTD USD 'Mn	2022	2023	Change (%)
Trade Balance	-3,528	-1,926	
Earnings from Tourism	635	828	+30.4
Workers' Remittances	1,336	2,347	+75.7

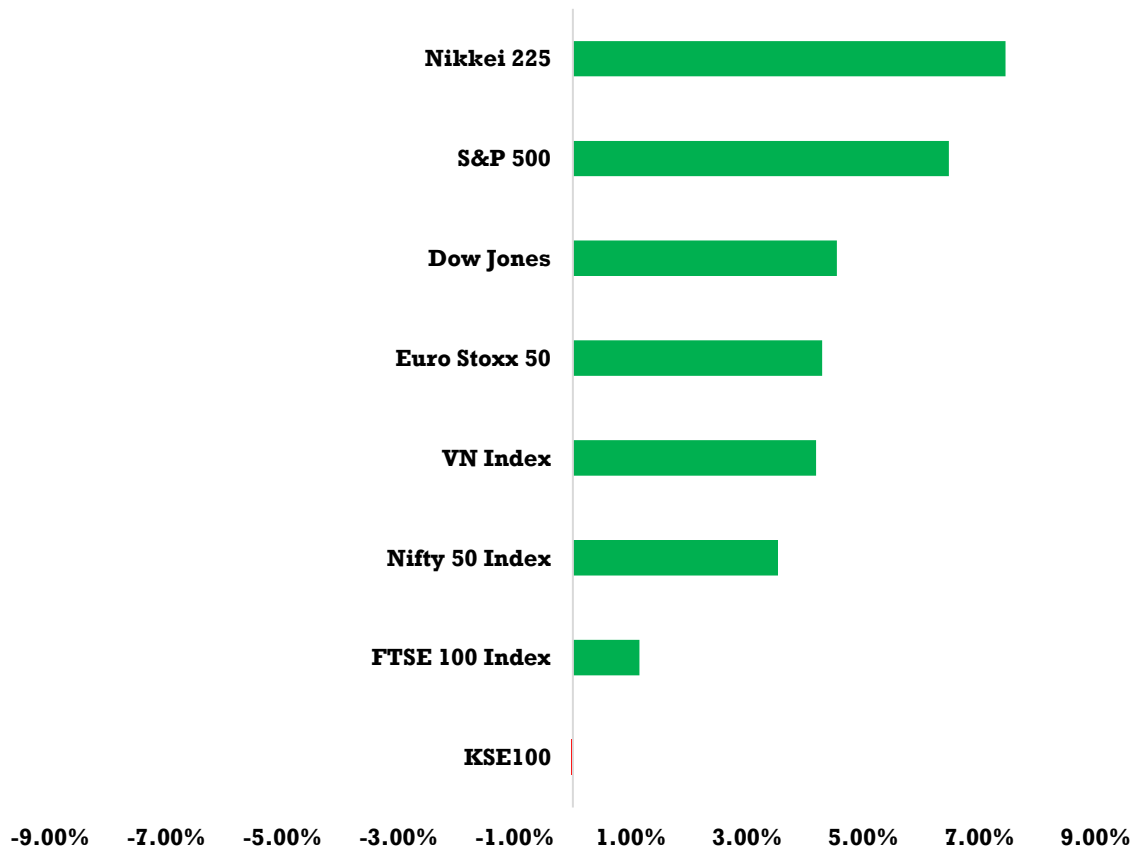
TOURIST ARRIVALS – JUN 2023

[Jun 100,388 – **UP +205.5%YoY**] [MoM– **UP +20.5%**]

The total arrivals for the month was recorded at 100,388 displaying an increase of 205.5%YoY compared to Jun 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. This is the first time in four years that arrivals crossed the 100,000 mark in the month of June. The largest source market for tourist arrivals in Jun were India, the United Kingdom, Russian Federation, Australia and China.



GLOBAL MARKET – JUN 2023



JPMorgan Sees Risks of 7% Interest Rate and 'Hard Landing' in UK

JPMorgan Chase & Co. said there's a risk that the Bank of England will have to push interest rates as high as 7% and trigger a "hard landing" in the economy to quell inflation. Economist Allan Monks said some metrics suggest that the central bank's key rate will have to rise a further 2 percentage points from the current 5% to bring inflation under control as recession risks mount.

Bloomberg



Asia pushes back on 'excessive' currency moves amid enduring dollar strength

Top currency officials in Asia are pushing back on bets that sent their currencies to multi-month lows this week, deepening their underperformance for the year. Japan finance officials have warned all this week against the "excessive" depreciation of the Japanese yen. Malaysian officials too flagged the same concerns for the ringgit, while China fixed the yuan at a stronger-than-expected daily rate three times this week to prop up the currency.

Brent crude steady as economic fears offset supply cuts

Brent crude oil prices were little changed as concern over the global economy countered supply cuts announced by top crude exporters Saudi Arabia and Russia. These measures are designed to push oil prices higher, but currently they are being pulled down by macroeconomic anxiety," PVM analyst Tamas Varga said of the price impact from the supply cuts. Some would argue that the latest decision to supply less oil to the market is bearish because it can be viewed as an admission that demand is struggling to grow at a healthy clip due to global economic headwinds.



REUTERS
WORLD

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MANAGING RISKS"*

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