



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Aug 2023

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THE CENTRAL BANK OF SRI LANKA REDUCES THE STATUTORY RESERVE RATIO

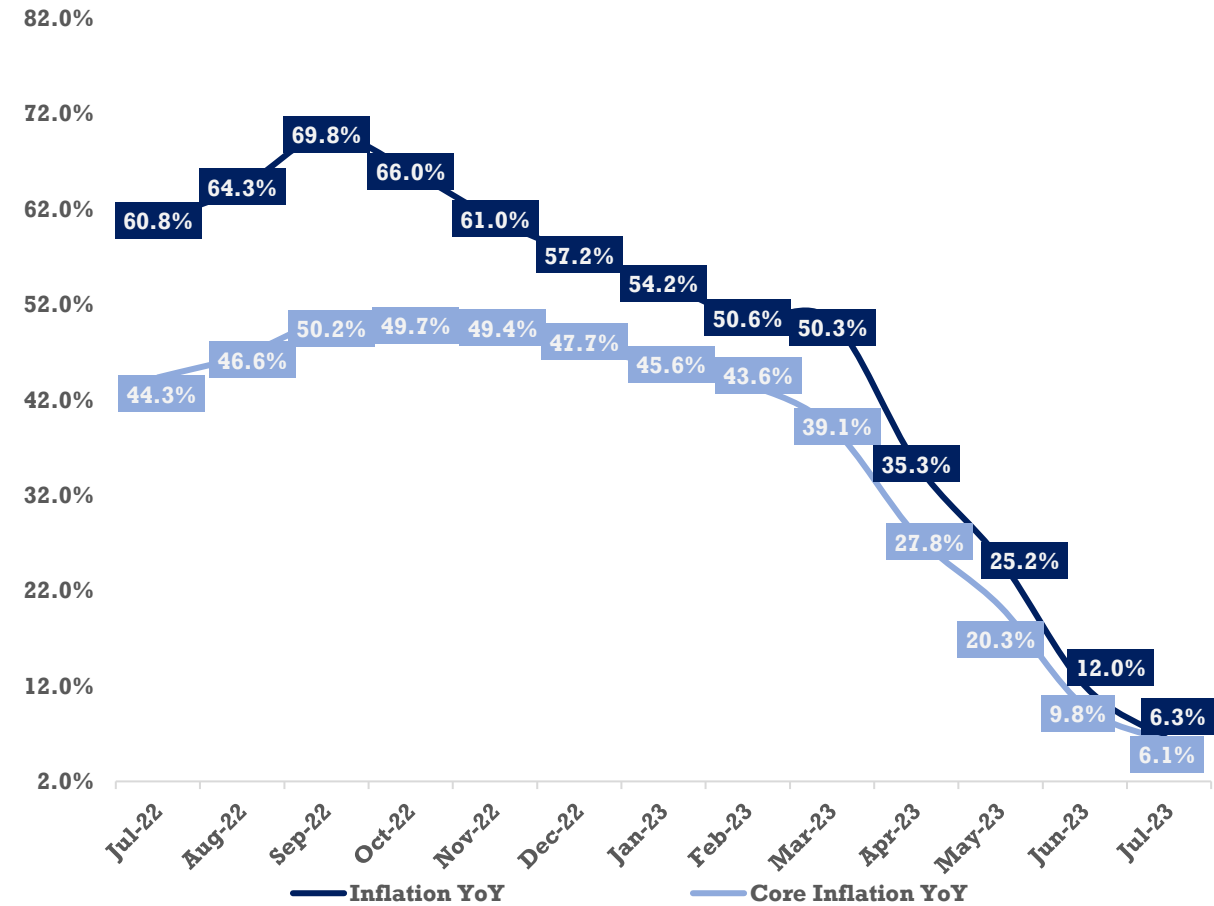
- The Monetary Board of the Central Bank of Sri Lanka, at its meeting held on 8th Aug 2023, decided to reduce the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of Licensed Commercial Banks (LCBs) by 200bps, from 4.00% to 2.00%, with effect from the reserve maintenance period commencing 16th Aug 2023.
- This decision is aimed at injecting liquidity to the banking system and further reducing market liquidity deficit on a permanent basis, in line with the current monetary policy stance of the Central Bank.
- This reduction in the SRR is expected to release around LKR 200.0Bn of liquidity to the domestic money market, which would enable a further downward adjustment in the market lending rates as a result of the reduction in cost of funds of LCBs, thereby supporting the expansion in credit flows to the economy.

Source: CBSL

INFLATION – CCPI

CCPI FOR JUL 2023:
MOM -1.1%
YOY +6.3%

- MoM inflation declined by 1.1% with the inflation of Food group remaining null while Non-Food group decreased by 1.7%.
- The YoY inflation drastically decreased for the 10th consecutive month and came to a single digit rate of 6.3% in Jul 2023. YoY inflation of Food group has decreased to -1.4% in Jul 2023 from 4.1% in Jun 2023 while Non-Food group decreased to 10.5% from 16.2% in Jun 2023.



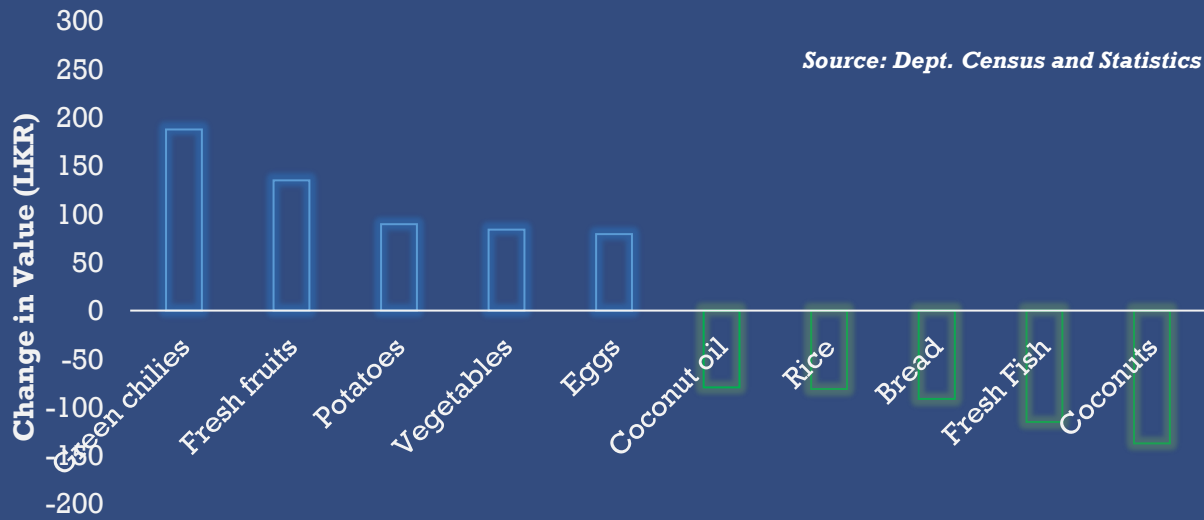
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

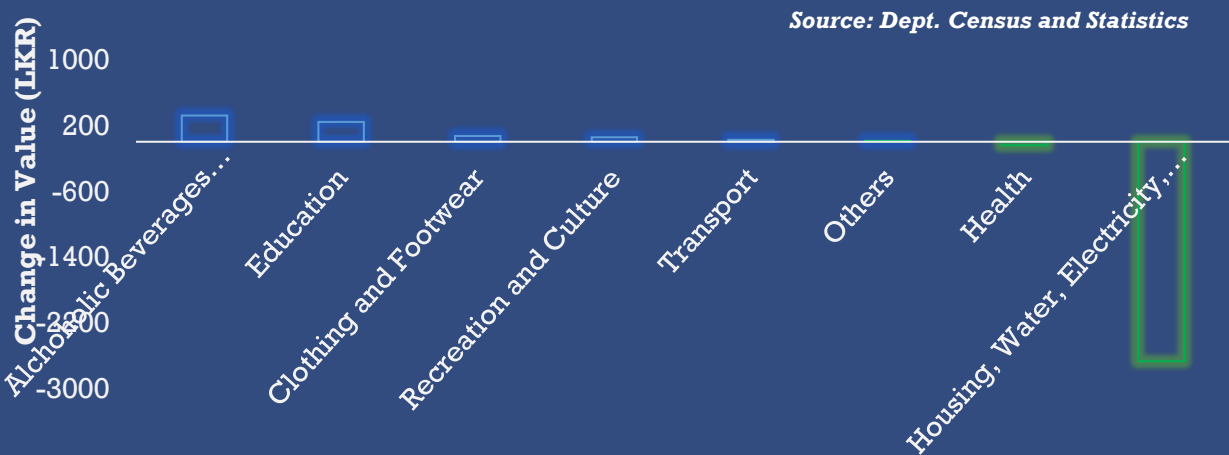
The CCPI index declined by 1.1%MoM contributed by the decrease in expenditure of Non-Food items by 1.13% and an increase in expenditure of Food items by 0.01%. Within the Food items, increase in value changes were mainly reported for Green chilies, Fresh fruits, Potatoes, Vegetables and Eggs. Among Non-Food groups, decrease in value changes were mainly reported in Housing, Water, Electricity, Gas & Other Fuels and Health.



Food Category Inflation



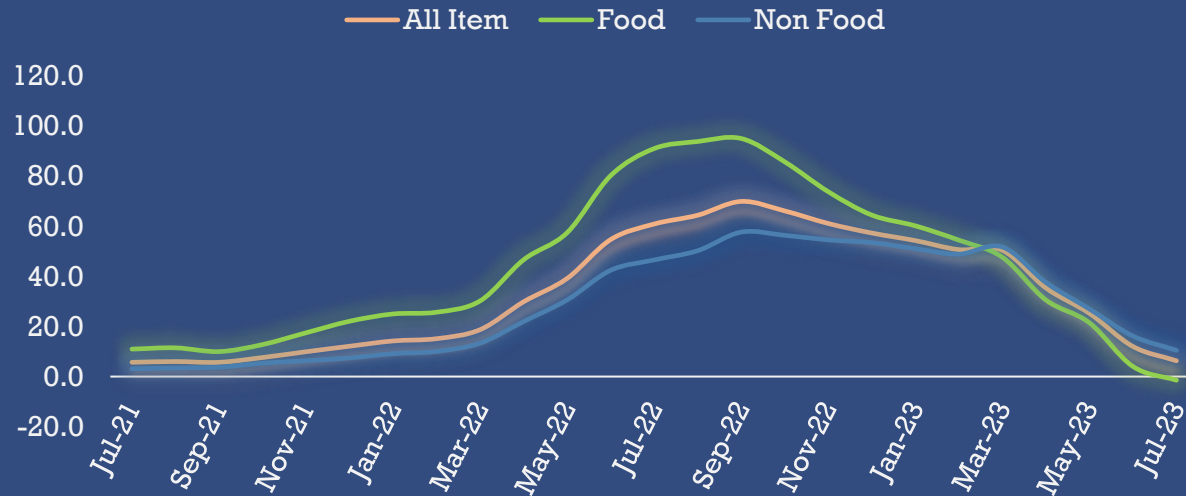
Non-Food Category Inflation



INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Jul was 6.3% and has decreased sharply relative to the month of Jun 2023. Food item prices have decreased to -1.4%YoY in Jul 2023 from 4.1%YoY in Jun 2023 while the Non-Food item prices decreased to 10.5%YoY in Jul 2023 from 16.2%YoY in Jun 2023. The contribution from food category for YoY inflation was -0.50% while the contribution of Non-Food items stood at 6.81% mainly due to the increase in prices of Housing, Water, Electricity, Gas & Other Fuels, Clothing and Footwear, Miscellaneous Goods, Restaurants & Hotels.

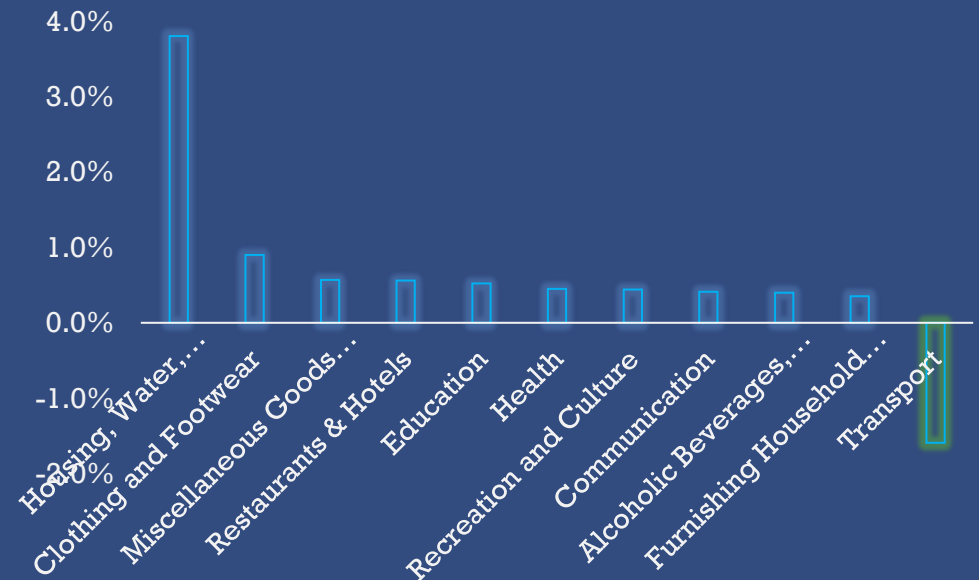
Inflation Analysis (YoY)



Source: Dept. Census and Statistics



Non-Food Category Inflation

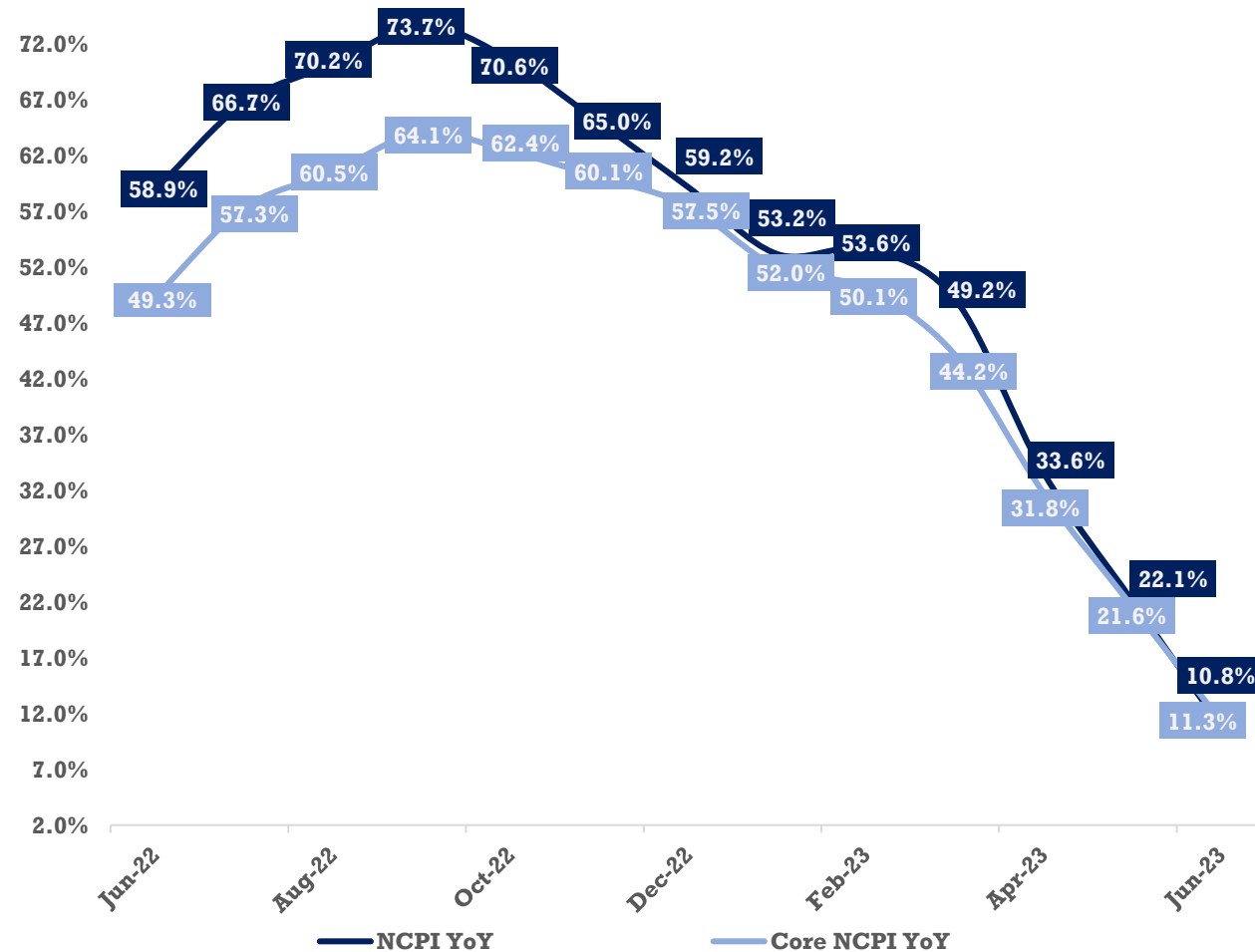


Source: Dept. Census and Statistics

INFLATION – NCPI

NCPI FOR JUN 2023: DECREASED TO 10.8%YOY

- NCPI for Jun 2023 decreased to 10.8% compared to 22.1% in May 2023.
- Decrease in inflation was mainly driven by the price decrease in both Food and Non-Food commodities. Accordingly, YoY Food inflation decreased to 2.5% in Jun 2023 from 15.8% in May 2023 while Non-Food inflation decreased to 18.3% in Jun 2023 from 27.6% in May 2023.



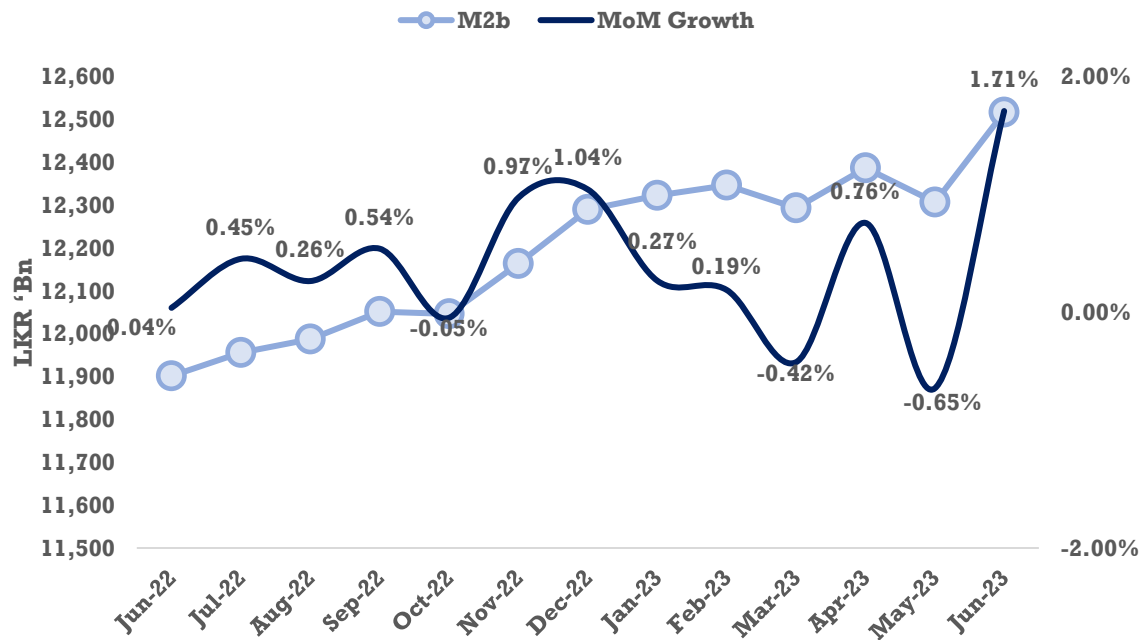
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit increased for the first time in 12 months by LKR 73.8Bn compared to the previous month amidst the dip in rates. Meanwhile, State credit also improved by LKR 164.4Bn relative to the previous month.

M2b Growth – Jun 2023

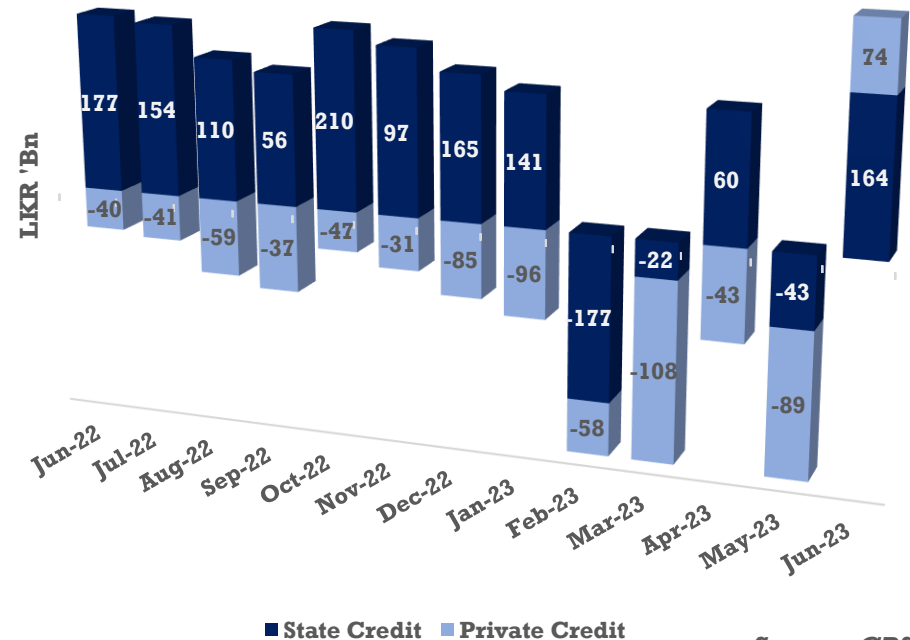
MoM +1.71%, YoY +5.17%, YTD +1.85%



Source: CBSL

State Credit & Private Credit – Jun 2023

Private Credit MoM +1.1%, YoY -8.03%, YTD -4.31%



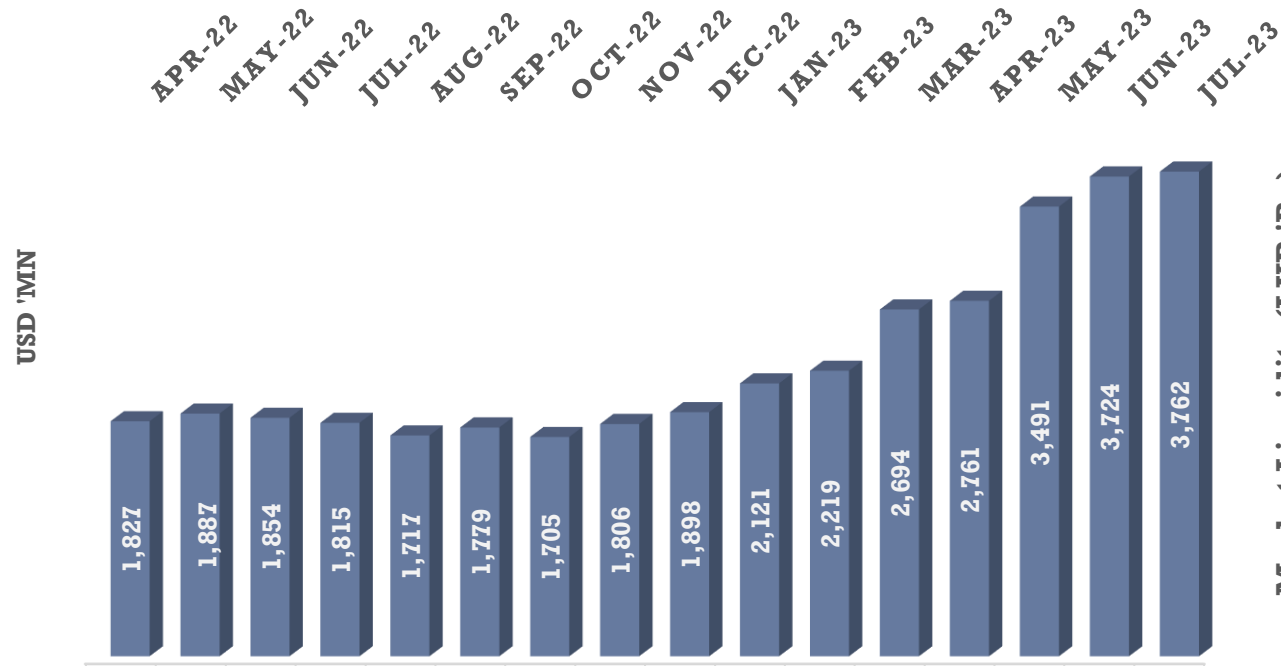
State Credit Private Credit

Source: CBSL

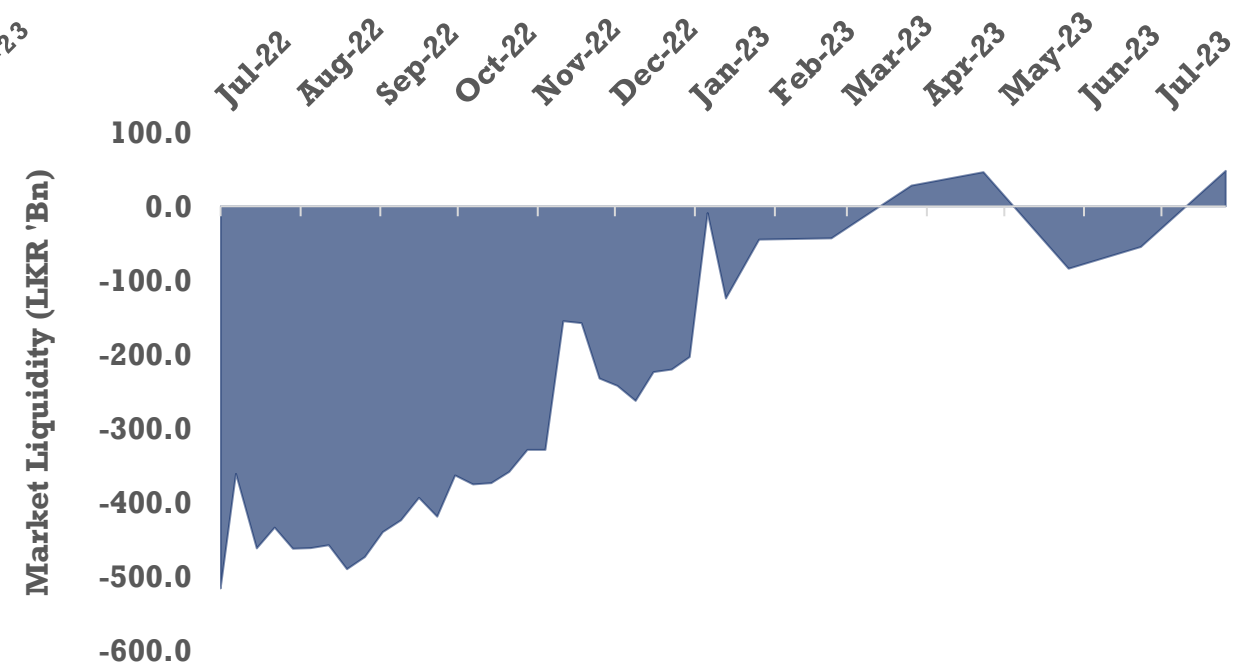
LIQUIDITY & RESERVES

- Foreign Reserves improved by USD 38.0Mn to USD 3.8Bn in Jul 2023.

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



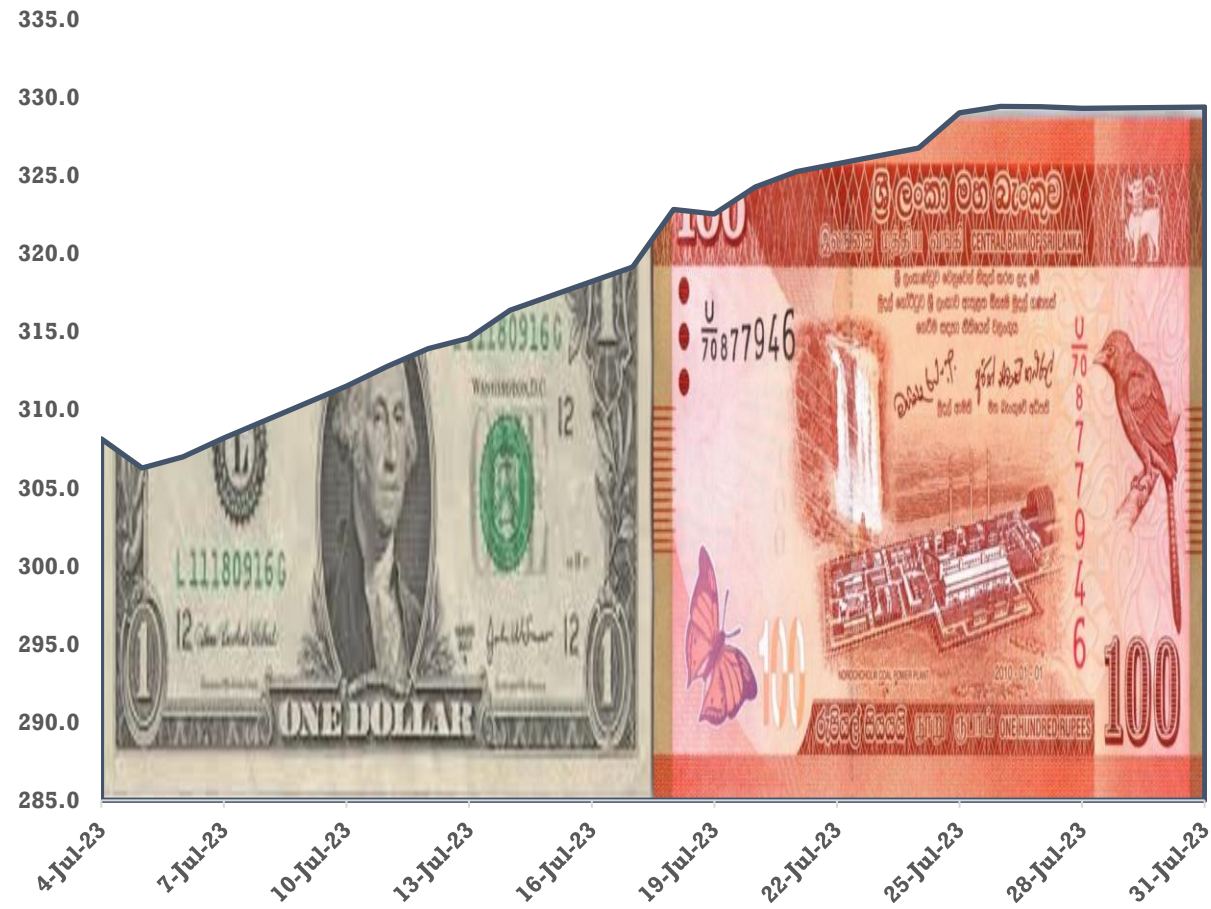
Source: CBSL



Source: CBSL

CURRENCY MOVEMENT

USD:LKR Movement

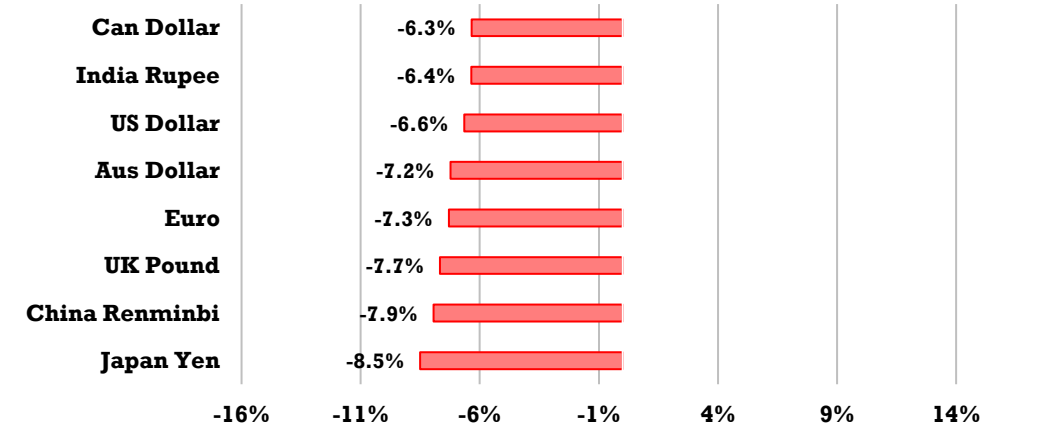


Source: CBSL

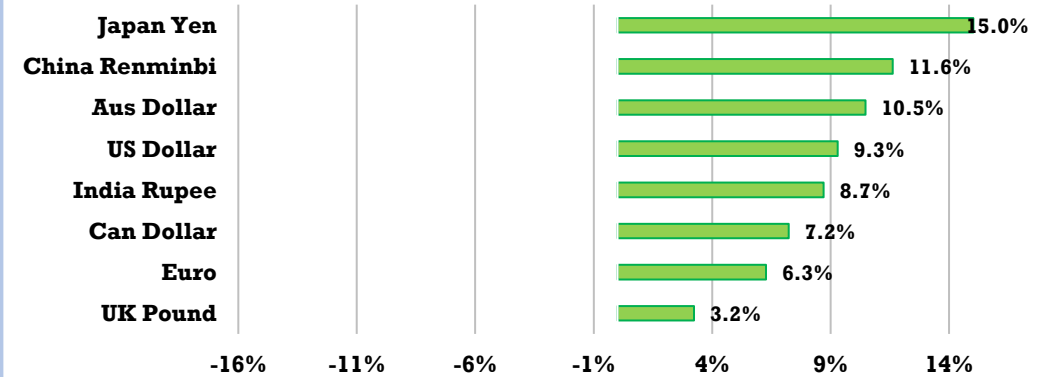
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Sri Lankan Rupee vs Global Currencies

Jul 2023



YTD 2023



Source: CBSL

Aug 2023

GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Jul 2023

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
7-Jul-23	175,000		175,000
14-Jul-23	99,690		99,690
21-Jul-23	75,509	120,000	195,509
28-Jul-23	160,507		160,507
Total Issued			630,706

Net Settlement	Jul 2023	YTD
Maturities	1,433,201	8,142,506
New Issues	630,706	4,372,631
Excess/ (Deficit)	(802,495)	(3,769,875)

CBSL Holdings of Gov. Securities		YTD
As at End Jul 2023	2,676,070	
As at End Jun 2023	2,456,561	
Increase/ (Decrease)	219,509	77,892

CBSL HOLDINGS OF GOV. SECURITIES...

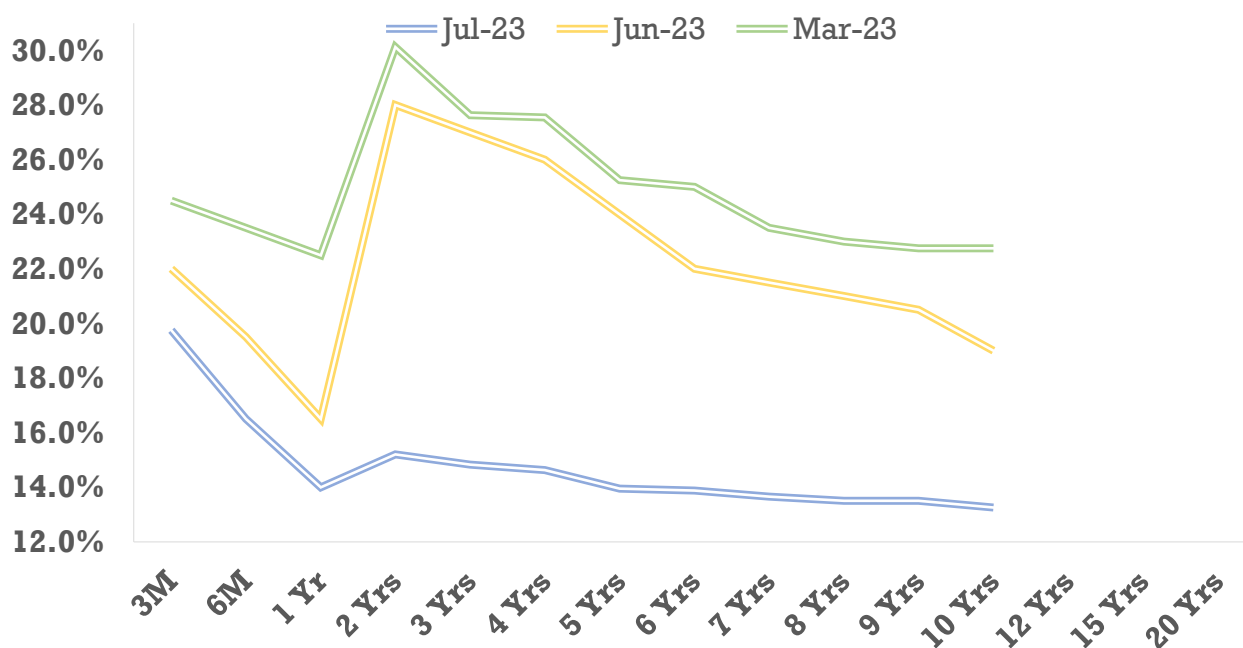
...increased by LKR 219.5Bn in Jul 2023



Source: CBSL

TREASURY BILLS AND BONDS – JUL 2023

The secondary market opened the month on an exceptionally bullish sentiment as the DDO proceedings were clarified during the beginning of the month. Buying interest further intensified following the policy rate cut of 200bps. Accordingly, yields dipped substantially across the board during the month while predominant interest was enticed on mid-tenors which declined by over 1000bps. During the month, CBSL conducted the first bond auction post IMF approval and closed at a higher weighted average yield relative to the market rates. However, towards the end of the month mixed activities were observed in the market amidst slight profit booking.

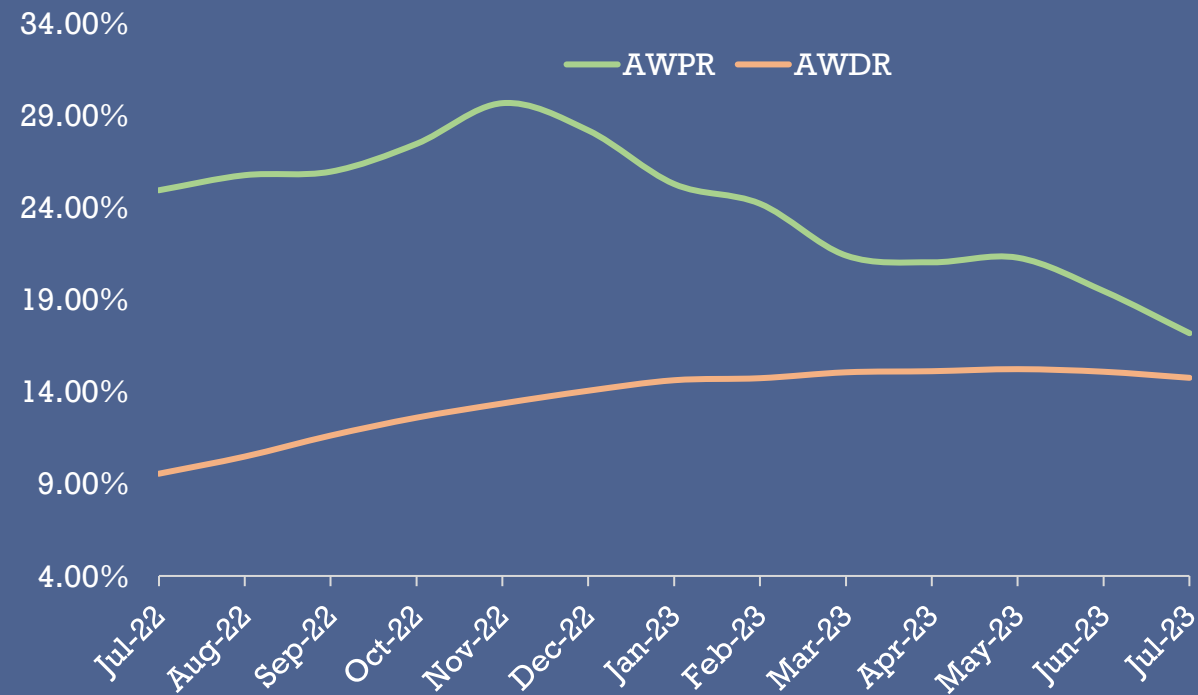


Source: First Capital Research

Interest Rate Change (bps)

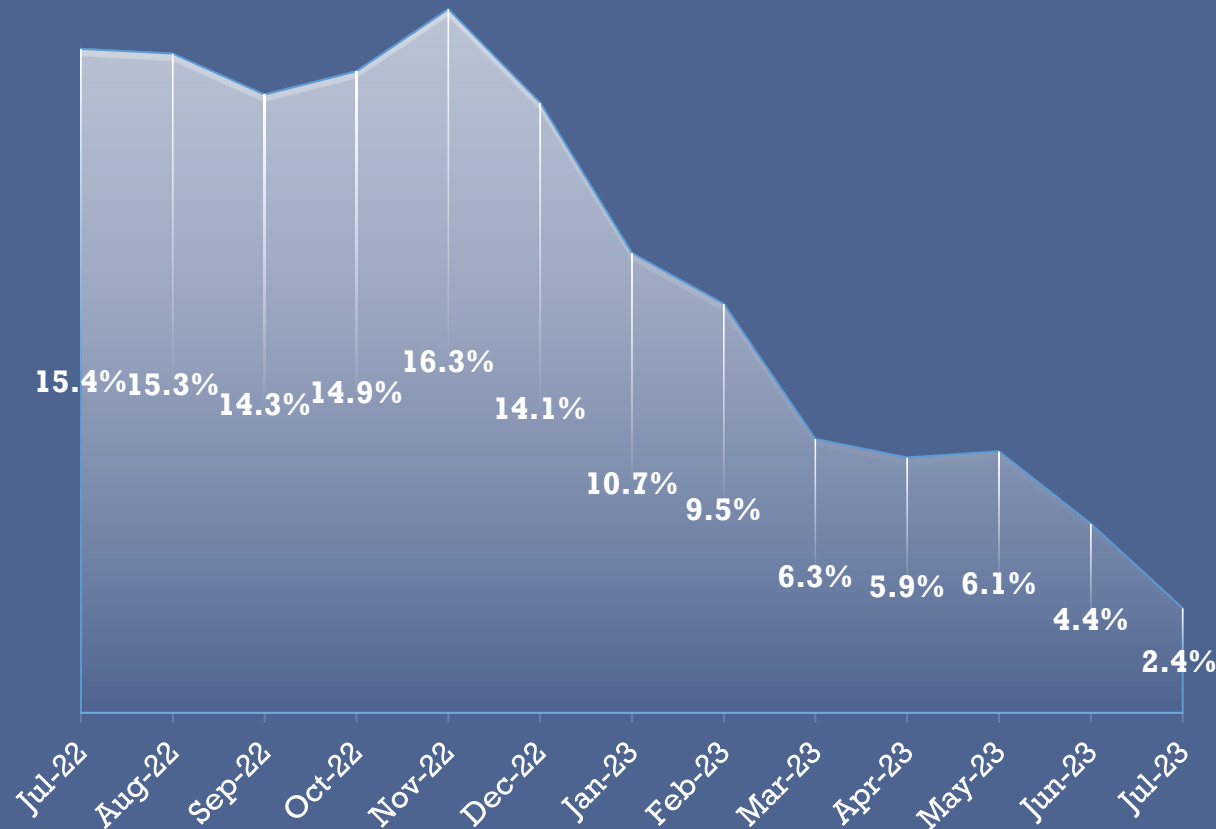
Tenure	Jul-23	Jun-23	Change (bps)	Mar-23	Change (bps)
3M	19.75%	22.00%	-225	24.50%	-475
6M	16.50%	19.50%	-300	23.50%	-700
1 Yr	14.00%	16.50%	-250	22.50%	-850
2 Yrs	15.20%	28.00%	-1280	30.13%	-1493
3 Yrs	14.83%	27.00%	-1217	27.63%	-1280
4 Yrs	14.63%	26.00%	-1137	27.55%	-1292
5 Yrs	13.95%	24.00%	-1005	25.25%	-1130
6 Yrs	13.88%	22.00%	-812	25.00%	-1112
7 Yrs	13.65%	21.50%	-785	23.50%	-985
8 Yrs	13.50%	21.00%	-750	23.00%	-950
9 Yrs	13.50%	20.50%	-700	22.75%	-925
10 Yrs	13.25%	19.00%	-575	22.75%	-950
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



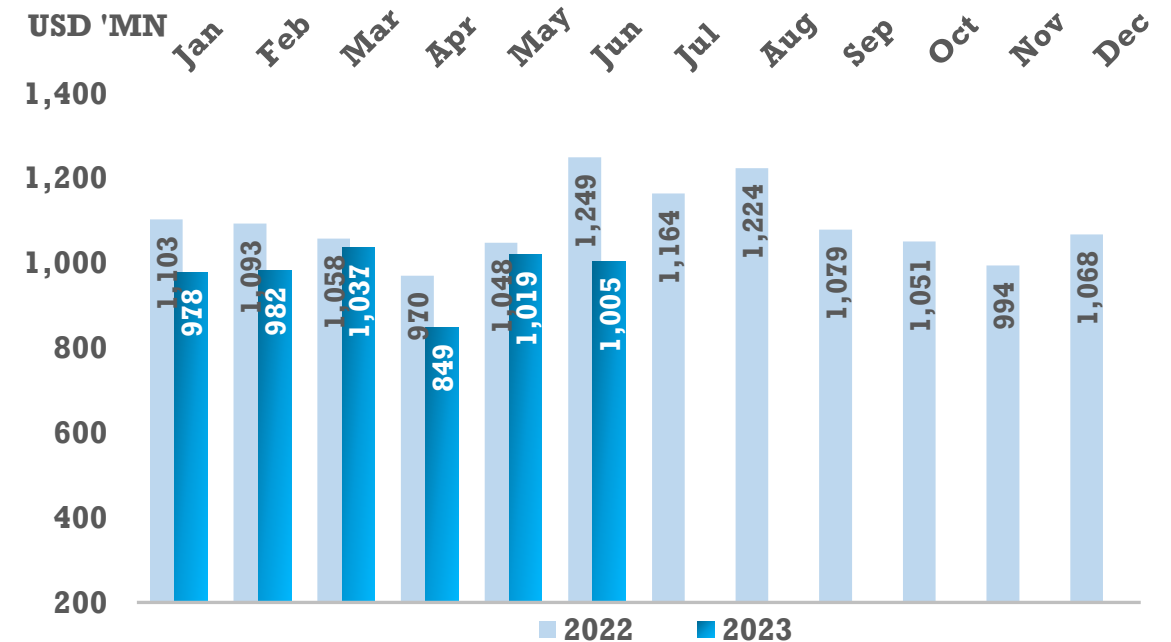
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – JUN 23 – EXPORTS

Earnings from exports declined by 19.5%YoY in Jun 2023 to USD 1,005.3Mn reflecting the high base in Jun 2022 while all major subcategories recorded a decline across the board. The decline in earnings from industrial exports were mainly due to the decline in earnings from garment exports to most of the major markets (USA, EU and UK) while there was a decline in export of petroleum products due to the reduction in average export prices of bunker fuel. Moreover, Agricultural Exports declined driven by lower export volumes of sea food (primarily, fresh and frozen fish), and coconut related products (primarily, desiccated coconut, coconut oil and fibres). Earnings from tea exports declined led by lower volumes despite higher export prices. Earnings from mineral exports declined mainly due to the dip in exports of earths and stone; and ores, slag, and ash.

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Industrial Exports			
- Jun	991.2	790.8	-20.2
- YTD	5,268.2	4,616.0	-12.4
Agricultural			
- Jun	251.5	211.3	-16.0
- YTD	1,226.0	1,229.2	0.3
Mineral Exports			
- Jun	2.9	1.1	-62.1
- YTD	17.1	11.9	-30.4
Total			
- Jun	1,248.8	1,005.3	-19.5
- YTD	6,522.2	5,871.0	-10.0

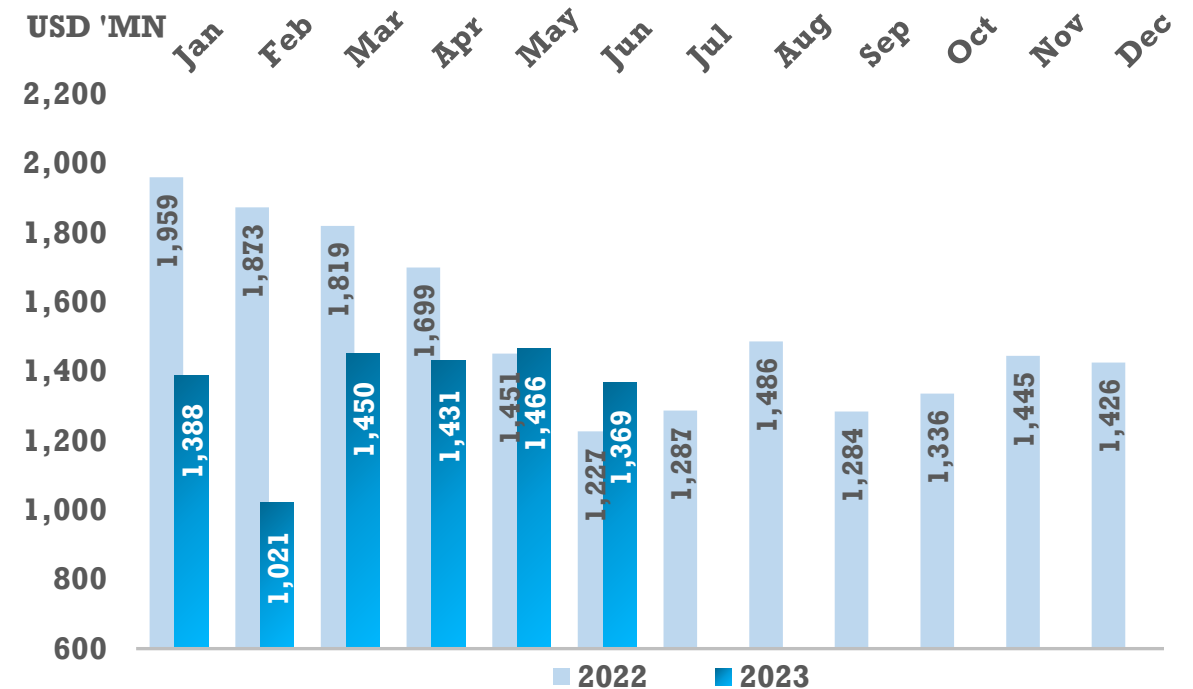


Source: CBSL
Aug 2023

EXTERNAL SECTOR – JUN 23 – IMPORTS

Import expenditure increased by 11.6%YoY to USD 1,369.1Mn in Jun 2023 as import expenditure rose across all main categories led by the low base in Jun 2022. The increase in consumer goods expenditure was driven by the increases in expenditure on both food and non-food items. Expenditure for intermediate goods increased led by imports of fuel and base metals (mainly, iron and non-alloy steel). Import volumes of crude oil and refined petroleum increased in Jun 2023, compared to Jun 2022, although coal imports remained limited due to off-season. Further, a sizeable increase was recorded in the imports of wheat, fertiliser (mainly, urea), agricultural inputs (mainly, animal fodder), and food preparations (mainly, palm oil). Import expenditure on investment goods increased with the increase in imports of machinery and equipment (primarily, machinery and equipment parts, turbines, and telecommunication devices).

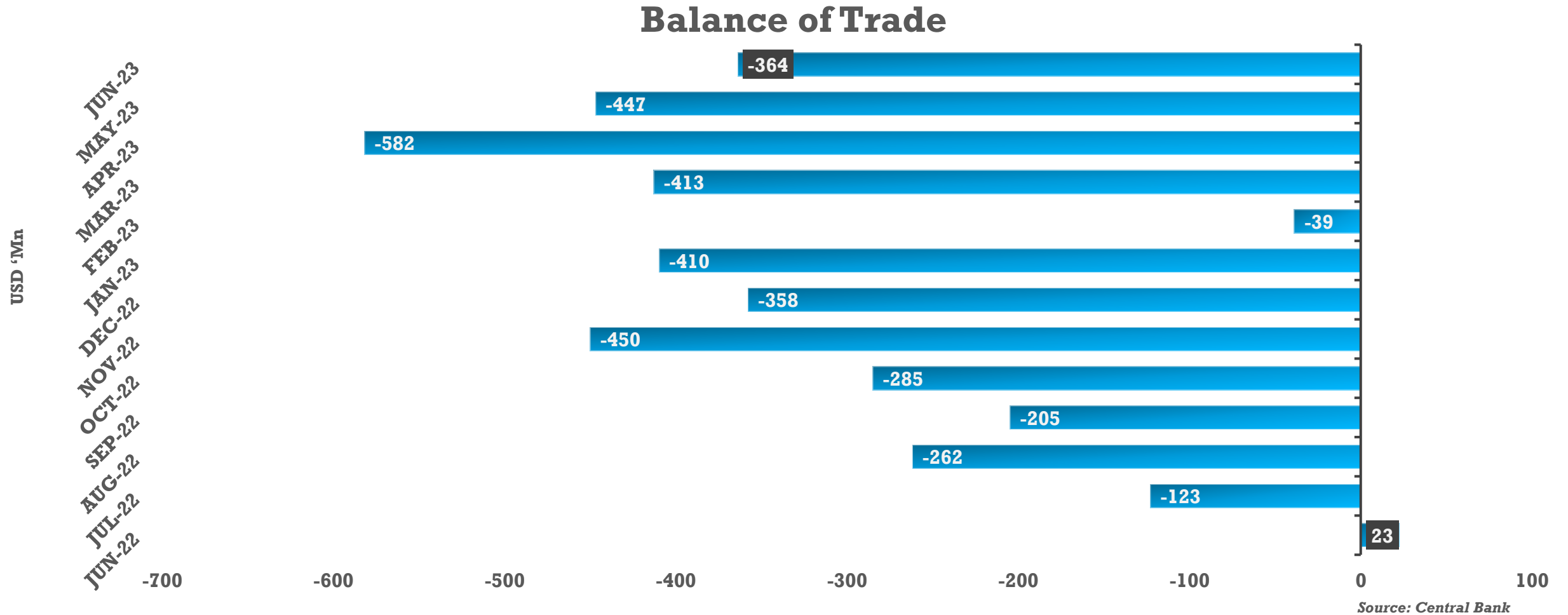
Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Consumer goods			
- Jun	176.5	251.7	42.6
- YTD	1,530.2	1,493.5	-2.4
Intermediate			
- Jun	815.7	875.4	7.3
- YTD	6,658.4	5,446.5	-18.2
Investment goods			
- Jun	234.1	239.9	2.5
- YTD	1,837.4	1,211.2	-34.1
Total			
- Jun	1,226.5	1,369.1	11.6
- YTD	10,028.1	8,160.5	-18.6



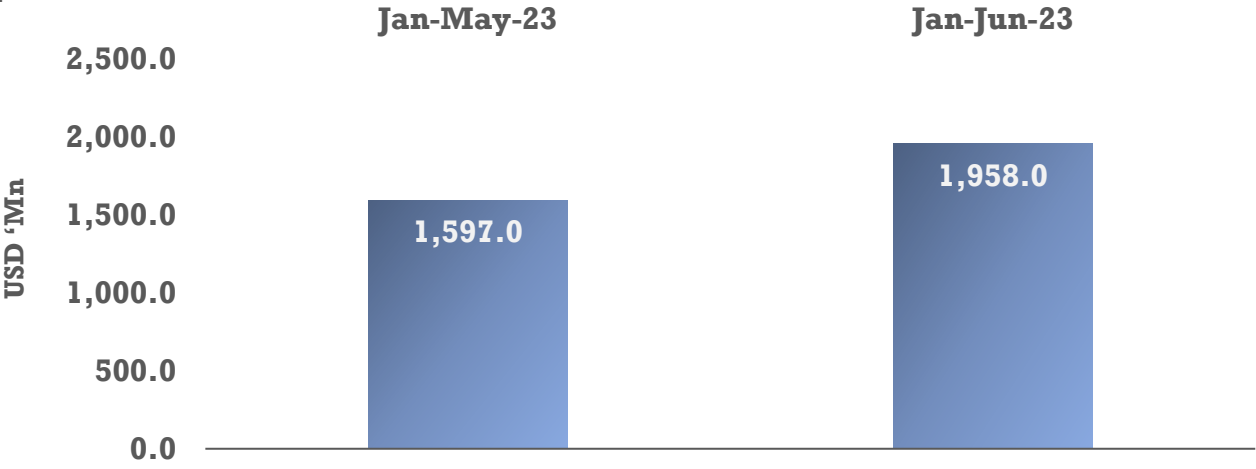
Source: CBSL

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EXTERNAL SECTOR – JUN 23

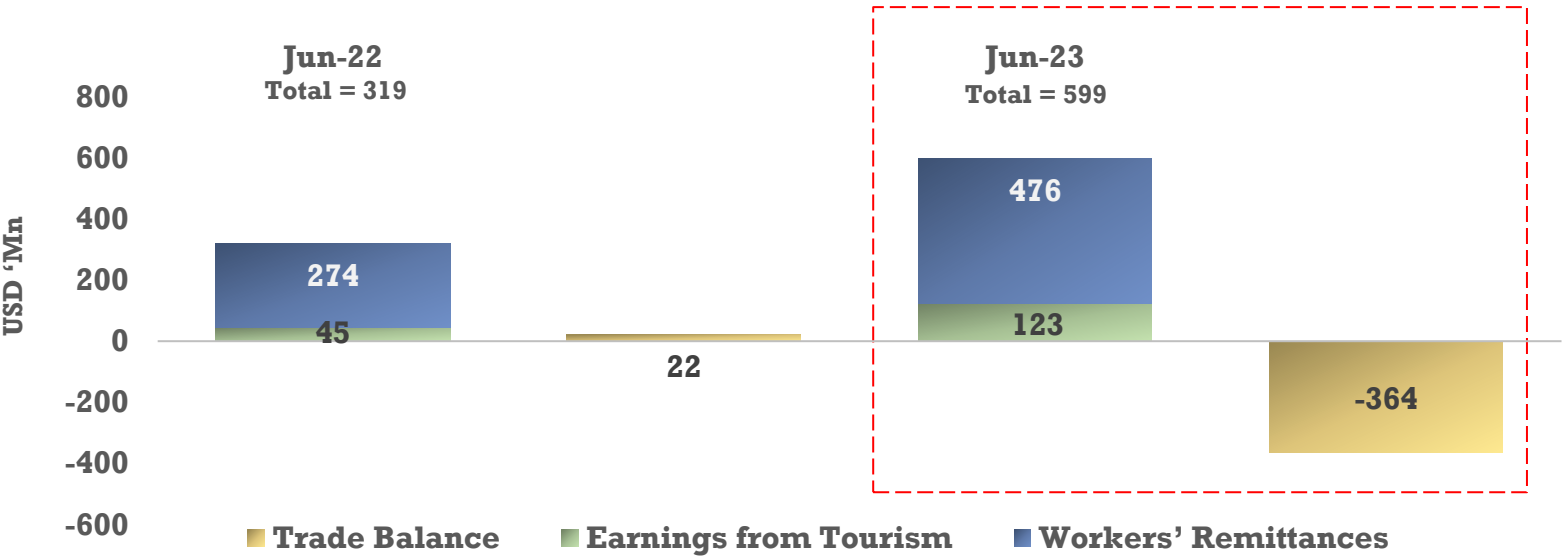


BoP for Jan-Jun-23 recorded at USD 1,958.0Mn compared to Jan-May-23 amount of USD 1597.0Mn resulting in a net inflow of USD 361.0Mn, for the month of Jun-23.



Source: CBSL

Workers' Remittances increased to USD 476.0Mn in Jun-23 (+73.4%YoY). Earnings from Tourism for Jun-23 increased to USD 123.0Mn from USD 45.0Mn in Jun-22.



Source: CBSL

BALANCE OF PAYMENT
DEFICIT DECREASED YOY IN
JUN-23

Jun USD 'Mn	2022	2023	Change (%)
Trade Balance	22	-364	
Earnings from Tourism	45	123	+173.3
Workers' Remittances	274	476	+73.4

YTD USD 'Mn	2022	2023	Change (%)
Trade Balance	-2,814	1,958	
Earnings from Tourism	680	875	+28.8
Workers' Remittances	1,610	2,823	+75.3

Source: CBSL

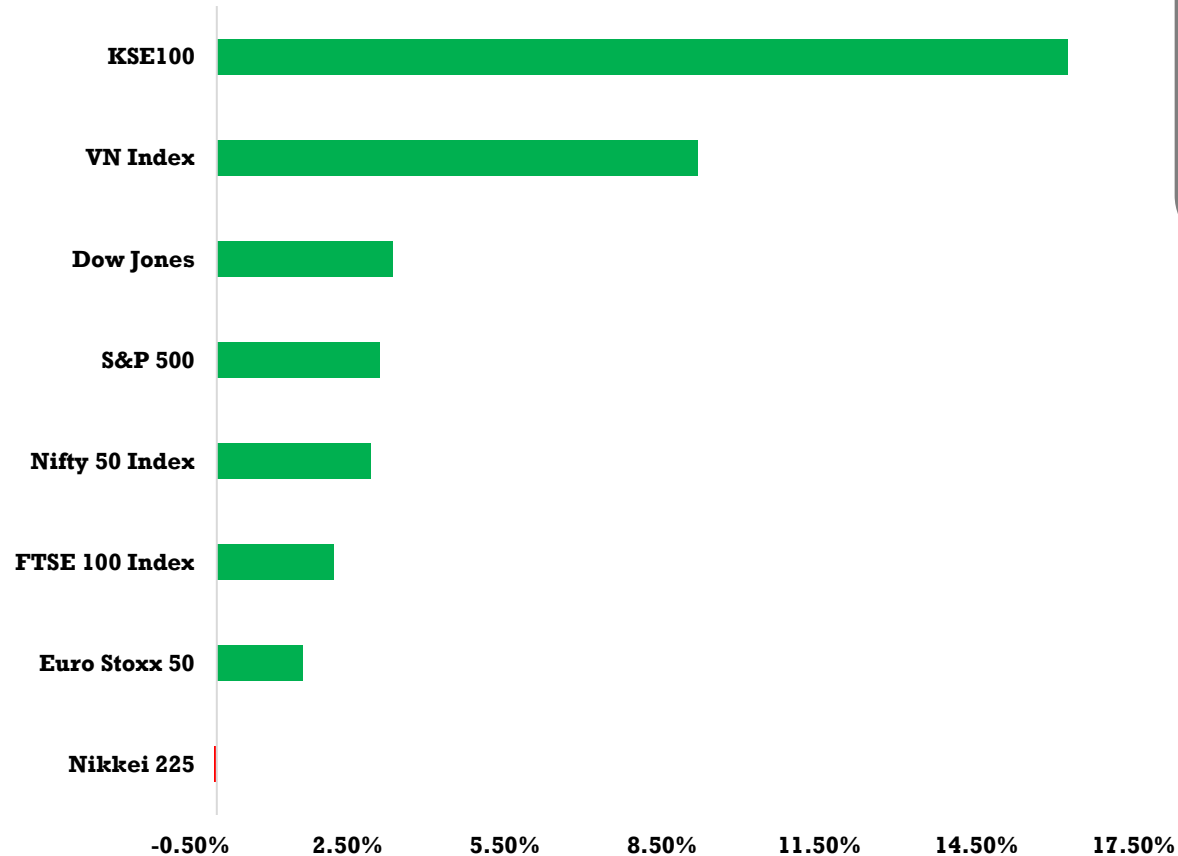
TOURIST ARRIVALS – JUL 2023

[Jul 143,039 – **UP +202.5%YoY**] [MoM– **UP +42.5%**]

The total arrivals for the month was recorded at 143,039 displaying an increase of 202.5%YoY compared to Jul 2022, owing to 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 largest source market for tourist arrivals in Jul were India, the United Kingdom, China, Germany and Russian Federation.



GLOBAL MARKET – JUL 2023



China Deflation Provides Limited Relief for Global Central Banks

China's consumer and producer prices fell together for the first time since 2020, a deflation cycle that could give global central banks some help in fighting inflation in their own countries but signals a worsening outlook in the world's second-largest economy. The consumer price index registered its first decline in more than two years, falling 0.3% in July from a year earlier, the National Bureau of Statistics reported. Producer prices fell for 10th consecutive month, contracting by 4.4%.

Bloomberg



Boeing aircraft deliveries fall in July-23 as company plans to raise output

Boeing delivered 43 aircraft to customers in July-23 as it tried to ramp up output with airline customers clamoring for new jets. The handovers were down from 60 in June-23 but brought Boeing's total deliveries in the first seven months of 2023 to 309, an increase of nearly 28% from the same period in 2022. In July, Boeing said it was transitioning production of its bestselling 737 Max plane to a pace of 38 per month from 31.

Rising prices for travel do not appear to be curbing wanderlust

The post-pandemic travel boom and the high ticket prices that come with it show no signs of slowing well into next year, despite economic uncertainty and dwindling household savings. While questions linger about how much longer consumers will continue to indulge, airlines, hotels and analysts say travel has remained a top priority instead of the "nice to have" purchase as in years past. International travel reached around 90% of pre-pandemic levels this year, according to the International Air Transport Association. The rebound was led by visitors to Southern Europe from cooler climates despite soaring temperatures and included swaths of American tourists flying overseas.



REUTERS
WORLD

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MANAGING RISKS"*

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