



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Jan 2024

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IMF EXECUTIVE BOARD COMPLETES THE FIRST REVIEW UNDER THE EFF WITH SRI LANKA

- The IMF board completed the first review under the 48-month Extended Fund Facility (EFF) with Sri Lanka on the 12th Dec-23, providing access to SDR 254Mn (approximately USD 337Mn) to support the country's economic policies and reforms.
- The board disclosed that Sri Lanka's performance under the program was satisfactory. All, but one performance criteria and, all but one indicative target were met by end Jun-23. Furthermore, most structural benchmarks due by end Oct-23 were either met or implemented with delay. As of Nov-23, Sri Lanka met 46 out of 100 IMF commitments and has failed 12 IMF commitments.
- The completion of the first review allows the country for an immediate disbursement of SDR 254Mn (approximately USD 337Mn), bringing the total IMF financial support disbursed so far to SDR 508Mn (approximately USD 670Mn), out of the total amount of EFF arrangement, totalling up to SDR 2.3Bn (approximately USD 3.0Bn).
- The authorities have made commendable progress towards restoring debt sustainability, raising revenue, reducing inflation and safeguarding financial stability. The IMF support programme is determined to further support the country with macroeconomic and financial stability whilst enhancing growth oriented structural forms.

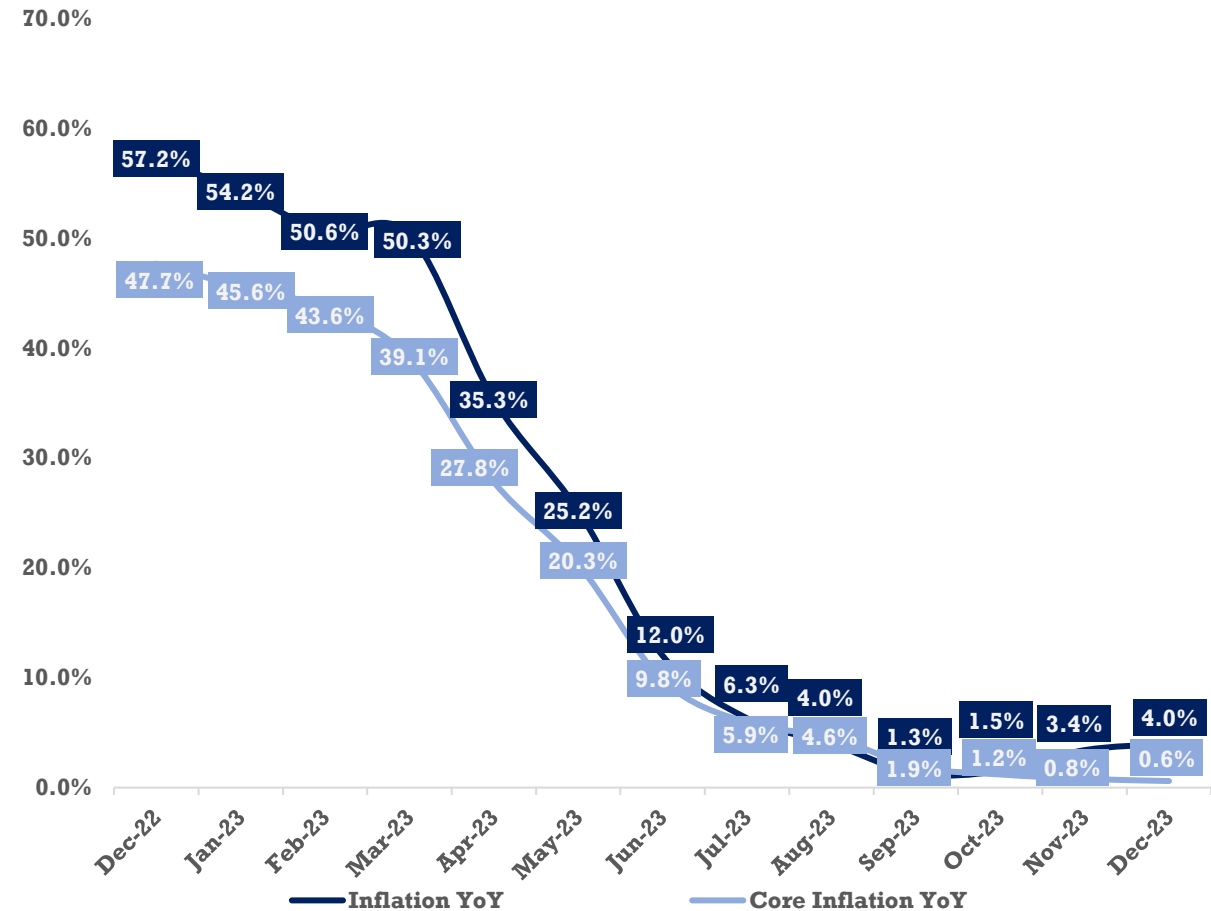
Source: CBSL

Jan 2024

INFLATION – CCPI

CCPI FOR DEC 2023:
MOM +0.9%
YOY +4.0%

- MoM inflation marginally up by 0.9% MoM with the increase in inflation of Food group by 3.7% and deflation in Non-food group by -0.4%, respectively.
- The YoY inflation increased to 4.0% in Dec 2023. YoY inflation of Food group increased to 0.3% in Dec 2023, while Non-Food group decreased to 5.8% in Dec 2023 from 6.8% in Nov 2023.



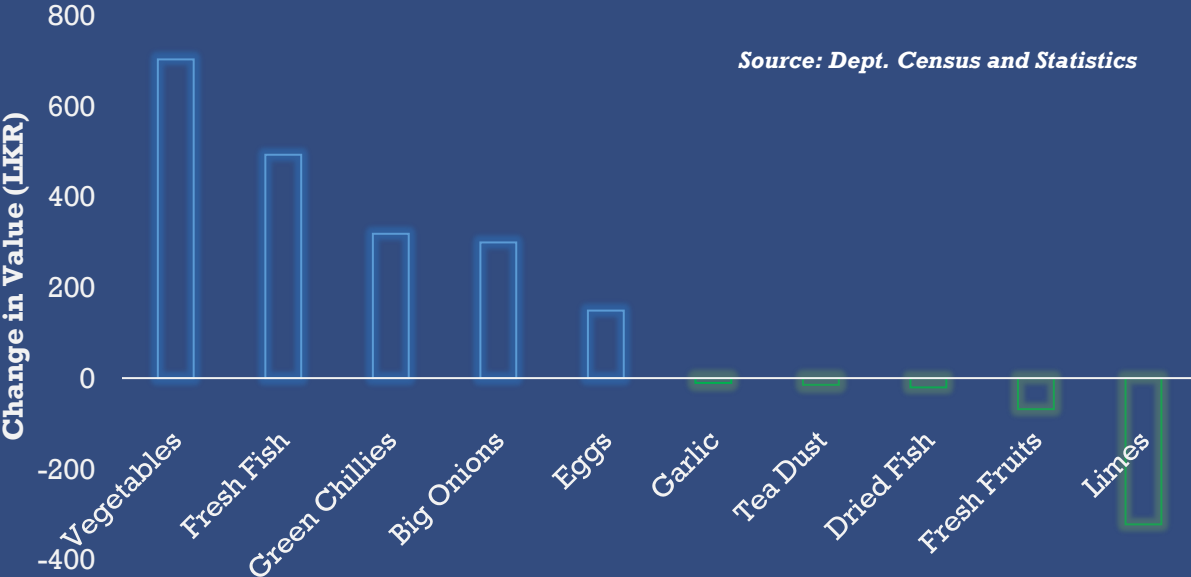
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

The CCPI index increased by 0.9%MoM contributed by the increase in expenditure of Food items by 1.16% and a decrease in expenditure of Non-Food items by 0.27%. Within the Food items, increase in value changes were mainly reported for Vegetable, Fresh Fish, Green Chillies, Big Onions and eggs. Among Non-Food groups, decrease in value changes were mainly reported in Transport, Clothing and Footwear and Housing, Water, Electricity, Gas and Other Fuels.

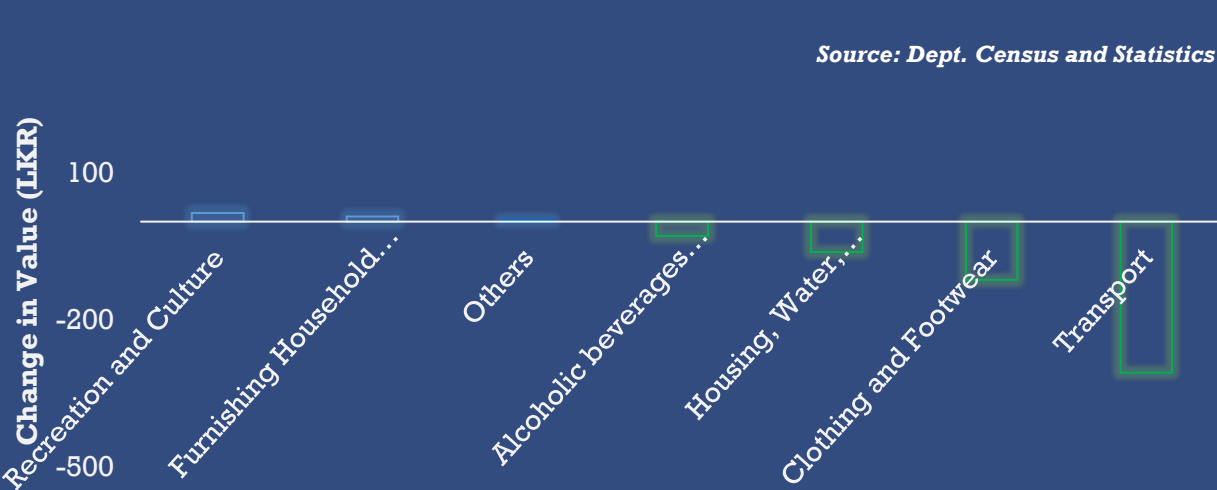


Food Category Inflation



Source: Dept. Census and Statistics

Non-Food Category Inflation



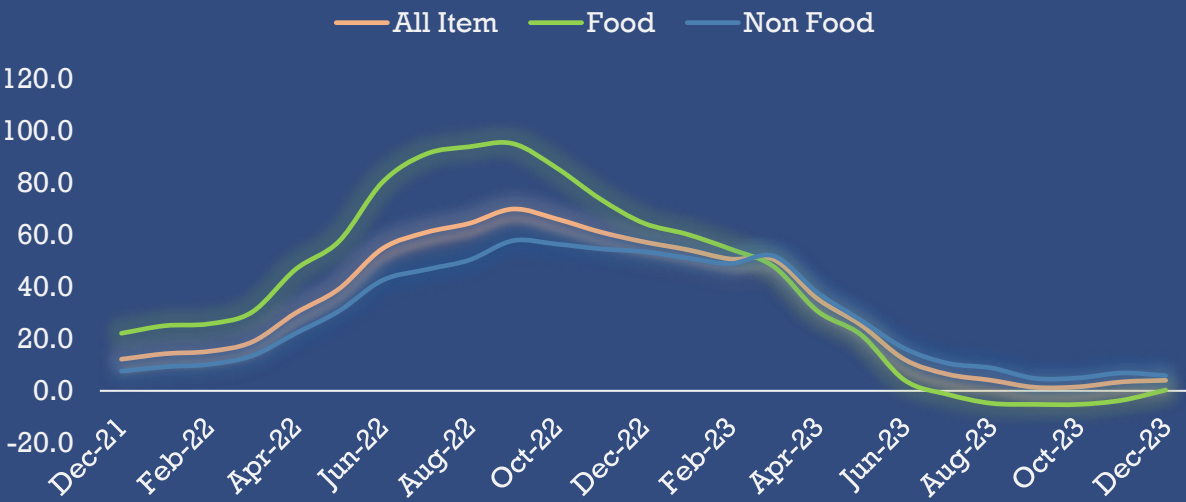
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Dec 2023 was 4.0% and has increased relative to the month of Nov 2023. Food item prices increased to 0.3%YoY in Dec 2023 while the Non-Food item prices decreased to 5.8%YoY in Dec 2023 from 6.8%YoY in Nov 2023. The contribution from food category for YoY inflation was 0.1% while the contribution of Non-Food items stood at 3.90% mainly due to the increase in prices of Housing, Water, Electricity, Gas & Other Fuels, Transport, Education, Clothing and Footwear.

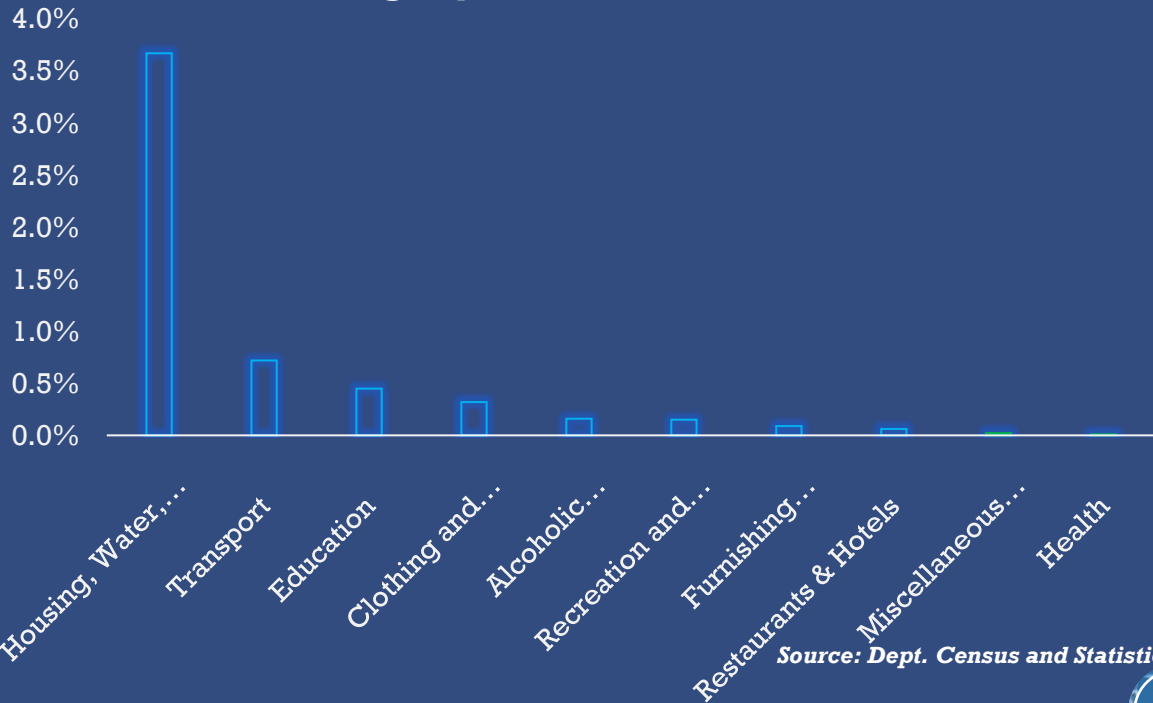


Inflation Analysis (YoY)



Source: Dept. Census and Statistics

Non-Food Category Inflation

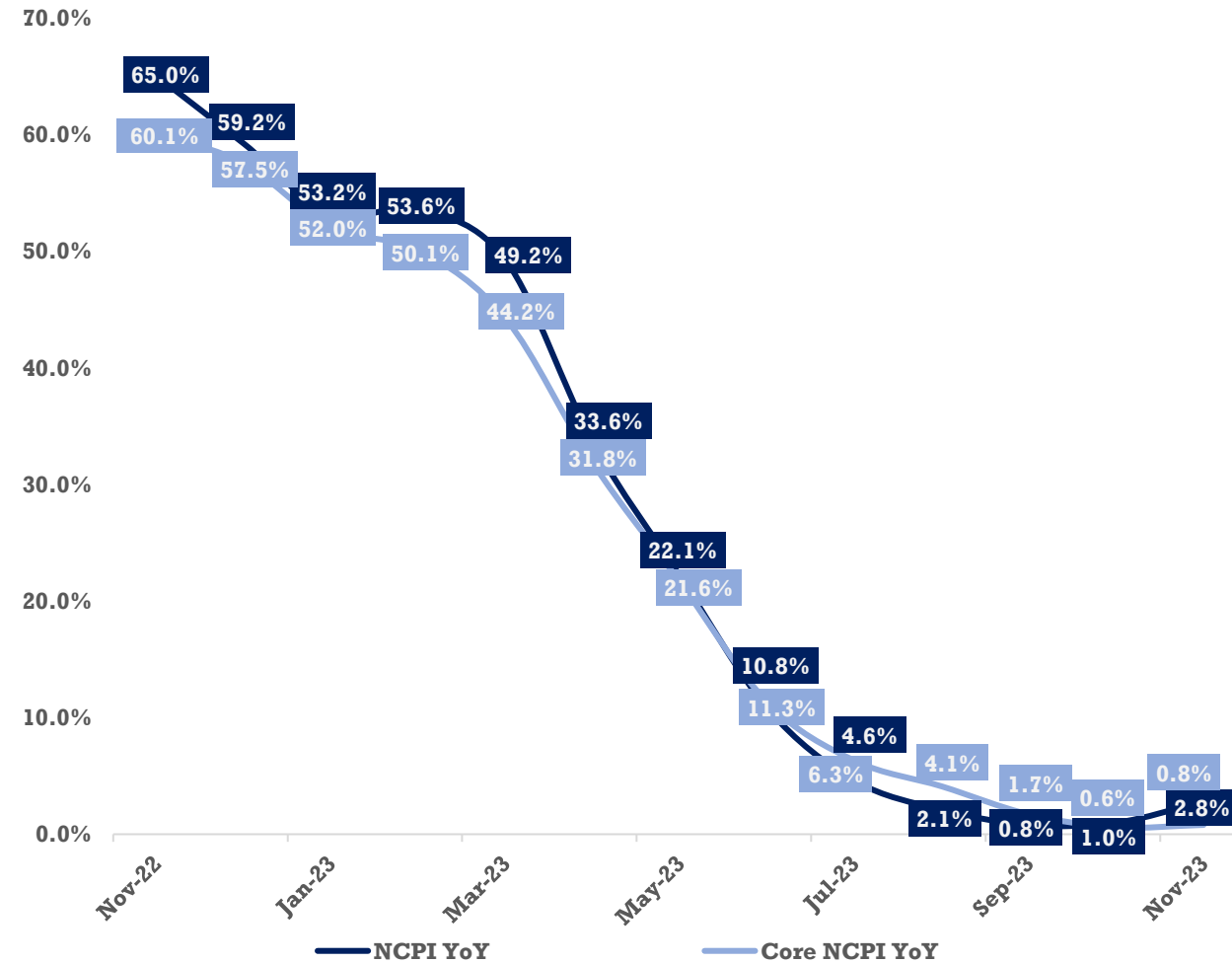


Source: Dept. Census and Statistics

INFLATION – NCPI

NCPI FOR NOV 2023: INCREASED TO 2.8%YOY

- NCPI for Nov 2023 increased to 2.8% compared to 1.0% in Oct 2023.
- Increase in inflation was mainly driven by the price in Non-Food commodities. Accordingly, YoY Non-Food inflation increased to 7.1% in Nov 2023 from 6.3% in Oct 2023 while YoY Food inflation declined to -2.2% in Nov 23 compared to -5.2% in Oct 2023.



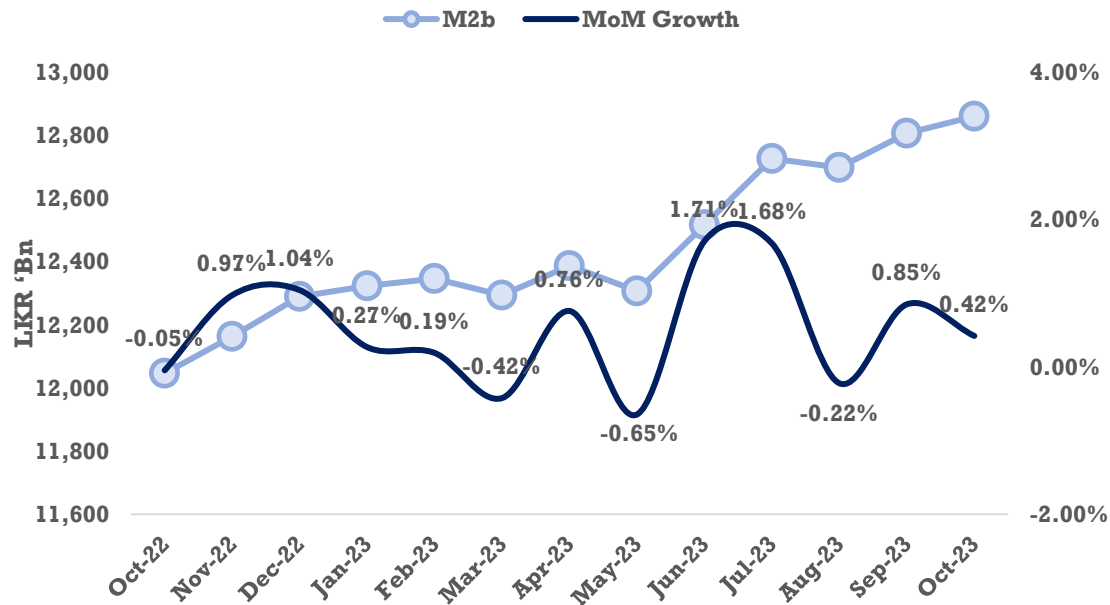
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit increased by LKR 37.9Bn compared to Sep 2023 amidst the dip in rates. Meanwhile, State credit significantly declined by LKR 83.5Bn relative to the previous month.

M2b Growth – Oct 2023

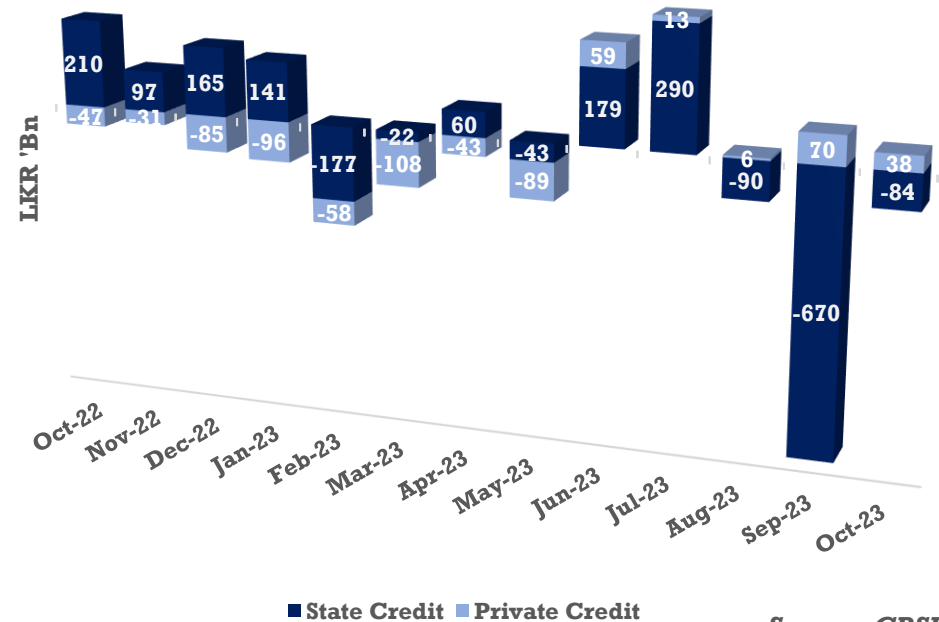
MoM +0.42%, YoY +6.75%, YTD +4.64%



Source: CBSL

State Credit & Private Credit – Oct 2023

Private Credit MoM +0.5%, YoY -4.30%, YTD -2.81%

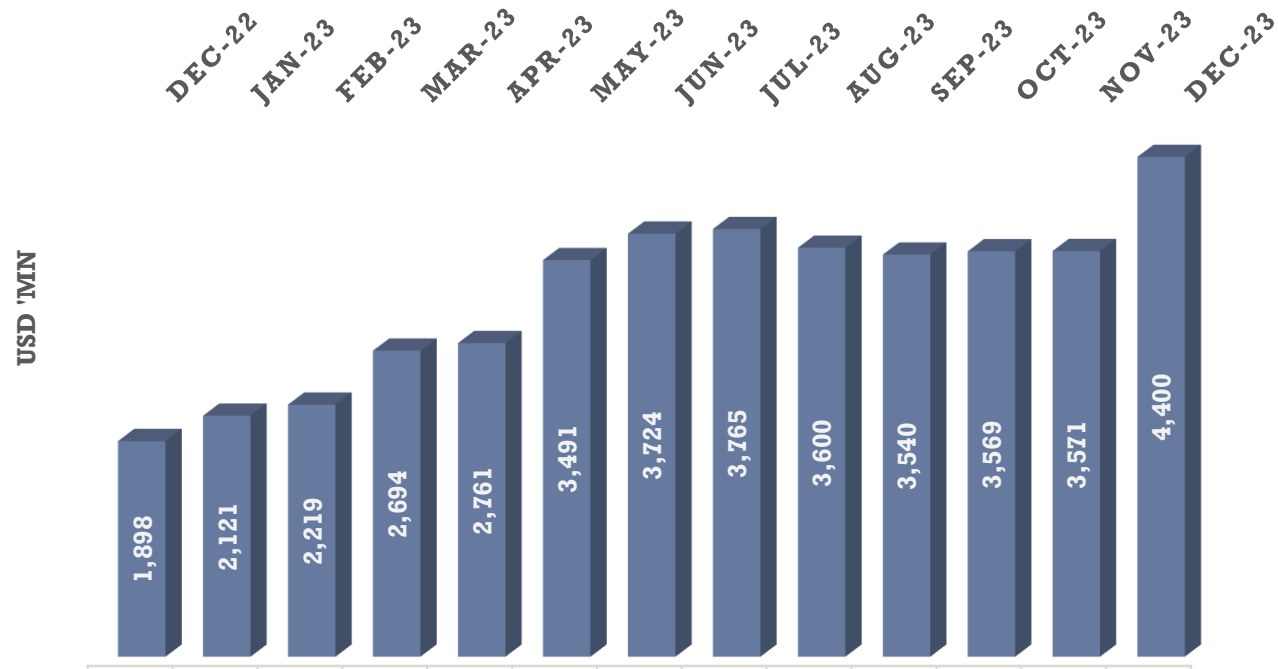


■ State Credit ■ Private Credit

Source: CBSL

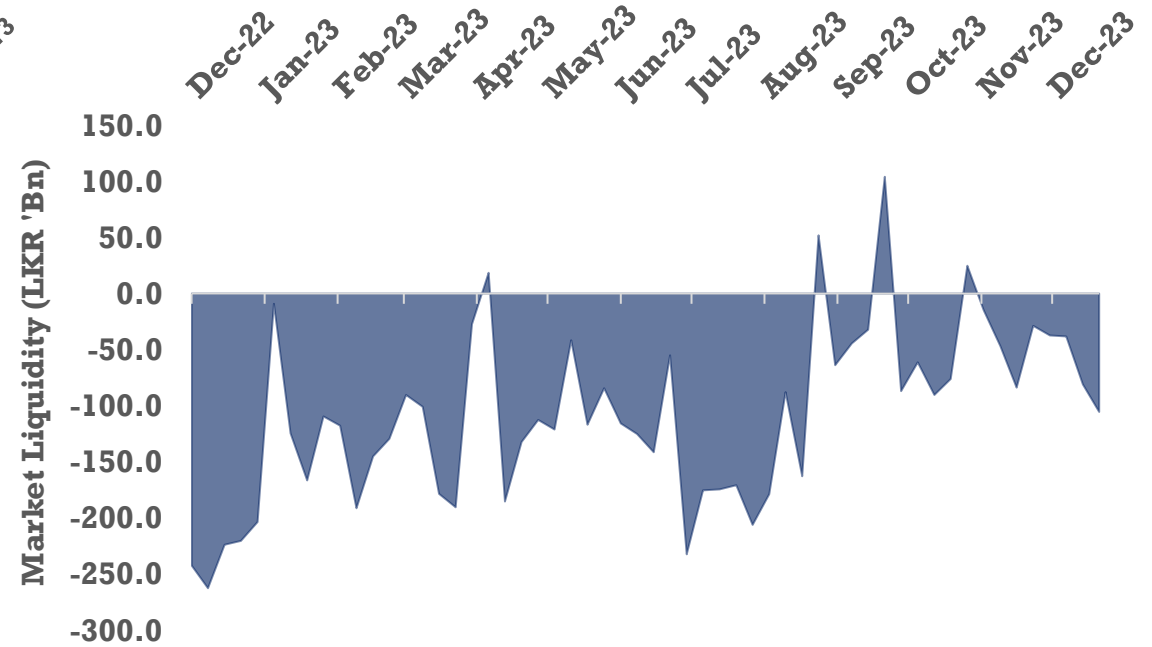
LIQUIDITY & RESERVES

- Foreign Reserves significantly increased by USD 829.0Mn to USD 4.4Bn in Dec 2023, mainly due to the loans from multilateral lenders.



Source: CBSL

- Market Liquidity fluctuated and broadly remained in the negative territory during the month of Dec 2023.



Source: CBSL

CURRENCY MOVEMENT

USD:LKR Movement

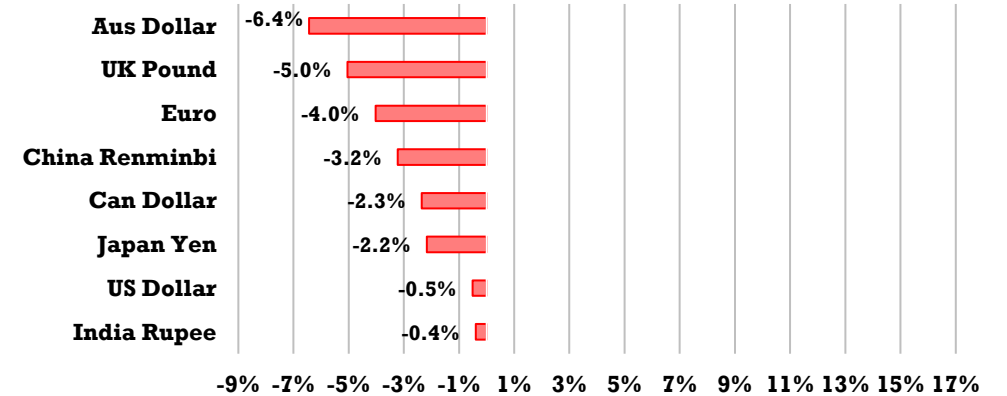


First Capital Research

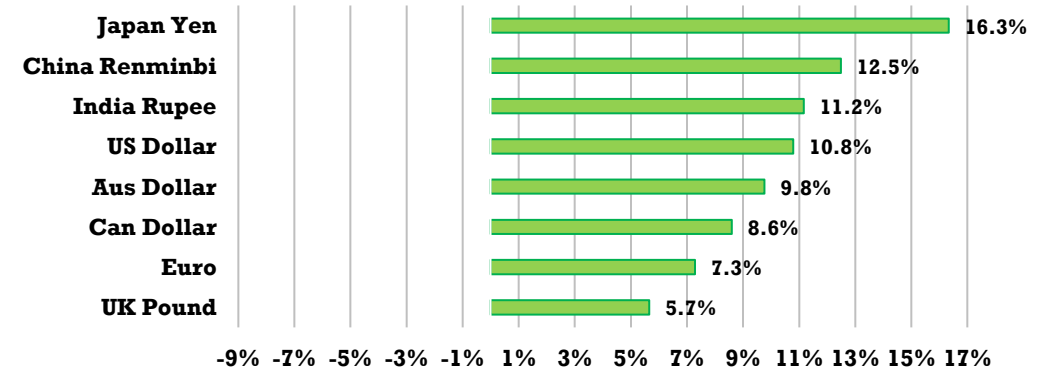
Source: CBSL

Sri Lankan Rupee vs Global Currencies

Dec 2023



YTD 2023



Source: CBSL

Jan 2024

GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Dec 2023

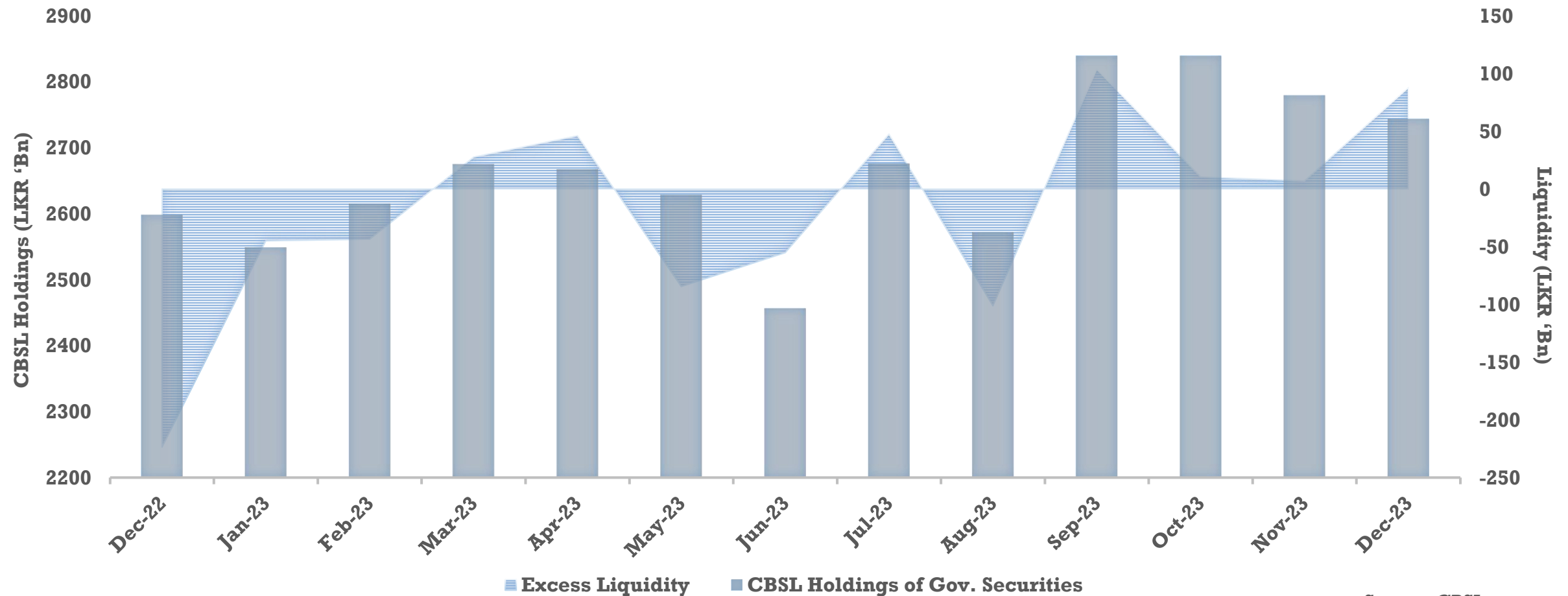
Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
1-Dec-23	190,971	49,500	240,471
8-Dec-23	185,500		185,500
15-Dec-23	216,234	156,000	372,234
22-Dec-23	156,161		156,161
29-Dec-23	86,418		86,418
Total Issued			1,040,784

Net Settlement	Dec 2023	YTD
Maturities	828,083	13,480,213
New Issues	1,040,784	8,775,102
Excess/ (Deficit)	212,701	(4,705,111)

CBSL Holdings of Gov. Securities		YTD
As at End Dec 2023	2,744,000	
As at End Nov 2023	2,779,000	
Increase/ (Decrease)	-35,000	68,280

CBSL HOLDINGS OF GOV. SECURITIES...

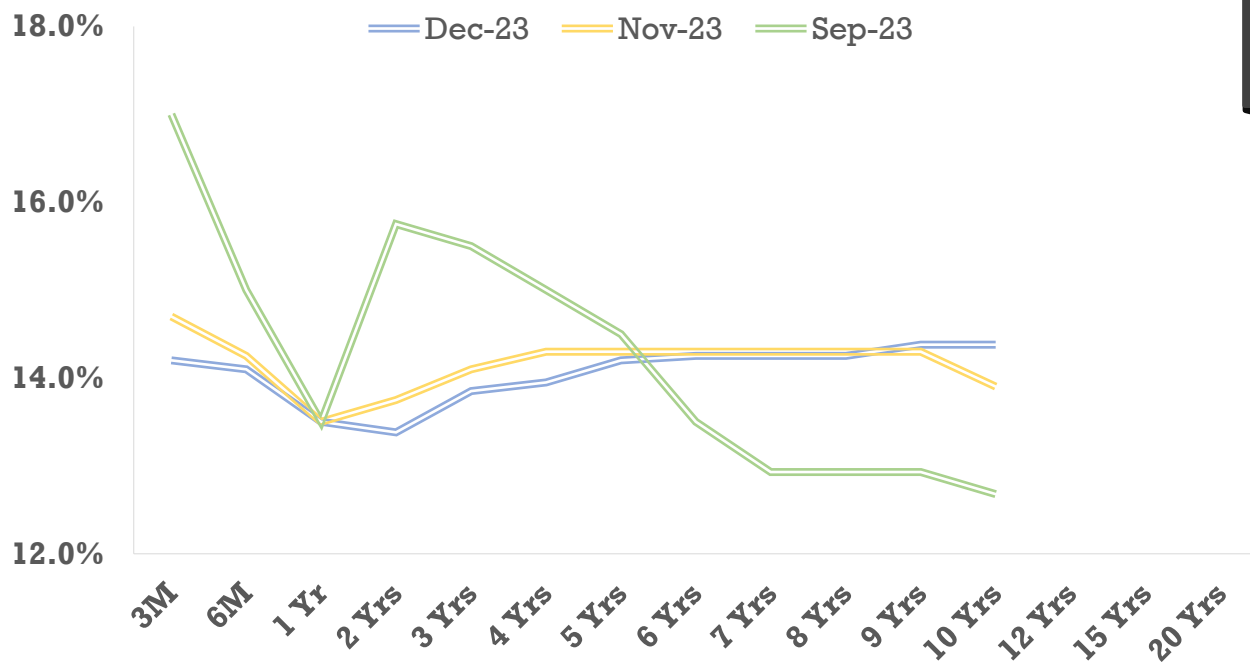
...declined by LKR 35.0Bn in Dec 2023



Source: CBSL

TREASURY BILLS AND BONDS – DEC 2023

Secondary market took a mixed sentiment during the month resulted by the approval of the IMF 2nd tranche followed by the holiday season. The IMF 2nd tranche boosted buying appetite whilst, short to mid tenors including 2025, 2026 and 2027 maturities enticed trades largely over the month. Towards mid month, a mixed sentiment surfaced ahead of primary market auctions. Nevertheless, buying appetite remained strong post auctions, on the back of looming bullishness. However, towards the latter part of the month, the market pivoted into a dull sentiment due to the holiday season. Meanwhile, WAYR at the weekly T-Bill auctions continued to see a modest downward trend throughout the month.

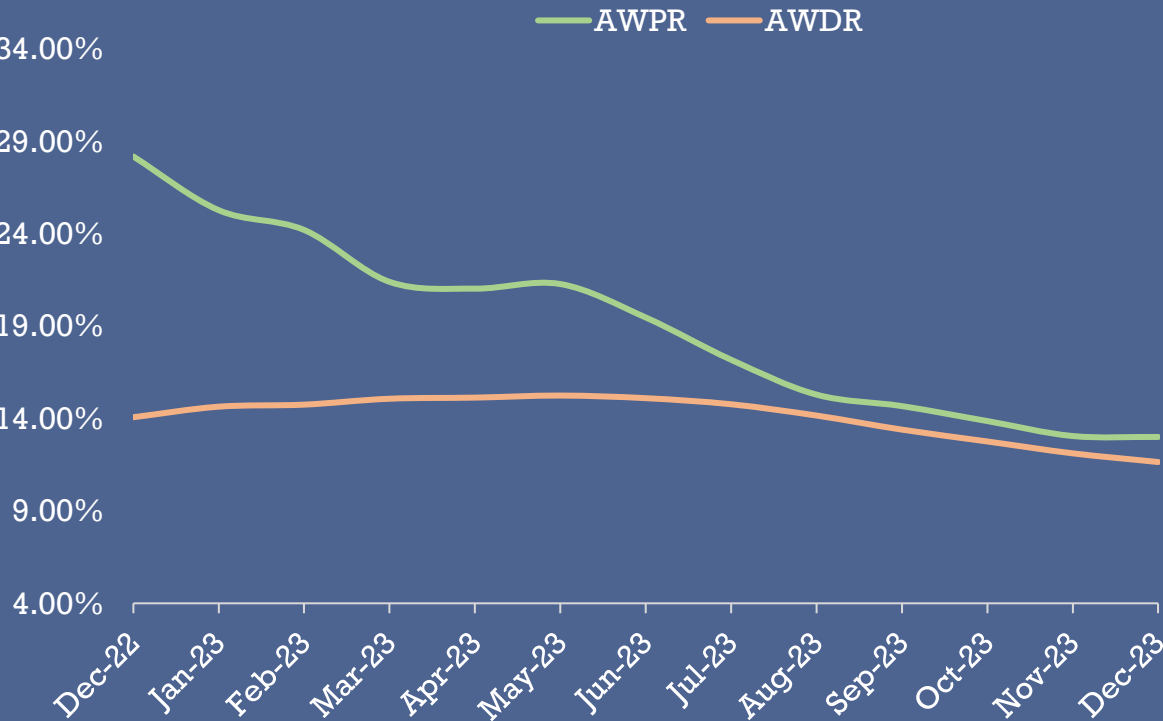


Source: First Capital Research

Tenure	Interest Rate Change (bps)				
	Dec-23	Nov-23	Change (bps)	Sep-23	Change (bps)
3M	14.20%	14.70%	-50	17.00%	-280
6M	14.10%	14.25%	-15	15.00%	-90
1 Yr	13.50%	13.50%	0	13.50%	0
2 Yrs	13.38%	13.75%	-37	15.75%	-237
3 Yrs	13.85%	14.10%	-25	15.50%	-165
4 Yrs	13.95%	14.30%	-35	15.00%	-105
5 Yrs	14.20%	14.30%	-10	14.50%	-30
6 Yrs	14.25%	14.30%	-5	13.50%	75
7 Yrs	14.25%	14.30%	-5	12.93%	132
8 Yrs	14.25%	14.30%	-5	12.93%	132
9 Yrs	14.38%	14.30%	8	12.93%	145
10 Yrs	14.38%	13.90%	48	12.68%	170
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

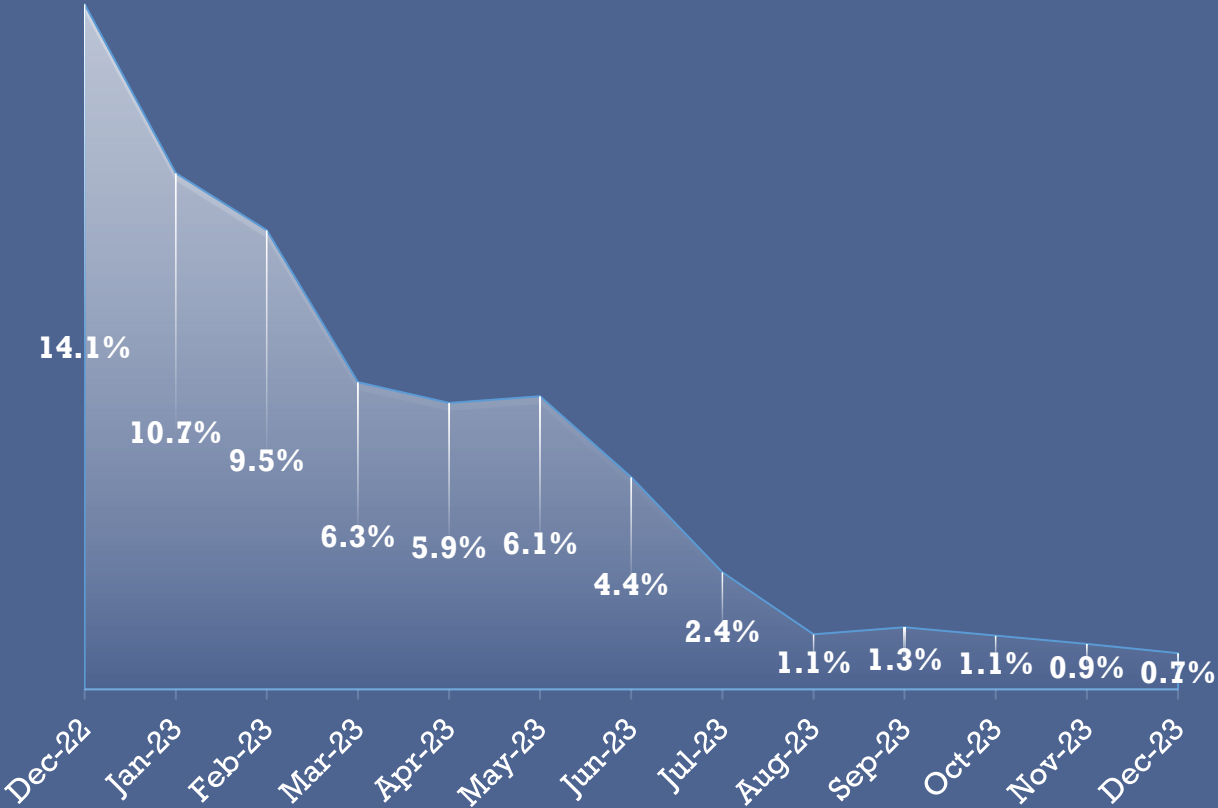
Source: First Capital Research
Jan 2024

AWPR vs AWDR



Source: CBSL

Interest Spread



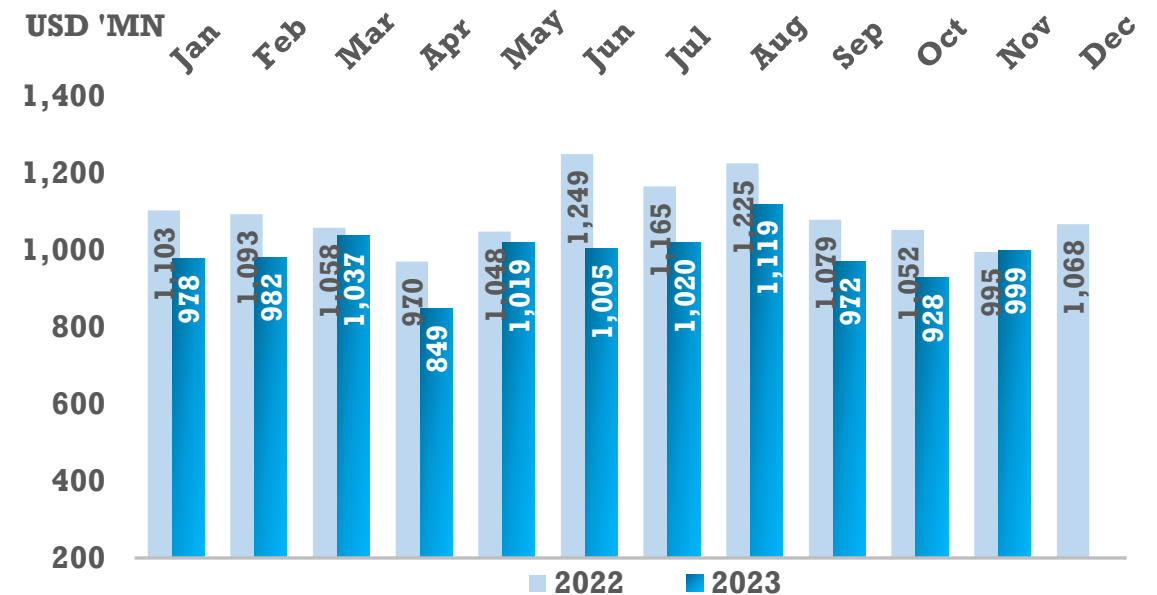
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – NOV 23 – EXPORTS

Earnings from exports marginally improved by 0.4% in Nov 2023 to USD 999.0Mn. 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). Further declines were recorded in exports of animal fodder (poultry feed and wheat residues). Machinery and mechanical supplies too displayed a decline (mainly, electrical equipment) and base metals and articles (iron and steel). However, earnings from Petroleum, Food Beverage and Tobacco and Transport equipment increased during Nov 2023. Furthermore, Earnings from Agricultural goods improved mainly led by tea and followed by coconut related product and spices (mainly, cinnamon). Earnings from Mineral exports increased mainly due to higher export volumes of zirconium ores.

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Industrial Exports			
- Nov	792.0	765.4	-3.4
- YTD	9,624.4	8,486.8	-11.8
Agricultural			
- Nov	199.3	214.8	7.8
- YTD	2,364.6	2359.9	-0.2
Mineral Exports			
- Nov	1.7	16.2	838.9
- YTD	29.0	36.5	25.7
Total			
- Nov	995	999.0	0.4
- YTD	12,038.8	10,908.9	-9.4

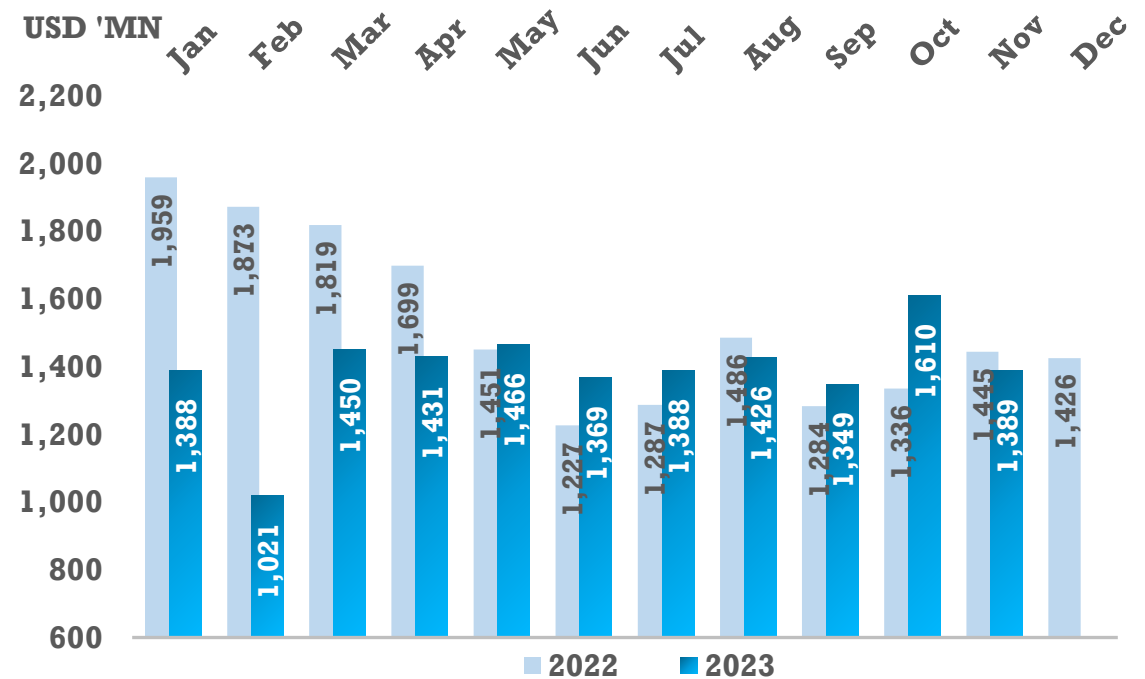


Source: CBSL
Jan 2024

EXTERNAL SECTOR – NOV 23 – IMPORTS

Import expenditure declined by 3.9%YoY to USD 1,388.7Mn in Nov 2023 mainly due to the decline observed in intermediate goods mainly, resulted from lower expenditure on fuel imports. However, an increase was recorded in imports of investment and consumer goods influenced by the relaxation of import restrictions. Expenditure on imported Consumer goods increased primarily aided by non-food consumer goods mainly, pharmaceuticals (primarily medicants), telecommunication devices, home appliances and household and furniture items. Meanwhile expenditure on food and beverage imports marginally improved however, expenditure on cereal and milling industry products declined. Expenditure for intermediate goods declined driven by lower import volumes of fuel. Moreover, wheat grain, textile and articles, fertilizer and agricultural inputs recorded notable declines. Expenditure on investment goods increased led by the increase in imports of machinery and equipment. Expenditure on building material, ceramic products and cement and transport equipment also upsurged.

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Consumer goods			
- Nov	222.7	265.2	19.1
- YTD	2,571.5	2,771.2	7.8
Intermediate			
- Nov	1,012.4	876.8	-14.3
- YTD	11,454.9	10,058.2	-12.2
Investment goods			
- Nov	209.3	255.3	22.0
- YTD	2,830.5	2,477.5	-12.5
Total			
- Nov	1,444.6	1,388.7	-3.9
- YTD	16,865.5	15,322.6	-9.1

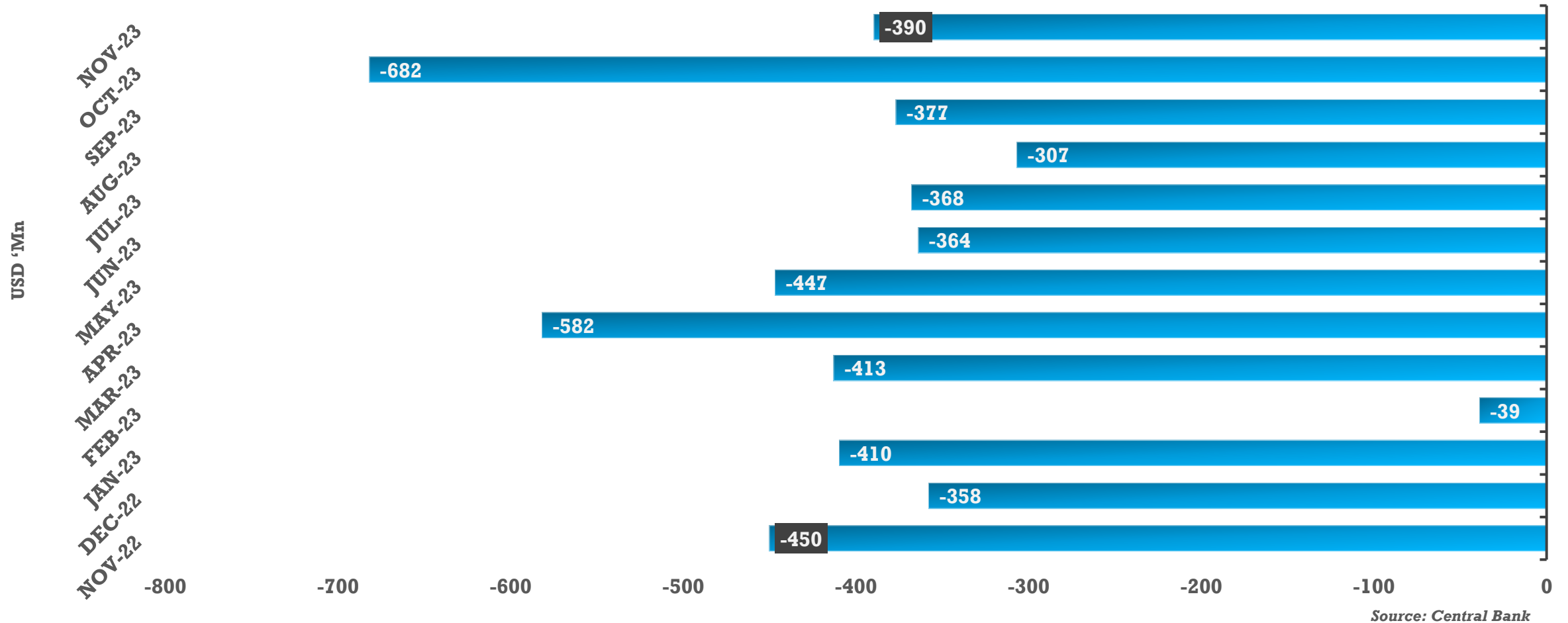


Source: CBSL

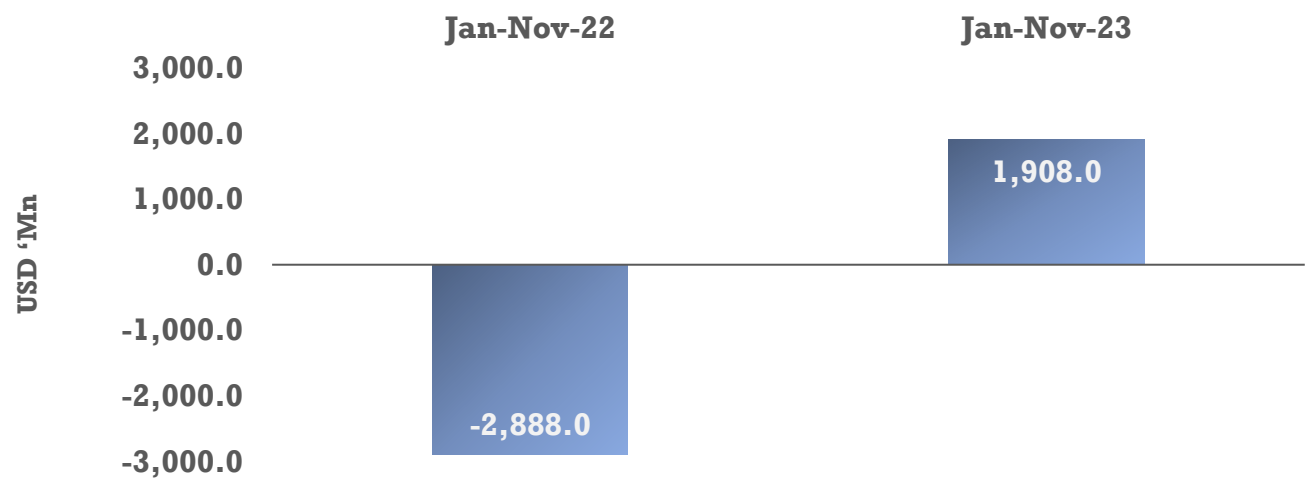
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EXTERNAL SECTOR – NOV 23

Balance of Trade

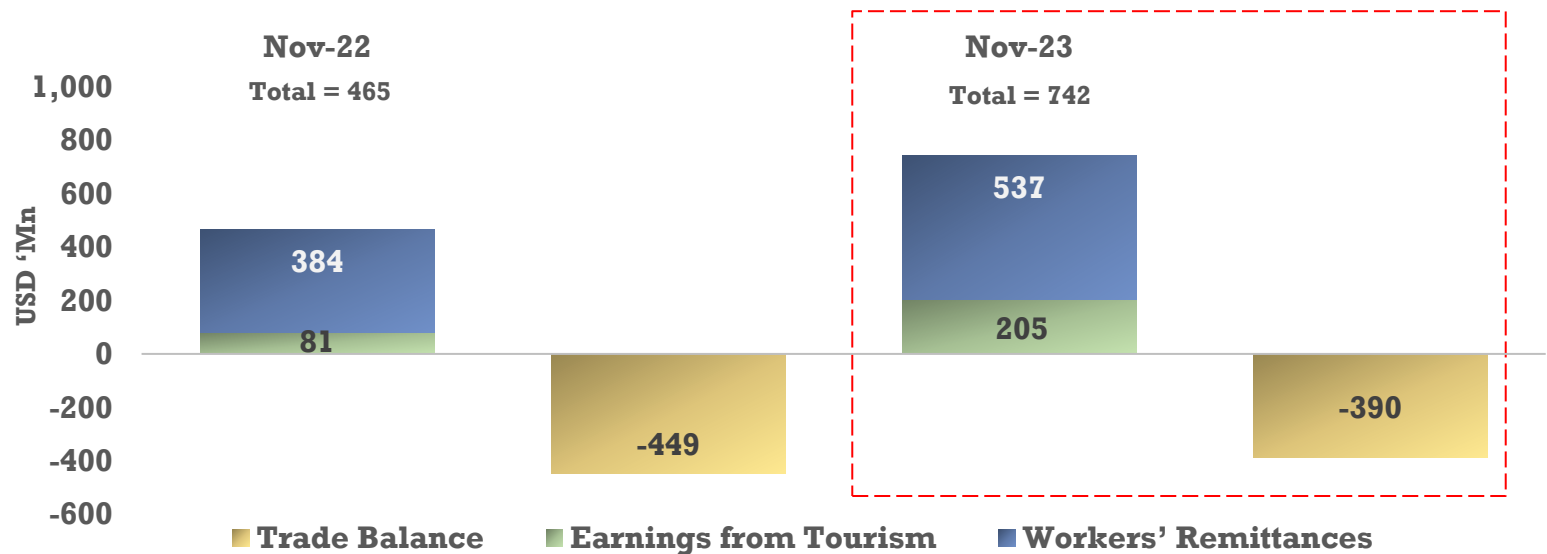


BoP for Jan–Nov-23 recorded at USD 1,908.0Mn compared to Jan–Oct-23 amount of USD 1,965.0Mn resulting in a net outflow of USD 57.0Mn, for the month of Nov-23.



Source: CBSL

Workers' Remittances increased to USD 537.0Mn in Nov-23 (+39.8%YoY). Earnings from Tourism for Nov-23 increased to USD 205.0Mn from USD 81.0Mn in Nov-22.



Source: CBSL

BALANCE OF PAYMENT DEFICIT DECREASED YOY IN NOV-23

Nov USD 'Mn	2022	2023	Change (%)
Trade Balance	-449	-390	
Earnings from Tourism	81	205	+153.5
Workers' Remittances	384	537	+39.8

YTD USD 'Mn	2022	2023	Change (%)
Trade Balance	-4,827	-4,414	
Earnings from Tourism	1,009	1,799	+78.3
Workers' Remittances	3,314	5,400	+62.9

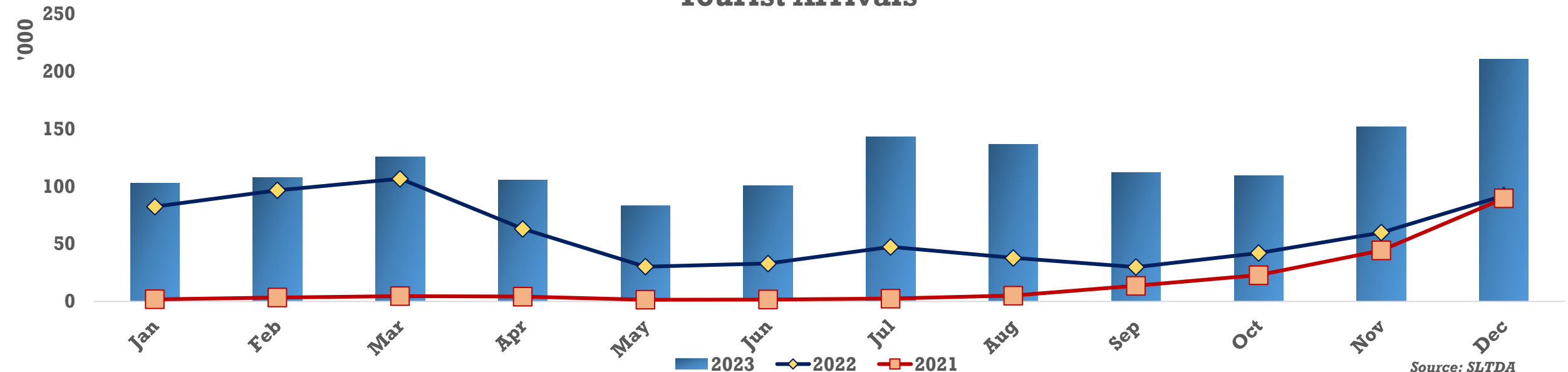
Source: CBSL

TOURIST ARRIVALS – DEC 2023

[Dec 210,352 – **UP +128.7%YoY**] [MoM – **UP +38.8%**]

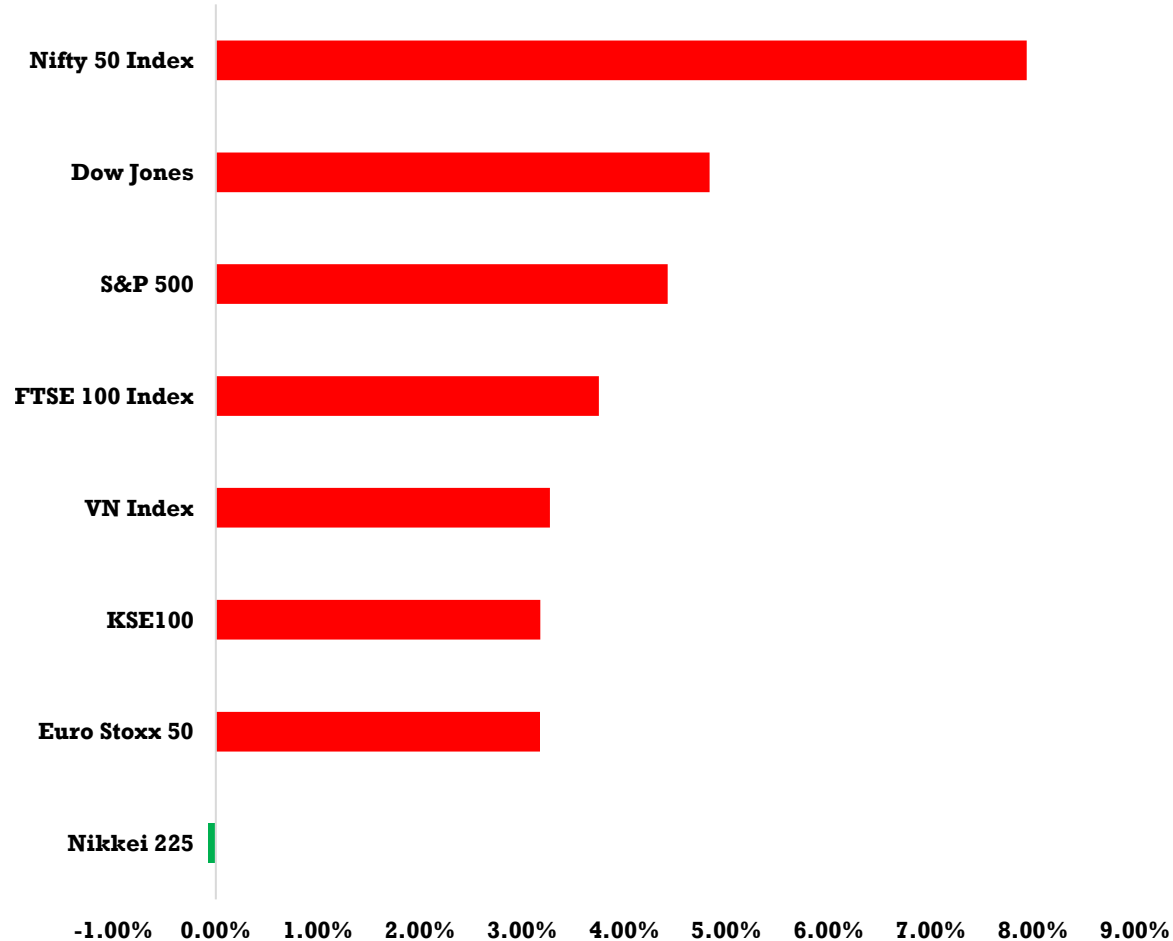
The total arrivals for the month was recorded at 210,352 displaying an increase of 128.7%YoY compared to Dec 2022, and recorded the highest number of arrivals for 2023. Commencement of the peak season, Improved air connectivity, favorable local conditions, geographical proximity and geopolitical consideration were the main contributors to this development. Accordingly, key source markets during Dec-23, is topped by India, Russian Federation, the United Kingdom and Germany.

Tourist Arrivals



Source: SLTDA

GLOBAL MARKET – NOV 2023



Saudi Arabia cuts oil prices to Asia Market; weakness persists

Saudi Arabia will cut key crude prices for buyers in all regions, including its main Asia market, for February amid persistent weakness in the market. Strong global supply, including from the US, is raising the likelihood of a surplus that forced the OPEC+ group, led by Saudi Arabia and Russia, to extend output cuts into this year. Saudi Aramco reduced its flagship Arab Light price to Asia at USD 1.50 a barrel. Global crude prices declined in 2023 for the first time since 2020. The market has so far shrugged off concern over the Israel-Hamas war and deepening Middle East turmoil.

Bloomberg



Global shipping delays cast shadow over strong Dec-23 Jobs Report

The strong December jobs report released capping off a year of economic wins. Now, global shipping delays caused by attacks on cargo vessels in the Red Sea are threatening to blunt the momentum. The Labor Department reported that employers added 216,000 jobs in December, beating economists' estimates by over 40,000 jobs. The unemployment rate also remained steady at 3.7%. 'Maersk' announced that it will continue diverting its fleet from the Red Sea indefinitely, amid ongoing attacks from Houthi rebels in the region.

Investors flee to US money market funds on caution as rate cut optimism cools

US investors reduced holdings in equity funds, shifting to money market funds amid caution before key payroll reports, as a stock market rally eased and they awaited further evidence to support expectations of substantial Federal Reserve rate cuts. They purchased about USD 56.9Bn worth of U.S. money market funds in their biggest weekly net buying since Nov-29, while exiting about USD 5.5Bn worth of equity funds.



REUTERS
WORLD

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Contact Us

First Capital Holdings PLC

No: 02, Deal Place,
Colombo 00300,
Sri Lanka.

E: research@firstcapital.lk



Dimantha Mathew
Chief Research & Strategy Officer
T: +94 11 2639 853
E: dimantha@firstcapital.lk

Ranjan Ranatunga
Assistant Vice President – Research
T: +94 11 2639 863
E: ranjan@firstcapital.lk

Vinodhini Rajapoopathy
Assistant Manager - Research
T: +94 11 2639 866
E: vinodhini@firstcapital.lk

Tharusha Ashokgar
Senior Research Associate
T: +94 11 2639 866
E: tharushaash@firstcapital.lk

Zaeema Jihan
Senior Research Associate
T: +94 11 2639 866
E: zaheema@firstcapital.lk

Nethmi Fernando
Associate
T: +94 11 2639 866
E: nethmi@firstcapital.lk



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