



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

May 2024

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PROGRESSION ON THE SRI LANKA'S DEBT RESTRUCTURING TALKS WITH PRIVATE BONDHOLDERS

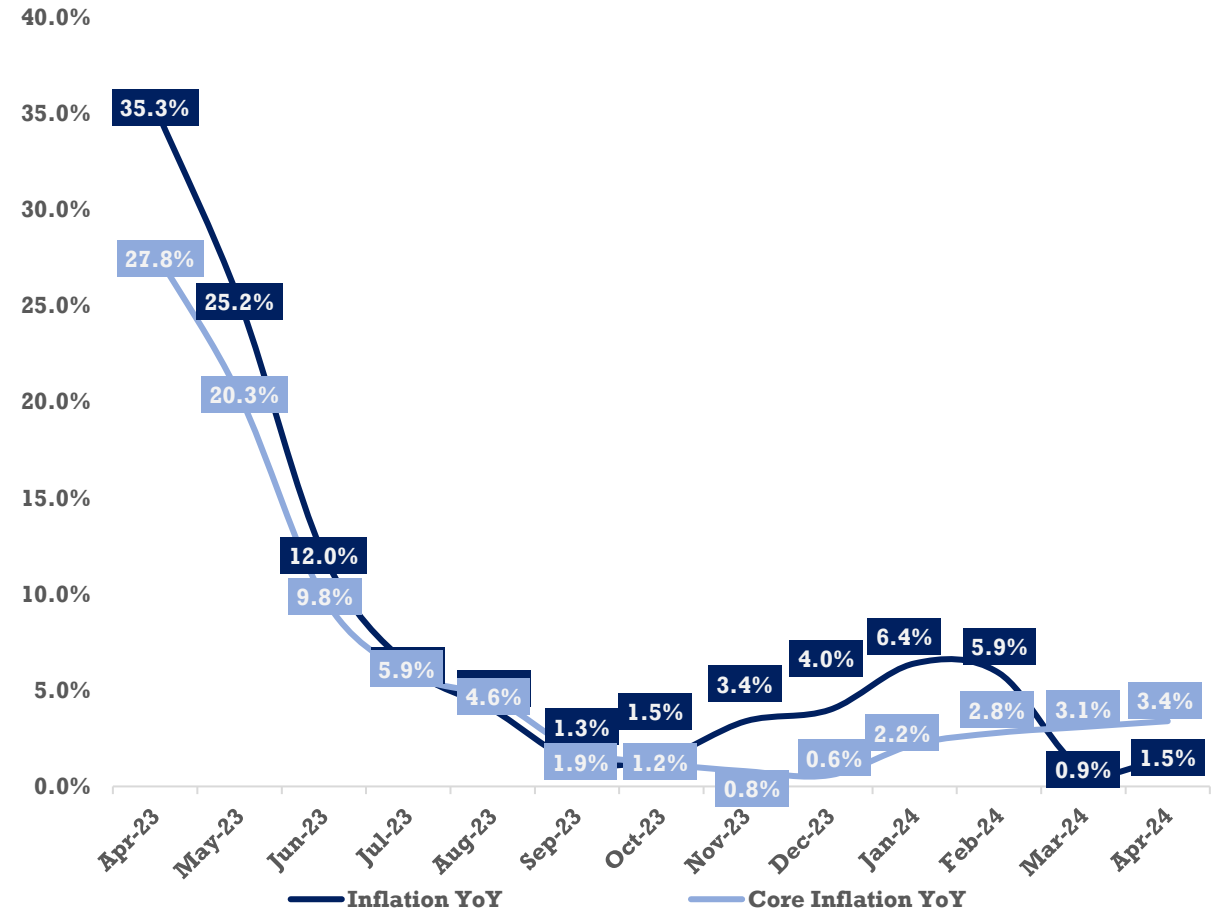
- Sri Lanka rejected international bondholders' proposal on 15th Apr 2024 to restructure more than USD 12.0Bn in debt. Despite “constructive discussions” with the Steering Committee members of the Ad Hoc Group of Bondholders, the two sides could not reach agreement on restructuring terms.
- Some of the proposal's "baseline" assessments and a lack of a contingency option in the case of continued economic weakness were the two main reasons the deal was not agreed.
- The negotiations primarily focused on the bondholders' proposal, particularly concerning the introduction of a Macro-Linked Bond (MLB). The March proposal suggested a 20% haircut on the nominal amount of existing bonds and the April proposal increased the haircut to 28% with no haircuts on Public Debt Interests (PDIs) in both March and April proposals.
- However, significant disparities arose regarding baseline parameters, risk balance, trigger tests, and the allocation of additional value in various MLB scenarios. Following discussions, the bondholders revised their proposal in Apr 2024 to address some of the government's concerns.
- The IMF is currently assessing the latest proposal of the ad hoc group. Also, Sri Lanka recommenced discussions with bondholders and is optimistic on achieving a resolution regarding debt restructuring by Jun 2024.

Source: Reuters

INFLATION – CCPI

CCPI FOR APR 2024:
MOM -0.8%
YOY +1.5%

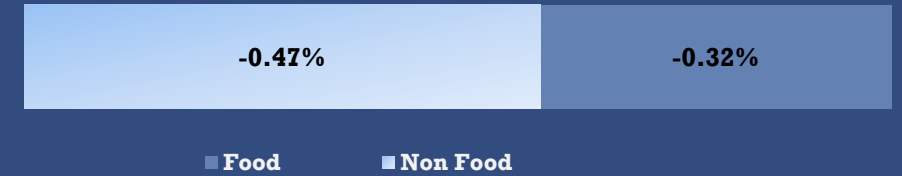
- MoM inflation declined by -0.8% MoM with the increase in inflation of Food group to -1.0% and decrease in inflation of Non-food group by -0.5%, respectively.
- The YoY inflation increased to 1.5% in Apr 2024. YoY inflation of Food group decreased to 2.9% in Apr 2024, while Non-Food group increased to 0.9% in Apr 2024 from -0.5% in Mar 2024.



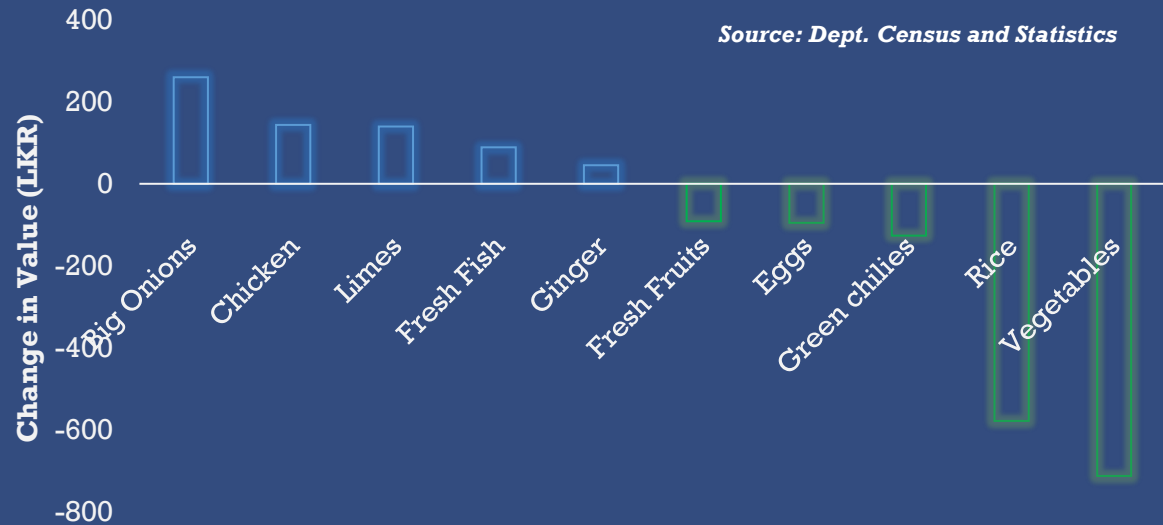
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

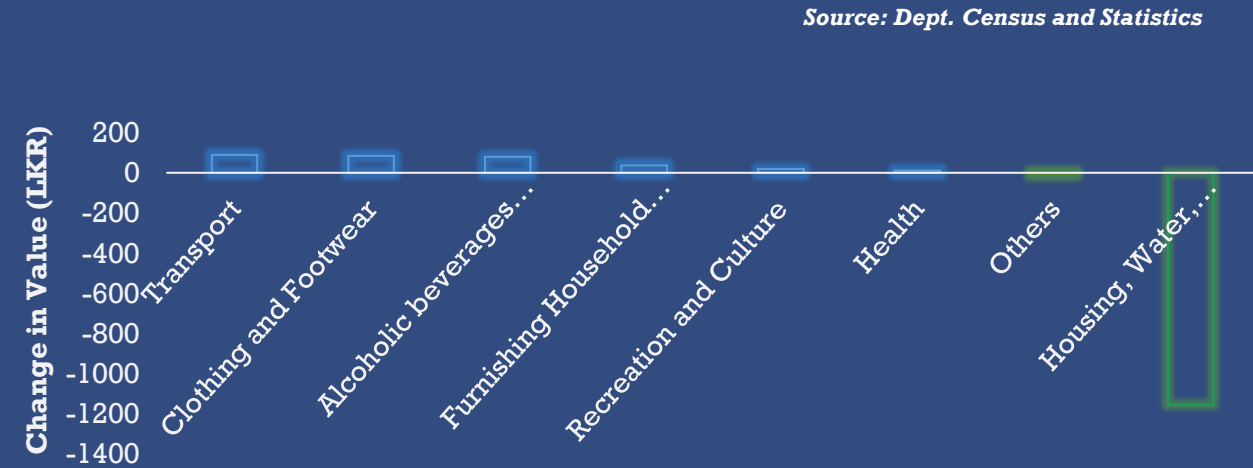
The CCPI index declined by -0.8%MoM contributed by the decrease in expenditure of Food items by 0.32% and a decrease in expenditure of Non-Food items by 0.47%. Within the Food items, decrease in value changes were mainly reported for Vegetables, Rice, Green chilies, Eggs and Fresh fruits. Among Non-Food groups, decrease in value changes were mainly reported in Housing, Water, Electricity, Gas and Other Fuels, etc.



Food Category Inflation



Non-Food Category Inflation

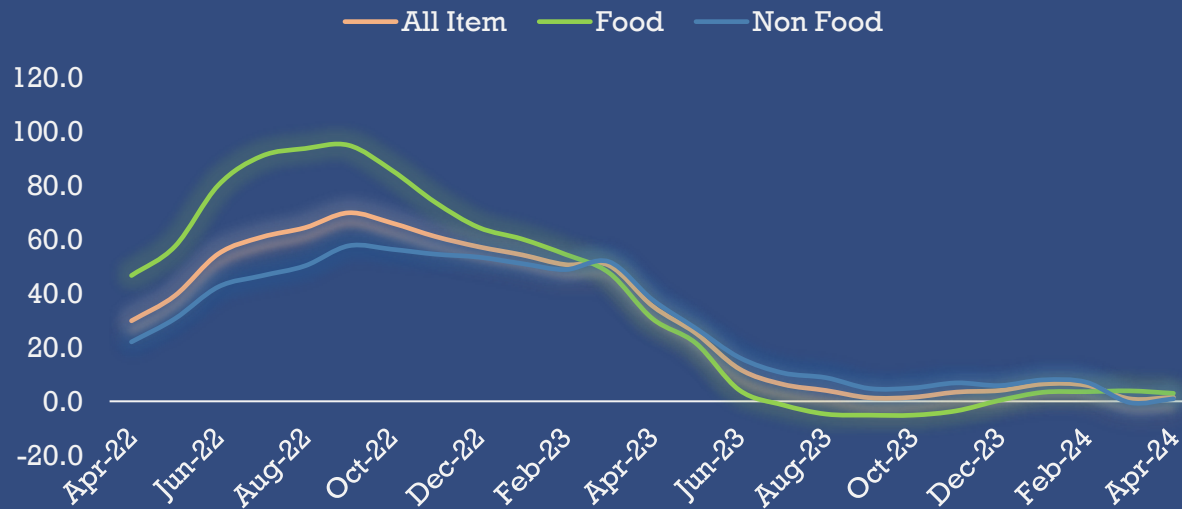


INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Apr 2024 was 1.5% and has increased relative to the month of Mar 2024. Food item prices decreased to 2.9%YoY in Apr 2024 while the Non-Food item prices increased to 0.9%YoY in Apr 2024 from -0.5%YoY in Mar 2024. The contribution from food category for YoY inflation was 0.9% while the contribution of Non-Food items stood at 0.6% mainly due to the increase in prices of Alcoholic Beverages, Tobacco & Narcotics, Education, Restaurants & Hotels, etc.

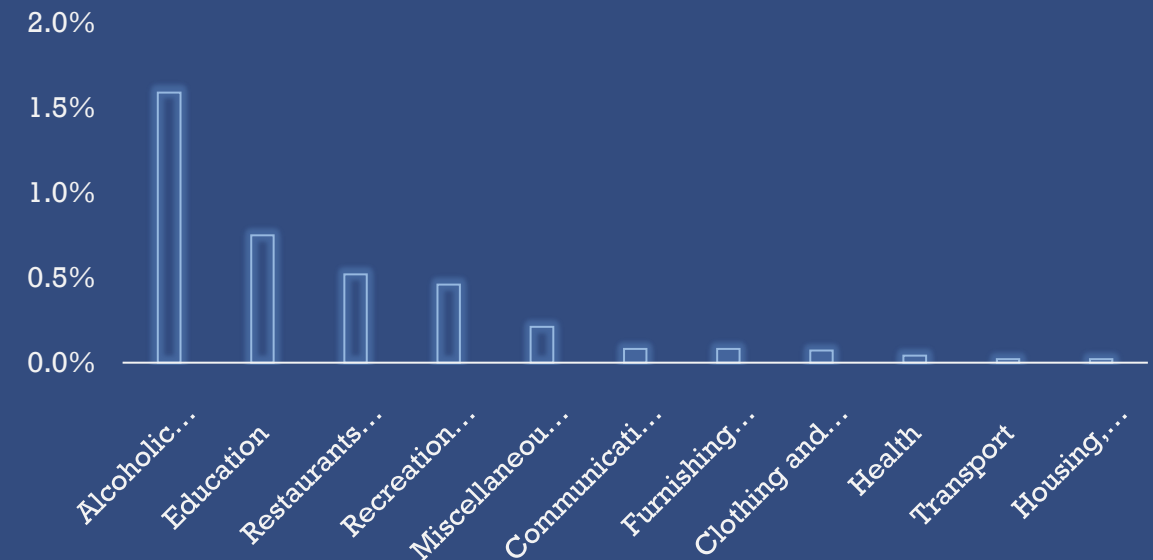


Inflation Analysis (YoY)



Source: Dept. Census and Statistics

Non-Food Category Inflation

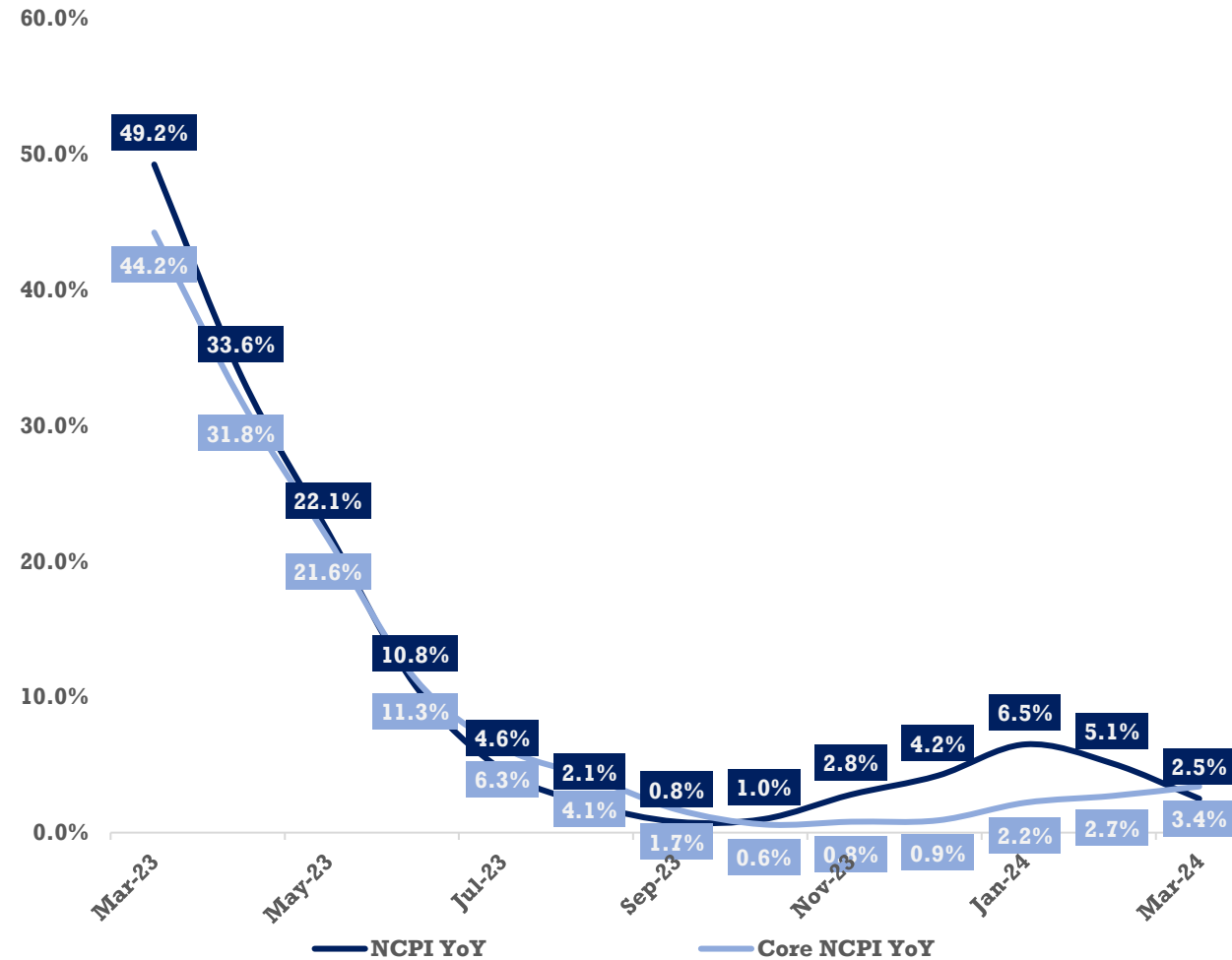


Source: Dept. Census and Statistics

INFLATION – NCPI

NCPI FOR MAR 2024: DECREASED TO 2.5%YOY

- NCPI for Mar 2024 decreased to 2.5% compared to 5.1% in Feb 2024.
- Decrease in inflation was mainly driven by the price decline in Non-Food commodities. Accordingly, YoY Non-Food inflation decreased to 0.7% in Mar 2024 compared to 5.1% in Feb 2024 while YoY Food inflation remained unchanged at 5.0% in Mar 2024 .



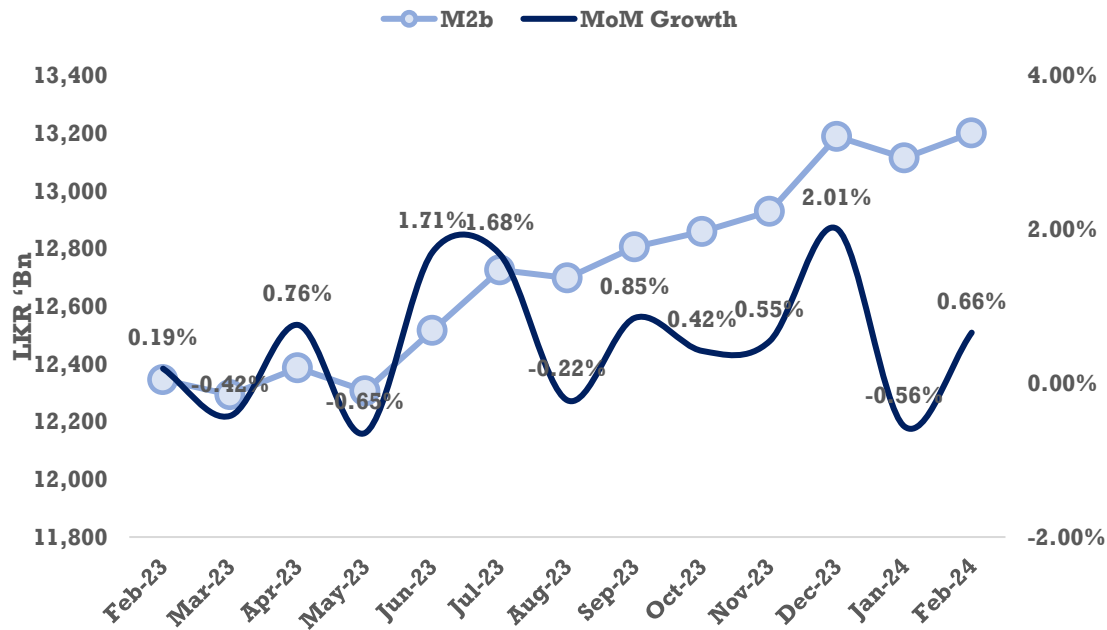
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit improved by LKR 7.3Bn in Feb-24 compared to Jan-24. Meanwhile, state credit declined slightly by LKR 32.1Bn relative to the previous month.

M2b Growth – Feb 2024

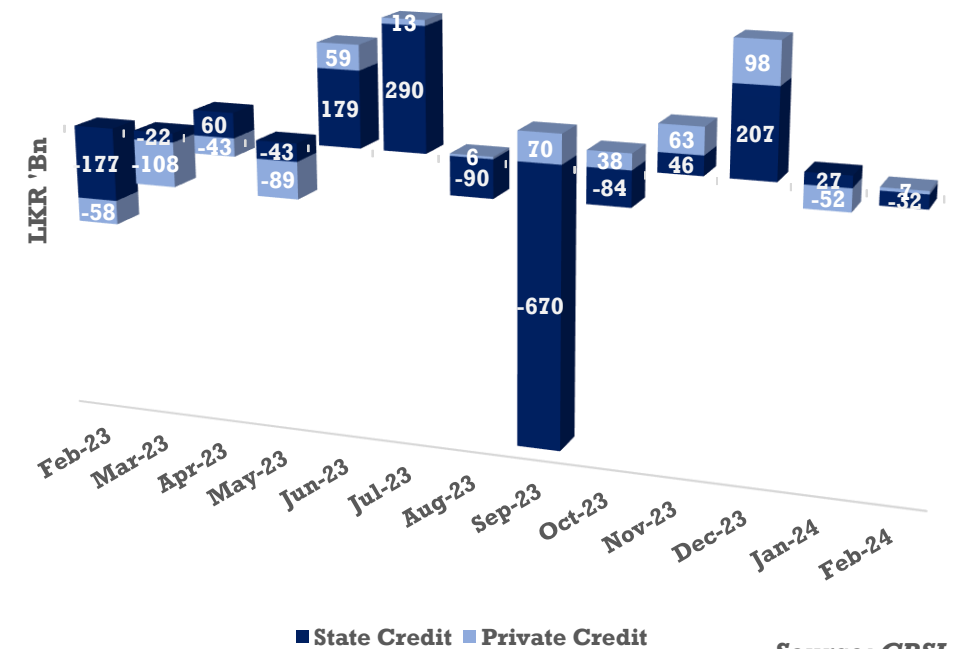
MoM +0.66%, YoY +6.93%, YTD +0.09%



Source: CBSL

State Credit & Private Credit – Feb 2024

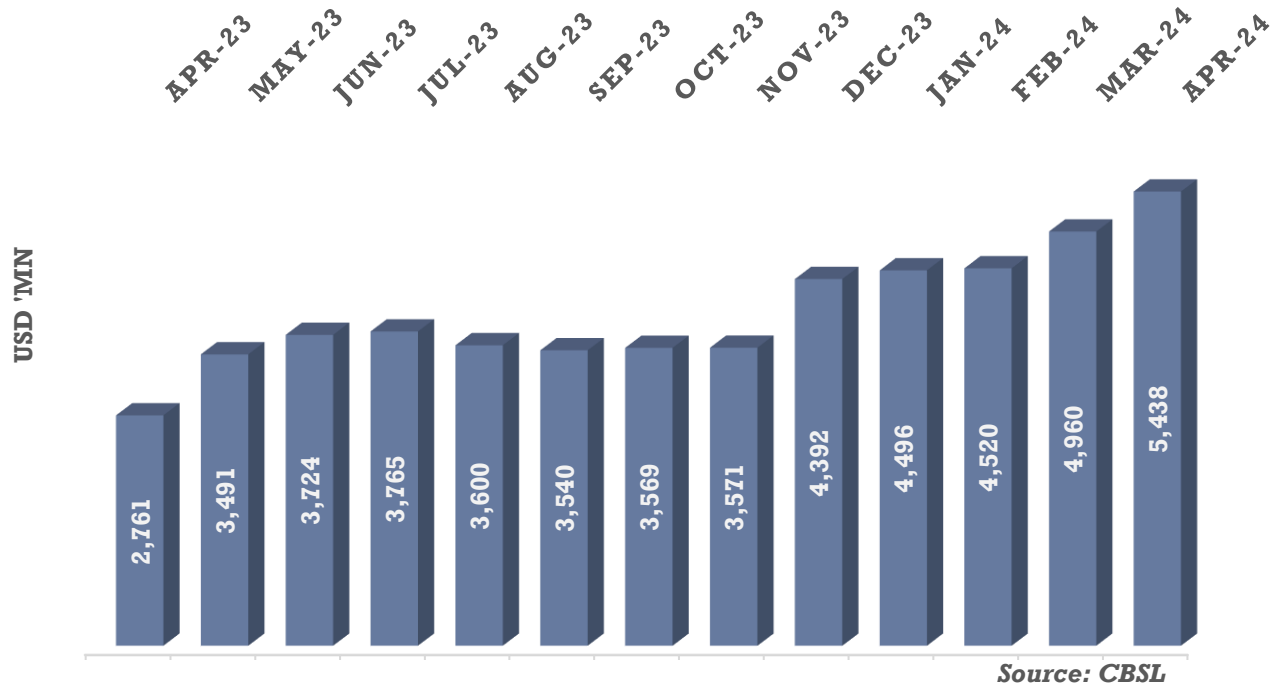
Private Credit MoM +0.1%, YoY +0.84%, YTD -0.61%



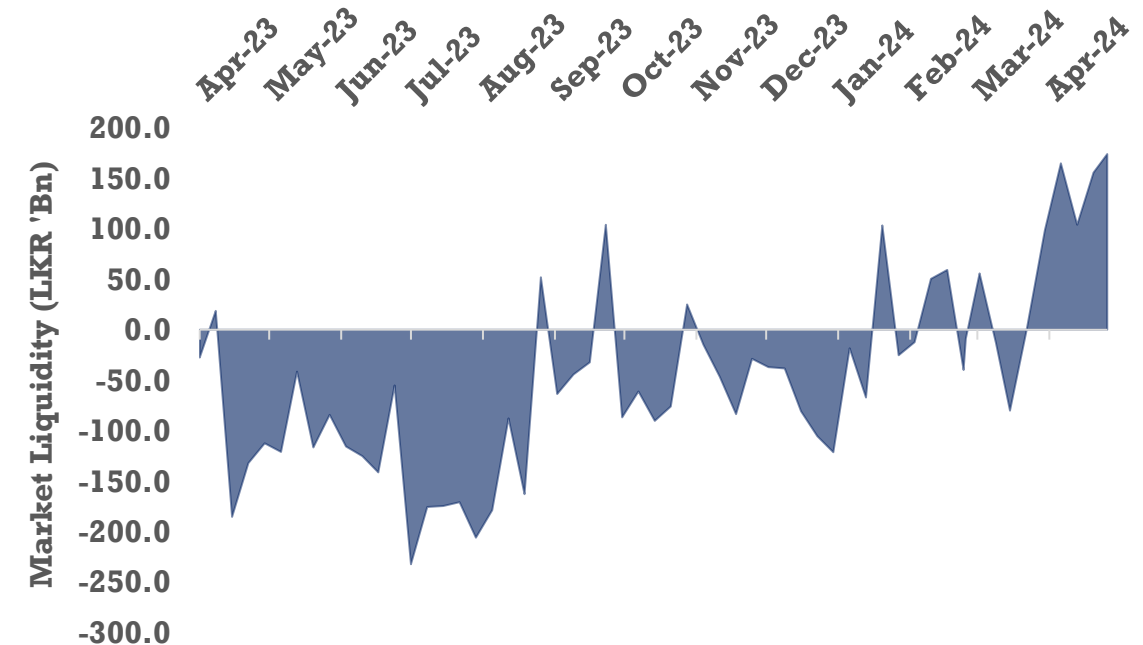
Source: CBSL

LIQUIDITY & RESERVES

- Foreign Reserves increased by USD 478.0Mn to USD 5.4Bn in Apr 2024 led by the continuous buying of dollars by the Government.



- Market Liquidity fluctuated and broadly turned positive during the month of Apr 2024.



Source: CBSL

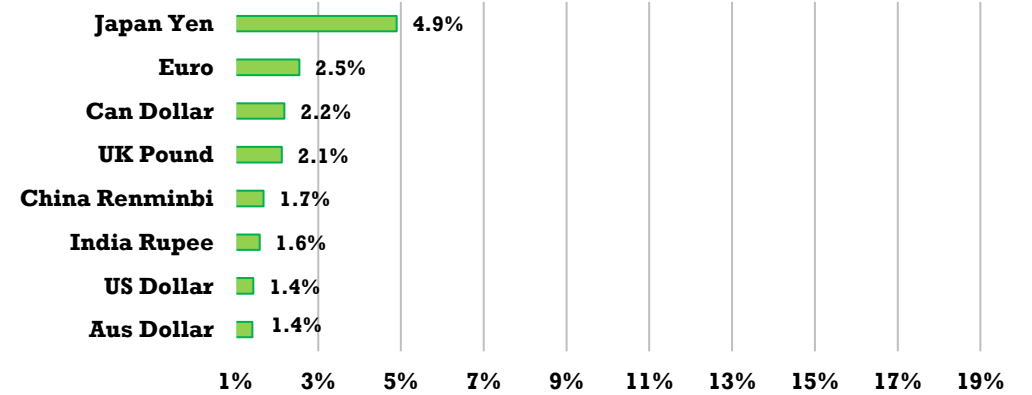
CURRENCY MOVEMENT

USD:LKR Movement

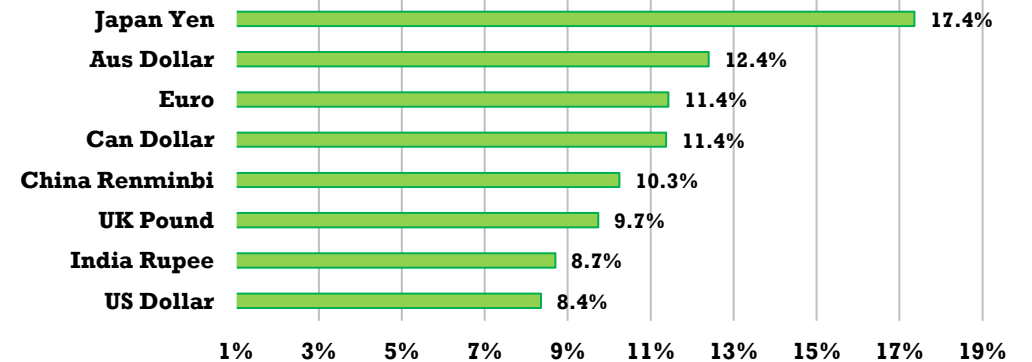


Sri Lankan Rupee vs Global Currencies

Apr 2024



YTD 2024



GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Apr 2024

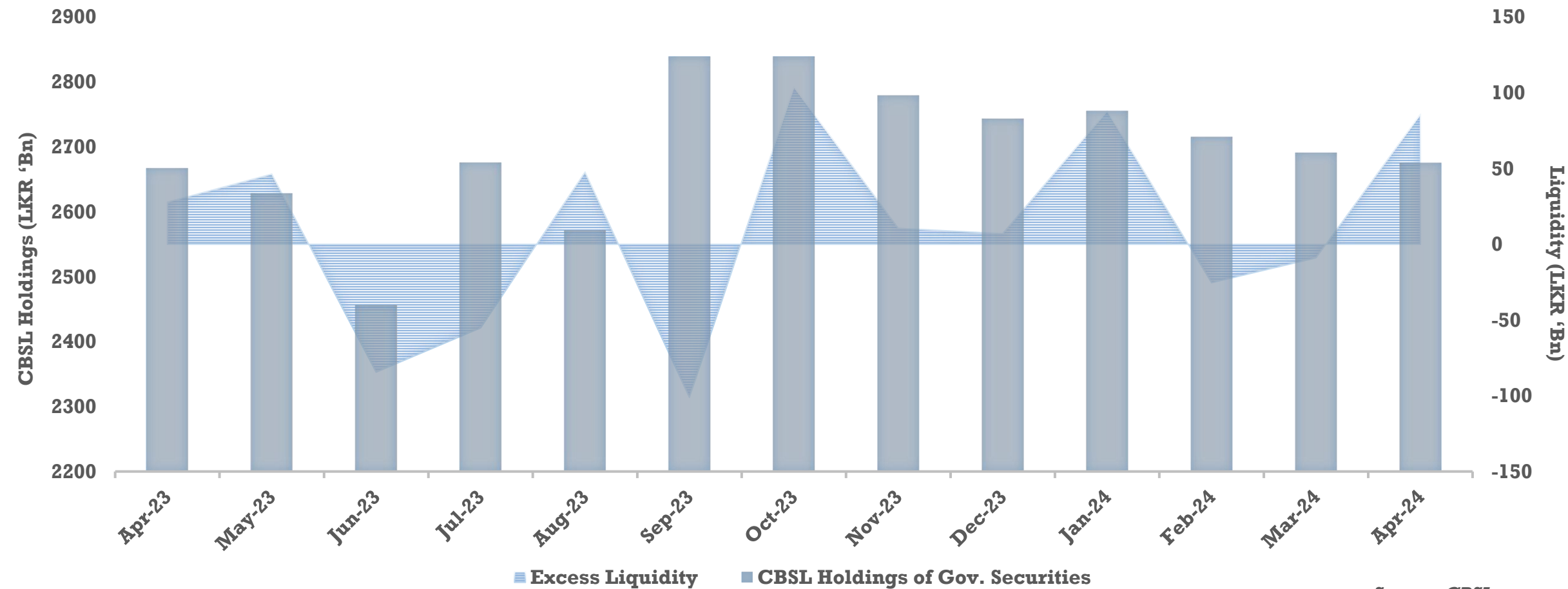
Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
05-Apr-24	226,805	-	226,805
12-Apr-24	-	-	-
19-Apr-24	157,300	85,000	242,300
26-Apr-24	101,200	-	101,200
Total Issued			570,305

Net Settlement	Apr 2024	YTD
Maturities	412,069	2,663,686
New Issues	570,305	2,867,979
Excess/ (Deficit)	158,236	204,293

CBSL Holdings of Gov. Securities		YTD
As at End Apr 2024	2,675,600	
As at End Mar 2024	2,691,300	
Increase/ (Decrease)	(15,700)	(68,000)

CBSL HOLDINGS OF GOV. SECURITIES...

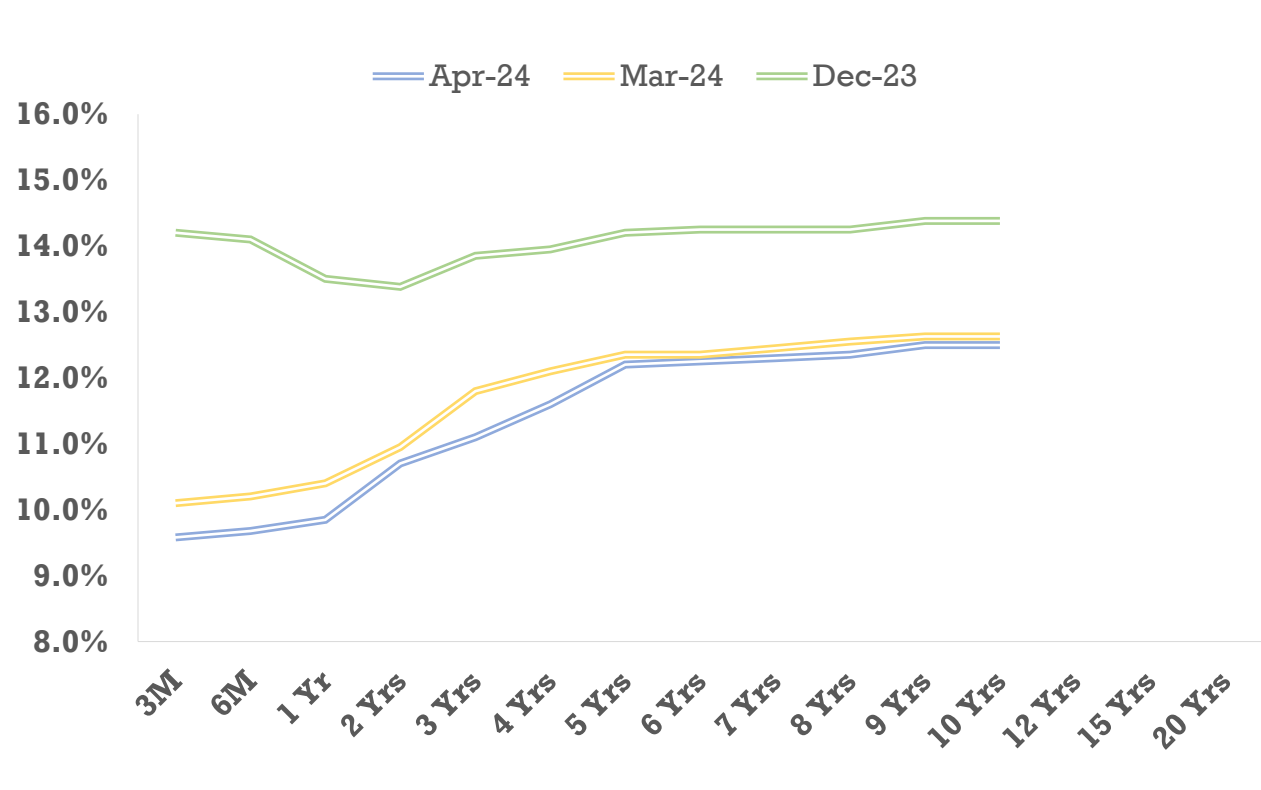
...declined by LKR 15.7Bn in Apr 2024



Source: CBSL

TREASURY BILLS AND BONDS – APR 2024

Towards the end of the month, the secondary market yield curve experienced a significant plunge, driven by a resurgence in bullish sentiment following weeks of subdued activity at the month's start. Liquid tenors including 2026, 2027, and 2028 maturities notably traded actively, witnessing declines from 25bps to 70bps, while the Weighted Average Yield Rate (WAYR) at the T-Bill auction dipped below 10.0% with full acceptance.

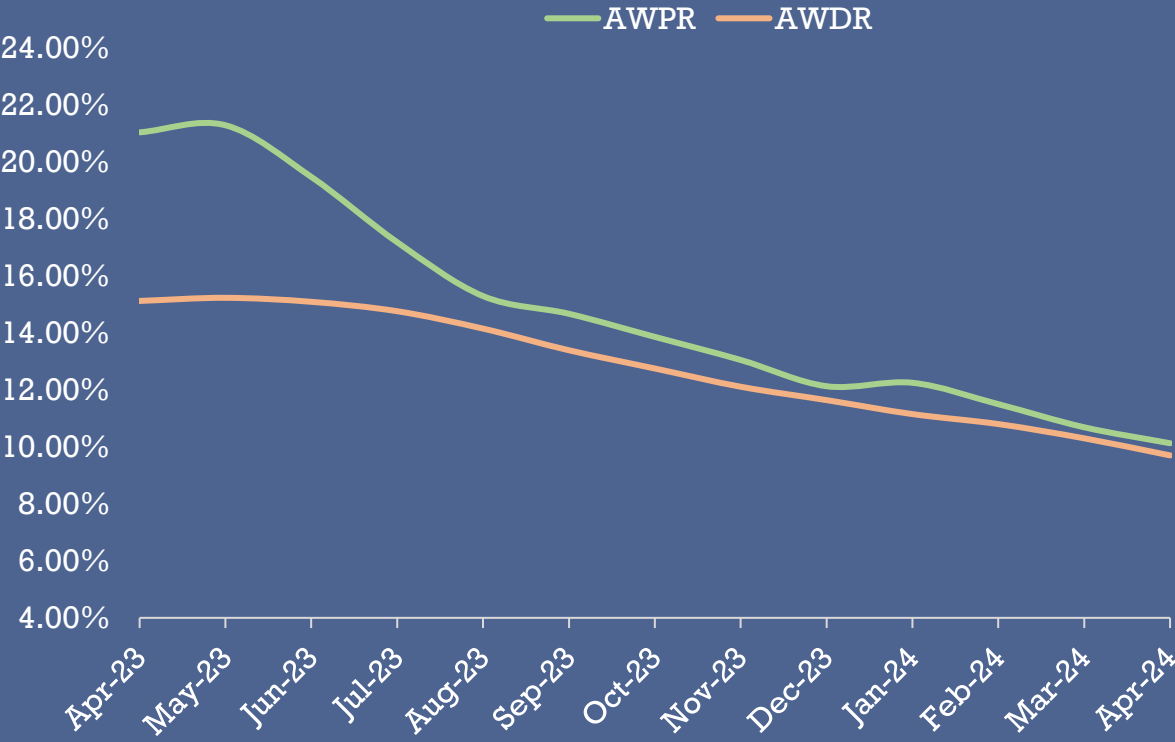


Source: First Capital Research

Tenure	Interest Rate Change (bps)				
	Apr-24	Mar-24	Change (bps)	Dec-23	Change (bps)
3M	9.58%	10.10%	-52	14.20%	-462
6M	9.68%	10.20%	-52	14.10%	-442
1 Yr	9.85%	10.40%	-55	13.50%	-365
2 Yrs	10.70%	10.95%	-25	13.38%	-268
3 Yrs	11.10%	11.80%	-70	13.85%	-275
4 Yrs	11.60%	12.10%	-50	13.95%	-235
5 Yrs	12.20%	12.35%	-15	14.20%	-200
6 Yrs	12.25%	12.35%	-10	14.25%	-200
7 Yrs	12.30%	12.45%	-15	14.25%	-195
8 Yrs	12.35%	12.55%	-20	14.25%	-190
9 Yrs	12.50%	12.63%	-13	14.38%	-188
10 Yrs	12.50%	12.63%	-13	14.38%	-188
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

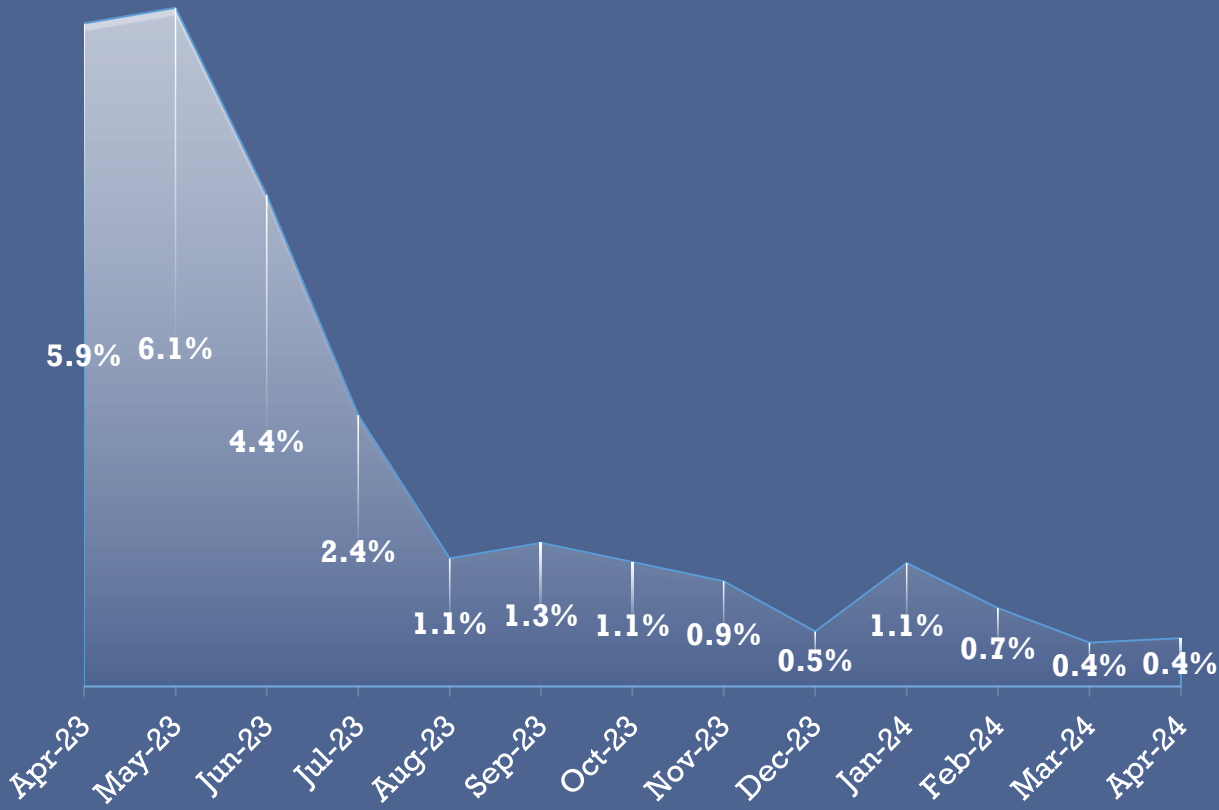
Source: First Capital Research
May 2024

AWPR vs AWDR



Source: CBSL

Interest Spread



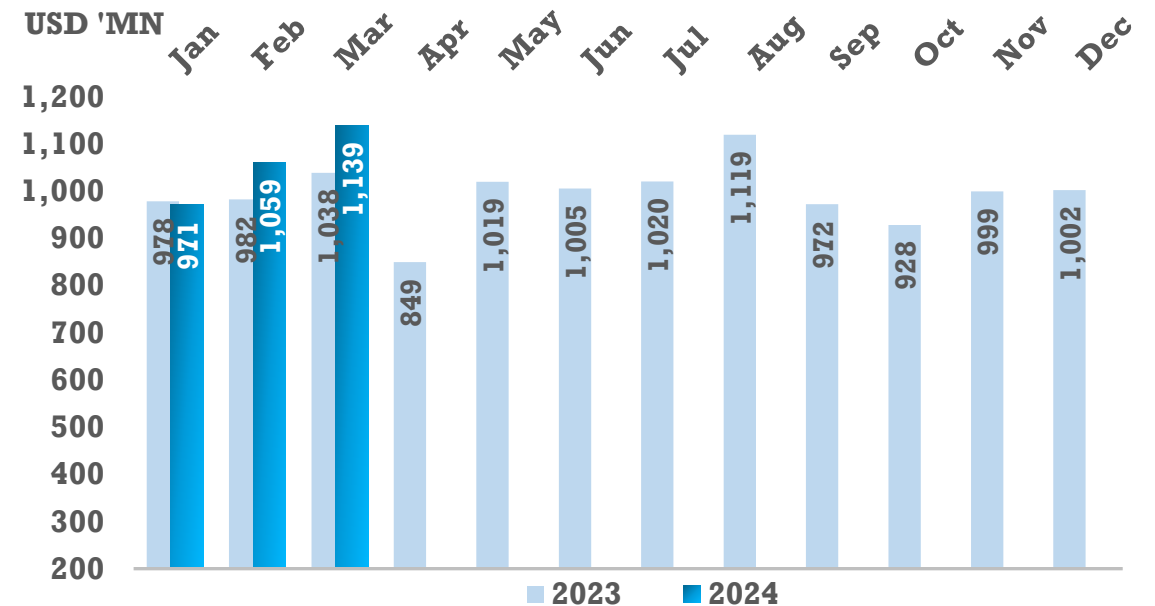
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – MAR 24 – EXPORTS

In Mar 24, earnings from exports rose by 9.8%YoY to USD 1,138.9Mn, up from USD 1,037.5Mn in Mar 23. All major export categories, including industrial, agricultural, and mineral goods, saw increases. Industrial exports were boosted by petroleum products, driven by higher volumes of bunkering and aviation fuel exports while textiles and garments exports also recorded a notable improvement. Agricultural exports, particularly tea, saw improved earnings due to higher volumes. Mineral exports also experienced a slight increase. Mar 24 witnessed a notable boost in export earnings, primarily driven by a surge in textiles and garments exports, reaching the highest levels recorded since Dec 22.

Category	2023 (USD 'Mn)	2024 (USD 'Mn)	Change (%)
Industrial Exports			
- Mar	816.4	912.2	11.7
- YTD	2,374.7	2,517.3	6.0
Agricultural			
- Mar	216.0	221.9	2.7
- YTD	608.2	639.3	5.1
Mineral Exports			
- Mar	2.5	2.8	14.0
- YTD	7.7	6.1	-20.4
Total			
- Mar	1,037.5	1,138.9	9.8
- YTD	2,997.6	3,168.9	5.7

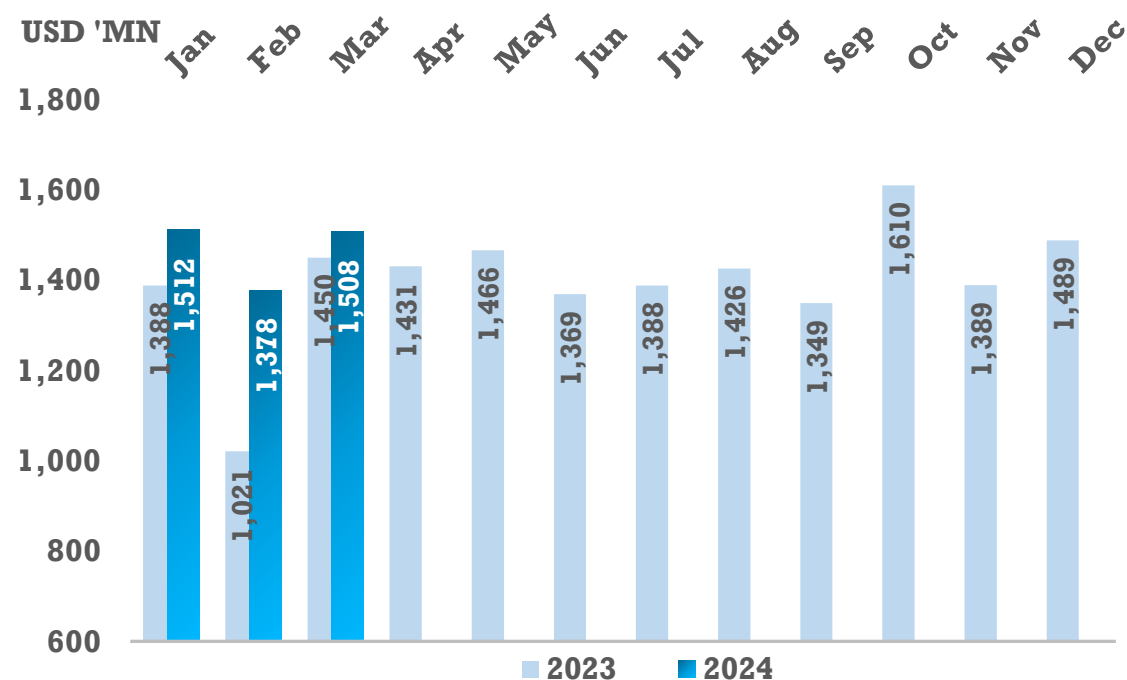


Source: CBSL
May 2024

EXTERNAL SECTOR – MAR 24 – IMPORTS

In Mar 24, expenditure on imports marginally surged by 4.0%YoY to USD 1,507.7Mn compared to USD 1,449.5Mn in Mar 23. This increase spanned all major import categories, attributed to relaxed import restrictions, economic normalization, and looser monetary conditions. Consumer goods imports saw a rise driven by increased spending on food items while recorded a decline in non-food items (led by lower medical and pharmaceuticals). Intermediate goods imports rose due to higher fuel while textile imports and wheat imports declined notably. Expenditure on investment goods increased broadly, fueled by machinery, equipment.

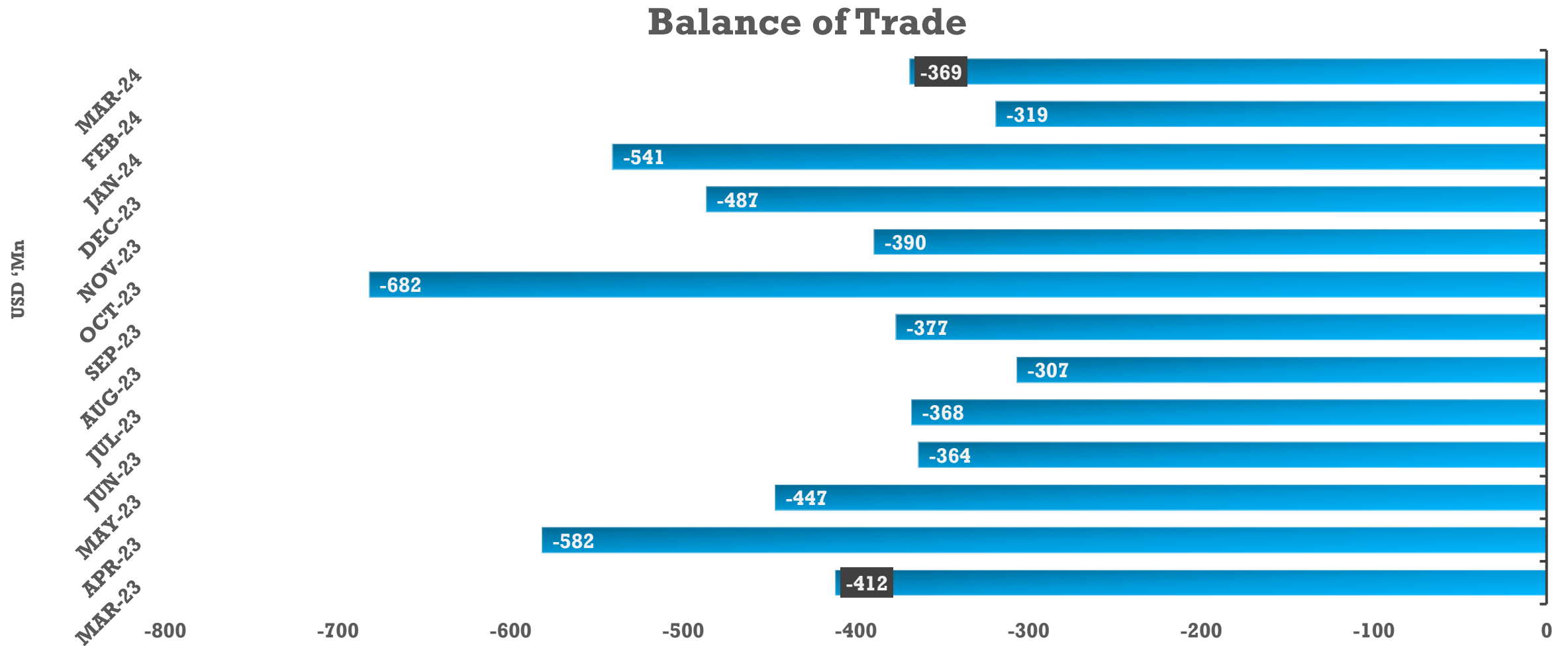
Category	2023 (USD 'Mn)	2024 (USD 'Mn)	Change (%)
Consumer goods			
- Mar	266.0	271.0	1.9
- YTD	686.7	801.9	16.8
Intermediate			
- Mar	971.8	1,010.2	4.0
- YTD	2,615.4	2,830.9	8.2
Investment goods			
- Mar	209.9	226.1	7.7
- YTD	589.6	761.8	29.2
Total			
- Mar	1,449.5	1,507.7	4.0
- YTD	3,894.0	4,397.9	12.9



Source: CBSL

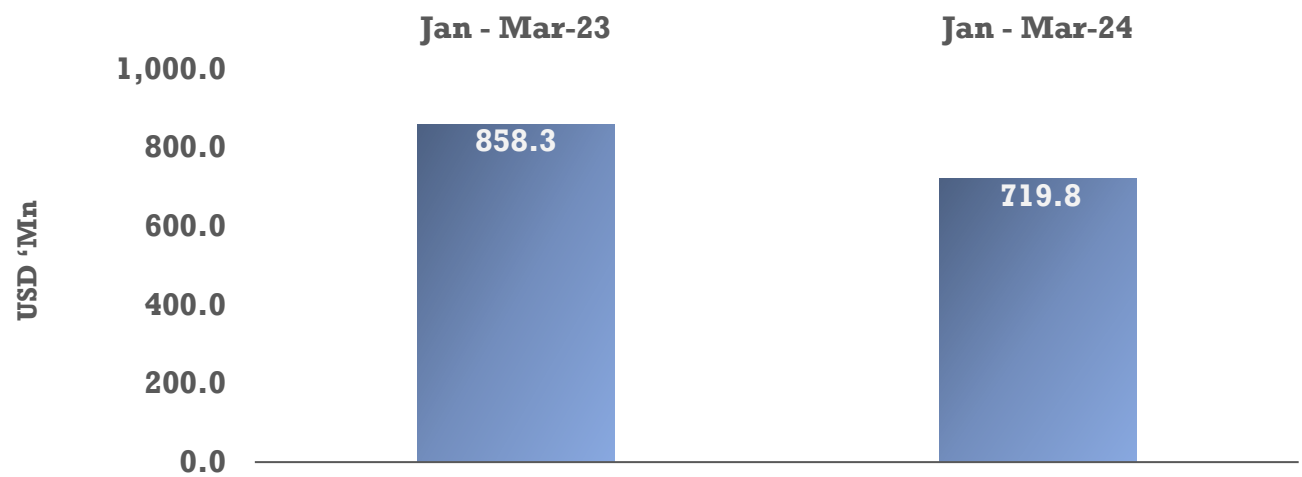
May 2024

EXTERNAL SECTOR – MAR 24



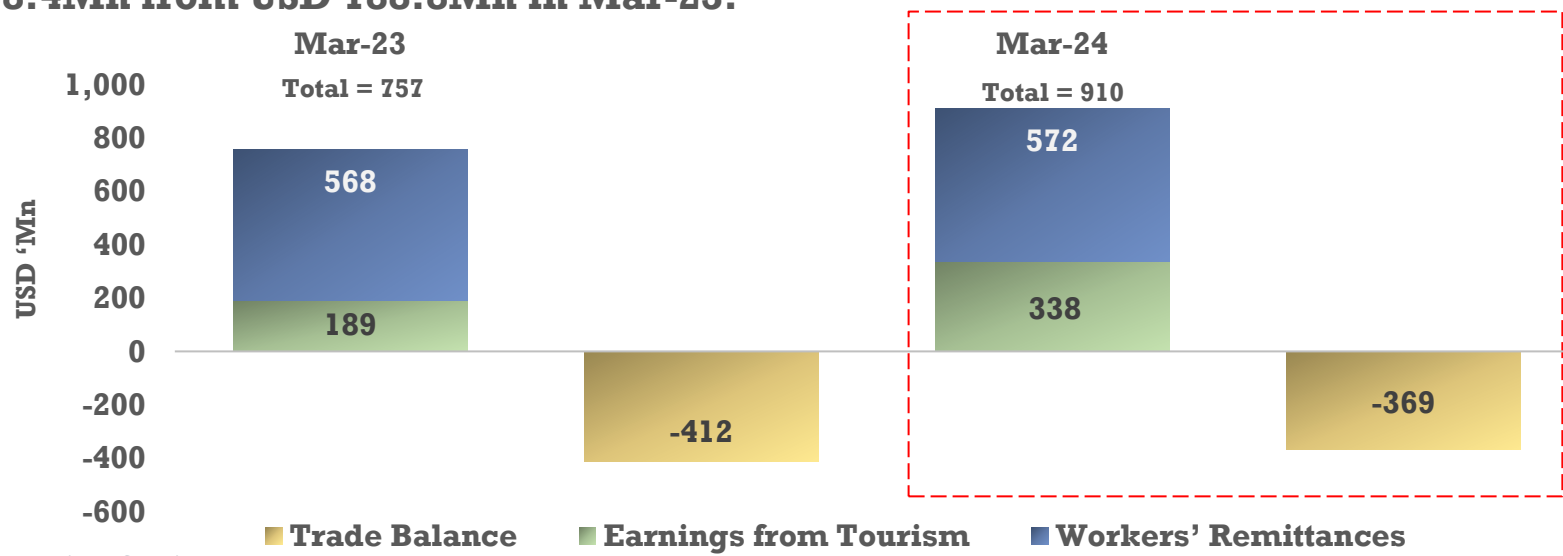
Source: Central Bank

BoP for Jan–Mar-24 recorded at USD 719.8Mn compared to Jan–Feb-24 amount of USD 247.0Mn resulting in a net inflow of USD 472.8Mn, for the month of Mar-24.



Source: CBSL

Workers' Remittances increased marginally to USD 572.0Mn in Mar-24 (+0.7%YoY). Earnings from Tourism for Mar-24 increased substantially to USD 338.4Mn from USD 188.8Mn in Mar-23.



First Capital Research

Source: CBSL

BALANCE OF PAYMENT
INCREASED YOY IN MAR-24

Mar USD 'Mn	2023	2024	Change (%)
Trade Balance	-412	-369	
Earnings from Tourism	189	338	+78.8
Workers' Remittances	568	572	+0.7

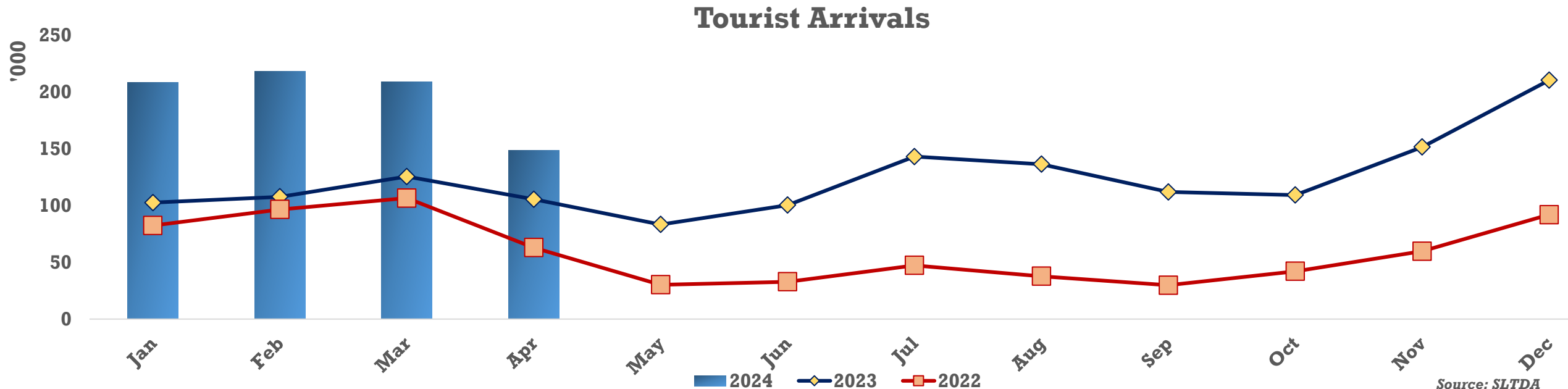
YTD USD 'Mn	2023	2024	Change (%)
Trade Balance	-896	-1,229	
Earnings from Tourism	504	1,026	+103.6
Workers' Remittances	1,413	1,536	+8.7

Source: CBSL

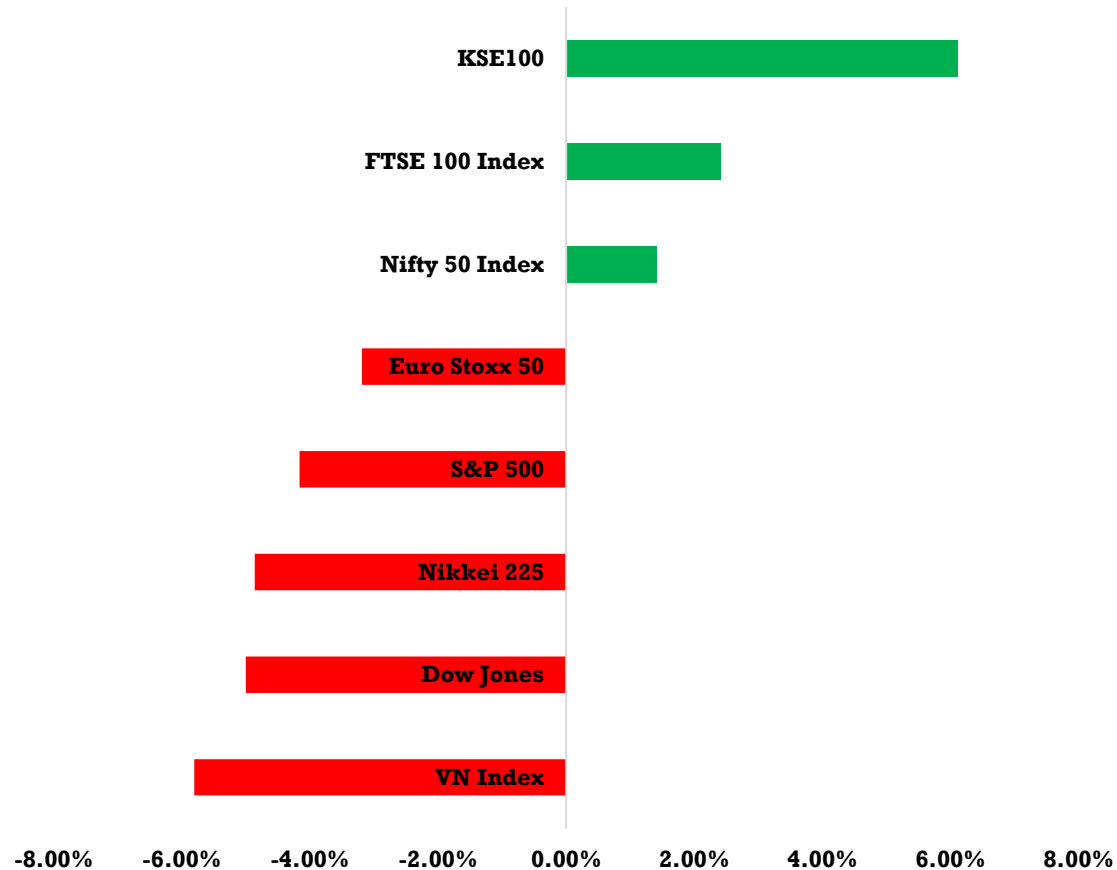
TOURIST ARRIVALS – APR 2024

[Apr 148,867 – **UP +41.1%YoY**] [MoM – **DOWN -28.8%**]

The total arrivals for the month was recorded at 148,867 displaying an increase of 41.1%YoY compared to Apr 2023. Improved air connectivity, favorable local conditions, geographical proximity and geopolitical consideration were the main contributors to this development. Accordingly, key source markets during Apr-24, is topped by India, Russian Federation, the United Kingdom and Germany.



GLOBAL MARKET – APR 2024



Indonesian bond yields drop most since Nov 2023 on fed cut bets

Indonesian bond yields slid the most since November to outperform Asian peers, as a revival of US interest-rate cut bets spurred demand for the notes after they got heavily sold off last month. The yield on 10-year rupiah bonds fell as much as 26bps to 6.91%, helping to pare the 55bps jump recorded in April. The move followed a rally in Treasuries, after weaker-than-expected US jobs data.

Bloomberg



Home prices soar even higher in Feb, despite higher mortgage rates

Strong demand and tight supply continue to push home values higher, even though mortgage rates are now moving higher again. Home prices in February jumped 6.4%YoY, another increase after the prior month's annual gain of 6%, according to the S&P CoreLogic Case-Shiller national home price index released Tuesday. It was the fastest rate of price growth since November 2022.

Oil climbs as Gaza tensions rise, Saudi Arabia hikes prices

Oil futures climbed after Saudi Arabia hiked June crude prices for most regions and as the prospect of a Gaza ceasefire deal appeared slim, renewing fears the Israel-Hamas conflict could still widen in the key oil producing region. Brent crude futures gained 51 cents, or 0.6%, to USD 83.47 a barrel, while U.S. West Texas Intermediate crude futures were at USD 78.64 a barrel, up 53 cents, or 0.7%.



REUTERS
WORLD

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