



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Jun 2024

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THE CENTRAL BANK MAINTAINS POLICY RATES AT THEIR CURRENT LEVELS

- The Monetary Policy Board of the Central Bank of Sri Lanka, at its meeting held on 27th May-24, decided to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank at their current levels of 8.50% and 9.50%, respectively.
- The Board reached this conclusion after thoroughly examining the present and anticipated trends in both the domestic and global economy. The aim is to attain and sustain inflation at the targeted rate of 5.0% over the medium term, while also assisting the economy in reaching and stabilizing at its potential level.
- Moreover, the Board observed that the medium-term inflation outlook aligns with the current policy interest rates, and inflation expectations are firmly secured. Consequently, the board underscored the importance of financial institutions promptly transmitting monetary easing measures to market interest rates. This action is vital for facilitating the relaxation of domestic monetary conditions and fostering domestic economic recovery.

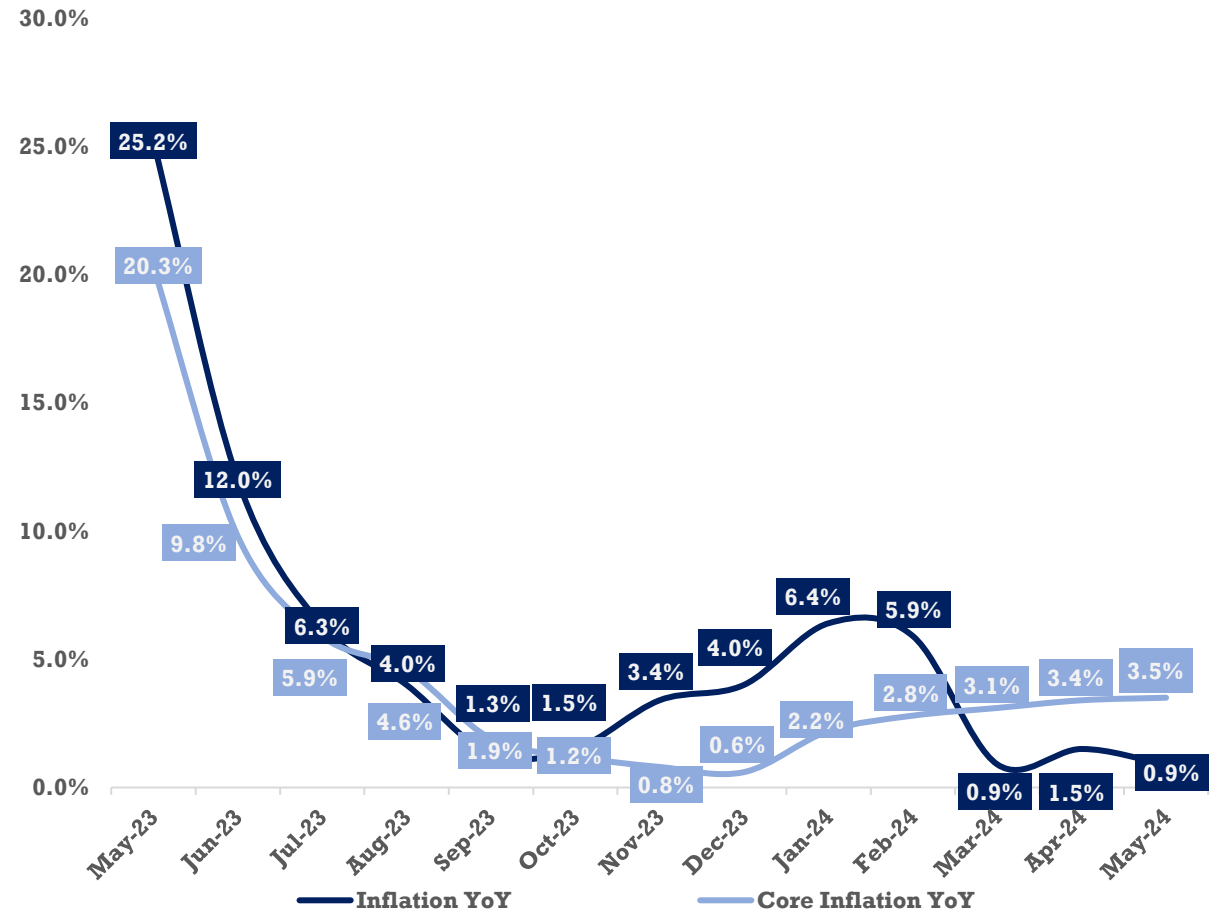
INFLATION – CCPI

CCPI FOR MAY 2024:

MOM -0.6%

YOY +0.9%

- MoM inflation declined by -0.6% MoM with the decrease in inflation of Food group to -1.2% and decrease in inflation of Non-food group by -0.3%, respectively.
- The YoY inflation increased to 0.9% in May 2024. YoY inflation of Food group bottomed out to 0.0% in May 2024, while Non-Food group increased to 1.3% in May 2024 from -0.9% in Apr 2024.



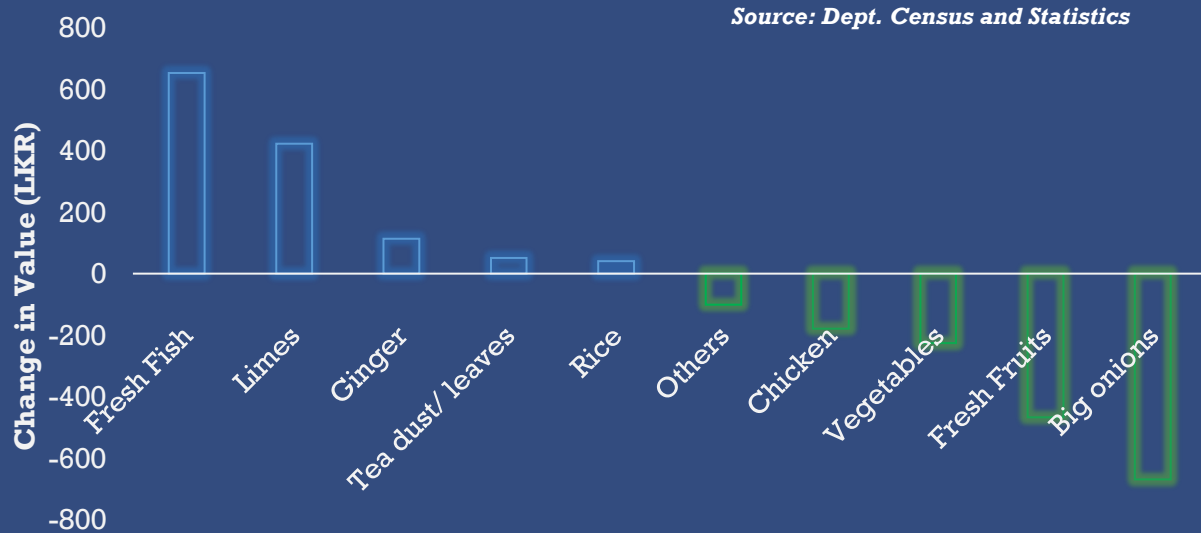
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

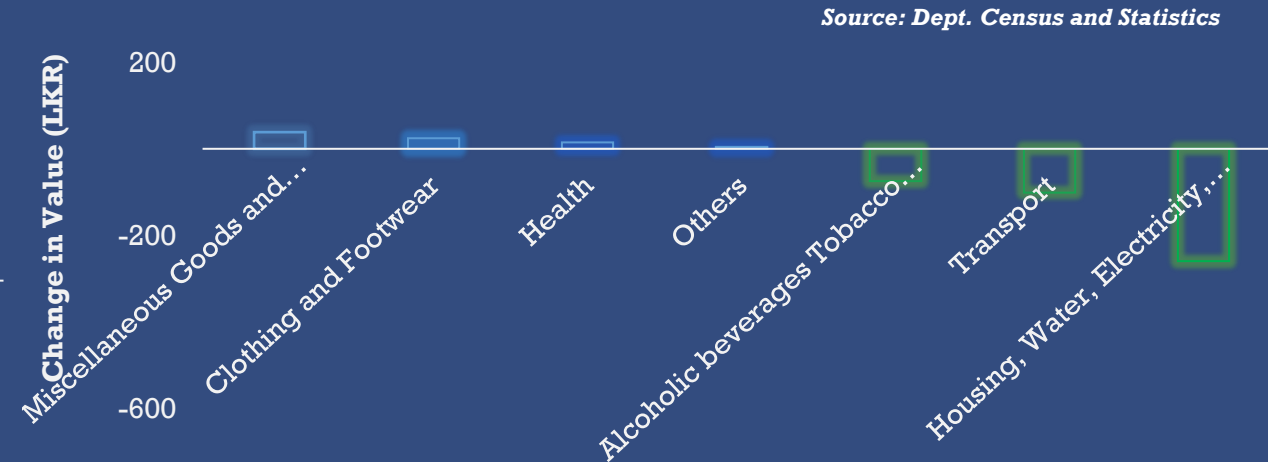
The CCPI index declined by -0.6%MoM contributed by the decrease in expenditure of Food items by 0.37% and a decrease in expenditure of Non-Food items by 0.20%. Within the Food items, decrease in value changes were mainly reported for Big Onions, Fresh Fruit, Vegetables, Chicken and others. Among Non-Food groups, decrease in value changes were mainly reported in Housing, Water, Electricity, Gas and Other Fuels.



Food Category Inflation

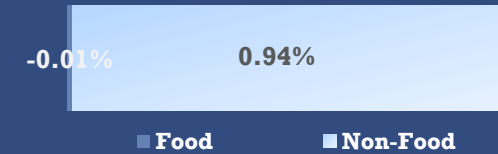


Non-Food Category Inflation

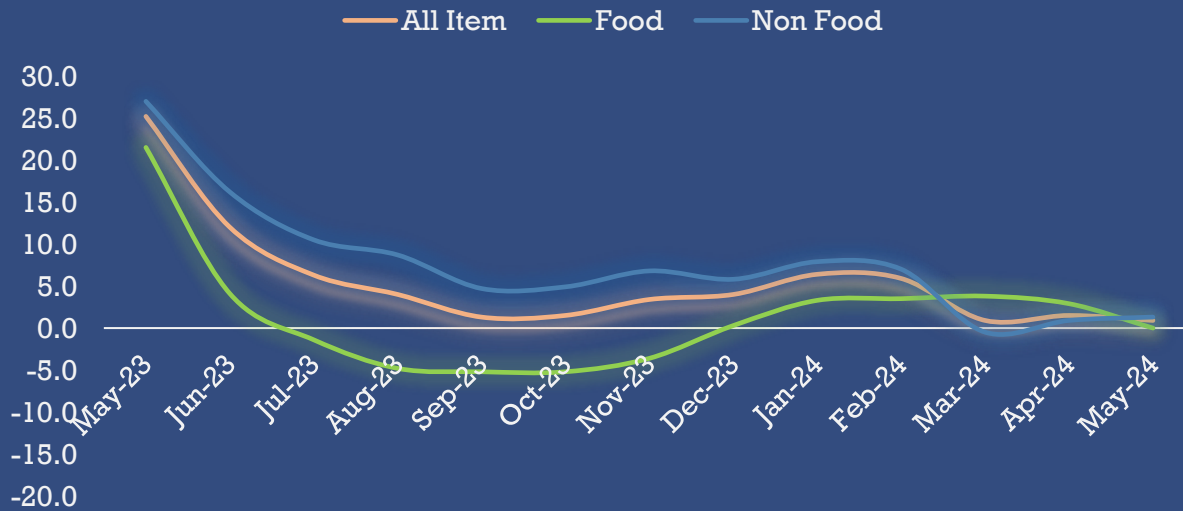


INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for May 2024 was 0.9% and has decreased relative to the month of Apr 2024. Food item prices decreased to 0.0%YoY in May 2024 while the Non-Food item prices increased to 1.3%YoY in May 2024 from 0.9%YoY in Apr 2024. The contribution from food category for YoY inflation was -0.01% while the contribution of Non-Food items stood at 0.9% mainly due to the increase in prices of Alcoholic Beverages, Tobacco & Narcotics, Education, Restaurants & Hotels, etc.

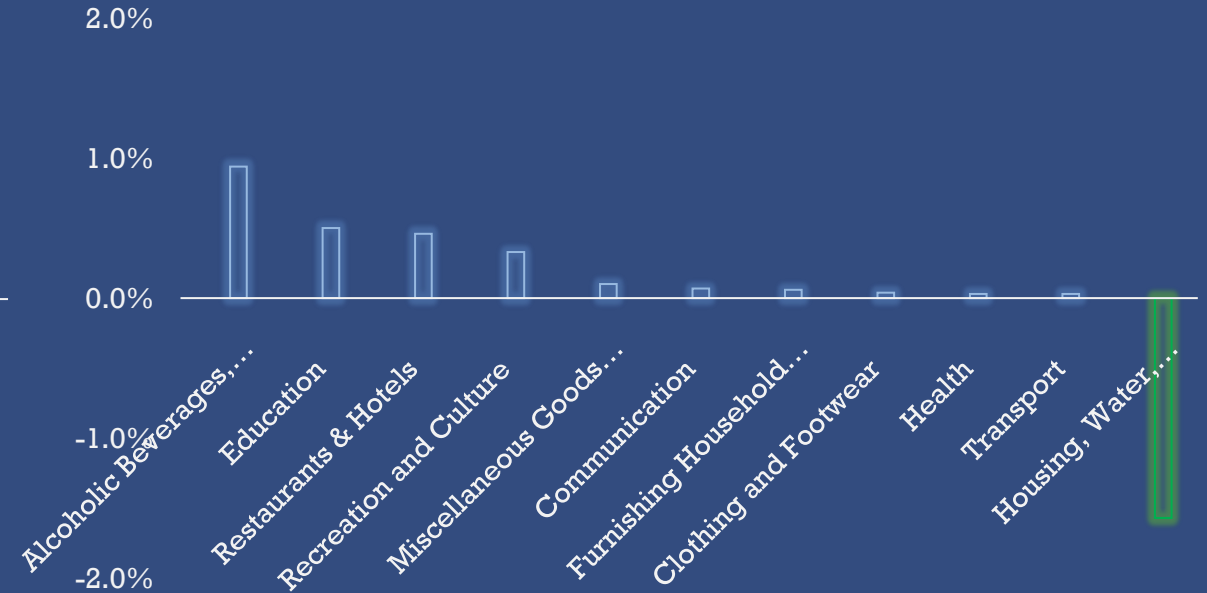


Inflation Analysis (YoY)



Source: Dept. Census and Statistics

Non-Food Category Inflation

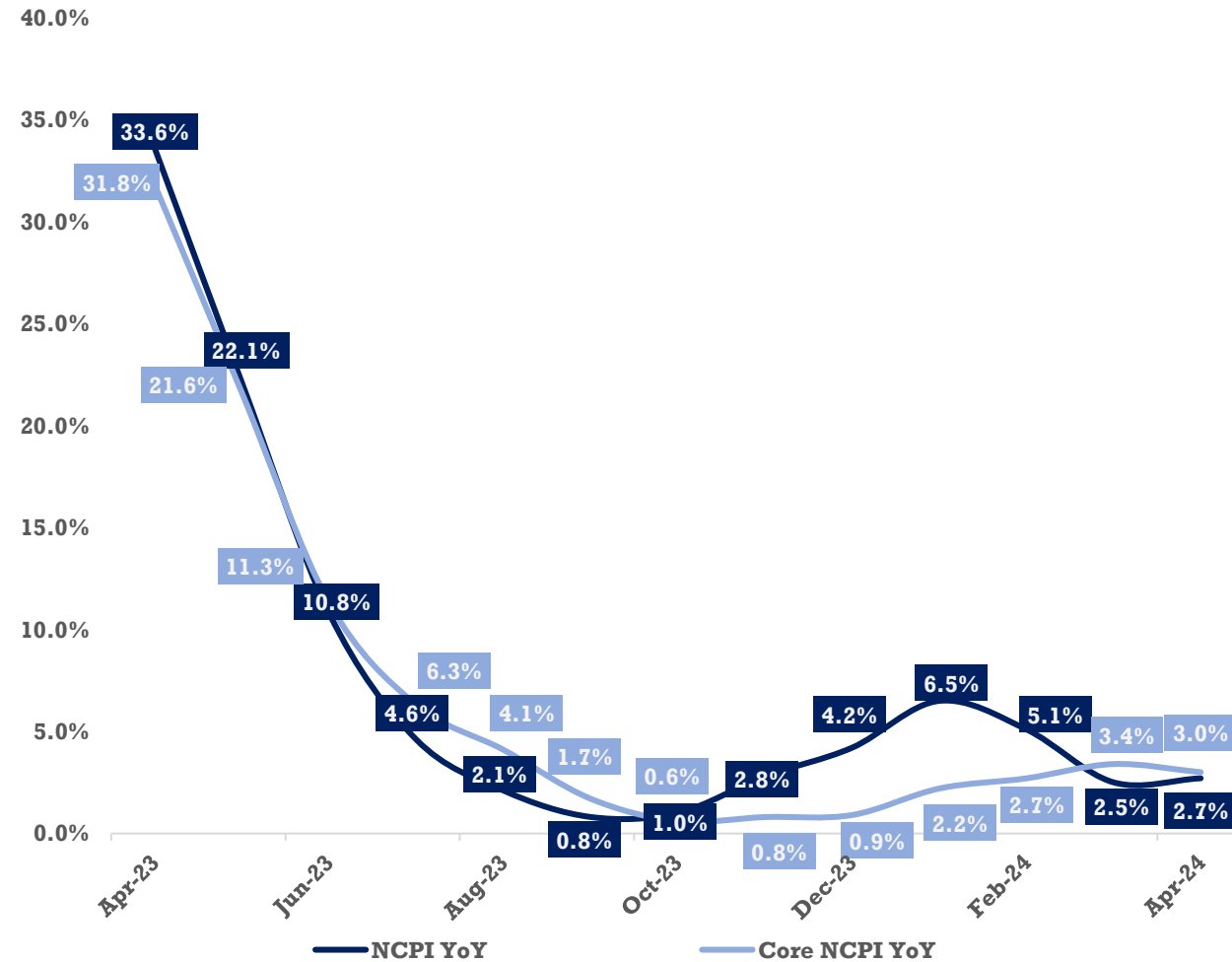


Source: Dept. Census and Statistics

INFLATION – NCPI

NCPI FOR APR 2024: INCREASED TO 2.7%YOY

- NCPI for Apr 2024 increased to 2.7% compared to 2.5% in Mar 2024.
- Increase in inflation was mainly driven by the price incline in Non-Food commodities. Accordingly, YoY Non-Food inflation increased to 2.3% in Apr 2024 compared to 0.7% in Mar 2024 while YoY Food inflation decreased to 3.3% in Apr 2024.



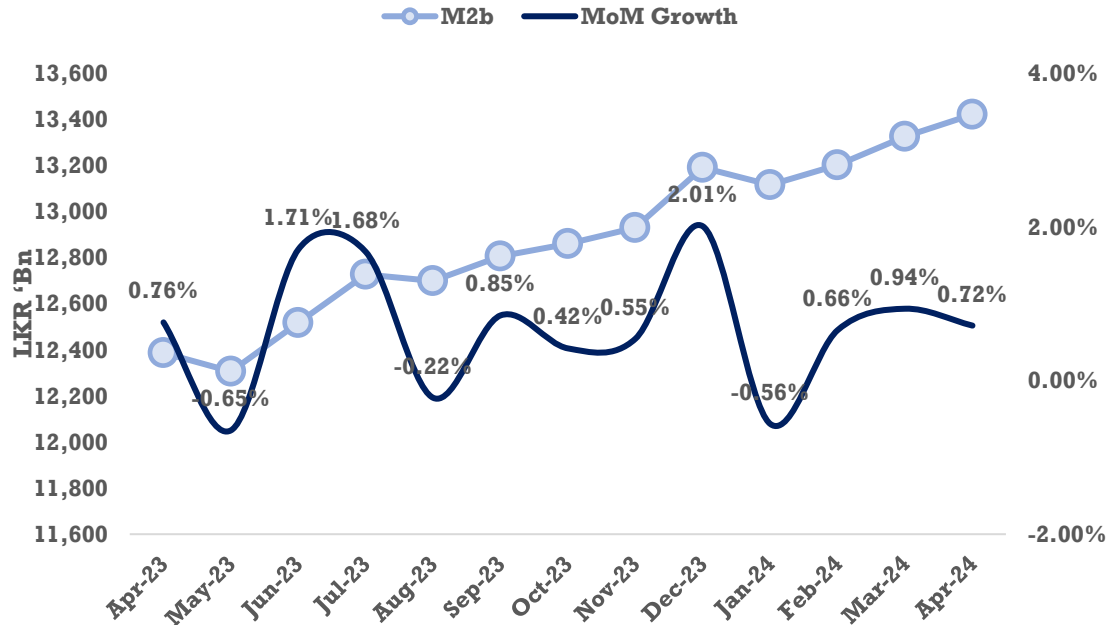
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit declined by LKR 16.2Bn in Apr-24 compared to Mar-24. Meanwhile, state credit declined slightly by LKR 38.0Bn relative to the previous month.

M2b Growth – Apr 2024

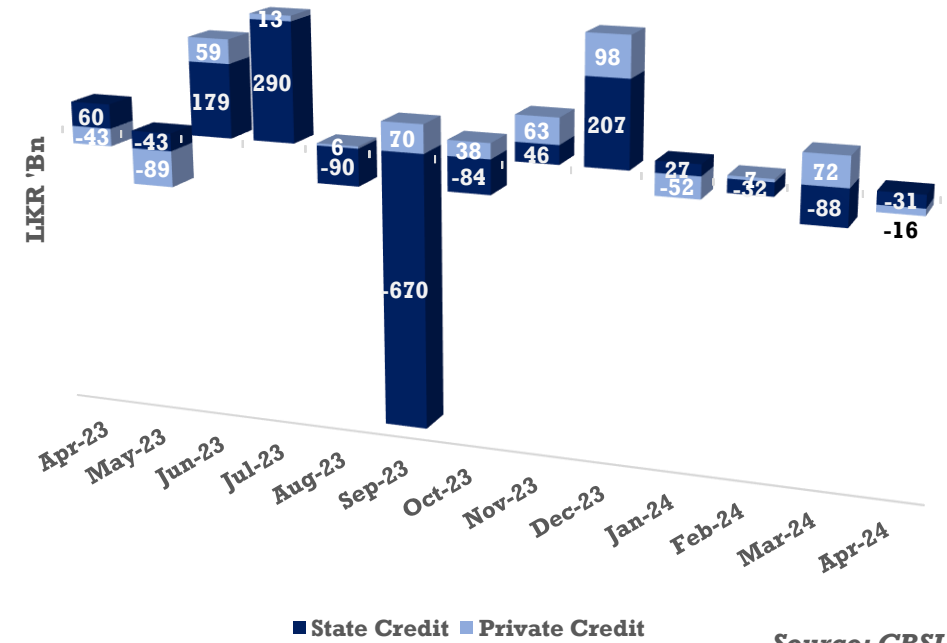
MoM +0.72%, YoY +8.34%, YTD +1.75%



Source: CBSL

State Credit & Private Credit – Apr 2024

Private Credit MoM -0.2%, YoY +3.76%, YTD +0.15%



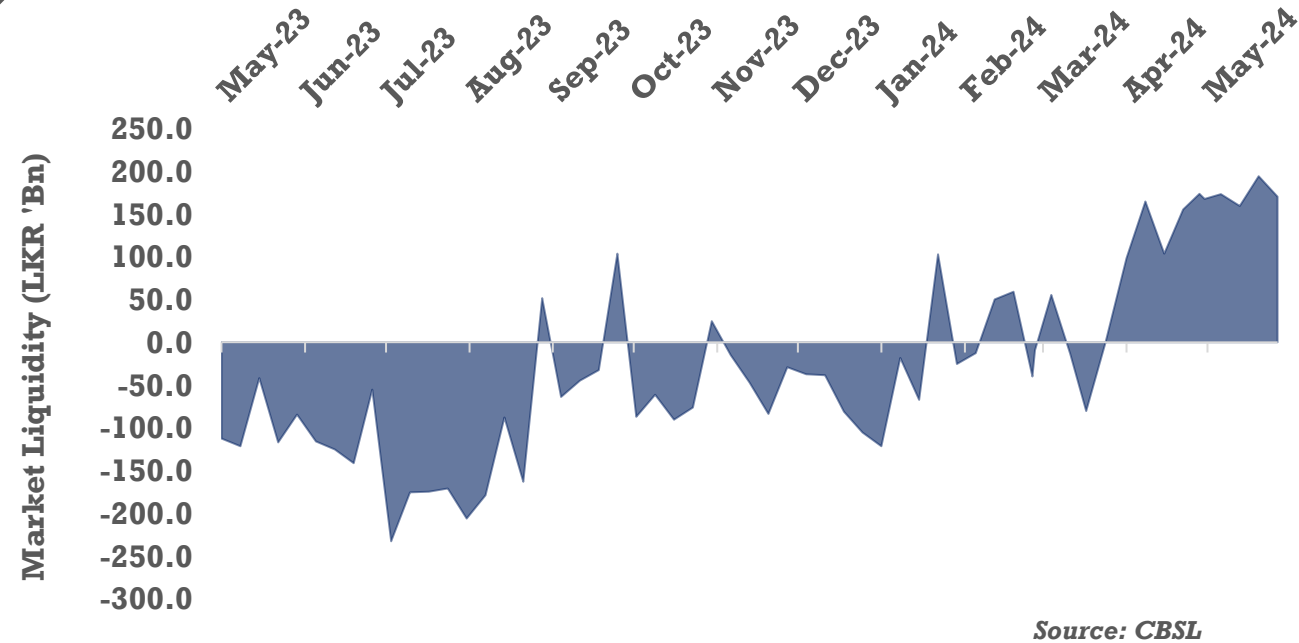
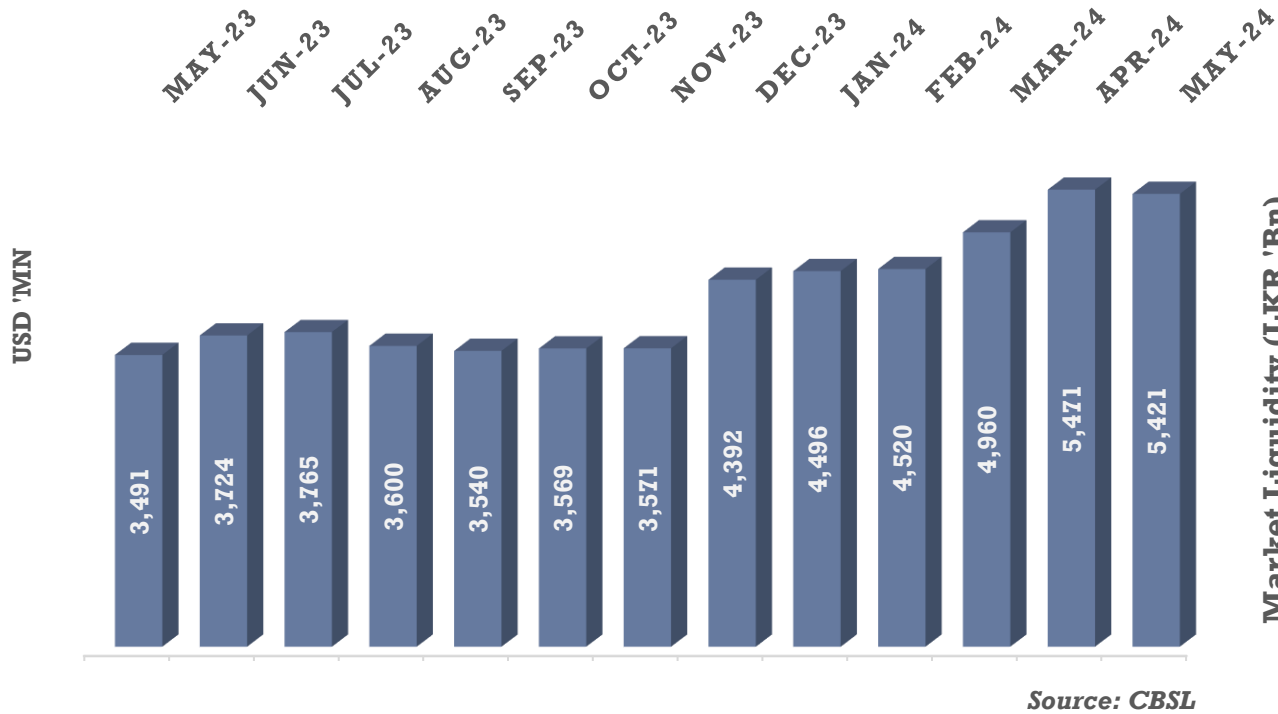
■ State Credit ■ Private Credit

Source: CBSL

LIQUIDITY & RESERVES

- Foreign Reserves decreased by USD 50.0Mn to USD 5.4Bn in May 2024 due to loan repayments.

- Market Liquidity remained stable above LKR 100.0Bn and closed positively during the month of May.



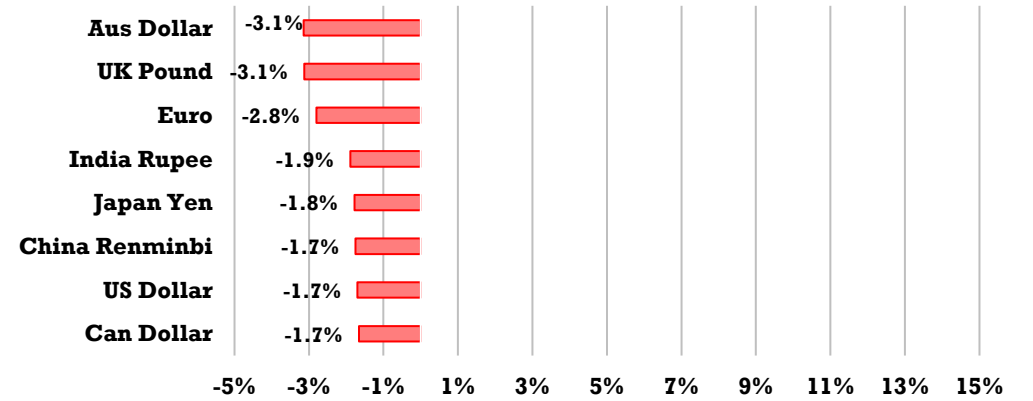
CURRENCY MOVEMENT

USD:LKR Movement

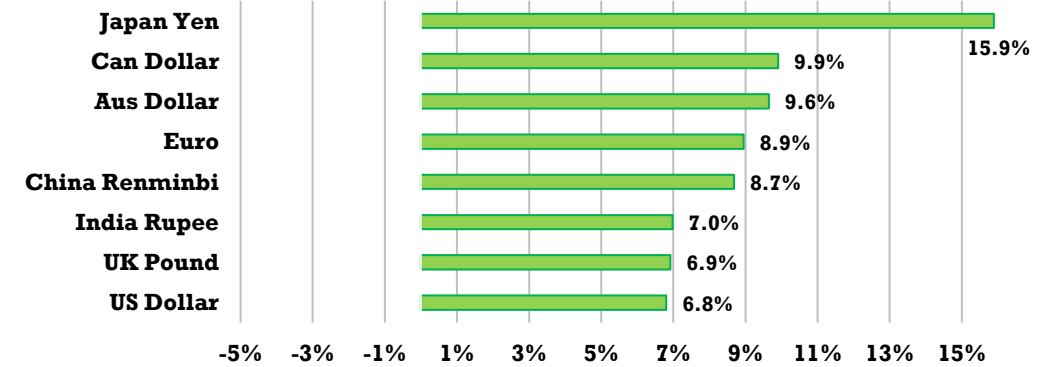


Sri Lankan Rupee vs Global Currencies

May 2024



YTD 2024



GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for May 2024

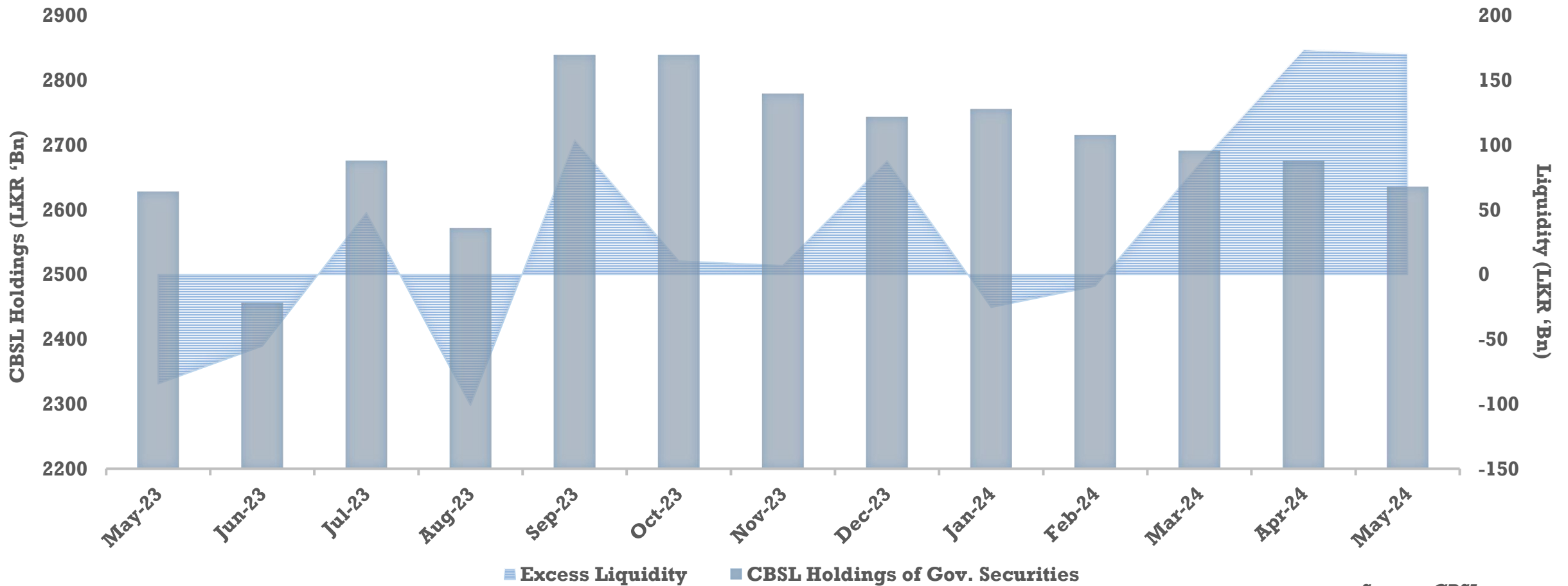
Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
03-May-24	143,000	105,224	248,224
10-May-24	170,500	-	170,500
17-May-24	195,250	77,000	272,250
24-May-24			
31-May-24	352,000	-	352,000
Total Issued			1,042,974

Net Settlement	May 2024	YTD
Maturities	961,665	3,625,681
New Issues	1,042,974	3,910,953
Excess/ (Deficit)	80,979	285,272

CBSL Holdings of Gov. Securities	YTD	
As at End May 2024	2,635,600	
As at End Apr 2024	2,675,600	
Increase/ (Decrease)	(40,000)	(108,000)

CBSL HOLDINGS OF GOV. SECURITIES...

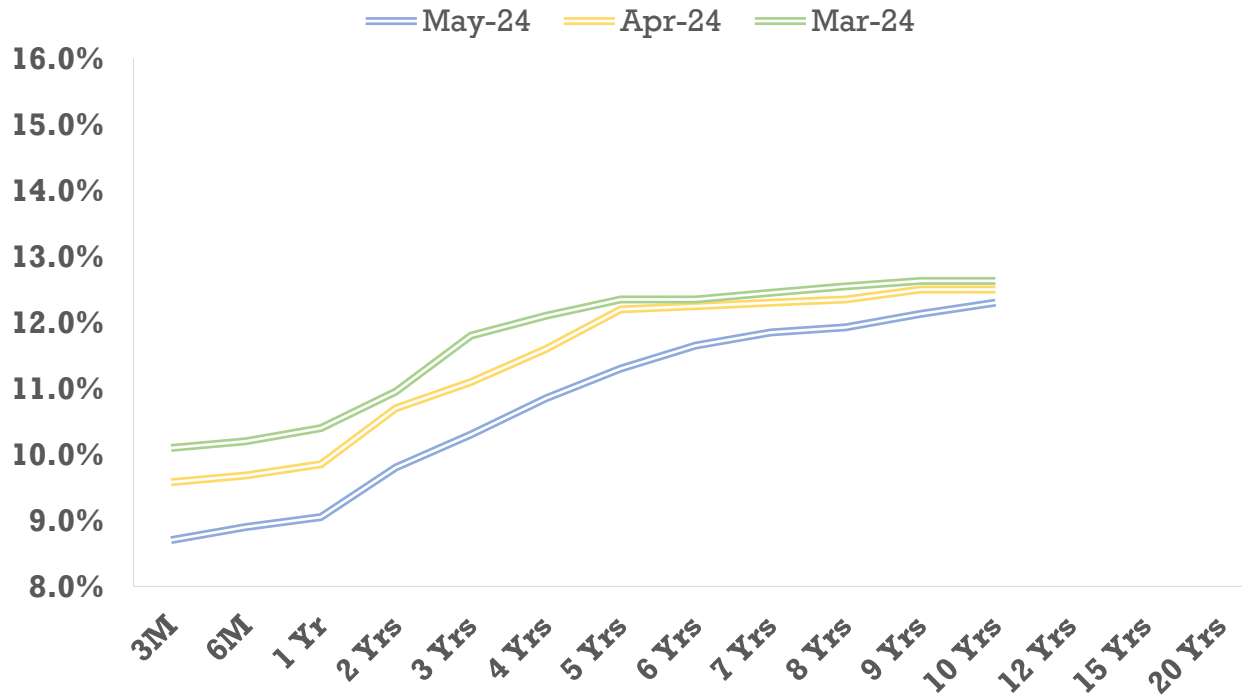
...declined by LKR 40.0Bn in May 2024



Source: CBSL

TREASURY BILLS AND BONDS – MAY 2024

The secondary market witnessed a broad decline in yields amidst sustained buying sentiment as the month commenced. Further towards the month heavy buying interest was displayed by the market participants mainly on liquid maturities 2026, 2027 and 2028 as yields continued to stumble. Towards the latter part of the month with the monetary policy rates unchanged, the market displayed a mixed sentiment on short to mid tenors particularly on 2027 and 2028, while the weighted average yield rates continued to dip at the weekly T-Bill auction.

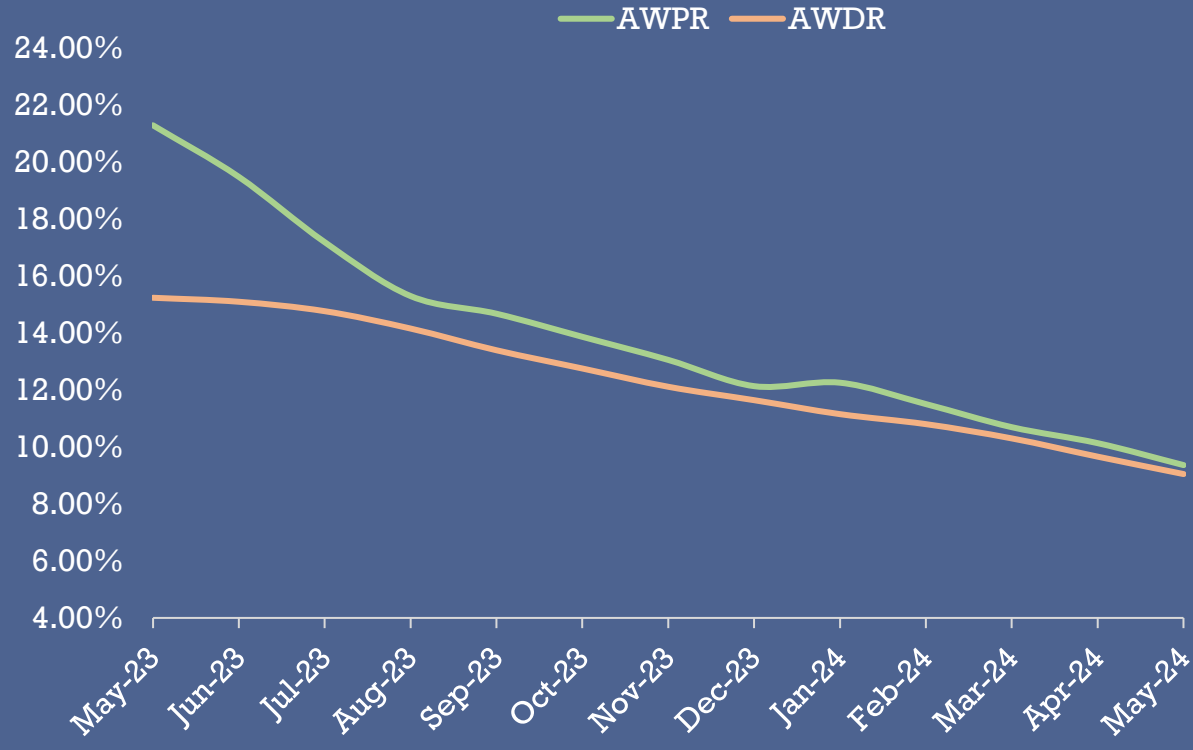


Source: First Capital Research

Tenure	Interest Rate Change (bps)				
	May-24	Apr-24	Change (bps)	Mar-23	Change (bps)
3M	8.70%	9.58%	-88	10.10%	-140
6M	8.90%	9.68%	-78	10.20%	-130
1 Yr	9.05%	9.85%	-80	10.40%	-135
2 Yrs	9.80%	10.70%	-90	10.95%	-115
3 Yrs	10.30%	11.10%	-80	11.80%	-150
4 Yrs	10.85%	11.60%	-75	12.10%	-125
5 Yrs	11.30%	12.20%	-90	12.35%	-105
6 Yrs	11.65%	12.25%	-60	12.35%	-70
7 Yrs	11.85%	12.30%	-45	12.45%	-60
8 Yrs	11.93%	12.35%	-42	12.55%	-62
9 Yrs	12.13%	12.50%	-37	12.63%	-50
10 Yrs	12.30%	12.50%	-20	12.63%	-33
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

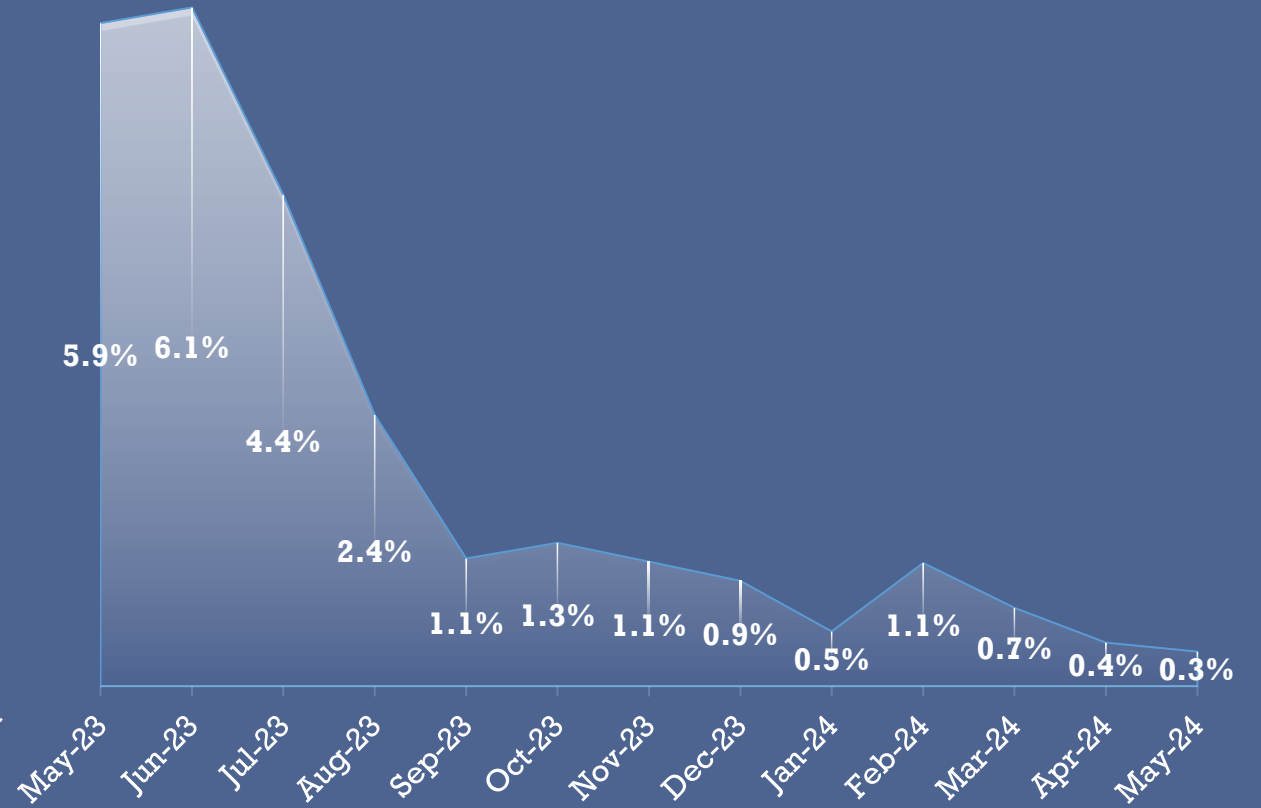
Source: First Capital Research

AWPR vs AWDR



Source: CBSL

Interest Spread



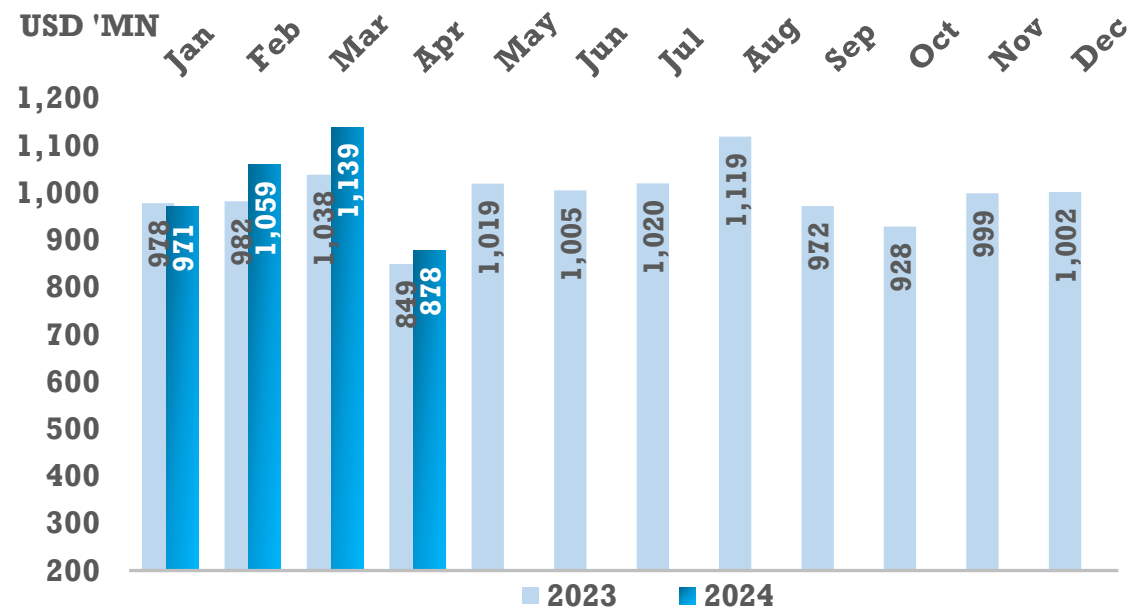
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – APR 24 – EXPORTS

In Apr 24, earnings from exports rose by 3.4%YoY to USD 877.6Mn, up from USD 848.6Mn in Apr 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. Earnings agricultural goods improved in Apr 24 mainly driven by coconut related products and tea despite the decline in spice exports. Mineral exports also experienced a notable increase during Apr 24.

Category	2023 (USD 'Mn)	2024 (USD 'Mn)	Change (%)
Industrial Exports			
- Apr	660.9	683.2	3.4
- YTD	3,056.6	3,210.1	5.7
Agricultural			
- Apr	184.0	189.1	2.8
- YTD	792.3	828.4	4.6
Mineral Exports			
- Apr	1.4	2.3	60.0
- YTD	9.1	8.4	-7.9
Total			
- Apr	848.6	877.6	3.4
- YTD	3,846.2	4,056.1	5.5

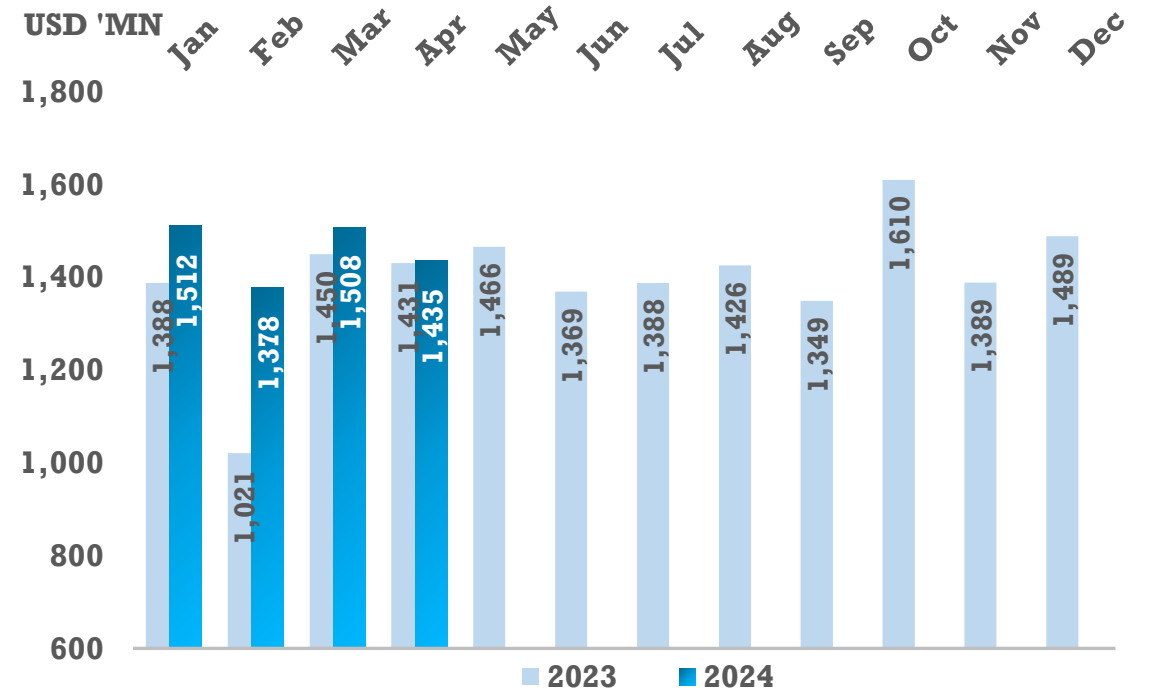


Source: CBSL
Jun 2024

EXTERNAL SECTOR – APR 24 – IMPORTS

In Apr 24, expenditure on imports marginally surged by 0.3%YoY to USD 1,435.2Mn compared to USD 1,431.2Mn in Apr 23. Expenditure of Investment goods aided this incline whilst a decline of expenditure was recorded in both Consumer and Intermediate goods. The decline in Intermediate goods were recorded by the lower medical and pharmaceutical imports. The incline in Investment goods was mainly influenced by higher imports of machinery and equipment and building materials

Category	2023 (USD 'Mn)	2024 (USD 'Mn)	Change (%)
Consumer goods			
- Apr	262.1	256.5	-2.1
- YTD	948.8	1,058.5	11.6
Intermediate			
- Apr	985.2	947.6	-3.8
- YTD	3,600.6	3,778.5	4.9
Investment goods			
- Apr	180.3	229.6	27.4
- YTD	769.9	991.4	28.8
Total			
- Apr	1,431.2	1,435.2	0.3
- YTD	5,325.2	5,833.2	9.5

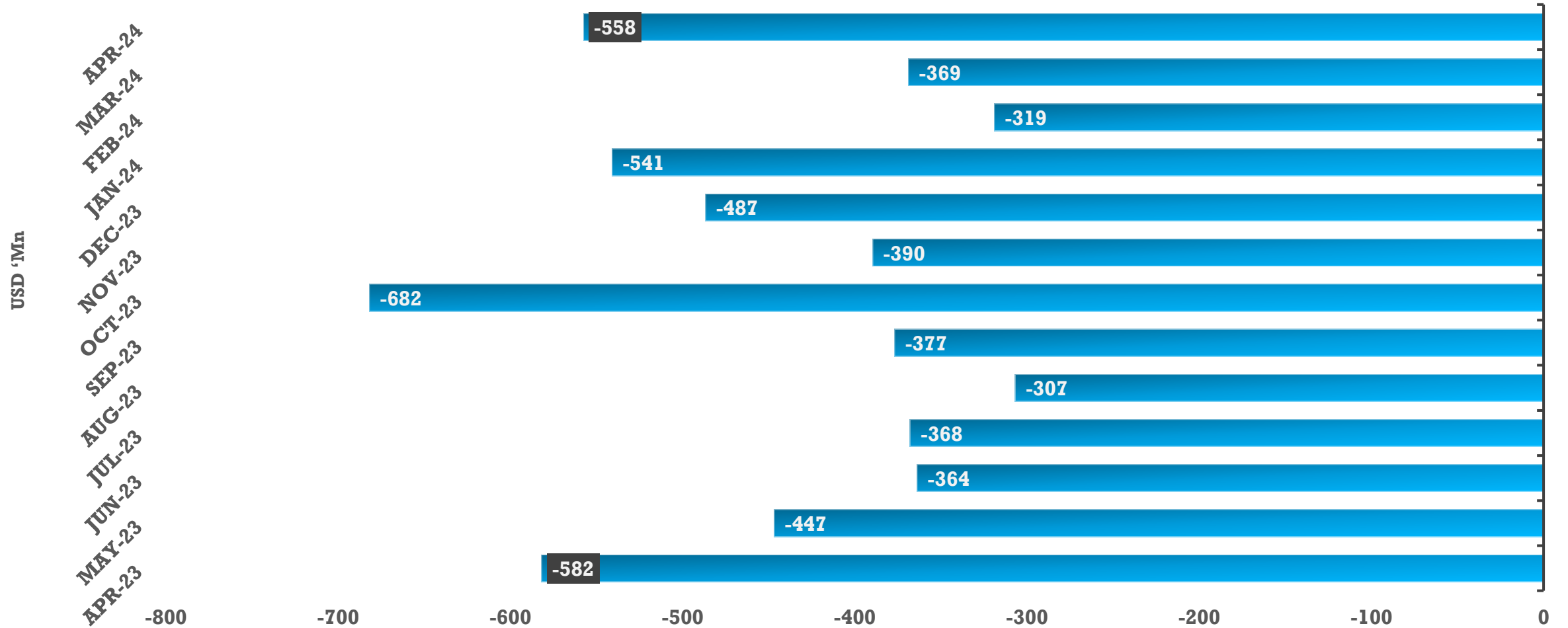


Source: CBSL

Jun 2024

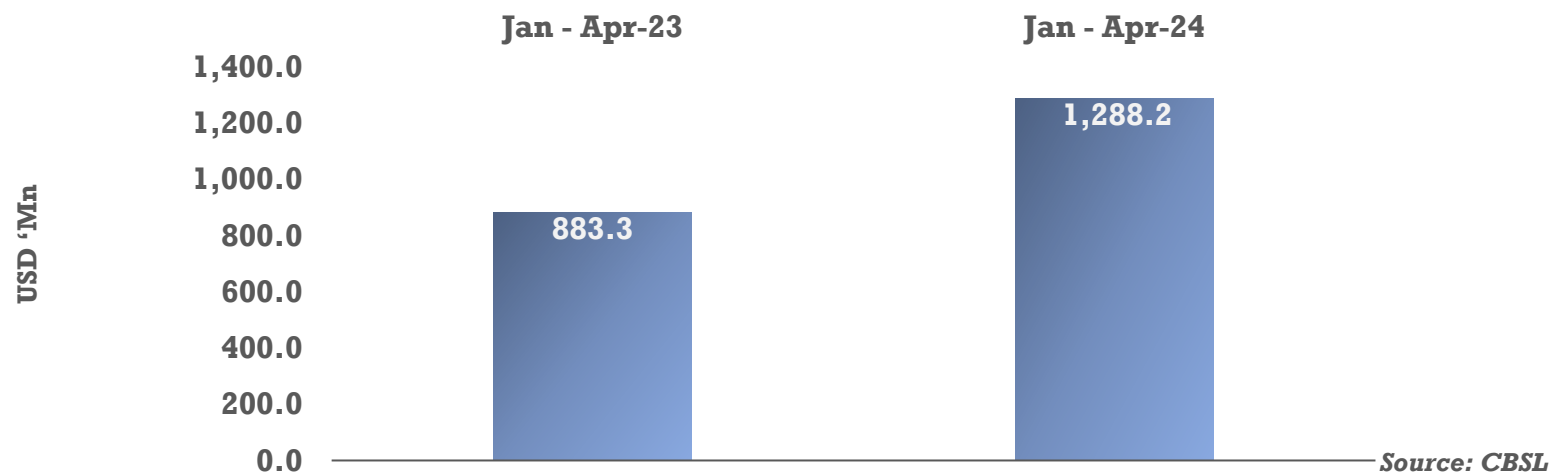
EXTERNAL SECTOR – APR 24

Balance of Trade

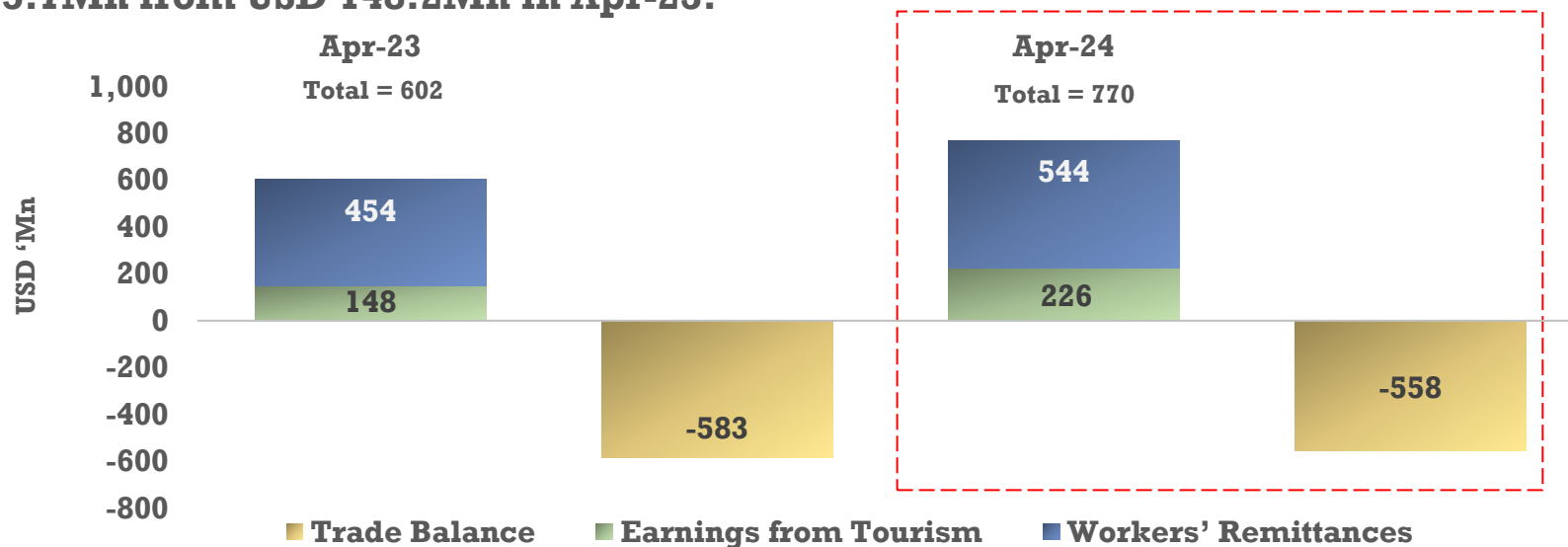


Source: Central Bank

BoP for Jan–Apr-24 recorded at USD 1,288.2Mn compared to Jan–Mar-24 amount of USD 719.8Mn resulting in a net inflow of USD 568.4Mn, for the month of Apr-24.



Workers' Remittances increased marginally to USD 543.8Mn in Apr-24 (+19.8%YoY). Earnings from Tourism for Apr-24 increased substantially to USD 225.7Mn from USD 148.2Mn in Apr-23.



BALANCE OF PAYMENT INCREASED YOY IN APR-24

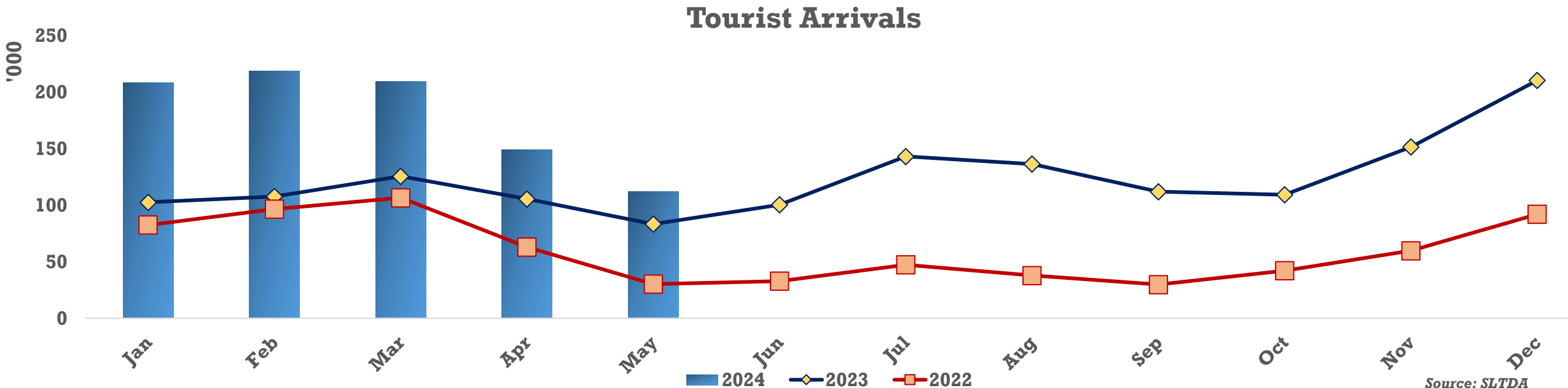
Apr USD 'Mn	2023	2024	Change (%)
Trade Balance	-583	-558	
Earnings from Tourism	148	226	+52.3
Workers' Remittances	454	544	+19.8

YTD USD 'Mn	2023	2024	Change (%)
Trade Balance	-1,479	-1,771	
Earnings from Tourism	652	1,252	+91.9
Workers' Remittances	1,867	2,080	+11.4

TOURIST ARRIVALS – MAY 2024

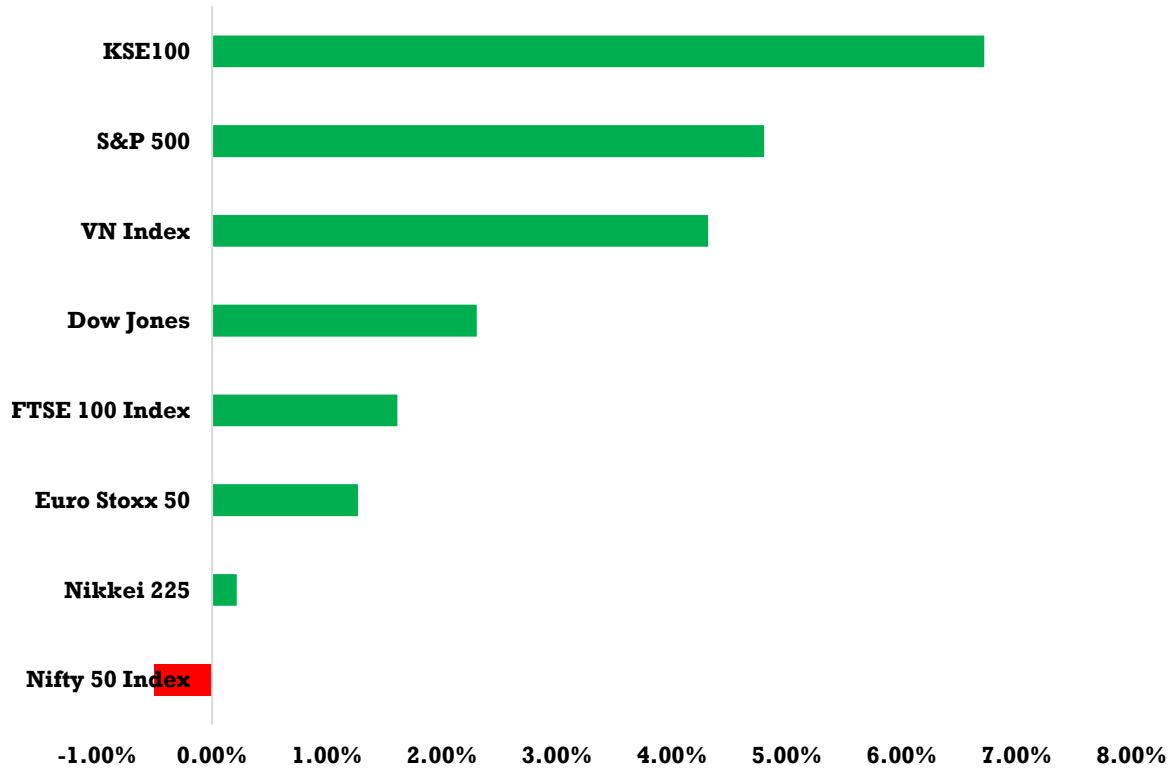
[May 112,128 – **UP +34.6%YoY**] [MoM – **DOWN -24.7%**]

The total arrivals for the month was recorded at 122,128 displaying an increase of 46.6%YoY compared to May 2024. Improved air connectivity, favorable local conditions, geographical proximity and geopolitical consideration were the main contributors to this development. Accordingly, key source markets during May-24, is topped by India, the United Kingdom, Maldives and China



Source: SLTDA

GLOBAL MARKET – MAY 2024



Source: Investing.com

Shipping stocks and Freight rates rally on Red Sea turmoil

Maersk rose as much as 3.7% to hit a five-month high after Bank of America upgraded the stock. European natural gas futures rose as the recent flare-up of geopolitical strife in the Middle East stoked concern over supplies. Oil increased after jumping more than 3%. Container rates are also heading higher. Transpacific rates jumped 56% from a week earlier to USD 2,769 for 40-foot container, based on the Drewry Hong Kong-Los Angeles benchmark. Freightos data displayed spot rates from Asia to the US East Coast and Europe surging over the past week

Bloomberg



Oil prices edge higher amidst supply deficit on summer fuel demands

Crude oil futures edged up on Monday, with analysts predicting a summer surge in fuel demand could lead to a supply deficit soon. Goldman Sachs forecasts Brent to reach USD 86 in Q3, driven by increased transportation and cooling demand, resulting in a deficit of 1.3 million barrels per day. They suggest a floor of USD 75 for Brent due to increased demand at lower prices, but a ceiling of USD 90 due to higher global inventories and OPEC+ production decisions.

Major brokerages expects fed to cut rates from September or beyond

Major brokerages are adjusting their expectations for a U.S. Federal Reserve rate cut to September or later, influenced by recent mixed data. The Federal Open Market Committee (FOMC) is anticipated to maintain its overnight interest rate range of 5.25-5.50% at its upcoming two-day meeting, consistent since last July.



REUTERS
WORLD

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Thank you!

*“SUCCESSFUL INVESTMENTS IS ABOUT
MANAGING RISKS”*

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