



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Jul 2024

CONTENT BRIEFING

- IMF concludes 2nd review under EFF; Sri Lanka secures external debt restructuring deal..... 3
- Inflation..... 4
- M2B & Sector Credit..... 8
- Reserves & Liquidity..... 9
- Currency Movement..... 10
- Government Securities..... 11
- Finance Sector Rate Movement..... 14
- External Sector..... 15
- Tourist Arrivals..... 19
- Global Markets..... 20

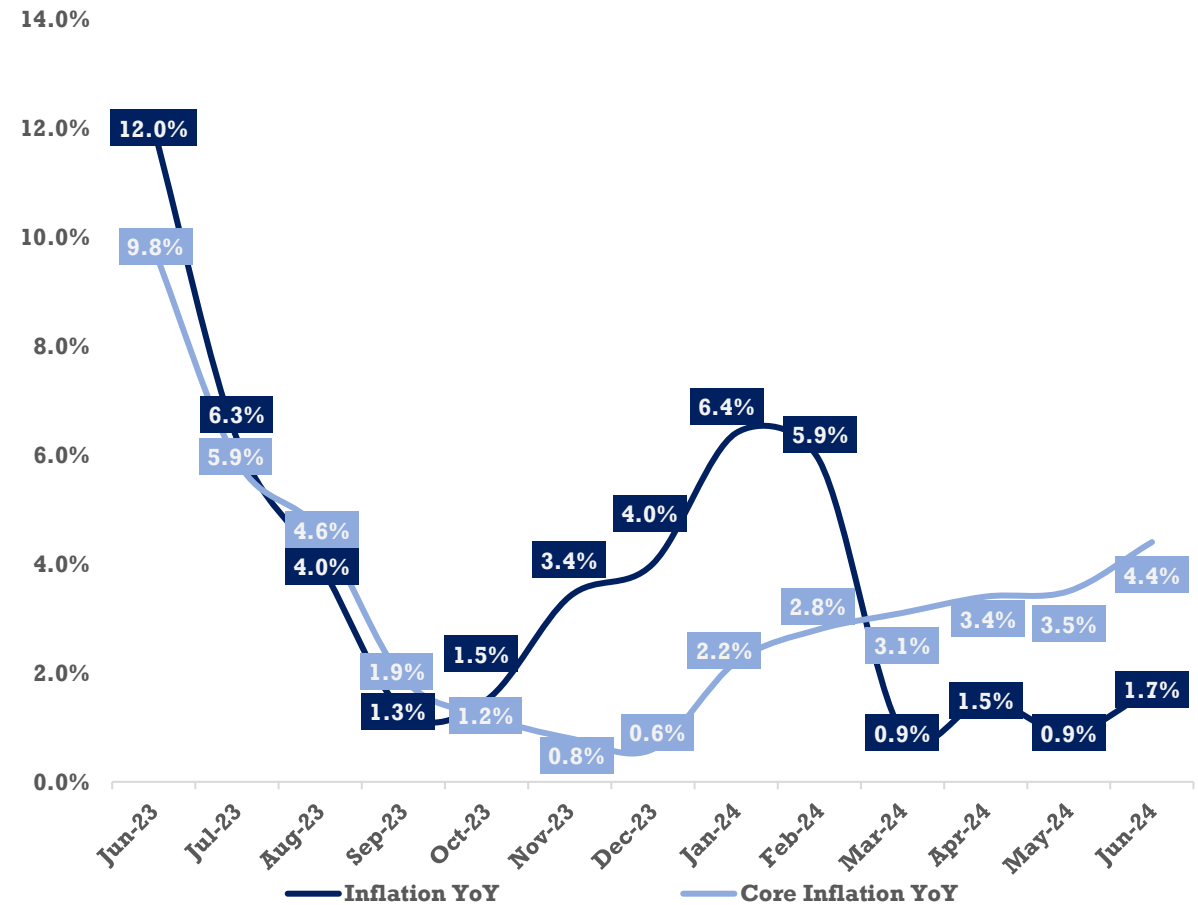
IMF CONCLUDES 2ND REVIEW UNDER EFF; SRI LANKA SECURES EXTERNAL DEBT RESTRUCTURING DEAL

- The IMF Executive Board completed the 2nd review under the 48-month Extended Fund Facility (EFF) Arrangement, allowing authorities to draw SDR 254.0Mn (approx. USD 336.0Mn). This brings the total IMF disbursements to SDR 762.0Mn (approx. USD 1.0Bn). Additionally, the Executive Board concluded the 2024 Article IV Consultation with Sri Lanka.
- Meanwhile, Sri Lanka successfully secured a deal to proceed with restructuring approximately USD 12.6Bn of International Sovereign Bonds (ISBs), marking a significant milestone towards the nation's economic recovery. Restructuring international bonds was a pivotal requirement outlined by the IMF as part of the USD 2.9Bn bailout program.
- Investors have agreed to a take a 28.0% haircut on face value of USD 12.6Bn and a 11.0% reduction on USD 1.9Bn on past interest, with payments on the interest component to start from September 2024.
- The agreement with selected bondholders, representing nearly 50.0% of outstanding overseas bonds, is subject to approval by the Official Creditor Committee (OCC), made up of bilateral creditors and the IMF, to ensure compliance with the debt sustainability analysis.

INFLATION – CCPI

CCPI FOR JUN 2024:
MOM +0.8%
YOY +1.7%

- MoM inflation increased by +0.8% MoM with the increase in inflation of Food group to 2.8% and decrease in inflation of Non-food group to -0.1%, respectively.
- The YoY inflation increased to 1.7% in Jun 2024. YoY inflation of Food group increased to 1.4% in Jun 2024, while Non-Food group increased to 1.8% in Jun 2024 from 1.3% in May 2024.



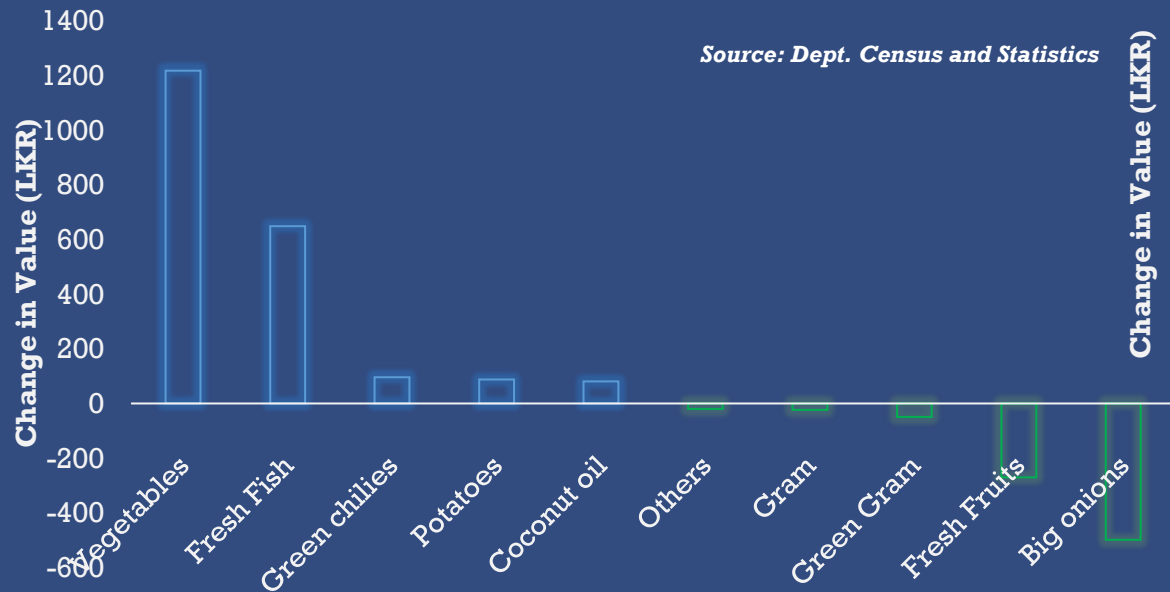
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

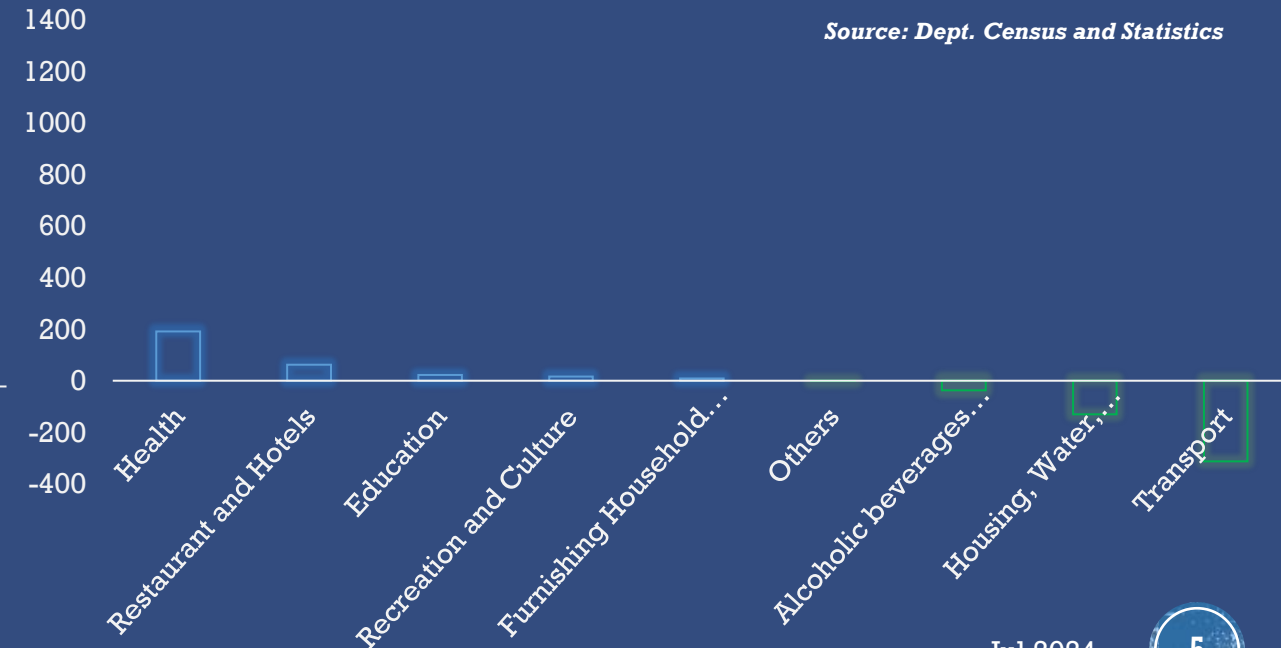
The CCPI index increased by +0.8%MoM contributed by the increase in expenditure of Food items by 0.88% and a decrease in expenditure of Non-Food items by 0.10%. Within the Food items, increase in value changes were mainly reported for Vegetables, Fresh Fish, Green Chilies, Potatoes, and Coconut Oil. Among Non-Food groups, decrease in value changes were mainly reported in Transport, Housing, Water, Electricity, Gas and Other Fuels, Alcoholic beverages Tobacco and Narcotic, etc.



Food Category Inflation



Non-Food Category Inflation

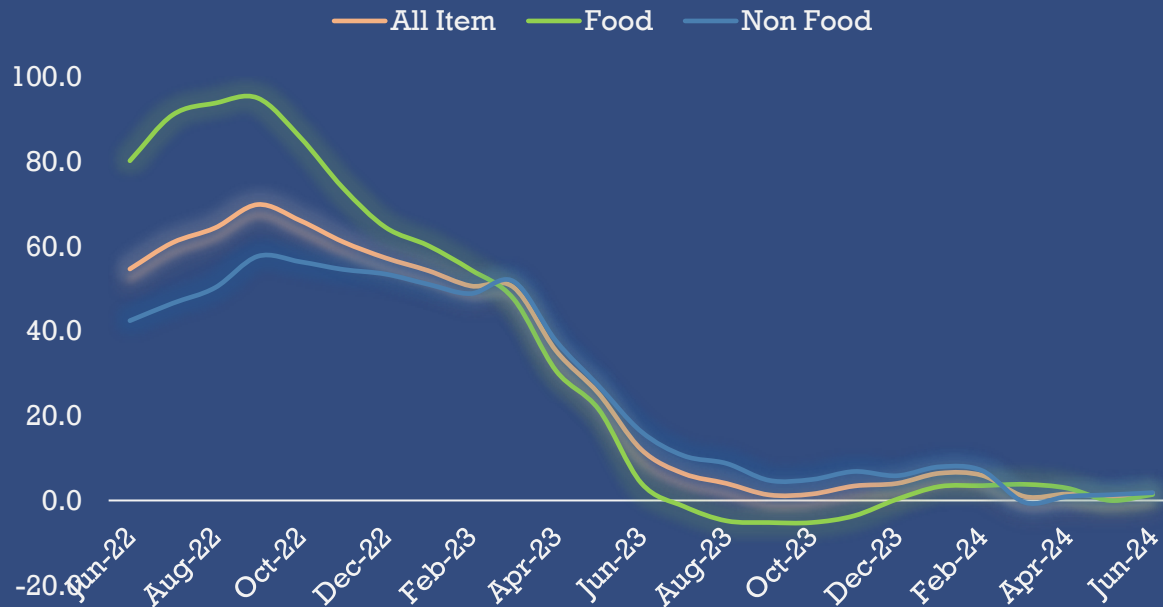


INFLATION ANALYSIS – CCPI-YOY

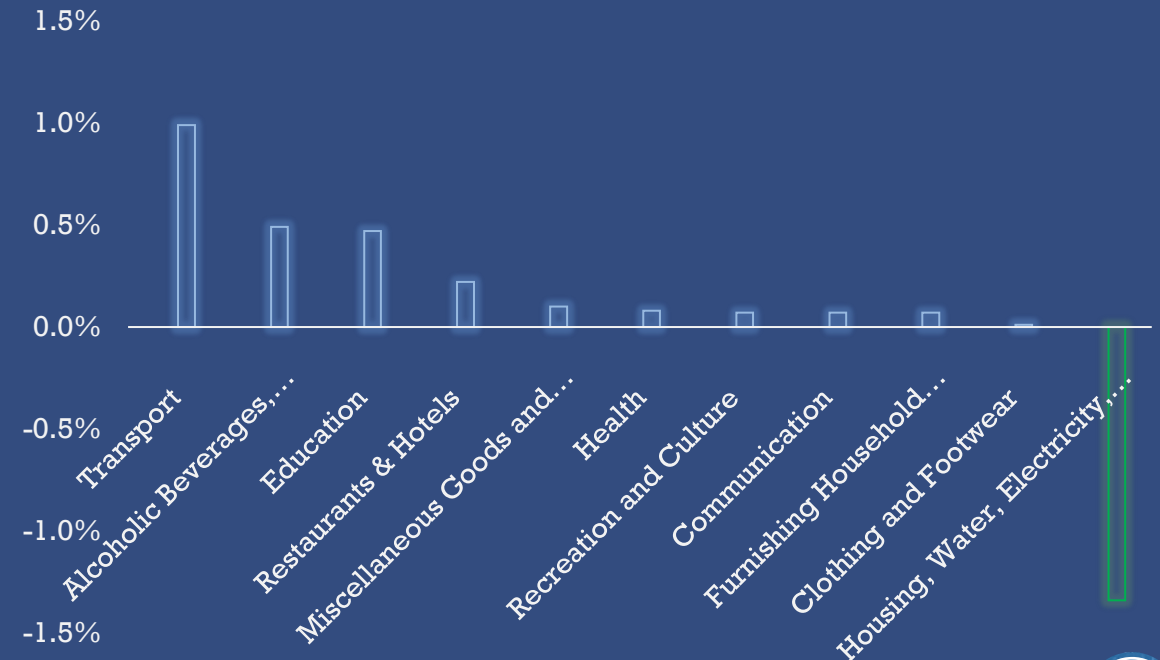
The YoY inflation of CCPI for Jun 2024 was 1.7% and has increased relative to the month of May 2024. Food item prices increased to 1.4%YoY in Jun 2024 while the Non-Food item prices increased to 1.8%YoY in Jun 2024 from 1.3%YoY in May 2024. The contribution from food category for YoY inflation was 0.47% while the contribution of Non-Food items stood at 1.23%, mainly due to the increase in prices of Transport, Alcoholic Beverages, Tobacco & Narcotics, Education, Restaurants & Hotels, etc.



Inflation Analysis (YoY)



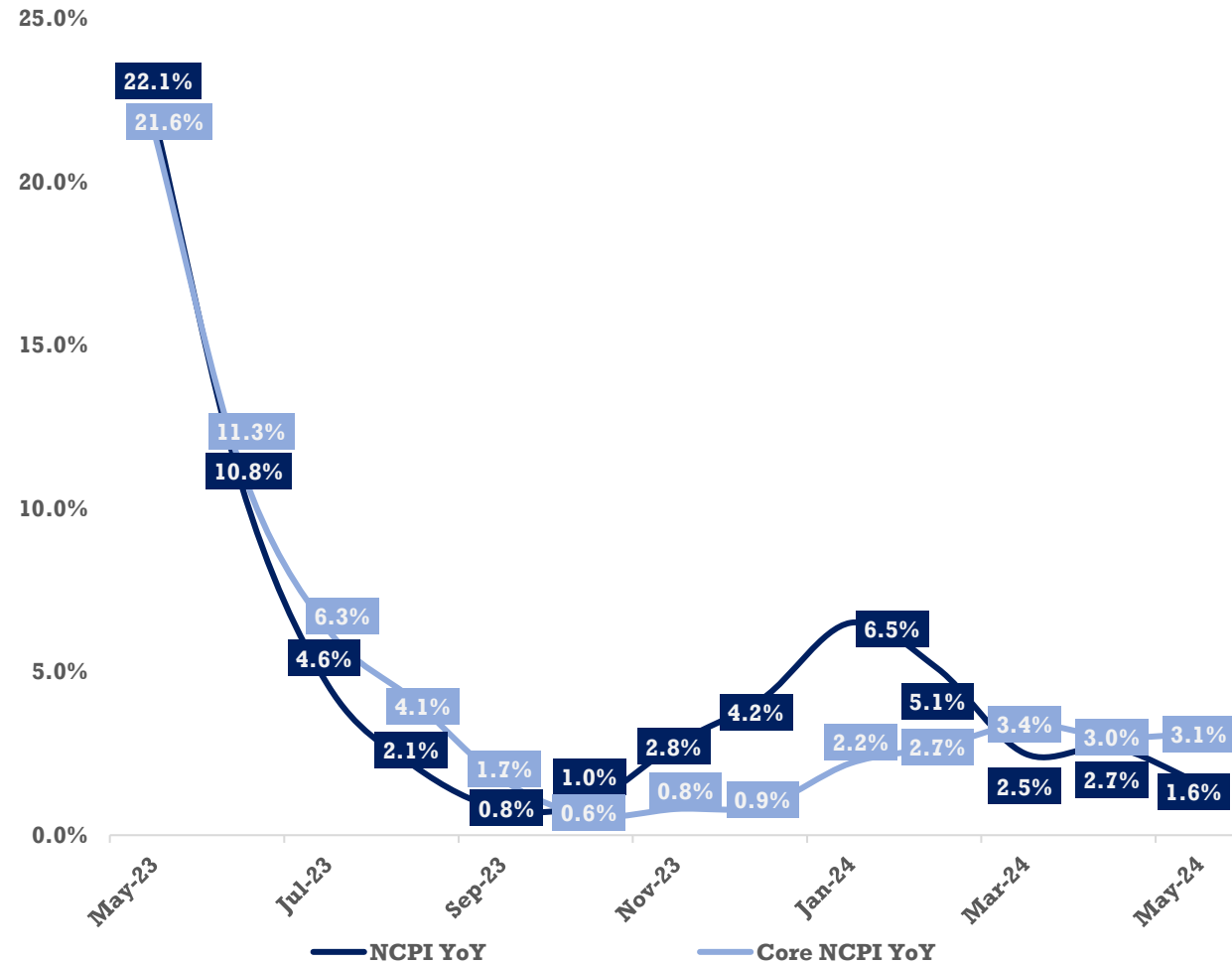
Non-Food Category Inflation



INFLATION – NCPI

NCPI FOR MAY 2024: DECREASED TO 1.6%YOY

- NCPI for May 2024 decreased to 1.6% compared to 2.7% in Apr 2024.
- Decrease in inflation was mainly driven by the price decline in Food commodities. Accordingly, YoY Food inflation decreased to 0.5% in May 2024 compared to 3.3% in Apr 2024 while YoY Non-Food inflation increased to 2.4% in May 2024.



Source: Dept. Census and Statistics

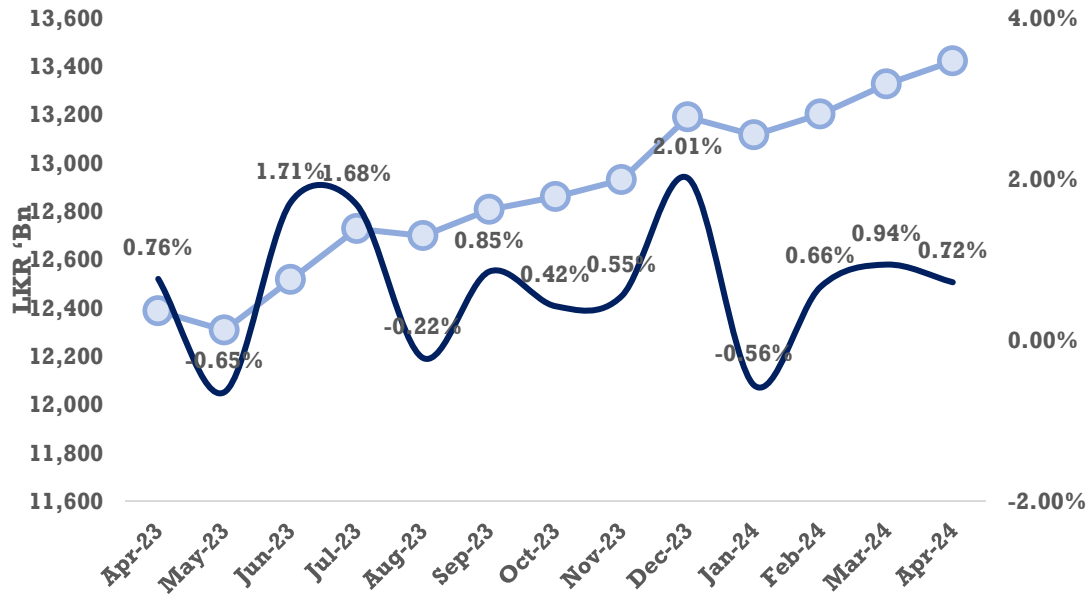
M2B AND CREDIT GROWTH

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%

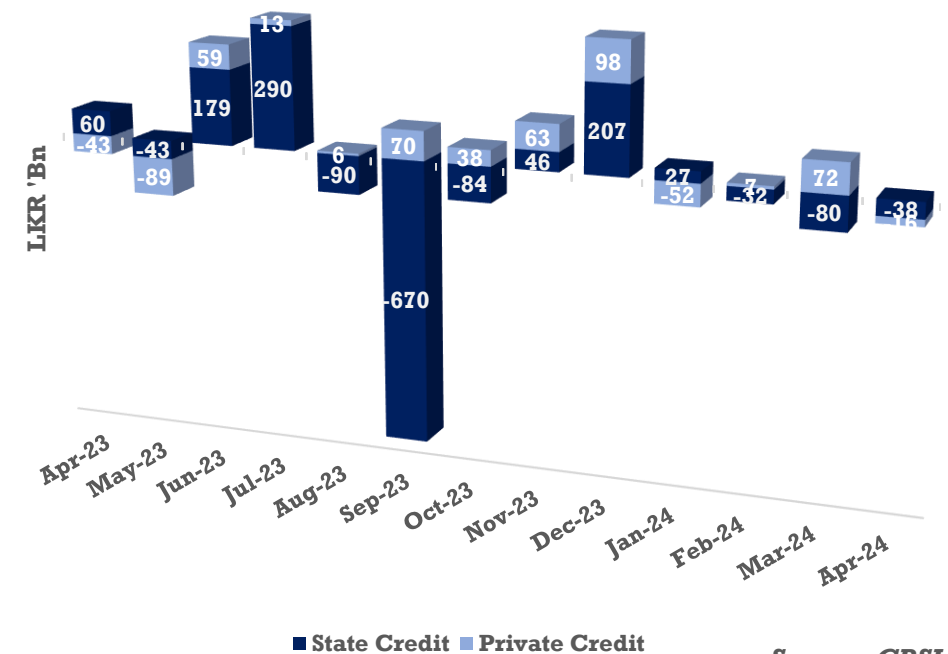
—○— M2b — MoM Growth



Source: CBSL

State Credit & Private Credit – Apr 2024

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



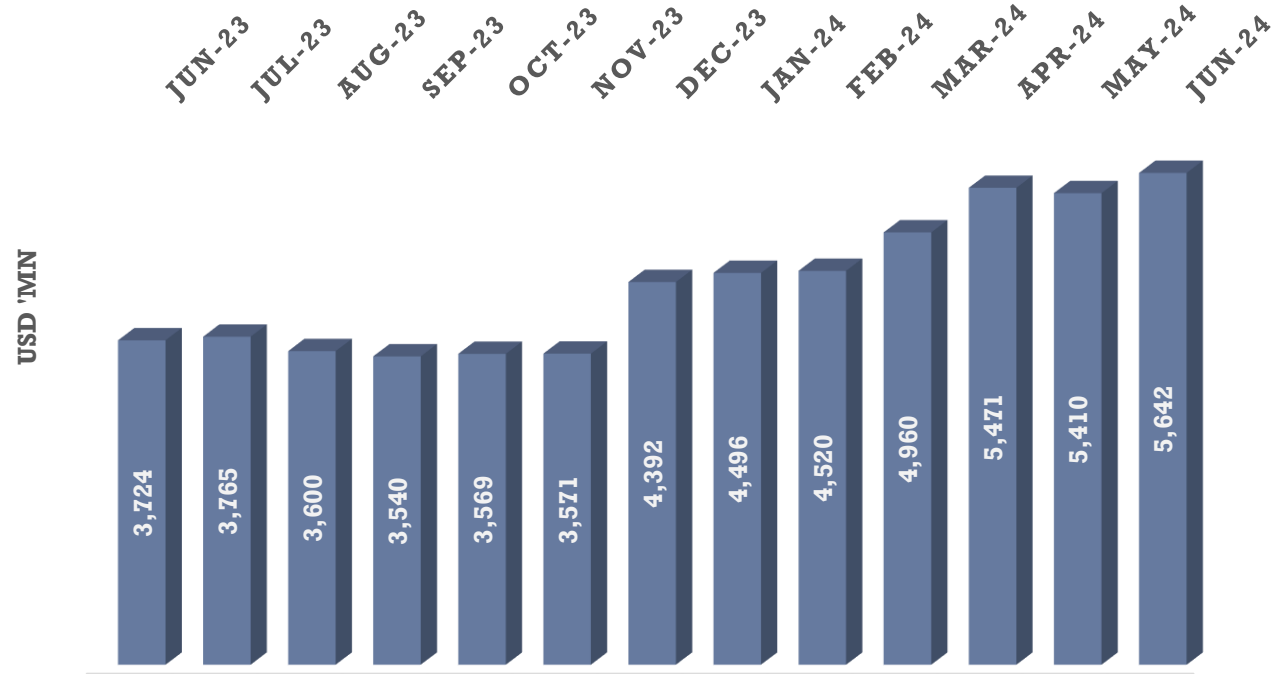
■ State Credit ■ Private Credit

Source: CBSL

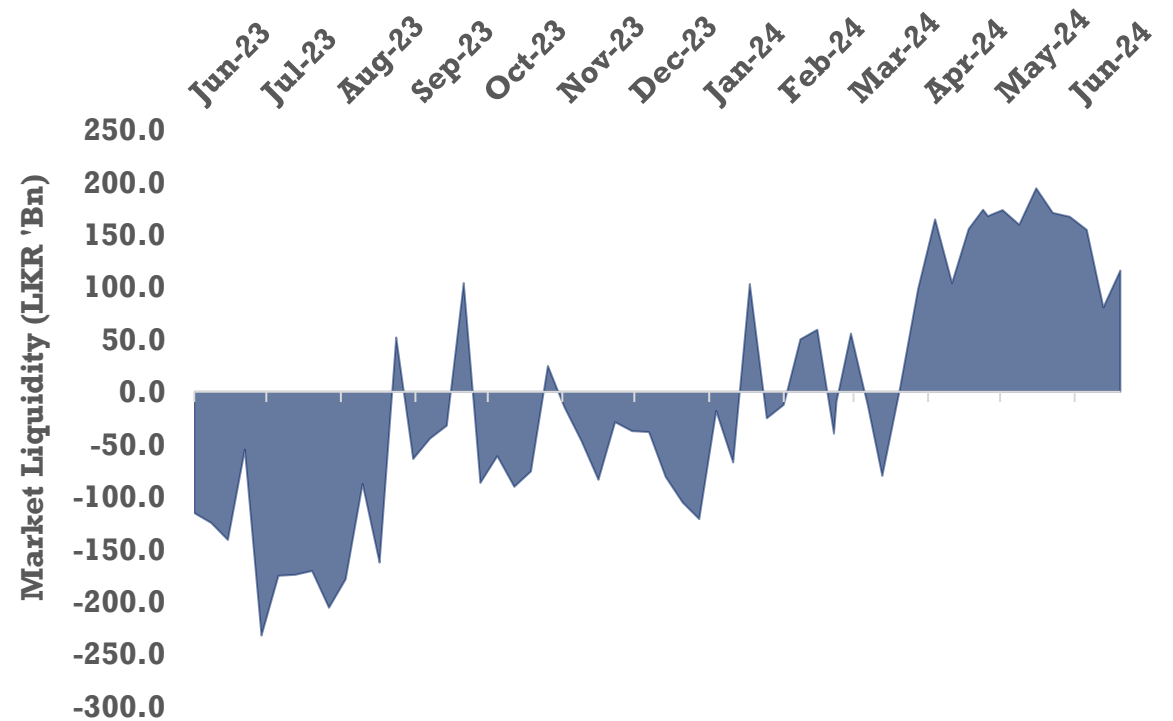
LIQUIDITY & RESERVES

- Foreign Reserves increased by USD 232.0Mn to USD 5.6Bn in Jun 2024 following the IMF's release of the 3rd tranche amounting to USD 336.0Mn during the month.

- Market Liquidity declined but continued to remain in the positive territory during the month of Jun 2024.



Source: CBSL



Source: CBSL

CURRENCY MOVEMENT

USD:LKR Movement

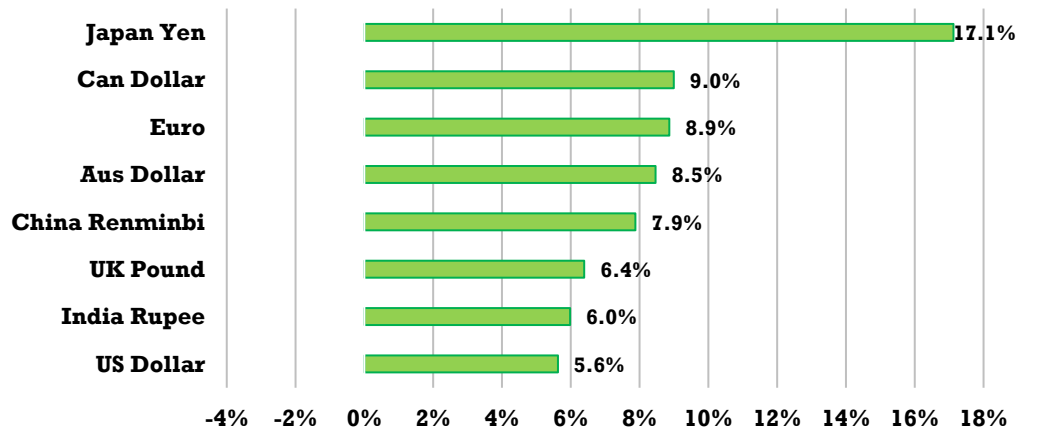
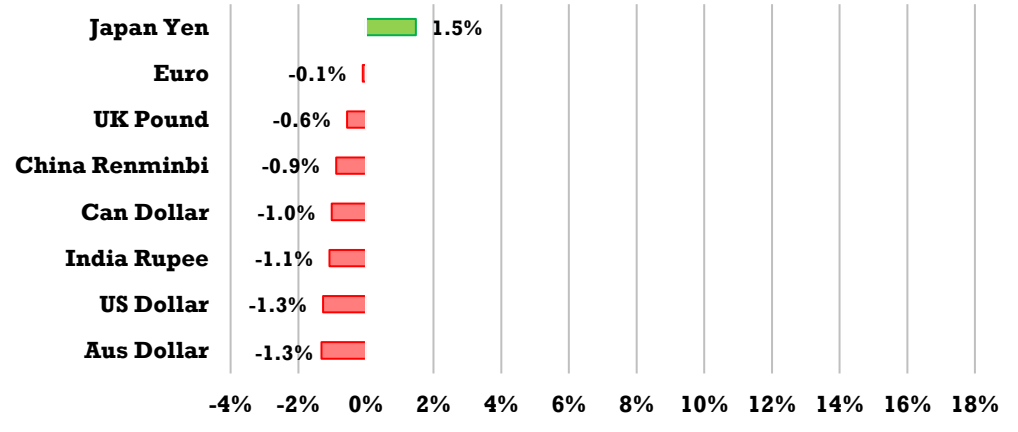


June 2024

YTD 2024

Source: CBSL

Sri Lankan Rupee vs Global Currencies



Source: CBSL

GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Jun 2024

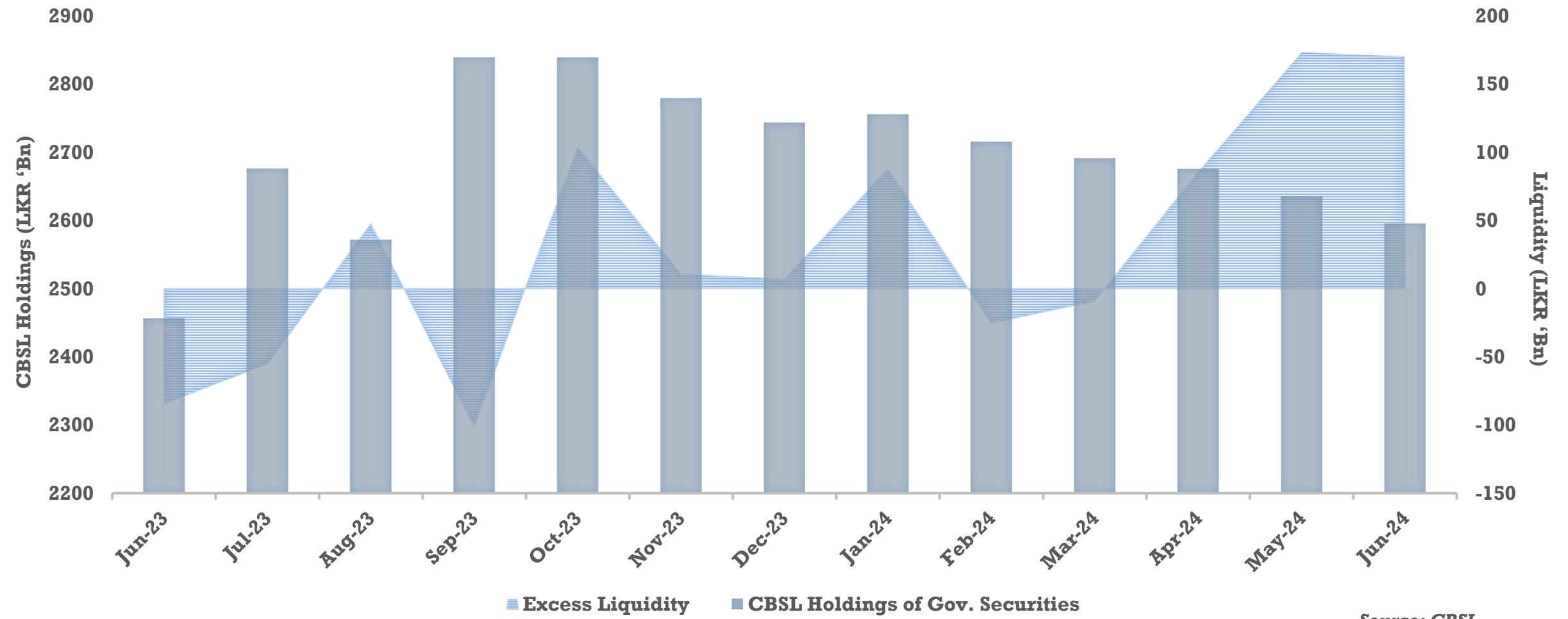
Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
07-Jun-24	235,281	-	235,281
14-Jun-24	220,375	315,746	536,121
21-Jun-24	230,030	-	230,030
28-Jun-24	119,385	-	119,385
Total Issued			1,120,817

Net Settlement	Jun 2024	YTD
Maturities	962,374	4,588,055
New Issues	1,120,817	5,031,770
Excess/ (Deficit)	158,443	443,715

CBSL Holdings of Gov. Securities	YTD	
As at End Jun 2024	2,596,000	
As at End May 2024	2,636,000	
Increase/ (Decrease)	(40,000)	(147,600)

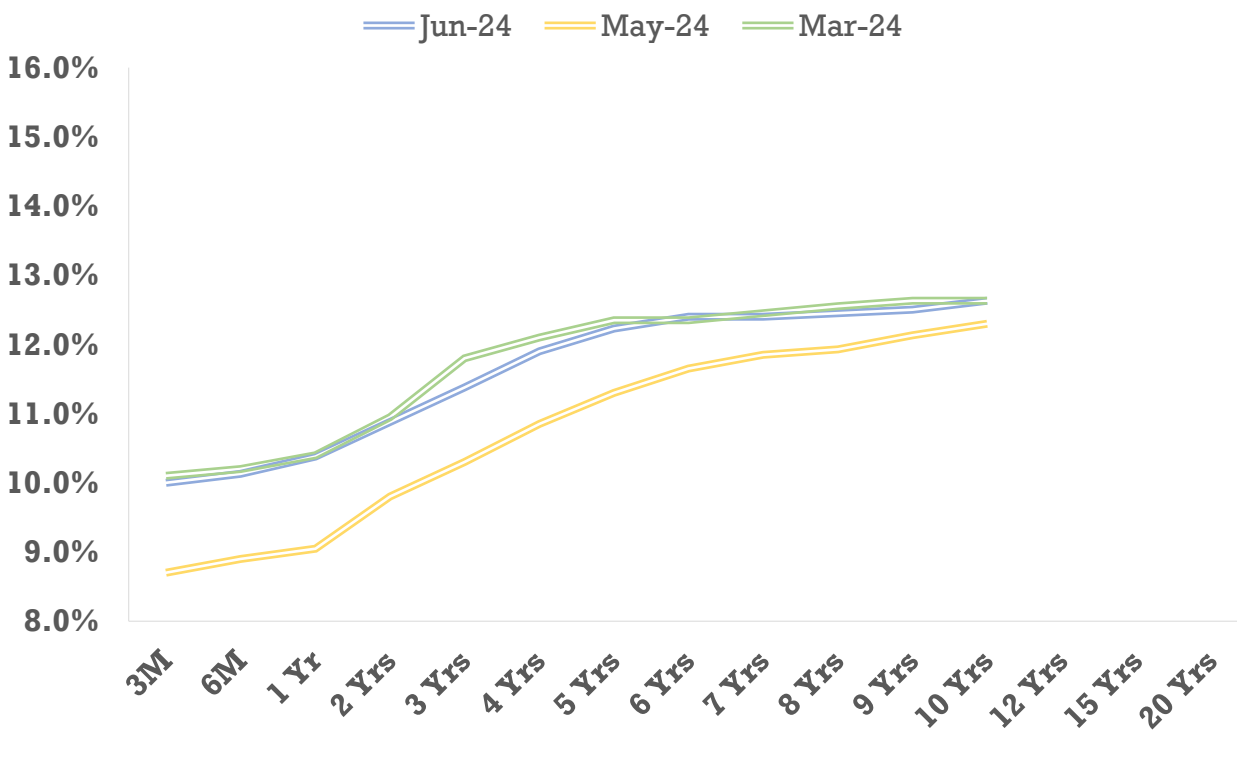
CBSL HOLDINGS OF GOV. SECURITIES...

...declined by LKR 40.0Bn in Jun 2024



TREASURY BILLS AND BONDS – JUN 2024

In June 2024, the secondary market experienced a pronounced rise in yields across the board. This increase was primarily driven by heightened selling pressure, exacerbated by market uncertainty. Despite Sri Lanka's announcement of successfully concluding a final restructuring agreement with its bilateral creditors, investor sentiment remained cautious, contributing significantly to the surge in yields. Specifically, yield rates of short-mid tenors, including T-Bills and 2Yr-4Yr tenors, increased by more than 100bps over the course of the month.

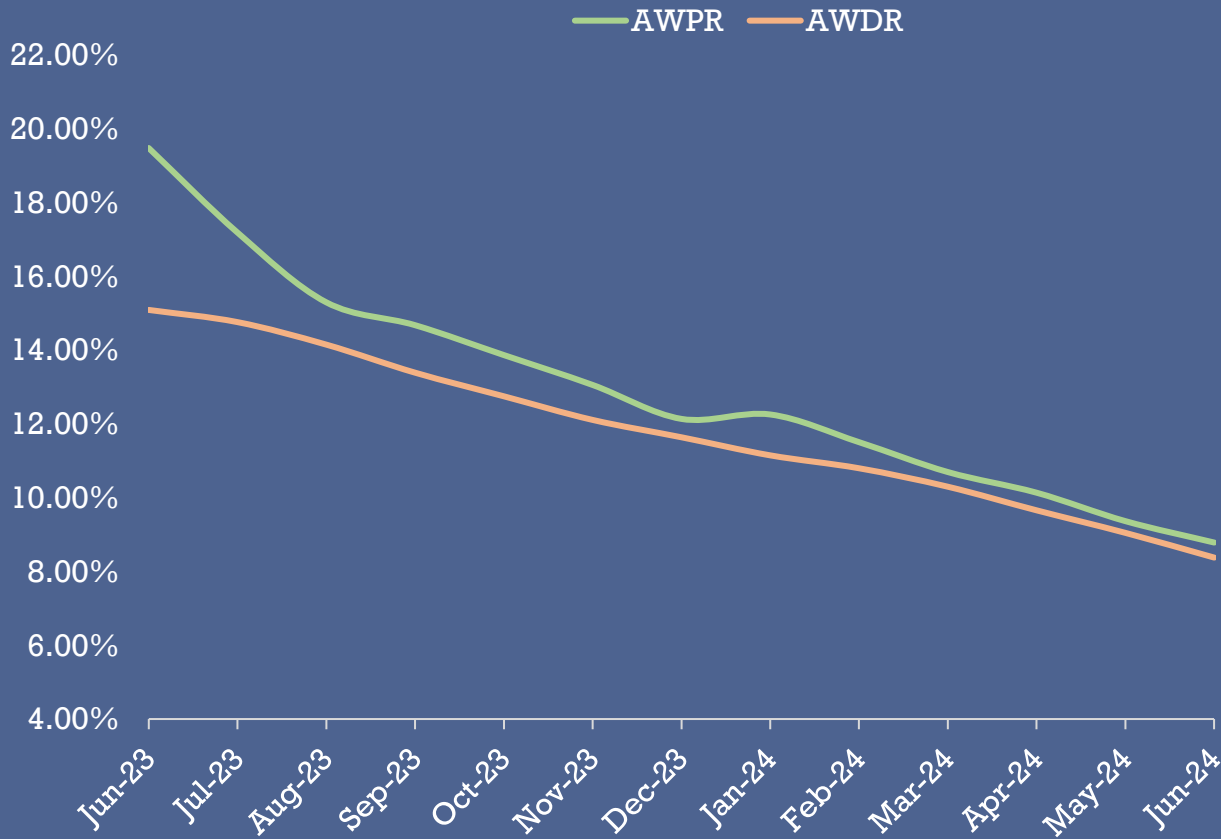


Source: First Capital Research

Tenure	Interest Rate Change (bps)				
	Jun-24	May-24	Change (bps)	Mar-23	Change (bps)
3M	10.00%	8.70%	130	10.10%	-10
6M	10.13%	8.90%	123	10.20%	-7
1 Yr	10.38%	9.05%	133	10.40%	-2
2 Yrs	10.88%	9.80%	108	10.95%	-7
3 Yrs	11.38%	10.30%	108	11.80%	-42
4 Yrs	11.90%	10.85%	105	12.10%	-20
5 Yrs	12.23%	11.30%	93	12.35%	-12
6 Yrs	12.40%	11.65%	75	12.35%	5
7 Yrs	12.40%	11.85%	55	12.45%	-5
8 Yrs	12.45%	11.93%	52	12.55%	-10
9 Yrs	12.50%	12.13%	37	12.63%	-13
10 Yrs	12.63%	12.30%	33	12.63%	0
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

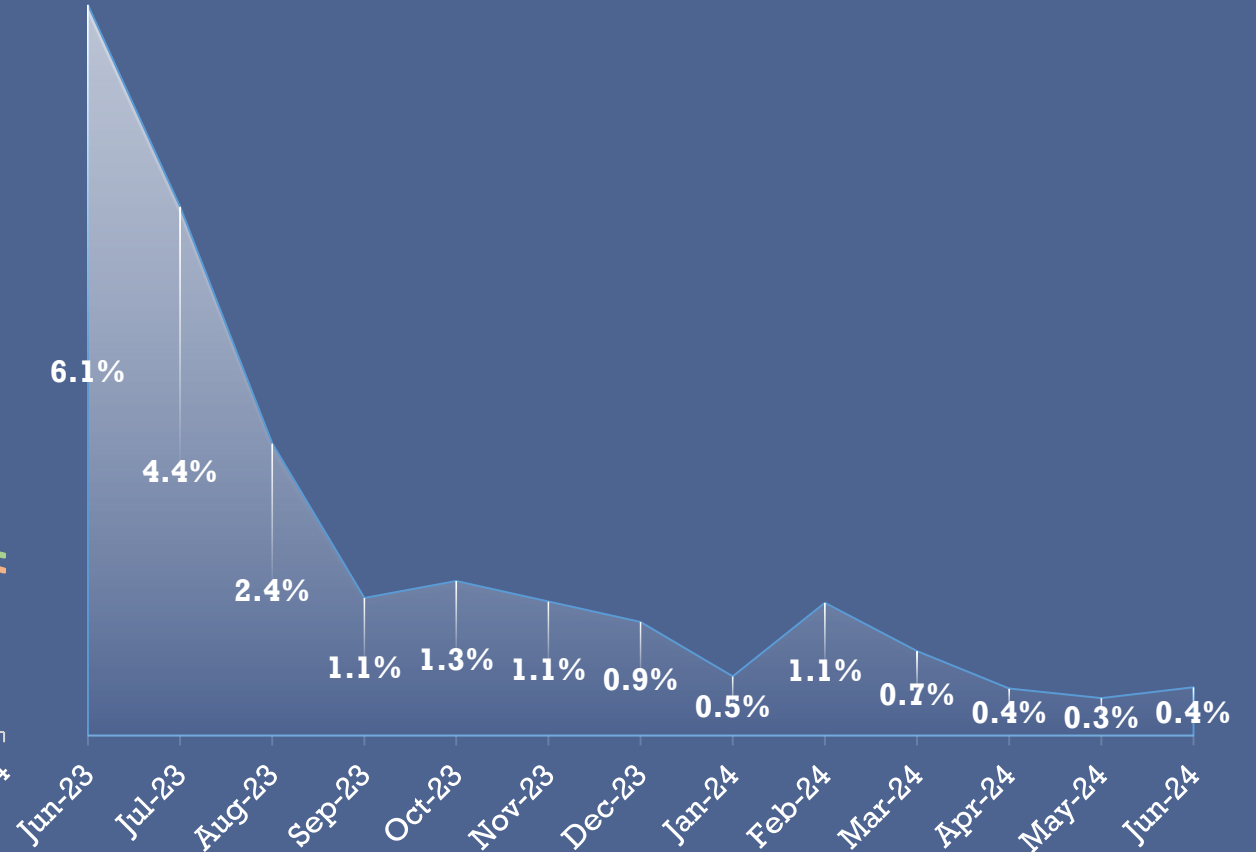
Source: First Capital Research

AWPR vs AWDR



Source: CBSL

Interest Spread



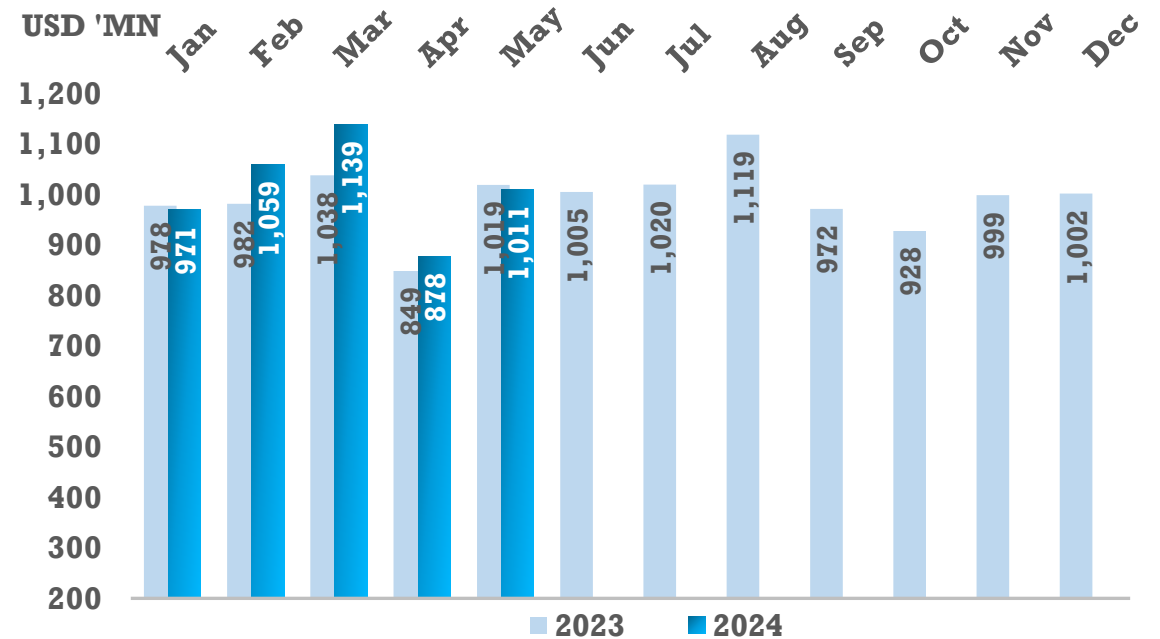
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – MAY 24 – EXPORTS

In May 24, earnings from exports declined by 0.8%YoY to USD 1,011.3Mn, down from USD 1,019.5Mn in May 23. A decline in export earnings was observed in agricultural exports, while industrial exports and mineral exports rose in May 24. Industrial export earnings were fueled by petroleum products, driven by higher volumes of bunkering and aviation fuel exports. Earnings of agricultural goods declined in May 24, primarily driven by lower exports of minor agricultural products and seafood, while earnings from exports of spices and tea also declined to a certain extent.

Category	2023 (USD 'Mn)	2024 (USD 'Mn)	Change (%)
Industrial Exports			
- May	789.7	796.7	0.9
- YTD	3,825.2	4,006.8	4.7
Agricultural			
- May	225.7	210.7	-6.7
- YTD	1,017.9	1,039.0	2.1
Mineral Exports			
- May	1.7	1.8	7.0
- YTD	10.8	10.2	-5.6
Total			
- May	1,019.5	1,011.3	-0.8
- YTD	4,865.7	5,067.4	4.1

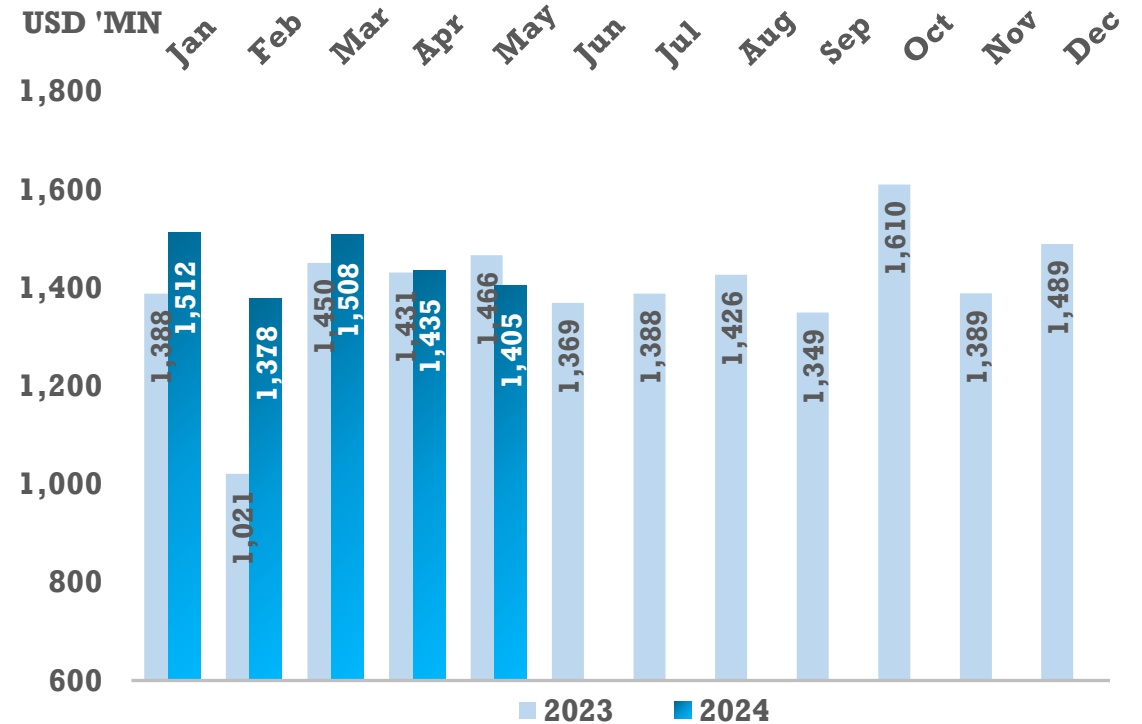


Source: CBSL
Jul 2024

EXTERNAL SECTOR – MAY 24 – IMPORTS

In May 24, expenditure on imports marginally declined by 4.2%YoY to USD 1,404.6Mn compared to USD 1,466.3Mn in May 23. Expenditure of consumer and intermediate goods contributed to this decline whilst an increase in expenditure was recorded in investment goods. The decline in consumer goods was led by a reduction in expenditure on food and beverages, although non-food consumer foods imports recorded an increase. Import expenditure of intermediate goods also declined, driven by lower fuel imports. Moreover, the incline in investment goods imports was mainly influenced by higher imports of machinery and equipment.

Category	2023 (USD 'Mn)	2024 (USD 'Mn)	Change (%)
Consumer goods			
- May	292.9	228.9	-21.8
- YTD	1,241.7	1,287.4	3.7
Intermediate			
- May	970.5	928.3	-4.3
- YTD	4,571.1	4,706.9	3.0
Investment goods			
- May	201.5	247.2	22.7
- YTD	971.3	1,238.6	27.5
Total			
- May	1,466.3	1,404.6	-4.2
- YTD	6,791.4	7,237.7	6.6

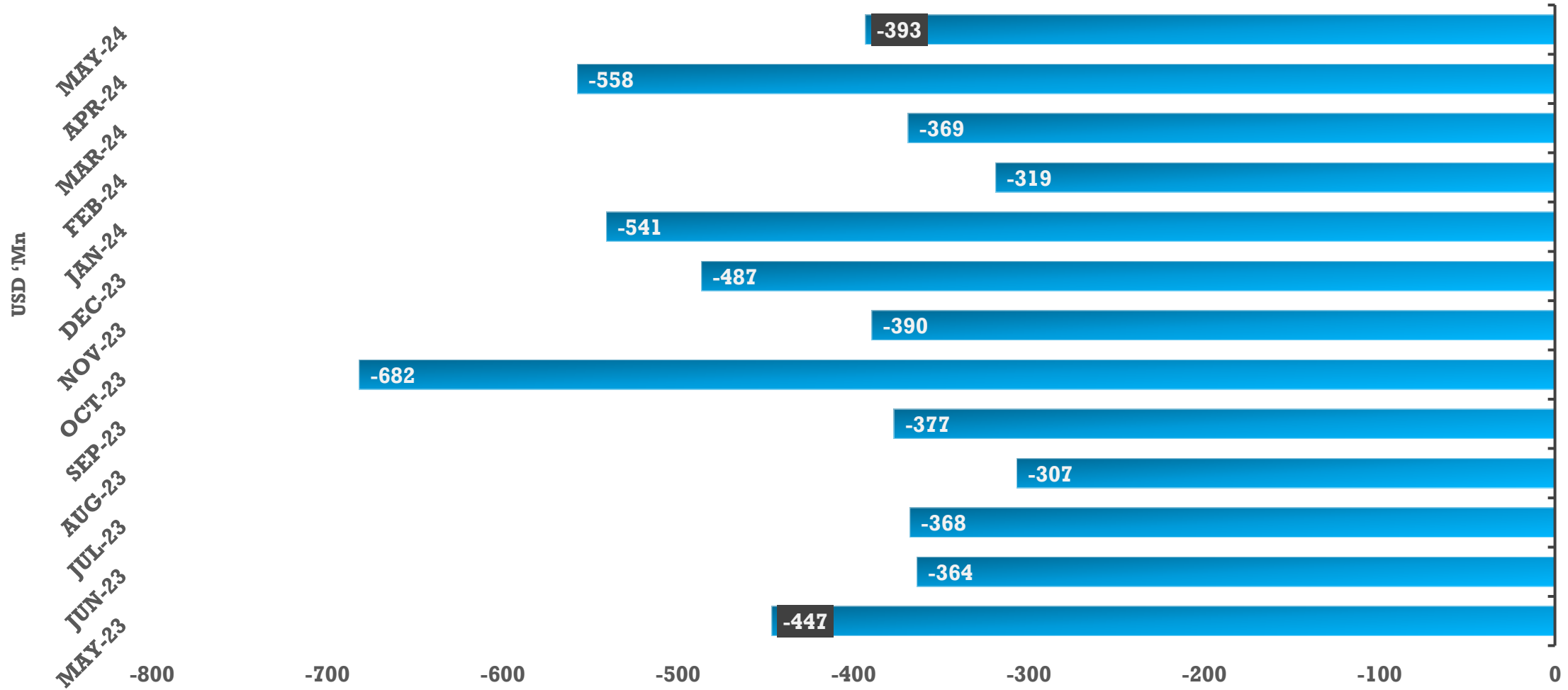


Source: CBSL

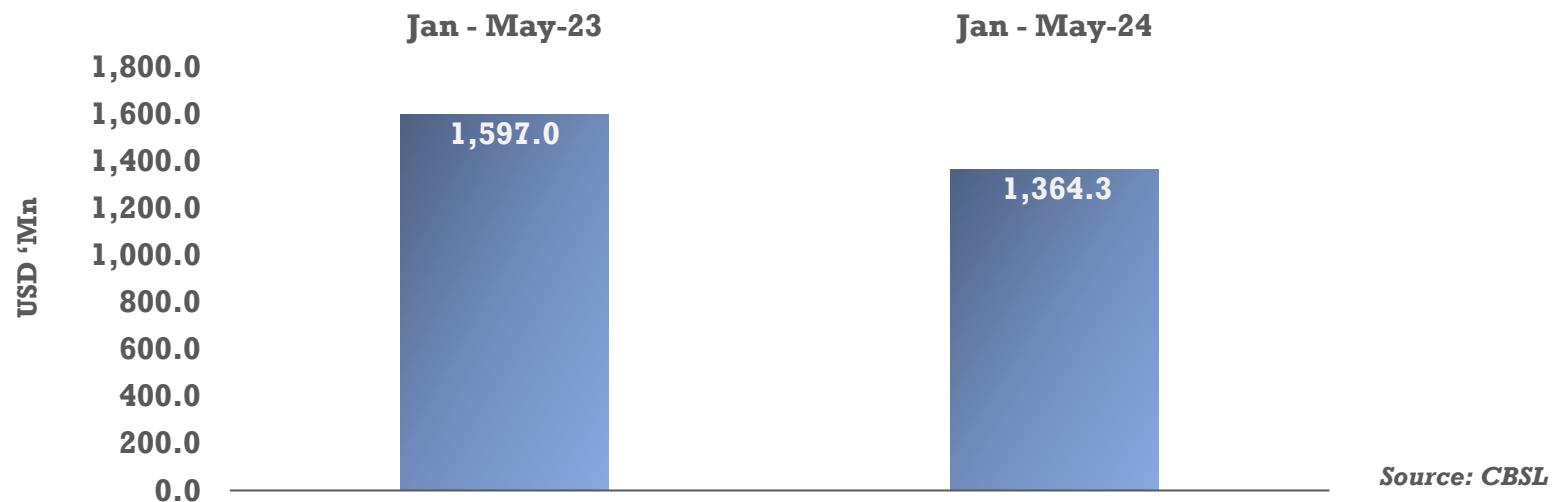
Jul 2024

EXTERNAL SECTOR – MAY 24

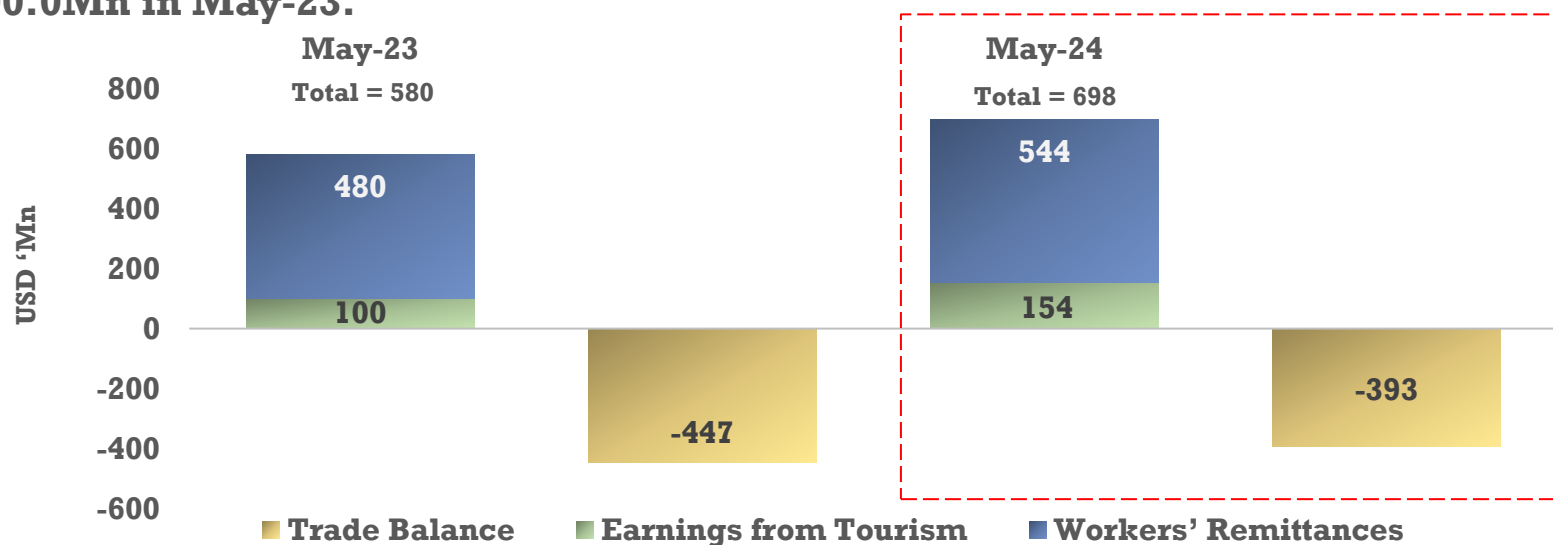
Balance of Trade



BoP for Jan–May-24 recorded at USD 1,364.3Mn compared to Jan–Apr-24 amount of USD 1,288.2Mn resulting in a net inflow of USD 76.1Mn, for the month of May-24.



Workers' Remittances increased to USD 544.4Mn in May-24 (+13.5%YoY). Earnings from Tourism for May-24 also increased to USD 154.0Mn from USD 100.0Mn in May-23.



BALANCE OF PAYMENT DECREASED YOY IN MAY-24

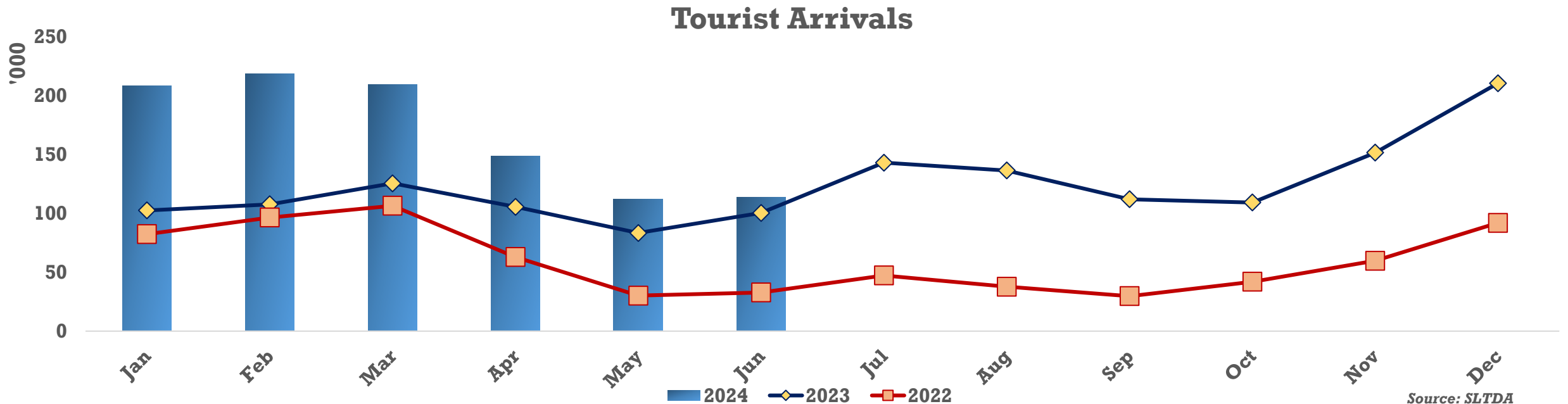
May USD 'Mn	2023	2024	Change (%)
Trade Balance	-447	-393	
Earnings from Tourism	100	154	+54.0
Workers' Remittances	480	544	+13.5

YTD USD 'Mn	2023	2024	Change (%)
Trade Balance	-1,926	-2,170	
Earnings from Tourism	752	1,406	+86.9
Workers' Remittances	2,347	2,624	+11.8

TOURIST ARRIVALS – JUN 2024

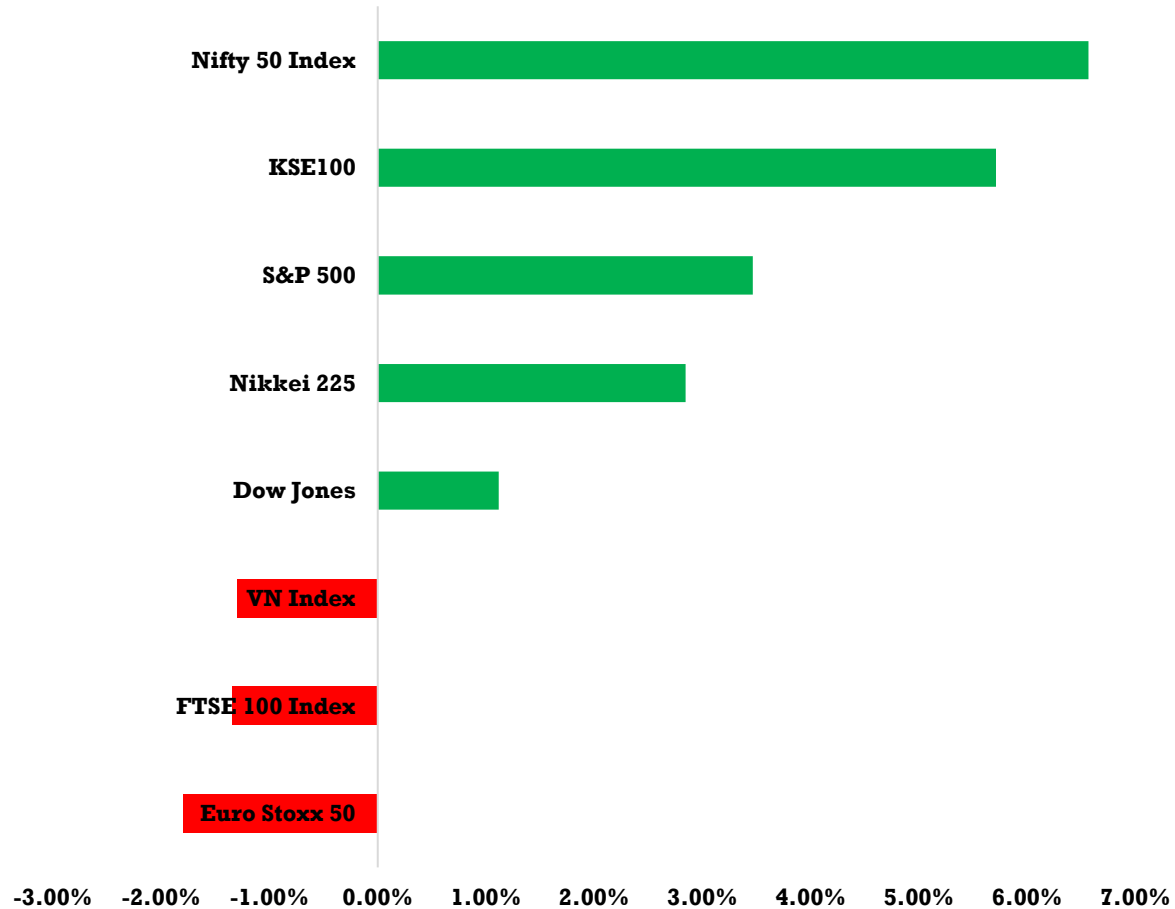
[Jun 113,470 – UP +13.0%YoY] [MoM – UP +1.2%]

The total arrivals for the month was recorded at 113,470 displaying an increase of 13.0%YoY compared to Jun 2023. Leisure and vacation were the primary reason for travelers from major source markets to choose Sri Lanka as their travel destination. Moreover, improved air connectivity, favorable local conditions, geographical proximity and geopolitical circumstances were the main contributors to this development. Accordingly, key source markets during Jun-24 was topped by India, the United Kingdom, China, Australia and Maldives.



Source: SLTDA

GLOBAL MARKET – JUN 2024



Source: Investing.com

US consumer confidence declines on weaker outlook for economy

In June 2024, US consumer confidence declined due to a more muted outlook for business conditions, the job market, and incomes. The Conference Board's sentiment index dropped to 100.4 in June 2024, from a downwardly revised 101.3 in May 2024. This was slightly above the median estimate of 100 from a Bloomberg survey of economists. The drop in confidence was concentrated in the 35-54 age group.

Bloomberg



Concerns grow as ocean freight rates may surpass USD 20,000 with no relief for global trade until 2025

Rising freight rates are a new concern in the global supply chain, with forecasts warning that ocean cargo prices could reach USD 20,000, and potentially even touch the COVID-era peak of USD 30,000, remaining elevated into 2025. Far East to the U.S. ocean freight rates have risen 36%-41%MoM, while air freight prices have increased 9% this year. Longer Red Sea transits are resulting in a shipping container capacity shortage and canceled sailings from Asia are driving up spot ocean freight rates.

Oil prices decline due to weak US fuel demand and profit-taking

Oil prices fell as investors considered weak U.S. fuel demand and engaged in quarter-end profit-taking. Meanwhile, key inflation data for May 2024 increased the likelihood of the Federal Reserve cutting interest rates this year. According to the Energy Information Administration's Petroleum Supply Monthly report, U.S. oil production and demand reached a 4-month high in April, while gasoline demand dropped to 8.83Mn barrels per day, the lowest since February.



REUTERS
WORLD

Disclaimer

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the Review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the accuracy, usefulness, reliability of same. First Capital Holdings PLC may act as a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, before its publication. First Capital Holdings PLC and/or a connected person or associated person may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent allowed by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without prior permission.



First Capital
A Janashakthi Group Company

Thank you!

*“SUCCESSFUL INVESTMENTS IS ABOUT
MANAGING RISKS”*

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

Anjali Mathews
Senior Research Associate
T: +94 11 2639 866
E: anjalie@firstcapital.lk

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