



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Sep 2024

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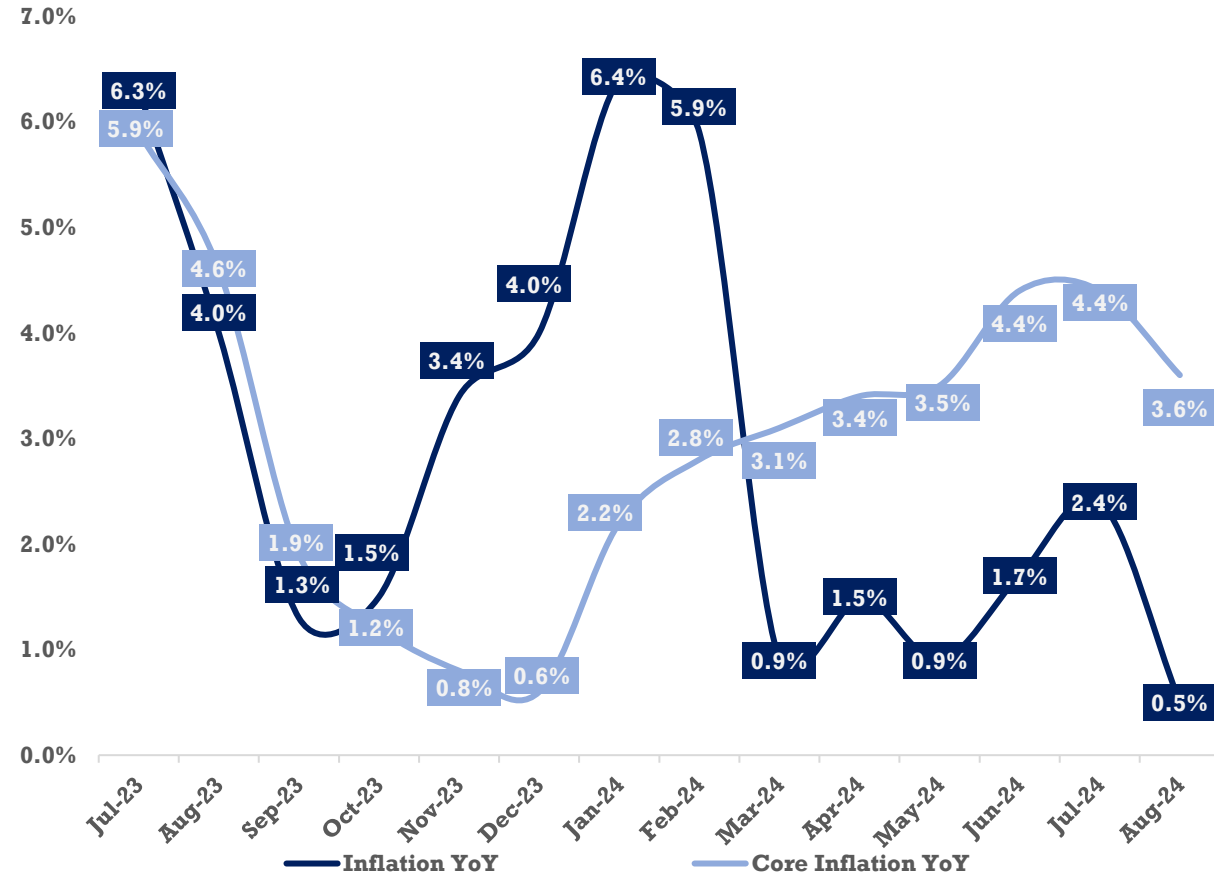
SRI LANKA SIGNS ADB 25-YEAR USD 100MN BUDGET SUPPORT LOAN

- Sri Lanka has secured USD 100Mn loan from the Asian Development Bank (ADB) for power sector policy reforms, which includes an interest rate of 2.0%, a 25-year repayment period with a 5-year grace period, and supports the development of financially sustainable electricity utilities and renewable energy.
- This loan is part of a broader programmatic approach PBL, consisting of three subprograms totalling USD 300 million, dedicated to transforming the power sector.
- The Power Sector Reforms and Financial Sustainability Program will complement the International Monetary Fund's Extended Fund Facility arrangement and bolster the operational efficiency and competitiveness of country's power sector. The program will help create a conducive environment for private investments, boosting renewable energy development, and modernizing power grids.
- ADB will provide an additional USD 1.0Mn technical assistance grant from its Technical Assistance Special Fund to support program implementation, capacity building of electricity companies, and the development of their business plans and overall power system development plans.

INFLATION – CCPI

CCPI FOR AUG 2024:
MOM -1.8%
YOY +0.5%

- MoM inflation decreased by -1.8% MoM with the decrease in inflation of Food group to -2.0% and decrease in inflation of Non-food group to -1.8%, respectively.
- The YoY inflation decreased to 0.5% in Aug 2024. YoY inflation of Food group decreased to 0.8% in Aug 2024, while Non-Food group decreased to 0.4% in Aug 2024 from 2.8% in Jul 2024.

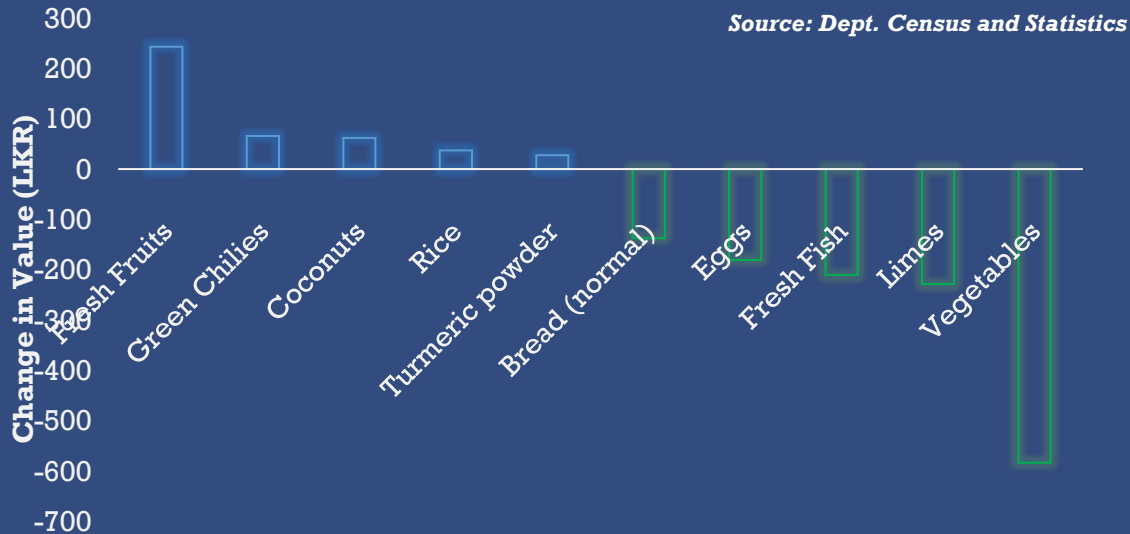


INFLATION ANALYSIS – CCPI-MOM

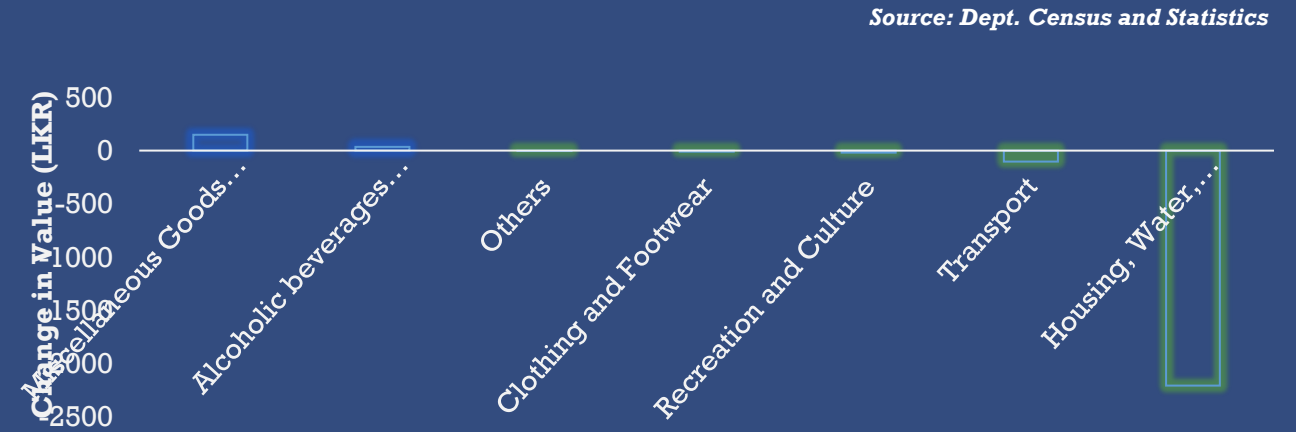
The CCPI index decreased by -1.8%MoM contributed by the decrease in expenditure of Non-Food items by -0.64% and a decrease in expenditure of Food items by -1.21%. Within the Food items, increase in value changes were mainly reported for Fresh Fruits, Green chilies, Coconuts, Rice and Turmeric powder. Among Non-Food groups, decrease in value changes were mainly reported in Housing, Water, Electricity, Gas and Other Fuels, and Transport.



Food Category Inflation



Non-Food Category Inflation

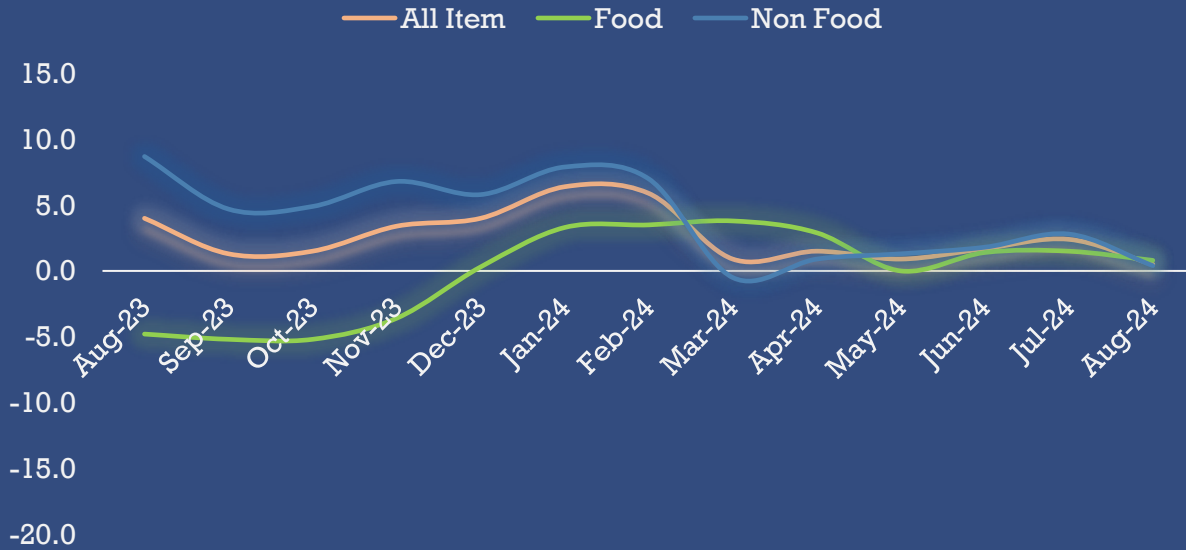


INFLATION ANALYSIS – CCPI-YOY

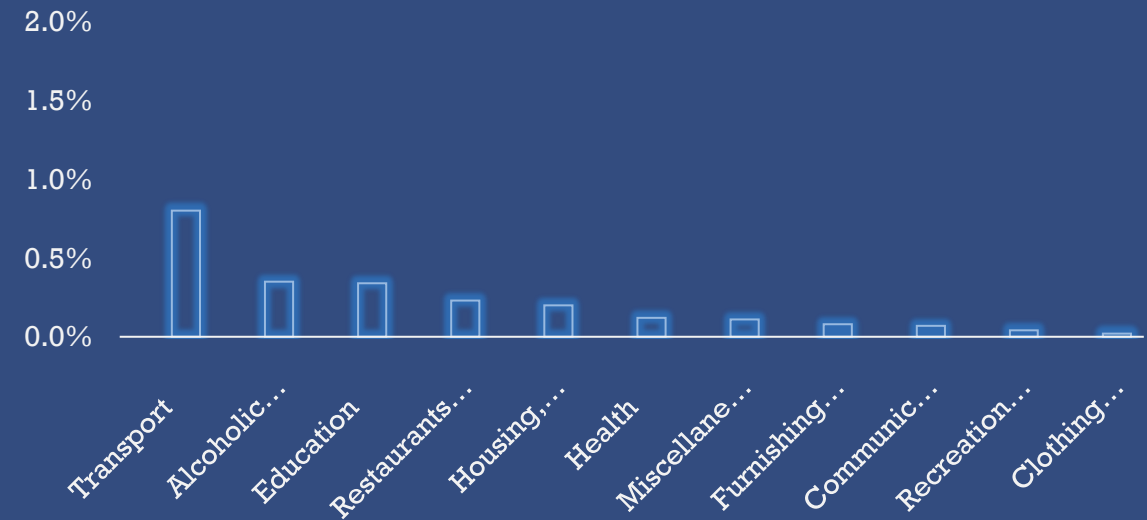
The YoY inflation of CCPI for Aug 2024 was 0.5% and has decreased relative to the month of Jul 2024. Food item prices decreased to 0.8%YoY in Aug 2024 while the Non-Food item prices decreased to 0.4%YoY in Aug 2024 from 2.8%YoY in Jul 2024. The contribution from food category for YoY inflation was 0.25% while the contribution of Non-Food items stood at 0.27%, mainly due to the increase in prices of Transport, Alcoholic Beverages, Tobacco & Narcotics, Education, Restaurants & Hotels, etc.



Inflation Analysis (YoY)



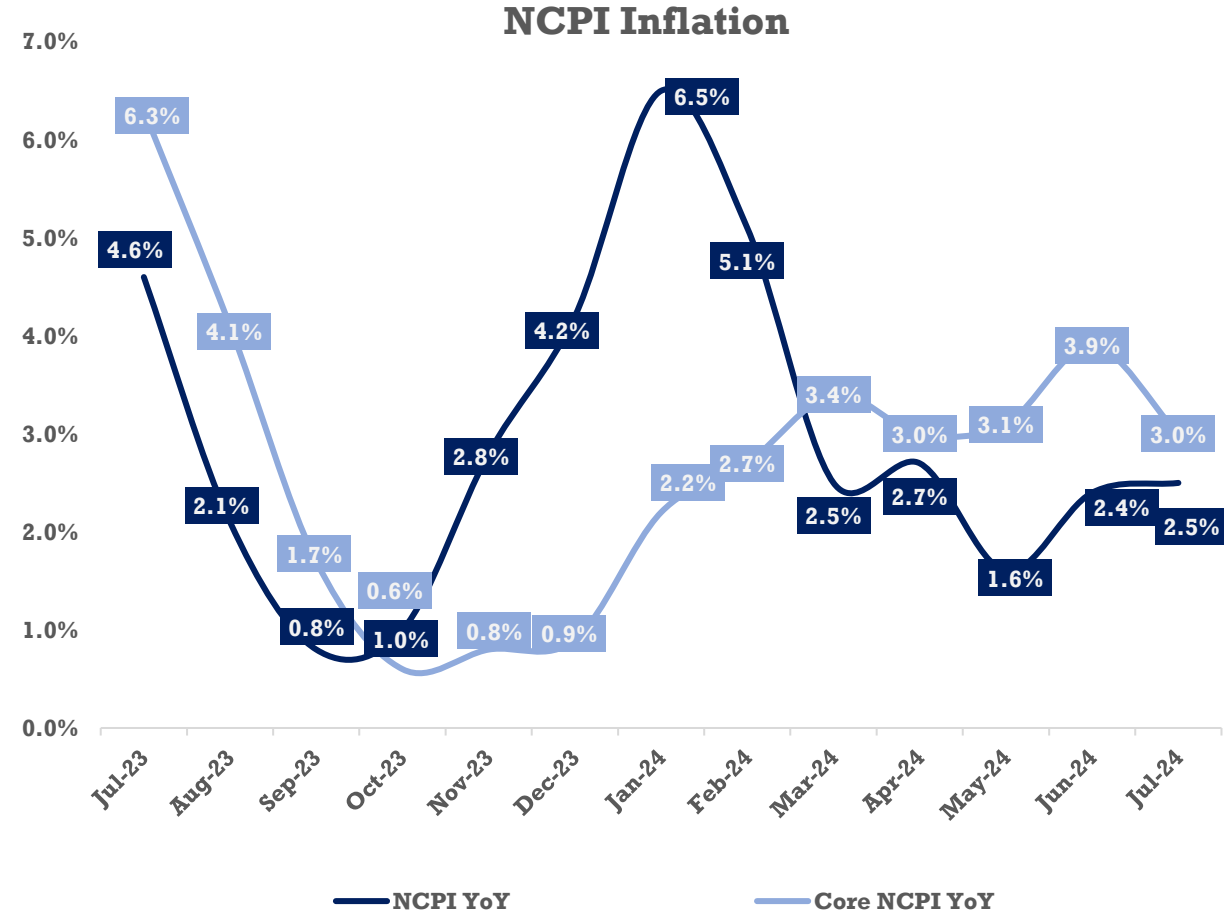
Non-Food Category Inflation



INFLATION – NCPI

NCPI FOR JUL 2024: INCREASED TO 2.5%YOY

- NCPI for Jul 2024 increased to 2.5% compared to 2.4% in Jun 2024.
- Increase in inflation was mainly driven by the price increase in Food commodities. Accordingly, YoY Food inflation increased to 2.9% in Jul 2024 compared to 1.9% in Jun 2024 while YoY Non-Food inflation declined to 2.2% in Jul 2024.



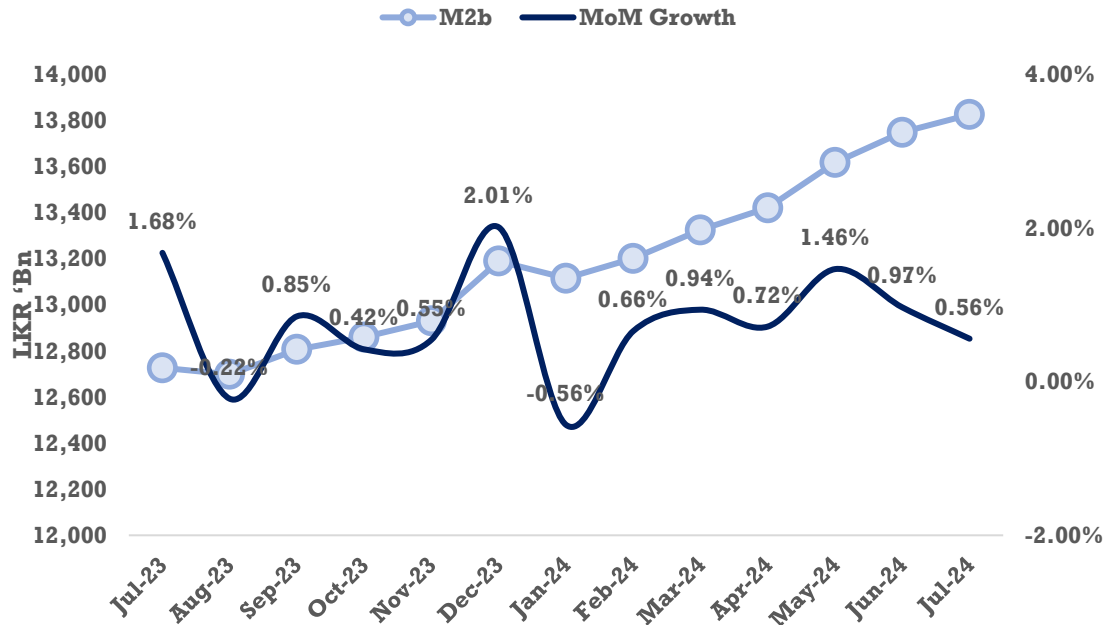
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit improved for the third consecutive month by LKR 60.2Bn in Jul-24. Meanwhile, state credit grew by LKR 25.5Bn for the first time after 5 months of decline.

M2b Growth – Jul 2024

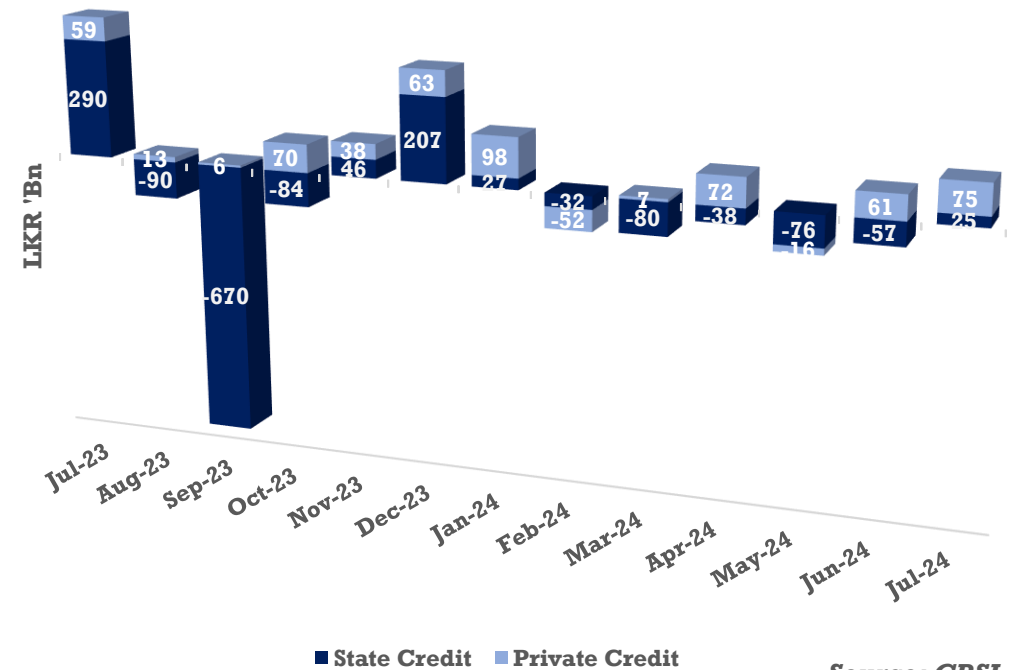
MoM +0.56%, YoY +8.63%, YTD +4.82%



Source: CBSL

State Credit & Private Credit – Jul 2024

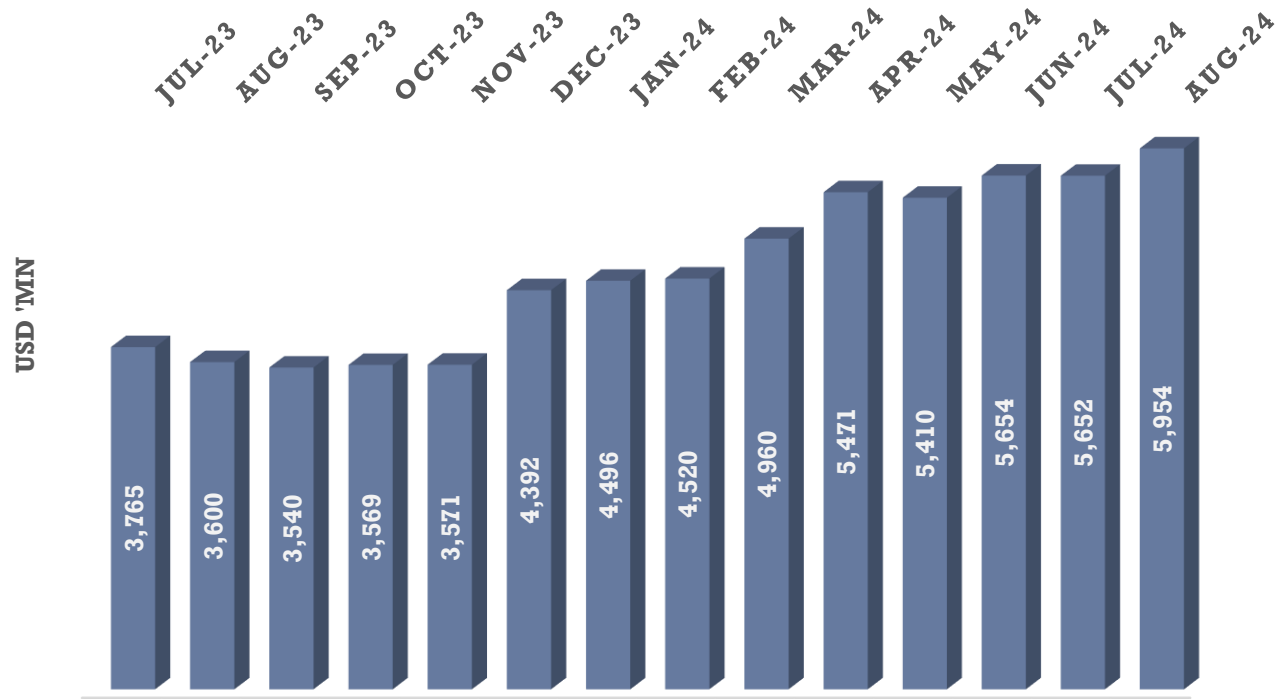
Private Credit MoM +0.8%, YoY +6.8%, YTD +2.8%



Source: CBSL

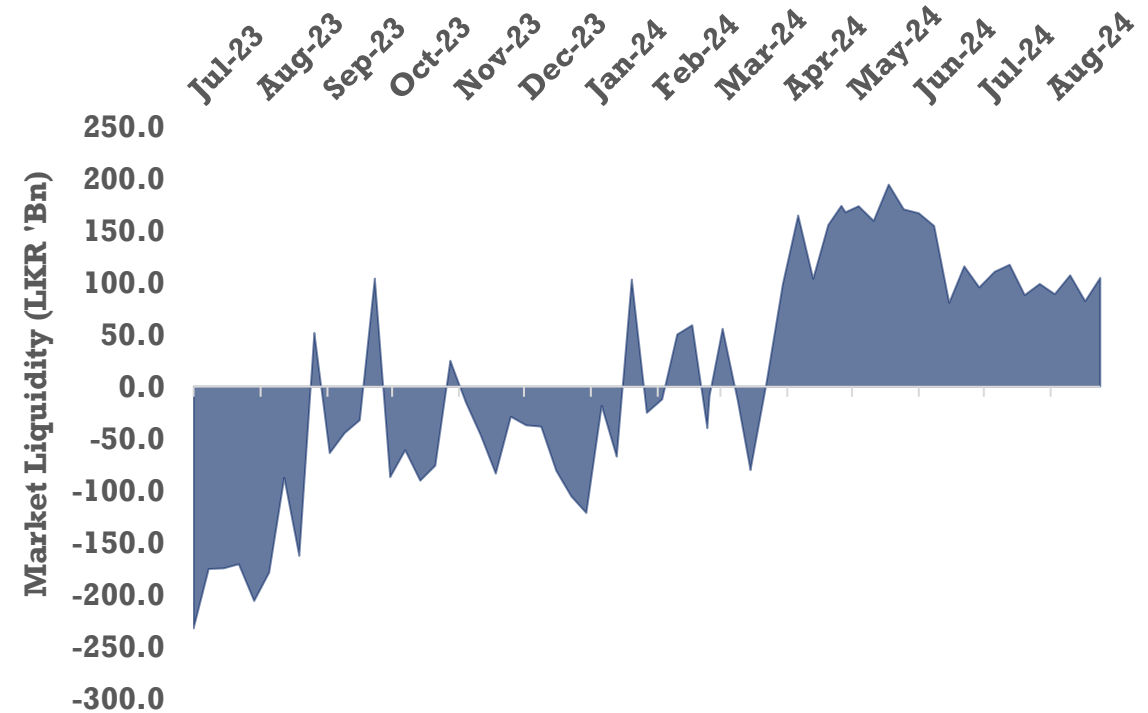
LIQUIDITY & RESERVES

- Foreign Reserves significantly increased by USD 302.0Mn to USD 6.0Bn in Aug 2024 compared to USD 5.7Bn in Jul-24.



Source: CBSL

- Market Liquidity displayed volatility but continued to remain in the positive territory during the month of Aug 2024.



Source: CBSL

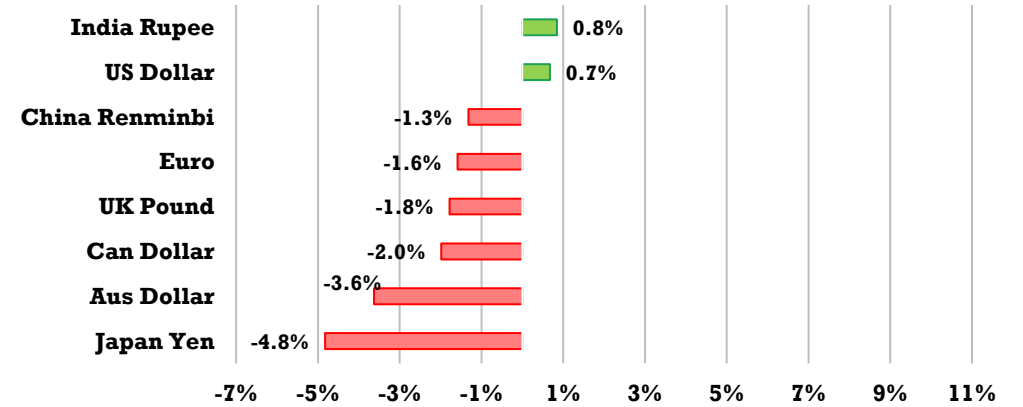
CURRENCY MOVEMENT

USD:LKR Movement

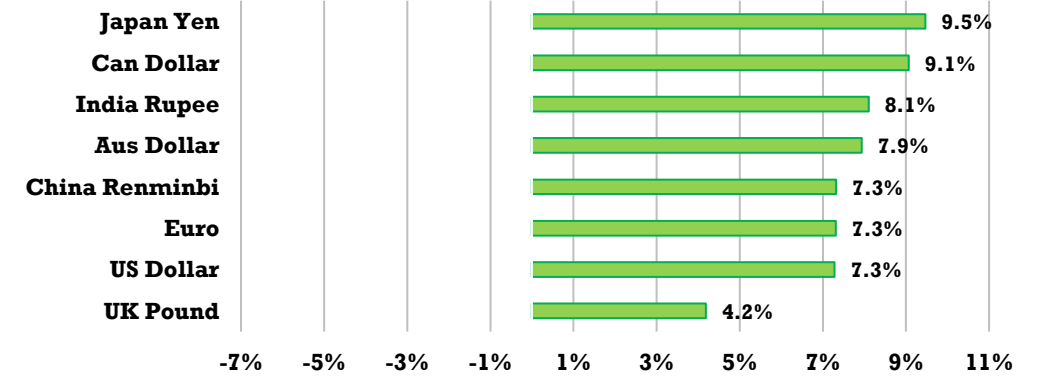


Sri Lankan Rupee vs Global Currencies

Aug 2024



YTD 2024



GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Aug 2024

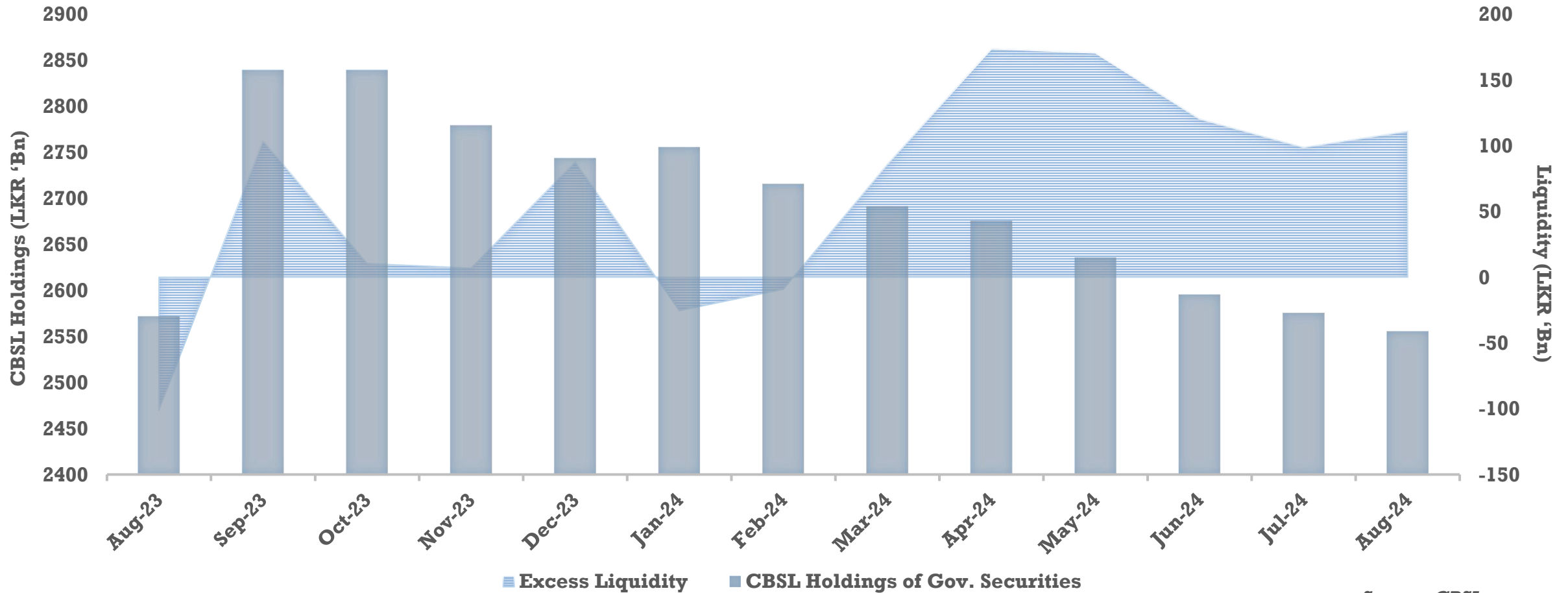
Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
02-Aug-24	160,526	146,260	306,786
09-Aug-24	146,396		146,396
16-Aug-24	138,483	60,000	198,483
23-Aug-24	124,350		124,350
30-Aug-24	105,586		105,586
Total Issued			881,601

Net Settlement	Aug 2024	YTD
Maturities	830,001	6,011,114
New Issues	881,601	6,821,137
Excess/ (Deficit)	51,600	810,023

CBSL Holdings of Gov. Securities	YTD	
As at End Aug 2024	2,555,000	
As at End Jul 2024	2,576,000	
Increase/ (Decrease)	-20,000	-81,000

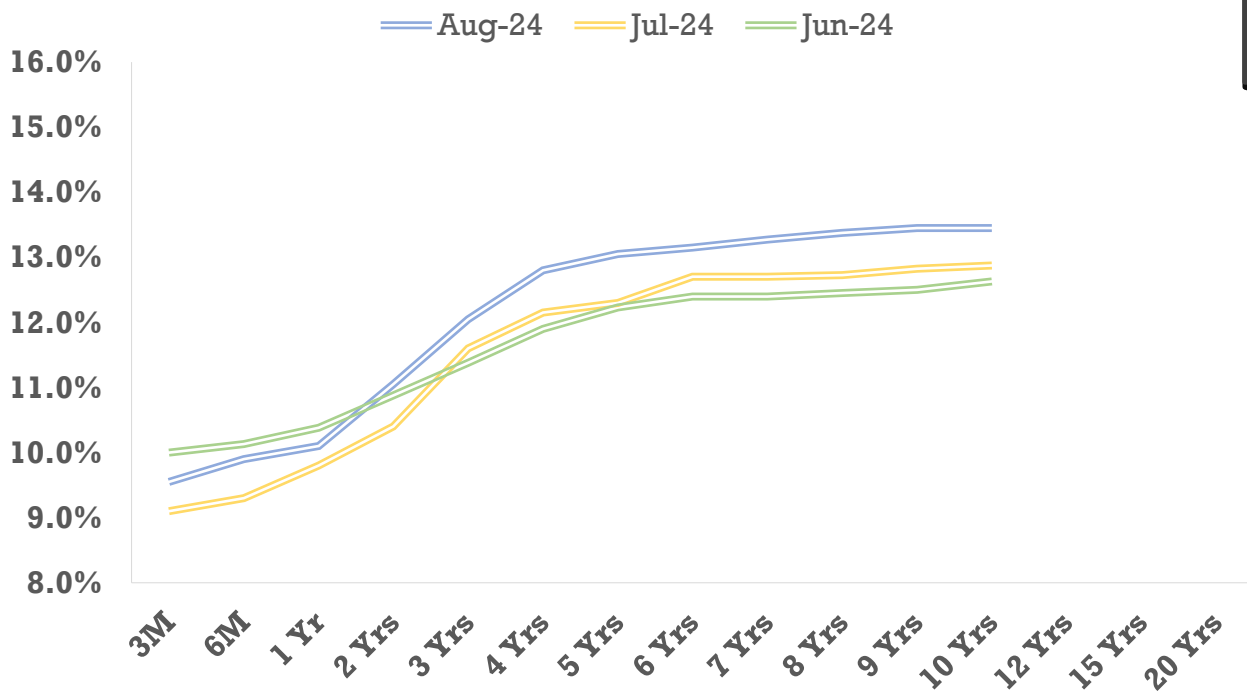
CBSL HOLDINGS OF GOV. SECURITIES...

...declined by LKR 20.0Bn in Aug 2024



TREASURY BILLS AND BONDS – JUL 2024

The secondary market commenced the month with subdued activity and low trading volumes, as investors adopted a cautious stance amid ongoing political uncertainties. Consequently, selling pressure intensified across the board, driving a broad-based rise in bond yields as the month progressed. Despite mixed sentiments, selective buying interest was observed in mid-tenor bonds. However, overall investor sentiment remained cautious, with significant selling pressure particularly on mid-tenor bonds maturing in 2028, 2029, and 2030. Similarly, T-Bill auction yields trended higher, with the 1-year yield surpassing the 10.0% mark.



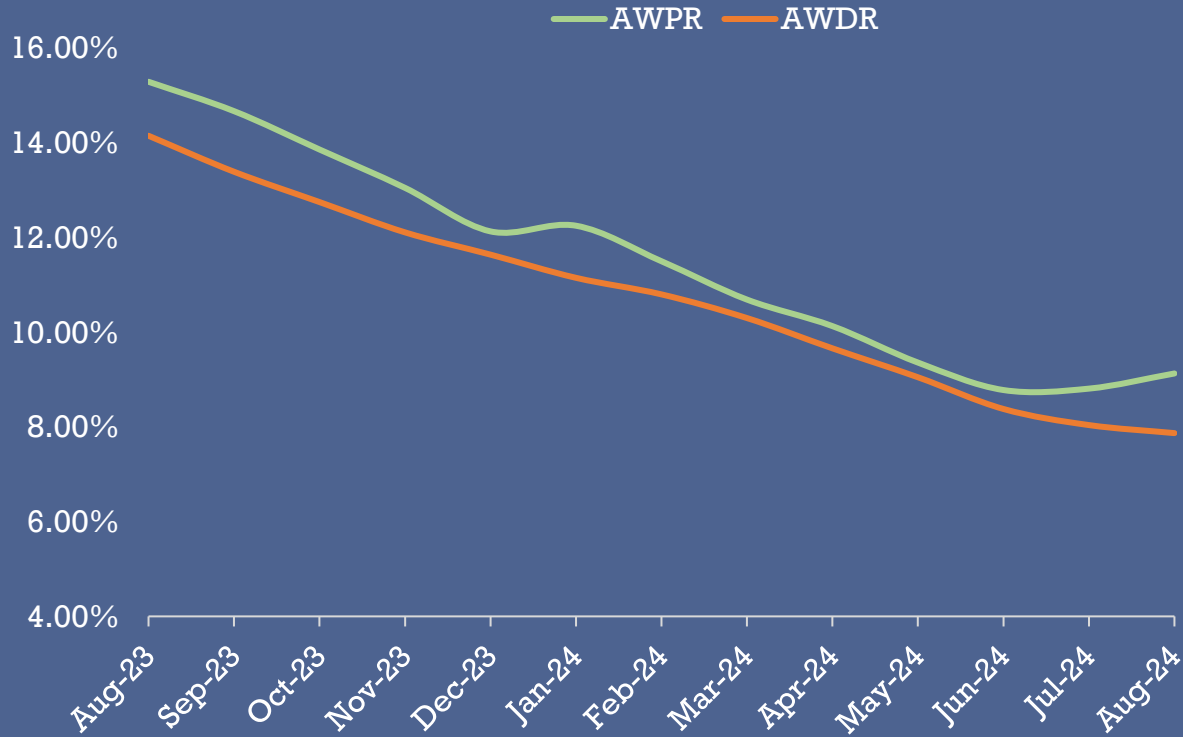
Source: First Capital Research

Tenure	Interest Rate Change (bps)				
	Aug-24	Jul-24	Change (bps)	Jun-24	Change (bps)
3M	9.55%	9.10%	45	10.00%	-45
6M	9.90%	9.30%	60	10.13%	-23
1 Yr	10.10%	9.80%	30	10.38%	-28
2 Yrs	11.05%	10.40%	65	10.88%	17
3 Yrs	12.05%	11.60%	45	11.38%	67
4 Yrs	12.80%	12.15%	65	11.90%	90
5 Yrs	13.05%	12.30%	75	12.23%	82
6 Yrs	13.15%	12.70%	45	12.40%	75
7 Yrs	13.28%	12.70%	58	12.40%	88
8 Yrs	13.38%	12.73%	65	12.45%	93
9 Yrs	13.45%	12.83%	63	12.50%	95
10 Yrs	13.45%	12.88%	58	12.63%	82
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

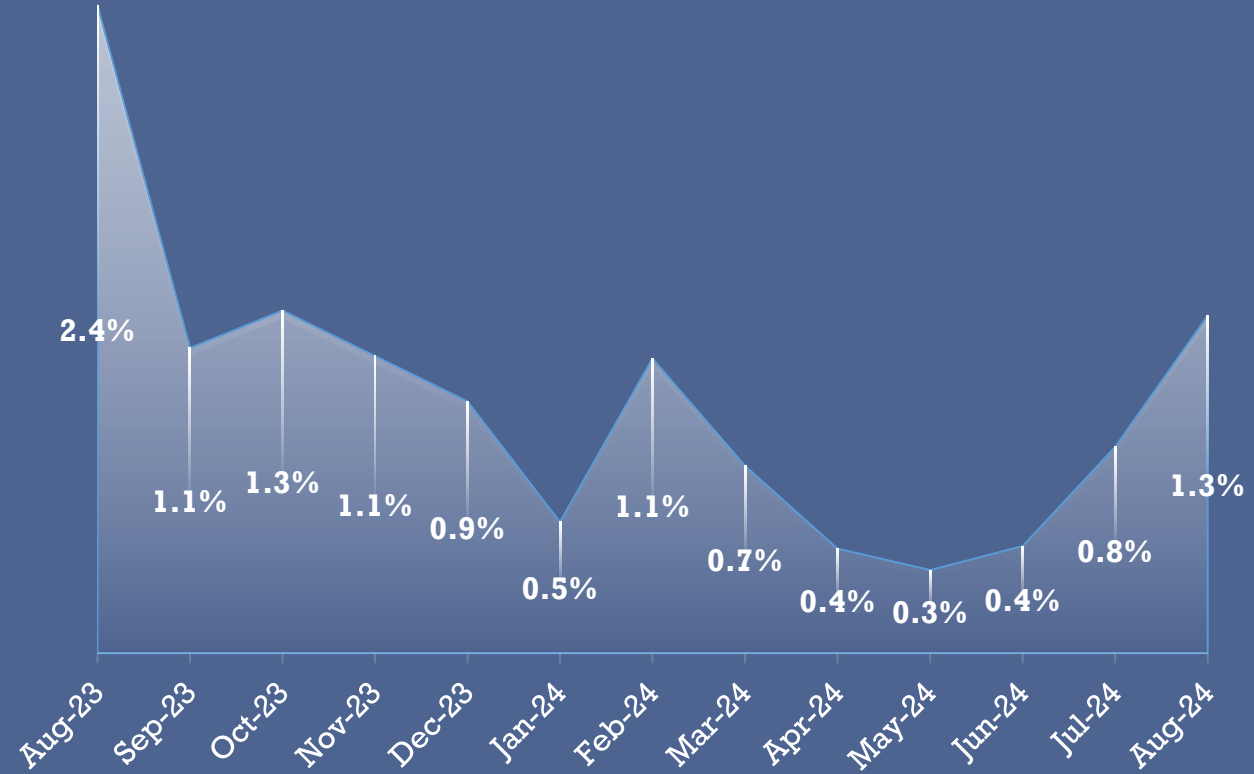
Sep 2024

AWPR vs AWDR



Source: CBSL

Interest Spread



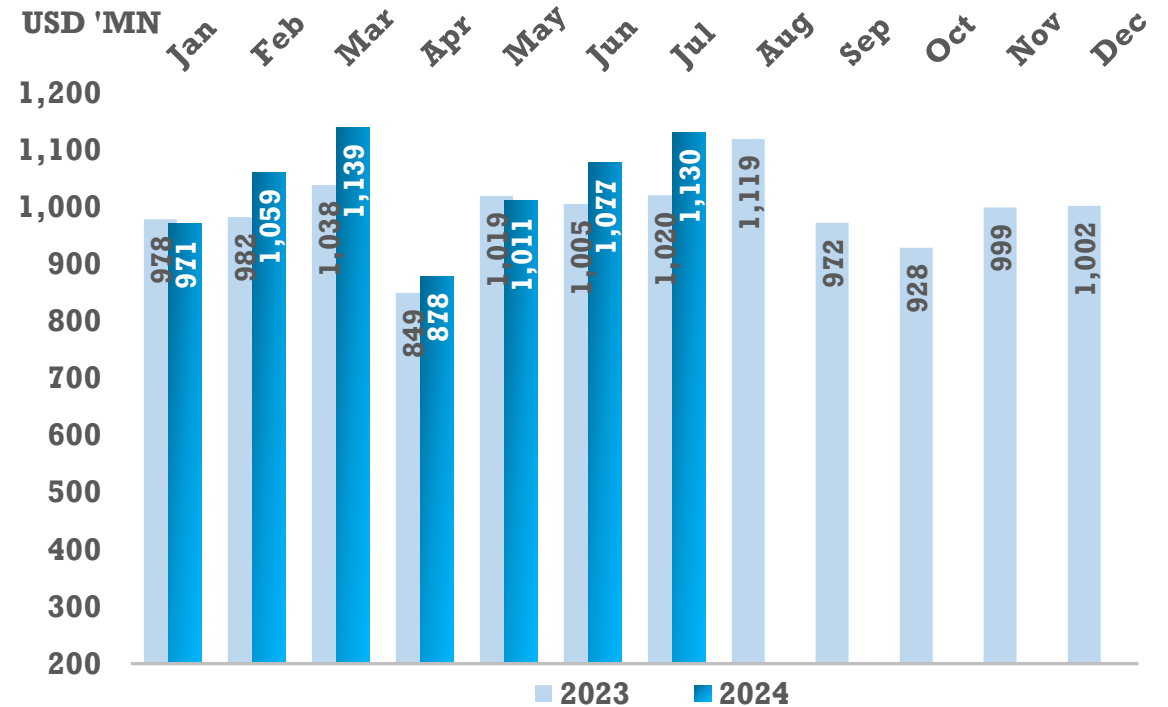
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – JUL 24 – EXPORTS

In Jul 24, earnings from exports inclined by 10.8%YoY to USD 1,130.3Mn, up from USD 1,020.4Mn in Jul 23. The growth was primarily driven by all three key categories. The YoY increase in industrial goods exports in Jul 24 was mainly contributed by petroleum products due to the increase in volumes of bunkering and aviation fuel exports. Earnings from exports of agricultural goods improved in Jul 24 driven by higher exports of spices (mainly, higher volumes of pepper) and tea (led by higher prices). Earnings from mineral exports also increased in Jul 24.

Category	2023 (USD 'Mn)	2024 (USD 'Mn)	Change (%)
Industrial Exports			
- Jul	785.9	860.9	9.5
- YTD	5,402.0	5,698.0	5.5
Agricultural			
- Jul	230.8	264.9	14.8
- YTD	1,460.0	1,545.9	5.9
Mineral Exports			
- Jul	1.8	2.4	36.0
- YTD	13.7	14.8	8.2
Total			
- Jul	1,020.4	1,130.3	10.8
- YTD	6,891.5	7,274.7	5.6

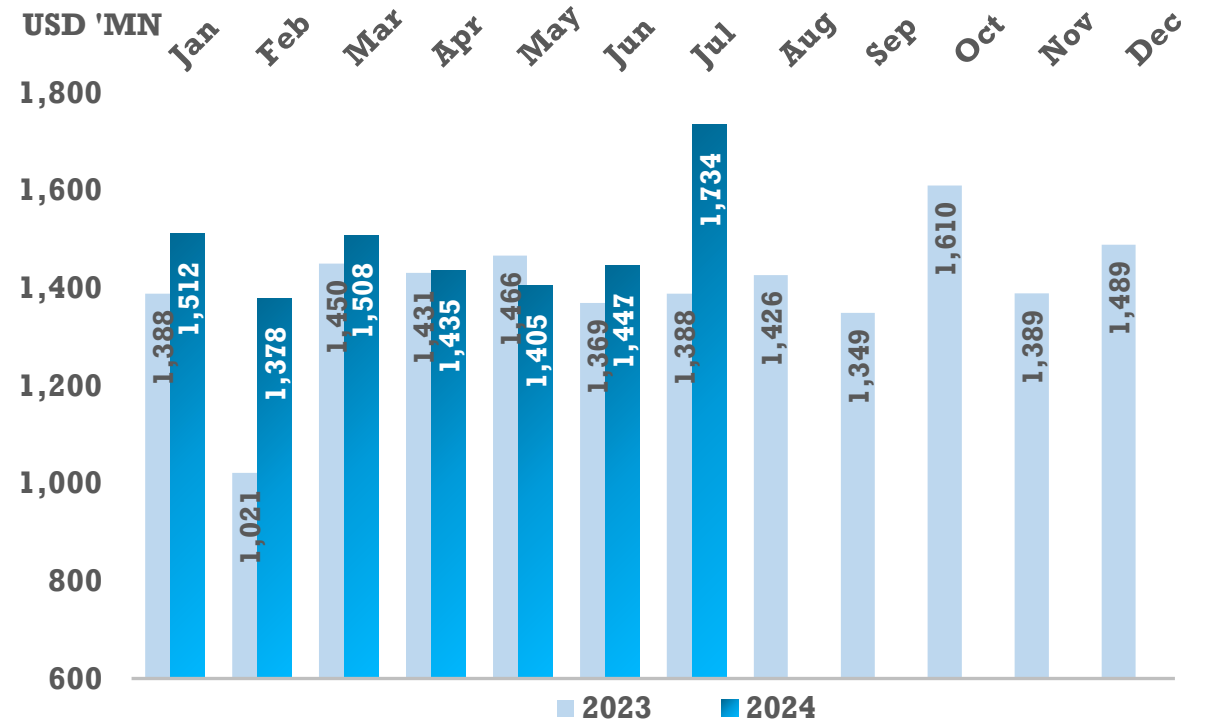


Source: CBSL
Sep 2024

EXTERNAL SECTOR – JUL 24 – IMPORTS

In Jul 24, expenditure on imports increased by 25.0%YoY to USD 1,734.1Mn compared to USD 1,387.6Mn in Jul 23. Expenditure increased across all major import categories, with the largest increase in intermediate goods and investment goods. The increase in expenditure on consumer goods imports in Jul 24 resulted by both food and beverages, and non-food consumer goods. Meanwhile, expenditure on intermediate goods imports increased primarily due to higher textiles and textile articles. However, expenditure on fuel declined in Jul 24 due to lower crude oil imports. Expenditure on investment goods recorded a broad-based increase, driven primarily by higher imports of machinery and equipment.

Category	2023 (USD 'Mn)	2024 (USD 'Mn)	Change (%)
Consumer goods			
- Jul	266.8	323.3	21.2
- YTD	1,760.2	1,857.5	5.5
Intermediate			
- Jul	882.0	1,066.6	20.9
- YTD	6,328.4	6,700.8	5.9
Investment goods			
- Jul	237.3	343.9	44.9
- YTD	1,448.5	1,854.8	28.1
Total			
- Jul	1,387.6	1,734.1	25.0
- YTD	9,548.1	10,418.5	9.1

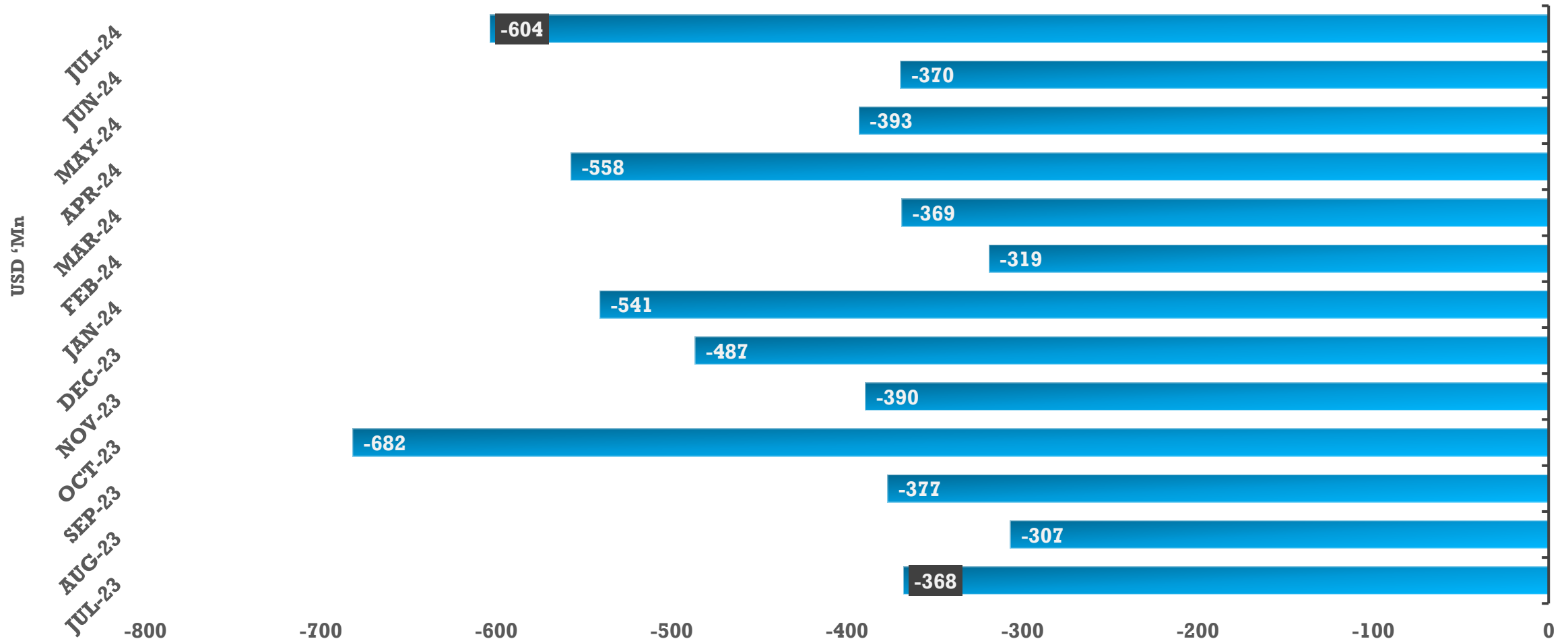


Source: CBSL

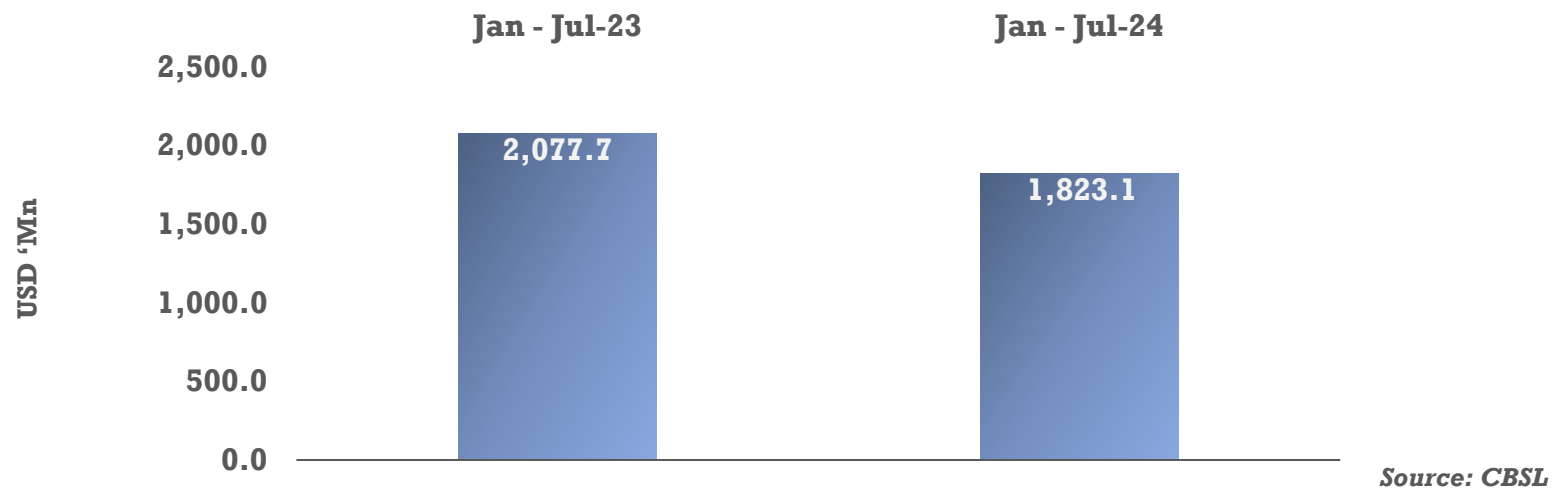
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EXTERNAL SECTOR – JUL 24

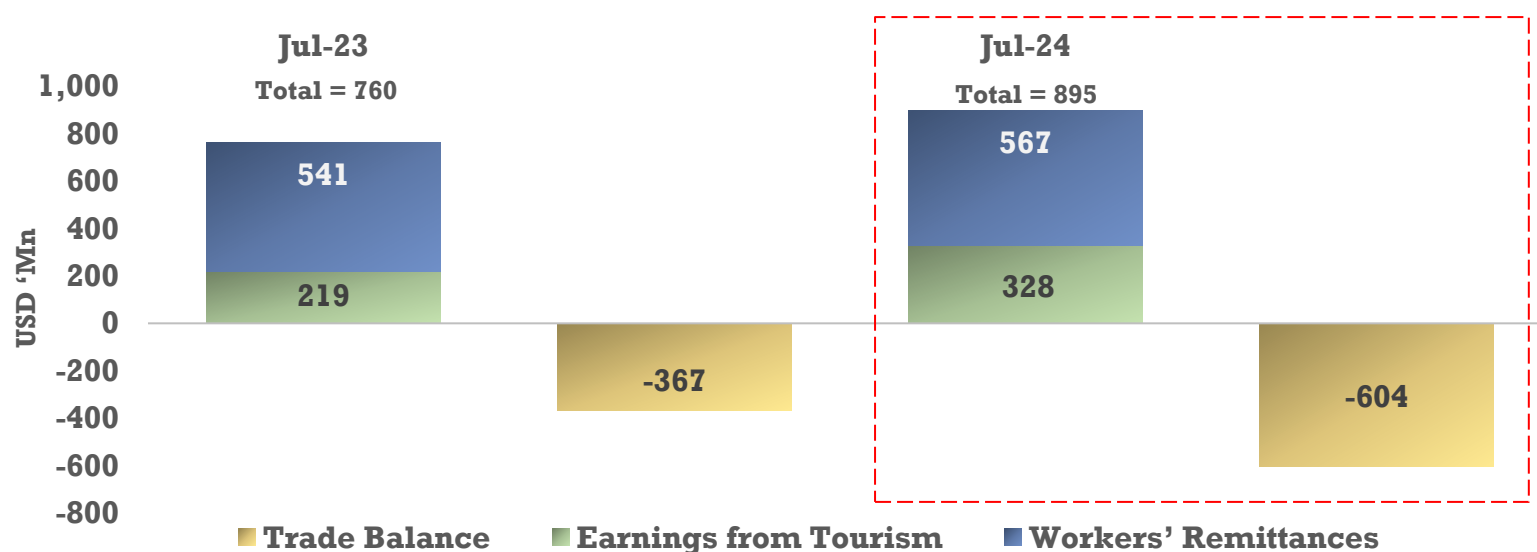
Balance of Trade



BoP for Jan-Jul-24 recorded at USD 1,823.1Mn compared to Jan-Jun-24 amount of USD 1,761.1Mn resulting in a net inflow of USD 62.0Mn, for the month of Jul-24.



Workers' Remittances increased to USD 566.8Mn in Jul-24 (+4.8%YoY). Earnings from Tourism for Jul-24 also increased to USD 328.Mn from USD 219.0Mn in Jul-23.



BALANCE OF PAYMENT DECREASED YOY IN JUL-24

Jul USD 'Mn	2023	2024	Change (%)
Trade Balance	-367.1	-603.8	
Earnings from Tourism	219.0	328.3	+49.9
Workers' Remittances	541.0	566.8	+4.8

YTD USD 'Mn	2023	2024	Change (%)
Trade Balance	-2,656.6	-3,143.8	
Earnings from Tourism	1,094.0	1,884.9	+72.3
Workers' Remittances	3,363.6	3,710.8	+10.3

TOURIST ARRIVALS – AUG 2024

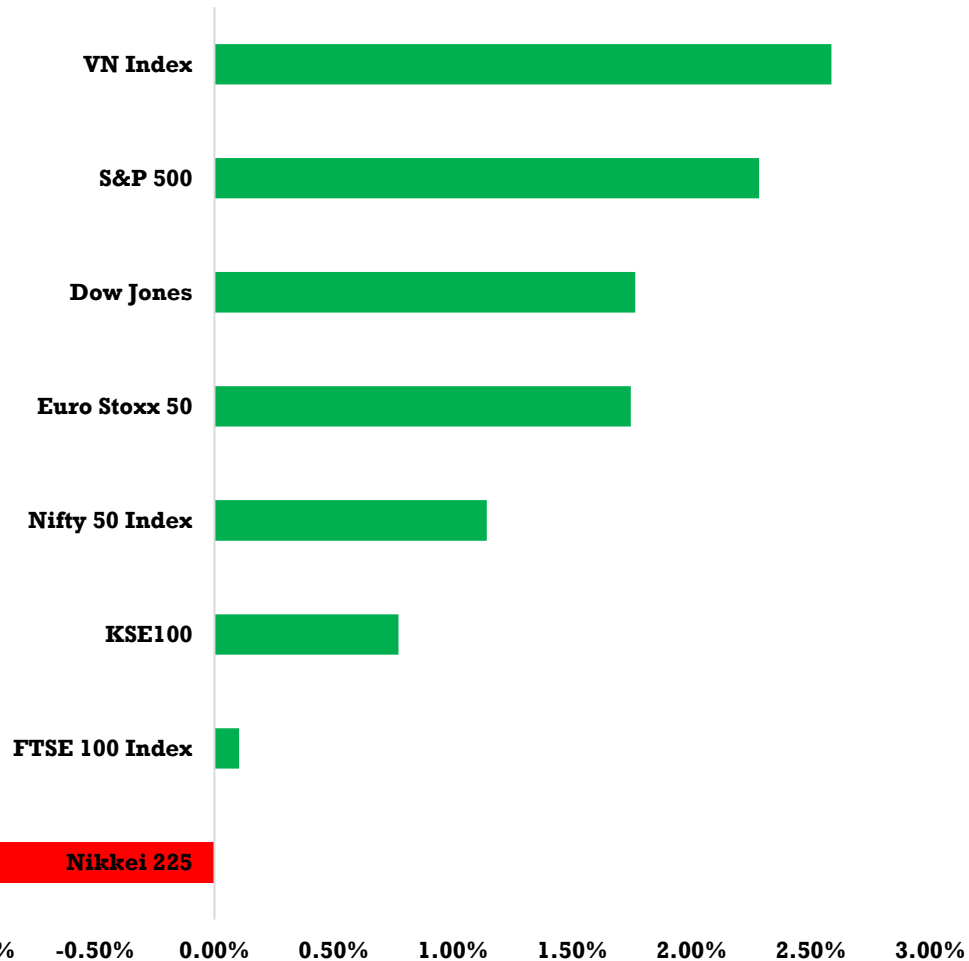
[Aug 164,609 – **UP +20.7%YoY**] [MoM – **DOWN -12.4%**]

The total arrivals for the month was recorded at 164,609 displaying an increase of 20.7%YoY compared to Aug 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 Aug-24 was topped by India, the United Kingdom, China, Germany and Italy.



Source: SLTDA

GLOBAL MARKET – AUG 2024



China's deflationary spiral is now entering dangerous new stage

Deflation stalking China since last year is now showing signs of spiraling, threatening to worsen the outlook for the world's second-largest economy and raising calls for immediate policy action. apart from food costs, consumer price growth barely registered in large swathes of the economy at a time when incomes are sagging. A broader measure of economy-wide prices known as the gross domestic product deflator will likely extend its current five-quarter drop into 2025.

Bloomberg



Oil rebounds from week of heavy losses as storm approaches U.S. Gulf Coast

Oil futures rose during the week as a potential hurricane approaching the U.S. Gulf Coast helped oil prices to recover some of the previous week's heavy losses. Brent crude rose 67 cents, or 0.94%, to USD 71.73 a barrel while West Texas Intermediate crude futures were up 68 cents, or 1%, at USD 68.35. Prices of Brent crude had fallen in each of the past six trading sessions, retreating by more than 11%, or nearly USD 9.0 a barrel.

Wall Street bounces as investors await inflation data, Fed rate cuts

Wall Street's three main stock indexes rose after a week of losses as investors looked for bargains while they waited for inflation reports in coming days and the Federal Reserve's next policy decision. The report includes, the night's first debate between U.S. presidential candidates Democrat Kamala Harris and Republican Donald Trump ahead of the Nov. 5 election.



REUTERS
WORLD

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Thank you!

*“SUCCESSFUL INVESTMENTS IS ABOUT
MANAGING RISKS”*

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