

MONTHLY ECONOMIC WATCH

April 2019



First Capital
First Capital Research

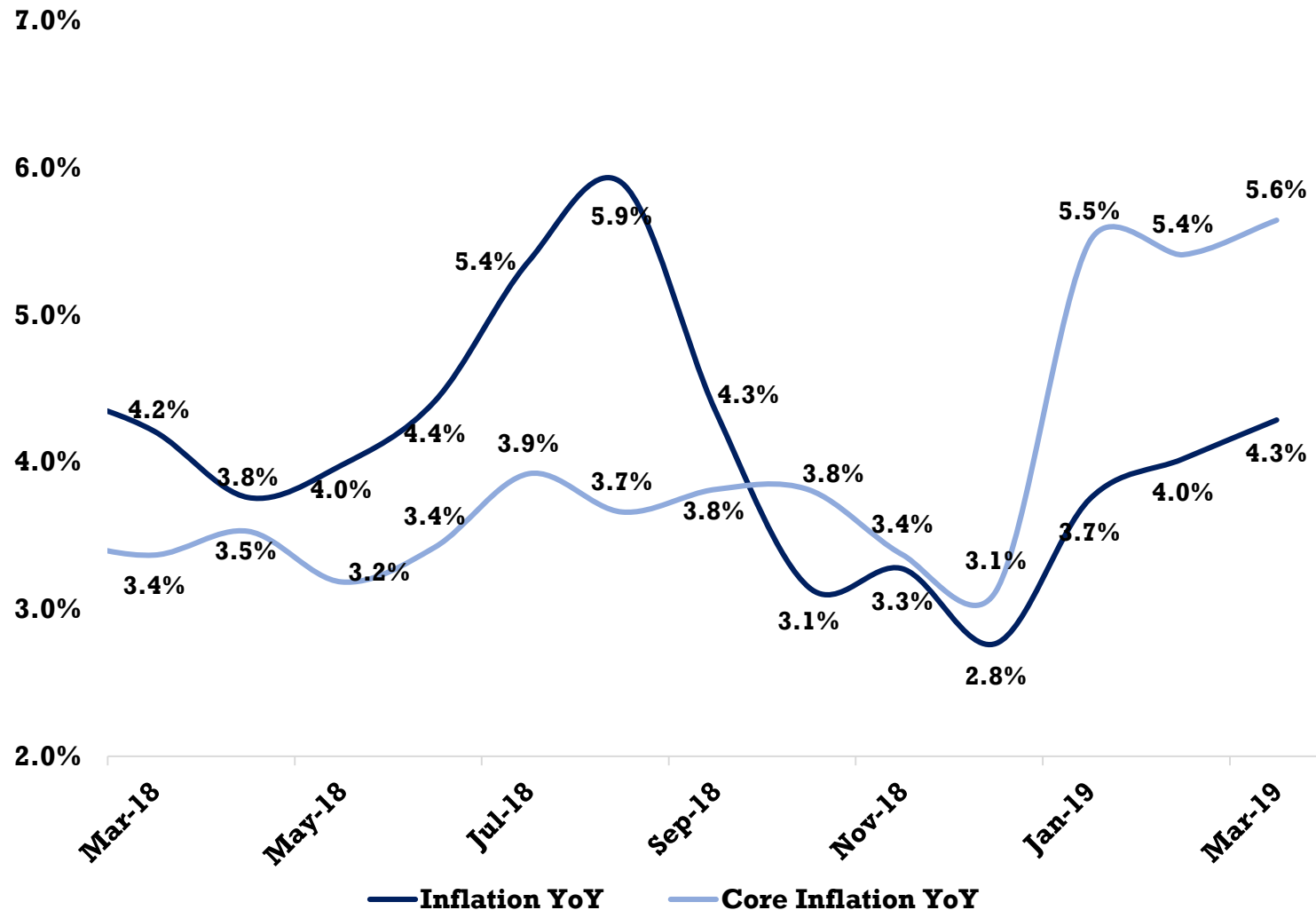
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SL RAISES USD 2.4BN IN INTERNATIONAL SOVEREIGN BOND

- The Central Bank of Sri Lanka, on behalf of the government successfully issued USD 1.0Bn 5-year and USD 1.4Bn 10-year Senior Unsecured Fixed Rate Bonds with maturity dates of 14.03.2024, and 14.03.2029 respectively.
- The Bonds have been rated 'B2', 'B' and 'B' by Moody's Investors Service, Standard and Poor's and Fitch Ratings respectively.
- The orderbook was well diversified across both tranches. The 5-year tranche saw allocations of 39% to the U.S., 38% to Europe, and the remaining 23% to Asia. By investor type, the split was 91% to fund managers, 5% to insurance and pension funds, 3% to banks, and 1% to other investors.
- The 10-year tranche saw allocations of 44% to the U.S., 39% to Europe, and the remaining 17% to Asia. By investor type, the split was 90% to fund managers, 5% to insurance and pension funds, 4% to banks, and 1% to other investors.

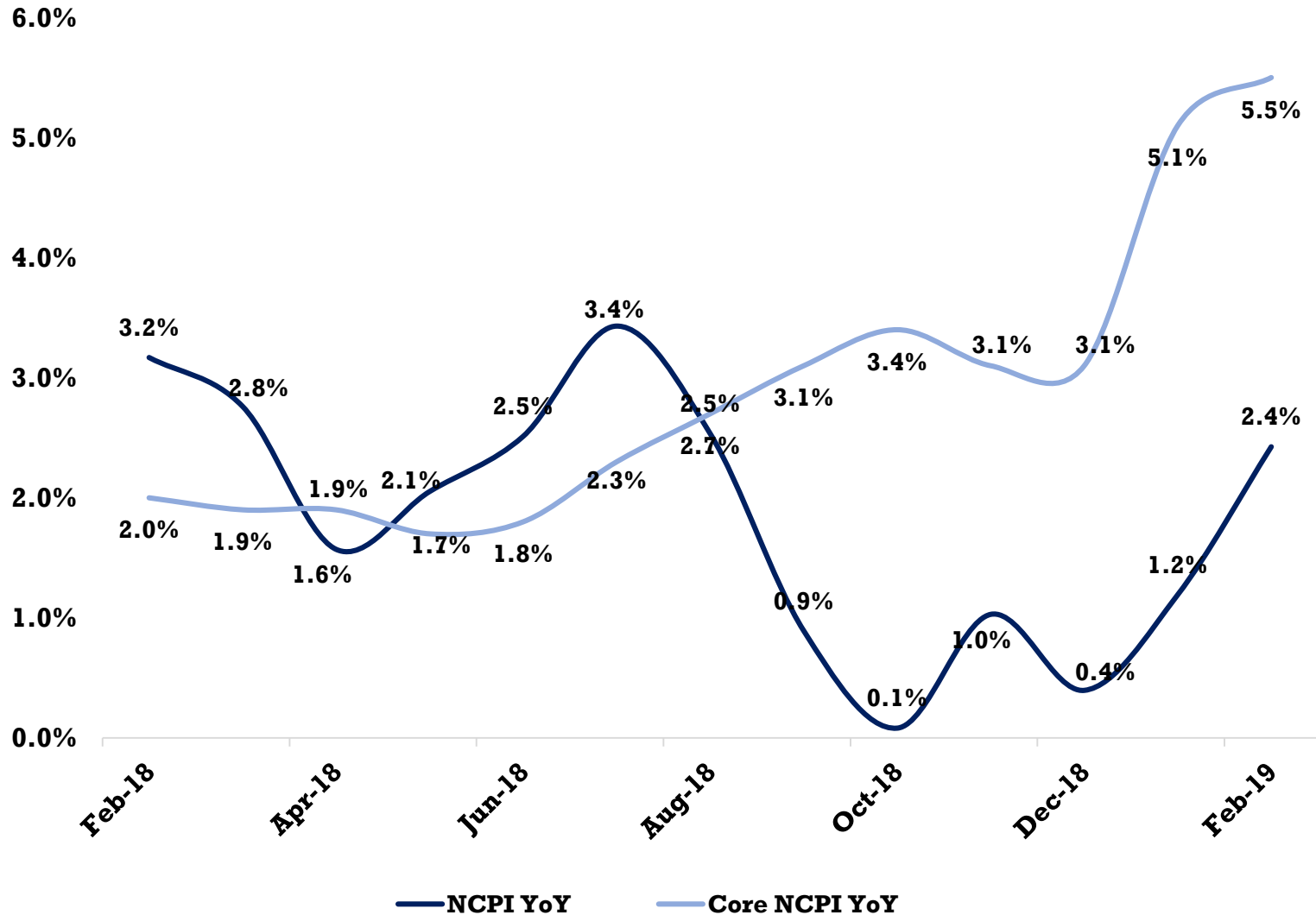
INFLATION - CCPI



**CCPI FOR MAR 2019:
MOM -0.2%,
YOY +4.3%**

- *MoM inflation was recorded at -0.2%. This was due to expenditure value decrease of Food items by 0.45% and increase of Non Food items by 0.29%. Price decline in Vegetables led the value decrease in the food category, while in Non Food Category, the increase was mainly led by Alcoholic Beverages Tobacco and Narcotics' (0.13%).*
- *The YoY inflation increased to 4.3% in March 2019 from 4.0% reported in February as a result of increase in value of Non Food Category.*

INFLATION - NCPI



NCPI FOR JAN 2019: INCREASED BY 2.4% YOY

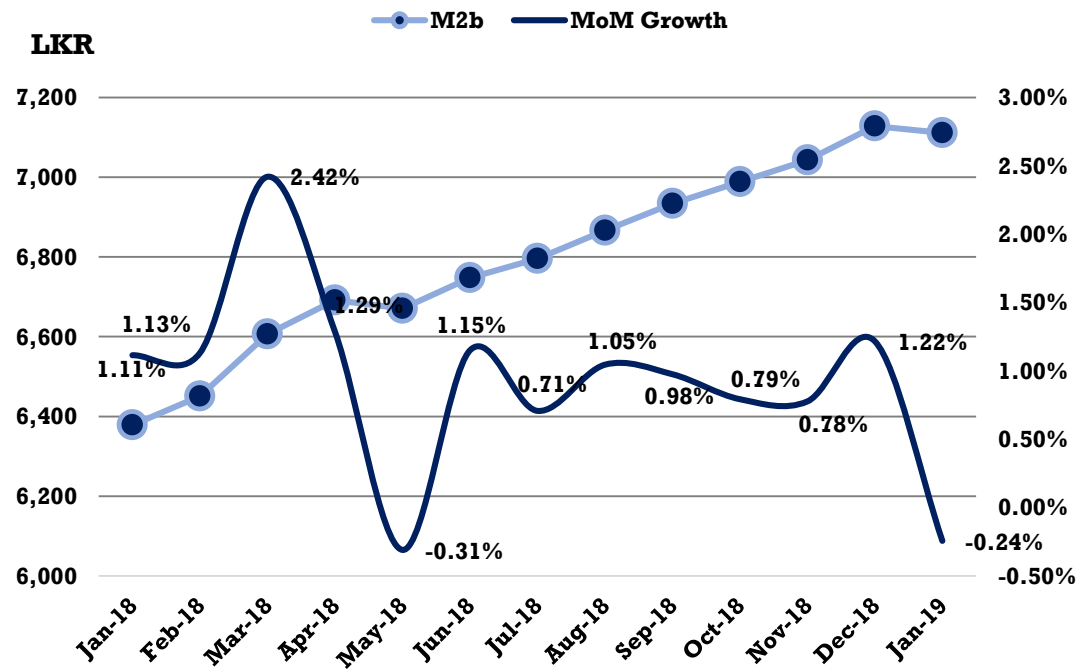
- *NCPI for Feb 2019 increased by 2.4% from 1.2% recorded in January 2019.*
- *YoY inflation of Food Category decreased by 2.9% compared to -4.8% in January 2019 while Non Food Category increased to 6.7% during the month.*

M2B AND CREDIT GROWTH

Private sector credit extended for the month of January 2019 turned negative for the first time since May 2014 by recording a decline of LKR 4.3Bn. Government credit reflected a net borrowing for the sixth consecutive month amounting to LKR 66.0Bn.

M2b Growth – January 2019

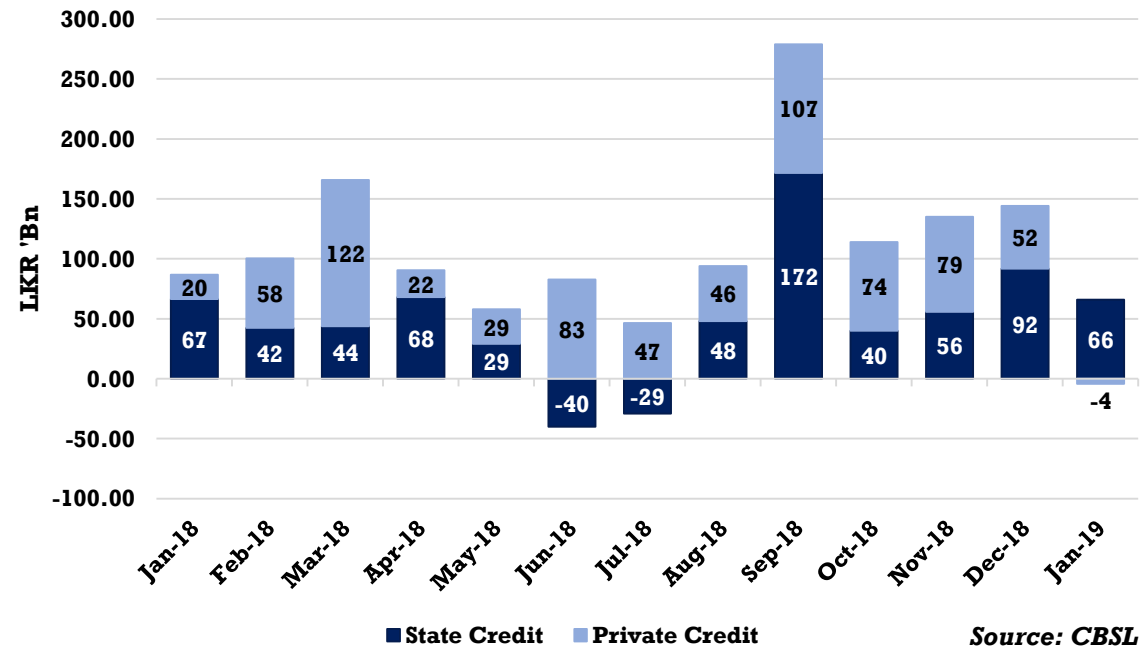
MoM -0.24%, YoY +11.48%, YTD -0.24%



Source: CBSL

State Credit & Private Credit – January 2019

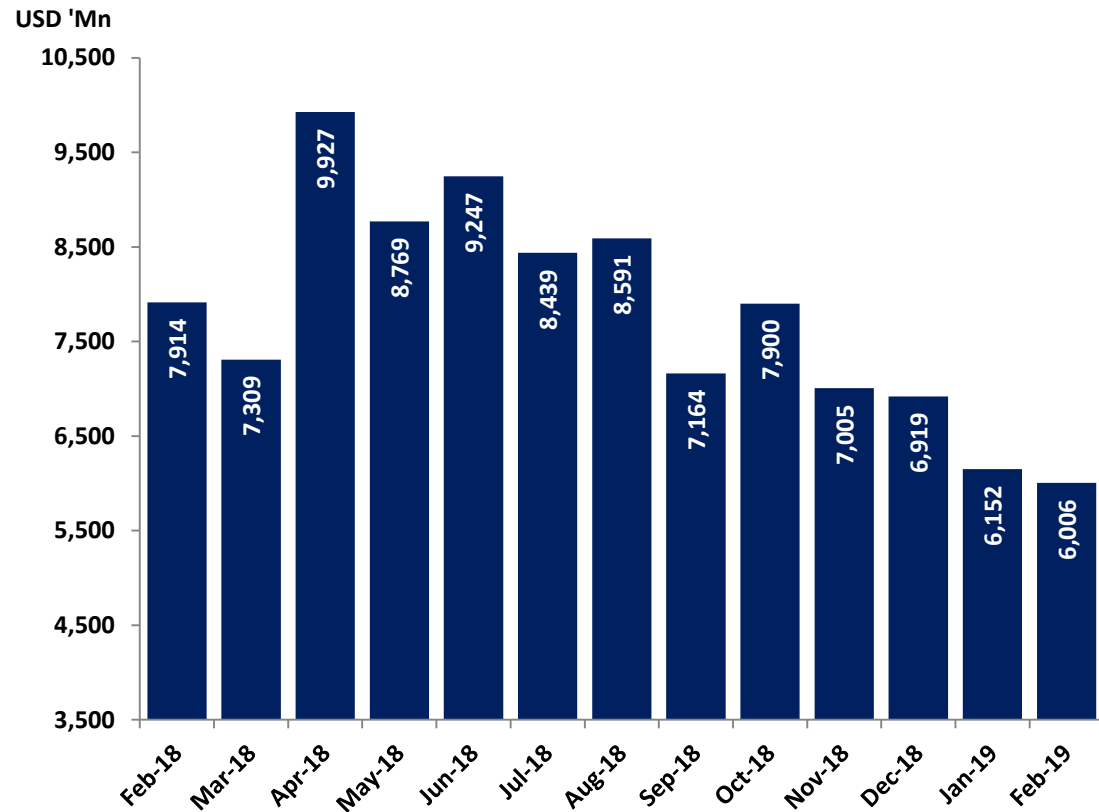
Private credit MoM -0.08%, YoY +14.77%, YTD -0.08%



Source: CBSL

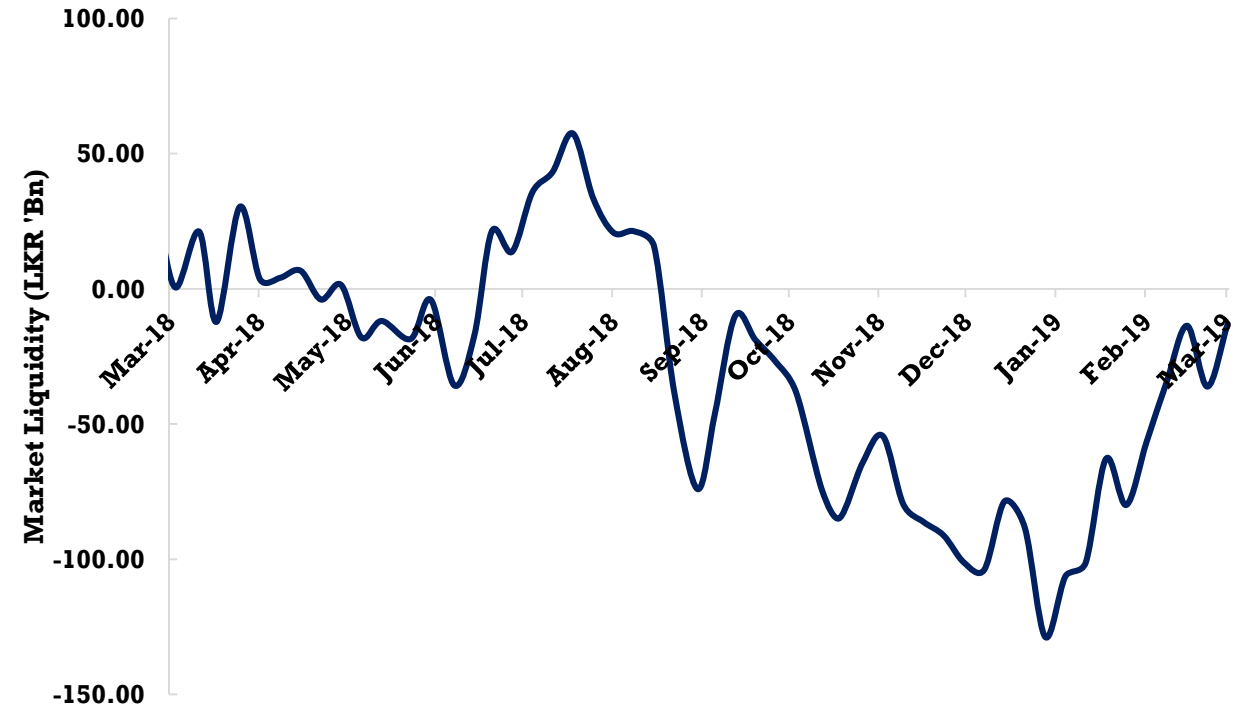
RESERVES & LIQUIDITY

- Foreign Reserves marginally declined to USD 6.0Bn in Feb 2019 (from USD 6.1Bn in Jan 2019).



Source: CBSL

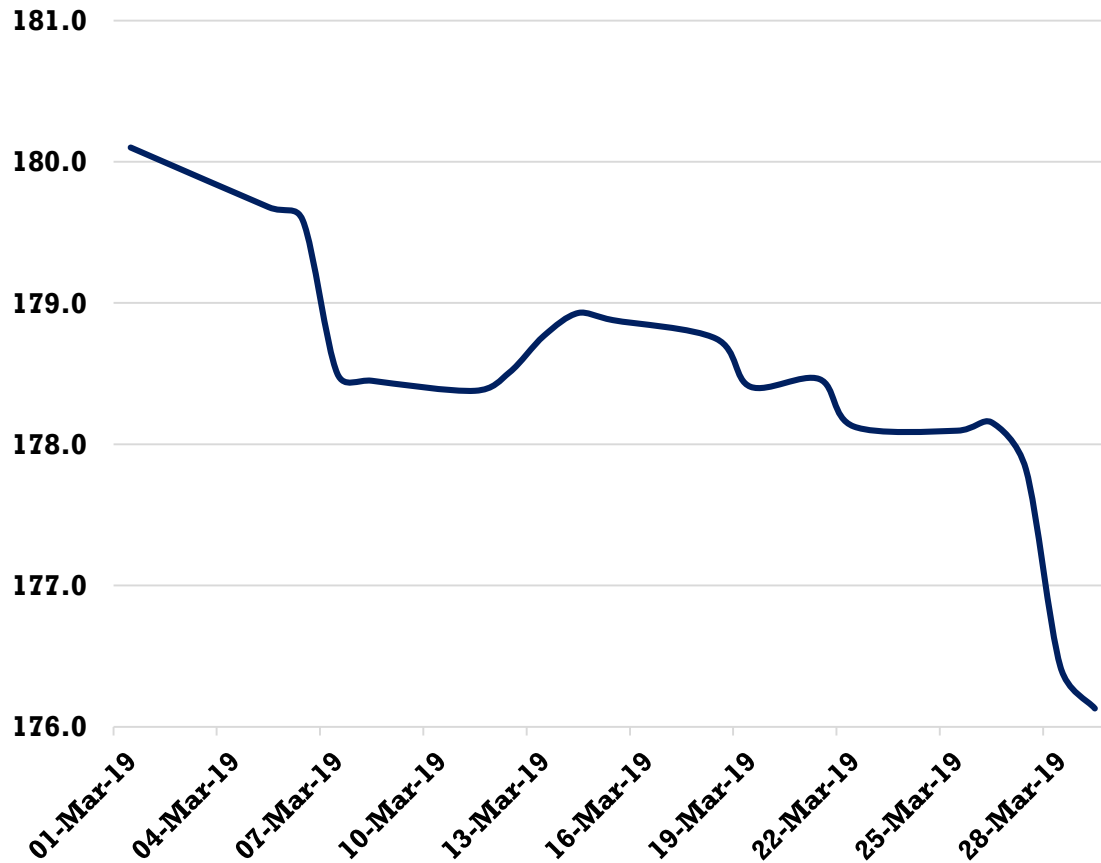
- Market liquidity was seen greatly narrowing during the month as a result of the SRR cut. Liquidity improved to LKR -12.96Bn as at end March compared to LKR -56.67 held as at end Feb 2019.



Source: CBSL

CURRENCY MOVEMENT

USD:LKR Movement

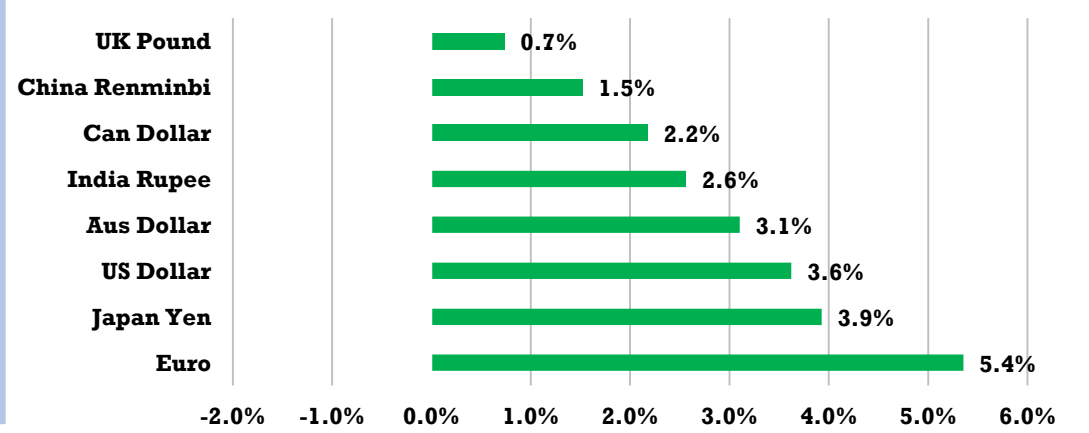
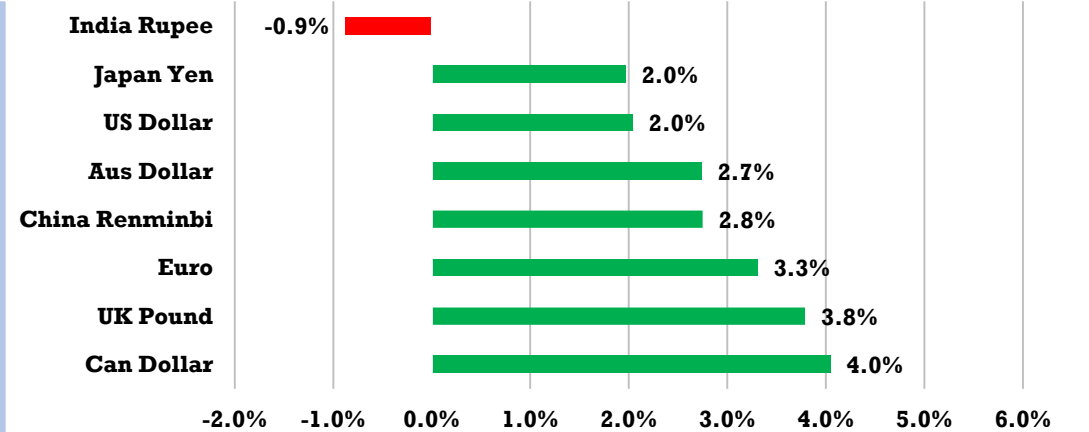


Source: CBSL

March 2019

YTD 2019

Sri Lankan Rupee vs Global Currencies



Source: CBSL

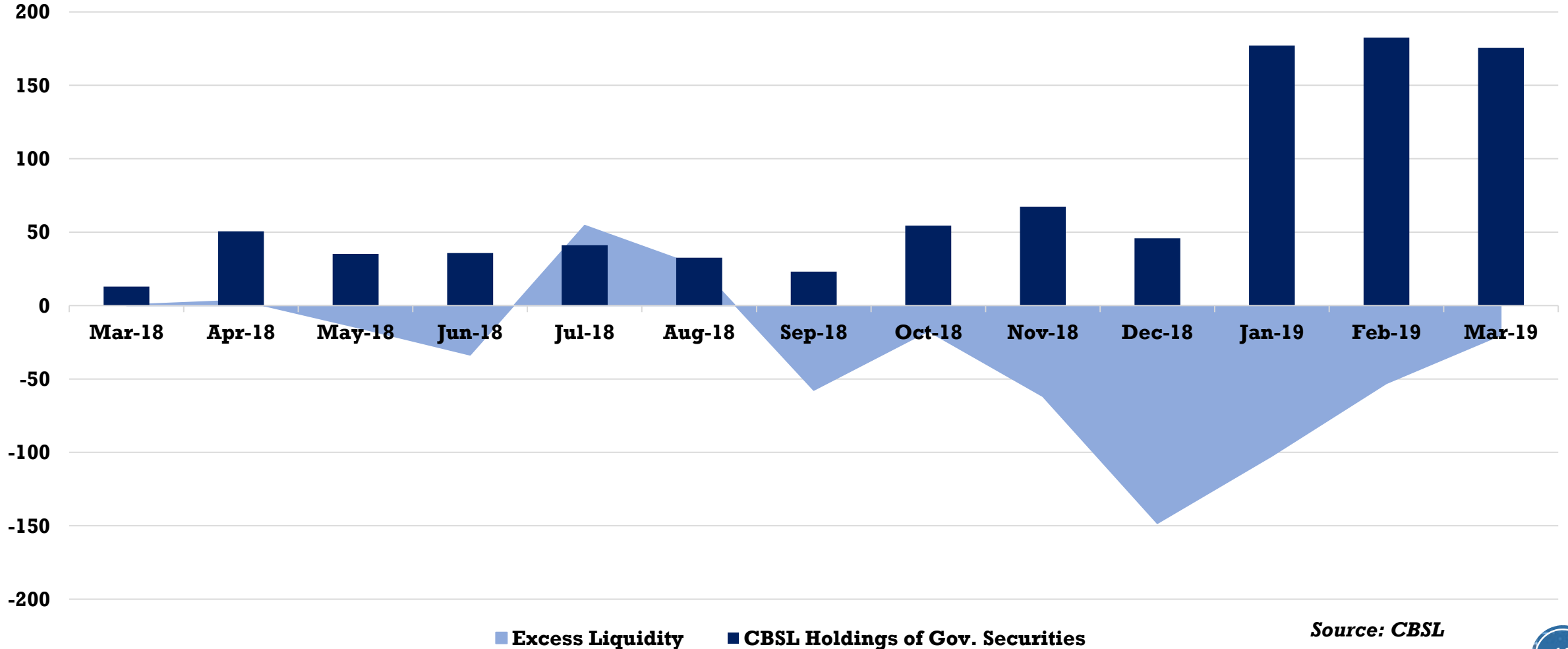
GOVERNMENT SECURITIES – NEW ISSUES

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
08-Mar-19	24,000		24,000
15-Mar-19	24,000	70,000	94,000
22-Mar-19	24,000		24,000
29-Mar-19	25,000		25,000
Total Issued			167,000

	March 2019	YTD
Maturities	122,169	351,438
New Issues	167,000	488,500
Excess/(Deficit)	44,831	

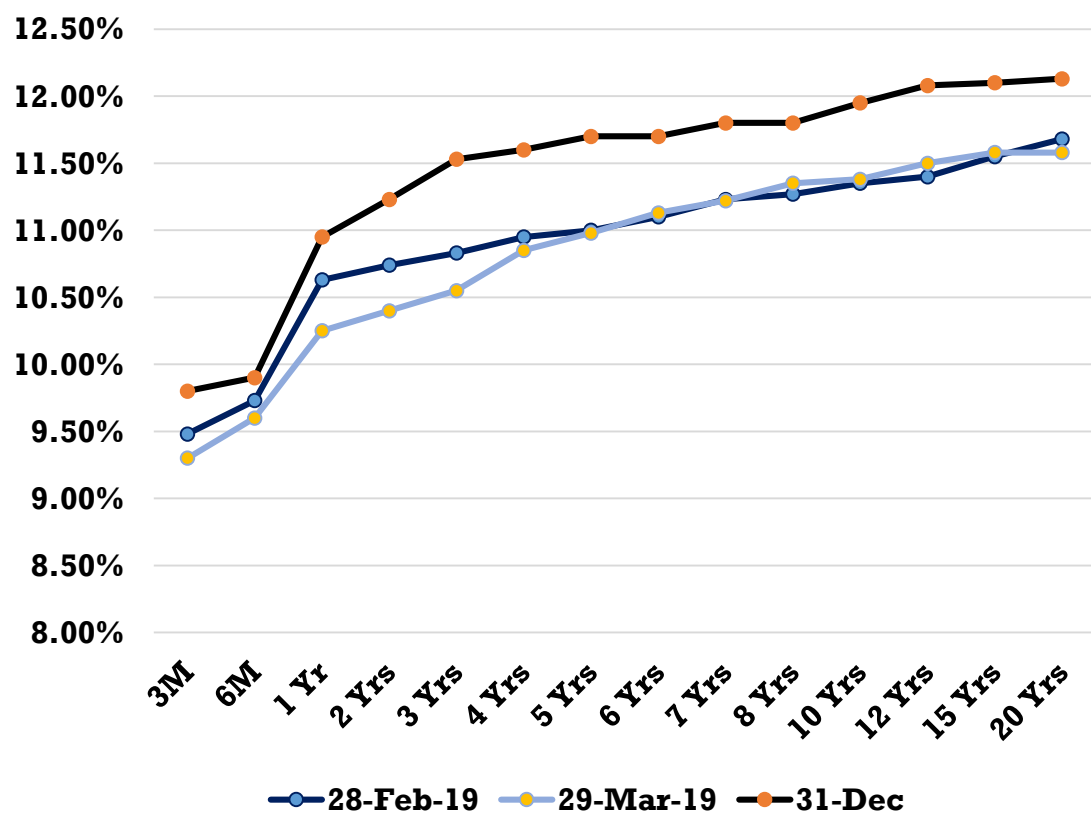
CBSL Holdings of Gov. Securities		YTD
As at End Mar.2019	177,560	
As at End Feb. 2019	182,588	
Increase/ (Decrease)	(5,028)	131,762

CBSL HOLDINGS OF GOV. SECURITIES MARGINALLY DECREASED IN MARCH '19



TREASURY BILLS AND BONDS— MAR. '19

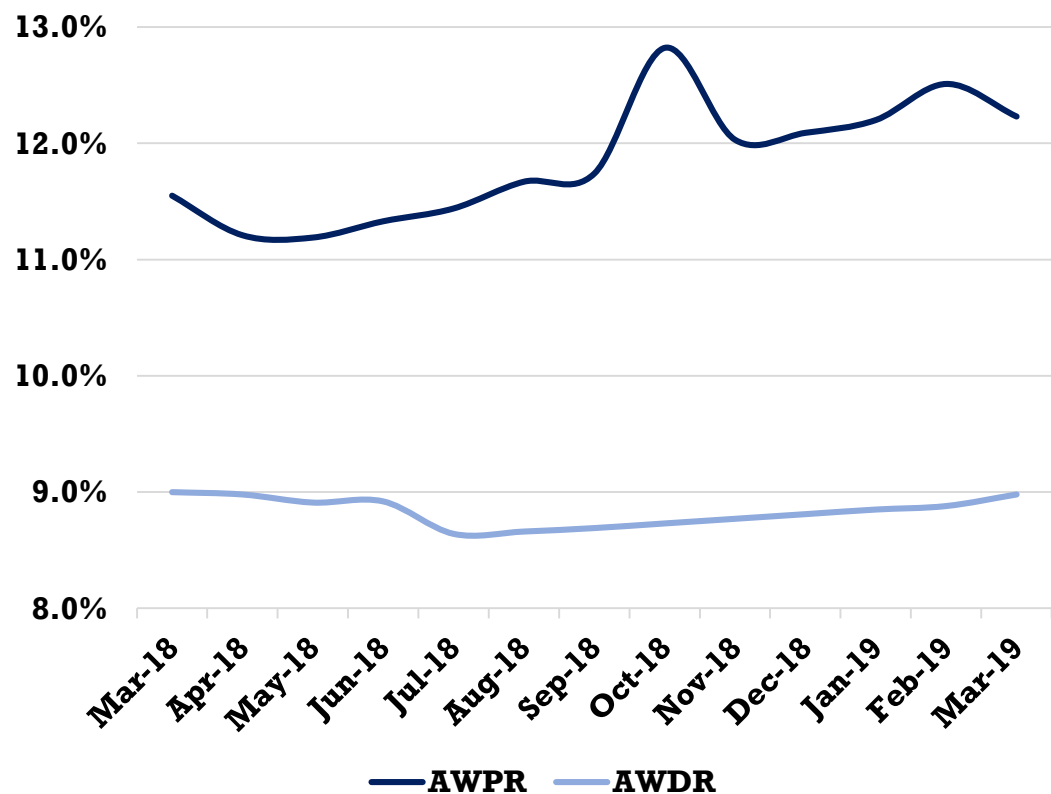
In the midst of positive sentiment created through successful completion of USD 2.4Bn in International Sovereign Bonds, the secondary market yield curve witnessed a downward shift especially towards the shorter end of the curve with the renewed buying interest from foreign counter parties. One year T-Bill yield witnessed a notable decline to reach 10.40% compared to 10.67% in February, recording gradual declines in each auction held during the month.



Interest Rate Change (bps)					
Tenure	28-Feb-19	29-Mar-19	Change (bps)	31-Dec	Change (bps)
3M	9.48%	9.30%	-18	9.80%	-50
6M	9.73%	9.60%	-13	9.90%	-30
1 Yr	10.63%	10.25%	-38	10.95%	-70
2 Yrs	10.74%	10.40%	-34	11.23%	-83
3 Yrs	10.83%	10.55%	-28	11.53%	-98
4 Yrs	10.95%	10.85%	-10	11.60%	-75
5 Yrs	11.00%	10.98%	-2	11.70%	-72
6 Yrs	11.10%	11.13%	3	11.70%	-57
7 Yrs	11.23%	11.22%	-1	11.80%	-58
8 Yrs	11.27%	11.35%	8	11.80%	-45
10 Yrs	11.35%	11.38%	3	11.95%	-57
12 Yrs	11.40%	11.50%	10	12.08%	-58
15 Yrs	11.55%	11.58%	3	12.10%	-52
20 Yrs	11.68%	11.58%	-10	12.13%	-55

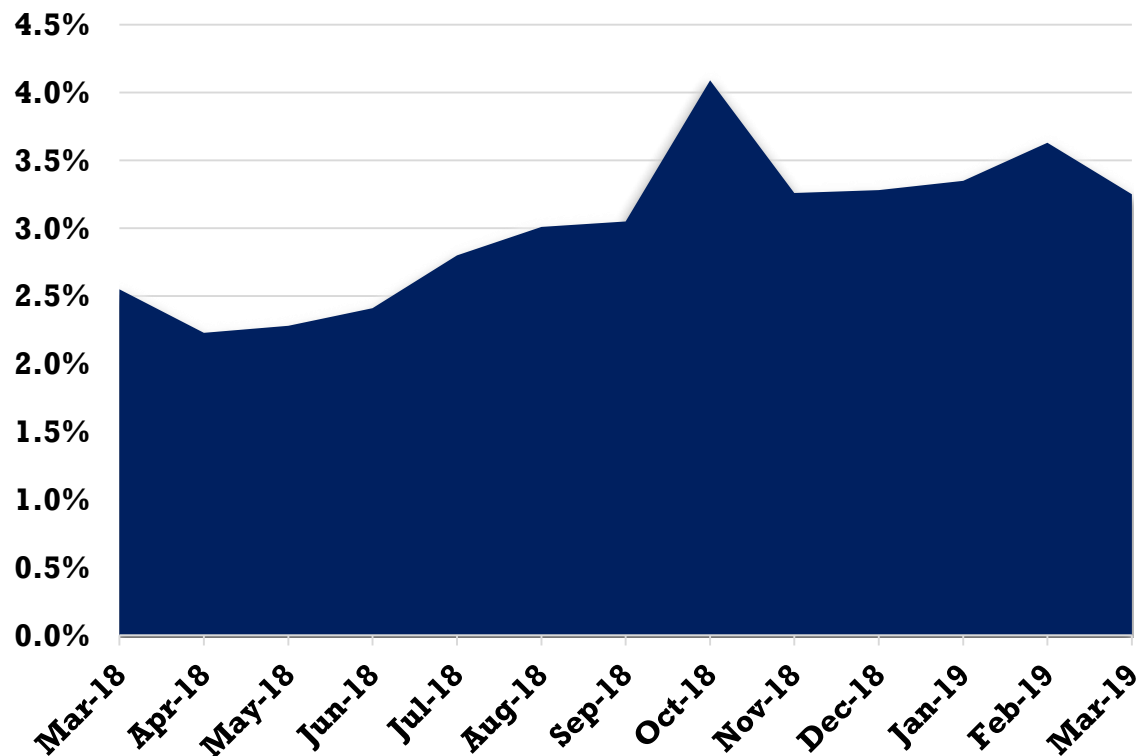
FINANCE SECTOR RATE MOVEMENTS

AWPR vs AWDR



Source: CBSL

Interest Spread

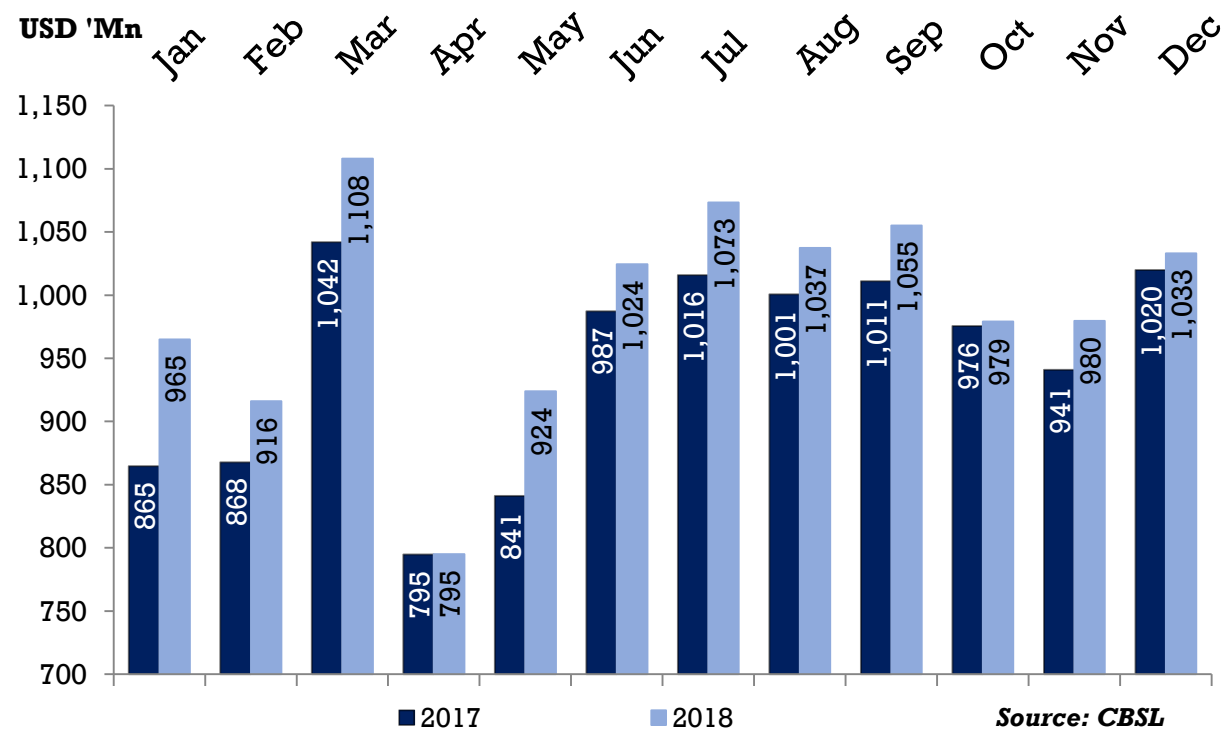


Source: CBSL

EXTERNAL SECTOR – DEC 18 – EXPORTS

Exports for the month of Dec was recorded at USD 1,033Mn,+1.4%YoY basis, mainly contributed by Industrial Exports (+2.1%YoY) which was largely driven by Textiles and garments (+5.0%YoY). Meanwhile, earnings from agricultural exports declined due to weakened earnings in tea, spices and rubber.

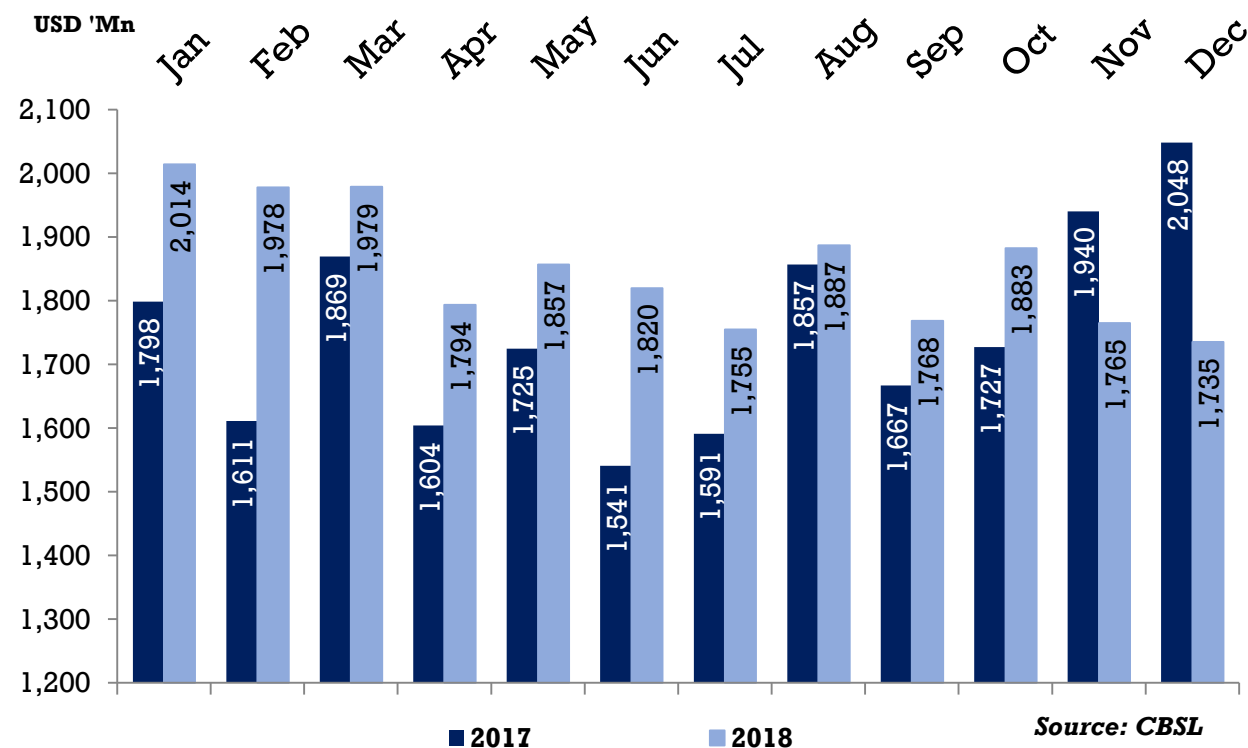
Category	2017 (USD 'Mn)	2018 (USD 'Mn)	Change (%)
Industrial Exports			
- Dec	796.3	813.2	2.1
- YTD	8,541.9	9,258.2	8.4
Agricultural			
- Dec	219.7	216.6	(1.4)
- YTD	2,767.2	2,579.3	(6.8)
Mineral and other			
- Dec	2.3	2.0	(15.2)
- YTD	34.5	34.4	(0.4)
Total			
- Dec	1,019.5	1,033.4	1.4
- YTD	11,360.4	11,889.6	4.7



EXTERNAL SECTOR – DEC 18 – IMPORTS

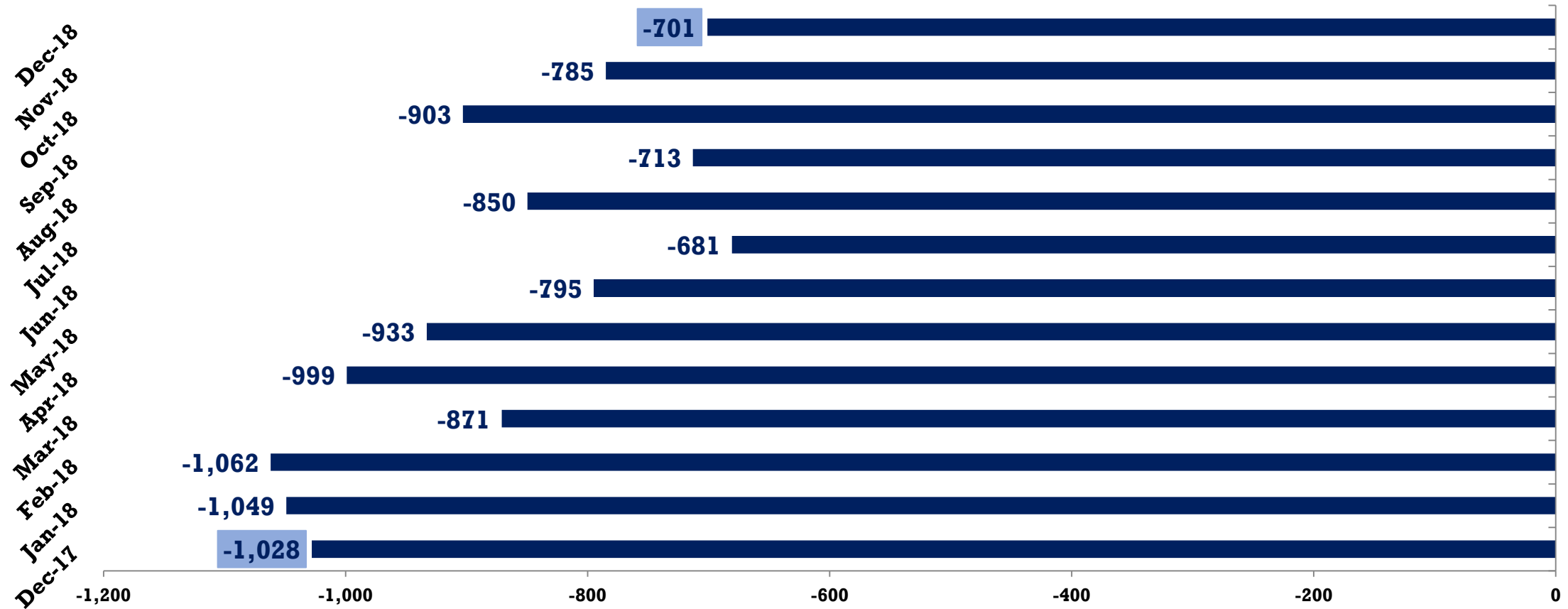
Import expenses decreased in Dec 2018 by 15.3%YoY. The decrease was mainly driven by consumer goods (-17.7%YoY) and expenditure on Food and Beverages (-25.8%YoY) amidst a notable decline in Rice. Imports of Intermediate and Investment goods declined by 17.6% and 5.9% respectively.

Category	2017 (USD 'Mn)	2018 (USD 'Mn)	Change (%)
Consumer goods			
- Dec	433.6	357.0	(17.7)
- YTD	4,502.5	4,979.7	10.6
Intermediate			
- Dec	1,193.8	983.1	(17.6)
- YTD	11,435.8	12,488.0	9.2
Investment goods			
- Dec	418.8	394.0	(5.9)
- YTD	4,894.7	4,690.4	(4.2)
Total			
- Dec	2,048.5	1,734.6	(15.3)
- YTD	20,979.8	22,232.7	6.0



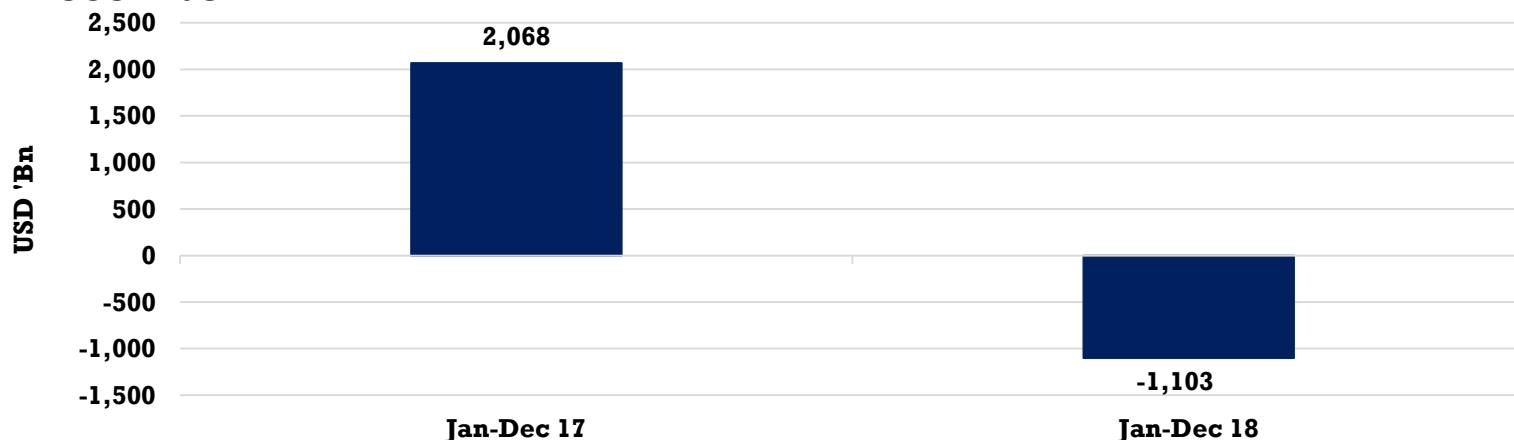
EXTERNAL SECTOR – DEC 18

Balance of Trade

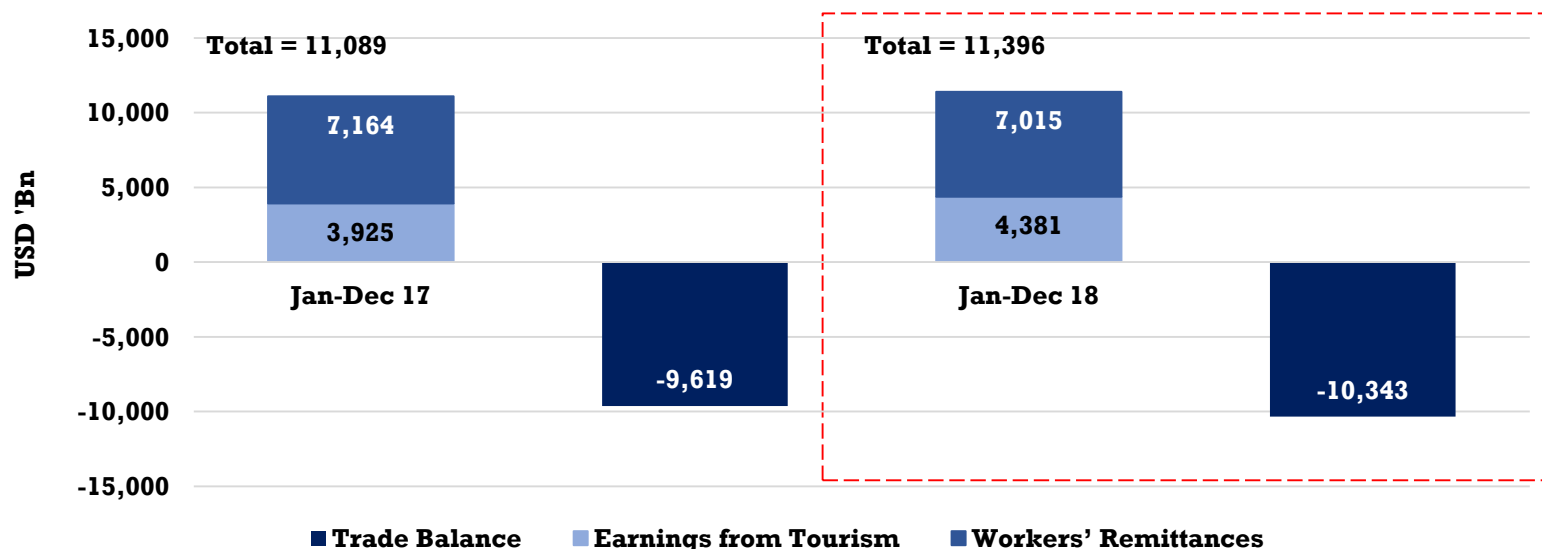


Source: Central Bank

BoP for Jan-Dec 18 was USD -1,103Mn compared to the previous YTD of Jan-Nov 18 amount of USD -807Mn, illustrating an outflow of USD 296Mn for the month of December.



Worker Remittances declined to USD 584.0Mn (-13.0%YoY). Earnings from tourism recorded an increase for the month of Dec reflecting an YoY increase of +4.8%.



BALANCE OF PAYMENTS MARGINALLY DECLINES MOM

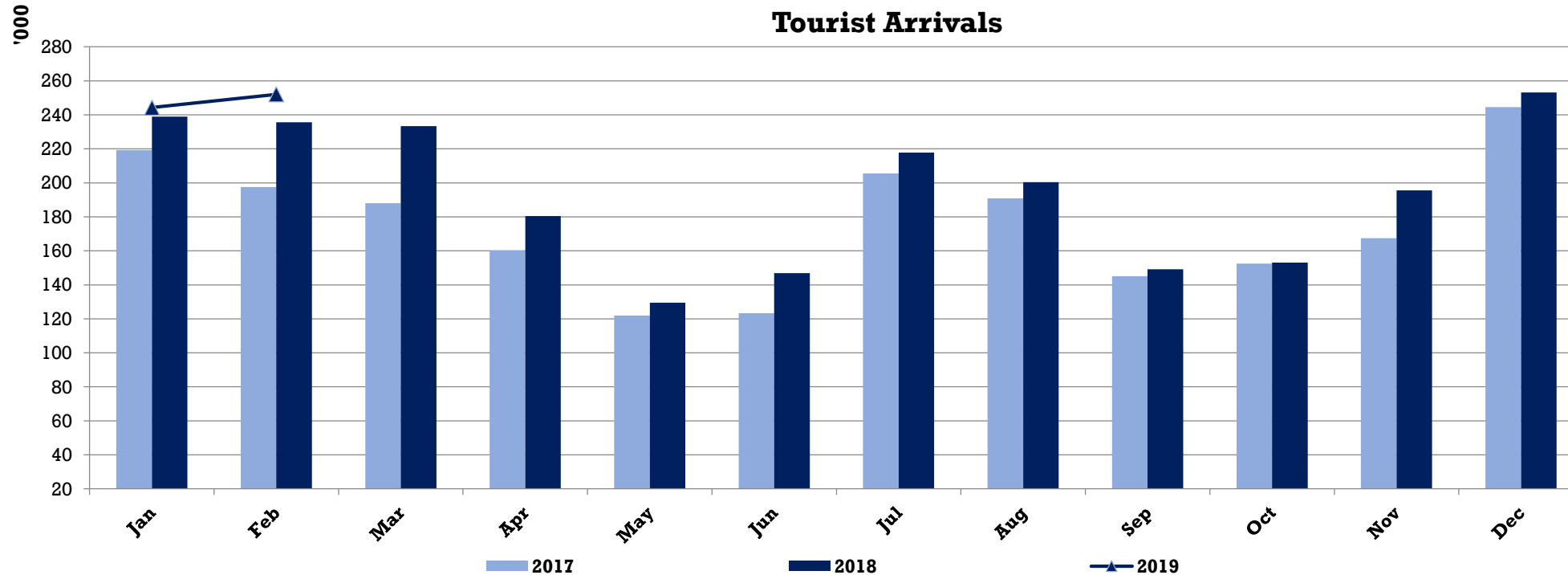
Dec USD 'Mn	2017	2018	Change (%)
Trade Balance	-1,029.0	-701.0	
Earnings from Tourism	453.0	475.0	+4.8
Workers' Remittances	671.0	584.0	-13.0

YTD USD 'Mn	2017	2018	Change (%)
Trade Balance	-9,619.0	-10,343.0	
Earnings from Tourism	3,925.0	4,381.0	+11.6%
Workers' Remittances	7,164.0	7,015.0	-2.1%

TOURIST ARRIVALS – FEBRUARY 2019

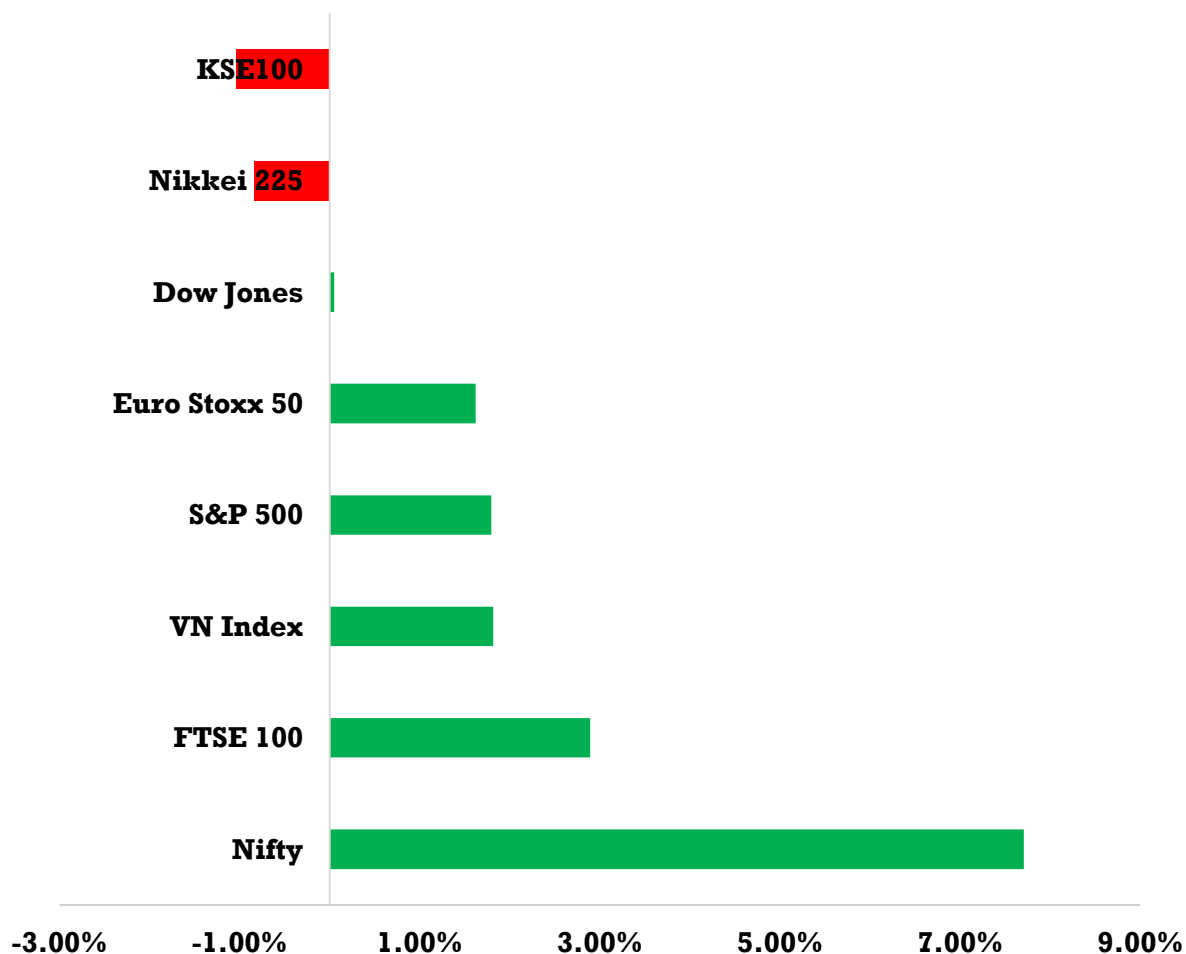
(252,033 – UP 7.0% YOY, YTD 496,272 -UP 3.2%)

Tourist arrivals into SL grew by 7.0% in February 2019 compared to an year ago. Arrivals were mainly dominated by India followed by United Kingdom and China. YoY tourist arrivals from North America increased by 61.7% while arrivals from Middle East declined by 5.2%.



Source: SLTDA

GLOBAL MARKET



Source: Bloomberg

Rally Lifts U.S. Stocks to Highest Levels of Year: Markets Wrap: Asian Stocks strengthened worldwide as strong manufacturing data out of the world's second largest economy helped allay investor concern about a slowdown in global growth. Yields on Treasuries rose the most since January after as a gauge of U.S. factories topped estimates in March. The S&P 500 closed at the highest level since October, while the Dow gained the most since Feb. 15. Shares of Lyft dropped below its IPO price as analysts noted there is limited visibility into the company's path to growth and profitability. The Stoxx Europe 600 climbed on the heels of its best quarter in four years after key China manufacturing PMIs for March beat the highest estimate in Bloomberg surveys of economists.

www.bloomberg.com

China Announces Trade Concessions as Liu He Heads to U.S: The Chinese government said it will extend a suspension of retaliatory tariffs on U.S. autos and include the opioid fentanyl in a list of controlled substances, two steps that could generate a positive atmosphere for trade negotiations due to resume this week. Beijing temporarily scrapped the 25 percent tariff imposed on vehicles as a tit-for-tat measure on Jan. 1, after the White House delayed a rise in tariffs on \$200 billion of products that had been due that day.

www.cnbc.com

Parliament Fails to Back Any Plan B Options: Brexit Update: The U.K. Parliament rejected all options in a set of votes on potential alternative blueprints for Brexit on Monday. The government says the legal default will be for the U.K. to leave the European Union in 11 days. Theresa May is still aiming to get her unpopular deal through Parliament and will call a Cabinet meeting on Tuesday to discuss the next steps.

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