

MONTHLY ECONOMIC WATCH

May 2019



First Capital
First Capital Research

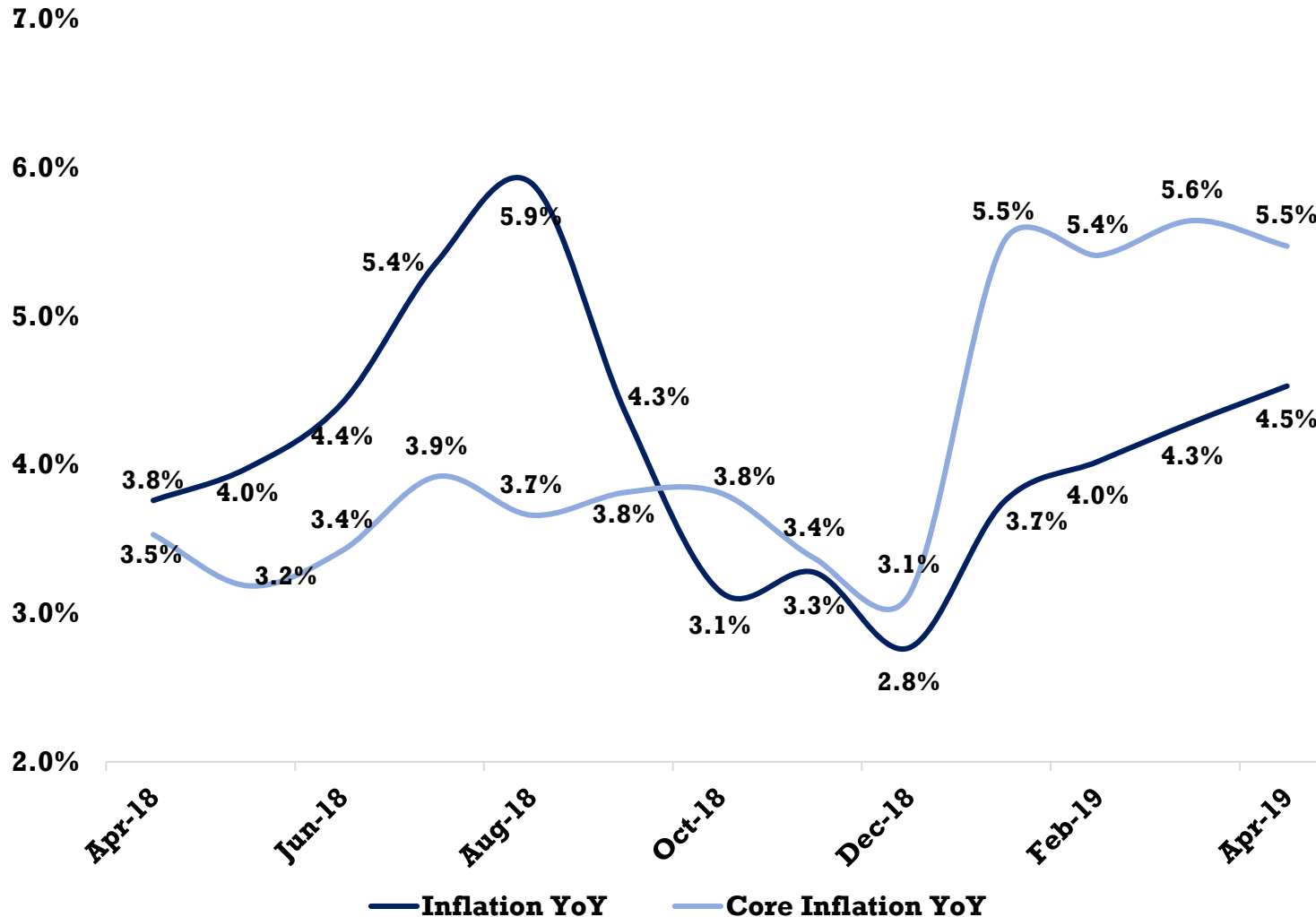
CONTENT BRIEFING

• Measures to reduce lending rates and drive credit flows to SMEs sector.....	3
• Inflation.....	4
• M2B & Sector Credit.....	6
• Reserves & Liquidity.....	7
• Currency Movement.....	8
• Government Securities.....	9
• Finance Sector Rate Movement.....	12
• External Sector.....	13
• Tourist Arrivals.....	17
• Global Markets.....	18

MEASURES TO REDUCE LENDING RATES AND DRIVE CREDIT FLOWS TO SMALL AND MEDIUM ENTERPRISES (SMES) SECTOR

- Central Bank has requested licensed banks and NBFIs to reduce interest rates on deposits to accelerate monetary policy transmission through the financial sector, enabling licensed banks to reduce their interest rates on lending products in general, and to SMEs in particular, and thereby enhance credit flows to the real economy.
- Interest rates on Savings and other deposits with tenures less than 3 months offered by licensed banks and NBFIs will be linked to the Standing Deposit Facility Rate (SDFR) whilst longer tenures will be linked to the 364 day Treasury bill rate. Licensed banks and NBFIs may offer an additional interest rate up to 50 basis points for savings deposits of children under the age of 18 years, and for Fixed Deposits (FD) of senior citizens with tenure of 01 year or more. Debt instruments issued by NBFIs will also be subject to maximum interest rates. In spite of these measures, interest rates on deposits are expected to remain competitive, providing a substantial real return to depositors.
- Through the above measures, that would reduce excessive cost of funds borne by the financial sector, the Central Bank expects the lending rates to reduce by around 200 basis points to SMEs in the near term. The reduction in SRR by 250 basis points in two steps in November 2018 and March 2019 has already reduced cost of funds and is expected to result in a narrower margin between deposit and lending rates. The Central Bank will closely monitor the behavior of interest rates of licensed banks and NBFIs on both deposits and loans and take further measures as appropriate in future.

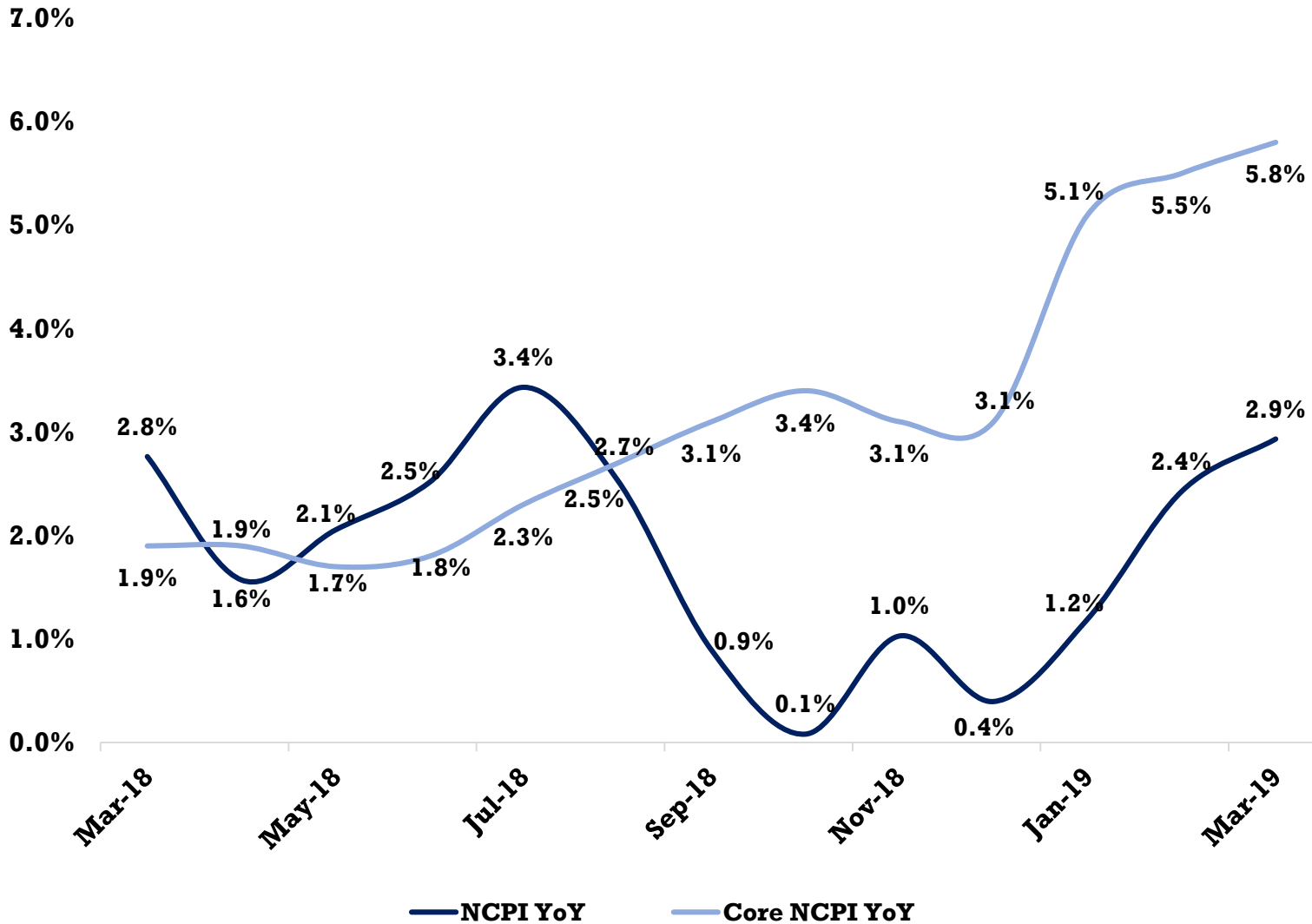
INFLATION - CCPI



**CCPI FOR APR 2019:
MOM +0.3%,
YOY +4.5%**

- *MoM inflation was recorded at +0.3%. This was due to expenditure value increase of Food items by 0.01% and increase of Non Food items by 0.30%. Price increase in Sea Fish led the value increase in the food category, while in the Non Food Category, the increase was mainly led by Transport (0.24%).*
- *The YoY inflation increased to 4.5% in April 2019 from 4.3% reported in March as a result of increase in value of Non Food Category.*

INFLATION - NCPI



NCPI FOR MAR 2019: INCREASED BY 2.9% YOY

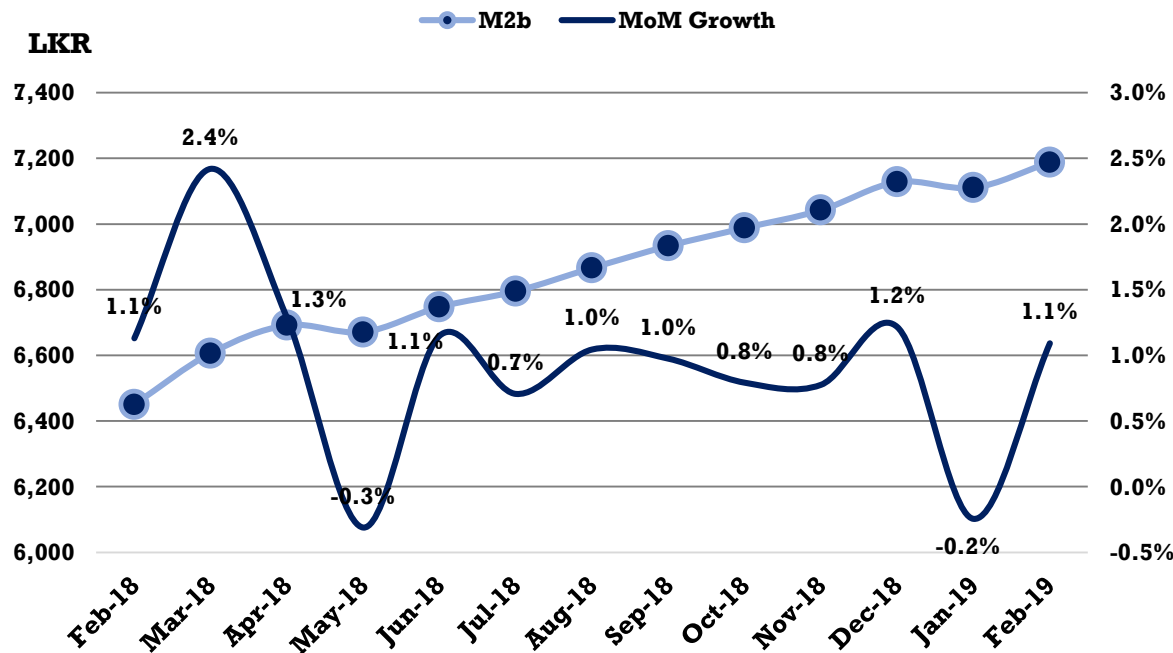
- *NCPI for Mar 2019 increased to 2.9% from 2.4% recorded in February 2019.*
- *YoY inflation of Food Category decreased by -0.5% compared to 2.9% in February 2019 while Non Food Category increased to 0.3% during the month.*

M2B AND CREDIT GROWTH

Private sector credit extended for the month of February 2019 rebounded back into positive territory to record at LKR 7.6Bn from LKR -4.3Bn in January. Government credit reflected a net borrowing for the seventh consecutive month amounting to LKR 50.0Bn.

M2b Growth – February 2019

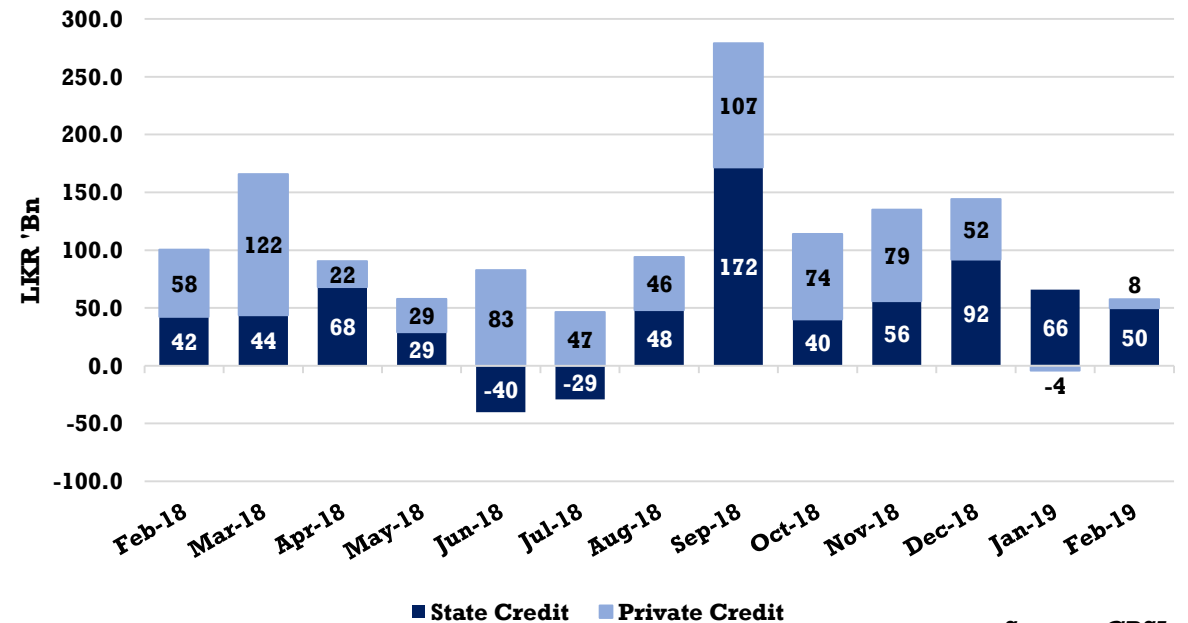
MoM +1.09%, YoY +11.44%, YTD +0.85%



Source: CBSL

State Credit & Private Credit – February 2019

Private credit MoM +277%, YoY -86.90%, YTD -85.49%

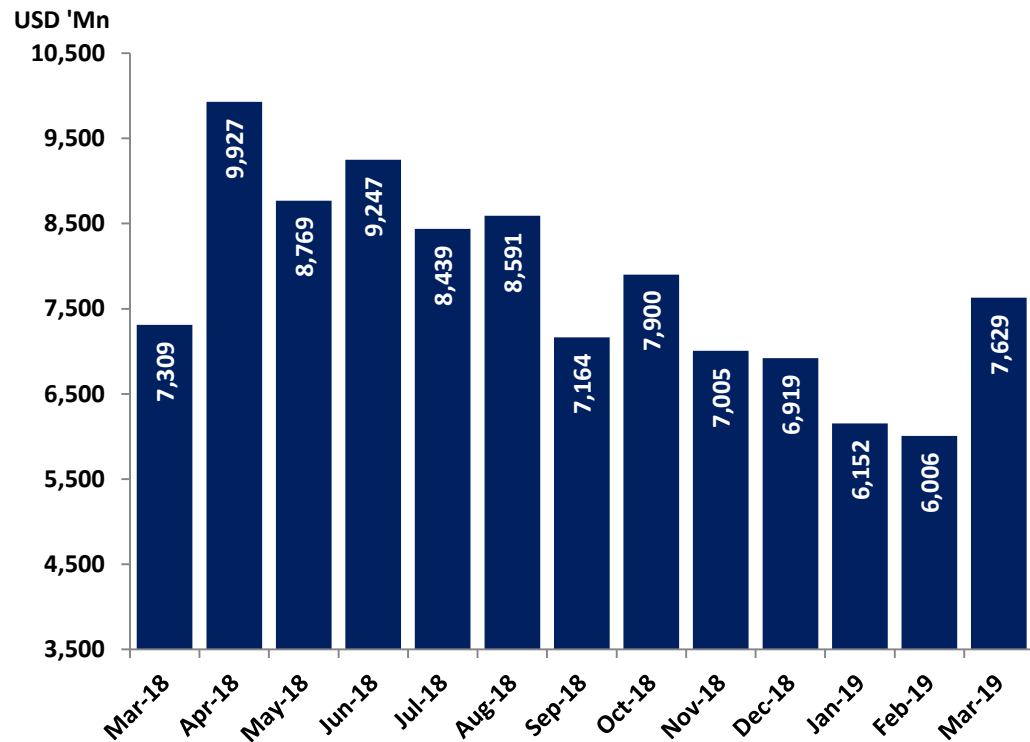


State Credit Private Credit

Source: CBSL

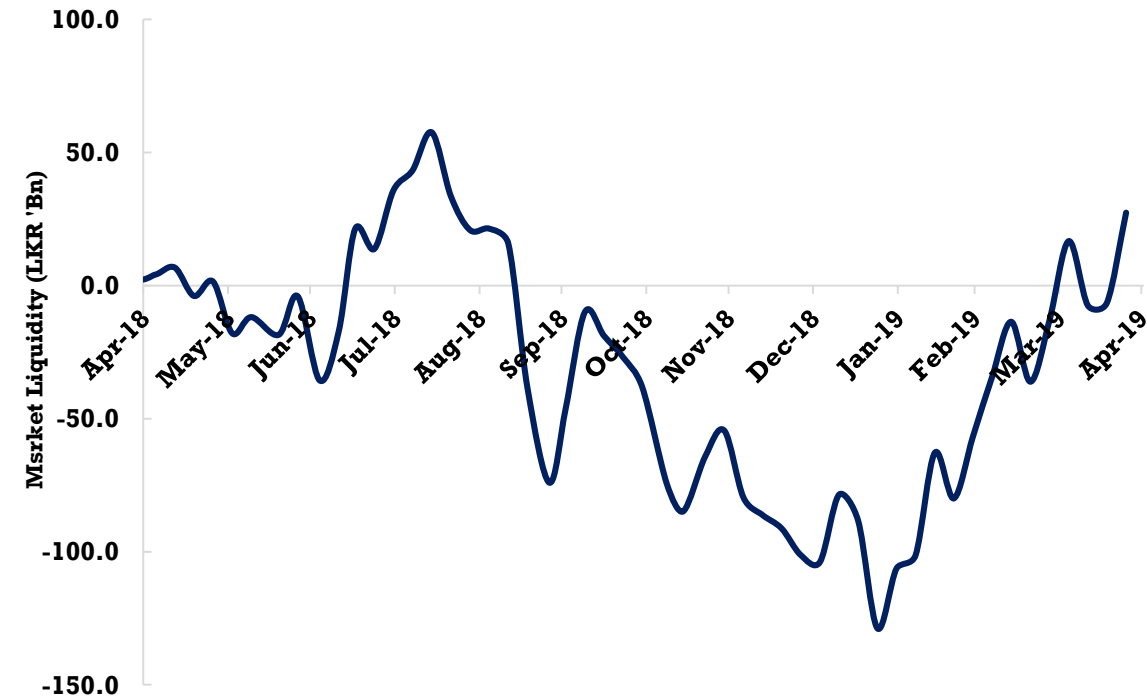
RESERVES & LIQUIDITY

- Foreign Reserves improved to USD 7.6Bn in Mar 2019 (from USD 6.0Bn in Feb 2019).



Source: CBSL

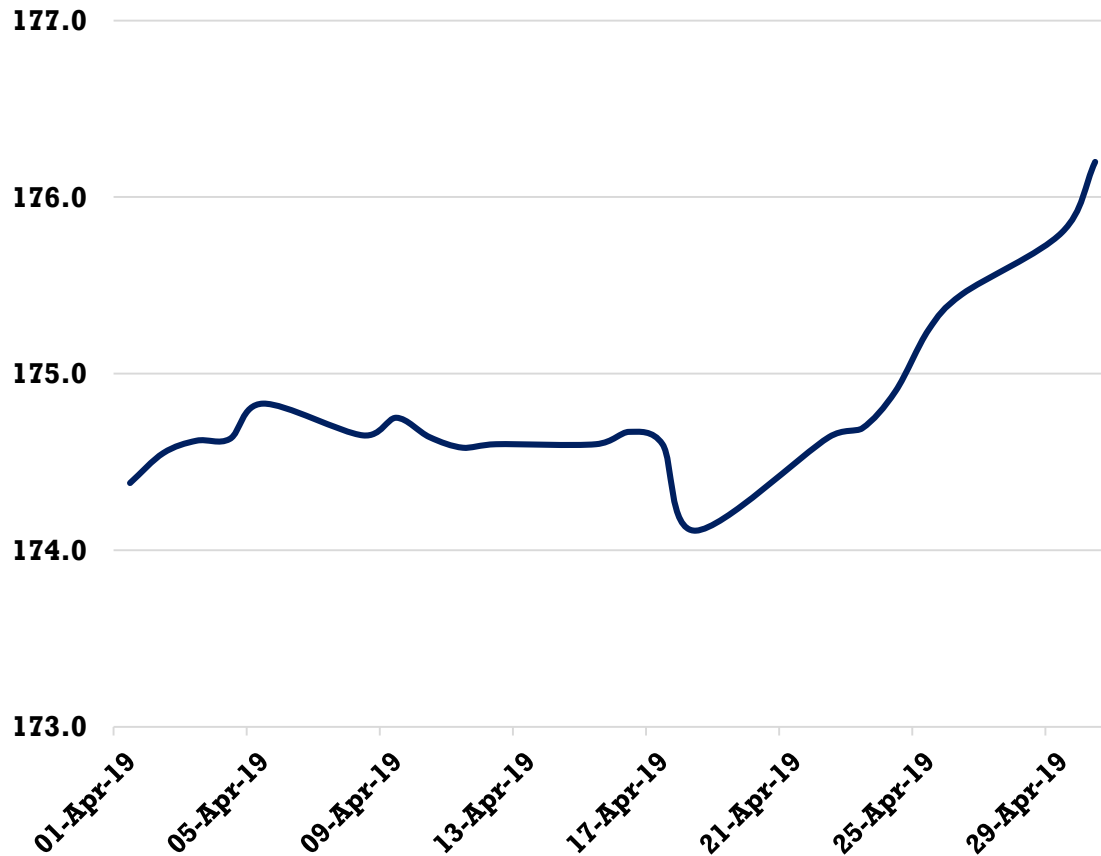
- Market liquidity gap was seen greatly narrowing during the month moving into positive territory yet again as a result of the SRR cut and release of long delayed payments by the government. Liquidity improved to LKR 27.33Bn as at end April compared to LKR -12.96 held as at end Mar 2019.



Source: CBSL

CURRENCY MOVEMENT

USD:LKR Movement

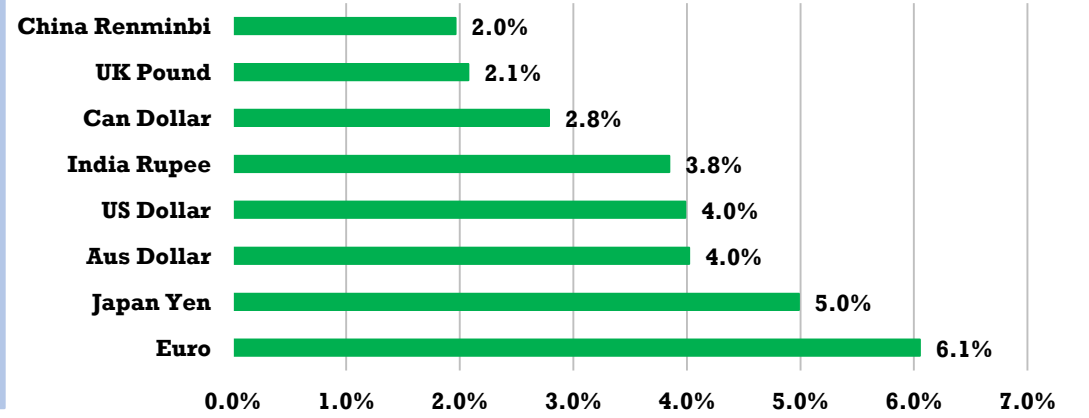
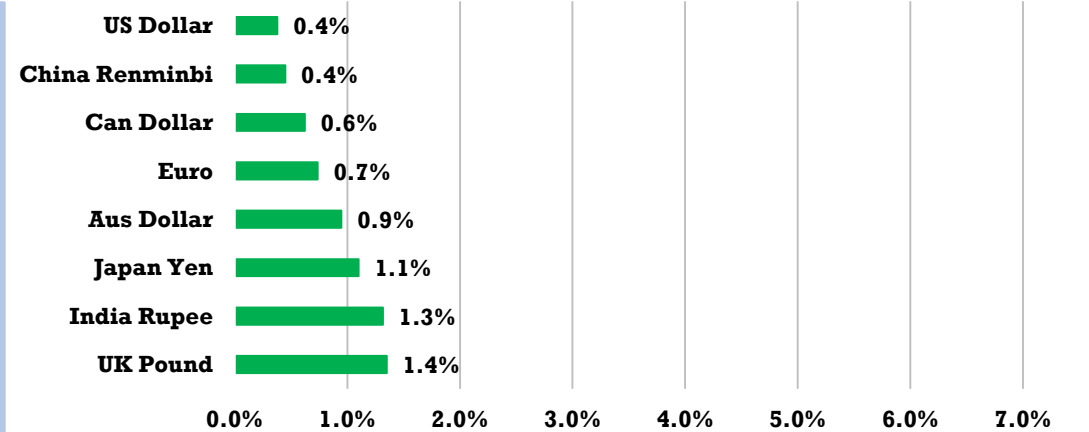


Source: CBSL

April 2019

YTD 2019

Sri Lankan Rupee vs Global Currencies



Source: CBSL

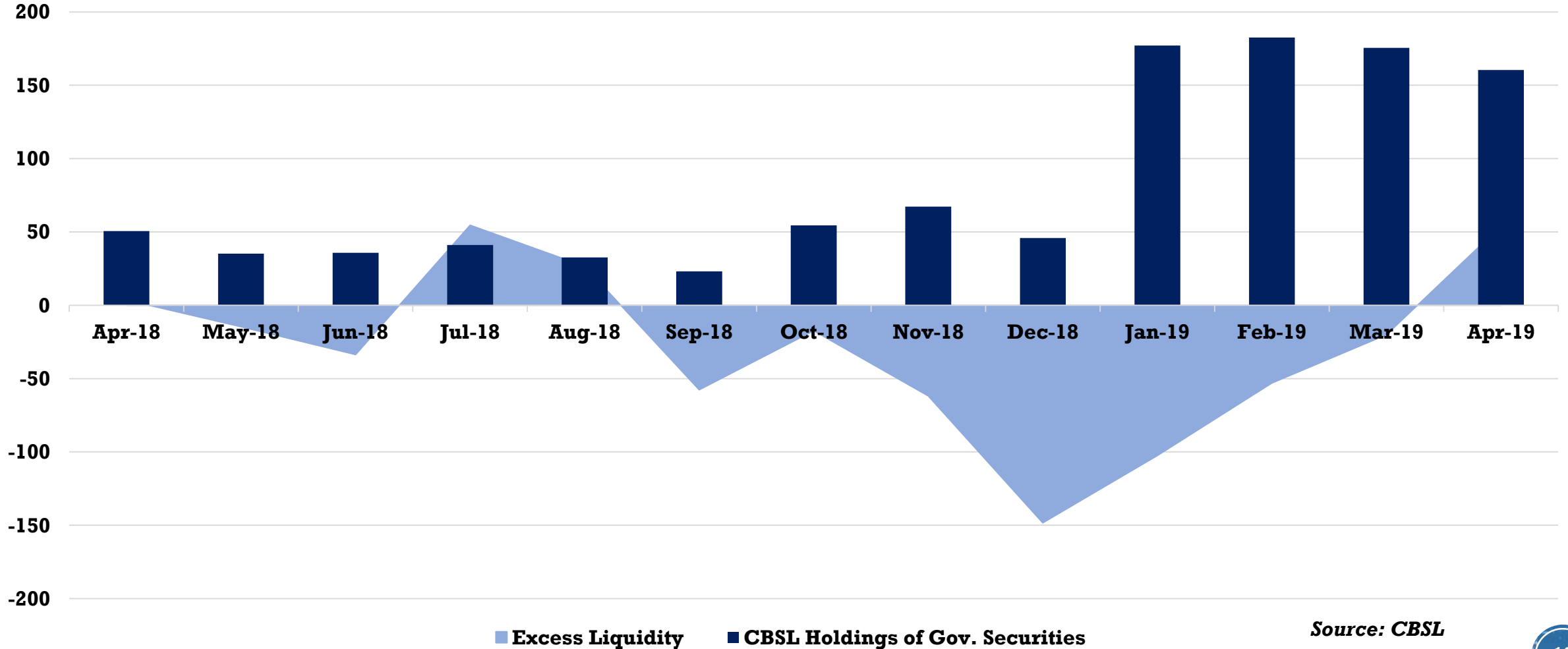
GOVERNMENT SECURITIES – NEW ISSUES

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
05-Apr-19	28,000	40,000	68,000
12-Apr-19	25,000		25,000
18-Apr-19	24,000		24,000
26-Apr-19	25,000		25,000
Total Issued			142,000

	April 2019	YTD
Maturities	102,300	453,738
New Issues	142,000	630,500
Excess/(Deficit)	39,700	176,762

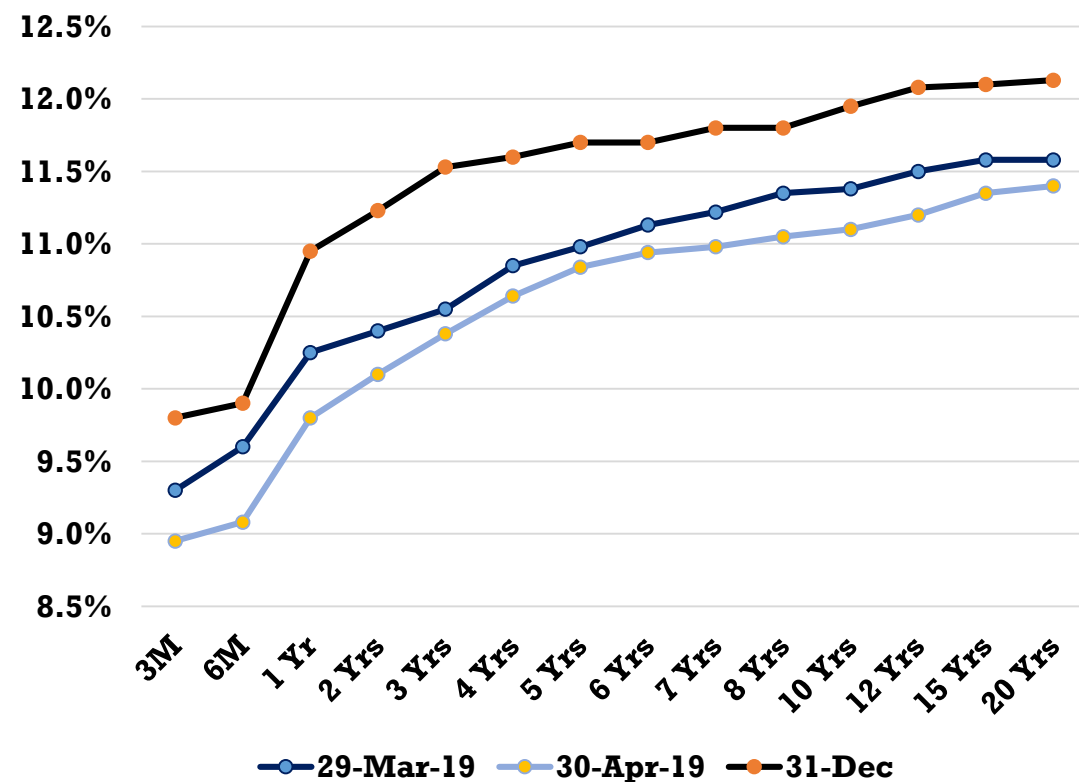
CBSL Holdings of Gov. Securities		YTD
As at End Apr.2019	160,370	
As at End Mar. 2019	175,560	
Increase/ (Decrease)	(17,190)	114,572

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



TREASURY BILLS AND BONDS— APR '19

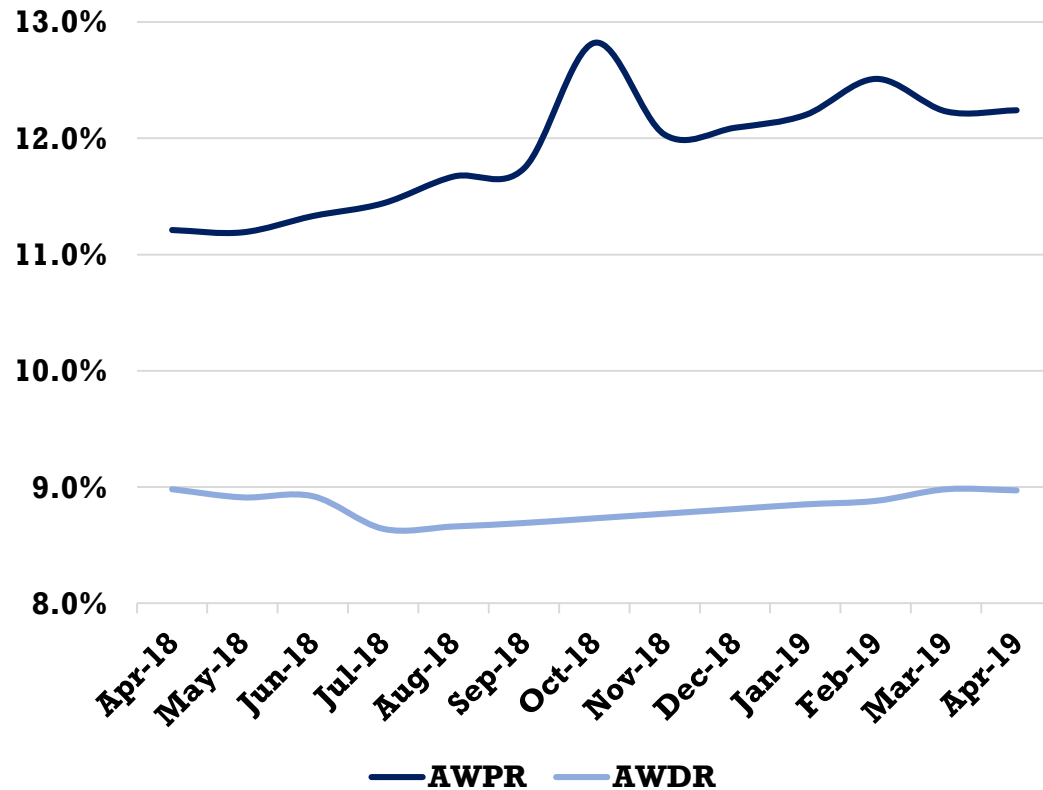
Downward momentum in yields continued on the back of heavy buying interest witnessed across the board. In the secondary market renewed buying interest was seen on short tenure maturities dipping by 17-52bps, further mid tenure maturities were seen dropping by 14-30bps. In addition, on the long end of the curve a notable dip in yields was seen within the range of 18-30bps. 1-yr T-Bill yield witnessed a notable decline to 9.80% compared to 10.25% in March, falling into single digit nearly after 7 months. Further, foreign selling in government securities was witnessed throughout the month which invariably resulted in a slight depreciation of 0.04%MoM to close at LKR 176.2.



Interest Rate Change (bps)					
Tenure	29-Mar-19	30-Apr-19	Change (bps)	31-Dec	Change (bps)
3M	9.30%	8.95%	-35	9.80%	-85
6M	9.60%	9.08%	-52	9.90%	-82
1 Yr	10.25%	9.80%	-45	10.95%	-115
2 Yrs	10.40%	10.10%	-30	11.23%	-113
3 Yrs	10.55%	10.38%	-17	11.53%	-115
4 Yrs	10.85%	10.64%	-21	11.60%	-96
5 Yrs	10.98%	10.84%	-14	11.70%	-86
6 Yrs	11.13%	10.94%	-19	11.70%	-76
7 Yrs	11.22%	10.98%	-24	11.80%	-82
8 Yrs	11.35%	11.05%	-30	11.80%	-75
10 Yrs	11.38%	11.10%	-28	11.95%	-85
12 Yrs	11.50%	11.20%	-30	12.08%	-88
15 Yrs	11.58%	11.35%	-23	12.10%	-75
20 Yrs	11.58%	11.40%	-18	12.13%	-73

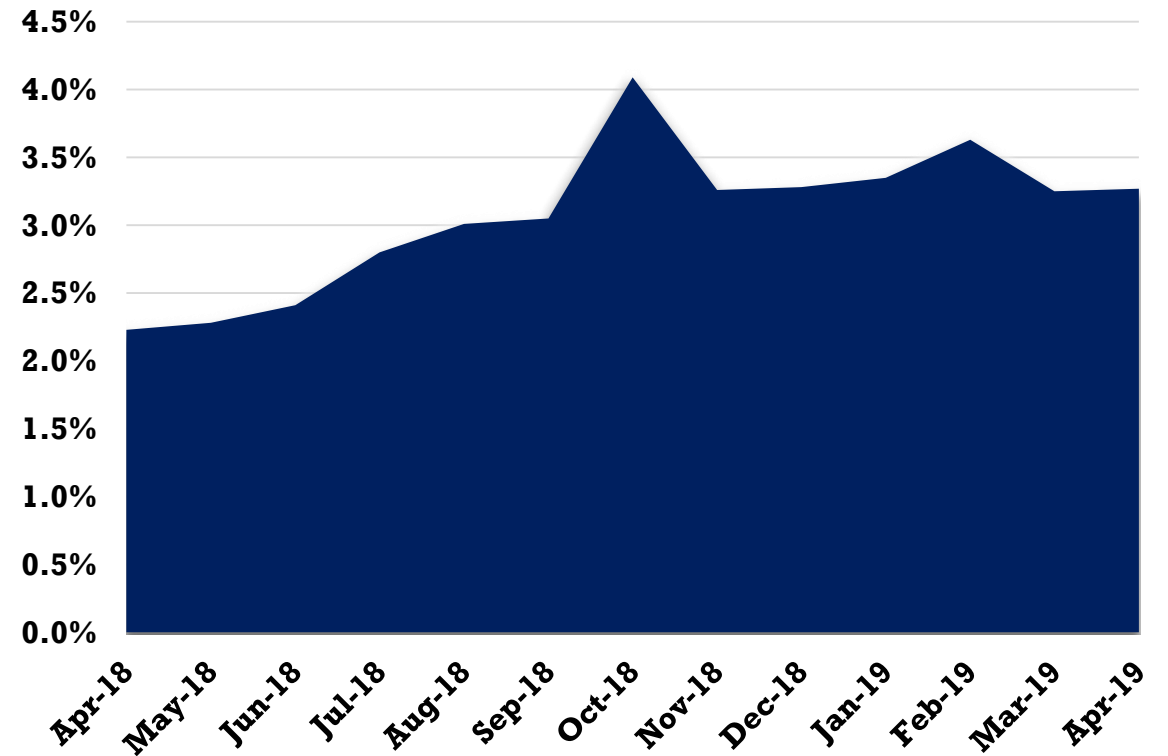
FINANCE SECTOR RATE MOVEMENTS

AWPR vs AWDR



Source: CBSL

Interest Spread

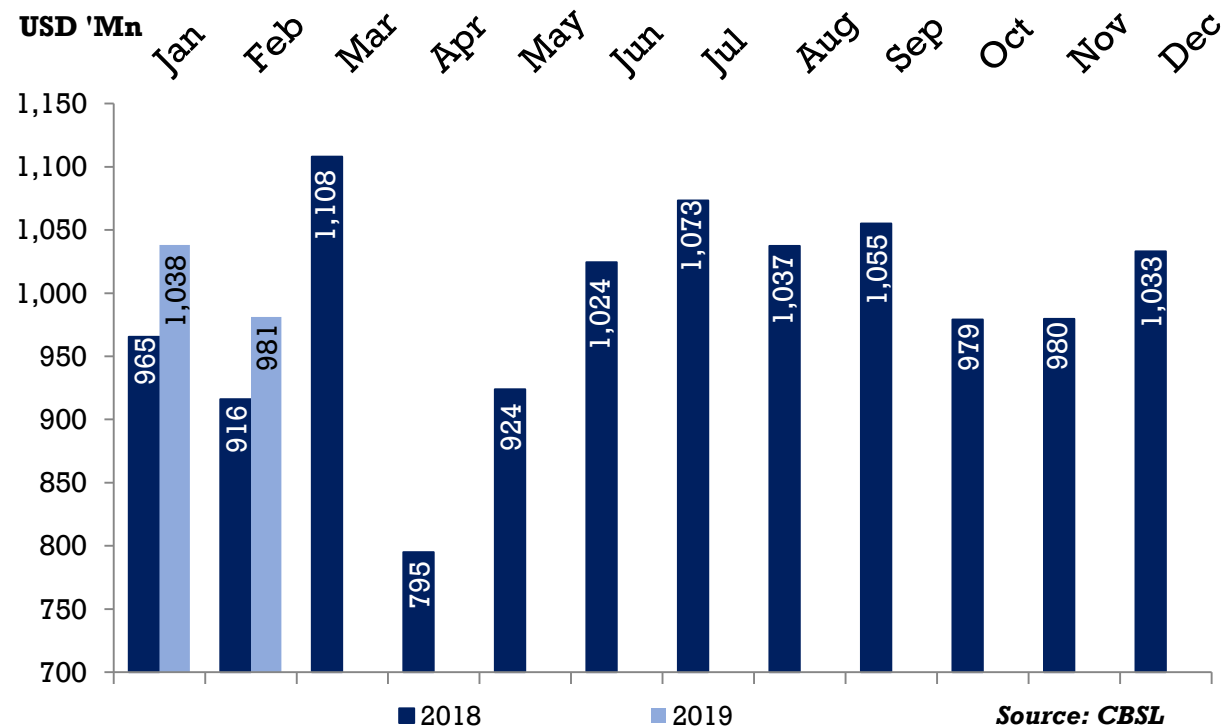


Source: CBSL

EXTERNAL SECTOR – FEB 19 – EXPORTS

Exports for the month of Feb was recorded at USD 981Mn, +7.2%YoY basis, mainly contributed by Industrial Exports (+9.4%YoY) which was largely driven by Textiles and garments (+14.4%YoY). Meanwhile, earnings from agricultural exports marginally improved due to improved earnings in spices and sea food.

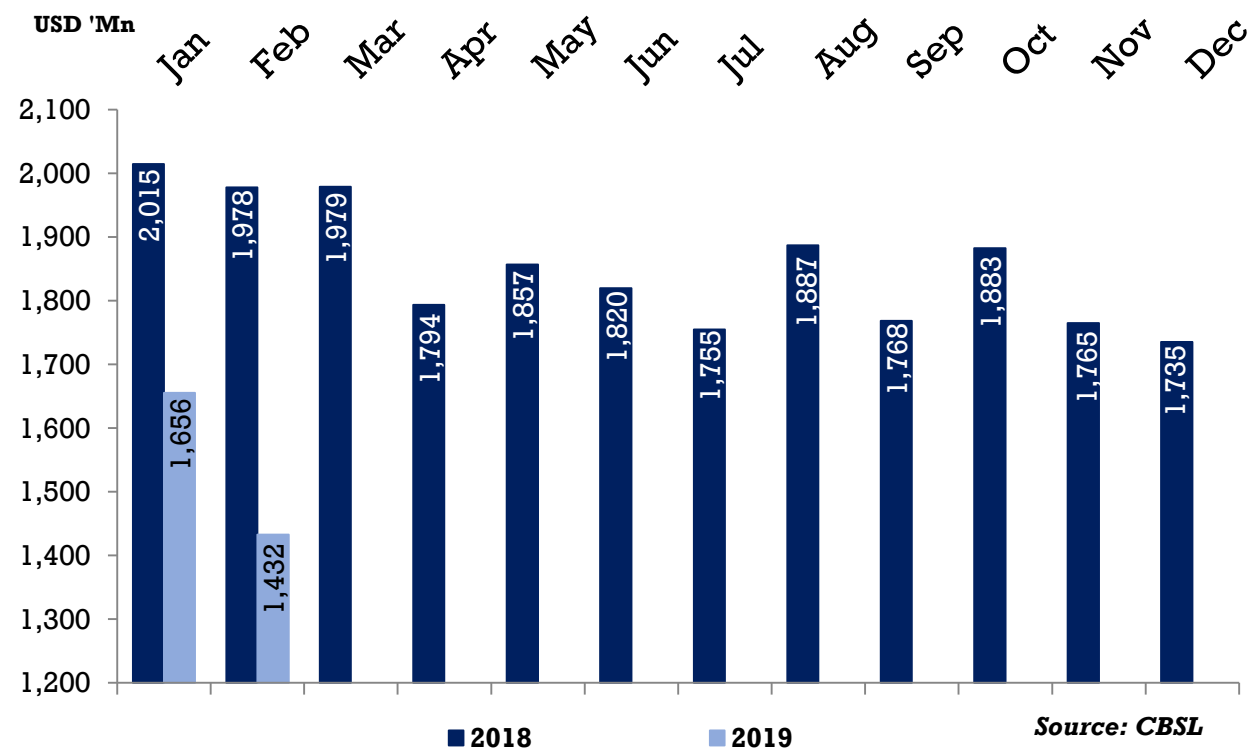
Category	2018 (USD 'Mn)	2019 (USD 'Mn)	Change (%)
Industrial Exports			
- Feb	703.2	769.5	9.4
- YTD	1,460.9	1,595.9	9.2
Agricultural			
- Feb	206.1	207.8	0.8
- YTD	410.2	415.4	1.3
Mineral and other			
- Feb	4.8	2.2	(54.9)
- YTD	6.2	4.6	(26.9)
Total			
- Feb	915.7	981.1	7.2
- YTD	1,881.0	2,019.3	7.3



EXTERNAL SECTOR – FEB 19 – IMPORTS

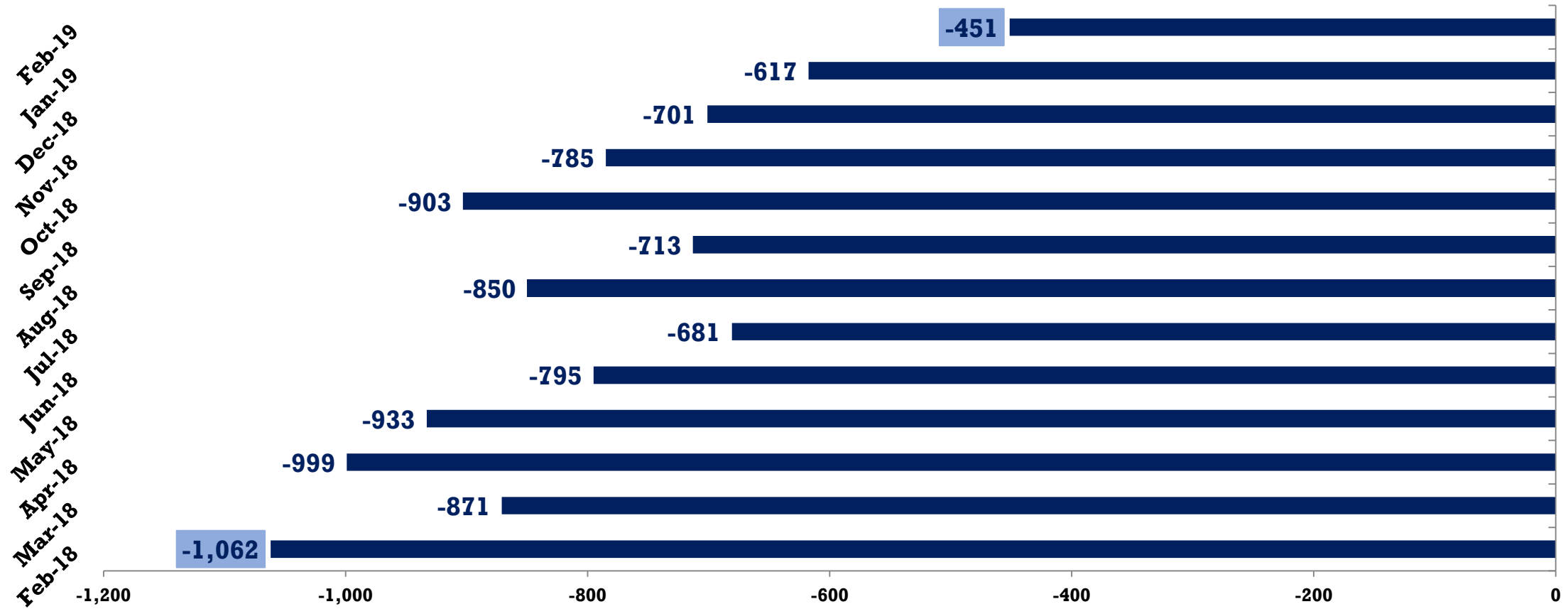
Import expenses decreased in Feb 2019 by 27.6%YoY. The decrease was mainly driven by consumer goods (-41.2%YoY) and expenditure on Food and Beverages (-48.1%YoY) amidst a notable decline in Rice. Imports of Intermediate and Investment goods declined by 24.2% and 10.4% respectively.

Category	2018 (USD 'Mn)	2019 (USD 'Mn)	Change (%)
Consumer goods			
- Feb	441.8	259.9	(41.2)
- YTD	883.3	560.4	(36.6)
Intermediate			
- Feb	1,096.3	831.0	(24.2)
- YTD	2,229.7	1,787.1	(19.8)
Investment goods			
- Feb	380.5	341.0	(10.4)
- YTD	817.4	739.5	(9.5)
Total			
- Feb	1,978.0	1,432.4	(27.6)
- YTD	3,992.5	3,087.9	(22.7)



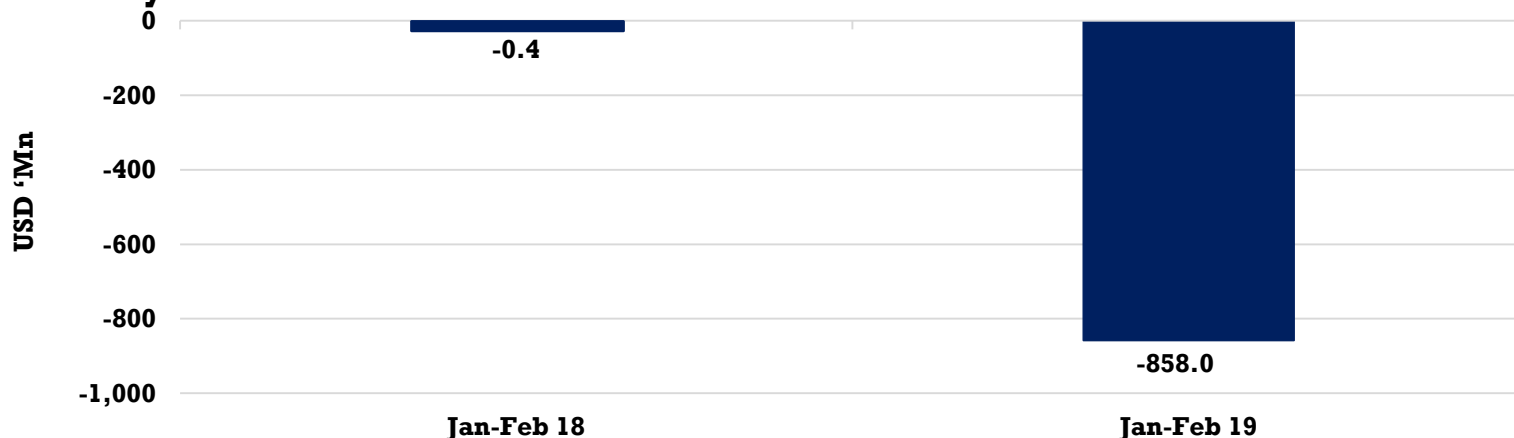
EXTERNAL SECTOR – FEB 19

Balance of Trade

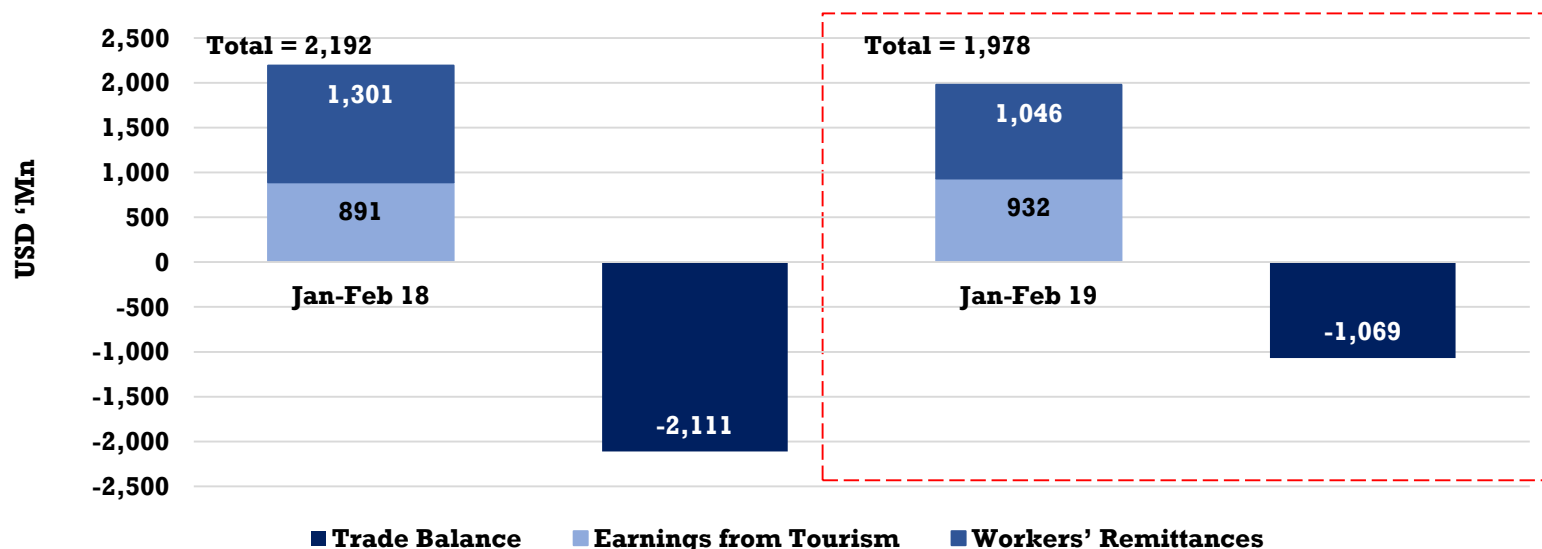


Source: Central Bank

BoP for Jan-Feb 19 was USD -858Mn compared to the previous YTD of Jan-Feb 18 amount of USD -0.4Mn, illustrating an outflow of USD 858Mn for the month of February.



Worker Remittances declined to USD 500.0Mn (-12.4%YoY). Earnings from tourism recorded an increase for the month of Feb reflecting an YoY increase of +7.0%.



BALANCE OF PAYMENT MARGINALLY DECLINES MOM

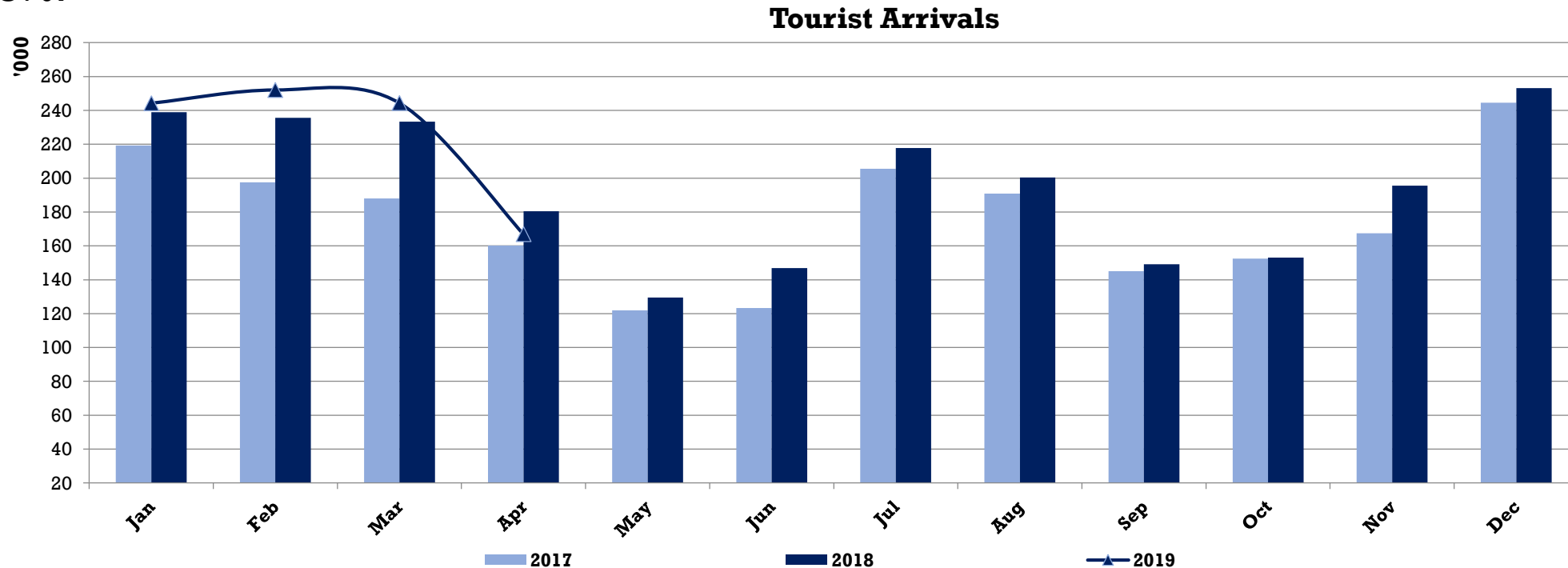
Feb USD 'Mn	2018	2019	Change (%)
Trade Balance	-1,062.0	-451.0	
Earnings from Tourism	442.0	473.0	+7.0
Workers' Remittances	572.0	500.0	-12.4

YTD USD 'Mn	2018	2019	Change (%)
Trade Balance	-2,111.0	-1,069.0	
Earnings from Tourism	891.0	932.0	+4.6%
Workers' Remittances	1,301.0	1,046.0	-19.6%

TOURIST ARRIVALS – APRIL 2019

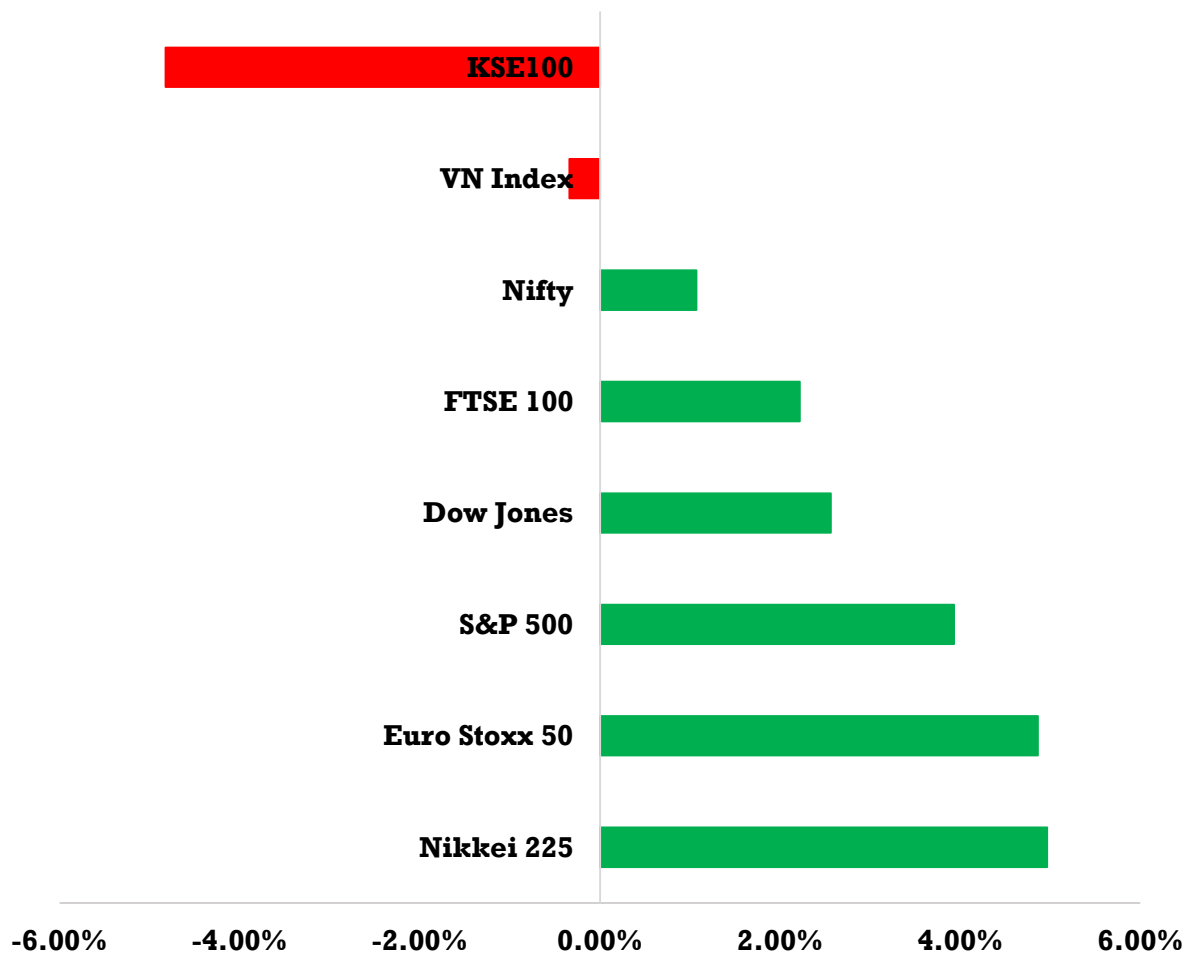
(166,975 – **DOWN BY 7.5%** YOY, YTD 907,575 -**UP 2.2%**)

Tourist arrivals to SL dropped by 7.5% in April 2019 due to Easter Sunday terror attacks. Arrivals were mainly dominated by United Kingdom followed by India and Germany. YoY tourist arrivals from Switzerland increased by 59.3% while arrivals from United States and Australia declined by 44.6% and 31.8%.



Source: SLTDA

GLOBAL MARKET



Source: Bloomberg

U.S. Says It Will Raise Tariffs After China Reneges on Vows: President Donald Trump's top trade negotiator said the U.S. planned to raise tariffs on Chinese goods on Friday, accusing Beijing of backpedaling on commitments it made during negotiations. Still, the trade talks will continue and a Chinese delegation will visit Washington on Thursday and Friday, U.S. Trade Representative Robert Lighthizer told reporters Monday in Washington. China was "well prepared for other potential outcomes" of its trade talks with the U.S., "including a temporary breakdown in talks," the Global Times newspaper said in an editorial Tuesday. The door wasn't closed to talks even if the U.S. raises tariffs, the newspaper said.

www.bloomberg.com

A US detente with China and Russia would boost the world economy: Easing tensions with China and Russia would open more space for American businesses to expand their global trade and investments. Washington has to stop the senseless arms race with new arms agreements. America's priority is to rapidly close its huge trade deficits with China. In addition to harming the U.S. economy, those deficits are conduits for transfers of American wealth and technology that support China's economic development and its global network of influence and zones of interests.

www.cnbc.com

Asian shares off five-week low, remain fragile on renewed U.S.-China trade worries: Asian shares staggered up from five-week lows on Tuesday but remained fragile after U.S. President Donald Trump's latest threat to raise tariffs on Chinese goods shocked financial markets and fueled worries that trade talks may be derailed.

www.bloomberg.com

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 correctness, 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 its principal, their respective Directors, or Employees 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.

CONTACT



First Capital

First Capital Research +94 11 2639 898

- Dimantha Mathew +94 11 2639 853
- Atchuthan Srirangan +94 11 2639 863
- Amanda Lokugamage +94 11 2639 868

- Hiruni Perera +94 11 2639 864
- Nisansala Kuruppumudali +94 11 2639 866