



# MONTHLY ECONOMIC UPDATE

May

Economy at a glance for May 2021

## Recovery stalled by the Pandemic.

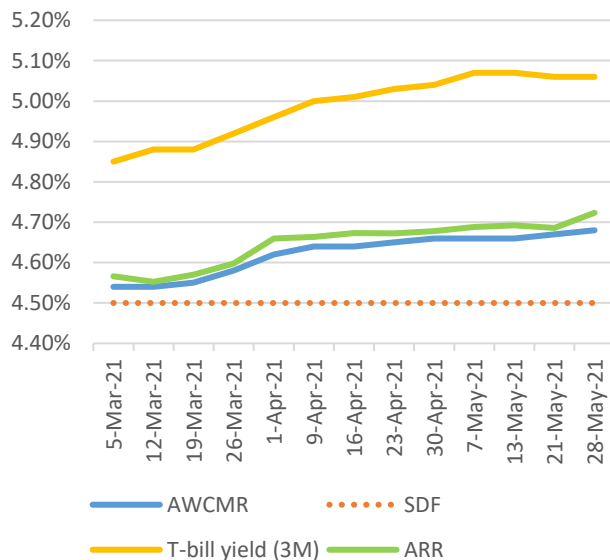
### Highlights

- The T-bill yields in both primary and secondary markets remained stable with relatively high activity levels.
- Proceeds from the April SLDB auction was used to settle the maturing USD 694 Mn tranche in May. This brought the overall reserves back almost on par with March levels (~USD 4 Bn).
- Rupee was hovering around 200 LKR/USD and broadly stable during the month.
- Headline inflation rose to 4.5%, the highest since April last year.
- The CSE remained somewhat upbeat throughout the month as share market closed with a 2.7% and 3.82% gain in the ASPI and S&P20 respectively.
- Global Brent crude oil prices continued to increase throughout the month as it ended at a two-year high of over USD 69 a barrel.
- Global tea prices crashed despite relatively healthy supply levels unhampered by the lockdowns in South Asian source markets.
- Rubber prices reached a one-year peak due to supply constraints stemming from surging COVID cases and the resulting lockdown procedures in South Asian countries.
- Gold was buoyant leading to around 7% gains reaching USD 1900 per troy ounce.
- Base metal prices surged as lockdown restrictions in China have eased causing companies to stack up raw materials.
- PMI for Manufacturing and Services further deteriorated on account of resurgence of COVID-19 cases across the island recording the lowest index values since October last year.

## Interest Rates

### Short-term rates

Figure 1: Treasury bill yield and money market rates



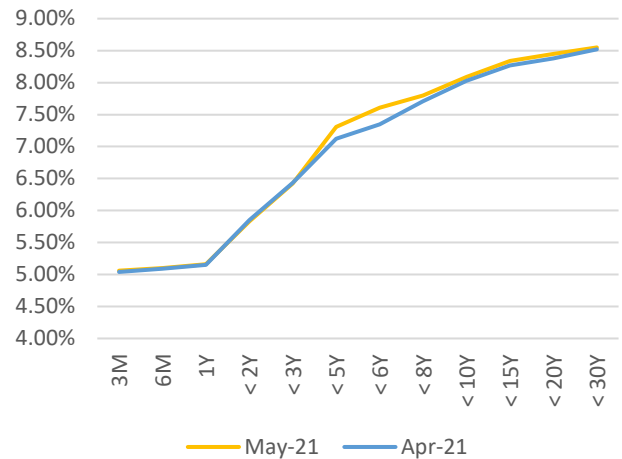
Notes: AWCMR- Average Weighted Call Money Rate, SDFR- Standing Deposit Facility Rate, SLFR- Standing Lending Facility Rate, T-bill yields are for the secondary market, ARR – simple average of daily repo rates  
Source: CBSL

Excess money market liquidity gradually declined from ~LKR 150 to 115 a day. During this time, the CBSL reduced its treasury holdings by about LKR 27 Bn mopping up liquidity. Call and repo rates edged up by about 2-3 bps. Tendency for banks to use Standing Lending Facility (SLF) was persistent during May as well.

The T-bill yields in both primary and secondary markets remained stable during May. The market activity levels were relatively high. The CBSL maintained the yield cap on one-year notes at 5.18% which also had a significantly low bid acceptance ratio (~3%).

### Long-term rates

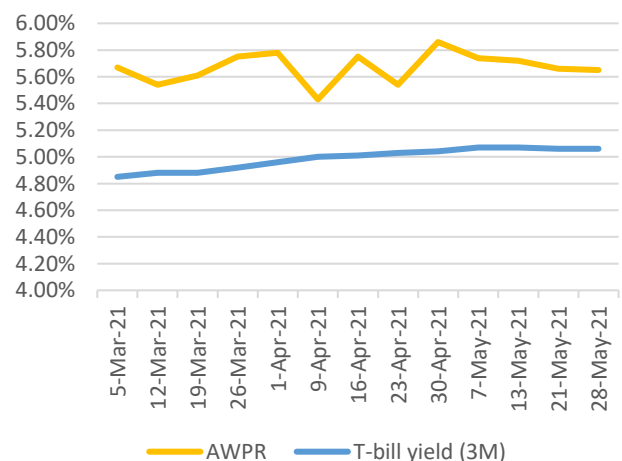
Figure 2: Yield curve of treasuries



Notes: Yields are based on the weekly average prevailed at the last week of the month, Shorter end – less than 2Y, mid/intermediate tenor – 2 to 10Y, longer tenor – above 10Y, Source: CBSL

There was only a smaller bond auction held during the month which offered about LKR 20 Bn – a significantly lower quantity than the usual. Secondary market volumes rose from month ago levels while shifting the yield curve up marginally.

Figure 3: AWPR<sup>1</sup> and 3M T-bill yield



Note: T-bill yield for secondary market, Source: CBSL

<sup>1</sup> AWPR is calculated based on the submissions made by the commercial banks to the CBSL on the rates offered to customers who borrowed more than LKR 10 Mn for less than three months.  
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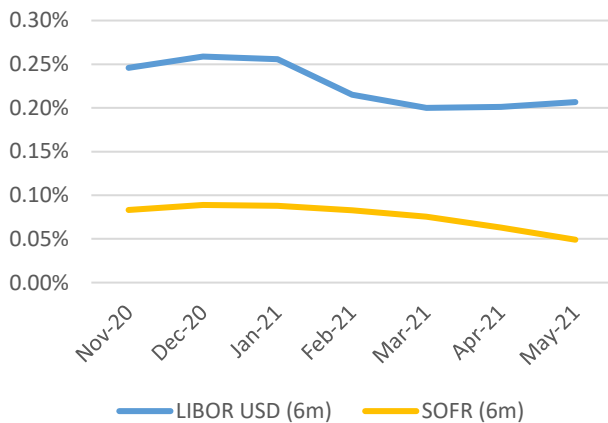
AWPR went through a correction phase after seeing a sharp rise in the last week of April.

Private credit grew moderately by over LKR 57 Bn in April. During festive season, reserve money tends to expand faster but private credit may not necessarily expand commensurately. With the advent of the third wave, it is likely that the momentum of the credit expansion in May might have been affected.

Read ICRA Lanka's report on [the impact of low interest rates on the markets.](#)

### International rates

Figure 4: Month open international lending rates



Notes: The SOFR Averages are compounded averages of the SOFR over rolling 180-calendar day periods.  
Source: New York Federal Reserve and global-rates.com

US treasury yields rose amid US inflation hitting 13-year high. Rising yields triggered investors to sell their equity positions and move back to treasuries. In the Eurodollar market, USD LIBOR (6M) edged up but SOFR (6M) dropped further.

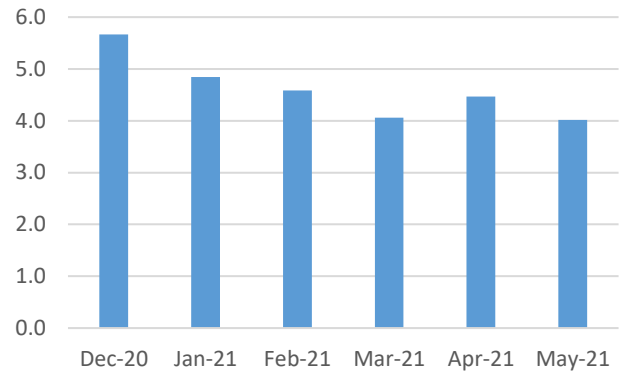
Yields on SLISBs improved during the month. USD 1 Bn ISBs will be maturing end of next month.

### External Sector

Merchandise exports were USD 799 Mn in April [1]. Generally, April is a weaker month for exports and during a typical month it comes close to USD 790 Mn. Remittances grew 7%(Y/Y) to USD 460 Mn in May. The CBSL's net purchasing of forex amounted to just USD 3.5 Mn during the same period. In the

meanwhile, Capital flight from treasuries (USD 8 Mn) and equities (USD 19 Mn) continued.

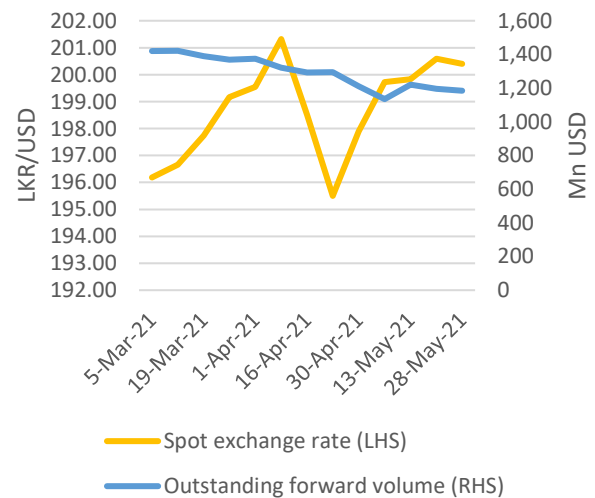
Figure 5: Gross official reserves (Mn USD)



Source: CBSL

Proceeds from the April SLDB auction was used to settle the maturing USD 694 Mn tranche in May. This brought the overall reserves back almost on par with March levels.

Figure 6: Exchange rate and outstanding forward volume

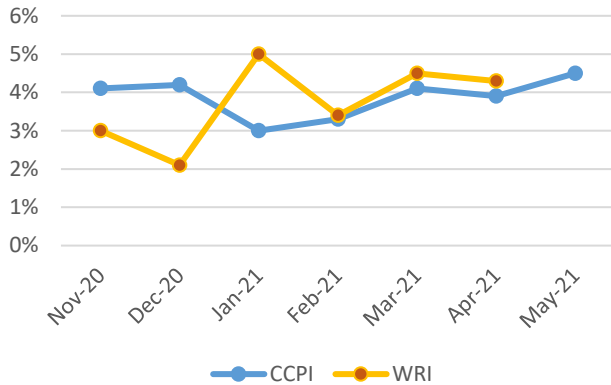


Source: CBSL

Rupee was hovering around 200 LKR/USD and broadly stable during the month. In the interbank forex market spot volumes were modest while forward volumes marginally declined. Forward premiums remained inverted during the month.

## Prices & Wages

Figure 7: CCPI and Nominal Wage Rate Index of the informal private sector (Y/Y)



Notes: WRI (100=2012), CCPI (100=2013), Sources: CBSL, CSD

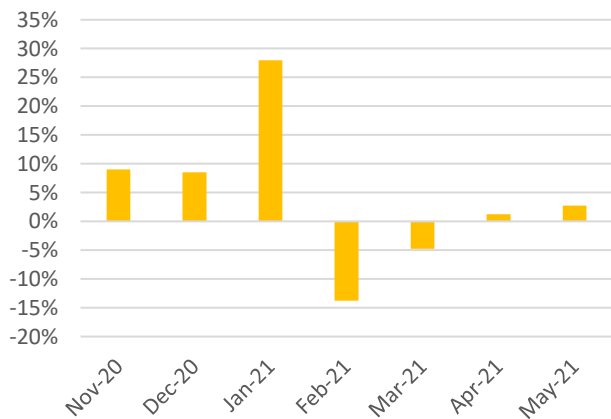
Wage growth moderated in April with Industries winding down their operations ahead of new year holidays. In the meanwhile, agriculture wages continued to recover.

Headline inflation in May rose to 4.5%, the highest since April last year. This is due to notable increase in both food (9.9%, Y/Y) and non-food inflation (2.2%, Y/Y) of which non-food inflation records the highest since March last year.

## Equities

### Domestic Market

Figure 8: ASPI (M/M)



Source: CSE

The CSE remained somewhat upbeat throughout the month as share market closed with a 2.7% and 3.82% gain in the ASPI and S&P20 respectively. Foreign investors continued to be net sellers, and overall net foreign outflow increased marginally to LKR 3.8 Bn (~USD 19 Mn). Most of GICS sectors were able to make gains and the best performing sectors were Healthcare and Diversified Financials. Overall PBV (Price-to-Book-Value) increased from 1.12 to 1.14 favoring sellers.

Figure 9: GICS sector performance- May

Sector	Index Points Gained
Health Care Equipment & Services	159
Diversified Financials	77
Energy	59
Utilities	59
Food & Staples Retailing	44
Banks	33
Retailing	29
Telecommunication Services	26
Capital Goods	24
Consumer Durable	21
Automobiles & Components	13
Commercial & Professional Services	10
Food Beverage & Tobacco	6
Insurance	4
Real Estate	1
Consumer Services	-0.4
Household & Personal Products	-5
Materials	-18
Transportation	-154

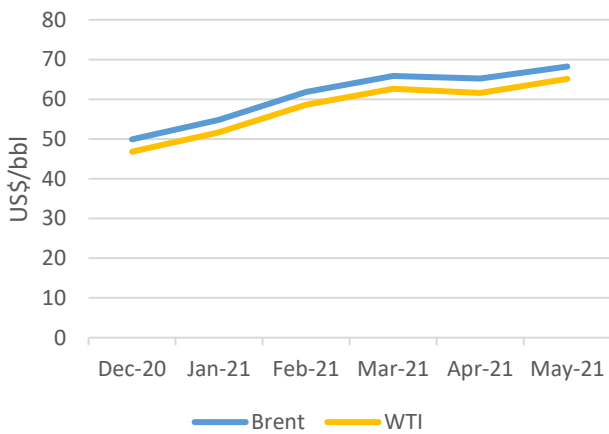
Source: CSE

### Global Markets

In the US markets, stocks traded in a narrow range with technology and other high-valuation companies coming under selling pressure as a result of mixed economic data. Expectation of lasting inflation dampened the investor optimism as Fed rate hike could steer them away from equities to treasuries. European markets led the gains with France, Germany and the UK being top three performers. However, Asian markets continued to be affected by surging COVID cases.

## Commodities

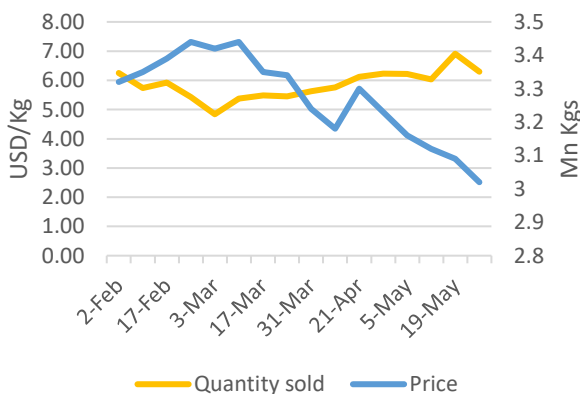
Figure 10: Crude oil price



Source: Bloomberg quoted in CBSL

Global Brent crude oil prices continued to increase throughout the month of May as it ended at a two-year high of over USD 69 a barrel. The rise in prices continued to be driven by robust demand stemming from US and European markets as a result of the success of vaccine programmes. The daily global demand is expected to reach 100 million barrels in the third quarter, and OPEC+ countries are expected to raise production to meet the demand.

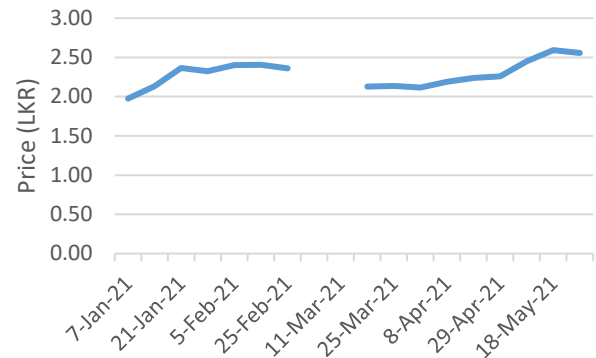
Figure 11: Tea (All Elevations) price and quantity sold at weekly auctions



Source: Forbes & Walker

Global tea prices crashed in May despite relatively healthy supply levels unhampered by the lockdowns in South Asian source markets. Prices in USD dipped over 6% in the Colombo auctions over the course of the month.

Figure 12: Rubber price weekly auctions

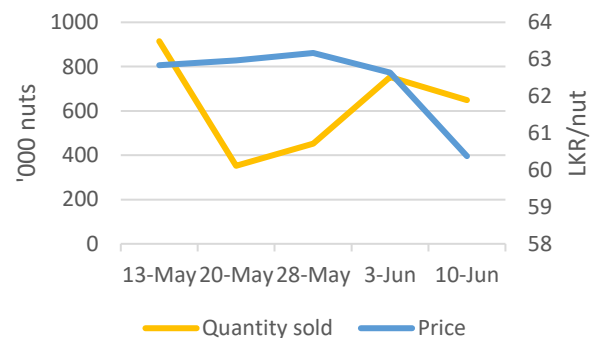


Note: Price of Latex 4X

Source: RRISL

Rubber prices reached a one-year peak in the month of May due to supply constraints stemming from surging COVID cases and the resulting lockdown procedures in South Asian countries. Furthermore, increasing demand coming from improved industrial activity in other regions have also contributed to the price hikes.

Figure 13: Coconut price weekly auctions

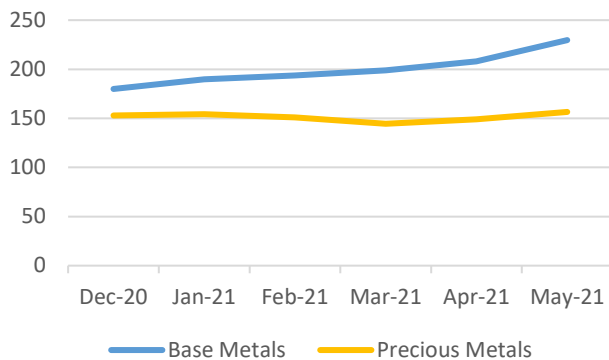


Source: CDA

Weekly coconut auctions, which has been suspended since September last year, resumed in May. Prices dropped by about 3 rupees per nut likely as a result of drop in nut quality due to adverse weather condition that prevailed during the month.



Figure 14: Metal price index (2016=100)



Notes: Base metals index includes Aluminum, Cobalt, Copper, Iron Ore, Molybdenum, Nickel, Tin, Uranium, and Zinc, precious metals index includes Gold, Silver, Palladium, and Platinum  
Source: IMF

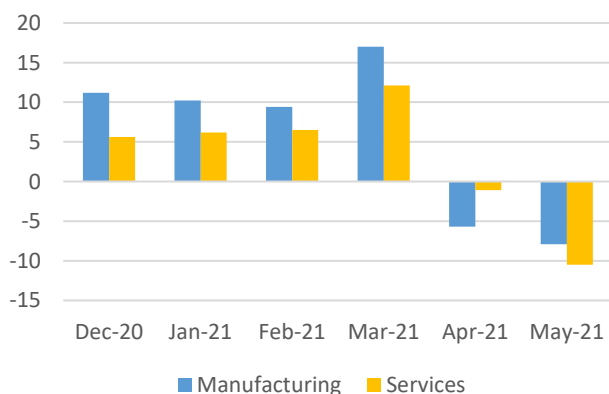
Gold was buoyant in May leading to around 7% gains reaching USD 1900 per troy ounce. Weaker dollar and sustained inflation fears are currently fueling demand for gold.

Global base metal prices peaked and remained stable during the month. The prices surged strongly this year as lockdown restrictions in China have eased causing companies to stack up raw materials. To curb speculative buying, Chinese regulators urged domestic commodity companies to maintain “normal market orders” [2].

Read ICRA Lanka’s report on the [implications of rising commodity prices for Sri Lanka](#).

## Real Sector

Figure 15: PMI deviation from point of neutrality (Index points)



Notes- negative values indicate sector is generally contracting on a month-on-month basis while positive values indicate the sector is expanding. The strength of contraction or expansion is manifested by the magnitude of the figure. Source: CBSL

PMI for Manufacturing and Services further deteriorated in May on account of resurgence of COVID-19 cases across the island recording the lowest index values since October last year. Fast escalation of the third wave have disrupted production activities of the industrial sector and business activities of the services sector.

## Outlook for June

With the current pandemic situation showing no sign of dissipation, ICRA Lanka do not expect businesses to operate with their potential or near potential capacity. The impact will be felt more in the services sector than in industrial sector.

Fuel price hike and its spillover effect will force inflation rate up. This will keep pressure on the treasury yields in the near term.

As a consequence of subdued economic activity level, the credit growth may not be able to maintain momentum in June.

High oil and base metal prices combined with falling tea prices will further compound the external sector challenges. We expect the USD 1 Bn ISBs maturing in July to be serviced out of the reserves which will put pressure on the reserve position of the country.

## Rating Actions

Following rating actions were taken by ICRA Lanka during the month of **May**.  
 Visit <https://www.icralanka.com/ratings/> to read the rating rationales.

Issuer	Issue	Action	Previous Rating	Current Rating
Asia Asset Finance PLC	Issuer Rating	Reaffirmed	[SL]BBB + (Negative)	[SL]BBB + (Stable)
Asia Asset Finance PLC	Asset backed secure debenture program	Reaffirmed	[SL]A- (Negative)	[SL]A- (Stable)
Commercial Credit and Finance PLC	Issuer Rating	Reaffirmed	[SL]BBB (Negative)	[SL]BBB (Stable)
Commercial Credit and Finance PLC	Guaranteed Redeemable Debenture Programme	Assigned	N/A	[SL]AA(CE) (Stable)
Commercial Credit and Finance PLC	Commercial Paper Programme	Reaffirmed	N/A	[SL]A3
Senfin Asset Management (Pvt) Ltd	Issuer Rating	Assigned	N/A	[SL]BBB + (Stable)
LOLC Ceylon Holdings Limited	Guaranteed Redeemable Debentures Programme	Assigned	N/A	[SL]A (Stable)
CAL Investment Grade Fund	Mutual Fund Rating	Revised	[SL]Amfs	[SL]A+mfs
Sanasa Development Bank PLC	Issuer Rating	Reaffirmed	[SL]BBB (Stable)	[SL]BBB (Stable)
Sanasa Development Bank PLC	Guaranteed Redeemable Debenture Programme-Type B	Withdrawn	[SL]A+(SO) Stable	N/A
Sanasa Development Bank PLC	Guaranteed Redeemable Debenture Programme-Type D	Withdrawn	[SL]A-(SO) (Stable)	N/A

## Abbreviations

ASPI	All Share Price Index
bps	Basis points
pps	Percentage points
CBSL	Central Bank of Sri Lanka
CDA	Coconut Development Authority
CSD	Census and Statistics Department
CSE	Colombo Stock Exchange
GICS	Global Industry Classification Standard
GoSL	Government of Sri Lanka
SLDB	Sri Lanka Development Bonds
SLISB	Sri Lanka International Sovereign Bonds
SOFR	Secured Overnight Financing Rate
PMI	Purchasing Managers Index
RRISL	Rubber Research Institute of Sri Lanka
YTD	Year-to-date

## Works Cited

- [1] Economy Next, "Sri Lanka exports maintain momentum in April 2021," 21 May 2021. [Online]. Available: <https://economynext.com/sri-lanka-exports-maintain-momentum-in-april-2021-82213/>.
- [2] BBC, "Global metal prices fall as China further warns against price hikes," 24 May 2021. [Online]. Available: <https://www.bbc.com/news/business-57225062>.

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