



# MONTHLY ECONOMIC UPDATE

## November

Economy at a glance for November 2021

## BOP crisis deepens

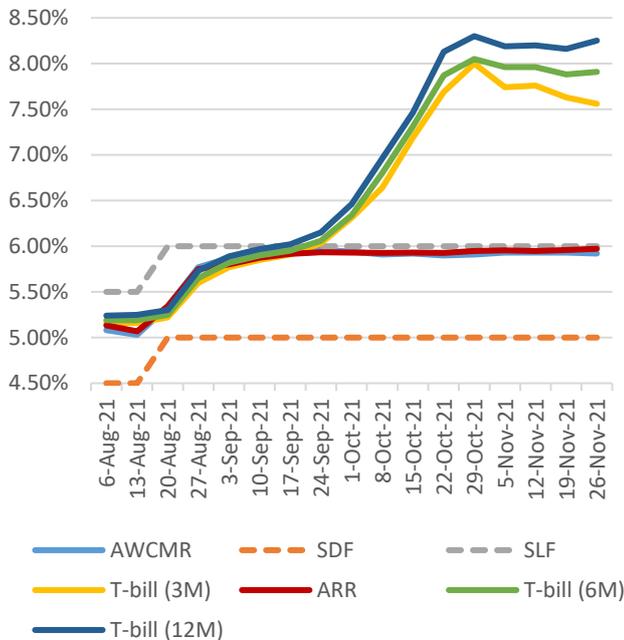
### Highlights

- The CBSL held the policy rates at current levels during the last monetary policy review meeting.
- The T-bill yields in both the primary and secondary markets went through a correction during the month after rising sharply during October
- Overnight liquidity deficit deepened during the month and plummeted to a new low of around LKR 230 Bn/day.
- Tourist arrivals doubled in November compared to the previous month generating around USD 60 Mn in receipts.
- The total official reserves further slid to USD 1.58 Bn after settlements of around USD 400 Mn in foreign obligations.
- The interbank spot and forwards volumes improved despite no major movements in the exchange rate.
- Headline inflation further increased to 9.9%(Y/Y), highest since July 2012.
- The stock market saw the highest gains since January this year with ASPI and S&P recording 12.57% and 4.52% gains respectively.
- The PMI index for both services and manufacturing sectors grew continuing economic recovery.

## 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

The CBSL held the policy rates at current levels during the last monetary policy review meeting in November. The call and repo rates moved marginally closer to the upper bound of the policy corridor. The interbank call market and repo market volumes marginally decreased towards the end of the month.

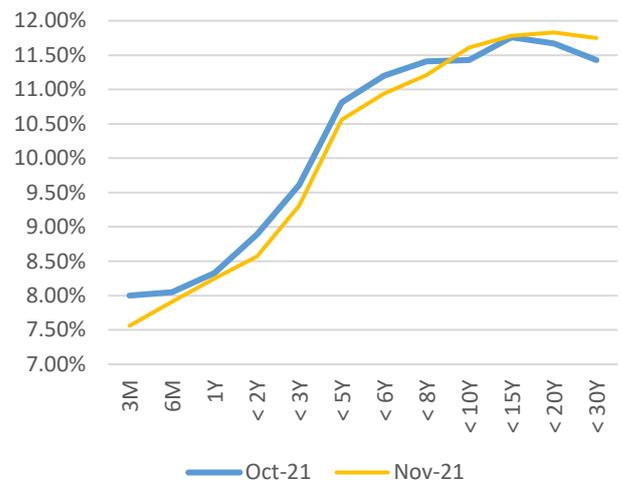
Overnight liquidity deficit deepened during the month and plummeted to a new low of around LKR 230 Bn/day. Furthermore, heavy borrowing through the Standing Lending Facility (SLF) increased to over LKR 300 Bn/day towards the end of the month.

The CBSL intervention in the forex market drained over LKR 63 Bn from the money supply. The money supply declined by another LKR 48 Bn after the CBSL sold down some of its T-bills and T-bonds.

The T-bill yields in both the primary and secondary markets went through a correction during the month after rising sharply during October. The 3-month T-bills continued to perform well in the primary auctions compared to 6M and 12M. T-bill volumes in the secondary market rose during the period.

### Long-term rates

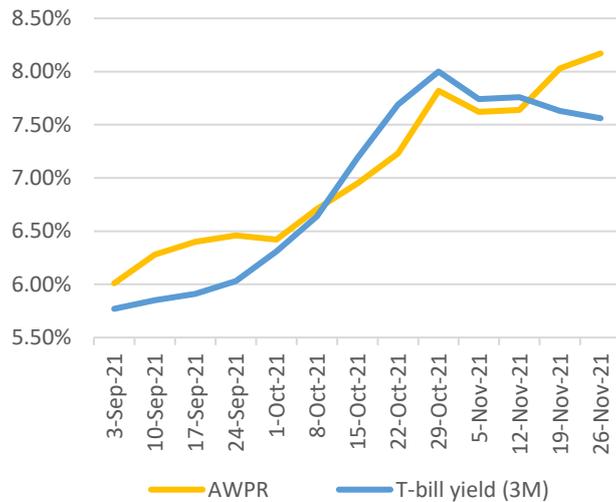
Figure 2: Yield curve of treasuries



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

The shorter-end and the belly of the yield curve shifted down while the longer-end of the curve went up. Market appetite for Treasury bonds remained high as they absorbed over LKR 70 Bn during the auctions. Volumes in the secondary market also remained at healthy levels.

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

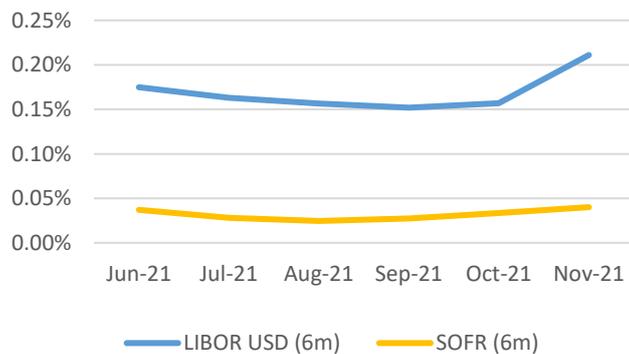


Note: T-bill yield for secondary market, Source: CBSL

The private sector credit increased by LKR 35 Bn (M/M) in October, after falling to a nine-month low in October following monetary tightening. AWPR rose by about 35 bps in November. In the meanwhile, reserve money remained flat, indicating continuation of weaker private credit.

### 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

Short term US treasury yields slipped at the start of the month as it experienced the biggest one-day fall since March 2020, ahead of the Federal Reserve's policy update. The markets were also taken back

by the central banks in Europe such as the Bank of England postponing any policy rate increments. Treasury yields showcased a sharp increase during the middle of the month resulting from stronger-than-expected jobs numbers and the CPI inflation reaching a 31-year high. Yields gained some momentum after the White House announced that it would nominate Jerome Powell for a second term. However, long-dated treasury yields slid towards the end of the month after the US confirmed its first case of the omicron variant.

Augmented by higher inflation expectations. Eurodollar rates, LIBOR USD and SOFR seen rising in November.

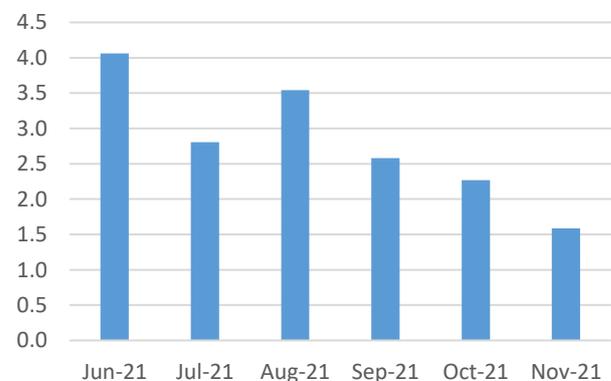
The yields of the SLISBs rose for the second consecutive month.

## External Sector

Sri Lanka managed to record a marginal improvement in trade deficit of about USD 495 Mn in September compared to August owing to a decline in imports. Y-o-Y increase in trade deficit is primarily driven by fuel, textiles and textile articles, and machinery and equipment.

Tourist arrivals doubled in November compared to the previous month generating around USD 60 Mn in receipts. Receipts from foreign remittances fell by nearly 50% to USD 317.5 Mn during October compared to year before level.

Figure 5: Gross official reserves (Mn USD)

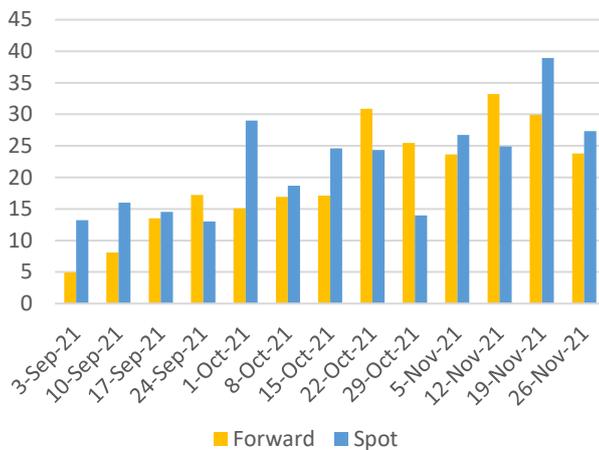


Source: CBSL

<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. Page | 3

The CBSL sold over USD 372 Mn forex in the open market in November. The total official reserves further slid to USD 1.58 Bn after settlements of around USD 400 Mn in foreign obligations. The CBSL announced that it would pay an extra premium of 10 rupees for US dollar converted into rupees by expatriate workers during the month of December. This is unlikely to result in any increase in remittances, as exchange rates offered by informal channels are much higher.

Figure 6: Interbank forex market daily avg. volumes (USD Mn)

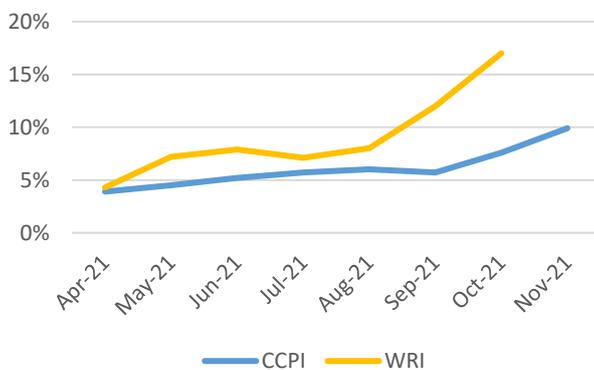


Source: CBSL

The interbank spot and forwards volumes improved during November despite no major movements in the exchange rate. Outstanding forward volume grew sharply 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

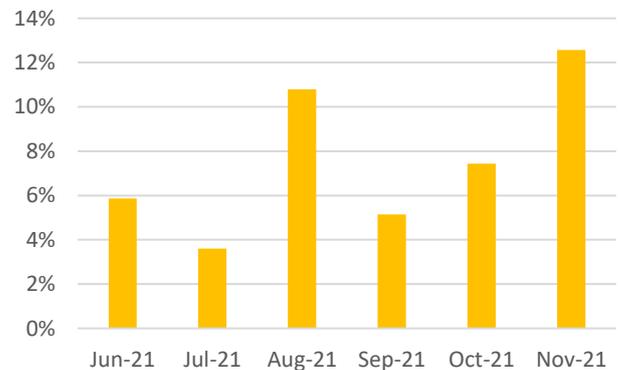
Wage growth continued to recover and posted 17% growth (Y/Y) in October on the back of improving economic activity.

Headline inflation further increased to 9.9%(Y/Y) during November, highest since July 2012. Food inflation rose 17.5% from 12.8% mainly due to increase in prices of vegetables, rice and milk powder. Non-food inflation rose from 5.4% to 6.4% as a result of increased prices of housing, water, electricity, gas and transport.

## Equities

### Domestic Market

Figure 8: ASPI (M/M)



Source: CSE

The stock market in November saw the highest gains since January this year with ASPI and S&P recording 12.57% and 4.52% gains respectively. Investor sentiment remained bullish. However, the index performance is mainly driven by few selected shares. Furthermore, foreign investors remained net sellers during the month over rupee depreciation concerns. Transport and diversified financials remained top performers. Overall PBV (Price-to-Book-Value) increased from 1.42 to 1.60 favouring sellers

Figure 9: GICS sector performance- November

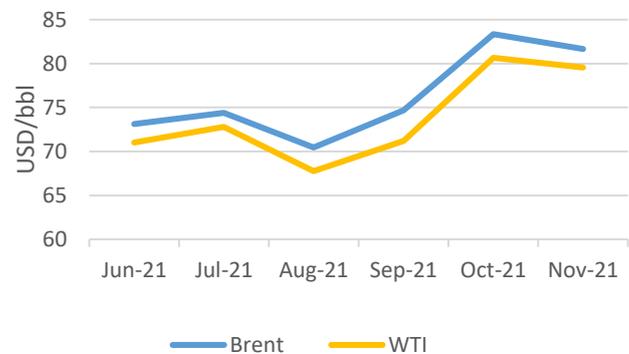
Sector	Index Points Gained
Transportation	10853
Diversified Financials	1071
Commercial & Professional Services	187
Retailing	86
Capital Goods	83
Consumer Durables & Apparel	82
Food, Beverage & Tobacco	57
Materials	47
Utilities	39
Insurance	20
Telecommunication Services	0
Energy	-10
Real Estate	-15
Consumer Services	-39
Banks	-51
Health Care Equipment & Services	-53
Automobiles & Components	-72
Food & Staples Retailing	-87
Household & Personal Products	-162

### Global Markets

Global stock markets slowed down during November as a result of rising omicron infection levels coupled with the hawkish Fed communication. US markets saw an overall decline as the Dow Jones and S&P500 dipped 3.73% and 0.7% respectively. Companies within the consumer discretionary industry experienced strongest gains while financials and energy companies showed largest losses. European markets also experienced losses with Germany, UK and France taking the hardest hits. Asian markets also went under pressure as Hong Kong, Japan and China equity markets fell.

## Commodities

Figure 10: Crude oil price



Source: Bloomberg quoted in CBSL

Global oil prices which have been rising continuously for over a year, experienced a 5% decrease during the month of November. This was mainly influenced by the Fed's announcement that they would be slowing their asset purchase plan next year. The price halt was also influenced by the emergence of the new omicron variant which could potentially result in global demand for oil slumping over the next few months

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

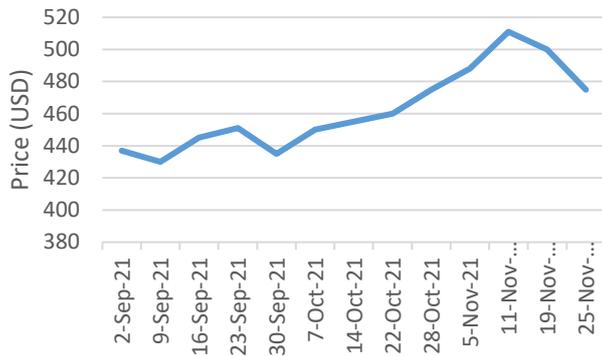


Source: Forbes & Walker

Tea prices in the Colombo auction in November noted an increase as good leaf quality boosted the demand. An increase in demand was also seen at most of the Indian auctions due to improved quality.

Read ICRA Lanka's report, [Sri Lanka plantations at a fork in the road, thrive or survive?](#)

Figure 12: Rubber price weekly auctions



Note: Price of Latex 4X  
Source: RRISL

Global rubber prices experienced a decline during November as a result of weakening global demand for new motor vehicles (two-thirds of natural rubber is used in tire manufacturing). Furthermore, supply from Asian countries has declined as global demand is expected to remain low over the next few months.

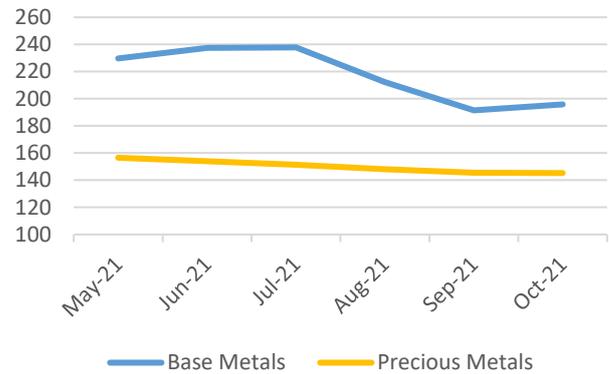
Figure 13: Coconut price weekly auctions



Source: CDA

Coconut prices at the Colombo auctions increased further as a result of decreased supply due to adverse weather.

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

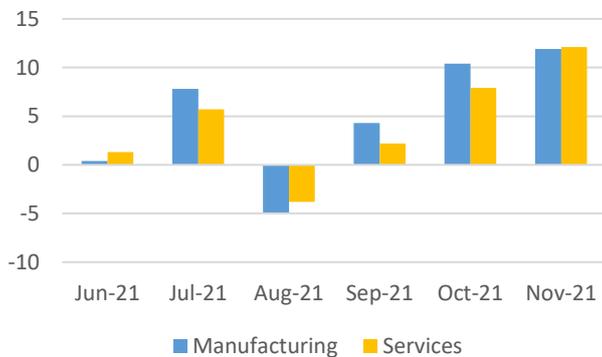
Gold prices remained buoyant for most of November as robust US economic data lifted dollar and US treasury yields. Prices further slid after Fed chair Jerome Powell indicated that they would begin tapering with the asset purchasing program sooner than expected in 2022. However, prices began to edge higher towards the end of the month when the Omicron variant was discovered in European and Australian regions.

Base metal prices, which have been steadily rising over the last 15 months, experienced a decline during November following uncertainty over the omicron variant. This caused prices of major metals such as Copper, Aluminum and coal to fall. However, few metals such as tin and Nickel saw price increases driven by supply bottlenecks in China.

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 the 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

The PMI index for both services and manufacturing sectors grew in November continuing economic recovery. Employment in the manufacturing sector continued to expand. Supply lags were persistent. Both sectors experienced new businesses.

Read ICRA Lanka's take on what lies [beyond the pandemic for Sri Lanka](#)

## Outlook for December - January

Though mild, the rapid rate at which Omicron is spreading is somewhat alarming. First Omicron case in the country was reported in early December, and so far, no new cases have been reported. It is important to keep the situation under control to avoid further disruptions to the economy.

The external sector troubles of Sri Lanka are on the brink of breaking point. The balance of payment crisis shows no sign of dissipation. The CBSL's heavy handed approach in the forex market has been counterproductive and is unlikely to help to improve the situation. Certain officials and government representatives repeatedly expressed their unwillingness to commit to an IMF programme. The steps taken so far, including the six months road map yielding very little progress the country is left with an extremely narrow set of options, to find a way out of the current crisis. Given this scenario, Sri Lanka should consider an IMF assisted

programme as the looming debt default would be catastrophic to the country.

Rising lending rates continue to weaken private credit. Liquidity shortage in the money markets may put pressure on the short-term rates.

Inflation jumped to record level in November, driven by supply shocks. In this context, Sri Lanka may enter an era of high inflation in the next few months.

Official data show that Sri Lanka's GDP shrank by 1.5% in 3Q which is lower than ICRA Lanka's expectation. In light of this, we will be revising our earlier GDP projection for 2021 (3.4%) shortly. The CBSL expects the economy to record 5% growth this year which we feel is optimistic especially given the country has recorded two quarters of economic contraction.

## Rating Actions

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

Issuer	Issue	Action	Previous Rating	Current Rating
Merchant Bank of Sri Lanka and Finance PLC	Issuer Rating	Revised	[SL] BBB+ (Negative)	[SL] BBB+ (Stable)
Merchant Bank of Sri Lanka and Finance PLC	Subordinated Unsecured Redeemable Debenture Program	Revised	[SL] BBB (Negative)	[SL] BBB (Stable)
Access Engineering PLC	Issuer Rating	Reaffirmed	[SL] A+ (Negative)	[SL] A+ (Negative)
Access Engineering PLC	Senior Unsecured Redeemable Listed Debenture Program (LKR 5 Bn)	Reaffirmed	[SL] A+ (Negative)	[SL] A+ (Negative)
Softlogic Finance PLC	Issuer Rating	Revised	[SL] BB- (Rating watch with developing implications)	[SL] BB- (Stable)
SENFIN Dynamic Income Fund	Issuer Rating	Assigned		[SL] Amfs

## 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

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