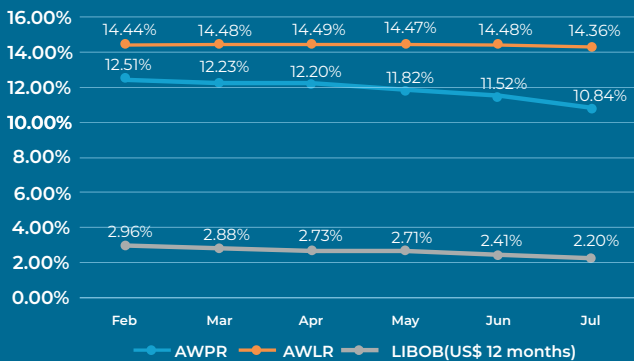


Overview

In July, the economy saw further recovery in several fronts, but the aggregate demand of the economy is still weak. Interest rates have started to decline. The rate of inflation is slowing down. The exchange rate was stable, but depreciation is likely within the next 3 months. The Stock Market performance was promising with heightened foreign investor participation in July. Both manufacturing and services sectors are recovering. Tourist arrivals are still below last year's figures, but improving for the second consecutive month.

Interest Rate

Figure 1: Lending Rates



Sources: CBSL, global-rates.com

*LIBOR rate for month beginning

**AWPR: Average Weighted Prime Lending Rate- The weights average of the rate at which the commercial banks have lent to their best customers.

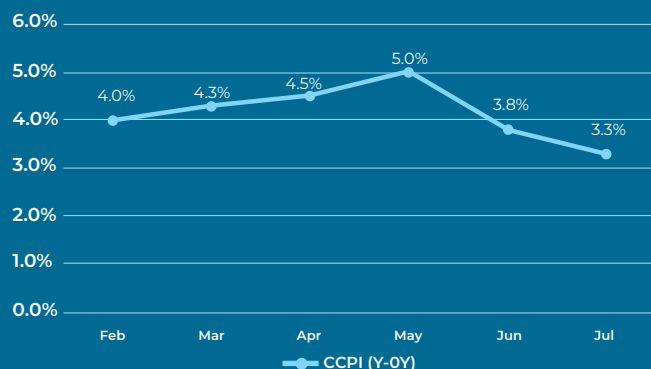
***AWLR: Average Weighted Lending Rate

Interest rates in international markets (LIBOR) continued to fall steadily. Average lending rates in Sri Lanka (AWLR) fell marginally following CBSL's announcement that it will impose a lending cap if banks do not cooperate. The prime lending rate (AWPR) fell further by 68 basis points in July. International banks seemed to be driving the AWPR down with lower interest rates as low as 9.11%.

Key Takeaway: Cost of borrowing for businesses have started to ease off.

Inflation

Figure 2: CCPI Headline Inflation (Base year 2013)



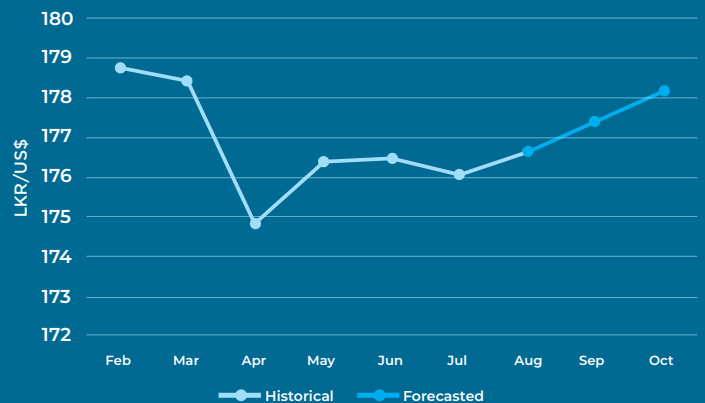
Source: DCS

Inflation is mild at mid-digit level, but have been increasing consistently until May. The inflation rate has reduced for the second consecutive month following May, triggered by declining food prices - especially rice.

Key Takeaway: The inflation rate is likely to remain mild as a result of weak demand continuing following the Easter Attacks.

Exchange Rate

Figure 3: Exchange Rate (LKR/US\$)



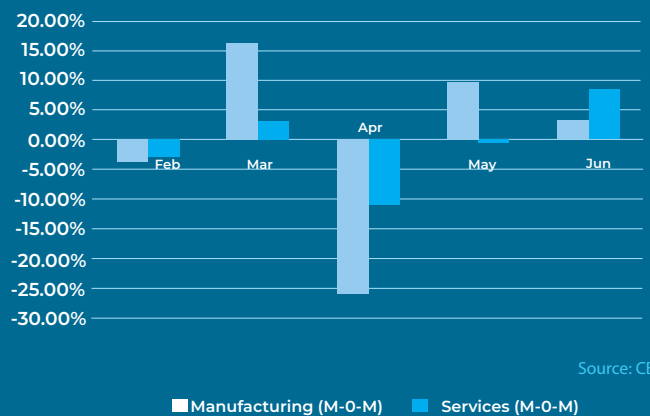
Source: CBSL, RIU Research Forecasts based on forward rate available at end July

In July, the rupee experienced a marginal appreciation as a result of declining imports. Market sentiment expects the rupee to depreciate in the next three months. Our forecasts based on the forward rates, show the rupee moving down by October to over 200 basis points to LKR 178/US\$.

Key Takeaway: Current environment of a weaker rupee is conducive for exports and tourism sectors. However the rupee is expected to depreciate further in the near future.

Production

Figure 6: Purchasing Manager's Index (PMI)



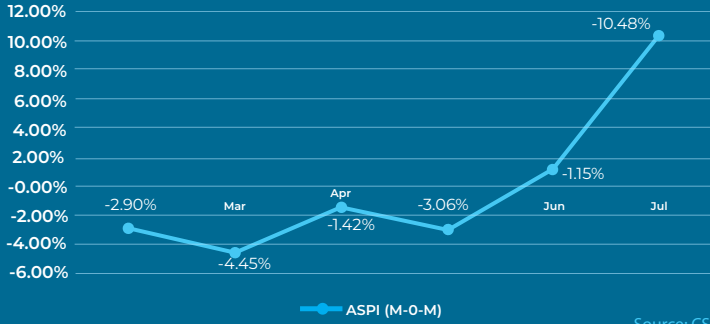
Source: CBSL

Manufacturing activities recovered to an index value of 53.9 in June 2019. The recovery of manufacturing PMI is mainly attributable to the increased employment, especially, in manufacturing of food & beverages and textiles & wearing apparels sectors. The Services sector also recovered over 8% due to expansion in new businesses and business activity, along with positive expectations.

Key Takeaway: Production and services sectors in general are recovering with positive business sentiments after the Easter attacks.

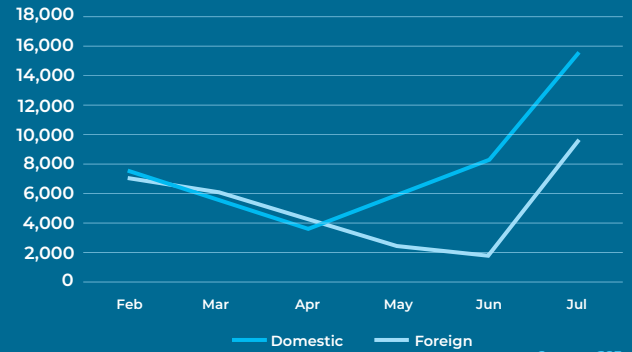
Share Market

Figure 5: Turnover Equity Domestic vs. Foreign (Rs Mn)



Source: CSE

Figure 6: Turnover Equity Domestic vs. Foreign (Rs Mn)



Source: CSE

Top gainers by Industry



Trading
34%



Telecom
25%



Construction
24%



Investment Trust
21%



Footwear Textile
19%



Manufacturing
16%

The Stock Market continued to perform well in July and recorded an impressive 10% growth in ASPI compared to the previous month. We also see increased foreign interest and participation in CSE, indicating growing foreign investor confidence. Trading, telecom, construction and investment trusts, recorded over 20% growth.

Key Takeaway:
The Stock Market is recovering with growing foreign investor confidence.

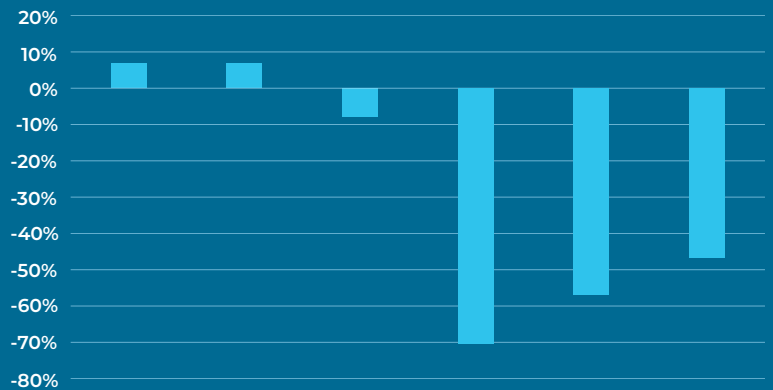


Tourism

Figure 7: Change in Tourist Arrivals

July tourist arrivals recorded 115,701 visitors, a 47% decline compared to last year. However, June and July show signs of recovery and tourism is expected to fully recover by the end of the year. Hotel operators have slashed rates to attract local tourists to make up for lower occupancy rates.

Key Takeaway: In the next few months arrival figures are expected to improve.



Tourist Arrivals (Y-o-Y)

Source: SLTDA

News Highlights

- The Central Bank will impose a lending cap if Banks in Sri Lanka do not cooperate: CBSL
- Sri Lanka tourist arrivals down 46.9-pct in July
- Sri Lanka rice prices down with competition: Harsha.
- Economic sentiment remains muted: Survey.
- Sri Lanka's economy is gradually recovering - Central Bank Chief.

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RESEARCH INTELLIGENCE UNIT

No 24 Wijerama Mawatha, Colombo 7.

E mail : info@riunit.com | Web: www.riunit.lk/ www.riunit.com

Tel: 011 530 5533 / 072 274 1305