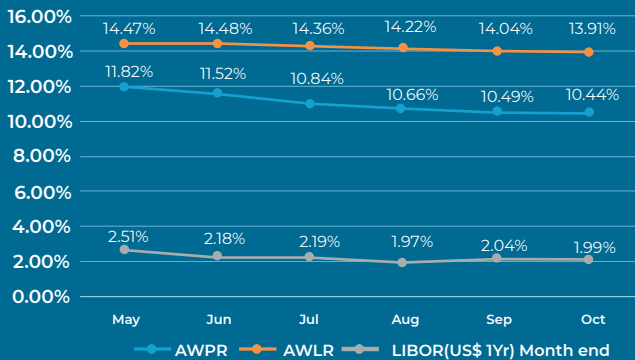


Overview

According to RIU's primary and secondary research, the economy experienced recoveries on several fronts in the month of October. Interest rates weakened further to encourage borrowings and in turn spur economic growth. The exchange rate depreciated marginally. The stock market gained significant positive momentum ahead of the Presidential polls predominantly driven by domestic participation. Manufacturing and services activities expanded during the month. The tourism sector suffered a further decline in the year on year arrivals, however the rate of decline is waning and RIU expects the sector to recover completely by Q1 2020 which would act as a benevolent factor for the overall real estate sector.

Interest Rate

Figure 1: Lending Rates



Sources: CBSL, global-rates.com

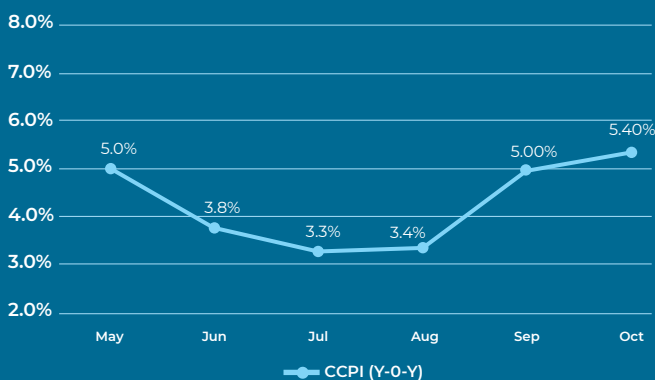
*LIBOR rate for month end
 **LIBOR rate for month end
 **AWPR: Average Weighted Prime Lending Rate- The weights average of the rate at which the commercial banks have lent to their best customers.
 ***AWLR: Average Weighted Lending Rate

Interest rates in the international market fell by 5 basis points to 1.99%. Rates in Sri Lanka, AWLR and AWPR saw a further decline of 5 and 13 basis points respectively. However, Sri Lanka's real lending rates continues to remain higher compared to its peers.

Key Takeaway: Attractive interest rates will boost credit flows to productive sectors and assist to resuscitate the economy.

Inflation

Figure 2: CCPI Headline Inflation (Base year 2013)



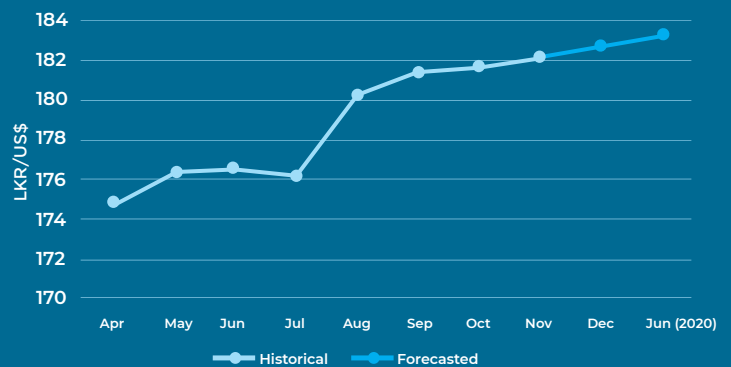
Source: DCS

October saw inflation rate rising to 5.40% primarily on weaker currency and rise in the expenditure value of Food items by 0.45% and increase of Non-Food items by 0.26%.

Key Takeaway: The country is presently experiencing a period of stagflation (low growth and higher inflation) for the second time in five years after repeated currency collapse.

Exchange Rate

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



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

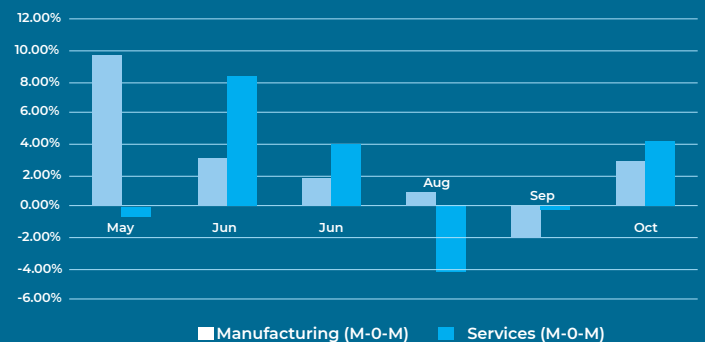
The rupee weakened marginally to LKR 181.94 in October. RIU projects the currency to marginally depreciate further and the LKR to hover at 182-184 levels against the greenback.

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)



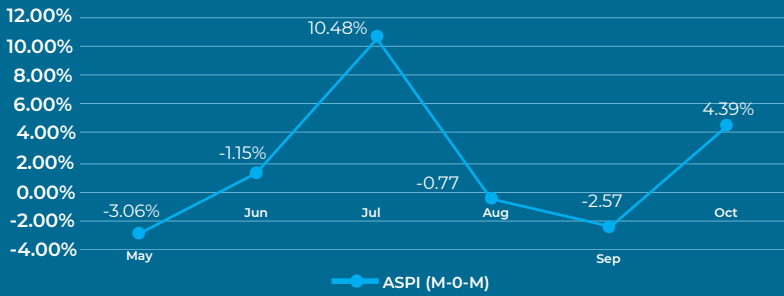
Source: CBSL

During October, manufacturing activities expanded to 57.6 index value portraying an increase of 2.9 index points from the previous month owing to rise in production and new orders which was observed especially in manufacturing of food and beverage sectors. Rise in employment in food and beverage and apparel sectors partly contributed to this index expansion. Following suit, Services was up by 4.2 index points from the previous month to record a PMI of 56.9 points aided by resilient growth in new businesses and business activities.

Key Takeaway: Both PMI projections for the rest of the year looks positive owing to the upcoming peak season for tourism, festive season and stability from the political front.

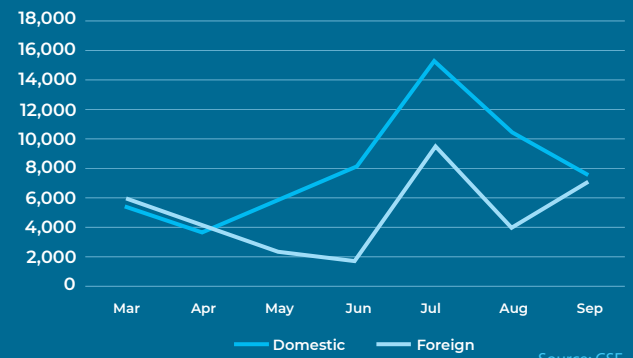
Share Market

Figure 5: Change in ASPI



Source: CSE

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



Source: CSE

Top 3 Gainers



IT
19.58%



Telecom
Construction
17.55%



Engineering
17.29%

Top 3 Losers



Oil Palms
-5.39%



Stores Supplies
Bev Food
-3.35%



Tobacco
-0.24%

The stock market gained by 4.39% driven by domestic investors ahead of the looming Presidential polls. Foreign turnover saw a decline, albeit domestic turnover witnessed an increase. IT, Telecom and Construction and Engineering were the top 3 gainers for the month while Oil Palms, Stores Supplies and Beverage, Food and Tobacco lost grounds the most.

Key Takeaway: The market is expected to pick up following the outcome of the Presidential election.

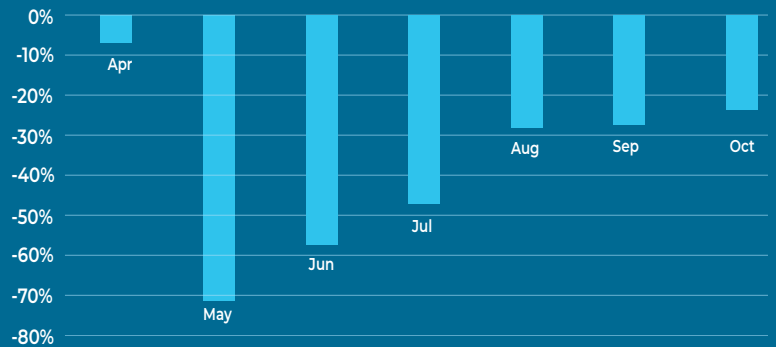


Tourism

Figure 7: Change in Tourist Arrivals

October witnessed a 22.5% decline in tourist arrivals in comparison to the same period last year. However, the declining rate is weakening and the sector is displaying signs of recovery following the Easter Sunday incidents.

Key Takeaway: The total arrivals might fall short of the 2mn targeted for the year 2019.



Tourist Arrivals (Y-o-Y)

Source: SLTDA

News Highlights

- Sri Lanka cuts VAT on apartments to 6-pct, small condos exempted.
- President hands over land deed to Colombo Port City.
- 2019 tourist arrivals estimate cut to 1.9 m from 2.1 m.
- Sanken to build 112-room hotel in Colombo with \$ 9.3 m investment.
- SL lags in latest Ease of Doing Biz index.

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