

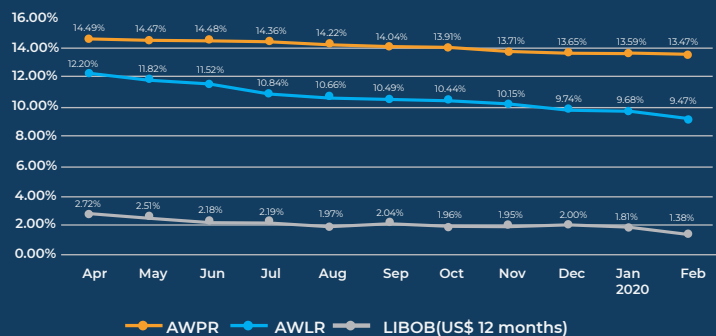
Overview

According to RIU's primary and secondary research, the economy experienced ups and downs on several fronts in the month of February. Interest rates weakened further to encourage borrowings and in turn spur economic growth. The exchange rate depreciated marginally. The stock market has been on a declining trend predominantly driven by global uncertainty. The tourism sector suffered a further decline on the monthly arrivals.

IMF warns that the spreading of COVID-19 may pose risks to global economy's fragile recovery as COVID-19 epidemic has already disrupted production in China and could affect other countries through tourism, supply chains linkages and commodity prices. However, the rate of declining is waning due to the precautionary measures adopted by each country.

Interest Rate

Figure 1: Lending Rates



Sources: CBSL, global-rates.com

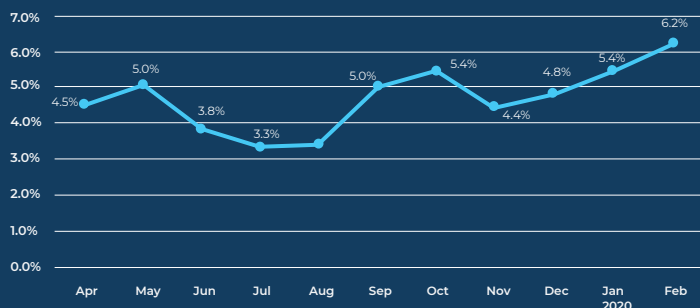
- * LIBOR rate for month end
- ** AWPR: Average Weighted Prime Lending Rate-The weights average of the rate at which the commercial banks have lent to their best customers.
- *** AWLR: Average Weighted Lending Rate

Global interest rates (LIBOR) marginally dipped by 43 basis points to 1.38%. Average Weighted Lending Rate in Sri Lanka (AWLR) declined by 12 basis points whereas the Average Weighted Prime Lending Rate fell by around 273 bps to 9.47 percent as of February 28, 2020, from 12.2% at the end of March 2019 before the attack.

Key Takeaway: Envisage a sustained recovery in economic activity

Inflation

Figure 2: CCPI Headline Inflation



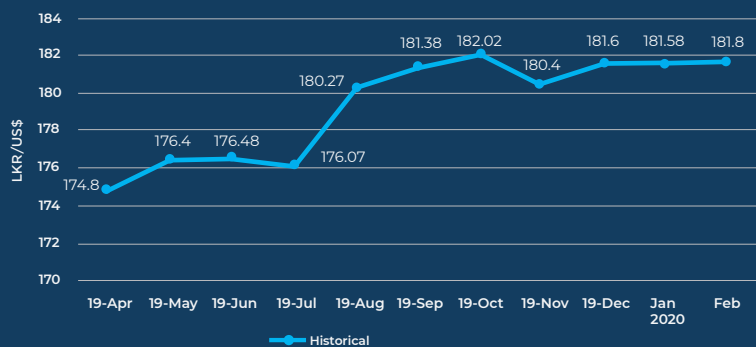
Source: Trading Economics

Inflation rate in Sri Lanka increased to 6.2 percent in February of 2020, from 5.4 percent in the previous month. It was the highest rate of inflation since December of 2017, as food & non-alcoholic beverages prices rose sharply. Crude oil prices showed a declining trend during the period, mainly supported by fears of slowdown in global economy and low crude oil demand due to rapid spread of COVID-19 virus outside China.

Key Takeaway: On a monthly basis, consumer prices showed no growth, after a 1.7 percent in January.

Exchange Rate

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



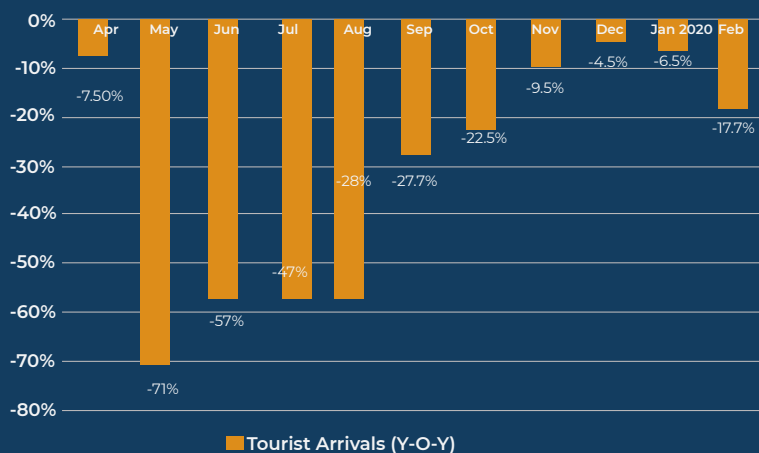
Source: CBSL

Sri Lanka's rupee was quoted weaker at 181.80 to the US dollar in the spot market. However, compared to the previous months the LKR managed to stabilize its stance against the USD.

Key Takeaway: The prevailing social and political confidence establishes a stable economic environment.

Tourism

Figure 7: Change in Tourist Arrivals



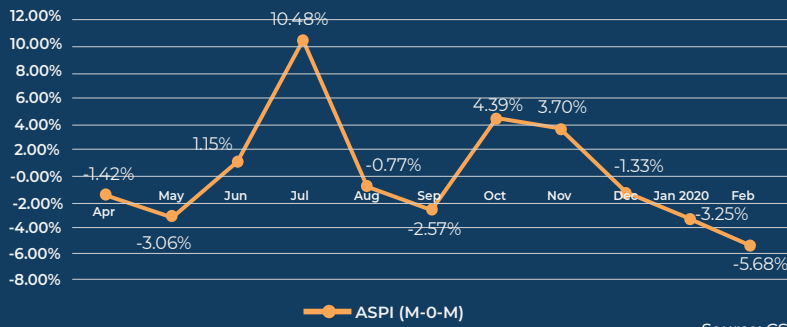
Source: DCS

Tourist arrivals for the month of February plunged by 17.7 percent in comparison to last year. The tourism sector is expected to take a hit to its arrivals numbers during the peak January-March period due to COVID-19.

Key Takeaway: Chinese tourists account for 8% in the arrivals mix, and this number is expected to drop sharply during the peak season.

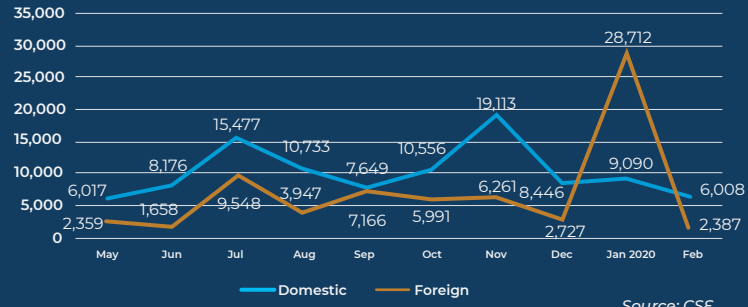
Share Market

Figure 4: Change in ASPI



Source: CSE

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



Source: CSE

Top 3 Gainers



Bev Food Tobacco
-1.41%



Chemicals Pharms
-0.15%



Hotels Travels
-3.45%

Top 3 Losers



Stores Supplies
-14.19%



Footwear Textile
-8.29%



Trading
-11.39%

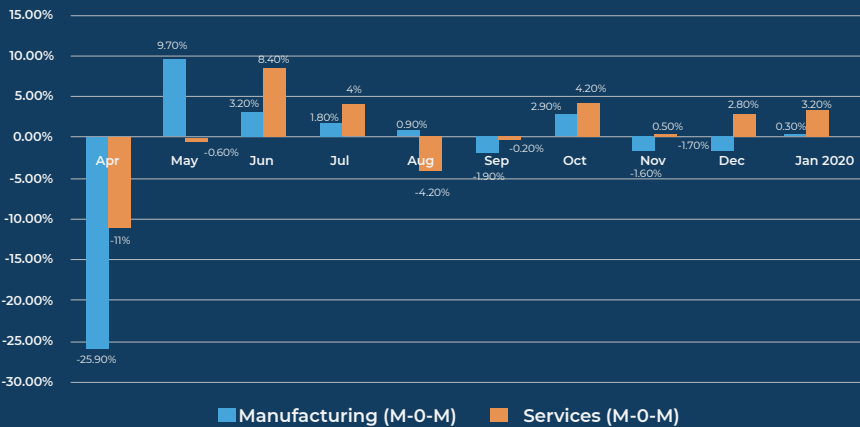
The Colombo bourse declining for the fourth straight session to end -5.68 percent M-o-M on global economic uncertainty and investors adopting a wait and see approach. Domestic turnover witnessed a decline, whereas foreign turnover declined significantly. Bev Food Tobacco, Chemicals Pharms and Hotels Travels were the top 3 gainers for the month while Store Supplies, Footwear Textile and Trading lost ground the most.

Key Takeaway: The Stock Market continues to falter owing to the declining of foreign reserves.



Production

Figure 6: Purchasing Manager's Index (PMI)



Source: CBSL

New Orders and Production expanded at a slower rate owing to the slowdown in manufacturing of textile and wearing apparel sector. A significant slowdown in employment was experienced.

Business Activities in wholesale & retail trade and accommodation, food & beverage sub sectors posted a strong growth due to the festive season and peak season of tourism. Transportation of goods recorded a growth with increased transshipment volumes while other personal services such as leisure activities also improved with the holiday season

Key Takeaway: Covid-19 outbreak within the country could pose a threat to both Manufacturing and Services in the coming months.

News Highlights

- Global stocks sink further as virus fears weigh
- Stocks down amidst foreign selling
- Sri Lanka rupee quoted weaker, bond yields ease
- Bourse ends in positive territory
- Coronavirus could damage global growth in 2020: IMF
- Asia Securities forecasts tourist arrivals to drop by 100,000 due to coronavirus

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