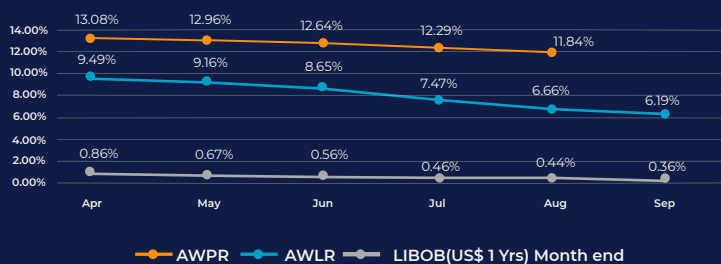


- Low interest rate regime to continue.
- CCPI based Inflation decreased in September 2020.
- Sri Lanka's rupee appreciates at the month end in September.
- Strong confidence levels in the earnings growth of listed corporates as a result of the post-COVID bounce back and lower financing costs.
- Purchasing Managers' Indices for both Manufacturing and Services activities expanded in September.
- Airport reopening pushed back indefinitely.

Interest Rate

Figure 1: Lending Rates 2020



Sources: CBSL, global-rates.com

* LIBOR: Global Interest Rates for month end

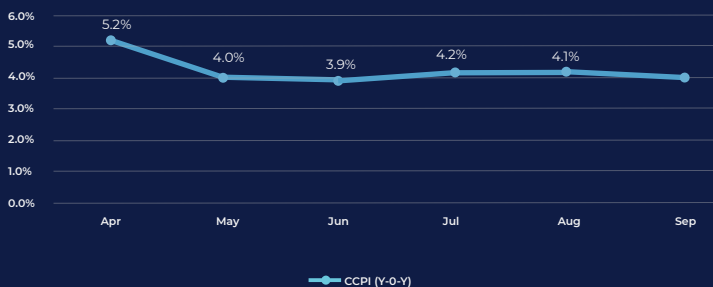
** AWPR: Average Weighted Prime Lending Rate- The weights average of the rate at which the commercial banks have lent to their best customers.

*** AWLR: Average Weighted Lending Rate The LIBOR declined further to 0.36% and the AWLR in Sri Lanka continued its downward trend to 11.84 percent at the end of August. The AWPR declined to 6.19 percent as of 02 October 2020.

Key Takeaway: The 2nd outbreak could lead people to look for more affordable mortgages or moving to a location with better working from home features.

Inflation

Figure 2: CCPI Headline Inflation 2020



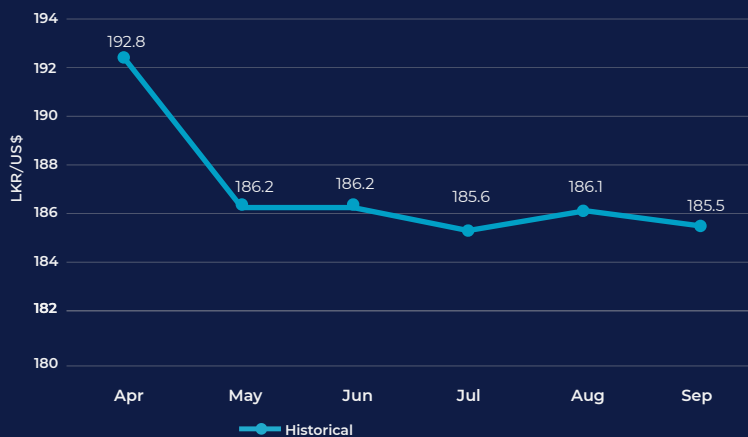
Source: Trading Economics

The annual inflation rate in Sri Lanka slowed for the second month to 4 percent in September of 2020 from 4.1 percent in August.

Key Takeaway: Within the Food category, prices of vegetables, coconuts, fresh fruits and big onions increased in September 2020. Increases within the Non-food category, were items in Alcoholic beverages, Tobacco and Narcotics and Transport sub-categories.

Exchange Rate

Figure 3: Exchange Rate (LKR/US\$) 2020



Source: CBSL

With increased net inflows to the domestic foreign exchange market, the Central Bank was able to absorb foreign exchange during the month to build up gross official reserves. The Sri Lankan rupee, which demonstrated some volatility in mid-August, stabilised towards the end of the month.

Key Takeaway: The export performance remained strong for the third consecutive month in spite of the pandemic affected global demand.



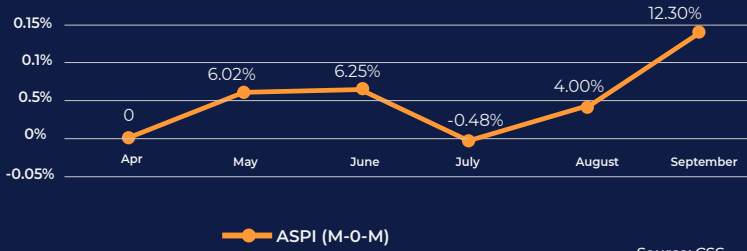
Tourism

Change in tourist arrivals

Month	2019	2020	% Change 2019/ 20
January	244,239	228,434	-6.5
February	252,033	207,507	-17.7
March	244,328	71,370	-70.8
April	166,975	0	-
May	37,802	0	-
June	63,072	0	-
July	115,701	0	-
August	143,587	0	-
September	108,575	0	-
October	118,743		
November	176,984		
December	241,663		
(Total up to Sep)	1,376,312	507,311	-63.1
Total	1,913,702		

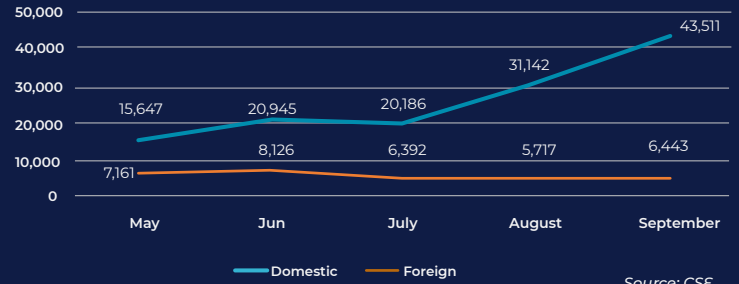
Key Takeaway: The airport will not be reopened until the Government receive confirmation from the Ministry of Health that the COVID-19 epidemic has been brought under control - 100 percent.

Figure 5: Change in ASPI 2020



Source: CSE

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



Source: CSE

Top 3 Gainers



Automobiles & Co
37.72%



Transportation
36.22%



Capital Goods
13.39%

Top 3 Losers



Consumer Service
-67.87%



Food & Staples
-2.11%



Real Estate
-0.12%

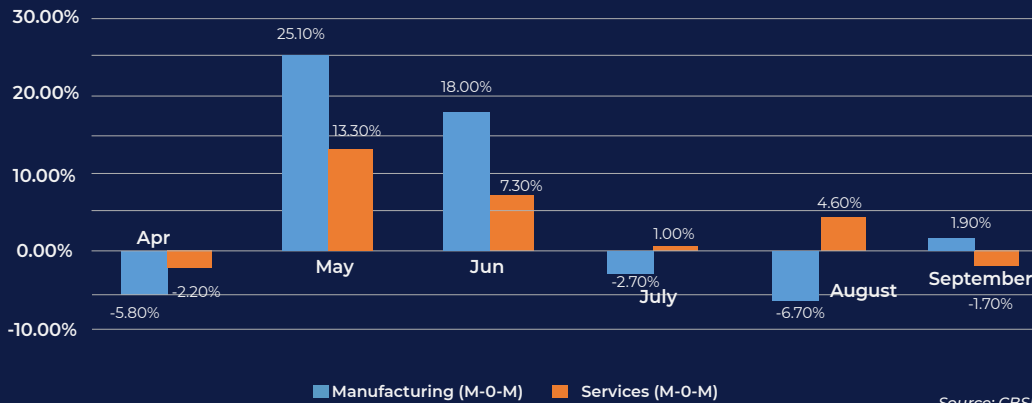
The Colombo Stock Exchange's (CSE) All Share Price Index (ASPI) increased to 12.30 percent in the month of August. Domestic turnover witnessed a hike. After a 2-month downward trend, Foreign turnover had an increase in September. Consumer durables, Energy and Transportation were the top 3 gainers for the month, while Banks, Pharmaceuticals, and Telecommunication were the lowest to score.

Key Takeaway: The continued low interest rate environment has led to more financial assets being moved from low yielding fixed income assets into the share market.



Production

Figure 7: Purchasing Manager's Index (PMI)



Source: CBSL

MANUFACTURING - Manufacturing activities expanded at a higher rate in September 2020, compared to August 2020. This expansion in manufacturing PMI was mainly attributable to the increase in Production and New Orders, especially in the manufacturing of food & beverages and textiles & wearing apparel sectors.

SERVICES - The Services sector continued to expand for the fourth consecutive month with PMI recording 54.3 in September 2020 compared to the previous month. This was underpinned by the expansions observed in New Businesses, Business Activities and Expectations for Activity compared to August 2020, indicating a further recovery of the Services sector activities.

Key Takeaway: the restrictions imposed on importation of some categories of goods continued to affect the smooth functioning of manufacturing activities. Financial services sub-sector was the main contributor to this expansion, with increased financial facilities provided to support the businesses which were negatively affected by the pandemic.

News Highlights

- IMF upgrades 2020 economic forecast but warns of a slower 2021
- UDA kick-starts 400-unit urban middle-class housing project in Borella
- Second wave tanks market
- Sri Lanka has to be vigilant about inflation, asset bubbles as credit picks up
- Lanka's exports surpass US\$ 1 bn for the third time

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