

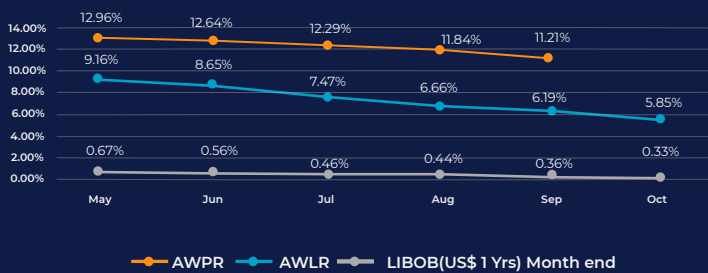
Low interest rate regime to continue. CBSL continues to infuse significant liquidity into the system as it attempts to limit the impact of the COVID-19 crisis. Easing import restrictions is likely to put pressure on the LKR, with pent-up demand and December orders coming in together. CSE welcomes progressive Budget 2021 Proposals directed at developing the Capital Market. Industrial production declined.

Budget Highlights

- Remove capital gains taxes and reduce stamp duty to 0.75 percent to encourage expatriates to invest in luxury apartments and homes listed on the Real Estate Investment Trust regulated by the SEC
- Sri Lankans living abroad would be permitted to purchase luxury apartments with several new measures to be introduced

Interest Rate

Figure 1: Lending Rates 2020



Sources: CBSL, global-rates.com

* LIBOR rate for month end

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

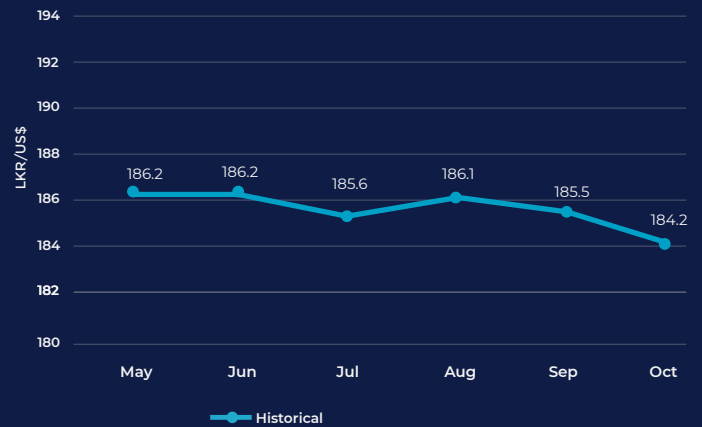
*** AWLR: Average Weighted Lending Rate

Global Interest Rates (LIBOR) declined further to 0.33%. The AWLR in Sri Lanka continued its downward trend to 11.21 percent at the end of October, whereas the AWPR also declined to 5.85 from 6.19 percent.

Key Takeaway: : the economy is facing rising headwinds stemming from fresh restrictions imposed in October following a surge in Covid-19 cases

Exchange Rate

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



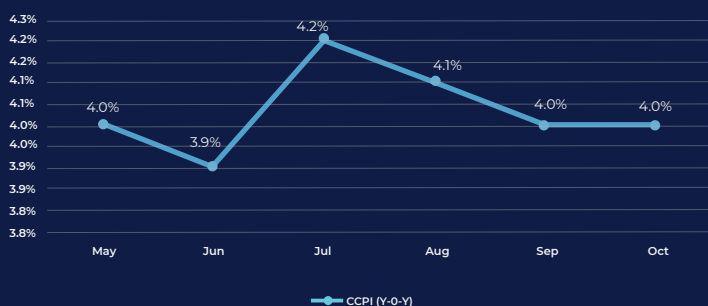
Source: CBSL

The enhanced demand for gold in Q1, as well as foreign investors choosing to leave Sri Lankan markets, resulted in the LKR depreciating to a high of LKR 199.75 against the USD on 09 April 2020, before recovering to pre-pandemic levels. As of the 30 October 2020, the LKR appreciated 1.6% year-to-date and was recorded at LKR 184.2 against the USD.

Key Takeaway: To ease the pressure on the Balance of Payments during the height of the COVID-19 crisis, the CBSL instructed all banks to suspend facilitating the import of motor vehicles and all non-essential goods except medicine and fuel, while restricting the ability of banks to purchase Sri Lanka sovereign bonds.

Inflation

Figure 2: CCPI Headline Inflation 2020



Source: Trading Economics

The inflation rate in Sri Lanka remained at 4 percent in October of 2020, the same as in September. Food inflation slowed to 10 percent from 11.5 percent, reaching a 5-month low. In contrast, non-food costs increased 1.3 percent, a rise of 0.9 percent in September. On a monthly basis, consumer prices edged up 0.1 percent, after a 0.7 percent rise in September.

Key Takeaway: Non-food prices may see an uptick once the non-essential import ban is lifted and the LKR adjusts to that demand-and-supply mechanism.

Share Market

Figure 5: Change in ASPI 2020

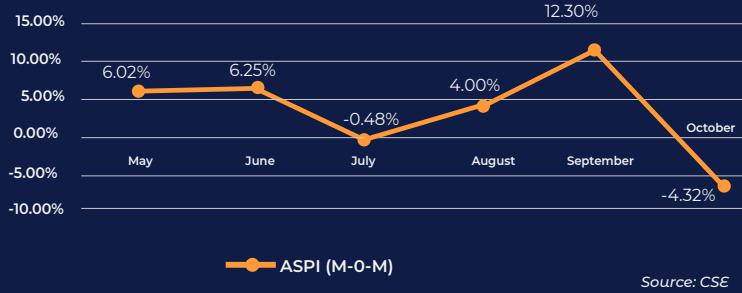
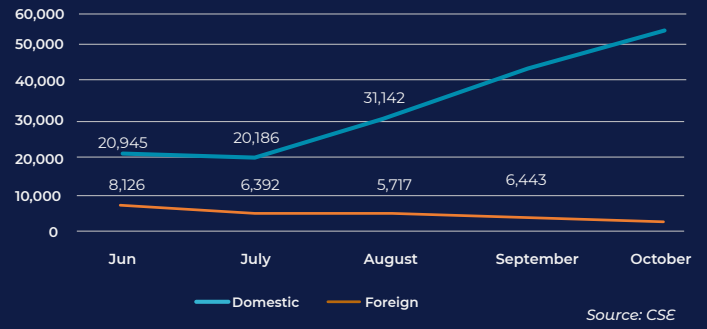


Figure 6: Turnover Equity Domestic vs. Foreign (Rs Mn)



Top 3 Gainers



Transportation
57.02%



Healthcare Equipment
13.39%

Materials
16.18%

Top 3 Losers



Consumer Durables
-12.36%



Energy
-10.49%



Real Estate
-9.58%

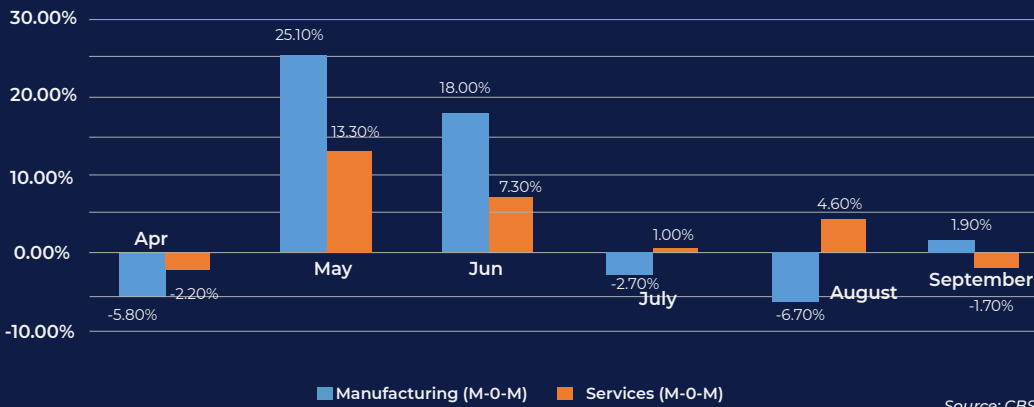
Source: CSE

The Colombo Stock Exchange's (CSE) All Share Price Index (ASPI) change declined by -4.32 percent in the month of October. Domestic turnover is on a rising trend, whereas foreign turnover witnessed a decline. Transportation, Material and Healthcare Equipment were the top 3 gainers for the month, whilst Consumer Durables, Energy and Real Estate were the lowest to score.

Key Takeaway: Investors respond positively as the stock market remained accessible amidst curfew

Production

Figure 7: Purchasing Manager's Index (PMI)



MANUFACTURING - Manufacturing activities expanded at a higher rate in September 2020, compared to the previous month. 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 as compared to August. 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: Services and Manufacturing PMIs were markedly higher in Q3 than in the prior quarter, hinting at strengthening private sector activity

News Highlights

- Taxation on banks could change with fresh instructions on provisions for expected credit losses [Read more](#)
- Sri Lanka budget 2021 key tax changes and relief [Read more](#)
- SL to receive same benefits of EU GSP Plus from UK from 2021 [Read more](#)
- ASPI closes flat amid selling pressure - Acuity Stockbrokers [Read more](#)
- BUDGET SPEECH 2021 [Read more](#)