

Sri Lanka Market Analysis

Stable macro, de-rating equities: what it means for positioning



19,984

ASPI close,
20 Oct 2026



8.75%

CBSL policy
rate (OPR)



8.0%

CCPI inflation,
Sept 2026



331.6

LKR per US\$,
spot

SenFin Research

21 October 2026



The macro is mending, equities de-rating



Growth and fiscal on track

Sri Lanka's economy grew 4.7% in H1 2026, marking 11 straight quarters of growth. Fitch upgraded its rating to B- (Stable), while the IMF signaled continued support beyond March 2027.



Inflation is the binding constraint

Headline inflation remained at 8.0%, while core inflation rose to 5.4%. Inflation may stay high until early 2027, with a possible return to 5% in H2 2027 if oil and food prices remain stable.



Equities in a liquidity air-pocket

The ASPI fell below 20,000, down 7.6% from early September. The market lost Rs. 324 billion in value during October, while daily trading activity remained very low.



Bonds pay a real return

Government bond yields remain at 11.1%–12.4%, offering returns of around 3%–4% above inflation, while the Central Bank keeps its policy rate unchanged at 8.75%.

Sources: CBSL, Dept. of Census & Statistics, Fitch Ratings, CSE, Daily News, Ada Derana, EconomyNext

ASPI slips back below 20,000



Rs 324 bn

Market cap lost, 1–20 Oct (Rs 7,548 bn → 7,224 bn)

-7.6%

ASPI fall from the 4 Sep level

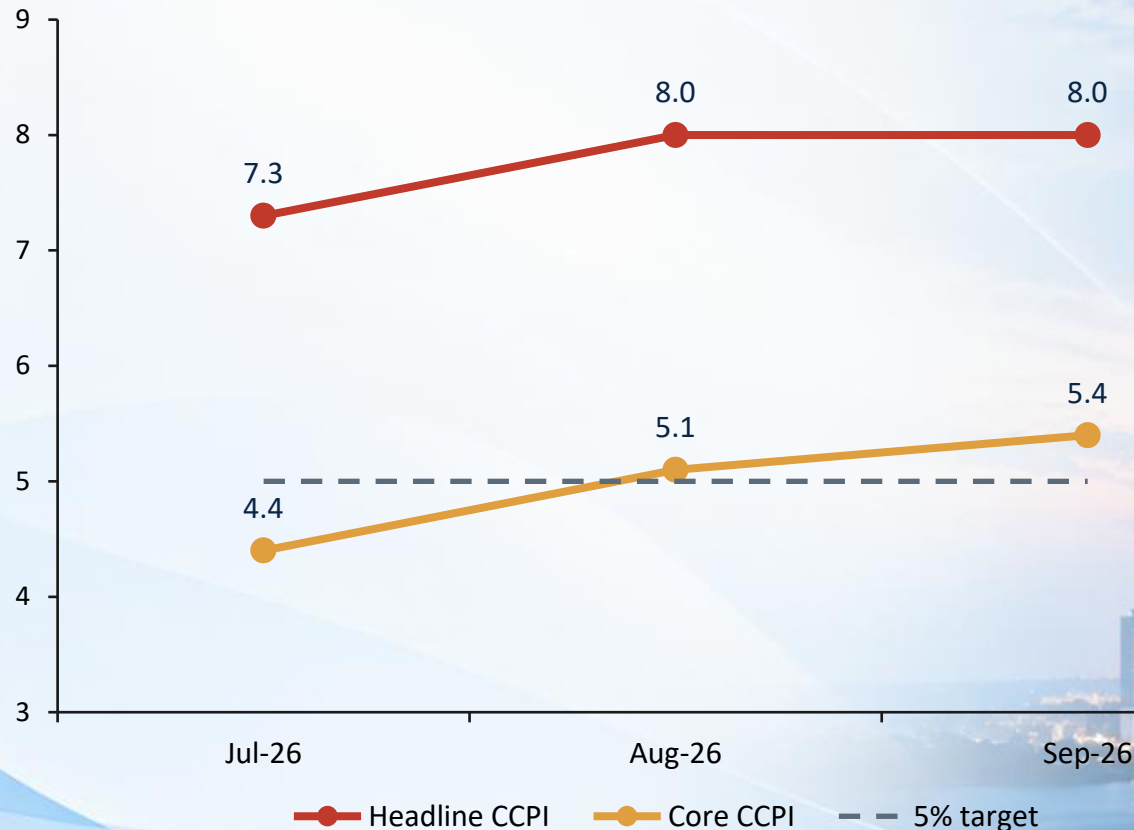
Rs 0.8 bn

Turnover on 20 Oct vs Rs 3.76 bn YTD daily average

Sources: CSE via Ada Derana, EconomyNext, CBSL Weekly Economic Indicators (4 Sep 2026) Read: the sell-off came despite the rating upgrade and a steady rupee.

Inflation stuck at 8%, core creeping up

CCPI inflation, year-on-year (%)



What has to go right for 5%



Brent below \$90/bbl

Crude only slipped under \$100 in late September; energy is still feeding transport inflation (16.3%).



Food supply holds

Food inflation rose to 8.7%; CBSL flags El Niño as a risk.



Core near 5%

Core at 5.4% and rising signals second-round effects; this is the one to watch monthly.

Sources: CBSL, Dept. of Census & Statistics, Trading Economics, SenFin Securities inflation report. CBSL projects high single digits through Q1-2027.

Rates on hold; the curve offers real yield

T-bond secondary yields by maturity, 20 Oct (% mid)



8.75%

OPR, held on 30 Sep after a 100 bp hike in May. Next review: 20 Nov.

~3-4%

Real yield on the curve against 8.0% headline inflation

~+190 bp

2030 maturities: ~9.7% in Sep 2025 vs ~11.6% now

Sources: EconomyNext dealer quotes (20 Oct 2026), CBSL monetary policy statements, Daily FT. Mid-rates computed from closing bid/offer.

QUARTER TO 30 JUNE 2026

What changed, and where rate risk sits

Company	GS (LKR bn)	Change since year-end	Held at FVTPL
Seylan Bank (SEYB)	227.1	+2.4%	8%
First Capital (FCT)	60.4	+12.6%	88%
CAL Holdings (CALH)	60.3	-27.6%	100%
Capital Alliance (CALT)	59.3	-26.8%	100%
Janashakthi PLC (JXG)	59.0	-8.4%	97%
Wealth Trust (WLTH)	41.8	+3.5%	100%
Alliance Finance (ALLI)	3.8	+26.7% YoY	100%
Commercial Credit (COCR)	3.0	-33.2%	100%
Janashakthi Finance (BFN)	1.8	n/a	0%
Senkadagala (SFCL)	1.0	-21.8%	0%
HNB Finance (HNBF)	0.5	-58.6% YoY	0%

-3.6%

Like-for-like holdings since year-end; Capital Alliance cut LKR 23.0 bn

+100 bp

Rise in the 5-year bond yield; FVTPL-heavy dealers posted losses

55%

of Seylan's holding is at amortised cost, shielded from price moves

Year-end = 31-Dec-25 (SEYB) or 31-Mar-26, YoY = vs 30-Jun-25 where no year-end figure is given. Yield: 9.78% to 10.78%, 31-Mar to 30-Jun-26 (FCT report).

53 CSE-LISTED COMPANIES • 30 JUNE 2026

Total investment in financial instruments

LKR 4.75 tn

Includes placements, repos and debt investments, excluding internal group transactions.

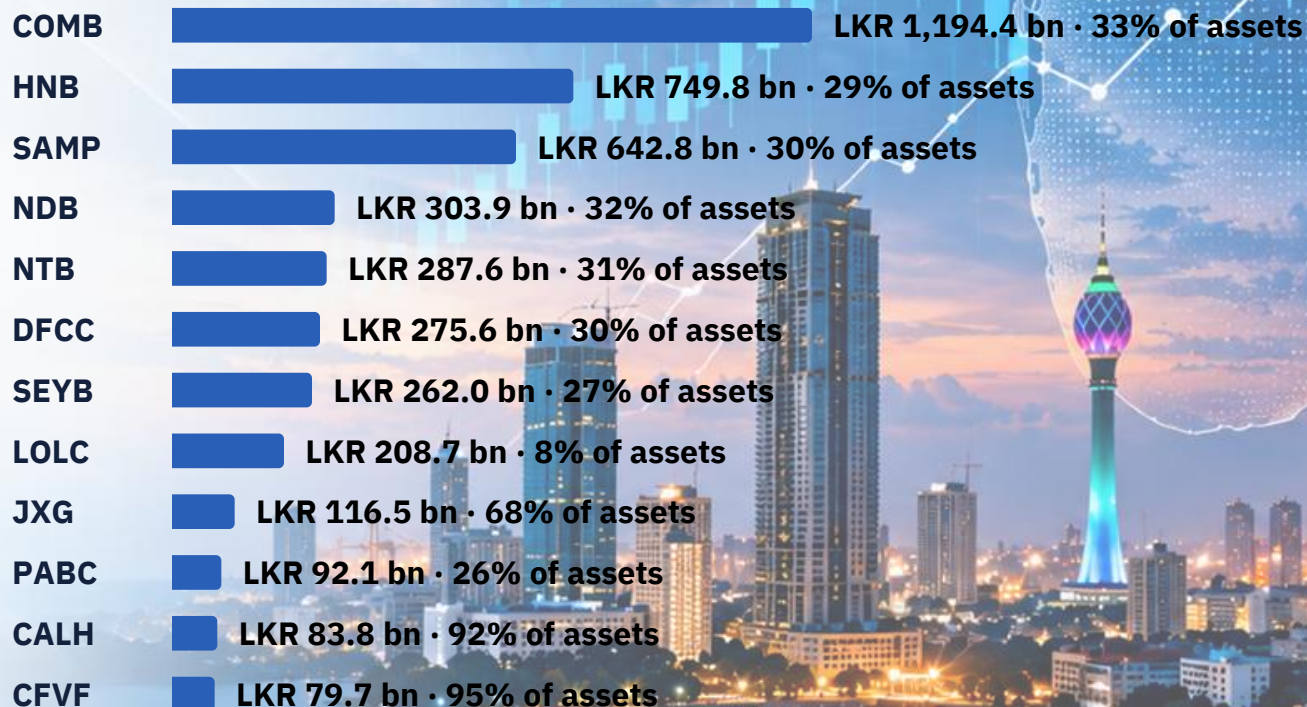
26.0%

Of the companies' combined assets, up 1.4% since year-end.

55%

FVOCI accounts for 27% (up 28% since year-end), FVTPL 10%, and placements and repos 8%.

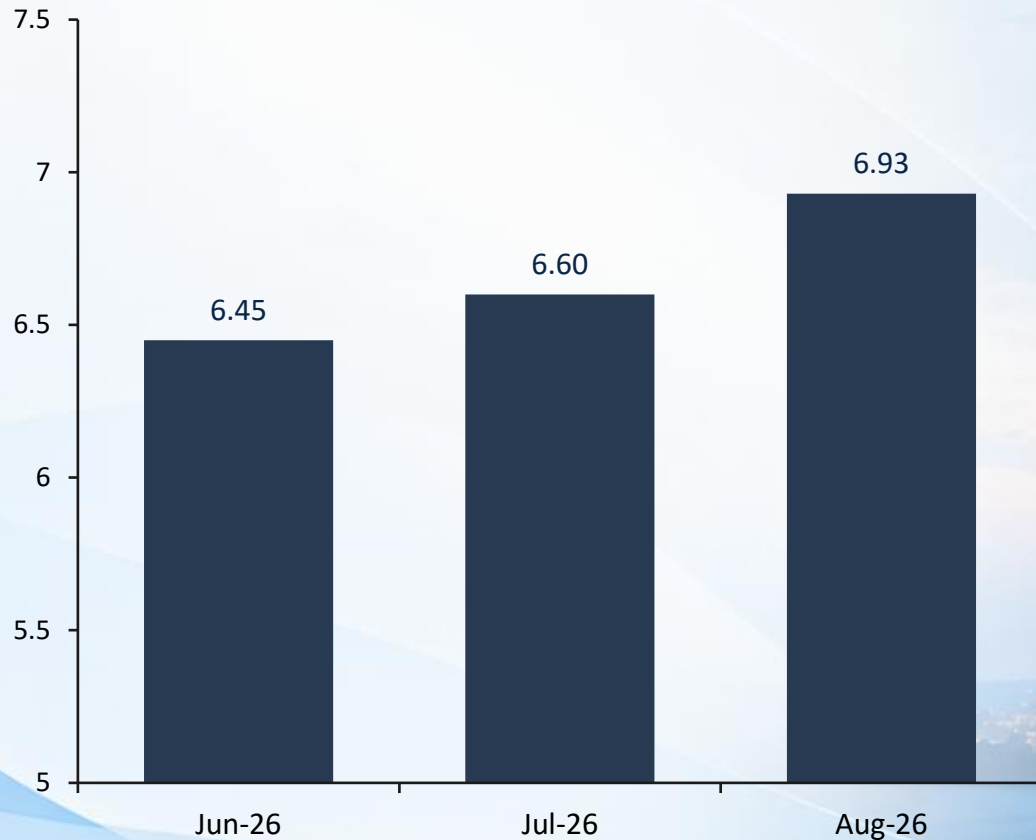
12 largest holders – banks hold 83% of the total



Source: company interim financial statements, period ended 30 June 2026. Excludes cash, loans, derivatives and investments in subsidiaries/associates.

External buffers are rebuilding

Gross official reserves (US\$ bn)



Rupee steady at 331.6

Flat on 20 Oct; 6.2% YTD depreciation as of 2 Oct, with CBSL a net buyer of US\$ 64 mn in September.



Current account back in surplus

August surplus after four months of deficits, helped by lower imports, tourism and remittances.



Fitch B- (Stable)

First B-category rating since November 2020; supports banks and corporates capped by the sovereign ceiling.



The caveat

Reserves still modest against heavier external debt service after 2028; IMF programme ends March 2027.

Sources: CBSL monetary policy statements and Weekly Economic Indicators, Fitch Ratings via Daily FT and Daily Mirror, EconomyNext.

Banks: offshore growth, early stress

+52%

Growth in banks' lending to overseas borrowers, year to June 2026

> 1/3

Share of banks' foreign-currency loans now booked offshore

Stage 2

Where Middle East-linked stress is starting to show in loan books



What it means for bank stocks

- Margins: higher rates since the May hike support NIMs, but private-sector credit growth is moderating.
- Asset quality is the swing factor: watch Q3 Stage 2 migration and impairments for lenders with Gulf-linked exposure.
- Banks led turnover on 20 Oct (Rs 251 mn): investors are repositioning within the sector, not exiting it.

Sources: CBSL data via Daily Mirror (20 Oct 2026), CBSL monetary policy statement (30 Sep), EconomyNext/NDB Securities

Sector watch: soft spots and bright spots



Plantations

Negative

Tea output down 3.28% in Jan–Sep to its lowest since at least 2016; all three elevations fell.



Power & industry

Watch

17 Oct island-wide blackout after a Norochcholai unit trip; ~1,700 MW of unmonitored solar destabilised the grid.



Renewables

Positive

Grid-code fixes under way; Vidullanka commissioned its 10 MW Ranna solar plant under a CEB PPA.



Construction

Mixed

Rs 15.1 bn Kolonnawa drainage plan and PPP bill approved; Access Engineering exits its logistics hub project.



FDI pipeline

Positive

NIRDC and BOI unblocked a US\$ 26.3 mn HDES Extracts project delayed for over a year.



Tourism

Mixed

Supports the current account, but August arrivals (191.7k) trailed August 2025 (198.2k).

Sources: Daily Mirror, EconomyNext, The Morning, CBSL Weekly Economic Indicators (4 Sep 2026).

Catalysts and risks ahead



Upside catalysts

- Brent settling below \$90/bbl, easing transport and power costs
- 20 Nov CBSL review: a steady hold with softer guidance
- Q3 earnings season in November resetting valuations
- IMF final reviews and clarity on post-programme support
- PPP law and a visible FDI pipeline



Downside risks

- Middle East escalation pushing oil back above \$100
- El Niño-driven food price shock
- Core inflation feeding second-round effects; more tightening
- Grid reliability and power cuts hitting industry
- Stage 2 loans migrating to Stage 3; post-2028 debt hump

SenFin Research assessment based on CBSL, IMF, Fitch and press reporting to 21 October 2026.

Discussion: positioning for the next quarter



Fixed income

Favour

Real yields of 3–4% with policy on hold argue for adding mid-tenor (2029–31) duration at 11.1–11.8%.



Equities

Selective

Thin volumes below 20,000 offer entry points in quality names; stay light on plantations and Gulf-exposed lenders.



Currency

Stable

Rising reserves and a current-account surplus support the rupee in the 330s; oil is the main threat.

Indicators we will track

Brent vs \$90

Core CCPI vs 5%

ASPI vs 20,000

CBSL review, 20 Nov

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