NEWS ROUND UP

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Contents

Sri Lanka stocks down 0.12-pct, rupee strengthens

Sri Lanka stocks ended down 0.12 percent on Friday amidst foreign selling in John Keells Holdings, as gilt yields increased and the rupee ended stronger at 169.20/40 rupees against the US dollar, market participants said.

Colombo's All Share fell 0.12 percent, down 7.13 points to 5,862.18, and the S&P SL20 of more liquid stocks was down 0.24 percent, falling 7.31 points to 3,002.

Market turnover was 633.6 million rupees with 92 stocks declining during the day against 57 that gained.

HNB (down 3.80 rupees to 210 rupees), Singer Sri Lanka (down 2 rupees to 30.20 rupees) and John Keells Holdings (down 50 cents to 131.50 rupees) contributed to the benchmark index decline.

Net foreign selling was 58.1 million rupees, down from selling of 110.5 million rupees the previous day.

Foreign selling in John Keells Holdings was 67 million rupees, according to Asia Securities.

There were two crossings in John Keells Holdings for 102.6 million rupees, accounting for 16 percent of market turnover.

The Sri Lanka rupee gained marginally to 169.20/40 rupees against the US dollar in the spot market Friday amidst intervention and short liquidity in money markets, market participants said.

The rupee ended Thursday at 169.35/55 rupees against the greenback.

Overnight money markets were short by 58.16 billion rupees on Friday with the central bank injecting 64 billion rupees during the day via term and overnight reverse repos including banks borrowing 32.54 billion from the overnight window.

Market analysts said short money markets can help strengthen the currency in a soft-peg regime.

The one month interbank offered rate rose to 9.09 percent on Friday from 9.00 percent three days earlier.

Gilt yields rose in the secondary market.

A five-year bond maturing in 2023 closed at 11.05/15 percent, up from the previous closing of 10.95/11.00.

An eight-year bond maturing in 2026 closed at 11.10/25 percent, up from 11.00/15 percent a day earlier.

A ten-year bond maturing in 2028 ended at 11.10/35 percent, up from 11.00/20 percent the previous close. (EconomyNext)

Sri Lanka halts tax free vehicles for ruling class to protect rupee

Sri Lanka has stopped the imports of tax free cars for members of the elected ruling class and state workers for one year to halt the slide of the rupee, which has a notoriously unstable soft-peg to the US dollar.

"Issuing of Vehicle permits to Members of Parliament will be suspended for a period of one year," the finance ministry said.

"Importation of vehicles for Government Ministries, Departments, Statutory Boards, State own Enterprises will be suspended until further notice.

"Importation of vehicle using the concessionary permits issued to entitled State Sector employees will be suspended for six months.

"No Letters of Credits will be permitted to be opened based on these permits during this period"

Sri Lanka has a neo-feudal style privilege where legislators and state workers have given themselves tax free and tax slashed cars, while taxing ordinary citizens on the street as much at 200 percent.

As part of other measures to reduce imports, a 200 percent deposit is now required to import vehicles other than, trucks, buses and ambulances.

The control is likely to hit state revenues further as cars attract high duty, while other imports are taxed at a lower rate.

Sri Lanka's rupee initially came under pressure from unsterilized excess liquidity in the banking system in July and August, but over the last two weeks large cash shorts have developed from interventions.

The interventions have been sterilized by printing about 118 billion rupees into the banking system by last Friday.

Economists and analysts have called for the central bank to be abolished in favour of a currency board to prevent political and economic instability and people can become prosperous in peace. (EconomyNext)

SriLankan Airlines cash-strapped even after capital injections

Sri Lanka's had ex-Treasury secretary had stopped SriLankan Airlines from turning bonds given as a capital injection to cash for spending, and limited the airline to using annual interest as a subsidy, a commission of inquiry heard.

The loss-making airline also could not use the bonds as collateral to get a loan, a SriLankan airline official said.

Head of Financial Management Yasantha Dissanayake, testifying at a Presidential Commission of Inquiry, said that Treasury Secretary Jayasundera had directed to issue Treasury Bonds of 14.3 billion rupees in February 2012, equivalent to 125 million dollars.

The airline required 287 million dollars in cash by March 2012 alone under a new five-year business plan, Dissanayake said.

The business plan required 510 million dollar injections of cash over the first three years. Another Rs. 12.6 billion in Treasury Bonds (100 million dollars) were issued for the airline in 2013, Dissanayake said.

He said Jayasundera had SriLankan from cashing the bonds by selling in secondary market.

"We could only hold the bond for 5 years and collect the interest given twice a year," Dissanayake said.

He said by this time, SriLankan was in the middle of implementing a restructuring under the new business plan, since it was approved by Cabinet in August 2011.

The new business plan was formulated in 2010 as Jayasundera had thought the 2008 business plan was not aggressive enough, Dissanayake said.

Under the new aggressive business plan, airline had started expanding its fleet, upgrading business class cabins, setting up new IT systems and infrastructure, a flight simulator to train pilots locally, an amphibious air taxi operation and flights to new destinations, Dissanayake said.

He said SriLankan required cash to pay suppliers for all these activities, as well as for the expected start of ground handling operations at the Mattala and Ratmalana Airports, fuel bills for the Ceylon Petroleum Corporation and bills of Airport & Aviation Services.

Senior Deputy Solicitor General Niel Unamboowe questioned whether Jayasundera not giving cash, and restricting the cashing of Treasury Bonds jeopardized the operation of the airline.

Dissanayake agreed, saying that the business plan could not be fully followed.

The business plan had called for cash, and an August 2011 cabinet decision had approved 500 million dollars to be injected as cash into the airline over five years through the national budget.

The following budget speech in November 2011 had talked of investing Rs. 10 billion in cash, and not Treasury Bonds, to implement the business plan, Dissanayake said.

Unamboowe repeatedly questioned whether Jayasundera single-handed defied the cabinet decision and the budget passed in parliament.

Dissanayake, while initially saying "It appears so" later said "Yes".

He said the business plan attempted to improve the airline’s revenue, as its yield per customer was lower than the norm.

He said a research report presented to Jayasundera showed that SriLankan's cost per kilometre was lower than regional competitors.

However, Jayasundera had asked the airline to cut down on costs, Dissanayake said.

He said according to Jayasundera, Treasury Bonds were given instead of cash, since he wanted the company's balance sheet to improve, so that it could seek financing outside the government.

Dissanayake said initially, the Treasury Secretary had allowed the two Treasury Bonds to be used as collateral for loans.

However, after SriLankan had negotiated with NDB Investment Bank and Barclay's Singapore to get loans, Jayasundera had stopped the airline from using the Treasury Bonds as collateral, Dissanayake said.

He said during the entire time, Jayasundera was constantly questioning the airline whether it was negotiating a 170 million dollar syndicated loan with the Middle East based Mashreq Bank.

Dissanayake recalled that during one meeting at the Treasury, the first words out of Jayasundera's mouth were inquiring about the progress with Mashreq Bank.

Upon questioning, Dissanayake said Mashreq Bank was introduced through the Bank of Ceylon, also owned by the Treasury.

Mashreq Bank kept asking for Treasury Guarantees for a loan, he said. Then-President Mahinda Rajapaksa had prevented guarantees from being given to SriLankan, he said.

However, Jayasundera had approved a Treasury Letter of Comfort for the Mashreq loan, Dissanayake said.

Unamboowe questioned whether a Letter of Comfort given by the Treasury is similar to a Treasury Guarantee.

"Technically no, but practically, yes," Dissanayake said.

By 2013, SriLankan had only the 175 million dollar loan from Mashreq Bank as cash injections, and even the loan now needed repayment.

The business plan in contrast required 287 million dollars in 2011/12, another 183 million dollars in 2012/13 and finally 40 million dollars in 2013/14.

The airline had requested the Civil Aviation Ministry to seek cabinet approval to convert the two Treasury Bonds to cash, Dissanayake said.

Both the Central Bank and the Strategic Enterprise Management Agency had written to the Cabinet recommending the Treasury Bonds to be converted to cash, Dissanayake said, reading cabinet minutes. However, Rajapaksa had then blocked the conversion, Disanayake said.

The inquiry heard that the Treasury had at the last minute blocked an attempt to list SriLankan Catering to raise 42 million dollars for the airline. (EconomyNext)

Sri Lanka controls imports in 'Nixon-shock' move to protect soft-pegged rupee

Sri Lanka slapped a series of import restrictions on vehicles, consumer durables and perfumes in a Nixon-shock style move as the island's notoriously mis-managed unstable soft-peg came under pressure from excess liquidity and later sterilized interventions.

The finance ministry said importers of all vehicles other than buses, lorries (trucks) and ambulances have to keep a 200 percent cash margin to open letters of credit (double the value of a vehicle), up from a recently raised 100 percent.

The loan to value ratio for hybrid cars had been raised so that banks could now only give half the loan, rather than an earlier 70 percent.

A 100 percent margin has been slapped on the import of Refrigerators, Air Conditioners, Televisions, Perfumes, Telephones including Mobile phones, washing machines, footwear and tyres.

"The Government in order to ease the pressure on the Sri Lankan rupee has decided to take the following measures temporarily effective from midnight today Saturday (29), the statement said.

"The government will continuously monitor the exchange rate fluctuations and will take appropriate action accordingly."

Sri Lanka's rupee came under pressure initially from unsterilized excess liquidity built up by the central bank in July which was not followed up with unsterilized sales.

But in the last week of September massive liquidity shortages developed from intervention in the interbank market and elsewhere, which have been sterilized with 123 billion rupees of printed money, indicating a forex reserve loss of over 700 million dollars. A float is required to break the cycle of interventions and liquidity injections (sterilized forex sales)

Analysts had warned that Sri Lanka's rupee would come under pressure due to the tendency of the central bank to cut rates as the economy recovered despite operating a de facto soft-peg. (Sri Lanka is recovering, Central Bank threat looms: Bellwether)

The statement echoed the words of President Nixon, who floated the US dollar, after it came under pressure from attempts to boost growth by on the basis of an output gap, despite operating a soft-peg with gold.

"Let me lay to rest the bugaboo of what is called devaluation," President Nixon said at the time shortly before convertibility was suspended to float the dollar.

"If you want to buy a foreign car or take a trip abroad, market conditions may cause your dollar to buy slightly less.

"But if you are among the overwhelming majority of Americans who buy American-made products in America, your dollar will be worth just as much tomorrow as it is today.

"The effect of this action, in other words, will be to stabilize the dollar"

Analysts had warned two years ago that the administration's free trade agenda was under threat from the soft peg. (Sri Lanka central bank has to be restrained for free trade to succeed: Bellwether)

The credibility of the soft-peg was initially hit by contradictory policy (running a 'flexible exchange rate' with unsterilized excess liquidity) in July and August, despite the finance ministry making difficult reforms, in the form of tax hikes and market pricing fuel.

Imports are a key source of tax revenues and cars bring over 100 percent in taxes compared to any other import. Restriction on cars will further hit taxes.

The central bank has printed over 120 billion rupees over the past two weeks to sterilize interventions made in several ways.

Analysts have proposed several ways to overhaul the operating procedures of the central bank so that contradictions in its de facto dual anchor monetary regime (soft-peg) is eliminated (What Sri Lanka can do to improve the credibility of its soft-dollar peg: Bellwether). (EconomyNext)

Japan up but Asia shares struggle in thin holiday trade

Japanese shares powered to new highs on Monday but other Asian equity markets struggled as holidays in key hubs resulted in a subdued start to the trading week.

Japan's Nikkei index powered from strength to strength, climbing again above a 27-year-high that it narrowly failed to take out at the end of last week.

Investors shrugged off a disappointing business confidence survey and a fierce typhoon that raked the entire country, pushing the main Nikkei 225 index up 0.54 percent to 24,250.88 points.

Traders were encouraged by a weaker yen against the dollar, which is usually positive for Japan's export-driven economy. The greenback rose to 113.89 yen in early trade, from 113.67 yen late Friday in New York.

A powerful typhoon that impacted the entire country caused less damage than feared, which also boosted investor sentiment.

However, analysts warned that traders could be looking to take some cash off the table following healthy gains in recent days.

"While the market maintained its strong momentum, it would be no surprise to see investors cash in on the recent gains at any time," Hikaru Sato, senior technical analyst at Daiwa Securities, told AFP.

Elsewhere in the region, South Korea's Kospi index was off 0.2 percent and Australian equities were lower by 0.5 percent in thin trade due to a public holiday.

Markets in China and Hong Kong were closed for a public holiday.

Data released on Sunday showed that Chinese factory activity slowed in September, as the Asian giant's trade war with the United States showed no sign of abating.

Stock markets in the region appeared little moved by news that the US and Canada had reached a trade deal, according to the Canadian media.

However the Canadian dollar jumped on the rumours a deal had been reached. At around 11am in Tokyo (0200 GMT), the loonie was up 0.7 percent from its Friday close at $1.2814.

In other markets, oil continued to climb as fears that US-Iran tensions and instability in the Middle East could push prices towards the $100 per barrel mark.

Both Brent Crude and the WTI index moved higher by around a quarter of one percentage point.

Foreign exchange markets were relatively calm, a climb in the dollar's value against the yen providing a boost to Japanese exporters.

The pound was down against the dollar as British Prime Minister Theresa May gathered her ruling Conservative Party in the central city of Birmingham facing an open revolt by former colleague Boris Johnson over her plans for Brexit.

- Key figures around 0230 GMT -

Tokyo - Nikkei 225: UP 0.5 percent at 24,250.88

Hong Kong (closed) - Hang Seng at 27,788.52

Shanghai (closed) - Composite at 2,821.35

Euro/dollar: UP at $1.16 from $1.1591 on Friday

Pound/dollar: DOWN at $1.3034 from $1.3053 on Friday

Dollar/yen: UP at 113.94 yen from 113.39 on Friday

Oil - West Texas Intermediate: UP 19 cents at $73.44 per barrel

Oil - Brent Crude: UP 25 cents at $82.98 per barrel

New York - Dow Jones: Close at 26,458.31

London - FTSE 100: Close at 7,510.20 (AFP)

US and Canada reach deal on NAFTA

Canada has agreed to sign on to a trade deal between US and Mexico, preserving the three-country North American Free Trade Agreement after more than a year of tortuous negotiations, a US official and a Canadian official told CNN late Sunday.

The US and Canadian governments agreed to a deal that would allow greater access to Canada's dairy market and address concerns about potential auto tariffs just hours before a self-imposed midnight deadline, the officials said.

Further details are expected before midnight.

Negotiators from all three countries spent all weekend working over the phone, hoping to keep the trilateral deal intact.

Earlier in the evening, President Donald Trump was briefed on the nearly finalized negotiations by US Ambassador Robert Lighthizer and White House adviser Jared Kushner.

The new treaty is expected to be signed by Trump and his Mexican and Canadian counterparts. Congress will then have 60 days to review and approve the new deal.

Ahead of the weekend's talks, several lawmakers had warned that they would not support a deal without Canada.

"It would be a monumental mistake to do this without Canada," US Senator Ron Wyden of Oregon, the top Democrat on the Senate committee that oversees trade, said Friday, before the text was delivered. "It's basically surrendering on fixing NAFTA."

The Trump administration has been working to sign a new trade deal before Mexican President Enrique Peña Nieto leaves office on December 1. To meet that deadline, the text of the agreement had to be submitted to Congress before October.

Negotiators from the three countries began talks about updating NAFTA more than a year ago. Trump had campaigned on ripping up the trade pact, calling it "the worst deal maybe ever signed."

In August, the United States and Mexico resolved an issue over auto manufacturing, but several sticking points with Canada remained. Trump wanted Canada to open its dairy market to US farmers, and Canada wanted to preserve a mechanism for resolving disputes.

Canada and Mexico are two of the biggest trading partners with the United States. A deal that leaves one of them out could cause chaos for businesses that rely on imports.

The US Chamber of Commerce has said it would be "unacceptable to sideline Canada, our largest export market in the world." Vehicles, machinery, and agricultural products make up much of the goods traded.(CNN)