NEWS ROUND UP

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Govt. ups tax on small and eco-friendly cars

The Finance Ministry yesterday revised upwards the excise duty levied on vehicles with engine capacity less than 1000cc, to control the heavy outflow of foreign exchange.

Accordingly, the duty on vehicles with less than 1000cc engine capacity has been increased to Rs.1.5 million, while slapping a Rs.1.25 million duty on hybrid and electric vehicles with less than 1000cc engine capacity.

The Finance Ministry, issuing a statement, said that these tax amendments would not, however, affect the letters of credit (LCs) opened before 1 August 2018, and that these new taxes are not applicable for vehicles cleared before 31January 2019.

It was noted that the Government's decision to revise taxes on small cars was an upshot of the heavy outflow of foreign exchange observed in the recent past.

"The decision to revise tax structure came into light after monitoring the heavy outflow of foreign exchange to import small cars, particularly small hybrid cars below 1000cc, while also considering the rising fuel importation cost. In addition, the authorities also felt due to high influx of vehicles, it caused heavy traffic within main city limits," a top official from the Treasury told the Daily FT.

Referring to the statistics regarding imported goods to the country, he said motor vehicles ranked number two, after fuel imports.

Vehicle Importers Association of Sri Lanka (VIASL) Chairman Ranjan Peiris noted that the price of petrol vehicles with engine capacity less than1000cc would be increased by Rs.350,000, while electric and hybrid vehicles below 1000cc engine capacity would be increased by Rs.415,000.

"Hybrid vehicles such as Suzuki Hustler, Suzuki Wagon R, Suzuki SpaciaC vehicles will be increased. Petrol vehicles below 1000 cc including Suzuki Alto (Japan), Daihatsu Mira, Honda N-BOX, Honda N WGN (Wagon), Nissan Dayz and Toyota Pixis Epoch would be increased," he said.

Considering the current market condition, he said the prices of the vehicles will start to increase from mid-September, thus advising any potential buyers to place their LCs as soon as possible.

An AFP report said according to the latest data, out of 5,190 new cars registered in the country in April, more than half (2,619) were the small hybrid Suzuki models.

Only last November the Government reduced duties on electric and hybrid cars as part of its plans to phase out fossil fuel vehicles by 2040 in the island nation of 21 million people.

The new announcement came as the central bank warned that car imports had inflated the trade deficit by $700 million year-on-year to $4.9 billion for the first five months of 2018.

Sri Lanka's rupee has been under pressure this year with the local currency losing over four percent of its value against the dollar in the first seven months amid a surge in imports.

Last year, Finance Minister Mangala Samaraweera announced plans to replace all state-owned vehicles with electric or hybrid models by 2025, a move that will be extended to private vehicles by 2040.

Sri Lanka had joined Britain and France in announcing plans to phase out fossil fuel vehicles by 2040. India wants to make new vehicle sales all-electric by 2030.

Sri Lanka had around 7.2 million vehicles, most imported from Japan and India, on its roads at the end of 2017, including over 720,000 cars. (DailyFt)

Govt. lights up more taxes on cigarettes

The Finance Ministry yesterday announced that the excise duty on cigarette has been increased by Rs. 3.80 per stick with immediate effect.

With the upward revision of excise duty, price of a cigarette has increased to Rs. 5 per stick. (DailyFt)

NDB seeks strategic foreign investor for Rs.6.2 b Rights Issue

National Development Bank (NDB) on Tuesday said it is keen to find a strategic partnership with a foreign investor for the upcoming Rights Issue to raise Rs.6.2 billion.

"We are considering in getting a strategic foreign investor partnership for the upcoming rights issue, and it will be good for both bank and country," NDB Chairman Ananda Atukorala told the Bank's Investor Forum on financial results for the first half of 2018.

With strategic foreign partnership is on its wish list, Chairman added that the Bank was already in discussions with several foreign investors, following participation at the Investor Forum organised by the Colombo Stock Exchange in Singapore this year.

Atukorala said the rights issue will enable the Bank to finance its capital necessities, in line with Basel III requirements, and its ambitious growth plans of becoming a Systemically Important Bank by 2020. (CdS) (DailyFt)

CB seen holding rates to spur growth

The Central Bank is expected to keep key interest rates steady at its policy review on Friday as it looks to spur faltering economic growth amid heavy downward pressure on the Nation's currency, a Reuters poll showed.

The Central Bank unexpectedly cut its key lending rate by 25 basis points in April to support the economy, but policymakers must also defend a fragile rupee and prevent outflows as emerging markets come under pressure from rising US interest rates.

Out of 13 economists surveyed, 12 expected the Central Bank of Sri Lanka (CBSL) to keep its standing deposit facility rate (SDFR) and standing lending facility rate (SLFR) unchanged at 7.25% and 8.50%, respectively.

One analyst expected a 50 basis point cut in the SLFR.

Again, 12 out of 13 analysts saw the statutory reserve ratio (SRR) remaining steady at 7.50%, while one saw an increase of 100 basis points.

"Even though private sector credit and inflation are rather managed, the CBSL is likely to hold off on a rate cut given the tightening global monetary environment which is causing other central banks in Asia to even look towards rate hikes," said Frontier Research in Colombo Product Head Trisha Peries.

"A rate cut could further incentivise investors to reduce their holdings in local securities."

The Nation's economy grew 3.3% in 2017, a 16-year low, and Government officials have forecast growth of around 4.5% this year, which would still be below the recent peak of 5.0% growth in 2015.

Peries expects an increase in fiscal spending in the lead up to presidential elections later next year and possible provincial council elections in early 2019. She said that could put upward pressure on rates.

She also said that the rupee market would be heavily driven by global factors in the near term.

Spot rupee hit an all-time low of 160.17 per dollar on 20 June and is down 4% so far this year, after falling 2.5% in 2017. Currency dealers expect a total decline of 6% this year.

Since 18 April, Sri Lanka has seen Rs. 34.5 billion ($ 216 million) of foreign outflows from government securities, Central Bank data shows.

A strengthening dollar since mid-April has increased the credit risk of several emerging markets, including Sri Lanka, due to currency depreciation, ratings agency Moody's said yesterday.

Previous rate increases, along with tight fiscal measures to meet conditions imposed by the International Monetary Fund for a $ 1.5 billion loan, have dragged on the country's economy. (DailyFt)

Prime Finance raises Rs. 864 m via Rights

The fully subscribed Rights Issue of Prime Finance PLC has raised Rs. 864 million capital in cash considerations. The allotment was completed in July 2018.

With this successfully completed Rights Issue the Core capital of Prime Finance exceeded Rs. 1.4 billion, which is well above the regulatory threshold of Rs. 1 billion stipulated by the Central Bank of Sri Lanka.

Prime Finance PLC is a member of Prime Group, which is the market leader in Real Estate sector in Sri Lanka, and has been awarded the "Best Property Developer in 2018" at the Property Guru Asia Property Awards recently.

Prime Finance went for a rights issue of 43.2 Million ordinary shares in the proposition of 6 Shares for every 5 shares held at the price of 20 Rs per share amounting to Rs 864 million. The enhanced core capital base would enable the company to strategically position itself to sustain future growth and stability of the company.

Speaking of the overall progress of the company, Prime Finance Chief Executive Officer Rasika Kaluarachchi said: "With the well-thought-out & clearly defined marketing strategy, our Secured Lending Portfolio has grown steadily to reflect a remarkable growth, together with impressive profit growth as well, when compared with previous year."

"First quarter of this Financial Year ended 30 June too has shown vibrant results. As a result of some important factors, such as a sustainable business model which is built on the synergistic capabilities of the group, the unique business acumen and expert direction given by a farsighted Board of Directors, coupled with the utmost professionalism of the management team, Prime Finance PLC has succeeded," he added.

Prime Group, with over 22 years of service to the public of Sri Lanka, and which prides itself on winning the much coveted "Great Place To Work" award for the fourth consecutive year in 2018, and going even further to be named as one of "Asia's 100 Greatest Brands", is solidly behind Prime Finance's journey towards excellence. Strengthened by all these achievements, the overall strategies of Prime Finance are well in place to move forward with confidence and to face any challenges in the future. (DailyFt)

Rupee ends marginally firmer in dull trade

The Sri Lankan rupee ended marginally firmer in dull trade yesterday, as selling off dollars by banks surpassed mild demand for greenbacks from importers, traders said.

The rupee, which traded at 159.75 rupees per dollar during the day, ended firmer at 159.55/65 per dollar, compared with Tuesday's close of 159.65/75. It has declined 3.9% so far this year and had hit a record low of 160.17 on 20 June.

"Trading was very dull today and there was not much of importer demand after the vehicle import tax hike," said a currency dealer, asking not to be named.

The Finance Ministry yesterday imposed a minimum duty of Rs. 1.25 million on any hybrid car with an engine capacity of less than 1,000 cubic centimetres.

Sri Lanka's Central Bank Governor Indrajit Coomaraswamy had said earlier that the rupee's decline was driven mainly by factors outside of Sri Lanka, and that emerging-market currencies were under pressure.

Foreign investors sold government securities worth a net Rs. 4.6 billion ($28.83 million) in the week ended 25 July, bringing the outflows so far this year to Rs. 36.2 billion, Central Bank data showed. (DailyFt)

CSE dips to near 3-week closing low on foreign selling

Sri Lankan shares ended weaker yesterday, hovering at their lowest close in three weeks, as foreign investors offloaded blue-chip stocks such as John Keells Holdings PLC, while lacklustre corporate results dented sentiment further.

The Colombo stock index ended 0.29% weaker at 6,129.32, near its lowest close since 12 July. The bourse dropped 3.8% so far this year.

The index dropped 0.47% last week, marking its first weekly decline in three.

Turnover stood at Rs. 374.4 million ($2.35 million), less than this year's daily average of Rs. 852.6 million.

"The market is down mainly because of the foreign selling," said First Capital Holdings research head Dimantha Mathew.

"Today the local buying was not there to absorb foreign selling," he added.

Foreign investors sold equities net worth Rs. 116.4 million yesterday, extending the year-to-date net foreign outflow to Rs. 2.6 billion worth of equities so far this year.

A downward revision in economic growth estimate earlier this month by the Central Bank also hurt sentiment, analysts said.

Economic growth in 2018 is likely to be between 4% and 4.5%, falling short of an earlier estimate of 5%, Central Bank Governor Indrajit Coomaraswamy said earlier this month.

Shares in conglomerate John Keells Holding PLC ended down 2.6%, while Melstacorp Ltd closed 3% lower. The biggest-listed lender Commercial Bank of Ceylon PLC ended 1.5% down and Distillers Company of Sri Lanka PLC closed 0.4% down. (DailyFt)

Asian shares in July post their first gain in three months

Asian stocks posted marginal gains in July after two straight months of declines as strong second-quarter earnings bolstered regional shares amid simmering trade tensions between China and the United States.

In July, the MSCI Asia-ex-Japan index rose 0.67%, marking its first monthly gain since April.

Thai shares and Philippine stocks advanced about 6.5% during July, while Indian shares gained 6%. Thomson Reuters data showed that 53.6% of Asian companies have exceeded or met the consensus analyst forecasts for the second quarter earnings so far.

South Korean stocks lagged others in the region, with a fall of 1.33% in July.

New Zealand, India and Australia stocks have the highest price-earnings ratio based on 12-month forward earnings in Asia, according to Thomson Reuters data. (DailyFt)

Downward momentum in weekly averages continue

The downward momentum in the weekly Treasury bill auctions continued at yesterday's auction as well, with the total offered amount of Rs. 24.5 billion being successfully subscribed. The 91 day bill recorded the sharpest decrease of 07 basis points to 8.17% closely followed by the 364 day bill by 04 basis points to 9.23%. All bids received on the 182 day bill were rejected while the bids to offer ratio increased to a 3.2:1.

The secondary bond market witnessed continued buying interest yesterday amidst high activity as yields on the liquid maturities of two 2021's (i.e. 01.03.21 and 01.05.21), 01.10.22, 15.03.23, 01.08.24, 15.06.27 and 01.09.28 were seen dipping to intraday lows of 9.60%, 9.65%, 9.90%, 9.96%, 10.03%, 10.28% and 10.25% respectively against its previous day's closing level of 9.68/73, 9.75/80, 9.95/00, 10.02/07, 10.10/15, 10.25/35 and 10.30/35. In addition, activity was witnessed on the 01.07.2019 01.05.20 and 01.08.2021 maturities at levels of 9.20%, 9.45% and 9.65% to 9.76% respectively. In the secondary bill market, January, February, March, May and July 2019 maturities were traded at levels of 8.70% to 8.75%, 8.85%, 8.90% to 9.00%, 9.11% to 9.13% and 9.18% to 9.20% respectively.

The total secondary market Treasury bond/bill transacted volumes for 31 July was Rs. 12.69 billion.

In money markets, the overnight call money and repo rates averaged 8.38% and 8.28% respectively as the net surplus liquidity stood at Rs. 37.12 billion yesterday. No OMO (Open Market Operations) auctions were conducted for a second consecutive day.

Rupee appreciates marginally

The rupee rate on its spot contract was seen appreciating marginally yesterday to close the day at Rs. 159.55/65 against its previous day's closing levels of Rs. 159.70/80.

The total USD/LKR traded volume for 31 July was $ 65.16 million.

Some of the forward USD/LKR rates that prevailed in the market were 1 Month - 160.35/55; 3 Months - 161.95/15 and 6 Months - 164.30/50. (DailyFt)

Susantha Ratnayake retires from CTC Board

Ceylon Tobacco Company PLC (CTC) yesterday announced that Susantha Ratnayake, who served as the Chairman of the Board of Directors of the Company, retired from the position with effect from 31 July, having completed a term of five years as Chairman, and a term of six years as a Non-Executive Independent Director.

Having joined the Company's Board as a Non-Executive Director in 2006, over a period of a decade, Ratnayake's contribution to the Company and the Board has been immense, providing leadership, guidance, and advice with his experience, knowledge, and expertise.

In a statement, CTC said that as the Chairman, Ratnayake always provided direction with his business insight in setting the company's strategic agenda. His contribution as a member of the Audit Committee to mitigate risks and ensure compliance has been invaluable. As CSR Committee Chairman, Ratnayake supported and guided the CTC team in developing and carrying out CSR programs which have won many awards and enhanced the corporate reputation of the Company.

The Company in its statement said it also deeply appreciates the guidance and support received from Ratnayake to navigate through difficult circumstances, during times when the business faced regulatory and other external challenges. "The management and employees of the Company take this opportunity to wish him all the very best in his retirement," the CTC statement added. (DailyFt)

Stocks Fall; Japan Yields Rise, Treasuries at 3%: Markets Wrap

Asian stocks declined as trade worries came back to the fore, while Japan's 10-year bond yield continued to rise Thursday to the highest in almost 18 months following the central bank's decision earlier this week to allow for wider movements. Treasury yields held at 3 percent.

China and Hong Kong equity indexes led declines across the region. Earlier, trade concerns weighed on the S&P 500 Index, overshadowing positive Apple Inc. earnings. The 10-year JGB yield rose to 0.145 percent, its highest since February 2017. Ten-year Treasury yields touched 3 percent for the first time since June as the Federal Reserve unanimously decided to leave rates unchanged while making it clear borrowing costs are headed higher. The offshore yuan stabilized.

Higher U.S. tariffs on Chinese goods look increasingly likely. President Trump asked the U.S. Trade Representative to consider increasing proposed levies on $200 billion in imports to 25 percent from 10 percent, which could be implemented as soon as next month. The move comes just as Washington and Beijing are exploring ways to get back to the negotiating table.

"Markets are now wary of the next step in the trade war between the U.S. and China," Nick Twidale, chief operating officer at Rakuten Securities Australia, said in a note. "With the U.S. threatening to increase tariffs to 25 percent from 10 percent and the Chinese vowing not to react to 'blackmail' to get them back to the negotiating table, this could be the catalyst that tips sentiment and some markets into a tailspin to the downside especially as we enter the lower liquidity holiday trading season."

With the Bank of Japan and Fed now out of the way, focus turns to the Bank of England. Later Thursday, the central bank is expected to raise its key rate by 25 basis points to 0.75 percent, with Bloomberg Economics projecting an 8-1 vote.
Guggenheim's Minerd Sees Increased Risk of Financial Rout in Third or Fourth Quarter

Scott Minerd, Guggenheim Partners co-founder and global chief investment officer, discusses Fed policy and markets.
Source: Bloomberg

Elsewhere, oil steadied around a two-week low after a surprise gain in U.S. crude inventories exacerbated supply concerns. Turkey's lira hit a record low as the U.S. imposed sanctions on its NATO ally over the imprisonment of an American pastor.

Malaysian trading was disrupted due to a technical problem. Read more on that here.

Here are some events to watch out for during the remainder of this week:

- Earnings season continues with Berkshire Hathaway, Barclays, Toyota and BMW among companies reporting results.
- The U.S. jobs report is on Friday, and is predicted to show a healthy labor market, with 190,000 new jobs.

These are the main moves in markets:
Stocks

- Japan's Topix index fell 0.2 percent as of 11:03 a.m. in Tokyo.
- Australia's S&P/ASX 200 Index declined 0.2 percent.
- Hong Kong's Hang Seng Index slid 1.4 percent.
- Shanghai Composite Index lost 1.8 percent.
- The S&P 500 Index futures were flat.

Currencies

- The yen added 0.2 percent to 111.56 per dollar.
- The offshore yuan was steady at 6.8250 per dollar.
- The euro bought $1.1664.
- The British pound was at $1.3121 prior to the BOE decision.
- The Bloomberg Dollar Spot Index was flat.

Bonds

- The yield on 10-year Treasuries traded at 3 percent.
- Japan's 10-year yield reached 0.145 percent.
- Australia's 10-year bond yield jumped almost five basis points to 2.74 percent.

Commodities

- West Texas Intermediate crude added 0.5 percent to $67.99 a barrel after sliding 1.6 percent.
- Gold was up 0.3 percent to $1,219.95 an ounce.
- Copper fell 0.2 percent to $6,156.50 a ton, adding to a 2 percent tumble Wednesday. (Bloomberg)