NEWS ROUND UP

Wednesday, August 02, 2019

Contents

July inflation slows to 3.3%

Inflation, as measured by the change in the Colombo Consumers' Price Index (CCPI), reduced to 3.3% in July from 3.8% in June, latest data from the Department of Census and Statistics said.

The CCPI for all items declined marginally in July 2019, to 130.0 from 130.2 in June 2019. A decrease in the index point by 0.18% was due to the expenditure value decrease of Food items by -0.22% and increase of Non-Food items by 0.03%.

The year-on-year (YoY) inflation of Food Group has decreased from -1.0% in June 2019 to -2.6% in July 2019 while that of Non-food Group has decreased from 6.0% in June 2019 to 5.9% in July 2019.

For the month of July 2019, on year-to-year basis, contribution to inflation by food commodities was -0.79%. The contribution of Non-Food items was 4.13%.

The moving average inflation rate for the month of July 2019 remained unchanged from June at 4.2%.
(DailyFt)

CSE's ASPI records highest monthly gain since 2012

The Colombo stock market's All-Share Price Index (ASPI) has ended July with the highest monthly gain since 2012, NDB Securities said yesterday.

"During the month, the ASPI and the S&P SL20 gain 10.48% and 19.50% respectively whilst recording an average daily turnover of Rs 1.1 billion," it said.

The gain is despite the last two days of the market witnessing a dip, a move brokers linked to profit taking.

A Reuters report said shares fell for a second straight session on Wednesday, dragged down by banking and telecommunication shares.

The country's benchmark stock index closed 0.28% down at 5,935.34, but ended the month 10.5% higher. The index is down about 1.93% so far this year.

The country's stock market had a turnover of Rs. 1.1 billion ($6.24 million), nearly twice this year's daily average of about Rs. 638.9 million so far. Last year's daily average came in at Rs. 834 million.

Foreign investors sold a net Rs. 361.1 million worth of shares on Wednesday, but they have been net buyers of Rs. 796.1 million worth of equities so far this year, according to index data.

Shares of Sampath Bank PLC fell 3.2%, the biggest listed lender Commercial Bank of Ceylon PLC declined 1.1%, DFCC Bank PLC ended 4.03% weaker, and Sri Lanka Telecom PLC closed 0.34% down.

The rupee ended a tad weaker at 176.30/45 per dollar compared to Monday's close of 176.25/30.

However, the rupee is up 3.6% so far this year.

Foreign investors sold a net Rs. 3.74 billion worth of government securities in the week ended 24 July, extending the year-to-date net foreign outflow to Rs. 22.19 billion, Central Bank data showed.
(DailyFt)

Sri Lanka shares end near 1-week low on selling in banks; rupee weaker

Sri Lankan shares fell for a third straight session on Thursday to near one-week low, dragged down by banking and diversified shares, while the rupee ended weaker due to importer dollar demand. The country's benchmark stock index closed 0.64% down at 5,897.26.

The index is down about 2.56% so far this year.

The stock market had a turnover of Rs. 682.7 million ($3.87 million), just above this year's daily average of about Rs. 639.3 million so far. Last year's daily average came in at Rs. 834 million.

Foreign investors sold a net Rs. 169.7 million worth of shares on Thursday, but they have been net buyers of Rs. 626.4 million worth of equities so far this year, according to index data.

Shares of biggest listed lender Commercial Bank of Ceylon PLC fell 3.01%, Hatton National Bank PLC declined 2.7%, conglomerate John Keells Holdings PLC ended 0.7% weaker, and Ceylinco Insurance PLC closed 4.74% down.

The rupee slipped for a fourth straight session and ended weaker at 176.50/60 per dollar compared with Wednesday's close of 176.30/45.

However, the rupee is up 3.5% so far this year.

The Central Bank left key interest rates unchanged on 11 July as expected, after cutting them in May to support the economy as tourism and investment plummeted in the wake of deadly suicide bombings in April.

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(DailyFt)

SEC, CSE and FITIS engage tech companies on capital raising opportunities

The Colombo Stock Exchange (CSE) in association with the Securities and Exchange Commission continued the drive to raise awareness on accessing funding through public markets among potential issuers by organising an exclusive forum for the membership of the Federation of Information Technology Industry Sri Lanka (FITIS) recently.

Tech companies present at the forum were offered perspective on capital raising opportunities available through going public, where the event also featured a special discussion on the Empower Board launched by the CSE.

Speaking at the event, FITIS Chairman Abbas Kamrudeen outlined the importance of the IT industry and all stakeholders taking the initiative to drive digital transformation in Sri Lanka, while noting that equity-based funding will offer IT companies opportunities to pursue growth and realise value.

CSE CEO Rajeeva Bandaranaike highlighted the multiple entry channels available for companies to list on the stock exchange, noting that with the launch of the Empower Board, CSE now has the capacity to cater to both large and SME type equity placements. He went on to note that a listing on the CSE is a hallmark of prestige and a strong appetite for new equity listings among both local and international investors indicate strong fund-raising potential for companies.

The forum also offered insights on why a new wave of tech companies globally are accessing funding through public markets and key learnings from recent large international tech IPOs through a presentation by CAL Head of Investment Banking Vishnu Balachandran.

The presentation also featured key insights into why Sri Lankan companies should consider going public, timing an IPO and the benefits of listing on a stock exchange as opposed to accessing more traditional sources of funding.

SEC Director of External Relations Tushara Jayaratne joined the speakers in a panel discussion focused on the common misconceptions with relation to listing on the stock exchange, the process involved and practical implications for tech companies when accessing public funding considering the unique nature of the industry.

The event also presented a platform for companies to engage and further discuss the prospect of a stock exchange listing with Empower Board Sponsors that were present. Empower Sponsors play a pivotal role guiding companies interested in listing on the Empower Board.

Capital Raising Forums conducted in collaboration with industry associations are a key part of the CSE-SEC initiative to create awareness among potential issuers, in addition to a series of regional forums conducted for SMEs based around the country. The next event in this series is set to take place in Jaffna on 24 August. Details on the eligibility of listing and the process involved could also be obtained through www.cse.lk. (DailyFt)

Treasury helps HDFC Bank meet minimum capital requirement

The General Treasury of the Government has helped the Housing Development Finance Corporation Bank (HDFC) to meet the regulatory minimum core capital requirement of Rs. 5 billion.

The Bank said it contributed Rs. 250 million from internally generated reserves and Rs. 250 million infusion by the Treasury via non-convertible perpetual debt which qualify as Additional Tier 1 Capital.

The move has been approved by the Monetary Board of the Central Bank. National Housing Development Authority is the biggest shareholder of HDFC Bank with 49.73% stake whilst LOLC Holdings PLC holds 15% stake and Thurstan Investments 14%.

Momentum in secondary bond market turns positive

The fresh month commenced on a positive note as renewed buying interest across the yield curve saw secondary market bond yields decline yesterday. The yields on the liquid maturities of 2021's (i.e. 01.03.21, 01.05.21, 01.08.21, 15.10.21 and 15.12.21), the two 2023's (i.e. 15.03.23 and 15.07.23) and three 2024's (i.e. 15.03.24, 15.06.24 and 01.08.24) declined to intraday lows of 8.47%, 8.55%, 8.60%, 8.65%, 8.70%, 9.30%, 9.39%, 9.72% each and 9.80% respectively against its previous days intraday lows of 8.60%, 8.65%, 8.70%, 8.75%, 8.80%, 9.35%, 9.45%, 9.74%, 9.77% and 9.85%. In addition, the 01.09.23, 15.12.23, 01.01.24 and 15.10.25 maturities were seen changing hands at levels of 9.50%, 9.55%, 9.65% and 9.87% respectively as well. In the secondary bill market, February and July 2019 maturities were traded at lows of 7.75% and 8.02% respectively.

The total secondary market Treasury bond/bill transacted volumes for 31 July was Rs. 12.76 billion.

In the money market, despite the overnight net liquidity surplus remaining at a high of Rs. 38.09 billion yesterday, the OMO Department of the Central Bank refrained from conducting any auctions for a second consecutive day in order to drain out liquidity. The overnight call money and repo rates averaged at 7.70% and 7.79% respectively.

Downward trend in rupee continues

In the Forex market, a globally strengthening dollar saw the USD/LKR rate on spot contracts losing further yesterday to close the day at a level of Rs.176.50/60 against its previous day's closing level of Rs.176.30/35.

The total USD/LKR traded volume for 31 July was $ 82.91 million.

Some of the forward USD/LKR rates that prevailed in the market were 1 month - 177.00/15, 3 months - 178.20/40 and 6 months - 179.95/15(DailyFt)

Asian shares stumble, dollar firms as Fed dampens bets on more rate cuts

Asian shares fell to six-week lows on Thursday while the dollar jumped to two-year highs as the US Federal Reserve poured cold water on market expectations of a lengthy easing cycle following a 25 basis-point rate cut.

MSCI's broadest index of Asia-Pacific shares outside Japan faltered 0.6%, extending losses for a fifth day to the lowest since mid-June.

Japan's Nikkei reversed early losses and were a shade higher, while Australian shares declined 0.2%. Losses in Chinese shares accelerated after it opened lower with the blue-chip index down 0.8%.

E-minis for the S&P500 clawed back early losses and were marginally higher, after a sharp drop on Wall Street.

Global share markets recoiled overnight after US Federal Reserve Chairman Jerome Powell said Wednesday's easing was "not the beginning of a long series of rate cuts".

Powell characterised the rate cut as "a mid-cycle adjustment to policy", citing signs of a global slowdown, simmering US trade tensions and a desire to boost too-low inflation. Markets took that as a sign that sharp further cuts were not imminent.

Riskier assets such as shares have had a golden run in the past decade as global central banks have kept monetary policies stimulatory, world growth has been strong and corporate profits have surged. But there are now growing worries over how much longer the rally can run as trade disputes drag on the global economy.

"We believe the Fed is trying to thread the needle, balancing market jitters about slowing global growth with robust consumer spending and a strong job market in the US," said Nick Maroutsos, co-head of global bonds at Janus Henderson.

"In other words, by cutting just 25 bps, the Fed is trying to bolster market confidence while also keeping some dry powder in reserve in case of an economic shock."

The United States and China on Wednesday ended a brief round of trade talks without much progress in ending their year-long tariff war.

Downbeat data and factory surveys on Thursday pointed to further weakness for Asia's trade-reliant economies.

South Korea's exports tumbled for an eighth straight month in July amid persistently weak global demand and an escalating dispute with Japan, while its new export orders shrank the most in about six years.

South Korea, the world's sixth-largest exporter, is the first major industrial economy to release trade data each month, providing an early assessment on the health of global demand.

Pressure on Chinese factories eased slightly, but manufacturing activity continued to shrink.

"The broader global trade dynamic remains a challenge," Morgan Stanley strategist Michael Zezas said, referring to trade skirmishes between Japan and South Korea and US-Europe negotiations over auto tariffs.

"Trade should continue to drag on corporate confidence, capex and global growth in the near term."

Gold and bonds

Yields on US Treasuries rose as investors scaled back expectations for at least 100 basis points of easing in the near term.

Yields on 10-year bonds climbed as high as 2.053% in early Asian hours from a US close of 2.007%. They were last at 2.037%.

In foreign exchange, the dollar enjoyed a broad-based rally against major currencies, including the euro and Antipodean currencies on expectations monetary policies in Europe, Australia and New Zealand will remain accommodative.

The dollar index against a basket of six major currencies finished July 2.5% higher and was last up 0.3% at 98.817. Against the Japanese yen, the dollar broke above 109 to jump to the highest since end-May.

The common currency fell to $ 1.1032, the lowest since May 2017. It was last at $ 1.1047.

The Aussie slipped below key chart support of $ 0.6832 to as low as $ 0.6828, a level not seen since early January when a currency 'flash crash' briefly took it to $ 0.6715.

The kiwi hit a six-week trough of $ 0.6535 as markets wager on a rate cut by the Reserve Bank of New Zealand next week.

US crude futures fell $ 1.08 to $ 57.95 per barrel in the wake of Powell's comments on the rate outlook. Brent was down 91 cents at $ 64.46.

Spot gold made a new two-week trough on Thursday after falling to 1,405.50.
(DailyFt)

Fed cuts interest rates, signals it may not need to do more

The Federal Reserve cut interest rates on Wednesday, but the head of the US central bank said the move might not be the start of a lengthy campaign to shore up the economy against risks including global weakness.

Fed Chairman Jerome Powell cited signs of a global slowdown, simmering US trade tensions and a desire to boost too-low inflation in explaining the central bank's decision to lower borrowing costs for the first time since 2008 and move up plans to stop winnowing its massive bond holdings.

"Let me be clear – it's not the beginning of a long series of rate cuts," Powell said in a news conference after the Fed released its latest policy statement. At the same time, he said, "I didn't say it's just one rate cut."

Financial markets had widely expected the Fed to reduce its key overnight lending rate by a quarter of a percentage point to a target range of 2.00% to 2.25%, but many traders expected clearer confirmation of forthcoming rate cuts.

US President Donald Trump, who has repeatedly attacked the Fed's policy stance under Powell and demanded that it push through big rate cuts, said on Twitter the Fed chief "let us down" by not telegraphing that an aggressive easing was coming.

US stock prices fell during Powell's news conference. The benchmark S&P 500 index closed down 1.1% for the day. Yields on 2-year notes, a proxy for Fed policy rates, rose to 1.87%.

Ken Polcari, managing principal at Butcher Joseph Asset Management, said Powell's message was "not what the market was expecting to hear" even though most traders expected a rate cut. "He is not shutting the door, but he is also not saying there is another one coming in September, so hold on,"Polcari said.

Heading into Wednesday's Fed decision, the S&P 500 was up about 3% since June 19, when the Fed first signalled a rate cut was likely as it pledged then to "act as appropriate to sustain" the record-long US expansion.

In a statement at the end of a two-day policy meeting, the Fed said it decided to cut rates "in light of the implications of global developments for the economic outlook as well as muted inflation pressures." It said it will "continue to monitor" how incoming information affects the economy and that it will "act as appropriate to sustain" the expansion.

"It's smart of them to go ahead and take out some insurance here. It's better than none at all," said Brett Ewing, chief market strategist at First Franklin Financial Services in Tallahassee, Florida.

The US dollar index gained ground to touch its highest in more than two years. The index, which measures the greenback against a basket of currencies, was up about 0.5% on the day.

The Fed's policy decision drew dissents from Boston Fed President Eric Rosengren and Kansas City Fed President Esther George who argued for leaving rates unchanged.

Rosengren and George have raised doubts about a rate cut in the face of the current expansion, an unemployment rate that is near a 50-year-low, and robust household spending.

On the opposite flank was Trump.

"What the Market wanted to hear from Jay Powell and the Federal Reserve was that this was the beginning of a lengthy and aggressive rate-cutting cycle which would keep pace with China, The European Union and other countries around the world," Trump said after the Fed decision. "As usual, Powell let us down."

Powell and other Fed officials in recent weeks have walked a middle ground, flagging risks like continued uncertainty on the global trade front, low inflation and a weakening world economy, but repeating the view the United States is fundamentally in a good spot.

The Fed said in its statement it continued to regard the labour market as "strong" and added that household spending had "picked up." But it noted business spending was "soft" and that measures of inflation compensation remain low.

Several banks, including JPMorgan Chase & Co and Citigroup Inc., announced plans to lower their rates used as a benchmark for a wide range of consumer and commercial loans after the Fed decision. That will translate into lower interest rates on a wide range of loans and could drag on bank earnings in the coming quarters.

Underscoring its decision to ease policy across the board, the Fed also said it would stop shrinking its $3.6 trillion in bond holdings starting Aug. 1, two months ahead of schedule. The Fed bought most of the bonds after the 2008 global financial crisis to stimulate a sluggish economy but in more recent months has been letting some of them expire without replacing them.

Trump celebrated that move, saying, "at least he is ending quantitative tightening," a term for the bond-trimming policy that the Republican president said should not have started given tame inflation.
(DailyFt)

Asia Stocks Tumble, Yen Gains on U.S. Tariff Shock: Markets Wrap

Asian stocks tumbled and U.S. futures dropped after President Donald Trump announced a new round of tariff hikes on Chinese imports. The yen extended gains after the biggest jump in more than two years.

Japanese benchmarks fell more than 2%. South Korean shares hit their lows of the day after Japan took its own trade-restriction move, directed at Korea. Chinese and Hong Kong stocks also slumped, though Australian equities saw a more modest retreat. Ten-year U.S. yields fell further after tumbling Thursday, while U.S. stock futures fell after the S&P 500 Index's biggest two-day drop since May. China's onshore yuan hit the weakest since November.
S&P 500 gives up gains after President Trump announces tariffs

Elsewhere, crude oil clawed back a fraction of its 8% slide on Thursday, amid concern the U.S. plans for 10% tariffs on $300 billion of Chinese imports will hurt global demand.
Lenders led losses on U.S. equity benchmarks but the declines spread across sectors as a draft list of $300 billion worth of targets published by the Trump administration in May included a raft of consumer and technology goods, including most of Apple's major products such the IPhone, along with toys, footwear and clothing. The new tariffs are set to kick in Sept. 1. Trump alsosaid the levies could be raised beyond 25%.

"We're just seeing the beginning of what the market reaction's going to look like," given the breadth of the impact of the new tariffs, said Arthur Hogan, chief market strategist at National Securities Corp.

Traders increased bets on Fed cuts to another half point this year. That was just a day after some disappointment with the Federal Reserve chief casting doubt about a long cycle of interest-rate cuts had sent yields higher.

"The question for investors is whether this is the first step in a series of escalations or a negotiating stance that will compel China to make concessions and the Fed to ease," said Steve Englander, global

head of FX research at Standard Chartered Bank. “A risk for investors is that asset-market effects would be largely reversed if the tariff increase were delayed or canceled. If the president can elicit concessions from both China and the Fed, it would be a double win from his perspective.”
Trump Says Xi Isn't Moving Fast Enough to Resolve Trade War

President Donald Trump says China isn’t moving fast enough to resolve trade war

Here are some of the key events to watch as the week unfolds:

Here are the main moves in markets:
Stocks

- MSCI Asia Pacific Index fell 1.4% as of 11:51 a.m. in Tokyo.
- Japan’s Topix fell 2.2%.
- Kospi fell 0.9%, after being down as much as 1.5%.
- Australia’s S&P/ASX 200 Index fell 0.5%.
- Hang Seng down 2.2%.
- Shanghai Composite fell 1.5%.
- S&P 500 futures dropped 0.3%. The S&P 500 Index fell 0.9%.

Currencies

- The Japanese yen rose 0.3% to 107.02 per dollar after surging 1.3% Thursday.
- The euro was at $1.1075.
- China’s offshore yuan was little changed at 6.9552 per dollar after sliding overnight. Onshore, the currency retreated 0.5%.

Bonds

- The yield on 10-year Treasuries was at 1.88%, down 19 basis points for the week.
- Australia’s 10-year yields fell 12 basis points to 1.09% and touched a record low.

Commodities

- West Texas Intermediate crude rose 2.1% to $55.06 a barrel after sliding 8% Thursday.
- Gold fell 0.9% to $1,432.85 an ounce.

(Bloomberg)