NEWS ROUND UP

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Sri Lanka rupee weaker in early trading, stocks steady

The Sri Lanka rupee opened weaker Thursday at 176.30/70 rupees against the US dollars in the spot market, as gilt yields edged higher amidst low volumes and stocks were steady amidst buying interest in Dialog, market participants said.

The spot market for US dollars was inactive on Monday and Tuesday. The rupee was last quoted in the spot market on Friday at 175.25/50 rupees against the greenback, weakening marginally from the previous closing of 175.00/50 rupees.

The forex market was relatively quiet amidst some import demand and foreign selling in government securities, while exporters were seen on the side lines, dealers said.

Markets were closed on Wednesday.

On Thursday, the currency was quoted at 176.50/80 rupees against the US dollar in seven-day forward contracts, weakening from Tuesday's ending of 176.50/70 rupees.

Gilt yields were quoted slightly higher in the secondary market.

Foreign investors in government securities were net sellers the previous week booking profits on falling yields, dealers said.

A bond maturing in 2021 was quoted at 10.15/20 rupees in early trading, up from the previous closing of 10.10/15 percent.

The 2023 maturity was at 10.60/65 percent, up from 10.50/60 percent and the 2024 bond was quoted at 10.80/85 percent, easing marginally from Tuesday's 10.80/87 percent close.

The 2026 bond edged up to 10.92/95 percent, from 10.88/97 and a bond maturing in 2029 was at 11.00/10 percent, steady from the previous close of 10.03/10 percent.

In equities, Colombo's All Share gained 0.05 percent, up 2.89 points to 5,481.30, and the S&P SL20 of more liquid stocks was up 0.52 percent, gaining 13.64 points to 2,641.10.

Market turnover was 9.8 million rupees within the first hour of trading with 20 stocks gaining and 13 declining.

Dialog was trading 10 cents higher at 8.80 rupees and Dialog Finance was up 3.80 rupees to 37 rupees.

NDB Bank was up 1.90 rupees to 97 rupees and Chevron Lubricants Lanka gained 1.50 rupees to 62.50 rupees.

Trans Asia Hotels was down 5 rupees to 70 rupees and Asian Hotels and Properties was trading 1.70 rupees lower at 36 rupees. (EconomyNext)

Rush for terrorism insurance in Sri Lanka after bombings

Thousands of Sri Lankans have subscribed to terrorism insurance within a week after the Easter Sunday Bombings on April 21, while the industry has taken a collective decision to keep premiums at the same levels, top officials said.

"I have talked to the insurance companies, and they are saying that there is a big demand for the terrorism cover," said Manjula de Silva, Chairman of the state-owned National Insurance Trust Fund which maintains the Strike, Riot, Civil Commotion and Terrorist (SRCC&T) insurance fund.

SRCC&T covers are sold through licensed insurance companies.

The state-owned Sri Lanka Insurance Corporation (SLIC), the country's largest, has sold over 1,500 new SRCC&T policies through its head office and partnering financial institutions in the first five days after the bombings, although the firm's main sales channel is its agent network, SLIC chief executive Chandana Aluthgama said.

He said that the head office is yet to receive clear numbers from its agent network or other branches.

"If that is taken into consideration, many thousands are taking the terrorism cover," he said.

LOLC Group Managing Director and LOLC Insurance Chairman Kapila Jayawardena said that his firms have seen SRCC&T subscriptions rise 50 percent above normal levels after the bombings.

"We are getting a lot of requests from vehicle owners, hotels, large businesses as well as smaller establishments," he said.

Allianz Insurance Lanka Managing Director Surekha Alles said that her firm has so far seen hundreds of new subscribers as well.

Affordable

The SRCC&T cover has remained affordable, after a 30-year long civil war ended in 2009. Strikes and protests are common, but have remained peaceful for the most part over the past decade.

However, many had removed the SRCC&T cover, thinking the risk was now minimal, officials said.

"Before 2009, it was mandatory to have the cover, but since then the requirement has been lifted," Aluthgama said.

"Some companies, in cost cutting exercises, had removed the cover, but I kept telling them that there could be risks from outside Sri Lanka, and the premiums are relatively small," he said.

A firm looking to insure a billion rupee commercial asset will be charged an annual premium of 375,000 rupees (0.0375 percent), while a home valued at a billion rupees would be charged 125,000 rupees (0.0125 percent), he said.

Small car owners said they were being given premium quotes of around 3,000 rupees for their vehicles.

De Silva said that at an insurance industry meeting held on April 26, a decision was taken to hold SRCC&T premiums at the same levels before the bombings, and all insurance firms had supported the move.

He said SRCC&T has a maximum limit of 2 billion rupees per cover, and additional policies above the limit can be bought from international vendors.

The SRCC&T Fund is now valued at 10.8 billion rupees, growing from 7.9 billion rupees at the end of 2009.

It has been collecting over 2 billion rupees in premiums annually (the insurance industry total gross written premiums for 2018 was 175.7 billion rupees), and after accounting for investment income, has been paying a similar amount in dividends to the Treasury.

The NITF will have to at most pay 500 million rupees for claims arising from the Easter Bombings, which killed 253 and left hundreds wounded across three churches and three luxury hotels.

The Islamic State claimed responsibility for the attack carried out by local Islamic radical extremists.

The Sri Lankan government has admitted that it was complacent in its security operations, after numerous intelligence reports had warned of the attack in the weeks leading up to it. (EconomyNext)

Sri Lanka's central bank makes Rs137bn profit busting soft-pegged rupee

Sri Lanka's soft-pegged central bank has made a 137 billion rupee profit by busting the currency from 153 to 182 to the US dollar in 2018 in the course of following polices involving real effective exchange rate targeting and printing money to keep rates down.

A soft-pegged central bank is the most dangerous monetary authority compared to others that follow non-contradictory policy such as hard pegged agencies or fully floating ones.

A soft-pegged currency, collapses because the central bank implement deploys implicit or explicit weak side convertibility undertakings (defending a peg) but resists the credit system from adjusting to the interventions by printing an almost equal amount of money (sterilizing the forex sales) to keep rates down.

The currency would continue to fall until the central bank either floats, ending printing, or allows rates to go up, slowing credit. In Sri Lanka both happens, in what analysts have called 'rawulath ne kendeth ne' (neither the beared nor the soup is saved) outcomes.

The people and businesses then have to recover from the effects of both a credit slowdown and the currency collapses which slashes the real capital available for re-investment when the credit recovers.

In 2019 the central bank also forced a cut in deposit rates, further hurting savers.

The central bank booked a gross 146 billion rupee nominal profit on its foreign assets as the rupee collapsed, due to money printing in 2018 as the rupee collapsed.

The central bank also earned 8.9 billion rupees printing money into the banking system to sterilize interventions. In the 2018 crisis, most of the money was printed through term reverse repo deals.

The central bank earned 25.5 billion rupees on its reserves.

Interest income from foreign reserves or capital gains from the liquidation of foreign assets is the only way a pegged central bank can earn profits (seigniorage) without causing harm to the people, businesses and the nation at large.

All other profits are inflationary including gains from the rupee collapse.

In 2010 the central bank also lost a part of the foreign income due to swaps, which are convertibility forward market convertibility undertakings given to borrowers in foreign currency, in a quasi-fiscal activity.

There have been calls to bring strict monetary rules to prevent the central bank from generating monetary instability and criminalize the most dangerous tools or actions of the central bank including liquidity shocks, becoming counter-party to Soros-style swaps and floating-with-excess-liquidity.

Under its underlying monetary law, which was developed to take Sri Lanka to the Bretton-Woods system of failed soft-pegs in 1950 ending a hard peg, the 'profits' from currency collapse cannot be transferred to the government.

The real value (external) of central bank assets remain unchanged when the domestic currency collapses against a reserve or anchor currency.

Under the monetary law act, there was a 20 billion rupee loss in 2018. About 11 billion rupees came from a transfer to a pension funds for central bank workers.

In the profit and loss account another 7.1 billion rupees were paid as salaries and other benefits to workers.

At the time Sri Lanka dissolved it hard peg, where the balance of payments determined the domestic money supply it was illegal to print money to resist the balance of payments and generate a crisis.

Countries that suffered most from second class pegs like Sri Lanka include those in Latin America.

"This law had been drawn up under American tutelage and along the lines that have been the subject of experiment in certain Latin American countries for some eight years past," Britain's Banker Magazine wrote prophetically in July 1950 soon after the soft-pegged monetary law was passed in then-Ceylon.

"The step from an 'automatic' currency system (such as he which Ceylon inherited with is Colonial Currency Board) to an ultra-modern 'managed' currency system is necessarily fraught with great dangers and there may be some who will regret that Ceylon has decided to run such risks at this time."

At the time of independence currencies of India, Ceylon, Maldives, Nepal, Mauritius, Dubai and several gulf countries were around 4.70 to the US dollar either through outright 'dollarization' of the Indian rupee or through currency boards (hard pegs).

Singapore's first finance minister Goh Keng Swee said the country decided to preserve the 'strange anachronism' from the Colonial era because printing money led to balance of payments troubles.

Singapore later modified its currency board law to allow its money to appreciated when the US Fed had bad policy. The Singapore dollar is now at 1.2 to the US dollars from 3.06 at the break up of Bretton Woods in 1971.

The currency of Dubai, a financial centre that does not operate fancy monetary policy is at 3.67 from the 4.76 in Indian rupee days. Gulf countries abandoned the rupee after the Reserve Bank of India was mis-used to print money for Nehru administration 5-year plans.

Sri Lanka's rupee fell from 4.76 to 5.96 to the US dollar in the latter stages of Bretton Woods partly due to a balance of payments crisis on Sterling and has fallen to 176 so far.

With tinkering of Maldives Monetary Authority Law to enhance its lender of last resort facilities the Rufiyaa has also come under pressure. Its most recent fall was to 15.3 to the US dollar from 12.8.

Maldives with greater monetary stability has been able to boost per capita income to about 11,000 US dollars. (EconomyNext)

Emerald Sri Lanka Fund invests in Pan Asian Power, more solar projects

Emerald Sri Lanka Fund will take a 20 percent stake in Pan Asian Power (PAP) in a proposed private placement at 3.20 rupees a share with the money to be used to part finance solar power projects.

A stock exchange filing said PAP has decided to issue by way of a private placement 125 million ordinary voting shares to Emerald Sri Lanka Fund I Limited, amounting to a total consideration of 400 million rupees.

PAP last traded unchanged at three rupees Thursday.

The proceeds of the private placement will be used to part finance several ground solar power projects PAP plans to build this year with a total investment of about 1.3 billion rupees, the statement said.

It said Emerald is the largest private equity fund dedicated to Sri Lanka, seeking to make growth capital investments in the range of 2 – 6 million US dollars in equity and equity-linked securities.

The Emerald Fund is managed by NDB Zephyr Partners Limited, a joint venture between NDB Capital Holdings Limited with a 60 percent stake and Zephyr Management L.P (USA) holding the rest.

Contributors to the Emerald Fund include NDB Capital Holdings Limited, International Finance Corporation (IFC), Deutsche Investitions –und Entwicklungsgesellschaft mbH (DEG) and Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.(FMO).(EconomyNext)

Sri Lanka's MTD Walkers delays bond interest, bank puts mortgaged assets for sale

Sri Lanka's troubled construction firm MTD Walkers Plc has delayed interest payments on its debentures, while assets mortgaged by its subsidiary CML MTD Construction (Pvt) Ltd have been put up for auction by a bank.

Interest on MTD Walkers listed bonds are in arrears from March 31.

A stock market disclosure said that although it had a new deadline on April 30 to pay interest, it will now be delayed, as collecting revenue has become a challenge following the Easter Sunday bombings.

"We are unable to meet this deadline due to the prevalent situation in the country, which is affecting the collections," the firm said.

"Every effort was made to collect the anticipated revenue for the settlement of debenture interest to meet the payment on due date."

MTD Walkers said that they are now expecting to make the payments before May 20, with a penal interest rate of 2 percent.

Meanwhile, Sampath Bank's directors had passed a resolution to liquidate properties mortgaged by MTD Walkers subsidiary CML MTD Construction for borrowings of over 675 million rupees, according to a newspaper notice on April 30. (EconomyNext)