NEWS ROUND UP

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CSE indices inch-up anticipating positive CBSL announcements

Both CSE indices moved up marginally, anticipating some positive announcements at the monthly monetary policy review of the Central Bank today, market sources said.

Further, quarterly results of major big cap counters, especially banks, have been delayed, resulting in the slow movement of the market, analysts said.

Amid those developments the day's turnover stood at Rs. 349.2 million with one crossing, That crossing came from NTB, which crossed 386,000 shares to the tune of Rs. 35.1 million, per share value touched Rs. 91.

Retail market companies that mainly contributed to day's turnover were: Commercial Bank Rs. 75.1 million (610,000 shares traded), HNB Rs. 73.8 million (332,000 shares traded) and Softlogic Holdings Rs. 28 million (1.2 million shares traded). During the day 10 million share volumes changed hands in 2778 transactions.

It is said that foreign investors offloaded blue-chip stocks such as John Keells Holdings PLC while lacklustre corporate results dented market sentiment further.

Meanwhile, -

ASPI: 6,136.35 (+7.03 pts; +0.11%); Val T/O: Rs. 349mn (US$2.19mn); Vol T/O: 10.0mn; Trades:2,778

Advance/decline ratio: 89/69; Top gainer: AINV.N (+50.00%) ; Top loser: BRWN.R (-75.00%)

Highlights:

• The ASPI ended higher amid subdued turnover levels. COMB, HNB, and NTB led market activity including crossings with trading in COMB accounting for 21% of total turnover.

• Banks, Finance, & Insurance was the most actively traded sector (-0.35%)

• Trading was the best performing sector (+5.32%), supported by gains on EMER.N (+4.65%)

• Footwear & Textiles was the worst performing sector (-1.94%), dragged down by declines on ODEL.N (-2.83%) (The Island)

Sri Lanka limits micro debt relief to old defaults, rates controlled at 35-pct

Sri Lanka will only give debt relief to women who have taken micro-loans before June 2018 and have been in default for over three months, interest rates will be controlled at 35 percent, Finance Minister Mangala Samaraweera said.

The finance ministry had earlier announced a rate of 30 percent.

There have been fears that the offer of state debt relief will encourage defaults among borrowers with a good credit record until the state intervention and lock thousands of poor families out of the formal banking system after they are put in the Credit Information Bureau as defaulters.

There is an estimated 75 to 80 billion rupees of loans below 100,000 rupees from finance companies to small borrowers in the 12 districts, not counting unregulated micro-lenders. In all districts there could be around 140 billion rupees of small loans, according to industry estimates.

Samaraweera told reporters said that in anticipation of the debt relief, some borrowers have already stopped their loan repayments.

"That’s why we will provide relief for loans under 100,000 rupees taken before June 30," he said.

Analysts say astate debt moratorium initiated sometime around 1999 under pressure from the Janatha Vimukthi Peramuna, had led to defaults of by farmers with good credit record, who then ended up in the CRIB and was unable to take a loan for the next cultivation season.

Samaraweera said the debt relief will be given to women who have taken loans from micro lenders and finance companies have been unable to repay due to bad weather, will receive debt relief under a billion rupee program.

Members of the Lanka Microfinance Practitioners’ Association have agreed to take part in the programme.

Mangala Samaraweera said that women in 12 drought affected districts who have not been able to make repayments over a period of at least 3 months will be eligible to have their principal loan repaid by the government.

Microfinance companies and finance companies have agreed to write off the accrued interest, he said.

He added that the first letters providing debt relief will be issued on September 01.

Most of the borrowers affected have been turned away from banks due to a lack of collateral for

loans, Samaraweera said.

He said that some financial institutions have been charging 'predatory rates' in the regions affected, and have been using armed gangs to recover the loans.

Unlike large loans given by banks, where customers go to the branch to repay and are charged penal rates if they do not pay, micro loan installments are collected, usually by motorcycle riders, which is a cost, analysts say.

Meanwhile, Finance Ministry Advisor Mano Tittawela said that according to Central Bank data, around 75,000 women will be eligible for the programme.

He said that the government has observed that some women have taken multiple loans of under 100,000 rupees, and in such cases, only the largest loan will receive relief.

Microfinance and finance companies have agreed to cap annual interest rates at 35 percent for all new loans, he said.

Samaraweera said that around 60-90 percent of residents in drought affected districts such as Polonnaruwa have taken micro credit loans, and due to their inability to pay back the loans, a number of women have committed suicide.

"Some young women had to pay off their debt with sexual favours," Samaraweera said.

"The government felt it had an inherent moral duty to intervene."

However analysts say demanding or receiving sexual favours is a criminal matter, which requires prosecution and cannot be solved by price controls on loans.

Unless the perpetrators are prosecuted, the same tactics will be employed when loans defaulted, even if the rates are below 35 percent. Analysts say finance companies should set in place a process where credit collectors engaging in such tactics are sacked and blacklisted from finance companies, so that they are no longer threat to women borrowers.

Price controls on the other hand could make small loans uneconomical for formal businesses, and drive borrowers to the hands of village money lenders who charge about 10 percent a day.

Some micro-lenders who have been giving short term loans at high rates have been undercutting village money lenders.

Meanwhile Samaraweera said that the government understood there were women who were being exploited in other districts, but only 12 districts where the situation is critical will be covered under phase 1 of the programme.

A new microfinance regulatory authority will be established, he said.

"This is a national tragedy. It needs to be addressed at different levels," Samaraweera said.

Industry analysts say instead of imposing blanket price controls there may be need to examine practices where loans are heavily marketed to borrowers who may not need them and may not have sufficient information to asses risks.(EconomyNext)

Sri Lanka keeps rates unchanged

Sri Lanka has kept policy rates unchanged at a monetary policy meeting in August 2018 meeting, saying there is an economic recovery and inflation is expected to be around on the high side to 4-6 percent.

The rupee depreciated 4.2 percent this year against the US dollar, driving prices up, despite better harvests moderating food prices.

The full statement is reproduced below:

The Central Bank of Sri Lanka maintains policy interest rates at current levels

The Monetary Board of the Central Bank of Sri Lanka, at its meeting held on 02 August 2018, decided to maintain policy interest rates at their current levels. Accordingly, the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) of the Central Bank will remain at 7.25 per cent and 8.50 per cent, respectively.

The Board's decision is consistent with its aim of stabilising inflation at mid-single digit levels in the medium term, thereby contributing to a high and sustainable growth trajectory of the Sri Lankan economy. In arriving at its decision, the Board carefully considered the current and expected domestic and global economic developments.

Strengthening of global growth amidst increased uncertainty

The latest update to the World Economic Outlook (WEO, July 2018) of the International Monetary Fund (IMF) confirmed the strengthening of the global economy in 2018 and 2019 despite less synchronised expansion across economies. The balance of risks is biased to the downside amidst monetary policy tightening in the United States and other major economies, strengthening of the US dollar, pressures on currencies of many emerging market economies and escalating trade tensions. Some emerging market economies have responded to these risks by tightening their monetary policies and allowing their exchange rates to adjust appropriately. 2

A gradual pickup in domestic economic growth is expected from the second quarter of 2018

As per the developments observed in leading indicators and current projections, Sri Lanka's real economic growth is expected to record a gradual acceleration from the second quarter of the

year. Improved weather conditions are expected to favourably impact agriculture activities and related industries in the second half of 2018 and support the overall growth momentum, which is expected to be led by the expansion in services and industry related activities.

The economy is projected to reach its potential over the medium term benefiting from a competitive flexible exchange rate, a low inflation environment and a stronger policy framework to support exports and investment, amidst continued fiscal consolidation.

Inflation to remain in mid-single digits in spite of the recent uptick

Year-on-year headline inflation, which remained in low-single digits during the period February-June 2018, accelerated in July 2018 as expected. This was mainly due to the recent transitory price pressures stemming from upward adjustments to domestic petroleum prices and higher volatile food prices, as well as the base effect.

Although inflation is projected to remain at the higher end of the inflation target of 4 – 6 per cent in August as well, the onset of the harvest towards the end of the third quarter of 2018 is expected to lower inflation thereafter. Stable underlying inflation, together with firmly anchored inflation expectations indicate well contained aggregate demand pressures, and supports the projection of mid-single digit inflation in the medium term.

Short term market interest rates are responding to surplus rupee liquidity, while monetary expansion continued its gradual deceleration

Responding to prevailing surplus liquidity conditions in the domestic money market, short term interest rates have begun to adjust downwards. Yields on government securities in both primary and secondary markets have also declined recently. In line with these developments, it is expected that other market interest rates, particularly interest rates on lending would adjust downwards in the period ahead, thereby reducing high real interest rates faced by borrowers at present.

The growth of credit extended to the private sector by commercial banks continued its gradual decline towards the desired levels. Along with the deceleration in private sector credit growth and a reduction in credit extended to the government by the banking sector on a net basis, the overall monetary expansion also decelerated in June 2018. These trends in monetary and credit expansion indicate greater monetary stability, consistent with the envisaged medium term growth path of the economy.

External sector recorded a mix performance

The growth of export earnings outpaced the growth of import expenditure in May 2018, thereby containing the trade gap to some extent. Supporting the current account, earnings from tourism and workers' remittances continued to increase so far during the year.

The recently introduced measures to address the excessive growth of import of gold and motor vehicles are expected to reduce the pressure on the balance of payments stemming from trade account dynamics. Meanwhile, as observed in other emerging market economies, some outflows

of foreign investment from the rupee denominated government securities market were experienced recently.

Despite an outflow from the secondary market, the Colombo Stock Exchange (CSE) attracted net inflows as a result of primary market transactions. Although some pressure on the exchange rate was observed since late April 2018 mainly reflecting the impact of the US dollar's broad-based strengthening in global markets, the depreciation pressure has eased to some extent from late July 2018.

Reflecting these developments, the exchange rate has depreciated against the US dollar by 4.2 per cent so far during the year. The Central Bank has absorbed US dollars 133.9 million, on a net basis, from the domestic market by end July 2018. The gross official reserve position was estimated at US dollars 8.4 billion at end July 2018 compared to US dollars 8.0 billion recorded at end 2017.

Policy interest rates maintained at current levels

Based on current and expected macroeconomic developments, the Monetary Board of the Central Bank was of the view that the continuation of the current monetary stance is appropriate. Accordingly, the Monetary Board decided to maintain the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) of the Central Bank at their current levels.

Monetary Policy Decision:Policy rates unchanged

Standing Deposit Facility Rate (SDFR) 7.25% Standing Lending Facility Rate (SLFR) 8.50% (EconomyNext)

Sri Lankan industry wants more budget support for rubber production

Sri Lankan manufacturers of natural rubber products have urged the government to allocate more money for rubber cultivation in its budget for 2019 to revive dwindling production.

The Sri Lanka Association of Manufacturers and Exporters of Rubber Products (SLAMERP) said in a statement the rubber industry is the fourth largest export sector in the country with total sales of almost a billion dollars.

It has major growth potential and the ability to further diversify its product base, it said.

In 2017, Sri Lanka's rubber product exports were estimated at US$855 million, up about 11% from the year before.

However, the rubber production in the country grew only 7% to 85,000 tons in 2017, with the local demand for rubber being almost 130,000 tons.

SLAMERP chairman Prabhash Subasinghe one of biggest challenges the industry is facing is the availability of raw material for value added production.

He urged the government to help in increasing yields through research and development support and expansion of rubber plantations to meet international demand.

The industry today has to depend on raw material imports owing to a decline in local production, he said.

“We are working closely with all government authorities to overcome this challenge and we have requested the support of the government to increase the rubber plantations and allocate money for the sector in the upcoming budget for 2019.”

Subasinghe also said technological advancements and testing facilities is key requirement that needs to be enhanced to improve the industry’s international competitiveness.

SLAMERP recently held a rubber testing workshop with the Rubber Research Institute (RRI) and the Export Development Board (EDB). (EconomyNext)

UK hikes interest rates for second time in a decade

The United Kingdom got only its second interest rate hike in over a decade on Thursday. Brexit will decide whether it gets another one any time soon.

The Bank of England raised its benchmark rate to 0.75% from 0.5% despite worries over the strength of the UK economy and uncertainty over Brexit.

The hike will make UK mortgages and loans more expensive, but should boost returns on cash tucked away in domestic savings accounts.

Some economists have raised doubts about the case for the rate hike.

Bank of England Governor Mark Carney has previously warned of dire economic consequences if Britain leaves the European Union in March 2019 without a comprehensive Brexit deal.

"We expect the Bank of England to wait until after Brexit in March 2019 before hiking again," said Kallum Pickering, senior economist at Berenberg.

Crashing out of the bloc without a deal could require the UK central bank to slash interest rates and introduce emergency measures in an effort to steady the financial system and wider economy.

The central bank acknowledged the risks on Thursday, saying in a statement that "any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent."

"The Monetary Policy Committee continues to recognize that the economic outlook could be influenced significantly by the response of households, businesses and financial markets to developments related to the process of EU withdrawal," it added.

Carney said during a press conference that improving wage growth and a strong labor market led to the unanimous vote for a rate hike. He said the central bank wanted to act now instead of waiting for Brexit.

"We can't just wait wait wait through all of that," he said, adding that the bank is prepared to react quickly if economic conditions change.

Carney said the Bank of England is working closely with the UK Treasury and the European Central Bank to plan for a smooth Brexit transition that protects financial markets.

Central banks in many advanced economies have raised interest rates and moved to end stimulus programs as the global economy shakes off the lingering effects of the global financial crisis.

The US Federal Reserve has been steadily raising interest rates since late 2015. It held rates steady on Wednesday, but current plans involve at least two more hikes this year. (CNN)

For auto industry, weaker fuel economy rules would mean a world of chaos

The Trump administration's proposed rollback of auto fuel economy and emissions standards looks, on the surface, like a welcome gift to the auto industry. It's more like federal regulators just handed the auto industry a great big box of chaos.

The best outcome will be earnest negotiations to reach a new set of standards everyone can agree on. What's likely is a long period of uncertainty. And this at time when the auto industry is pouring billions of dollars into figuring out its future path — one that revolves around electric vehicles, autonomous driving and a big step back from fossil fuels.

Automobiles take years to conceive, design, create and test. The industry requires predictability and long time horizons. Requirements that could drastically change at unpredictable intervals can be far worse than rules that might be a little too demanding like the ones implemented under President Obama in 2012.

Rebecca Lindland is an industry analyst with Kelley Blue Book and was involved in an Obama-era review of the standards. She felt, even then, that some easing of standards was warranted, she said.

The problem with the increases in fuel economy envisioned under the Obama plan was that they were based on the expectation of greater consumer demand for hybrid and electric cars than actually materialized. Also, car buyers have shown an even greater demand for SUVs than anyone expected.

"I would like to see a more gradual, less disruptive easing of fuel economy standards," Lindland said. The new proposal, she said, will certainly engender bitter fights.

The Trump administration's proposal would essentially undo the Obama requirements. The proposed changes would freeze fuel economy and emissions standards at 2020 levels and change how emissions are regulated.

John Graham of the University of Indiana, who worked on fuel economy regulations during the George W. Bush administration, says some automakers would welcome the Trump administration's aggressive approach. For automakers that are further behind on meeting the Obama-era standards, any reprieve would be seen as a help.

"Even if the administration loses, they may end up just having a delay in this whole program," he said.

Automotive fuel economy and emissions requirements are a complex regulatory quilt. Fuel economy is regulated by the National Highway Traffic Safety Administration. Tailpipe emissions, however, are regulated, on the federal level, by the Environmental Protection Agency. The state of California also regulates tailpipe emissions in its state, and more than a dozen other states follow its lead.

That awkward mix of regulations worked just fine, more or less, for years. That was until, in 2007, courts ruled that the EPA should regulate emissions of carbon dioxide. Carbon dioxide, which causes global warming, is different from other auto pollutants in that there is simply no way to reduce it beyond reducing the amount of fuel burned. That put the EPA into the position of, essentially, regulating fuel economy.

California also wanted to regulate C02 emissions. That created the nightmare possibility, for the auto industry, of three conflicting sets of fuel economy requirements. The answer, hammered out through negotiations among NHTSA, the EPA, California and the auto industry, was the auto emissions and fuel economy rules announced in 2012.

Besides halting future increases in fuel economy requirements, the Trump administration also wants to take away California's right to set its own vehicle emissions standards. This will be the biggest source of conflict.

While individual automakers have yet to comment on the proposal, the largest industry groups, the Auto Alliance and the Association of Global Automakers, signaled their hope for a quick negotiated agreement.

"With today's release of the Administration's proposals, it's time for substantive negotiations to begin," the groups said in a joint statement. "We urge California and the federal government to find a common sense solution that sets continued increases in vehicle efficiency standards while also meeting the needs of America's drivers."

In the meantime, automakers will probably continue to increase fuel economy of their new vehicles, said Carla Bailo, head of the Michigan-based Center for Automotive Research.

For one thing, the companies have already invested time and money in designing more efficient vehicles. Consumers have been trained, through years of improving fuel economy, to expect better mileage with each new vehicle they buy.

Also, major automakers are global companies and, in other parts of the world, emissions rules are continuing to tighten. Carmakers don't dare stop in their tracks — no matter what the current administration in Washington says. (CNN)