NEWS ROUND UP

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With a raft of measures taken and additional inflows in the offing, the Central Bank yesterday reiterated its reassurance on the rupee and the economy whilst claiming that the excessive public and political furore over the currency's dip was unwarranted.

Whilst declining to indicate what the ideal level was, Central Bank Governor Dr. Indrajit Coomaraswamy yesterday said the rupee was competitive, especially to boost exports whilst the Real Effective Exchange Rate (REER) at present was 100.

The rupee yesterday ended at 169.20/45 per dollar, compared with the previous close of 168.90/169.00.

The local currency weakened 4.7% in September against the dollar after a 1.2% drop in the previous month. The Central Bank yesterday put the year-to-date depreciation at 9.7%. Sri Lanka is not the only emerging economy to suffer a steep dip in its currency but there are several. (see chart inside).

The Central Bank said high import growth (13% in first half) and $ 467 million capital outflows (year-to-date), in the context of a strengthening US dollar, exerted significant pressure on the exchange rate.

The Governor said the Central Bank spent $ 184 million (net) to defend the currency or as he put it "curtail disorderly adjustment in the exchange rate" during the first few weeks of September. The amount was negligible in comparison to the billions of dollars spent in 2011/12 and 2015 yet failing to prevent a sharper dip of the rupee. Past regimes also imposed blanket credit ceilings though temporarily.

He said the series of recent policy measures introduced by the Government and the Central Bank were helping to stabilise the rupee. Those included margin deposit requirements for letters of credit opened for the importation of personal motor vehicles, cash margins on selected non-essential consumer goods imports and the suspension of concessionary vehicle permits for a limited period.

"These measures are expected to ease the excessive demand for foreign currency and hence the pressure in the domestic foreign exchange market as already observed in the stabilising exchange rate," the Central Bank said. Some of the restrictions encompass $ 1.5 billion worth of imports based on past data.

Confidence over the measures implemented and other macroeconomic fundamentals saw the Monetary Board on Monday keeping policy rates unchanged though money markets were expecting an upward revision.

Dr. Coomaraswamy said that a tightening monetary policy was not warranted as yet as the economy had an output gap and the rebound in growth must be supported. Subdued inflation was another factor which went in favour of the Monetary Board decision though the Central Bank expects upward pressure on prices following recent developments. Moderating credit growth (14% year on year in August) was also considered by the Monetary Board in arriving at its decision. Sri Lanka's real interest rates still remain well above several peer emerging market economies. (see Page 11 for the rationale for the Monetary Board decision).

The Governor also opined that the excessive hue and cry over the depreciation of the currency was unwarranted since a competitive exchange rate was beneficial to boost exports and discourage unnecessary imports.

"An overvalued rupee only subsidises foreign producers of goods," Dr. Coomaraswamy argued. "A depreciation of the rupee doesn't mean a collapse of the economy," he said, adding that there is an uptick in GDP growth, inflation remained subdued and reserves were over $ 7 billion.

He said that foreign inflows were expected to increase with $ 1 billion long-term financing from the China Development Bank likely by this week or next and the Government looking to raise $ 500 million via $ 250 million each from a Panda Bond and Samurai Bond in addition to a maximum of $ 1 billion via an International Sovereign Bond later this year.

The Central Bank also confirmed that the country had received $ 1.3 billion in Foreign Direct Investments (FDI) in the first half of this year as against $ 564 million a year earlier.

The Governor expressed confidence that the economy in the second half would grow better than the first six months rate of 3.6% and 4% full year growth would be "good to get.
(Dailyft)

Rupee ends marginally down; CSE slumps to near 6-year closing low

The rupee closed marginally weaker yesterday, near a record low touched last week, hurt by dollar demand from importers and foreign banks amid outflows from government securities.

Sri Lanka's Central Bank surprised financial markets on Tuesday by leaving its key policy rates unchanged, despite heavy pressure on the rupee currency and foreign outflows from government securities.

The Central Bank said it sold $ 4 million in the market on Monday to defend the currency. It has purchased a net $ 184 million from the market so far this year.

On Friday, the rupee touched its all-time low of 169.40 per dollar on importer demand for the greenback and foreign selling in government securities, but intervention by the Central Bank helped the currency close firmer, market sources said.

The rupee ended at 169.20/45 per dollar, compared with the previous close of 168.90/169.00.

The rupee weakened 4.7% in September against the dollar after a 1.2% drop in the previous month, and has declined 10.3% so far this year.

The Colombo stock index fell 0.17% to 5,807.74, its lowest close since 13 December 2013. The Bourse fell 3.6% last month and is down 8.8% so far this year.

Data from the Central Bank showed foreign investors sold government securities worth a net Rs. 10.2 billion ($ 60.36 million) in the week ended 26 September, the highest since the week to 6 December. Sri Lanka has seen a net outflow of Rs. 72.5 billion in securities so far this year.

Stock market turnover was Rs. 395.2 million ($2.34 million) on Tuesday, less than a half of this year's daily average of Rs. 784.4 million.

Foreign investors sold a net Rs. 133.7 million worth of shares on Tuesday, extending the year-to-date net foreign outflow to Rs. 6.01 billion worth of equities.
(Dailyft)

Bond yields dip following monetary policy outcome

The secondary market bond yields were seen decreasing yesterday, reversing its upwards trend witnessed since 20 September 2018, following the highly speculated monetary policy announcement where the Central Bank of Sri Lanka was seen holding policy rates steady at 7.25% and 8.50% for a fourth consecutive announcement.

The yields on the liquid maturities of 15.10.21 and 15.07.23 were seen decreasing to intraday lows of 10.70% and 10.90% respectively against its previous day's closing levels of 10.95/05 and 11.15/25. However, profit-taking at these levels saw yields increasing marginally to hit intraday highs of 10.85% and 11.00% once again before bouncing back to close the day lower.

In addition, activity was witnessed on the two 2021's (i.e. 01.05.21 and 01.08.21), 15.03.23 and 01.08.26 maturities as its yields dipped as well to trade within the range of 10.81% to 10.89%, 10.90% to 10.95% and 11.20% to 11.23% respectively.

This was ahead of today's Treasury bill auction, where a volume of Rs. 6 billion will be on offer consisting of Rs. 2 billion and Rs. 4 billion on the 91 day and the 364 day maturities respectively. At last week's auction, weighted averages on the 91 day and 364 day maturities increased to 8.56% and 9.51% respectively.

The total secondary market Treasury bond/bill transacted volumes for 1 October 2018 was Rs. 2.50 billion.

In money markets, the overnight call money and repo rates averaged 8.44% and 8.26% respectively as the Open Market Operations (OMO) Department of the Central Bank of Sri Lanka was seen injecting an amount of Rs. 12.15 billion on an overnight basis and Rs. 9.75 billion for seven days at weighted averages of 8.16% and 8.25% respectively. It further injected an amount of Rs. 20 billion for 14 days at a weighted average rate of 8.25%, valued today. The net liquidity shortfall remained at a high of Rs. 37.67 billion yesterday.

Rupee loses

The USD/LKR rate on spot contracts was seen depreciating marginally yesterday to close the day at Rs. 169.20/50 against its previous day's closing of Rs. 169.00/20 on the back of importer dollar demand.

The total USD/LKR traded volume for 2 October 2018 was $ 102.00 million.

Some of the forward USD/LKR rates that prevailed in the market were one month - 170.35/75; three months - 172.30/70 and six months - 175.10/50.
(Dailyft)

Sri Lanka govt to borrow Rs1,944bn in 2019

Sri Lanka's government plans to borrow 1, 944 billion rupees from local and foreign sources for its debt servicing including the financing of the budget deficit in 2019, the finance ministry said.

A statement said 2, 057 billion rupees has been allocated for debt servicing in 2019.

“This is the largest amount of money a government in the history of this country is compelled to bear in repaying its borrowings.”

Out of this amount, 1, 271 billion should be paid locally next year while 786 billion rupees, which is equal to 4,650 million US dollars, should be paid to foreign lenders.
(Economynext)

Tokyo stocks open lower on profit-taking

- Tokyo stocks opened lower on Wednesday after the benchmark Nikkei index hit a fresh 27-year high earlier this week, with investors seen taking profits.

The key Nikkei 225 index slipped 0.18 percent or 44.12 points to 24,226.50 in early trade, while the broader Topix index was down 0.15 percent or 2.67 points at 1,821.36.

"Profit-taking sales are growing and we will likely see a lull in Japanese shares," Okasan Online Securities said in a commentary.

"While the yen's depreciation has slowed after it touched the 114 yen level (against the dollar earlier this week), there are few other market-moving events," it noted.

Investors were also awaiting key US jobs data due this weekend, analysts said.

The dollar fetched 113.59 yen in early Asian trade, against 113.68 yen in New York late Tuesday.

In Tokyo, blue-chip exporters were lower, with Toyota trading down 1.39 percent at 7,075 yen, Honda 2.66 percent at 3,393 yen, Sony off 1.62 percent at 6,725 yen and Panasonic down 1.67 percent at 1,348.5 yen.

In New York, the Dow closed up 0.5 percent at a fresh record of 26,773.94

(Economynext)

Sri Lanka's Sampath Bank suspends $100mn bond issue

Sri Lanka's listed Sampath Bank said it was suspending a proposed 100 million US dollar debt issue to raise Basel III-compliant capital until global bond market conditions improved.

"Due to the current elevated market volatility in global bond markets, the lead manager to the bond issue has informed us that the pricing of the proposed debenture issue would be relatively high," the bank said in a stock exchange filing Tuesday.

The bank announced the 100 million US dollar debenture issue in July 2018 to raise Tier II capital under Basel III capital adequacy rules.

"The bank is of the view that the current market rates are not attractive and accordingly it has been decided to suspend the issuance of the aforesaid debenture until market conditions are more conducive for such an issuance," the bank said.

The bank was trading 1.40 rupees higher on Tuesday at 239 rupees. (COLOMBO, 02 October 2018) (Economynext)

Stocks in Asia Trade Mixed, Euro Pushes Higher: Markets Wrap

Asian stocks traded mixed following a volatile U.S. session as investors weighed continuing concerns in Indonesia and Italy and strength in commodity prices. The euro climbed on reports the Italian government pulled back its budget-deficit plans.

Shares fell in Japan, fluctuated in Hong Kong and rose in Australia. Indonesia's rupiah plumbed a new 20-year low as rising oil prices add to souring sentiment that's left the nation's central bank struggling to prevent further weakness. The Australian dollar fell briefly as weak building data fanned concerns of a slowdown. Crude oil futures steadied in New York above $75 a barrel, near the highest level in almost four years.

Italian assets remain volatile as the country's budget confrontation with the EU raised the risk of a debt crisis. The euro rose after the Corriere della Sera reported Italy's draft budget plan will pledge to cut the deficit to 2 percent in 2021, reversing the government's initial proposal. The yield on 10-year Italian government bonds touched the highest level in more than four years Tuesday. In the U.S., retailers slipped after Amazon.com raised the minimum wage for all its employees, with the S&P 500 Index edging lower.

Investors remain on edge this week with the market impact of European politics and emerging market strains still high on the agenda. A close call between a U.S. and a Chinese warship in the disputed South China Sea in recent days added to tensions between two countries already embroiled in an escalating trade war. Meanwhile, Treasury yields remained near the top of the recent range as Federal Reserve Chairman Jerome Powell welcomed increases in Americans' wages while expressing confidence that low unemployment won't spur a takeoff in prices that would force him to hike interest rates more aggressively.
Three Things El-Erian Is Watching for From the Fed

Three things Mohamed El-Erian, chief economic adviser at Allianz and Bloomberg Opinion writer, is looking out for.
Source: Bloomberg

Elsewhere, the pound traded near three-week lows after Boris Johnson won cheers at the U.K. Conservative Party's annual conference with an attack on Theresa May's Brexit plan, but stopped short of calling for her to be removed as prime minister. In India, focus is back on the country's financial sector after Prime Minister Narendra Modi's government took control of Infrastructure Leasing & Financial Services Ltd., promising to end the group's string of defaults.

Here are some key events coming up this week:

- U.K. prime minister May speaks Wednesday at her party's annual conference.
- The Reserve Bank of India's policy decision is due Friday.

- U.S. employment reports for September also due Friday.

These are the main moves in markets:
Stocks

- The MSCI Asia Pacific Index fell 0.1 percent as of 11:17 a.m. Tokyo time.
- Topix index fell 0.4 percent.
- Hong Kong's Hang Seng Index rose 0.3 percent.
- Australia's S&P/ASX 200 Index rose 0.2 percent.
- Futures on the S&P 500 Index rose 0.2 percent.

Currencies

- The Japanese yen fell 0.1 percent to 113.77 per dollar.
- The offshore yuan rose less than 0.05 percent to 6.884 per dollar.
- The euro advanced 0.3 percent to $1.1581.
- The Bloomberg Dollar Spot Index fell 0.1 percent.

Bonds

- The yield on 10-year Treasuries was little changed at 3.07 percent.
- Australia's 10-year yield fell about 3 basis points to 2.64 percent.

Commodities

- West Texas Intermediate crude rose less than 0.05 percent to $75.24 a barrel.
- Gold rose 0.4 percent to $1,207.68 an ounce.
- LME copper was little changed at $6,283.50 per metric ton.

(Bloomberg)