NEWS ROUND UP

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Merchandise and service exports up 15% to $ 17 b in 2018

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Sri Lanka's merchandise and service exports in 2018 are estimated to have hit an all-time high of $ 17 billion, up 15% from a year earlier prompting the Government to be confident of achieving the $20 billion milestone this year.

The Export Development Board (EDB) yesterday confirmed that the forecasted merchandise and service exports was $17 billion, falling short by $430 million from the original target. However, it was pointed out that last year's performance has surpassed the previous best of $11.4 billion achieved in 2017.

"Our target for 2018 was $17.4 billion in merchandise and service exports. I believe we would have ended up with $17 billion in last year. If not for the political unrest we had, I am sure we would have achieved the original target of $17.4 billion," Development Strategies and International Trade Minister Malik Samarawickrama told journalists in Colombo yesterday.

He made these remarks addressing at the EDB Media Networking Session organised by the Board to share the highlights of the programs implemented in 2018, and objectives and targets for 2019, as well as to update on the progress of the National Export Strategy(NES) achievements.

Despite missing the $17.4 billion original target, Samarawickramasaid last year's performance was still noteworthy, considering that country's exports were only $13.4 billion in 2015.

"Since 2015, our exports have grown by 27% within the past three years.

The target for 2019 is $20 billion, which is about 17% to 17.5% increase, which is an ambitious target, but with the support of the EDB our exporters will be able to achieve that. Our target for 2025 is $37.1 billion which is 177% increase from exports we had in 2015," he added.

Acknowledging that $17 billion in export revenue has been achieved last year, EDB Chairperson Indira Malwatte asserted they were hopeful that Sri Lanka might have achieved the full year figure of $17.4 billion, after considering service sector final statistics.

"We are very proud to announce that we have achieved $17 billion of the $17.4 billion original export revenue target. With the service sector statistics by the end of this month, we are hopeful that we would have achieved the full amount," she added.

Malwatte also expressed confidence in achieving $20 billion export revenue target by end of this year. "It is an ambitious and a demanding target, but with the support of the private sector and conducive business environment to operate we will be able to achieve it," she said.

Reiterating the Government's commitment to support all initiatives commenced and planned for this year, the Minister described 2019 as the year for 'accelerated delivery' and commended the exporters for their constant achievements in the global market.

"You all are navigating through difficult global trading conditions. Despite these headwinds, you are standing strong and growing sustainably. We now need to focus on diversifying our product basket and enter new markets. This is the year for accelerated delivery and we will be focusing very strongly on that," Samarawickrama stated.

He said the Enterprise Innovation Scheme, which was approved by Cabinet last year, will soon get underway, which is a part of the Innovation and Entrepreneur Strategy 2018-2022. In addition, he said they launched the Market Access Support Scheme and the 2,000 exporter program in 2018, which are important initiatives to create and support the next generation of entrepreneurs and exporters.

"Last year was a landmark year for Sri Lanka's export sector. We launched a 5-year National Export Strategy (NES), following extensive analysis and consultations with the industry. We have set out a clear agenda for action, and it is now being implemented with the support of line Ministries. We are encouraging more people to be export champions and these will see the real impact on the ground," he added.

Together with EDB's other ongoing initiatives, the Minister believes this transformational line-up of programs will change the export landscape in Sri Lanka. "We have not had this kind of systematic, well-thought-out set of initiatives to support our entrepreneurs for a long period of time. These initiatives don't put concrete on the ground and don't look like flashy projects, but are thereal nuts and bolts of what it takes to create sustainable, high income earning jobs in the export sector," he pointed out.

Samarawickramaalso elaborated on the point of looking at outward-oriented policies to take the economic growth to next level.

"All countries that have prospered in the world today have done so by being oriented outward – that is, taking what they are good at and trading with the world. Sri Lankan companies are good at many things and there is global demand for our products; from primary products to sophisticated parts and components, and increasingly, our own high-end brands. Our Government has always recognised this, and have been committed to supporting them," he said.

Development Strategies and International Trade Deputy Minister NalinBandaraJayamaha said Sri Lanka cannot be complacent with its export performance last year, as the country has a long way in catching up with the rest of the markets in the world.

"We can't be satisfied with our performance compared to our regional competitors. Performance of the export sector has been good and we have good plans going forward. It is now up to all stakeholders to work together to encourage young entrepreneurs and exporters to enter the sector and contribute to economic growth," he added.

He also noted the need to identify village-level suppliers and groom them to be active exporters. (Dailyft)

Biz confidence takes a tumble in December

The latest edition of LMD notes that the LMD-Nielsen Business Confidence Index (BCI) declined to 90 in December, following a jump of 25 basis points from 85 to 110 in the previous month.

According to the leading business magazine, the results of the latest survey – which was conducted in the first week of December – can be attributed to factors such as the depreciation of the Sri Lankan Rupee, downgrading of Sri Lanka's credit ratings by rating agencies and uncertainty that prevailed in Parliament at the time. Nielsen's Managing Director Sharang Pant observes that while the country's macroeconomic performance has been somewhat encouraging in recent months, "political instability is outweighing the positives amid question marks hanging over investments by local and foreign investors".

Politics, the health of the economy, and bribery and corruption are reported as being among the main concerns in corporate circles.

One corporate executive asserts: "The public does not have money to purchase goods, businesses are struggling and investments are on hold – and the only party who should take responsibility for this crisis are the politicians who've created this political and economic turmoil."

A spokesperson for the business magazine explains that the spike in sentiment witnessed in November may have been "too good to be true considering the events on the ground at the time." In terms of the outlook for the index, she says: "There may well be a U-turn in the BCI as a result of the resolution to the dissolution of parliament."

LMD's publisher, Media Services, says the latest edition of the magazine will be released to leading bookstores and supermarkets on 4 January (for the full BCI report, visit www.LMD.lk).
(Dailyft)

Rupee ends steady; shares slightly weaker

The Sri Lankan rupee ended steady near a record low on Thursday as foreign fund outflows mainly, from government bonds, continued amid dented investor sentiment after a recent political crisis. The currency fell 19% in 2018, making it one of the worst performing currencies in Asia, as heavy foreign outflows from government securities weighed.

The rupee traded at an all-time low of 183.00 to the dollar, which it hit on Monday, before ending at 182.80/90, compared with 182.80/183.00 in the previous session, market sources said.

The Colombo stock index ended 0.06% weaker at 6,058.48 on Thursday. Turnover was Rs. 804.7 million, less than last year's daily average of Rs. 834 million. The Bourse lost 5% in 2018.

The currency has weakened about 5.4% since a political crisis began on 26 October.

The Central Bank will stick to an exchange rate policy of cautious intervention at times of excessive volatility in the forex market, Central Bank Chief Indrajit Coomaraswamy said on Wednesday, launching economic policies for 2019.

That policy is designed to maintain the competitiveness of the exchange rate and support the rebalancing of the current account, thereby supporting a gradual build-up of foreign exchange reserves as an external buffer, he added.

President Maithripala Sirisena appointed a Cabinet of Ministers from his rival party on 21 December after he was forced to reinstate Ranil Wickremesinghe as Prime Minister, 51 days after he was sacked.

The political crisis is expected to ease, though uneasy relations between the two men could cause fiscal problems, analysts have said. Parliament has approved Rs. 1.77 trillion ($9.39 billion) to meet the first four months of expenditures in 2019 and avert a government shutdown from 1 January.

Foreign investors were net sellers of Rs. 162.5 million ($889,680) worth of shares on Thursday and they have been net sellers of Rs. 13.5 billion worth of stocks since the political crisis began. The bond market saw outflows of about Rs. 67.6 billion between 25 October and 26 December, Central Bank data showed.

Last year, there were Rs. 22.8 billion of outflows from stocks, while Government securities suffered a net Rs. 159.8 billion of outflows through to 26 December, the latest data from the Bourse and Central Bank showed.

Credit agencies Fitch and S&P downgraded Sri Lanka's sovereign rating in early December, citing refinancing risks and an uncertain policy outlook. (Dailyft)

Sri Lankan stocks close lower, foreign selling in JKH

Sri Lankan stocks closed lower Thursday with the benchmark index dragged lower by losses in Dialog Axiata and John Keells Holdings while bond yields were slightly lower, brokers and dealers said.

The All Share Price Index of the Colombo stock exchange closed at 6,058.48, down 3.72 points or 0.06 percent while the more liquid S&P SL20 index fell 19.55 points or 0.63 percent to end at 3,091.52.

Total turnover was 805 million rupees with no crossings or negotiated block deals.

Dialog Axiata closed at 10 rupees, down 30 cents (2.91 percent) while JKH ended at 157 rupees, down one rupee (0.63 percent).

There was a net foreign outflow of 163 million rupees worth of shares, mainly because of selling in JKH.

Estimated net foreign buying was mainly in Teejay Lanka which closed at 33 rupees, up 40 cents or 1.23 percent.

Bond yields were higher in the secondary market.

Trading volumes were thin with limited activity levels, First Capital Holdings said.

"Amidst profit taking, limited activity was witnessed on short tenure maturities."

Bonds maturing on 01.03.21 and 01.05.21 were trading at 11.30 percent, and 15.12.21 bonds at 11.35-40 percent levels while long tenure maturities, 01.08.26 at 11.62-67 percent levels and 15.06.27 at 11.70 percent. (Economynext)

Sri Lanka tourist arrivals up 10.3-pct in 2018, earnings down

Tourist arrivals to Sri Lanka grew 10.3 percent from a year earlier to 2.3 million visitors in 2018, missing an annual target of 2.5 million amid a constitutional crisis, the country's tourism minister said.

"Although the tourist arrivals for the year 2018 fell slightly short due to the political instability we saw post 26th October, I think in terms of earnings we have reached the 3.5 billion dollar target, Minister of Tourism Development, John Amaratunga said.

The earnings were down 10.3 percent from 3.9 billion dollars in 2017. Earnings are calculated according to a survey.

Amaratunga said that the earnings in 2018 may even have been higher than 3.5 billion dollars, as the data is provisional, and approximations.

Some hoteliers had said that bookings in November were not much affected except for business travelles but forward bookings for 2019 had slowed as a result of a constitutional crisis triggered by President Maithripala Sirisena and ex-President Mahinda Rajapaksa.

Smaller hoteliers had complained of cancellations in December.

Amaratunga said Sri Lanka is expecting 4 million tourists to generate an income of over 5 billion dollars in 2019, with Lonely Planet ranking Sri Lanka as the number one destination to travel in 2019 helping arrivals.

A number of promotional programs started in 2018 ending a dry spell, while a new country brand named 'So Sri Lanka' was also launched.

India, China, the United Kingdom, and Germany were the top source markets for Sri Lanka in 2018 according to the Sri Lanka Tourism Development Authority.

In 2018, total arrivals grew 10.3 percent, accelerating from 2.3 percent in 2017, ending a trend of diminishing growth.

After peaking in at 46 percent in 2010, from a low base in a war year, growth has slowed except for 2013, amid a controversy over the definition of a tourist. (Colombo/Jan03/2019) (Economynext)

Sri Lanka monetary policy now focused on soft-peg

Sri Lanka is keeping its policy interest rate at 9.0 percent despite low inflation and weak growth to counter pressure on the rupee and foreign reserves, Central Bank Governor Indrajit Coomaraswamy said.

The central bank which cut rates in April and injected tens of billions rupees in to the banking system to enforce it, found the currency coming under pressure from May.

"There's pressure on our reserves and exchange rates," Governor Coomaraswamy said after delivering the central bank monetary policy roadmap for 2019.

"To reduce rates at this point can be counterproductive," he said.

He said some macroeconomic indicators pointed to rate cuts, while others call for rate hikes.

"Right now the pressure on the external sector is most urgent and we have to take that into account and the monetary board placed significant weight on it."

Sri Lanka has printed large volumes of money to sterilize interventions, while defending a pegged exchange rate regime.

In November 90 billion rupees were dumped into the banking system through a reserve ratio cut. Coomaraswamy said rates were raised 50 basis points to counter the effect of the SRR cut.

Sri Lanka is claiming to run a 'flexible exchange rate' which analysts say is a highly unstable or non-credible foreign reserve collecting peg with multiple convertibility undertakings which is prone to balance of payments crisis.

Analysts who track the central bank closely had warned from December 2017 (Sri Lanka's Central Bank shoudl sell own securities in new credit cycle) that it was likely to cut rates when inflation was low and credit recovered and drive the country in to a balance of payments crisis as it had done in 2015, by running policy incompatible with maintaining a peg.

In February the central bank stopped mopping up inflows through term repos deals in February. In March it terminated term repos to print money as private credit spiked.

In April the central bank pumped money into the banking system quantity easing style, running up excess liquidity of 41 billion rupees overtaking seasonal demand for money to enforce a rate cut undermining the credibility of the peg.

In August/September after the rupee stabilized at a lower level excess liquidity was run up to 55 billion rupees, including through Soros-style swaps to against weaken the peg, data shows.

A legacy forex swap also matured. There may have been a legacy swap maturity involved in the April episode as well.
The International Monetary Fund has set the central bank forex reserve targets implying a de facto sterilizing peg where domestic assets of the central bank has to be sold down to mop up dollar purchases and foreign assets increased.

But there were no strict ceilings placed on domestic assets of the central bank to stop it from acquiring Treasuries to print money and pump excess liquidity into money markets and undermine the credibility of the peg.

Any central bank where domestic and foreign asset components grow in opposite directions runs an archetypical soft or non-credible peg that is prone to prone to balance of payments trouble.

In addition to a reserve target, which implies pegging to prevent appreciation, another convertibility undertaking was operated in terms of a targeting a real effective exchange rate index.

Critics had said it implying forced depreciation when currencies of bad central banks which have a large weighting bust their own currencies effectively importing monetary policy of the lowest denomination.

By October a real effective exchange rate index was at 98, below the target of 100, but the rupee is still under pressure.

But a central bank with a fixed policy rate cannot effectively control an exchange rate at will.

In November half a billion dollars were spent trying to stop the currency from falling further.

Yet another convertibility undertaking was set as preventing a 'disorderly adjustment' of the exchange rate.

Soft or non-credible pegged central banks that intervene in forex markets and print money to keep rates down rapidly run out of foreign reserves until credibility in the peg is restored by a float or higher interest rates or both.

Analysts had warned the central bank not to print money as any printing of money generates forex shortages which may lead to dollar sovereign default. (Colombo/Jan04/2018)

(Economynext)

Asian Stocks Track U.S. Losses on Growth Worries: Markets Wrap

Japan stocks slumped on its first trading day of the year, leading Asian stocks lower, after weak economic data added to anxiety about global growth and Apple Inc.'s sales outlook cut sunk U.S. stocks. Yen slipped after Thursday's shock surge.

The Nikkei 225 Stock Average dropped as much as 3.9 percent as traders returned from an extended new-year break, while Australian shares also slipped. The S&P 500 Index slid 2.5 percent on Thursday for the steepest sell-off since Christmas Eve as Apple tumbled after citing an unforeseen slowdown in China. A measure of U.S. manufacturing plunged the most since October 2008.

"Belief in global corporate earnings is fading against the backdrop of the U.S.-China trade friction," said Nobuhiko Kuramochi, head of investment information at Mizuho Securities Co. in Tokyo. "Deteriorating Apple earnings will lead to volume cuts for suppliers including those in Japan, while it could also mean cost-cutting pressures."

In currency markets, the yen slipped after being whipsawed during a bout of sharp gyrations Thursday, amplified by algorithmic programs amid thin liquidity during the Japanese holiday. Gold advanced above $1,300 an ounce to extend a new year rally.

The weak ISM factory reading added to anxiety spurred by poor data from China and Europe earlier this week, stoking fear that a recession looms larger than previously thought. Delta Airlines Inc. joined Apple on a growing list of companies warning that the trade war and political turmoil may be weighing on corporate profits. Dysfunction in Washington continues, with leaders unable to strike a deal to end a partial shutdown of the federal government.

In Japan, Apple suppliers Japan Display Inc., Sharp Corp. and Kyocera Corp. tumbled as they caught up with global declines in the wake of the iPhone maker's revelation it was trimming its sales outlook. With concerns over the impact of the U.S.-China trade war mounting, traders will be watching closely the talks between the two countries next week in Beijing.

Elsewhere, oil pulled back after climbing to near a two-week high over four consecutive sessions. Traders weighed signs that OPEC is following through on production cuts against hints of an economic slowdown.

For more on the markets, you can go to our our Markets Live blog.

Here are some events investors may focus on in coming days:

The U.S. December jobs report is due Friday
Fed Chair Powell is interviewed with predecessors Janet Yellen and Ben Bernanke at the annual meeting of the American Economic Association Friday. Atlanta Fed President Raphael Bostic joins a panel on long-run macroeconomic performance.
And these are the main moves in markets:

Stocks

- Japan's Topix index fell 2.3 percent as of 11:29 a.m. in Tokyo.
- Australia's S&P/ASX 200 Index slipped 0.9 percent.
- Hong Kong's Hang Seng Index climbed 0.8 percent.
- S&P 500 futures edged up 0.1 percent.

Currencies

- The yen slipped 0.3 percent to 108.01 per dollar after rallying to the strongest in more than eight months.
- The Australian dollar advanced 0.2 percent to 0.7019.
- The Bloomberg Dollar Spot Index gained 0.1 percent.

Bonds

- The yield on 10-year Treasuries rose 2 basis points to 2.57 percent after falling seven basis points on Thursday.
- Japan's benchmark 10-year yield slipped 4 basis points to minus 0.045 percent.

Commodities

- West Texas Intermediate crude dropped 0.3 percent to $46.93 a barrel.
- Gold climbed 0.3 percent to $1,297.66 an ounce after reaching the highest in almost seven months.

(Bloomberg)