# NEWS ROUND UP

*Thursday,October 04th, 2018*

## Contents

# *Sri Lanka stocks down 0.10-pct, rupee ends at new low*

Sri Lanka stocks rebounded on Wednesday gaining 0.10 percent on buying interest in John Keells Holdings, while the rupee ended at a new low of 169.80 rupees against the US dollar and gilt yields edged lower, market participants said.

Colombo's All Share closed 0.10 percent higher gaining 6.09 points to 5,813.83, rebounding from an intraday low of 5,792.30, and the S&P SL20 of more liquid stocks fell 0.22 percent, down 6.57 percent to 2,969.60.

Market turnover was 788.3 million rupees with 74 stocks gaining in the day against 59 that declined.

Commercial Leasing and Finance (up 20 cents 2.60 rupees), John Keells Holdings (up 90 cents to 132.30 rupees) and Distilleries (up 20 cents to 16.50 rupees) contributed to the benchmark index gain.

Net foreign selling was 1.4 million rupees, down sharply from selling of 133.7 million rupees the previous day.

Foreign selling in John Keells Holdings was 16 million rupees,.

Two crossings in John Keells Holdings totalled 630.2 million rupees, accounting for 80 percent of market turnover.

The Sri Lanka rupee closed at a new low at a wide spot market quote of 169.65/95 rupees against the US dollar. The rupee closed the previous day at 169.20/50 rupees against the US dollar.

On Wednesday, the currency traded at an intraday low of 169.80 rupees to the greenback, market participants said.

The central bank injected 42.5 billion rupees (via term and overnight reverse repo auctions and banks borrowing from its overnight window) on Wednesday to sterilise a market liquidity shortage.

The injections now total 226.75 billion rupees since the rupee collapsed twice in 2018 after the central bank tried to operate a 'flexible exchange rate' by injecting and maintaining unsterilized excess liquidity of tens of billions of rupees through domestic or foreign asset purchases.

Overnight market liquidity was short by 35.62 billion rupees on Wednesday, down 2.06 billion rupees from a day earlier.

Gilt yields in the secondary market closed lower on Wednesday.

A three-year bond maturing in 2021 closed at 10.60/68 percent in two-way quotes, down from the previous day's close of 10.73/82 percent.

A five-year bond maturing in 2023 ended at 10.85/90 percent, down from the previous closing of 10.92/11.00 percent. (EconomyNext)

# *Sri Lanka permanently sterilizes some forex interventions*

Sri Lanka has begun permanently sterilizing forex market interventions with outright purchases of Treasury bills to print money into the banking system after rejecting an auction of Treasuries, official data showed.

The central bank printed a total of 13.27 billion rupees Wednesday to fill a liquidity shortage coming from dollars sold to intervene in the spot forex market and swaps in the forward market through which it had given exchange cover to state banks, effectively engaging in quasi-fiscal activity.

The central bank printed 1,134 billion rupees at rates as low as 25 basis points below the overnight 8.50 percent ceiling policy corridor to inject rupee reserves into the banking system for 127 days (about four months).

The weighted average rate was 8.64 percent, 10 basis points above the 3-month bill yield two weeks ago but above the overnight rate. This week's auction was rejected.

Another 2.85 billion rupees were printed through the purchase of 141 day bills (3-month 20 days), at 8.6 percent, 10 basis points above the ceiling policy rate.

The weighted average yield was 8.63 percent, below the rate of the 127 day bill purchase.

Another 6.67 billion rupees were printed at rates as low as 8.5 percent for 148 days (4-months 28 days) 10 basis points below the ceiling overnight rate, but at a weighted average rate of 8.81 percent, which is above the overnight rates.

Another 2.6 billion rupees were injected for as low as 8.5 percent for 155 days (5 months 5 days) at a weighted average yield of 8.85 percent.

Sri Lanka's banking system is facing a shortage of rupee reserves of about 120 billion rupees following interventions in the spot market and two swaps with the National Savings Bank that matured last month.

The central bank also injected 13.85 billion rupees through an afternoon overnight auction and banks borrowed another 13.89 billion rupees from the last-minute window at 8.5 percent. Another 14.7 billion rupees were injected at 8.22 percent, for 7 days.

The rupee came under pressure due to a policy error in July and August where the central bank provided a cash advance to the Treasury against dollars, expanding reserve money but did not intervene to provide credibility to the dollar soft-peg at the spot leg at which money was created.

When the central bank buys bills outright banks can to do whatever it wishes with the printed money (including funding imports) with no further obligation unlike term reverse repo injections to sterilization which mature and has to be repaid.

But EN's economic analysts Bellwether, says the liquidity shortage is so large that as long as about 30 to 40 billion rupee overnight cash shortage is maintained (about 4-5 percent of reserve money) the rupee will get support.

Ideally the rupee should be floated so that confidence is re-established in the peg and appreciated so that interest rates can fall naturally, speculation will end and businesses and people can go back to growth creating activities.

Bank overnight dollar positions should be restored so that the central bank need not intervene at the margin all the time and there is depth in the forex market.

High interest rates emerge during currency pressure because the central bank intervenes in forex markets sucking up liquidity and exporters borrow rupees for fund operations to stop converting dollars.

Injecting cash via market bill purchase is better than intervening in bill auctions directly as it is a more transparent process.

Bellwether says laws should be brought to prevent the central bank from injecting cash at rates below the Sri Lanka Interbank Offered Rate of the previous day for any tenor, prohibit giving forward forex cover to any market participant, and prohibit providing advances to the finance ministry through dollar swaps absolutely, so that the current administration or any future administration is able to pursue a free trade agenda.

Sri Lanka was forced to enact draconian exchange and trade controls, soon after the current central bank with a soft peg was set up in late 1950. Many countries faced heavy pressure from the US State Department to join the Bretton-Woods system of soft-pegs.

The US also lent a Fed official to set up the soft-peg.

In all soft-pegged countries which have monetary instability there is widespread ignorance about central bank operations and all problems are blamed on 'imports' or the budget deficit. Countries where there is knowledge about soft-pegs, do not go to the International Monetary Fund. (EconomyNext)

## *Sri Lanka's planters push for outgrower model as wage deadline looms*

Sri Lanka's Regional Plantation Companies are pushing for a new outgrower model, as a deadline on wage negotiations for a collective agreement with trade unions looms, the Planters' Association chief said.

The current collective agreement on wages is set to expire in October, Chairman Sunil Poholiyadde said.

"We are in the process of negotiating with the trade unions the revision of wages for the fresh collective agreement," he said.

"In my view the current model cannot be sustained long term and the time has come to look at a different model based on productivity and a share of revenue."

Nearly one million Sri Lankans reside in tea estate land, where 250,000 work.

Poholiyadde said trade unions had agreed for a productivity based wage structure at the last revision and to explore a revenue share model which is required for the industry's sustainability.

An outgrower model is desired, he said.

"World over they give the nucleus to companies which can invest, and 20 to 30 percent of land is given to outgrowers, for which financing is given by nucleus," he said. (EconomyNext)

## *China State Construction Engineering wins Sri Lanka’s airport terminal deal*

China State Construction Engineering Corporation Ltd. has won a contract to build a pre-fabricated terminal at Sri Lanka’s main international airport as a stop gap solution for passenger congestion until completion of a permanent building which has been delayed.

The state information office said the Cabinet of ministers this week approved a proposal for the contract by Transport and Civil Aviation Minister Nimal Siripala de Silva.

The pre-fabricated terminal at the Bandaranaike International Airport (BIA) in Katunayake will handle up to 400 passengers an hour (about 3.5 million passengers a year). Construction will take 09 months.

The BIA terminal now handles double its designed capacity of 6 million passengers a year.(EconomyNext)

## *Dollar rally moves to Asia after US data but stocks suffer*

The dollar continued to brush aside other currencies Thursday after further proof of the booming US economy sent Treasury yields surging, but Asian equities sank with more Federal Reserve rate hikes looking certain.

A forecast-busting private jobs report, a surge in activity in the services sector and optimism in the retail market were the latest evidence that the world's top economy is firing on all cylinders, helping send the Dow to a record close for the second day in a row.

However, the news also saw a sell-off in safe-haven Treasuries -- a sign of confidence -- sending the cost of borrowing to its highest level in seven years, in turn fuelling a surge in the dollar, helping it hit an 11-month high against the yen.

Hawkish comments from Fed boss Jerome Powell also provided momentum to dollar buying.

While the greenback eased slightly on Wednesday against the Japanese unit, it continued to push ahead against others, with easing concerns about a row between Italy and EU leaders unable to staunch a sell-off in the euro.

Higher-yielding and emerging market currencies were among the worst hit.

The dollar hit a fresh 20-year high against the Indonesian rupiah, while it was around 1.5 percent higher against both the Russian ruble and Mexican peso and 0.8 percent higher against the Australian dollar and South Korean won.

The New Zealand and Singapore dollars and Thai baht were also sharply lower.

The prospect of borrowing becoming even more expensive rattled equity traders in Asia.

Hong Kong lost 1.6 percent with property firms hit by concerns the higher rates -- the city's monetary policy is linked to the Fed's -- will hammer the booming real estate market.

Tokyo ended the morning down 0.2 percent, Singapore and Manila shed 0.9 percent, while Seoul, Taipei and Jakarta were each off more than one percent.

Sydney was up 0.5 percent while Shanghai was closed for a public holiday.

However, Stephen Innes, head of Asia-Pacific trading at OANDA was upbeat about the outlook.

"With positive signs gradually showing up for Shanghai and the Nikkei, Asia equities, while still pulling up the rear, should make leaps and bounds this quarter, even more if the US and China resolve their trade issues."

On oil markets both main contracts edged down after serving up yet another sharp rise on Wednesday on the back of comments from US Secretary of State Mike Pompeo and White House National Security adviser John Bolten regarding Iran that exacerbated worries about a supply hit from the region.

With US sanctions on Tehran due to be implemented early next month there are worries about narrowing supplies, while upheaval in Venezuela and the strong dollar have also helped the rally.

The fact that the gains came despite a rise in US stockpiles "indicates the markets remain singularly focused on Iran sanctions and the questionableness of OPEC's amplitude to increase production quickly enough to offset any Iran supply loss", Innes added.

- Key figures around 0230 GMT -

Tokyo - Nikkei 225: DOWN 0.2 percent at 24,054.80 (break)

Hong Kong - Hang Seng: DOWN 1.6 percent at 26,647.74

Shanghai - Composite: Closed for a public holiday

Euro/dollar: DOWN at $1.1476 from $1.1505 at 2100 GMT

Pound/dollar: DOWN at $1.2933 from $1.2966

Dollar/yen: DOWN at 114.29 from 114.46 yen

Oil - West Texas Intermediate: DOWN 28 cents at $76.13 per barrel

Oil - Brent Crude: DOWN 39 cents at $85.90 per barrel

New York - Dow Jones: UP 0.2 percent at 26,828.39 (close)

London - FTSE 100: UP 0.5 percent at 7,510.28 (close) (AFP)

## *Goldman Sachs slants research to help Democrats, top White House adviser says*

Kevin Hassett, one of President Donald Trump's top economic advisers, suggested that Goldman Sachs may be slanting its economic research to help Democrats ahead of the midterm elections.

The Goldman Sachs economics team "almost at times looks like the Democratic opposition," Hassett told CNN's Poppy Harlow on Tuesday.

The comment came after Harlow asked Hassett about a Goldman Sachs research report warning that a 25% US tariff on all imports from China could wipe out corporate profit growth in 2019.

Hassett said he hadn't read the research, but went on to criticize Goldman's track record. Hassett claimed its analysis of last year's tax cuts was "really, really wrong and timed in a partisan way." He said Goldman's analysis predicted the tax cuts would be "really harmful" to the economy or have little impact before jacking up its forecast after they passed.

"So maybe they're just trying to make a partisan point before the elections," said Hassett, chairman of Trump's Council of Economic Advisers.

Keep in mind that Goldman Sachs (GS), like other investment banks, charges clients to access their economic and market insights. Investors rely on that research to be nonpartisan.

Goldman Sachs declined to comment about the criticism.

It marks another chapter in Team Trump's love-hate relationship with Goldman Sachs, the most powerful firm on Wall Street.

Trump blasted Goldman Sachs during the 2016 presidential campaign. He claimed Goldman Sachs had "total, total control" over his rivals Hillary Clinton and Ted Cruz.

Trump's closing campaign ad flashed an image of Lloyd Blankfein, then the CEO of Goldman Sachs, as the candidate's narration condemned the "global power structure" for robbing America's working class.

After the election, Trump reversed course.

He named former Goldman Sachs partner Steve Mnuchin to the powerful role of Treasury secretary. Trump hired Gary Cohn, a registered Democrat who was then president of Goldman Sachs, to be the face of his economic team. (Cohn left earlier this year because of a disagreement over trade.)

In the 2016 race, Clinton received $388,426 from individuals at Goldman Sachs, more than any other candidate, according to OpenSecrets. Trump received $5,607, according to OpenSecrets. Then again, Goldman Sachs employees contributed more to Republicans than Democrats overall in 2016 federal races.

Blankfein backed Clinton in the election.

However, after the election, Blankfein gave Trump credit for the soaring American economy.

"If the president didn't win, and Hillary Clinton won ... I bet you the economy is higher today than it otherwise would be," Blankfein told CNN in February.

Veterans of Goldman Sachs have gone on to work in Republican and Democratic administrations. Robert Rubin, the former co-chairman of Goldman Sachs, served as Treasury secretary under former President Bill Clinton.

Hank Paulson had been the chairman and CEO of Goldman Sachs before leading the Treasury Department under former President George W. Bush during the 2008 financial crisis. (CNN)