NEWS ROUND UP

Tuesday, December 04, 2018

Contents

Rupee ends firmer on dollar remittances; shares up

The rupee closed firmer on Monday as banks sold dollars due to month-end inward remittances, but the rupee is still under pressure as investors continue to sell rupee-denominated assets on a credit rating downgrade and a delayed IMF loan discussion in the wake of a political crisis.

Foreigners sold a net Rs. 13.5 million ($75,587) worth of stocks on Monday, and they have been net sellers of Rs. 8.7 billion since the political crisis started on 26 October. The bond market saw outflows of about Rs. 34.2 billion between 25 October and 28 November, Central Bank data showed.

This year, there have been Rs. 18.1 billion of outflows from stocks and Rs. 123.2 billion from government securities, the latest data from the bourse and Central Bank data showed.

The rupee ended at 178.70/90 per dollar on Monday, compared with 178.80/179.20 in the previous session. It has weakened about 3.2% since the political crisis began. The currency fell 1.8% in November and 16.4% so far this year.

The rupee hit a record low of 180.85 per dollar on Wednesday, surpassing its previous low of 180.50 hit on the previous day.

Moody's downgraded Sri Lanka on 20 November for the first time since it started rating the country in 2010, blaming the political turmoil for aggravating its already problematic finances.

The downgrade coincided with a decision by the International Monetary Fund to delay discussions on its loan tranche to Sri Lanka.

The political standoff took another turn on Monday as a court issued an order preventing Mahinda Rajapaksa from acting as Prime Minister and holding Cabinet meetings.

The new Government has not been recognised by any foreign countries because they have not proven their parliamentary majority.

The political paralysis remains the main concern of investors. While Rajapaksa and President Maithripala Sirisena have failed to win support in Parliament for their new Government, the deposed Prime Minister Ranil Wickremesinghe's coalition, which claims it does have majority support in Parliament, has not been allowed to try to form a Government.

The political impasse could be set to drag on longer after President Sirisena said last week he would not reinstate Wickremesinghe as Prime Minister even if he was able to prove his majority in Parliament.

The Central Bank on 14 November unexpectedly raised its main interest rates to defend the rupee, which has faltered as foreign capital outflows pick up due to the domestic crisis as well as rising US interest rates.

Five-year government bond yields have risen 55 basis points since the crisis unfolded on 26 October.

The Colombo stock index rose 0.1% to 6,025.20 on Monday. It rose 1.5% last week, recording its first weekly gain in four. It gained 1.1% in November and has declined 5.5% so far this year.

Stock market turnover was Rs. 445.9 million on Monday, less than this year's daily average of Rs. 833.9 million.

(Dailyft)

Secondary bond market yields remain mostly unchanged

The secondary bond market yields remained mostly unchanged yesterday with the liquid maturities of 15.12.21, two 2023's (i.e.15.02.3 and 15.05.23), 01.08.26, 15.06.27 and 01.09.28 changing hands at levels of 11.75%, 11.88% to 11.95%, 12.16% to 12.25%, 12.20% to 12.25% and 12.28%, respectively, supported by continued local buying interest over foreign selling interest.

The total secondary market Treasury bond/bill transacted volumes for 30 November was Rs. 17.16 billion.

In the money market, overnight call money and repo rates averaged 8.94% and 8.93%, respectively, as the OMO Department of the Central Bank, infused liquidity for durations of overnight to seven days for amounts of Rs. 30.76 billion and Rs. 10 billion at weighted average yields of 8.54% and 8.51%, respectively. The overnight net liquidity shortfall decreased to Rs. 60.37 billion yesterday.

Rupee appreciates further

The USD/LKR rate on spot contracts was seen appreciating further yesterday to close the day at Rs. 178.60/75 against its previous day's closing levels of Rs. 178.90/10 on the back of continued selling interest by banks.

The total USD/LKR traded volume for 30 November was $ 50.23 million.

Some of the forward USD/LKR rates that prevailed in the market were 1 month – 179.65/15, 3 months – 181.65/15, and 6 months – 184.60/10.
(Dailyft)

Fitch affirms, withdraws Lankan insurers' National Long-Term ratings; National IFS unaffected

Fitch Ratings has affirmed and simultaneously withdrawn the National Long-Term Ratings of all rated Sri Lankan insurers, as the ratings are no longer considered by Fitch to be relevant to the agency's coverage because the entities have not issued any debt.

The issuers' existing National Insurer Financial Strength (IFS) Ratings are unaffected.

Key rating drivers

- Prior to the withdrawal, the National Long-Term Ratings were affirmed with Stable Outlooks as there have been no significant changes in the credit profiles of the rated insurers in Sri Lanka since the previous rating actions on the insurers in 2018.

- Fitch continues to rate the insurers with the following IFS Ratings:

- Sri Lanka Insurance Corporation Limited: IFS Rating 'B+', National IFS Rating 'AA+(lka)' with Stable Outlooks affirmed on 9 July 2018
- National Insurance Trust Fund Board: National IFS Rating 'AA-(lka)' with Stable Outlook affirmed on 6 September 2018

- People's Insurance PLC: National IFS Rating 'A+(lka)' with Stable Outlook assigned on 28 February 2018
- HNB Assurance PLC: National IFS Rating 'A(lka)' with Stable Outlook affirmed on 19 March 2018
- HNB General Insurance Limited: National IFS Rating 'A(lka)' with Stable Outlook affirmed on 19 March 2018
- Continental Insurance Lanka Limited: National IFS Rating 'A(lka)' with Stable Outlook affirmed on 27 March 2018
- Co-Operative Insurance Company Limited: National IFS Rating 'BBB+(lka)' with Stable Outlook assigned on 6 September 2018

Rating sensitivities

Not applicable as the ratings have been withdrawn.

Full list of rating actions

Fitch has affirmed and withdrawn the following ratings:

- Sri Lanka Insurance Corporation Limited: National Long-Term Rating at 'AA+(lka)'
- National Insurance Trust Fund Board: National Long-Term Rating at 'AA-(lka)'
- People's Insurance PLC: National Long-Term Rating at 'A+(lka)'
- HNB Assurance PLC: National Long-Term Rating at 'A(lka)'
- HNB General Insurance Limited: National Long-term Rating at 'A(lka)'
- Continental Insurance Lanka Limited: National Long-Term Rating at 'A(lka)'
- Co-Operative Insurance Company Limited: National Long-term Rating at 'BBB+(lka)'

The Rating Outlooks are Stable. (Dailyft)

LAUGFS Gas strengthens infrastructure in Bangladesh with new cylinder requalification plant

LAUGFS Gas Bangladesh Ltd., one of the largest LPG downstream distributors in Bangladesh, officially commissioned its newest cylinder requalification plant recently at its terminal facility in Mongla, Khulna.

Operating a world-class LPG import, bottling and distribution facility in the Mongla Port, LAUGFS Gas Bangladesh imports and distributes over 60,000 metric tonnes of LPG in the country. With an annual turnover exceeding $ 50 million, the company has expanded its operations to become a trusted and leading brand in the local LPG downstream industry.

The new cylinder requalification plant was unveiled by LAUGFS Group Managing Director Thilak De Silva, LAUGFS Gas Bangladesh Director/Chief Executive Officer Saidul Islam and its senior management team. LAUGFS Gas Bangladesh Chief Operating Officer Ranjith Jayawardena, General Manager Sales and Marketing Nazeer Latiff and General Manager Operations Dr. Mayura Neththikumarage were also present at the celebratory event together with its key distributors and other stakeholders. “As part of our expansion plans to strengthen our presence as a regional energy conglomerate, we have a strong focus on the Bangladesh market. Strengthening our investments to build and expand our local infrastructure to support market expansion is part of this strategy. The new state-of-the-art cylinder requalification facility is an important milestone in this journey. It will also enable us to serve the

Bangladesh market with the safest LPG cylinders, as part of our firm commitment to safety, quality and reliability," remarked De Silva, commenting on this momentous occasion. "We see tremendous potential in the Bangladesh LPG market and will continue to invest to strengthen our operations there," he explained.

The modern, state-of-the-art cylinder requalification plant deploys advanced technologies and modern machineries with stringent safety and quality parameters, and has been one of the key investments by LAUGFS to bolster its infrastructure in Bangladesh.

"I would like to congratulate our team in Bangladesh, who has worked tirelessly to make this world class facility come to fruition. Their unwavering commitment and passion will as always remain a strength as we stride ahead to become one of the largest energy players in the region. My deepest gratitude is also extended to our distributors and all other stakeholders in Bangladesh for the trust they have placed in us, and their true commitment towards building lasting partnerships to serve our customers in Bangladesh," De Silva further stated.

Petredec Elpiji Ltd. was renamed as LAUGFS Gas (Bangladesh) Ltd. in 2015 after its acquisition by LAUGFS Gas PLC of Sri Lanka, and has since expanded rapidly to become one of the largest LPG downstream players in the Bangladesh market. With an expansive nationwide distribution network, it serves domestic, commercial and industrial customers with 12 kg, 33kg and 45 kg cylinders under the LAUGFS Gas brand. It operates a world-class LPG import, bottling and distribution facility in Mongla Port, with plans to expand storage capacity to 5,000MT, which is due to be commissioned mid next year. Also being the pioneer of Auto Gas in Bangladesh, the company supplies LPG to service stations covering all major cities.

LAUGFS is one of the largest diversified business conglomerates and a trusted name in Sri Lanka. Founded in 1995, LAUGFS today has expanded across 20 industries in Sri Lanka and overseas, establishing a strong presence as a leader and pioneer in the power and energy, retail, industrial, services, leisure and logistics sectors. With over 4,000 employees and an annual turnover exceeding Rs. 37 billion, LAUGFS continues to expand and empower millions as a trusted Sri Lankan brand.
(Dailyft)

Going strong at 140: Hayleys No.1 in LMD Top 20 rankings for second consecutive year

Iconic diversified multinational conglomerate, Hayleys PLC, maintained its position at the forefront of Sri Lanka's corporate sector by becoming No.1 in the 25th edition of the LMD Top 20 for the second consecutive year.

The announcement of the LMD Top 20 was made ahead of the complete Top 100 list which will be released in December. Notably, the group's position at the top of LMD's rankings comes at a time when Hayleys is celebrating 140 years of innovation and business excellence in Sri Lanka. This year's ranking also amounts to the fourth occasion that Hayleys has occupied the prime position in Sri Lanka's version of the Fortune 500.

"From its inception, the Hayleys Group has served as a beacon of innovation in Sri Lanka and it is with pride to note that 140 years later, we still continue to display the same spirit of entrepreneurial dynamism that has long distinguished Hayleys PLC. Our retention of the Number 1 position in the LMD Top 100 rankings for the second year running serves as a resounding validation of our growth oriented trajectory.I wish to convey my sincere gratitude to our team of employees for their unwavering commitment.We wouldmove forward with renewed determination to elevate Hayleys PLC and the Sri Lankan economy to new heights," Hayleys Chairman and Chief Executive Mohan Pandithage stated.

Over the course of the last financial year, Hayleys became the first listed company in Sri Lanka to achieve $ 1 billion turnover, representing a 47% Year-on-Year (YoY) improvement, whilst the group's extensive range of exports accounts for 3.3% of the nation's total export earnings.

Hayleys PLC's top ranking in this year's LMD Top 20 is the latest in a long series of prestigious accolades to the group, which was once again declared among LMD's Top 3 Most Respected Corporates in Sri Lanka, in addition to securing a place in the inaugural Top 10 Most Admired Companies in Sri Lankaby the International Chamber of Commerce, Sri Lanka (ICCSL) and the Chartered Institute of Management Accountants (CIMA) Sri Lanka.

The Group has also been regularly featured as winner of Sri Lanka's Best Corporate Citizen Award by the Ceylon Chamber of Commerce, in recognition of the Hayleys flagship corporate social responsibility initiative, Sath Diyawara, a vital program aimed at delivering safe, clean drinking water to communities in Sri Lanka's dry zone that have been harshly impacted by the outbreak of Chronic Kidney Disease of unknown aetiology (CKDu), towards which the group has invested $ 2.3 million to date.

In its 140th year, the group continued to set new milestones through such high profile initiatives as its acquisition of Singer Sri Lanka PLC in a transaction which was the single largest in the history of the Colombo Stock Exchange (CSE) in the recent past.

Catering to over 7.6 million customers world-wide, the Hayleys Group today stands as one of Sri Lanka'svibrant corporate entities, providing direct employment to 32,000 Sri Lankans, in addition to providing indirect employment to over 20,000 people. Following its establishment in 1878 as a trading house for the import of valuable goods, and export of locally produced goods such as spices, coir yarn and essential oils; the group has rapidly expanded in the scope and scale of its operations. Today, Hayleys maintains a global presence across 5 continents with business interests spanning a total of 16 sectors. (Dailyft)

Asian shares in November post biggest monthly gains in 10 months

Asian shares posted their biggest monthly gain in 10 months in November on hopes US-China trade tensions would ease and on expectations of fewer US rate hikes in the coming quarters.

The MSCI Asia-Pacific index gained 2.74% last month, its biggest monthly gain since January.

Share markets in Hong Kong, India and Indonesia led the region with gains of 6.1%, 4.7% and 3.9%, respectively.

Investors were expecting the Trump-Xi meeting in the G20 summit to provide some breakthrough in the trade talks and increased their bets on regional equity markets. In the meeting last week, the two leaders agreed to a 90-day truce on further tariffs in their trade war.

Also, Federal Reserve Chairman Jerome Powell's comments that US interest rates were "just below" neutral, bolstered views the central bank would stop raising rates sooner than previously expected.

However, all Asian stock indexes were still negative for the year, at the end of last month.

New Zealand, India, and Malaysian stocks have the highest price-to-earnings ratio based on 12-month forward earnings in Asia, according to Refinitiv data. (Dailyft)

Stock Rally Stalls With Trade-Talk Outlook `Hazy': Markets Wrap

Asian stocks fell with American futures on Tuesday after confusing signals over U.S.-China trade talks. The yen advanced and Treasury yields dropped.

Stocks fell in Japan, Korea and Australia and fluctuated in China after media appearances Monday with Trump administration officials shed little light on the specifics of how Sino-American trade negotiations will progress. Though the S&P 500 Index closed higher on the suspension of tariff escalation, futures retreated Tuesday. The inversion of portions of the Treasury yield curve for the first time since 2007 reinforced the impression that markets are approaching the end of the current cycle. Elsewhere, crude oil built on its Monday surge.

U.S. Treasury Secretary Steven Mnuchin and President Donald Trump's top economic adviser, Larry Kudlow, dialed back expectations and added qualifiers when asked about the weekend agreement between Trump and Chinese President Xi Jinping. China has said nothing about the commitment to remove car tariffs flagged by the U.S., nor did its statement mention the 90-day timeline for talks the Americans have specified.

"We have to see what this next three-month period actually brings," said Dwyfor Evans, head of Asia-Pacific macro strategy at State Street Global Markets in Hong Kong. "It's all a little bit hazy at the moment."

As with last Wednesday's investor excitement over suggestions of a looming pause in Fed tightening, the risk is the cheer over a trade-war ceasefire becomes a one-day wonder. In the Treasury market, three-year yields have climbed above five-year ones, foreshadowing the end of Federal Reserve's tightening campaign.

While the more closely watched part of the Treasury yield curve -- the gap between two-year and 10-year yields -- remains upwardly sloped, it has flattened to just 15 basis points. With yield-curve inversions having been a reliable indicator of past recessions, the move casts a shadow over the outlook for 2019.

Oil extended Monday's surge as Saudi Arabia and Russia continued their cooperation pact. The pound erased a gain as the threat of a vote to bring down British Prime Minister Theresa May's government looms should Parliament reject her Brexit deal.

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Coming Up

- U.S. financial markets are set to close Wednesday for a national day of mourning to honor former President George H.W. Bush. Fed Chairman Jerome Powell's testimony to Congress scheduled for Wednesday has been canceled.
- Friday brings the U.S. monthly employment report for November.
- China November trade data are due on Saturday.

These are the main moves in markets:

Stocks

- The MSCI Asia Pacific Index fell 0.5 percent as of noon Tokyo time.
- Japan's Topix Index fell 1.1 percent.
- Hang Seng fell 0.2 percent.
- The S&P/ASX 200 fell 0.7 percent.
- Shanghai Composite was little changed.
- Futures on the S&P 500 fell 0.3 percent. The index itself gained 1.1 percent Monday.

Currencies

- The Bloomberg Dollar Spot Index fell 0.2 percent for a second day.
- The euro was little changed at $1.1366.
- The British pound was at $1.2735.
- The Japanese yen advanced 0.3 percent to 113.34 per dollar.
- China's offshore yuan gained 0.2 percent to 6.8658 per dollar.

Bonds

- The yield on benchmark 10-year Treasuries dipped about three basis points to 2.94 percent.

Commodities

- West Texas Intermediate crude rose 0.7 percent to $53.45 a barrel.
- Gold gained 0.3 percent to $1,234.80.
- LME copper climbed 1.6 percent to $6,295 per metric ton Monday.

(Bloomberg)