NEWS ROUND UP

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MTD Walkers clears debenture hurdle

MTD Walkers Plc, supported by NDB Investment Bank, the Bank of Ceylon Trustees and Nithya Partners, representing the interests of the investors to the debenture and the internal corporate finance team, has restructured its debenture obligations.

MTD Walkers Plc, with the support of over 75% of the debenture holders, cleared the hurdle of the debenture payment.

The company, which had about Rs. 2.1 billion outstanding on the debentures along with Rs. 149 million in interest payments, has fully paid off the due interest in line with the existing trust deed. According to the disclosure made by the company to the Colombo Stock Exchange on 28 September 2018, the Type A Debenture interest rate was increased from 9.75% to 11.75% and Type B Debenture from 10.25% to 12.25% per annum up to maturity.

As part of the restructuring, 49.04% of the Type A Debentures was purchased through the trading system of the Colombo Stock Exchange for debenture holders who held over 100,000 of these debentures.

The balance Type A Debentures were extended for another 12 months. Holders of Type A Debentures with 100,000 debentures or less were offered buyouts in full. This restructuring was done to better align the company's debt obligations with cash flows from its ongoing projects.

(Dailyft)

Strong US economy buoys dollar, puts Asian currencies on skids: Reuters poll

Investors continued to bet that Asian currencies would weaken against the dollar, a Reuters poll showed, as hawkish comments by Federal Reserve policymakers and a steady rate hike path buttressed the greenback.

Fed Chairman Jerome Powell said on Wednesday the central bank may raise interest rates above an estimated "neutral" setting as the "remarkably positive" economy continues to grow.

This came after a survey showed the US services sector activity raced to a 21-year high last month, boosting expectations that Friday's payroll report could surprise.

The dollar index against a basket of six major currencies has gained nearly 1% since the Fed last Wednesday raised rates as expected and provided an upbeat view of the world's biggest economy. The central bank said it foresees another rate hike in December, three more next year and one in 2020.

The rosy economic view and a steady policy tightening path have largely helped drive up Treasury yields, which rose to over seven-year highs on Thursday, adding further pressure on Asian currencies.

Rising yields have been troublesome for emerging assets as they tend to draw away foreign funds. Emerging Asian countries with ballooning current account deficits due to expensive oil imports, like India and Indonesia, have been the biggest casualties so far this year.

The poll of 11 respondents showed investors increased their bearish bets on the Indonesian rupiah over the past two weeks to a more than five-year high, while raising short positions in the Indian rupee slightly.

Bank Indonesia has tried to shore up the rupiah via intervention and rate hikes. Top Government officials also pitched in with positive comments. The Finance Minister said on Tuesday that the economy was adjusting "quite well" to higher US interest rates and the fall of the rupiah, asserting that many of its economic indicators were good.

The rupiah was down 0.7% as of 0557 GMT and has weakened over 10% so far this year, making it the second biggest loser in the region after the Indian rupee, which has continued to plumb new lows and forced the central bank to intervene.

"Despite a stronger dollar, crude oil prices continued to remain very elevated, which is putting further pressure on current account deficit currencies that rely on oil imports, India and Indonesia specifically," said ANZ Head of Asia Research Khoon Goh.

"The INR hit yet another record low today and in the near term, it doesn't look like there's any respite coming."

At its policy meeting on Friday, the Reserve Bank of India is expected to raise rates for a third time since June to check inflationary pressures as it grapples with a depreciating currency and surging oil prices.

Short positions on the Philippine peso also piled up as the country's central bank struggles to tame stubbornly high inflation that undermines its GDP growth target.

The central bank will be looking out for September inflation data due on Friday, after it raised benchmark rates last week and said it was open to further tightening.

Annual inflation was expected to have risen last month, moving close to 7%, a Reuters poll showed, against the central bank's target of 2-4%.

The Asian currency positioning poll is focused on what analysts and fund managers believe are the current market positions in nine Asian emerging market currencies: the Chinese yuan, South Korean won, Singapore dollar, Indonesian rupiah, Taiwan dollar, Indian rupee, Philippine peso, Malaysian ringgit and the Thai baht.

The poll uses estimates of net long or short positions on a scale of minus 3 to plus 3. A score of plus 3 indicates the market is significantly long US dollars.

The figures include positions held through non-deliverable forwards (NDFs).
(Dailyft)

Exchange rate tops Rs. 170 on importer dollar demand; stocks extend gains

The rupee hit a record low for a second straight session on Thursday due to dollar demand from importers and foreign banks amid outflows from government securities, while stocks rose for a second consecutive session.

The rupee fell to its all-time low of 170.10 per dollar, surpassing the previous low of 169.90 hit on Wednesday, on importer demand for the greenback and foreign selling in government securities, market sources said.

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

The Central Bank said on Tuesday it purchased $ 4 million from the market in the previous day, but it sold a net $ 184 million to the market so far this year to defend the currency.

The rupee ended at 170.05/20 per dollar, compared with the previous close of 169.80/90.

The rupee has weakened 0.5% so far this month after a 4.7% drop in September against the dollar. It has declined 10.69% so far this year.

The Colombo stock index ended 0.37% firmer at 5,835.60, further moving away from its lowest close since 13 December 2013 hit on Tuesday. It fell 3.6% last month and is down 8.4% 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 in a while. Sri Lanka has seen a net outflow of Rs. 72.5 billion in securities so far this year.

Stock market turnover was Rs. 319 million ($ 1.88 million) on Thursday, less than half of this year's daily average of Rs. 779.7 million.

Foreign investors sold a net Rs. 97.3 million worth of shares on Thursday, extending the year-to-date net foreign outflow to Rs. 6.1 billion worth of equities.
(Dailyft)

Pakistan's rupee under pressure amid regional currency turmoil

Emerging markets currency turmoil and higher oil prices are putting increasing pressure on Pakistan's central bank to devalue the rupee for a fifth time in a year, analysts said on Wednesday.

The rupee is down 20 percent since December as dwindling foreign currency reserves paired with a widening current account deficit prompted successive devaluations by the State Bank of Pakistan.

On Wednesday, the rupee closed at 124.2 per US dollar in the official interbank rate and 127.50 on the open market.

Any significant difference between the rates encourages transactions outside the formal banking system.

The central bank aggressively hiked its policy interest rates by 100 basis points to 8.5 percent last week, but that won't be enough to prevent another depreciation, research agency Fitch Solutions said in an investors note.

"We remain bearish on the Pakistani rupee as the currency is likely to remain under depreciatory pressures with weaker external finances," it said.

Pakistan's economy has been wobbly for months, triggering speculation that Prime Minister Imran Khan's new government may request the country's 13th International Monetary Fund (IMF) bailout since late 1980s, though the administration calls that a last resort.

The state bank's foreign reserves were down to $9 billion in the week ending Sept. 19, only about two months' worth of imports and down some $300 million from the previous week, according to official statistics.

Now, rising oil prices are draining foreign reserves in emerging markets dependent on imported petroleum. Pakistan's neighbour India saw its currency fall to a record low of 73.40 rupees per dollar this week.

The external pressure has ramped up pressure on Pakistan's thinly traded rupee, widely considered to be under a managed float. It's unlikely the central bank can defend the rupee at current levels for much longer, said Saad Hashemey, research director for Pakistani brokerage Topline Securities.

"Given the foreign exchange reserves in the state bank, I don't think the state bank has the fire power to bring the rate down," he said.

He added he expects "a slight devaluation at this point, and then eventually a 135-140 level in the next eight to 12 months".

Khan's new government has been seeking alternatives to going back to the IMF, but so far visits by Chinese and Saudi delegations have not yielded any new bridge loans or deferred-payment deals on oil.

Before Khan's election, China had given several billion dollars in emergency loans.
(Dailyft)

Dollar and global bonds track surge in Treasury yields, stocks sag

: A rise in US Treasury yields to their highest levels since mid-2011 pulled global bond yields higher across the board and boosted the dollar on Thursday, while stocks sagged in response.

An influential survey of the US services sector showed activity at its strongest since August 1997, sparking speculation that the payrolls report on Friday could also surprise.

Comments from Federal Reserve Chairman Jerome Powell that economic outlook was "remarkably positive" and that rates might rise above "neutral" also helped the yield on the US 10-year Treasury climb to 3.18% on Wednesday.

Yields extended those gains on Thursday, having spiked to 3.2325% overnight, posting their steepest daily increase since the shock outcome of the US Presidential election in November 2016. It last traded at 3.2135%.

"The market is pricing in an additional 0.47% of rate increases in 2019 (nearly two hikes) compared to the Fed's median projection of 0.75% (three hikes)," wrote Minneapolis-based US Bank Wealth Management Director of Fixed Income Bill Merz.

"The difference in market versus Fed expectations must be reconciled via lower Fed expectations or the higher market expectations. We anticipate further upward pressure on bond yields, because the Fed is unlikely to waver materially from its near-term path."

The rise in US yields helped lift yields across Asia and Europe in response, while shares in emerging markets slipped. Higher US yields are anything but favourable for emerging markets as they tend to draw away much-needed foreign funds while pressuring local currencies.

MSCI's broadest index of Asia-Pacific shares outside Japan skidded 1.7%, with South Korea, the Philippines, Indonesia and Taiwan all down.

Even the Nikkei eased half a%, as rising yields offset the boost to exporters from a weaker yen.

EMini futures for the S&P 500 also lost 0.4% in European trade, while European stocks last traded down 0.7%.

Euro zone bond yields rose sharply, tracking their US counterpart, while the 'trans-Atlantic spread' between United States and German 10-year bond yields hit a three-decade high of around 275 bps.

Germany's 10-year bond yield, the benchmark for the region, hit a 4-1/2 month high of 0.55% before settling at around 0.53%, still up six basis points on the day.

"If the Fed is to hike rates beyond the neutral level, the underlying case is that the economy is doing very well – and if the US economy is doing very well – that has spillover effects the euro zone," said DZ Bank Analyst Rene Albrecht.

"This will make it easier for the ECB to raise rates in 2019; and you will see this impact yields in the euro zone, especially at the long end," he added.

The exception of the day was Italy, where borrowing costs dropped for a second day, after the Government said it would cut budget deficit targets from 2020 and reduce its debt over the next three years.

Prime Minister Giuseppe Conte on Wednesday confirmed a deficit target of 2.4% of gross domestic product (GDP) in 2019 and said this would fall to 2.1% in 2020 and 1.8% in 2021.

The estimates for 2020 and 2021 were lower than those initially reported, bringing further relief to bond markets rattled by the new Government's plans to ramp up spending.

Italy's two-year bond yield was last down two basis points at 1.234%.

In currencies, the dollar gave up some of the gains that took it to a six-week high against a basket of peers, to stand up 0.1% on the day.

Oil prices slipped from four-year highs, pressured by rising US inventories and after sources said Russia and Saudi Arabia struck a private deal in September to raise crude output.

Brent eased 0.2% to $ 86.13 a barrel on Thursday, while US crude also fell 0.1% to $ 76.28 a barrel.

Gold prices moved in a narrow range, last trading up 0.3% at $ 1.200.52 per ounce.
(Dailyft)

Indian Rupee hits record low despite suspected intervention; stocks, bonds weaken

The rupee plumbed record lows as global oil prices rose and stocks and bonds weakened on Thursday, heightening speculation that the Reserve Bank of India (RBI) may hike interest rates on Friday more aggressively than earlier expected.

A majority of analysts polled by Reuters last week expected a third consecutive 25 basis point increase in the key repo rate, currently set at 6.50%, though speculation has mounted in recent days that the RBI could opt for a 50 bps hike.

"Expectations are building for an aggressive rate response, but the policy committee's inflation mandate and the current benign trend, backs the case for a measured 25 bps rate hike," Radhika Rao, an economist at DBS wrote in a note on Thursday.

The partially convertible rupee hit a life low of 73.82 per dollar before recovering to 73.62/63 by 0710 GMT. It had closed at 73.3350 on Wednesday.

One forex dealer at a foreign bank, who asked not to be named, said early intervention by the central bank stopped the rupee from hitting 74 per dollar, but it is still down 13.3% since the start of the year, making it the worst performer among Asia's emerging market currencies.

The fall in the rupee also led to a sharp rise in government bond yields, due to increasing expectations that the RBI's monetary policy committee (MPC) could go for a bigger rate increase than expected on Friday.

"Markets are in a panic right now, they are probably pricing in more rate hikes than what the MPC can deliver," a senior debt trader at a private bank said.

Confidence has ebbed in India's markets in recent weeks. The rupee has set all-time lows, bonds are at their weakest since November 2014, and share markets have suffered a sharp correction after hitting record highs in August.

A liquidity scare erupted last month after a series of debt defaults by Infrastructure Leasing & Financial Services (IL&FS) sparked redemption pressure at other shadow banking companies.

And dollar selling by the RBI to support the rupee has put a further squeeze on rupee liquidity. Rising global oil prices, they climbed 2% on Wednesday to hit a four year-high, are bad news for importing nations like India.

The current account has faced additional pressure as India, like many emerging market economies, has also suffered due to rising US interest rates drawing investors away.

In the latest of a series of attempts to calm markets, the government late on Wednesday said it would allow state oil marketing companies (OMCs) to raise $10 billion in overseas loans to help them cover the sharp rise in price for imported oil.

Last week, the RBI's eased banks' liquidity coverage ratio norms last week, and announced it would be buying 360 billion rupees of government bonds through open market bond purchases to soothe the liquidity worries haunting markets.

With speculation growing for steeper interest rate rises, the benchmark 10-year bond yield rose as much as 10 basis points to 8.21%, not far from 8.23% hit in late September which was the highest since November 2014.

In the share markets, the Nifty was down 1.95% at 10,647 as of 0713 GMT, hitting its lowest level since 3 July. The Sensex was 1.88% lower, its lowest level in three months. Both the indexes are on track for a 10th fall in 12 sessions.

Financials and energy stocks led the falls, while Reliance Industries dropped 5.7%, contributing to over a third of the NSE index's losses. Housing Development Finance Corp Ltd was down 1.8%.

India's gold imports are expected to rise further in the fourth quarter, putting the trade balance under more pressure, as investors seek hedges against faltering equities and the weak rupee.
India facing 'economic crisis' due to huge oil imports: Minister

NEW DELHI (Reuters): India is facing an "economic crisis" due to its huge oil imports, two local TV channels cited Transport Minister Nitin Gadkari as saying on Thursday, ahead of a meeting of key ministers to discuss the falling rupee and the nation's widening trade deficit.
India, the world's third biggest oil importer, depends on overseas markets to meet 80% of its oil needs.

The partially convertible rupee has lost about 13% against the dollar since the beginning of the year, adding to the nation's oil import bill at a time when crude is hovering at around $85 a barrel.

(Dailyft)

Bond yields increase marginally in thin trade

The secondary bond market yields were seen increasing marginally yesterday on the back of thin volumes. The yields on the liquid maturities of 15.10.21 and 15.07.23 increased to intraday highs of 10.75% and 10.97%, respectively, against its previous day's closing levels of 10.62/67 and 10.88/90.

In addition, the maturities of 15.11.18, 15.09.19, two 2020's (i.e. 01.05.20 and 15.12.20) and two 2021's (i.e. 01.03.21 and 01.08.21) were seen changing hands at levels of 9.30% to 9.50%, 10.00%, 10.10% to 10.20% and 10.65% to 10.75%, respectively, as well.

The total secondary market Treasury bond/bill transacted volumes for 3 October was Rs. 9.33 billion.

In the money market, the overnight call money and repo rates averaged 8.45% and 8.36%, respectively, as the net liquidity shortfall in the system reduced to Rs. 5.83 billion yesterday.

The OMO Department of the Central Bank injected an amount of Rs. 10 billion on an overnight basis by way of a Reverse Repo auction at a weighted average rate of 8.20%. A further amount of Rs. 5.5 billion was infused by way of 14-day reverse repo auction at weighted average of 8.29%, valued today.

Rupee dips below Rs. 170

In the Forex market, the USD/LKR rate on its spot contract depreciated further yesterday, to hit a new low Rs. 170.10 for the first-time in its history and closed the day at Rs. 170.00/25 against its previous day's closing levels of Rs. 169.65/85 on the back of continued buying interest by Banks.

The total USD/LKR traded volume for 3 October was $ 34 million.

Some of the forward USD/LKR rates that prevailed in the market were 1 month – 171.10/50; 3 months – 173.00/50 and 6 months – 175.80/30. (Dailyft)

Asian Stocks Fall, Tech Drops on U.S.-China Woes: Markets Wrap

Asian stocks rounded out a tough week with a further sell-off Friday as technology companies in the region were roiled by escalating concerns about their business in the U.S. Ten-year Treasury yields held near seven-year highs before the American payrolls report.

The MSCI Asia Pacific Index is heading for its worst week since March, with emerging markets walloped anew by the surge in U.S. yields that's stress-testing riskier asset classes. Tech shares led declines on Friday, with Chinese PC maker Lenovo Group Ltd. down as much as 23 percent in Hong Kong. The Nasdaq 100 Index on Thursday saw its worst day since June after Bloomberg's report that China infiltrated U.S. companies with hardware hacks. The dollar was little changed, heading for a second straight weekly rise.

Investors will keep a close eye on Friday's monthly U.S. payrolls report after the sell-off in bonds that's been in part triggered by data underscoring the strength of the American economy. Federal Reserve Chairman Jerome Powell also stoked the surge in yields this week when he said the central bank could eventually boost its benchmark past the neutral level. Meanwhile, resurgent commodity prices are raising the prospect of a fresh tailwind to inflation.

"It's important to focus on the fundamentals -- the global economy is still in pretty good shape, in particular the U.S. and that's why yields are rising," Anne Anderson, head of Australian fixed income at UBS Asset Management, told Bloomberg TV. "So I wouldn't be looking at a significant increase in U.S. yields from here."

Also coming up Friday is the Reserve Bank of India's policy decision, with most economists expecting a 25 basis-points hike. Complicating matters amid a slide in the rupee and rising oil prices is a cash crunch in the banking system and a crisis at one of the country's biggest infrastructure financiers.
Not Expecting Significant Increase in U.S. Yields, UBS Asset's Anderson Says

Anne Anderson, head of fixed income and investment solutions at UBS Asset Management, on the rise in U.S. yields.
Source: Bloomberg

Elsewhere, West Texas Intermediate crude oil prices traded below $75 a barrel.

Here are some key events scheduled for the remainder of this week:

- The U.S. government's September jobs report comes Friday, with investors looking for signs of wage growth that could accelerate Fed tightening plans.
- The RBI's policy decision is due Friday afternoon.

These are the main moves in markets:
Stocks

- Japan's Topix index fell 0.5 percent as of the lunch break in Tokyo.
- The MSCI Asia Pacific Index fell 0.6 percent.
- Hong Kong's Hang Seng Index was down 0.4 percent.
- Australia's S&P/ASX 200 Index added 0.3 percent.
- The S&P 500 Index fell 0.8 percent. Futures nudged higher, up 0.1 percent.
- The Nasdaq 100 Index slid 1.9 percent, the most since June, on Thursday.

Currencies

- The yen traded flat at 113.92 per dollar.
- The offshore yuan was little changed at 6.9043 per dollar.
- The euro was flat, buying $1.1508.

Bonds

The yield on 10-year Treasuries held at 3.19 percent.

Commodities

- West Texas Intermediate crude rose 0.5 percent to $74.72 a barrel.
- Gold was steady at $1,198.90 an ounce.

(Bloomberg)