NEWS ROUND UP

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Sri Lankan stocks close down, rupee weakens

Sri Lankan stocks closed lower while the rupee ended weaker against the US dollar, falling to 179.00/179.20 in the spot market, brokers and dealers said.

The All Share Price Index ended at 6,011.68, down 13.52 points or 0.2 percent while the more liquid S&P SL20 index closed at 3,179.11, down 21.97 points or 0.7 percent. Turnover was 867 million rupees.

In money markets, call money and repo were quoted at 8.96/8.93 percent.

Brokers said crossings or off-the-floor negotiated deals accounted for 71 percent of the day's turnover.

There were three deals in Sampath Bank which closed at 239.50 rupees, up 10 cents or 0.04 percent.

There were also two crossings in John Keells Holdings which closed at 160.20 rupees, down 60 cents or 0.4 percent.

One crossing was recorded in Dialog Axiata which ended unchanged at 11.40 rupees.

Foreign investors were net sellers of 354.8 million rupees worth of shares, Asia Securities said.

Estimated net foreign buying was mainly in Vidullanka which closed at 4.70 rupees, down 10 cents or 2.08 percent while net foreign selling was mainly in JKH.

In the bond market, First Capital said the secondary market yield curve remained mostly unchanged.

The overall market saw ultrathin volumes as market participants remained on the side-line ahead of Wednesday's primary bill auction, the primary dealer said in a report.

Limited activity was seen on mid to long tenure maturities with a mid-tenure bond maturing on 15.07.23 trading at 11.90 percent and long tenure bonds maturing on 01.06.26 and 15.06.27 both at 12.20% levels. (EconomyNext)

Sri Lanka central bank says downgrades by S&P and Fitch unwarranted

Sri Lanka's central bank says downgrades by S&P and Fitch are unwarranted and the country can repay maturing sovereign bonds and it is working on swap lines with central banks.

The full statement is reproduced below:

The Central Bank of Sri Lanka (CBSL) is of the view that the decisions by Fitch Ratings on 3 December 2018 and Standard and Poor's (S&P Global Ratings) on 4 December 2018 to downgrade Sri Lanka's Long-Term Rating from 'B+' (Stable) to 'B' (Stable) are based on uncorroborated facts on the country's macroeconomic fundamentals.

In spite of the recent developments in the country's political sphere, an array of measures have been taken by the CBSL and the Government to minimize any potential impact from the recent political developments on the economy, especially with regard to external financing requirements and debt payment obligations. In meeting the Government's external liabilities of International Sovereign Bond (ISB) maturities of USD 1 billion in January 2019 and USD 500 million in April 2019, the authorities have already built a buffer fund from proceeds of non-strategic asset divestment and recently contracted Syndicated loan, in addition to the space provided under the Active Liability Management (ALM) initiative not exceeding a limit of Rs. 310 billion.

The issuance of Sri Lanka Development Bonds (SLDBs) of around USD 750 million to USD 1 billion during the remainder of the year and in early 2019 sourced through enhanced credit lines for state banks from the Middle East and East Asia is nearing completion. Further, the enhancement of USD 500 million to the syndicated loan arrangement by February 2019 is also in progress. In addition, further support could be expected from the proceeds of about USD 600 million expected as disbursements from bilateral and multilateral agencies during next year. These proceeds together with the available funds would more than cover all the ISB payments due in 2019.

Meanwhile, with the aim of further strengthening the reserve adequacy, the CBSL has initiated negotiations with central banks and regional funds such as SAARC Swap Framework to obtain foreign currency SWAP facilities.

These measures would not only further strengthen the country's foreign reserve adequacy, they would also enable timely servicing of external obligations while providing the space for intervening cautiously in the foreign exchange market to prevent excessive volatility. It is noteworthy that there has been a favourable adjustment in the exchange rate during recent days supported by rising foreign currency inflows which would be further enhanced in the upcoming holiday and new year season. In addition, the fiscal and macro prudential measures that are already in place are expected to result in an improvement in the external trade balance as well, thus reducing pressure on external reserves and the exchange rate.

Meanwhile, domestic financing conditions have shown considerable improvement through spaces created and debt management strategies introduced recently. This has reduced the roll-over requirement of Treasury bonds and SLDBs in 2019, 2020 and in the medium-term. Notably, the new acquisition of government securities by the banking sector has increased by only 1.5 per cent in 2018 as against the trend increase of around 5 per cent in recent years.

It needs to be further reiterated that Sri Lanka’s banking and financial sector remains resilient to both domestic and external vulnerabilities. Even though the operating environment is challenging, the banking sector is subject to a stringent supervisory and regulatory framework. The commitment of the banking sector to adhere to higher levels of capital and liquidity requirements demonstrates its resilience in facing these challenges, thereby creating a stable outlook for the banking sector.

Given these parameters, the CBSL is of the view that the recent rating actions by Fitch Ratings and S&P Global Ratings are unwarranted. Such an action only on the premise of heightened political uncertainty, with no evidence of slippages in macroeconomic policies or fundamentals, cannot be justified.

The soundness of the underlying macroeconomic conditions was reinforced by the fact that staff-level agreement in principle was reached with the IMF (26 October 2018) on the fifth review of the Extended Fund Facility (EFF). (EconomyNext)

Sri Lanka's NSB, PLC downgraded to 'B' on political crisis, falling rupee

Sri Lanka's state-run National Savings Bank and People's Leasing has been downgraded to 'B' from 'B+' by Standard and Poor's, a rating agency due to an ongoing political crisis triggered after Mahinda Rajapaksa was appointed Prime Minister which had pushed up yield on bonds and a weak rupee.

"We lowered the long-term issuer credit rating on NSB and PLC to reflect S&P Global Ratings' view that the Sri Lankan banking sector is facing escalated stress following political turmoil, slowdown in pace of reforms, and slower economic growth than we expected," Standard and Poor's said

"The downgrade also factors in weakening of the sovereign's external position given that weak rupee and rising bond yields have reduced the government's ability to access international capital markets.

"We also believe that the Sri Lankan government no longer has the financial ability to provide extraordinary support to its banking system in a stress scenario."

The bank downgrade comes in the wake of a cut in Sri Lanka's sovereign rating to 'B' from 'B+' on the ongoing political crisis.

S&P kept at 'B' rating on privately owned DFCC Bank unchanged.

The full statement is reproduced below:

National Savings Bank, People's Leasing Downgraded To Reflect Heightened Economic Risk

- We have lowered our long-term sovereign credit rating on Sri Lanka by one= notch to 'B', reflecting reduced prospects of reform under the fractious political environment, which we expect to be protracted.

The country's external financing conditions has also deteriorated as a weak rupee and high yields constrain the government's access to international capital markets.

- In our view, a slow economy, fractious political environment, and the sovereign's weakened external position have led to heightened economic risk for Sri Lankan financial institutions.

- We are lowering the long-term issuer credit rating on NSB and PLC to 'B' from 'B+'.

-At the same time, we are affirming the long-term issuer credit rating on DFCC Bank at 'B'. We are also affirming the 'B' short-term ratings on the three Sri Lankan financial institutions.

- The outlook on the long-term rating for all these entities are stable, reflecting the stable outlook on the sovereign.

SINGAPORE (S&P Global Ratings) Dec. 4, 2018--S&P Global Ratings said today that it had lowered its long-term issuer credit rating on National Savings Bank (NSB) and People's Leasing & Finance PLC (PLC) to 'B' from 'B+'. At the same time, we affirmed the long-term issuer credit rating on DFCC Bank at 'B'. The outlooks on the long-term ratings are stable. In addition, we affirmed our 'B' short-term issuer credit rating on all the three entities.

We also lowered the issue rating on NSB to 'B' from 'B+'; PLC has no outstanding debt securities.

We lowered the long-term issuer credit rating on NSB and PLC to reflect S&P Global Ratings' view that the Sri Lankan banking sector is facing escalated stress following political turmoil, slowdown in pace of reforms, and slower economic growth than we expected. We affirmed the ratings on DFCC despite the higher risk from the operating environment because the bank's capital assessment already captures these risks at the current rating level.

We lowered the sovereign rating on Sri Lanka based on our assessment that the current political standoff has weakened the sovereign's external financing conditions and reduced the likelihood that further reforms will improve Sri Lanka's macroeconomic fundamentals and institutionalize sustainable policy frameworks over the next 12-18 months.

The downgrade also factors in weakening of the sovereign's external position given that weak rupee and rising bond yields have reduced the government's ability to access international capital markets. We also believe that the Sri Lankan government no longer has the financial ability to provide extraordinary support to its banking system in a stress scenario.

We consider it unlikely that Sri Lankan financial institutions would be immune to rising credit pressure on the sovereign and the broader operating environment. In our view, this weakened external position of the sovereign has heightened imbalances in the operating environment for the banks.

We expect the external financing pressure faced by the sovereign to hurt the broad economy, including the banking system. This accentuates the economic risk for banks in Sri Lanka. Continued high loan growth at about 16% (annualized) for first half of 2018, despite the economy slowing down sharply to 3.3% (in 2017), adds to the imbalance.

We have witnessed increasing credit stress for banks in Sri Lanka, partly due to lower-than-expected GDP growth. The asset quality for these banks has deteriorated more than we expected. The banks' nonperforming loans (NPLs) rose to 3.6% by end-August 2018, from 2.5% at end-2017 (compared with our expectation of 3%-3.2% by end-2018). Slower GDP growth, a depreciating rupee, and rising interest rates have partly contributed to this increase. Given the heightening economic risk, we expect NPLs to rise further to 4.5%-5% over the next 12-18 months, but remain within our tolerance level for a BICRA 9 system.

The increased economic risk would also require banks to maintain higher risk-adjusted capital to take care of the additional risk in the system.

Sri Lankan banks are already seeing higher pricing for their external funding, which could negatively affect their profitability. We believe the large state-owned banks may be required to tap the external markets at higher costs to finance the sovereign's bond repayments. In a low-probability and high-impact downside scenario, if the political turmoil escalates or prolongs, uncertainty could spread to the banking sector and cause funding stress or liquidity outflows.

PEOPLE'S LEASING & FINANCE PLC

The rating on PLC reflects the credit profile of the People's Bank group, of which PLC is a core entity. The rating on PLC is equalized with the group's credit profile.

We have revised PLC's stand-alone credit profile (SACP) to 'b' due to the worsening operating environment. PLC's dependence on wholesale funding and its concentration in commercial vehicle financing also constrain the rating. The company's moderate capital and earnings temper these weaknesses.

The stable outlook on PLC reflects our expectation that PLC will remain a core entity of the

People's Bank group at least for the next 12 months because commercial vehicle leasing will remain a large and profitable business for the group.

We don't see any upside potential for the rating over the next 12 months.

We may downgrade PLC if the People's Bank group's capitalization reduces substantially.

NATIONAL SAVINGS BANK

The rating on NSB reflects our view that the Sri Lankan government will almost certainly provide extraordinary support to the bank in a stress situation.

We have revised NSB's SACP to 'b' from 'b+', due to the worsening operating environment. Our assessment of the SACP benefits from the bank's superior funding and liquidity metrics. A statutory guarantee on 100% of deposits and a requirement to invest 60% of deposits in government securities support the bank's liquidity and funding. NSB's low risk-adjusted capital ratio tempers the strength.

The stable outlook on NSB reflects the outlook on its parent, the government of Sri Lanka. We expect the bank's critical role and link to the government to remain unchanged over the next 12 months.
The most likely change (up or down) to our rating and outlook on NSB will be from a change in the creditworthiness of the government of Sri Lanka.

DFCC BANK

The rating on DFCC reflects the Sri Lanka-based bank's limited deposit base and weak capitalization. DFCC's satisfactory business position, earnings, and asset quality temper these weaknesses. We assess the bank's SACP as 'b'.

Our stable outlook on DFCC Bank reflects our view that the bank will maintain its credit profile despite tough operating conditions in Sri Lanka over the next 12 months.

We may lower the rating on DFCC if the bank's risk-adjusted capital ratio declines below 3%. This could happen if DFCC's profitability is lower or if its loan growth exceeds our expectations. (EconomyNext)

Sri Lanka liquidity short expands in Nov final week

A liquidity short in Sri Lanka's credit system coming mainly from interventions in the forex market by the central bank had expanded over the past week, after falling due to a reserve ratio cut, amid a political crisis and capital flight.

The central bank had sterilized a short of about 135.9 billion rupees (about 750 million US dollars) by November 30, up from 109.0 billion rupees (about 600 million US dollars) a week earlier mostly through temporary liquidity injections, official data showed.

Sri Lanka's reserve money fell for two weeks in a row after a statutory reserve ratio (SRR) cut on November 16, permanently sterilizing a liquidity short, central bank data showed.

The liquidity short fell from 174.2 billion rupees to 108.2 billion rupees in the week to November 16.

Reserve money fell from 1,021 billion rupees on November 15 before the SRR cut to 958 billion rupees on November 21.

By November 29, reserve money had fallen by another 20 billion rupees to 938.1 billion rupees, but the liquidity short had started to move up.

Reserve money is the narrowest form of money created by domestic liabilities of the central bank, through which final transactions in the economy are cleared.

When the SRR it cut, part of the money deposited in the central bank by commercial bank comes back into circulation and a bank that is short can use the cash to reduce the liquidity short, while another bank, can use the cash to give fresh credit or buy bonds from foreigners, worsening pressure on the rupee.

Reserve money can also change from day to day due to the demand for additional cash from the public.

In December and in April festival season cash demand goes up expanding reserve money.

Analysts have pointed out that the central bank triggered pressure on the currency in April, by printing more money than required and keeping markets flushed with excess liquidity to enforce a rate cut.

In December there are also higher volumes of remittances and exporter dollar conversions to pay salaries and bonuses.

The ongoing political crisis may have also slowed private credit and government spending, though it is not clear whether it is enough to absorb capital flight.

Economists and analysts have called for reforms of the central bank to put the brakes on its domestic operations department to stop printing money, or abolish the agency altogether in favour of a currency board or dollarization to end balance of payments crises in Sri Lanka.

Sri Lanka started having balance of payments trouble after a central bank was set up in 1951, abolishing a currency board which kept the country stable two through World Wars and provided a hard budget constraint to stop deficit spending. (EconomyNext)

Hutchison, Etisalat complete mobile networks merger in Sri Lanka

Sri Lanka's smaller mobile phone companies, Hutchison Telecommunications Lanka (Private) Limited (Hutch Lanka) and Etisalat Lanka (Private) Limited (ESL) have completed their merger, it was announced.

A statement said Emirates Telecommunications Group Company PJSC (Etisalat Group) has completed the sale of its 100 percent stake in Etisalat Lanka (Private) Limited (ESL) to Hutchison Telecommunications Lanka (Private) Limited (Hutch Lanka).

"Upon completion of the sale, CK Hutchison Holdings Limited group will have a majority and controlling stake of 85 percent whilst Etisalat Group will have 15 percent ownership of Hutch Lanka."

In April the two firms said they entered into an agreement to merge their mobile telecommunications businesses in the island after getting the necessary competition and regulatory approvals in Sri Lanka.(EconomyNext)

Wall Street losses deepen on growth, trade worries

The Dow sank as much as three percent Tuesday afternoon as losses on Wall Street accelerated amid worries about the US economic outlook and skepticism over the US-China trade truce.

Near 1900 GMT, the Dow Jones Industrial Average stood at 25,179.89, down about 650 points, or 2.5 percent after earlier slumping as much as 3.1 percent.

The broad-based S&P dropped 2.4 percent to 2,722.31, while the tech-rich Nasdaq Composite Index slumped 2.9 percent to 7,227.48.

The drop came amid a signal from government bond rates seen as an early-warning indicator of a US recession, as well as the confusing status of the touted US-China agreement to halt their trade war.

The movements in the bond market "clearly show that growth is likely to slow next year and inflation too," said Karl Haeling of LBBW. "But predicting a recession if the curve inverts is getting ahead of ourselves."

The difference in yield between the two- and 10-year US Treasury notes has narrowed sharply in recent days, raising concerns about a so-called "inversion" in which interest on short-term bonds overtakes the rate on long-term bonds.

Large banks were among the big losers, with JPMorgan Chase shedding 4.4 percent, Bank of American losing 5.7 percent and Citigroup 5.6 percent.

The gloomier outlook comes as the global economy shows signs of weakness, with some analysts pointing to China as a potential worry. Investors view low long-term bond yields as a sign of worry that growth will be anemic.

Analysts said Tuesday's decline in stocks also reflected rising skepticism about a weekend announcement that US President Donald Trump intended to halt new tariffs on China for 90 days while the two countries work out a long-term trading deal.

Markets reacted enthusiastically to the announcement on Monday, which was accompanied by hopeful commentary in Chinese state media.

But by Tuesday the gloss had worn off as many observers noted the two sides remained far apart on several key issues. (AFP)