

NEWS ROUND UP

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Weekly T bill weighted averages decrease further

The weekly Treasury bill weighted averages on the 91 day and 364 day maturities were seen continuing its declining trend to record drops of 03 and 02 basis points respectively to 8.00% and 8.97%. The total offered amount was fully subscribed at the auction as the bid to offer ratio stood at 2.80:1.

In the secondary bond market, yields on the more liquid maturities of 01.05.20, 01.03.21 and 15.07.23 were seen trading steady at levels of 9.25% to 9.30%, 9.50% and 9.95% respectively while yields on the lesser liquid maturities of the three 2023s (i.e. 15.03.23, 15.05.23 and 01.09.23) and 01.01.24 were seen increasing to levels of 9.98% to 10.05% and 10.10% respectively. In addition, on the very short end of the curve, 15.10.18 and 15.09.19 were seen changing hands at levels of 7.92% to 7.93% and 8.97% respectively as well.

The total secondary market Treasury bond/bill transacted volumes for 4 September was Rs.7.22 billion.

In the money market, the Open Market Operations (OMO) Department of the Central Bank of Sri Lanka drained out an amount of Rs. 3.4 billion on an overnight basis at a weighted average of 7.86% as the net surplus liquidity increased once again to Rs. 18.93 billion yesterday subsequent to dipping to an one and a half month low of Rs. 4.98 billion the day before. The overnight call money and repo rates averaged at 7.96% and 8.02% respectively.

Rupee continues to hits new lows

The USD/LKR rate on spot contracts was seen hitting a new low of Rs. 162.20 yesterday before closing at Rs. 162.15/30 against its previous day's closing levels Rs. 161.95/00 on the back of continued importer demand.

The total USD/LKR traded volume for 4 September was \$ 20.25 million.

Given are some forward USD/LKR rates that prevailed in the market: one month – 163.00/10; three months – 164.50/70; six months – 166.95/15. (DailyFt)

CSE slips from over 3-week high on foreign selling

Shares ended slightly weaker on Wednesday, snapping a five-session winning streak, on foreign selling.

However, the day's turnover was Rs. 365.5 million (\$ 2.25 million), much lower than this year's daily average of Rs. 804.1 million.

The Colombo stock index ended 0.13% weaker at 6,120.29, slipping from its highest close since 13 August.

"Foreign selling in Keells brought the index down, but we see some positive signs of local buying," said Softlogic Stockbrokers Deputy CEO Hussain Gani. Foreign investors sold a net Rs. 46.9 million of shares on Wednesday, extending the net outflow so far this year to Rs. 4.3 billion worth of shares.

John Keells Holdings fell 0.4%, while large cap Ceylon Tobacco Co. ended 1.8% weaker. (DailyFt)

Stocks fall, dollar up on trade tensions, emerging market woes

Stock markets fell in Asia on Wednesday and the safe-haven dollar hovered near a two-week high as heightened worries over international trade conflicts and emerging market weakness curbed investors' appetite for riskier assets.

Spreadbetters expected European stocks to open mixed, with Britain's FTSE slipping 0.25%, Germany's DAX starting flat and France's CAC edging up 0.1%. US futures were little changed.

MSCI's broadest index of Asia-Pacific shares outside Japan was down 1%, hitting a two-week trough.

Japan's Nikkei shed 0.25%.

The Shanghai Composite Index retreated 0.9%, weighed down by expectations the United States will impose more tariffs on Chinese goods this month, adding to pressure on China's cooling economy.

Indonesian stocks slumped more than 3% as the rupiah currency wobbled around its lowest levels since the Asian financial crisis in 1998. The central bank said it had "decisively intervened" in FX and bond markets in morning trade.

Australian shares lost 0.9%, South Korea's KOSPI dipped 0.2%.

Sentiment in Asia was already weak after US stocks slipped overnight, with a drop in heavyweights Facebook and Nike adding to worries over trade negotiations between the United States and other major economies.

"The US-Canada talks are due to resume today and this keeps trade issues at the forefront, with a wait-and-see mood prevailing in the equity markets," said Masahiro Ichikawa, senior strategist at Sumitomo Mitsui Asset Management in Tokyo.

Discussions between the United States and Canada were expected to resume on Wednesday after the last round ended on Friday with no deal to revamp the North American Free Trade Agreement (NAFTA), cooling investor confidence.

Ottawa is not expected to back down on key issues despite threats from US President Donald Trump to retaliate against the Canadian economy.

"Then there is the US-China trade issue, in addition to turbulence in the emerging market currencies that the markets have to worry about," Ichikawa at Sumitomo Mitsui Asset Management said.

Keeping investors nervous is the threat of fresh U.S tariffs on another \$200 billion worth of Chinese goods that could take effect after a public comment period ends on Thursday.

Wobbly emerging markets stocks and currencies, a key source of recent global market angst, faced their latest round of pressure with news that South Africa had slipped into recession and concerns brewing about inflation in Turkey.

Argentina's peso finished the day down over 2% on Tuesday. The peso fell even though US President Trump voiced support for Argentine President Mauricio Macri and his efforts to win IMF financing in the wake of a deepening economic crisis.

Argentine Economy Minister Nicolas Dujovne met International Monetary Fund (IMF) chief Christine Lagarde in Washington on Tuesday and both said they were working to improve a \$50 billion standby finance deal agreed with the IMF in June.

"If a larger credit line from the IMF is not forthcoming, then in an environment of rising dollar and US interest rates it is hard to see where the relief will come from for the Argentine peso –and indeed other

emerging market currencies with twin deficits and high levels of USD-denominated debt,” wrote currency strategists at Rabobank.

With investors avoiding emerging market currencies, the dollar was supported thanks to its safe-haven appeal.

The greenback extended its overnight rise against the yen to touch a near one-week high of 111.71 yen.

The dollar index, which measures the greenback against a basket of six currencies, was a touch lower at 95.359 but in close reach of a two-week high of 95.737 set on Tuesday.

The euro inched up 0.1% to \$1.1594 following a loss of 0.35% on Tuesday.

The dollar had also drawn strength on Tuesday from upbeat US indicators supporting the case for further interest rate hikes by the Federal Reserve.

Data on Tuesday showed US manufacturing activity accelerated to more than a 14-year high in August, boosted by a surge in new orders.

The Australian dollar was up 0.2% at \$0.7190 following stronger-than-expected domestic second quarter GDP data. The Aussie managed to pull away from \$0.7157, its lowest since May 2016 plumbed on Tuesday.

China’s yuan was a shade firmer in onshore trading at 6.8365 per dollar after losing 0.25% the previous day.

Crude oil prices fell, weighed by a stronger dollar which tends to burden non-US buyers of dollar-denominated commodities.

Brent crude futures were down 0.5% at \$77.80 per barrel after brushing a three-month peak of \$79.72 on Tuesday. US crude futures slipped 0.75% to \$69.36 per barrel.

Oil prices partly reversed a strong jump from the previous day, as the impact of a tropical storm on US Gulf coast production was not as strong as initially expected.

Prices jumped the previous day as dozens of US oil and gas platforms in the Gulf of Mexico were shut in anticipation of tropical storm Gordon hitting the region. (DailyFt)

Business confidence dips to a 12-month low

The LMD-Nielsen Business Confidence Index (BCI) declined by six basis points to register 95 in August, according to the latest edition of leading business magazine LMD. This is its lowest level for the last 12 months. In addition, the index is below its 12 month and all-time averages of 110 and 129 respectively, the magazine notes. Nielsen’s Managing Director Sharang Pant notes in LMD that despite the growth in exports in the first four months of 2018, and tourist arrivals and earnings in the first six months of the year, “businesses are yet to witness an uptick in demand – and consumer wallets remain under pressure from the impact of tax revisions and inflation that is rising again”.

He adds: “New personal income taxes came into effect in April and there have been two rounds of fuel price increases. As a result, the National Consumer Price Index (NCPI) has crept upwards.”

As for corporate sensitivities, LMD reports that high taxes, the policy regime and inflation are among the main concerns in business circles.

To this end, one corporate respondent states that “there is no consistency in the policies implemented by this Government” while another executive asserts that “we do not see any proper direction in the planning and development process”.

A spokesperson for the business magazine notes that “views expressed by respondents to Nielsen’s monthly survey as well as a perceptibly lacklustre economic outlook suggest that we are unlikely to see an uptick in business sentiment at least in the short run”.

LMD’s publisher, Media Services, says the latest edition of the magazine will be released to leading bookstores and supermarkets on 7 September (for the full BCI report, visit www.LMD.lk).
(DailyFt)

Banking system outlook negative: Moody’s

Moody’s Investors Service said that the outlook for Sri Lanka’s banking system is negative, as the economy remains weak and asset quality is deteriorating.

“The economy will only exhibit a modest rebound, as the Government’s high debt burden and reliance on foreign borrowings continue to limit public investment and pose the risk of capital outflows,” said Tengfu Li, a Moody’s Analyst.

“Credit growth was very high over the last two years, with the credit multiplier (credit growth/GDP growth) peaking at more than 2.5 times.

As loans disbursed over this period begin to mature, asset quality will deteriorate, and higher borrowing costs due to tighter monetary policy implemented earlier will add to the debt burden of corporates,” said Li.

Moody’s conclusions are contained in its just-released “Banking System Outlook: Sri Lankan banks, Macroeconomic risks and deteriorating asset quality drive negative outlook”. The outlook expresses Moody’s expectation of how bank creditworthiness will evolve in this system over the next 12 to 18 months.

With the key drivers, Moody’s assesses the operating environment as stable; asset risk as deteriorating; capital as stable; profitability and efficiency as stable; funding and liquidity as stable; and Government support as deteriorating.

Moody’s notes that capital has strengthened, as the banks successfully raised capital and reduced cash dividends to comply with their Basel III requirements. While the transition to SLFRS 9 will substantially increase loan provisions, the capital impact is likely to be limited as the regulator allows provisions to be staggered over a prescribed period. Profitability supported by interest income growth will offset the increase in credit costs.

Funding pressure on the banks will improve with the recent slowdown in loan growth. Sri Lankan banks hold sizeable liquid assets to cover their liquidity needs and movements in deposits, thereby providing adequate buffer.

Last but not least, a high debt burden and contingent liabilities relating to state-owned enterprises will continue to limit the Government’s capacity to support the banks.
(DailyFt)

Rupee hits record low for 12th straight session

The rupee hit a record low for a 12th straight session on Wednesday, tracking weakness in emerging markets stocks and currencies, while rising demand for the greenback from importers also weighed.

The rupee touched 162.25 per dollar as currencies and stocks in emerging markets were pressured on news that South Africa had slipped into recession and concerns about inflation in Turkey and the Philippines.

The rupee closed at 162.20/30 per dollar, compared with Tuesday's close of 161.95/162.05.

"Until the dollar rally is over, we will see the same trend of depreciation (in the rupee)," said a dealer, who requested anonymity.

"This is predominantly externally driven. The regional currencies are also in a falling trend with oil prices on the rise. It makes sense for exporters to hold in dollars until the rupee touches the bottom."

Sri Lanka will not intervene in the foreign exchange market and the Government will leave the level of the rupee for market forces to decide, Junior Finance Minister Eran Wickramaratne told Reuters on Tuesday.

The currency has so far weakened 0.5% this month, following a 1.2% decline in August. It is down 5.8% this year.

The rupee will be under depreciation pressure with the year-end seasonal importer dollar demand, dealers said.

The Sri Lankan currency is also hurt by weakness in the Indian rupee. India is Sri Lanka's biggest trading partner and the Indian rupee, which also hit a record low on Wednesday, has been one of the worst performers in Asia this year.

Foreign investors bought government securities worth a net Rs. 578.3 million (\$ 3.58 million) in the week ended 29 August, marking the first week of net buying since April. However, they have net sold Rs. 46.9 billion worth of securities so far this year, Central Bank data showed.
(DailyFt)

Cabinet approves global Tourism Development Project

Cabinet yesterday approved the Global Level Tourism Development Project, presented by Tourism Development and Christian Cultural Affairs John Amaratunga, the Government Information Department said.

The Government also approved awarding contracts to carry out digital advertising programs to promote Sri Lanka as a preferred destination in India and China this week. Accordingly, the campaigns will be carried out by Havas Media India Ltd. in India, and Ionic Media Institution in China. The decision was approved, following recommendations by the Cabinet-appointed Standing Procurement Committee and Procurement Appeal Board.

Last month, the Government approved awarding the contract for the digital promotional campaign to position Sri Lanka as a preferred destination in the United Kingdom, Germany, and France. However, the campaign launch is being delayed due to an administrative hold up in issuing the award letters to the winning bidders, Daily FT learnt.

According to sources, the officials responsible for the subject in the Sri Lanka Tourism Promotion Bureau (SLTPB) has been delaying the issuing of award letters, claiming room for more negotiations.

However, Ministry Secretary V. Sivagnanasothy has issued instructions to issue the award letters immediately. It was also learnt that the progress of the much-awaited digital campaign is being closely monitored by the Prime Minister Office as well.

Sections in the Companies Act to be amended

A host of proposals made by Industry and Commerce Minister Rishard Bathiudeen, including amendments to the Companies Act No. 07 of 2007, were approved by the Government yesterday.

The Cabinet of Ministers gave approval to gazette the reforms to Sections 5, 9 and 10 of the Act, enabling the Registrar to make public announcements regarding an Incorporation of a New Company, and to issue instructions to a Company to revise its name.

A proposal made by the Minister to develop an Industrial Zone for Small Scale Entrepreneurs, in the 100 acres of area formerly used by Kankesanthurai Cement Factory, was also approved during yesterday's Cabinet meeting. Under the proposal, infrastructure needed by the Industrial Zone for Small Scale Entrepreneurs will be developed under a Rs. 998 million investment. Further, the Government also approved development programs proposed by Minister Bathiudeen under the Tharapuram Co-operative Village Program in Mannar District. The Minister proposed the construction of a Convention Centre, using the allocated provisions under the program.(DailyFt)

Asian Stocks Head for One-Year Low, Yen Advances: Markets Wrap

Asian stocks fell, with a regional benchmark heading for the lowest close in a year, as investors contemplate the risk of weaker growth thanks to woes in emerging-markets. The yen gained.

The MSCI Asia Pacific Index is down for a sixth straight session, despite modest gains in markets from Indonesia to Malaysia. Japan's equities underperformed in the wake of a powerful earthquake on its northernmost main island, which knocked out electricity and added to transport strains from a major typhoon earlier this week. A tumble in U.S. tech shares overnight, with executives of some heavyweights facing increased scrutiny on Capitol Hill, added to the negative tone. Ten-year Treasury yields held at 2.90 percent.

While focus remains on efforts by emerging markets from Argentina to Indonesia to sustain confidence, the potential for President Donald Trump to announce another round of tariff hikes on Chinese imports as soon as Thursday also looms large.

Prominent voices on Wall Street are warning that U.S. stocks face headwinds -- Citigroup Inc. cited sentiment levels as it cautioned that another pullback may be in the offing and Goldman Sachs Group Inc. said elevated valuations and a tightening labor market have driven the firm's bull/bear market indicator to alarming highs.

"Contagion is a normal reaction," George Boubouras, director at Salter Brothers Asset Management, said on Bloomberg Television. While valuations are compelling, "they're going to become more compelling as it spreads a little bit further in the rout."

Read how the birthplace of the Asian crisis in 1990s has become a haven during turmoil

Elsewhere, the British pound held gains after being whipsawed amid Brexit discussions. Gold climbed, while West Texas Intermediate oil held below \$70 a barrel on concerns about a stockpile buildup.

Bitcoin fell after a report that Goldman Sachs was said to delay setting up a trading desk for cryptocurrencies.

Here are some events coming up during the remainder of this week:

- The public comment period expires Thursday for proposed U.S. duties on an additional \$200 billion of Chinese imports.
- The key monthly U.S. employment report for August is due Friday.

These are the main moves in markets:

Stocks

- Japan's Topix index fell 0.5 percent as of the lunch break in Tokyo.
- Australia's S&P/ASX 200 Index lost 1 percent.
- South Korea's Kospi index rose 0.1 percent.
- Hong Kong's Hang Seng Index dropped 0.3 percent as of 11:16 a.m. while the Shanghai Composite was up 0.2 percent.
- S&P 500 Index futures were flat. The underlying measure dropped 0.3 percent and the Nasdaq Composite Index declined 1.2 percent.
- The MSCI Emerging Market Index was down 0.1 percent.

Currencies

- The yen rose 0.2 percent to 111.33 per dollar.
- The offshore yuan was down 0.2 percent at 6.8527 per dollar.
- The euro bought \$1.1640, up 0.1 percent.
- The pound was at \$1.2916 after large swings Wednesday.

Bonds

- The yield on 10-year Treasuries was stuck at 2.90 percent.
- Australia's 10-year bond yield rose two basis points to 2.57 percent.

Commodities

- West Texas Intermediate crude edged lower to \$68.54 a barrel, adding to a 1.1 percent drop Wednesday.
- Gold added 0.2 percent to \$1,198.85 an ounce.
- LME copper gained 0.4 percent to \$5,896 per metric ton.

(Bloomberg)