# NEWS ROUND UP

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## Contents

# *Sri Lanka rupee ends stronger on tighter bank NOPs, stocks down 0.13-pct*

The Sri Lanka rupee gained sharply against the US dollar Thursday after the Central Bank tightened limits on overnight dollar holdings of commercial banks, and stocks fell 0.13 percent on low volumes amidst foreign selling in Ceylon Cold Stores, brokers and dealers said.

The Sri Lanka rupee gained sharply to close at 161.40/60 rupees against the US dollar in the spot market, recovering from an all-time low of 162.35/50 rupees against the greenback earlier in the day on importer demand.

The currency's sharp appreciation came after the Central Bank on Thursday slashed the amount of US dollars commercial banks can hold overnight for trading, called Net Open Positions (NOPs), in a bid to contain currency pressure.

During the day importers had bought dollars at an intraday high of 162.50 rupees. After the NOPs were slashed, importers bought dollars for as low as 161.30 rupees.In recent weeks the rupee came under pressure after excess liquidity amounting to tens of billions of rupees were generated from a currency swap where the Treasury sold US dollars to the Central Bank.

Excess overnight liquidity was around 10 billion rupees on 25 July when the US dollar traded at 159.60/65 rupees and has gradually increased peaking at 58.42 billion rupees on 8 August.

Analysts said the dollars should have been sold in the market instead; or the Central Bank should have sterilized the excess liquidity no sooner it bought the dollars.

Instead, excess liquidity was allowed to remain and pressure the currency via credit to importers.

Overnight excess liquidity increased by 3.83 billion on Thursday to 22.76 billion rupees. During the day, the Central Bank had absorbed excess liquidity of 17.61 billion rupees via repo auction and liquid banks parked a further 5.15 billion rupees in the Central Bank overnight deposit window.

Gilt yield spreads narrowed in the secondary bond market amidst low trading volumes, dealers said.

A five-year bond maturing in 2023 closed at 9.95/10.00 percent in two-way quotes,narrowing from the previous day's closing of 9.93/10.01 percent.A ten-year bond maturing in 2028 closed at 10.24/30

percent, compared to the previous day's 10.20/30 percent.In equities, Colombo's benchmark All Share index fell 0.13 percent, down 7.97 points to 6,112.32, with 43 stocks gaining during the day against 68 that declined.The S&P SL20 index of more liquid stocks closed 0.06 percent lower, down 1.99 points to 3,221.90.

Ceylon Cold Stores (down 31.90 rupees to 850.10 rupees), Softlogic Holdings (down 90 cents to 20.80 rupees) and Distilleries (down 20 cents to 19.20 rupees) weighed down the benchmark index.

Dialog closed 10 cents lower at 12.30 rupees, and Sampath Bank was down 2.20 rupees to 276.10 rupees.

John Keells Holdings has gained 2.40 rupees to 139.80 rupees.Market turnover was 119.5 million rupees, down from a turnover of 365.5 million rupees the previous day.Net foreign selling was 10.1 million rupees, down from selling of 46.9 million rupees the previous day.Foreign selling in Ceylon Cold Stores was 13 million rupees.No crossings, or off-market negotiated deals, were reported. (EconomyNext)

## *Sri Lanka slashes bank NOPs after creating money through swap*

Sri Lanka's central bank has slashed dollars held for trading overnight by banks called Net Open Positions, dealers said after the rupee fell from the pressure of tens of billions rupees generated from a currency swap over the last few weeks.

The rupee recovered to 161.65/75 to the US dollar in late afternoon trade after falling as low as 162.50 the US dollar in intra-day trading Thursday, dealers said, after harsh NOP limits were slapped on several commercial banks.

Sri Lanka's rupee started to fall again over the last few weeks after the central bank generated tens of billions rupees through a swap expanding money supply, going against a stated policy of keeping a 'flexible exchange rate' analysts say.

Analysts had warned the central bank not to purchase dollars from the Treasury to create liquidity, alter the monetary base and then put pressure on the currency and instead transact official dollars for existing rupees. (Sri Lanka should stop surrendering Treasury dollar inflows to the Central Bank: Bellwether)

Creating money through a swap is the same as buying dollars, analysts say. Full pressure on the currency usually comes 4 to 6 weeks after a liquidity shock, analysts say.

The rupee came under severe pressure in May after a liquidity shock was created in late March and early April through a combination of terminated repo deals and reverse repo injections.

This time the liquidity shock was created through a dollar swap, authoritative sources said.

Though the swap is expected to be reversed, the rupee has since fallen by about 2.0 rupees to the US dollar, because a policy of 'flexible exchange rate' was followed after generating the liquidity, at a fixed rate like a peg.

The liquidity was neither fully sterilized with outright Treasury bill sales nor was credibility of the peg maintained by selling dollars. Analysts have previously pointed out that cutting NOP limits will reduce the depth of the forex market and worsen volatility.

Economists and analysts have called for the central bank to be abolished to stop the rupee from depreciating and creating economic and political instability or at least putting the brakes on the domestic operation department and the more damaging and inconsistent policies of the soft-peg.

The central bank through its loose or inconsistent policy, has depreciated the currency since 1951, keeping nominal interest rates un-necessarily high, destroying real wages and making 'cost of living' the main issue in political discourse. (EconomyNext)

## *Sri Lanka hooched up on fake toddy, bogus coconut arrack*

Sri Lanka's is flooded with fake toddy and coconut arrack made with rotten potatoes and urea, while tappers who climb trees to get the genuine sap of the coconut flower is a dying breed, Sri Lanka's largest alcohol maker has said.

While fermented coconut sap is sold as toddy for direct consumption, it is also the raw material for coconut arrack, which sells at a premium against standard or 'Gal' arrack made of sugar cane ethanol.

"It is saddening that, some of our competitors use artificial toddy to distill spirit thereby bringing various health hazards to innocent consumers," Harry Jayawardene, Chairman of Distilleries Corporation of Sri Lanka told shareholders in the annual report.

"The so called 'Old Arrack' in the market is made of artificial toddy and the consumer is unaware of the real situation."

The growth of the fake coconut market was helped by government regulations that prevented fake products from being exposed by education due to marketing restrictions.

Jayewardene claimed that DCSL coconut arrack was the only genuine product in the market.

"We are proud to say that DCSL PLC is the only company that produces 100% natural coconut arrack using 100% pure coconut toddy," he said.

"We have upgraded our laboratories and also strengthened procedures by appointing qualified personnel to inspect every barrel of toddy brought to our distillery, in order to detect any form of adulteration and extraneous matter it may contain.

"We are single handedly nurturing the traditional toddy tapping customs although only a handful of such
genuine tappers remain in the industry."

So-called 'artificial toddy' is made by 'multiplying' genuine toddy with additives, sources familiar with the techniques say.

Artificial toddy is made by adding sugar syrup, urea (ammonia) as a fermenting agent, and any kind of cheap starch to produce alcohol to a small amount of coconut toddy.

"All around us we see that the rest of the toddy market is transforming into an artificial one, where vast quantities of
sugar, ammonia, yeast, salt, rotten potatoes, sugar syrup and remnants of toddy sludge are being used in the manufacture of artificial toddy," Jayewardene said two years ago.

Industry sources say rotten potatoes are used because it can be obtained at virtually no cost.

"If you had to buy good potatoes it is too expensive," a source familiar with the practice said. "When some genuine toddy is added it smells like ordinary toddy."

A bottle of toddy for direct consumption is sold at about 60 rupees.

But there are big profits to be made in selling fake toddy. Fake toddy is made to give a bigger 'kick' than the genuine one due to high taxes on hard alcohol consumers buy the product even.

The biggest market for toddy is in the hill country where estate workers live. Due to high taxes on legal alcohol lower income person now have to consume kasippu (a distilled illegal spirit) or toddy.

A newspaper reported last month that a toddy license for Kadadorapitiya in Pundaluoya, Kotmale was auctioned for the 2019 year for 49.8 million rupees . (EconomyNext)

## *Tokyo stocks open lower on higher yen*

Tokyo stocks opened lower on Friday, with falls in US high-tech shares and a higher yen weighing on the market.

The benchmark Nikkei index fell 0.58 percent or 129.42 points to 22,358.52 in early trade, while the broader Topix index was down 0.44 percent or 7.38 points at 1,685.03.

The dollar fetched 110.42 yen in early Asian trade, 110.86 yen in New York in New York late Thursday.

"Falls in US high tech shares are contributing to weak trade in Japan," Okasan Online Securities said in a commentary.

"The yen is being bought on fears over US-China trade issues and concerns over emerging markets, which is weighing on the market," it added.

In Tokyo, Sony was down 2.19 percent at 6,150 yen and Panasonic was down 2.01 percent at 1,267.5 yen.

Toyota was down 1.07 percent at 6,954 yen while Nissan was off 0.48 percent at 1,022.5 yen.

Hokkaido Electric, which plunged 6.43 percent on the previous day, was up 0.98 percent at 720, after it announced it had restored power to more than 40 percent of homes in quake-hit Hokkaido on Friday.

In New York, the Dow advanced 0.1 percent to end at 25,995.87, while the tech-rich Nasdaq Composite Index lost 0.9 percent to close at 7,922.17. (AFP)

## *Tech companies make last-minute effort to avoid new China tariffs*

Four major tech companies have sent a last minute letter to the Office of the US Trade Representative asking to be exempted from a possible new round of tariffs on $200 billion worth of Chinese imports.

The companies, Dell, (DVMT) Cisco (CSCO), Juniper Networks (JNPR)and Hewlett Packard Enterprise (HPE), are worried the tariffs will increase the costs of their networking equipment, damaging the companies' bottom lines and leading to possible US job losses.

They say the increase in prices would negatively impact customers, small businesses, internet service providers, and data centers. The tariffs would hinder innovations important to the US government, such as cloud computing and the rollout of 5G networks, according to the letter.

"If USTR were to impose a 10-25% additional duty on networking products and accessories, it would cause broad, disproportionate economic harm to U.S. interests, including our companies and U.S. workers, our customers, U.S. consumers, and broader U.S. economic and strategic priorities," said the letter to US Trade Representative Robert Lighthizer on Thursday.

The USTR did not immediately respond to a request for comment.

The United States could impose tariffs on $200 billion of Chinese goods as soon as Friday when a public comment period on the new round of taxes concludes. It's unclear whether the tariffs will be set at 10% or 25%. The tariffs, if imposed, would cover roughly half of all Chinese goods entering the United States.

The Trump administration put 25% tariffs on $34 billion of Chinese imports in July and another $16 billion last month, saying Beijing must correct unfair trade practices. China, the United States' largest trading partner, has accused Washington of trade bullying. It has responded with equal measure on US goods.

The four technology companies that penned the letter make the products that underpin much of the internet. They produce hard drives, servers, and networking equipment. Their products are used by other tech companies, the government, and everything from schools to hospitals.

"Given the enormous volume of potentially impacted trade—the duties would impact over $23 billion in total imports and create potential duty liability for U.S. consumers of between $2.3-5.7 billion (at 10% and 25% duty rates, respectively) per year," said the letter.

If the tariffs go into effect, companies will still be able to request and exemption for certain products, but it could take months to get a ruling. (CNN)