NEWS ROUND UP

Friday, December 07, 2018

Contents

Political deadlock worries foreign companies in SL

- Releasing a statement, warn of economic consequences
- Say international investors are losing confidence in biz environment
- Call on Govt. to restore stability through democratic institutions
- Ask assistance to continue FDI promotions on behalf of SL

The European Chamber of Commerce of Sri Lanka (ECCSL), the American Chamber of Commerce (AMCHAM), and the Delegation of German Industry and Commerce in Sri Lanka (AHK Sri Lanka), yesterday said they were gravely concerned about the present political uncertainty and upheaval in the country.

“We are of the view that the current situation will result in many adverse economic and social consequences to the country if it remains unresolved. We would like to highlight that foreign investors and potential businesses are increasingly losing confidence in the reliability of the business environment of Sri Lanka and are reluctant to enter the Sri Lankan market due to the current instability,” they said in a statement.

The Chambers noted that most of their members who are established in Sri Lanka and have been surveyed are already experiencing negative impacts on their businesses. “We request the relevant political authorities to ensure a stable and reliable business environment through the legal and democratically established institutions as soon as possible.”

The Chambers also pointed out that administration in Government departments and institutions had been affected by the constitutional issues, and respect for the law was needed to attract investment.

“It has been observed that decision-making procedures and Government processes have been adversely impacted and in some cases, financial damage has been caused to businesses. We appeal to all parties, political or otherwise, to respect the rule of law to avoid FDI outflow and to enable us to continue promotion of FDI to Sri Lanka. We remain dedicated to the cause of promoting Sri Lanka to European and American investors and to promote fair business and sustainable bilateral trade,” the Chamber said.

Due to the constitutional standoff created on 26 October by President Maithripala Sirisena, all three international rating agencies – namely Fitch, Moody’s and Standard and Poor’s – have downgraded Sri Lanka over concerns that Sri Lanka may find it more challenging to face debt repayments due next year. They have also voiced concerns over policy uncertainty and slowdown of fiscal consolidation, which is crucial for meeting Budget deficit targets.

According to Fitch, Sri Lanka has to repay an estimated $ 20 billion from 2019-2022. The International Monetary Fund (IMF) has also suspended their $ 1.5 billion Extended Fund Facility (EFF) program, which was expected to release a tranche in early November. The program was to have concluded in June and was viewed as an important litmus test for Sri Lanka to shore up confidence if it needed to borrow from international capital markets.

On Thursday, Central Bank Governor Dr. Indrajit Coomaraswamy sought to reassure the business community by insisting that macroeconomic fundamentals were sound and debt repayments were under control. However, he warned against fiscal slippage in the form of populist policies ahead of possible elections next year and emphasised on the need to continue structural economic reforms. (Dailyft)

Rupee, stocks close marginally higher

The rupee closed slightly firmer in dull trade yesterday, helped by dollar inward remittances. The rupee ended at 179.15/20 per dollar yesterday, compared with 179.20/25 in the previous session.

Credit rating agencies Fitch and Standard & Poor's downgraded Sri Lanka's sovereign rating on Tuesday, citing refinancing risks and an uncertain policy outlook, after President Maithripala Sirisena's sacking of his prime minister in October triggered a political crisis.

On Wednesday, Fitch downgraded Sri Lanka's financial institutions and Sri Lanka Telecom, citing sovereign downgrade. Foreigners sold a net Rs. 125.3 million ($ 700,391) worth of stocks yesterday, and they have been net sellers of Rs. 9.4 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. 18.8 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 hit a record low of 180.85 per dollar on 28 November, surpassing its previous low of 180.50 hit the previous day. It has weakened about 3.4% since the political crisis began. The currency fell 1.8% in November and 16.8% so far this year.

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 political paralysis remains the main concern of investors. While Mahinda Rajapaksa and President 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. Although Rajapaksa was ousted via two confidence votes, he has refused to step down.

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 30 basis points since the political crisis unfolded on 26 October, while yields on Sri Lanka's dollar bonds due in 2022 have risen by more than a percentage point to 8.14% since the crisis began.

The Colombo stock index rose 0.59% to 6,032.54 yesterday. It had risen 1.5 % last week, recording its first weekly gain in four. It gained 1.1% in November and has declined 5.3% so far this year.

Stock market turnover was Rs. 533.3 million yesterday, less than this year's daily average of Rs. 830 million. (Dailyft)

Secondary market bond yields continue to decrease

The yields in the secondary bond market maintained its decreasing trend across the yield curve yesterday as well, with continuous local buying and an increase in activity. The liquid maturities of 01.08.21, 15.05.23 and 15.06.27 were seen dipping to intraday lows of 11.60%, 11.70%, and 12%, respectively, against its previous days' closing levels of 11.60/65, 11.70/80, and 11.95/05.

In addition, the 01.07.19, 15.09.19, 01.05.20, 15.12.21 and 15.03.25 maturities changed hands at levels of 10.08%, 10.50% to 10.55%, 11.30%, 11.70% and 11.75% as well. Meanwhile, in the secondary bill market, the latest 364-day maturity traded at levels of 11.10%.The total secondary market Treasury bond/bill transacted volumes for 4 December was Rs. 5.82 billion.

In the money market, the OMO Department of the Central Bank infused a total amount of Rs. 38.5 billion at weighted average yields of 8.58% for overnight and 8.61% for seven days with the overnight net liquidity shortfall standing at Rs. 69.54 billion. The overnight call money rate averaged 8.90%.

Rupee remains mostly unchanged

The USD/LKR rate on spot contracts was seen closing the day mostly unchanged at Rs. 179.20/40.

The total USD/LKR traded volume for 5 December was $ 61.89 million.

Given below are some forward USD/LKR rates that prevailed in the market, 1 month – 180.35/75, 3 months – 182.35/75, 6 months – 185.40/80

Given below are the closing, secondary market yields of the most frequently traded T-bills and bonds. (Dailyft)

World food prices fall in Nov. to lowest in more than 2 years: FAO

World food prices declined in November to their lowest level in more than two years, led by declines in vegetable oils, dairy and cereal, the United Nations food agency said on Thursday.

The Food and Agriculture Organization's (FAO) food price index, which measures monthly changes for a basket of cereals, oilseeds, dairy products, meat and sugar, averaged 160.8 points last month, down from a revised 162.9 in October, and its lowest level since May 2016.

The October figure was previously given as 163.5. In November, only the sugar price index gained, rising 4.4% from October, FAO said.

The U.N. body's Cereal Price Index averaged almost 164 points in November, down 1.1% from October. Vegetable oil prices fell for a 10th consecutive month, by 7.6% on the month and reaching a 12-year low.

Cereal prices fell partly because new crops weighed on rice export quotations and export competition drove down maize, FAO said.

Palm oil prices fell considerably "fuelled by both persisting large inventories in leading exporting countries and the recent contraction in global mineral oil prices," it said.

Soy and sunflower oil prices weakened due to "abundant supplies across the US, the EU and several emerging markets and positive production prospects in the Black Sea region." Dairy prices dropped 3.3% from October, for a sixth straight monthly decline, and meat prices slipped slightly.

FAO said global cereals output in 2018/19 was seen at 2.595 billion tons, down marginally from the previous forecast and 2.4% below last year's record high production. FAO's forecast for world wheat production in 2018/19 was 725.1 million tons, 2.8 million tons lower than the previous forecast, "reflecting reduced estimates for this year's harvests in Turkey and the Russian Federation," FAO said.

FAO's forecast for world cereal stocks at the close of seasons in 2019 was 762 million tons, unchanged from November. (Dailyft)

Sri Lankan plantations reject demand to double daily wage despite costly strike

Sri Lanka's plantations industry said they would not give in to demands by labour unions to double daily wage to 1,000 rupees, despite a strike causing a 240 million rupees collective loss each day.

The Planters' Association of Ceylon (PA), which represents listed regional plantations companies, said in a statement workers could easily achieve daily earnings of 1,000 rupees with just a one kilo productivity increase.

A worker has potential to earn as much as 80,000 rupees a month under a revenue share model linked to productivity that the RPCs have proposed.

The PA said tea prices were falling sharply and cost of production, already the highest among tea exporting countries, was much more than prices fetched at the Colombo auctions.

"All Regional Plantation Companies pay their employees' through what is earned as revenue; however the demands of Trade Union leaders far exceed this capacity."

The full statement follows:

In the wake of indefinite strike action declared by Trade Union (TU) leaders from 4th December onwards, the Planters' Association of Ceylon (PA) firmly reiterated the position of its membership - that a 100% increase in daily basic wages as demanded by the TUs simply cannot be sustained by the industry.

"All Regional Plantation Companies pay their employees' through what is earned as revenue; however the demands of Trade Union leaders far exceed this capacity. At this crucial moment, we urge all stakeholders, especially those whose daily living depends on this industry, to consider the fatality of this industry and those dependent on it if impractical, untenable decisions are taken."

"The RPCs have already advanced multiple productivity- linked models that could easily enable workers to earn beyond Rs. 1,000 per day. This time's RPC proposal is a 20% increase in the basic wage escalating it from Rs 500/- to Rs. 600/- . A 33% increase in the Attendance Incentive (AI) up to Rs. 80 plus the Productivity Incentive (PI) and Price Share Supplement (PSS), all totaling Rs 940/- per day, amounting to an average increase of Rs. 3,375 per month per worker."
"Additionally, tea harvesters who are able to bring in harvests above the norm will continue to be entitled to an over-kilo pay of Rs.28.75 per kilo in excess of the plucking norm which could easily expand their earnings beyond the Rs. 1,000."

The PA noted that current TU demands are devoid of any incentives which could in effect curtail the earning potential of the worker by locking them into a system that only provided for a basic daily wage.

In the interim, the PA estimated that the ongoing strike action would cost the industry approximately Rs. 240 - 250 million in losses each day in the tea and rubber industry. At a time when the industry is already suffering from depressed international market conditions, and the ongoing withdrawal of the much needed chemical weedicide from the domestic market, the PA cautioned stakeholders against resorting to measures that would further weaken the industry.

Why a 100% increase in wage is unviable

Extreme demands for a 100% wage hike could only be sustained if the average sale price of Sri Lankan tea at the auction was to increase up to Rs. 850 per kg. As at November of this year, the average sale price of tea stood at Rs. 558 per kg while the Cost Of Production (COP) is Rs. 630 per kg.

At present, Sri Lanka's Cost of Production (COP) in tea is the highest in the world and has debilitated the RPC's revenue generating ability. Notably, 70% of Sri Lanka's COP is solely the cost of labour.

Moreover, RPCs would have to absorb a staggering Rs. 20 billion increase in wage and gratuity costs if the basic wages are increased by 100% to Rs. 1,000.

The PA further noted that the price of Sri Lankan tea in international markets has continuously dropped by approximately Rs. 20 each week over the recent past while almost 35% of tea produced went unsold at the last auction.

Rubber COP stands at approximately Rs. 360 per kg where the average selling price is just Rs. 230 per kg.

The dire need for all to appreciate and adopt a modernized, progressive approach to wages:

The PA once again reiterated the urgent need for the industry to immediately move away from the daily wages system instituted in the colonial era and progress towards a modern wage model. By this, the employees' aspirations could be met through a productivity-based model which would only require tea harvesters to raise their annual average output by a single kilogram.

"The PA's membership cannot agree to a demand that would jeopardize an entire industry that involves not only growers but tea factory owners, exporters and the entire value chain.

Moreover, we urge employees to examine carefully the facts placed before them. In RPC estates where a revenue share model has been successfully implemented, workers are now earning between Rs. 50,000 to Rs. 80,000 each month. The current wage model is not sustainable, and those arguing for it must be made to understand the immense earning potential that is open to them if they will work in partnership with us," the PA emphasized.

The PA concluded its statement by noting that a transition to a productivity based model would provide the harvesters significantly greater earning potential and urge Trade Unions to see this potential and do what's best for the estate communities.(Economynext)

Asian Stocks Struggle for Traction; Yields Steady: Markets Wrap

Asian stocks traded mixed on Friday following an afternoon rally in the U.S. that erased most of the day's losses, as investors grappled with shifting indications on U.S.-China trade talks and prospects for a pause in Federal Reserve tightening.

Japan's benchmarks struggled to hold their early advance and shares slid in China, while Hong Kong stocks eked out gains with equities in Australia outperforming. Futures on the S&P 500 Index slipped marginally after the U.S. equity market recovered the bulk of the day's declines on Thursday, though still ended lower. Ten-year Treasury yields stayed near 2.90 percent. The dollar was steady, with most G-10 currencies showing no sizable moves. Next up for embattled traders: the monthly U.S. payrolls report Friday.

"The big question mark still is what's going to happen in 2019" with the Fed, Omar Aguilar, CIO of equities and multi-asset strategies at Charles Schwab, told Bloomberg TV. "The jobs report could easily be the catalyst that will tell us a little more about what the path may be."

Financial markets remain on tenterhooks amid worries that the trade truce between China and the U.S. won't last after the arrest of Huawei's chief financial officer. As traders start to doubt the Fed will raise rates in 2019, JPMorgan Chase & Co. CEO Jamie Dimon said that while the focus has been on the Fed moving too quickly, there's also a risk that the Fed does too little, too slowly.

Fed chair Jerome Powell delivered a bullish assessment of the U.S. economy and the job market ahead of Friday's jobs report. That comes as market-implied U.S. rate expectations for next year edged below a quarter point last week, and have crumbled this week amid the slide in global equities and U.S.-China trade tension. Vanguard, in its annual forecast out Thursday in the U.S., said the central bank will stop hiking next summer.

"The name of the game from here on out is more volatility," Savita Subramanian, head of U.S. equity and quantitative research at Bank of America Merrill Lynch, told Bloomberg TV.
The Key Clues to Look for in the November Jobs Report

Watch our discussion that previews the November U.S. employment report.

Elsewhere, oil continued to be a drag on sentiment, with West Texas Intermediate back below $52 a barrel as OPEC ended talks without a deal on oil-production cuts for the first time in nearly five years. Cryptocurrencies continued their slide with a fresh bout of losses Friday after U.S. regulators dashed hopes that a Bitcoin exchange-traded fund would appear before the end of this year.

Some of the key events investors will be focused on this week:

- OPEC ministers meet again in Vienna Friday.
- Friday brings the U.S. monthly employment report for November.
- China November trade data are due on Saturday.

And here are the main moves in markets:
Stocks

- The MSCI Asia Pacific Index was up 0.1 percent as of noon in Tokyo
- Japan's Topix index was flat.
- Hong Kong's Hang Seng fell 0.1 percent.
- The Shanghai Composite slid 0.2 percent.
- Australia's S&P/ASX 200 Index gained 0.5 percent.
- Futures on the S&P 500 dipped 0.1 percent. The S&P 500 fell 0.2 percent on Thursday.

Currencies

- The yen held at 112.74 per dollar.
- The offshore yuan was flat at 6.8827 per dollar.
- The Bloomberg Dollar Spot Index was flat after falling 0.3 percent Thursday.
- The euro bought $1.1374.
- The pound slid 0.1 percent to $1.2771.

Bonds

- The yield on benchmark 10-year Treasuries held at 2.89 percent.
- Australian 10-year government bond yields rose one basis point to 2.46 percent.

Commodities

- West Texas Intermediate crude fell 0.4 percent to $51.31 a barrel.
- Gold held at $1,239.12 an ounce.
- LME copper rose 1.2 percent to $6,142 per metric ton.
  (Bloomberg)