NEWS ROUND UP

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GDP calculation needs support

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- CB Governor believes GDP numbers should be higher, suggests about 0.5% of GDP not captured
- But hails methodology, says better implementation should be backed

In order to comprehensively capture economic activity in Sri Lanka, more effective and efficient systems need to be established to calculate Gross Domestic Product (GDP) growth with greater precision, experts said yesterday.

Economist and former Central Bank Deputy Governor Dr. W. A. Wijewardena told Daily FT that the Census and Statistics Department needs to be given better resources, training and support to improve the quality of the data compiled by them as it was crucial for effective policymaking. His comments come after Central Bank Governor Dr. Indrajit Coomaraswamy last week said as much as 0.5% of GDP growth may be unaccounted for. He also said that even though 2018 growth is likely to be about 3%, growth in Sri Lanka, by his estimation, should be at 3.5% or slightly higher. He also pointed out that there could not be such a marked gap between the growth projections made by the World Bank, International Monetary Fund (IMF), the Central Bank and the quarterly results released by the Census and Statistics Department.

“In other countries, advanced technology is used to map important economic data, such as consumption patterns and agriculture yields.

However, in Sri Lanka, the Census and Statistics Department is always given step-motherly treatment by successive Budgets. They need to be allocated more resources, given better training, and provided with better technology to capture economic activity,” Dr. Wijewardena said

He also advocated that graduates who are recruited to government jobs, such as Development Officers, should be trained to carry out surveys and gather data on behalf of the Census Department.

“There are thousands of graduates who are recruited to the public service without proper job descriptions. They can be trained to gather data to improve GDP calculation accuracy and this would also save the State funding,” he added.

Census and Statistics Department Director General Indu Bandara said setting efficient and well-coordinated systems were important to gather a wide range of data needed for GDP calculation.

“Currently, we look at a large number of varied indicators such as VAT registration, vehicle registrations, cement production, agriculture production, and government expenditure from both the public and private sector. The new methodology calls for more surveys, and there are times when we struggle to get responses for them because it means that companies have to spend time compiling the data without getting any return for the activity,” she said.

Ten new surveys are to be included in the next round of GDP data collection, which Bandara said would assist to improve the precision of GDP numbers. She also acknowledged that capturing the informal sector and Small and Medium Enterprise (SME) activity could be challenging.

“Many people who work in the informal sector change their jobs frequently, and some data in the SME sector is hard to capture because it is not recorded through taxes or other ways that is possible for us to access.”

According to the national accounts published by the Census Department, Sri Lanka’s economy grew at 2.9% in the third quarter of 2018 while the second quarter growth was estimated at 3.6%. However, the International Monetary Fund had predicted 3.5% annual GDP growth for 2018 while the World Bank‘s forecast was 4%. The Central Bank was anticipating 3.8% growth for 2018. Central Bank Governor Dr. Indrajit Coomaraswamy said, in his view, growth would be between 3.5% and 4%.

“My view is that we need to look carefully whether we are recording GDP accurately. I don’t think this is a 3% growth economy at the moment. We adopted a new methodology about two to three years ago. Everyone was saying that the methodology was excellent but that the methodology needs a lot of surveys to support it. We don’t have the sources to undertake all the surveys to support that methodology,” Dr. Coomaraswamy told reporters after the ‘Road Map’ launch.

The base year for the national accounts was moved to 2010 by the DCS, along with a new methodology to enhance the accuracy of constant price estimates and represent the real economic structure of the economy. (Dailyft)

Govt. plans 13.2% increase in 2019 government expenditure

Sri Lanka plans to increase government spending by 13.2% from last year to Rs. 4.47 trillion ($24.51 billion) in 2019, the Finance Ministry has said.

The Government of Prime Minister Ranil Wickremesinghe-led centre-right United National Party (UNP) has planned some key economic projects to win votes from rural areas, where nearly 70% of the island nation’s voters are registered.

The Government also plans to maintain the 2019 Budget deficit at 4.8% of GDP, the Ministry said in a statement, unchanged from an estimated 4.8% in 2018.

Finance Minister Mangala Samaraweera has also sought Cabinet approval for a Rs. 2.1 borrowing next year, up 10.5% from its estimate for 2018.

The Government must repay a record $5.9 billion this year, including a $3 billion fresh borrowing, Central Bank Chief Indrajit Coomaraswamy said last week.

The Government, however, has not revised its medium-term Budget deficit target of 3.5% of GDP in 2020.

Since a 51-day political crisis in the last quarter, the Government has been struggling to boost investor sentiment.

Sri Lanka is due to hold a Presidential poll before end-November and elections for the Provincial Councils are also due, but the dates have not been fixed yet due to some administrative issues.

Samaraweera will present the 2019 Budget on 5 March, the statement said.

The International Monetary Fund in June said Sri Lanka’s economy remains vulnerable to adverse shocks because of sizable public debt and large refinancing needs.
(Dailyft)

Economic sentiment deteriorates: Survey

Sentiment surrounding the economy declined in December 2018, according to the latest LMD-Nielsen Business Confidence (BCI) poll. The unique survey reveals that only 4% of the business people spoken to by Nielsen expect the economy to improve in the next 12 months compared to 19% in the previous month.

In contrast, two-thirds of those polled say the economy “will get worse” with one corporate executive stating that “the investment climate and the economy are falling apart”. When it comes to business prospects, 14% and 24% of survey respondents expect sales volumes to improve in the short and long terms, respectively.

One of the businesspeople surveyed notes: “Currently, we’re facing a situation where there is a decrease in sales revenue mainly because of the impact of the dollar on our imports.”

As for the investment climate, only 2% (down from 7%) of respondents consider it to be ‘good’.

A survey respondent explains: “Because of the poor country image these days, there’s hardly any investment coming in – and existing investments are being put on hold or pulled out, and it is very unlikely that this situation will be resolved any time soon.”

The publisher of LMD, Media Services, says the January edition of the magazine has been released to leading supermarkets and bookstores in Colombo and the outstations.

Its cover story examines the implications of the recent political instability on the state of the nation.
(Dailyft)

Rupee ends weaker on importer, bank dollar demand; stocks at 6-week low

The rupee ended weaker on Tuesday as importer dollar demand and continued outflows of foreign funds from government bonds and stock markets due to political uncertainty dented investor sentiment. The bourse fell to a six-week low.

The Colombo Stock Index fell 0.51% to settle at 5,992.36, its lowest close since 28 November 2018, as worried investors awaited political cues after the last quarter’s turmoil. The bourse lost 5% in 2018.

Turnover was Rs. 933 million ($5.11 million), more than last year’s daily average of Rs. 834 million.

Foreign investors were net sellers of Rs. 124.8 million worth of shares on Tuesday. They have been net sellers of Rs. 13.9 billion worth of stocks since a political crisis began on 26 October 2018. The bond market saw outflows of Rs. 74.3 billion between 25 October 2018 and 2 January, the latest Central Bank data showed.

Last year through 26 December, foreign investors pulled a net Rs. 22.8 billion out of stocks, and Rs. 159.8 billion from government securities, according to bourse and Central Bank showed data.

The rupee ended at 182.50/70 on Tuesday, compared with 182.30/40 in the previous session, market sources said. On Thursday, the rupee had fallen to an all-time low of 183 against the dollar. The rupee fell 19% in 2018, making it one of the worst-performing currencies in Asia, Refinitiv Eikon data showed, due to heavy foreign outflows.

The rupee has declined about 5.2% since the political crisis started. The Central Bank said last week it would stick to an exchange rate policy of cautious intervention in times of excessive volatility in the forex market.

That policy is designed to maintain a competitive exchange rate and support the rebalancing of the current account, thereby supporting a gradual build-up of reserves, Central Bank Chief Indrajit Coomaraswamy said on Wednesday, unveiling economic policies for 2019.

President Maithripala Sirisena appointed a Cabinet of Ministers from his rival party on 21 December 2018 after he was forced to reinstate Ranil Wickremesinghe as Prime Minister, 51 days after he was sacked. The crisis is expected to ease, though tense relations between the two men could cause fiscal problems, analysts say. Parliament has approved Rs. 1.77 trillion ($9.39 billion) to meet the first four months of expenditure in 2019, averting a Government shutdown from 1 January.

Sri Lanka plans to increase government spending by 13.2% from last year to Rs. 4.47 trillion ($24.51 billion) in 2019, the Finance Ministry said on Tuesday.

Credit agencies Fitch and S&P downgraded Sri Lanka's sovereign rating in early December, citing refinancing risks and an uncertain policy outlook.
(Dailyft)

Asian shares run out of gas; investors look to Sino-US trade talks, Fed policy

Asian shares dipped on Tuesday, running out of steam after a brief rally sparked by hopes that Washington and Beijing may be inching towards a trade deal and that US Federal Reserve would halt its tightening if economic growth slows further.

MSCI's broadest index of Asia-Pacific shares outside Japan reversed from early gains to slip 0.2%, dragged lower by falls in China and Taiwan, while Japan's Nikkei rose 0.8%.

Financial spreadbetters expect a mixed start in Europe, with Germany's DAX tipped to open 43 points higher at 10,790, Paris's CAC 40 expected to rise 32 points to 7,751, while London's FTSE was seen dropping 31 points to 6,778.

"Market pessimism has been rolled back, partly helped by hopes for the US-China trade talks. But many investors are still trying to play it safe and it is yet to be seen whether the recovery continues, or ends up as a short-term relief rally," said Masanari Takada, cross-assets strategist at Nomura Securities.

On Wall Street, the S&P 500 gained 0.7% on Monday following 3.4% surge on Friday, with Amazon.com and Netflix leading the rally.

Gains in tech names allayed some fears, sparked by Apple's sales warnings last week, that the high-flying sector is starting to be hurt by the Sino-US trade war.

US Commerce Secretary Wilbur Ross predicted on Monday that Beijing and Washington could reach a trade deal that "we can live with" as dozens of officials from the world's two largest economies resumed talks in a bid to end their trade dispute.

China’s Foreign Ministry said Beijing had the “good faith” to work with the United States to resolve trade frictions, but many analysts doubt the two sides can reach a comprehensive agreement on all of the divisive issues before a March deadline.

Investors also continued to buy battered stocks in response to strong US job data on Friday and comments by Fed Chairman Jerome Powell that he was aware of the risks and would be patient and flexible in policy decisions this year.

Powell’s comments have eased market concerns that the US central bank might ignore signs of an economic slowdown and stick to its script of two rate hikes this year.

“Various concerns markets had earlier are receding for now. Still, there’s no denying that US earning momentum is slowing,” said Hirokazu Kabeya, chief global strategist at Daiwa Securities.

“Ultimately we need to see whether upcoming earnings reports can dispel market concerns.”

Analysts estimate S&P 500 companies will increase their fourth-quarter earnings per share by 15% from a year earlier, down from 20% growth seen three months ago, according to Refinitiv IBES data.

The estimate for 2019 profit growth has fallen to about 6.9% from 10.2%. The picture is murkier for tech firms, whose earning growth estimates have fallen to 2.7% from 8.5%.

“There have long been suspicions that US tech companies might be overvalued. And in a way Apple gave markets confirmation,” said Kazushige Kaida, head of forex at State Street.

“There are worries more tech companies may issue profit warnings, which means there will remain a pressure on US high-tech shares, and on the dollar/yen.”

The dollar traded at 108.78 yen, struggling to extend gains after having recovered to its levels before its flash crash last week.

The US dollar is losing momentum as investors wind back expectations of rate hikes and a future widening in its yield advantage.

But conditions in most other developed economies aren’t much to write home about, either, potentially limiting the upside for other major currencies.

The euro slipped 0.2% to $1.1454. The British pound traded flat at $1.2780.

British and European officials are discussing the possibility of extending Britain’s formal notice to withdraw from the European Union amid fears a Brexit deal will not be approved by March 29, The Daily Telegraph reported, citing unidentified sources.

In contrast, the Canadian dollar hit one-month highs, having gained 2.7% in the past five days on gains in oil prices and on speculation the Bank of Canada will stick this week to its plan to raise interest rates to a neutral range. It last stood at 1.3272 per US dollar.

Emerging market currencies also benefited from a weak dollar, with MSCI emerging market currency index rising to levels last seen in late July.

The 10-year US Treasuries yield bounced back to 2.687%, from Friday’s low of 2.543%, a trough last seen almost a year ago. Still, that is more than 50 basis points below its October peak of 3.261%.

Fed funds rate futures now price in a slim chance of a rate cut this year.

Oil prices were stable on Tuesday, supported by hopes for Sino-US trade talks in Beijing and a Wall Street Journal report that Saudi Arabia is planning to cut crude exports to around 7.1 million barrels per day (bpd) by the end of January.

Both US West Texas Intermediate (WTI) crude futures and International Brent crude futures stayed flat at $48.51 and $57.30 per barrel, respectively. (Dailyft)

Bonds trade within narrow range ahead of weekly bill auction

The secondary bond market traded within a narrow range yesterday, ahead of today's weekly Treasury bill auction, where the liquid maturities of 15.12.21, 15.03.25, and 01.08.26 were seen changing hands at levels of 11.25% to 11.30%, 11.70% to 11.80%, and 11.56% to 11.64%, respectively.

Furthermore, activity was also witnessed consisting of the 01.05.20, three 2021's (i.e. 01.03.21, 01.05.21, and 01.08.21), two 2022's (i.e. 01.07.22 and 01.10.22), and the two 2023's (i.e. 15.05.23 and 15.07.23) at levels of 10.85% to 10.95%, 11.10% to 11.30%, 11.40% to 11.45%, and 11.45% to 11.48%, respectively.

This week's bill auction will have on offer a total amount of Rs. 20 billion, consisting of Rs. 8 billion of the 182-day and Rs. 12 billion of the 364-day maturities. At the last auction, the 364-day weighted average decreased by 21 basis points to 10.99%, and the 182-day by 4 basis points to 9.95%.

The total secondary market Treasury bond/bills transacted volume for 7 January was Rs. 10.69 billion.

In the money market, overnight call money and repo rates averaged 9% as the OMO Department of the Central Bank infused liquidity by way of an overnight and a seven-day term reverse repo auction for successful amounts of Rs. 22.3 billion and Rs. 25 billion, at weighted average yield of 9%. The net liquidity shortfall stood at Rs. 93.84 billion.

Rupee losses

In the Forex market, the USD/LKR rate on spot contracts depreciated yesterday to close the day at Rs. 182.55/70 against its previous day's closing levels of Rs. 182.30/40 on the back importer demand.

The total USD/LKR traded volume for 7 January was $ 86.93 million.

Some forward USD/LKR rates that prevailed in the market are 1 month – 183 50/90, 3 months – 185.20/60, and 6 months – 188.25/65. Closing, secondary market yields of the most frequently traded T-bills and bonds

(Dailyft)

Asia Stocks Rise on Trade-Thaw Hopes; Dollar Slips: Markets Wrap

Asian stocks rallied Wednesday amid optimism on the potential for progress in trade talks between Washington and Beijing. The dollar stayed lower after President Donald Trump gave little indication of a quick end to a paralyzing political dispute over his proposed wall on the Mexican border.

Equities in Hong Kong, South Korea and Japan led gains after all major U.S. indexes climbed. Trump is eager to strike a deal to boost financial markets that have been roiled by the trade war, according to people familiar. Earlier, he tweeted that talks are “going very well” as negotiations continued with China. Crude climbed above $50 a barrel for the first time this year and Treasuries steadied.

Developments in U.S.-China trade relations remain a focal point at the same time as parts of the American government are shut down with lawmakers unable to agree on a budget proposal that Trump will sign. Trump demanded Congress provide billions more for border security in a prime-time address to the nation, stopping short of declaring a national emergency.

“We could get some more stabilization and a floor in the market if we make strides towards an agreement” on trade, Kate Moore, chief equity strategist at BlackRock Inc., said on Bloomberg Television. “But this is going to be an issue overhanging markets I believe for multiple years.”

Here are some events investors may focus on this week:

North Korea’s Kim Jong Un is visiting China ahead of a potential summit with President Trump.
Wednesday sees the release of minutes from the Fed’s Dec. 18-19 policy meeting. Powell will speak to the Economic Club of Washington D.C. on Thursday.
Britain’s Parliament resumes a debate on the Brexit withdrawal bill, with Prime Minister Theresa May seeking to avoid defeat in a vote set for the week of Jan. 14.
These are the main moves in markets:

Stocks

- Japan’s Topix index climbed 1.2 percent as of 11:28 a.m. in Tokyo.
- Australia’s S&P/ASX 200 Index rose 0.9 percent.
- South Korea’s Kospi index added 1.7 percent.
- Hong Kong’s Hang Seng Index gained 2 percent.
- The Shanghai Composite rose 1.5 percent.
- S&P 500 futures ticked 0.4 percent higher. The S&P 500 Index rose 1 percent.

Currencies

- The yen slipped 0.1 percent to 108.88 per dollar.
- The offshore yuan gained 0.2 percent to 6.8432 per dollar.
- The Bloomberg Dollar Spot Index fell 0.1 percent.
- The euro was at $1.1451, up 0.1 percent.
- The pound added 0.1 percent to $1.2735.

Bonds

- The yield on 10-year Treasuries held at 2.73 percent.
- Australia’s 10-year bond yield rose four basis points to 2.34 percent.

Commodities

- West Texas Intermediate crude rose 1.4 percent to $50.48 a barrel.
- Gold was stable at $1,284.73 an ounce.

(Bloomberg)