NEWS ROUND UP

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Contents

Rupee falls on uncertainty amid foreign outflow; stocks at near 2-week low

The rupee ended weaker on Thursday as outflows from Government securities and stocks due to political uncertainty raised dollar demand.

Stocks fell for the fourth straight session, hitting its near two-week closing low and moving further away from their near two-month closing high hit last week, as the political crisis dented sentiment after the Speaker of Parliament said on Monday he would not recognise President Maithripala Sirisena's sacking of Ranil Wickremesinghe as Prime Minister and appointment of Mahinda Rajapaksa in his place.

Sri Lanka's Parliamentary Speaker has called the President's sacking of the Prime Minister to bring a former leader back to power a non-violent coup d'état.

The rupee ended at 175.05/20 per dollar on Thursday, compared with the previous close of 174.80/175.10. The rupee has weakened more than 1% since the political crisis began on 26 October.

The rupee hit a record low of 175.65 per dollar on 1 November.

The rupee weakened 3.7% in October after a 4.7% drop in September against the dollar. It has dropped 13.9% this year. Foreigners sold a net 405.8 million worth stocks on Thursday. They have offloaded equities worth Rs. 7.2 billion since the political crisis started on 26 October.

The bond market saw an outflow of about Rs. 11 billion between 25 and 31 October, Central Bank data showed. This year, the island nation has seen Rs. 16.6 billion in outflows from stocks and Rs. 100.8 billion from Government securities, bourse and central bank data respectively showed.

The Colombo stock index fell 0.95% to 5,930.59, its lowest close since 26 October. It hit a near two-month high on 1 November. The bourse rose 4.5% last week due to heavy retail investor participation. It has slipped 6.9% so far this year.

Stock market turnover was Rs. 1.1 billion ($ 6.30 million) on Thursday, more than this year's daily average of Rs. 818.4 million.

Shares of Hatton National Bank PLC fell 3.5%, while, conglomerate John Keells Holdings PLC ended 1.7% down, the country's biggest listed lender, Commercial Bank of Ceylon PLC, declined 1.9% and Sri Lanka Telecom PLC lost 5.2%.
(Dailyft)

Tourist arrivals struggle in October

- 0.5% gain in October; Cumulative arrivals up 10.6% to over 1.8 m
- India, China, UK continue as top sourcing markets
- Asia and Pacific largest source of tourist traffic to SL with 47% of total received

Trouble for the tourism industry has been reinforced with arrivals in October barely managing a 0.5% growth though year-to-date figures reflect a 10.6% improvement.

Tourist arrivals in October was 153,123, up 0.5% from a year earlier and enhanced the first 10 months figure to 1.8 million, up by 10.6%.

According to the Sri Lanka Tourism Development Authority (SLTDA), in October, the largest source market for tourists was India, followed by China and the United Kingdom.

Asia and Pacific continued to be the largest source of tourist traffic to Sri Lanka with 47% of the total traffic received in October, while Europe accounted for 43% of the total traffic, America 6%, Middle East 3% and Africa 1%.

India, China, the United Kingdom, Germany and Australia were Sri Lanka's top five international tourist generating markets in the month of October this year.

India was the largest source of tourist traffic to Sri Lanka representing 25% of the total traffic received in October. China and United Kingdom accounted for 12% of the total traffic, while Germany and Australia accounted for 7% and 5%, respectively.

Sri Lanka's new destination brand, 'So Sri Lanka', debuted on 5 November at the opening day of the World Travel Mart (WTM) 2018 in London.

Attending the event, newly appointed Tourism Development Minister Wasantha Senanayake said that 'So Sri Lanka' brand is not only exhilarating, it's the beginning of a new era. "We envisage that tourism will flourish to be the most significant sector contributing to our economy – that's the goal we aspire to reach in the next few years," he added.

According to the Central Bank's latest External Sector Performance report, cumulative earnings amounted to $ 2,935 million during the first eight months of 2018.

Tourist arrivals rose 3.2% to 2.1 million last year. Tourism revenues rose by a similar percentage to an all-time peak of $ 3.63 billion. (Dailyft)

Tax Appeals Commission revived

The previously-inactive Tax Appeals Commission (TAC) has now been revived with the reappointment of Justice Hector Yapa as Chairman and Justice Sunil Rajapaksa and S. Swarnajothi, former Auditor General, as members by Finance Minister Mahinda Rajapaksa.

The TAC was established under the Tax Appeals Commission Act No. 23 of 2011, to facilitate a more expeditious resolution of disputes that may arise between the taxpayer and the Commissioner General of Inland Revenue (CGIR) or the Director-General of Customs (DGC) due to a determination on the imposition of any tax, levy, charge, duty or penalty.

Any aggrieved party could appeal to the TAC and TAC after having conducted the hearings on the appeals could deliver its determination either confirming, reducing, or amending the original determination by the CGIR or the DGC.

At present there is about 264 appeals pending and it is expected that these appeals will be resolved with the revival of the TAC, the Finance Ministry said in a statement.

"By activating institutions such as the TAC established to provide relief to the taxpayers in a more expeditious manner, it is envisaged that the ease of doing business climate in the country will also improve," the statement said. (Dailyft)

Asia cheered by post-election Wall Street rally, dollar bounces

Asian stocks rose to a one-month peak on Thursday as investors, relieved to have moved past the US midterm elections without any major political surprises, drove a Wall Street rally, while the dollar bounced and pulled away from 2-1/2-week lows.

MSCI's broadest index of Asia-Pacific shares outside Japan gained 0.5%.

Hong Kong's Hang Seng advanced 0.9% and the Shanghai Composite Index climbed 0.35%.

Australian stocks rose 0.5%, South Korea's KOSPI added 1.4% and Japan's Nikkei gained 1.9%.

Wall Street's main indexes rose more than 2% on Wednesday, led by the technology and healthcare sectors as the market breathed a sigh of relief after the US midterm elections, in which Democrats wrested control of the House of Representatives and Republicans retained the Senate.

"Going forward, we think the removal of uncertainty and realisation of the expected outcome should be supportive for risk assets," Goldman Sachs analysts said in a report.

While a divided Congress will make it harder for President Donald Trump to push through new legislation, such as additional tax cuts, investors do not expect a reversal of recently enacted tax cuts and deregulation.

"The key point after the midterm elections is that US stocks showed they had developed immunity towards higher yields. The last time long-term Treasury yields were at this level a month ago, they had helped trigger a major fall by stocks," said Junichi Ishikawa, senior FX strategist at IG Securities in Tokyo.

"Steady US fundamentals will support this trend of equities and yields rising in tandem, which should also prop up the dollar in the longer term."

The 10-year Treasury note yield rose to 3.25% on Wednesday, its highest since 9 October, with Wall Street's rally reducing demand for safe-haven debt. It last stood at 3.23%.

The dollar index against a basket of six major currencies gained 0.2% to 96.188, pulling back from 95.678 plumbed on Wednesday, its lowest since 22 October.

That low for the greenback was driven by a knee-jerk reaction to the US midterm election results, with a divided Congress seen dulling Trump's fiscal stimulus drive.

Some focus was also on the Federal Reserve's monetary policy due later on Thursday. The Fed, however, is not expected to hike interest rates until its next gathering in December and analysts expected this meeting to have limited market impact.

The central bank has tightened monetary policy three times in 2018, with the latest rate hike coming in September.

“A split Congress is unlikely to materially alter the Fed’s near-term hiking trajectory and the Fed will be biased to keep raising rates until the data or financial conditions turn,” strategists at Bank of America Merrill Lynch wrote.

The euro was up 0.05% at $1.1432 after pulling back sharply from a high of $1.1500 brushed earlier on Wednesday.

The dollar was a shade higher at 113.59 yen and in striking distance of a one-month peak of 113.82 reached the previous day.

In commodities, US crude futures inched up 0.05% to $61.70 a barrel after falling to an eight-month trough of $61.20 on Wednesday.

Brent crude dipped 0.08% to $72.01 a barrel following a loss of 1.4% the previous day.

Oil prices struggled after surging US crude output hit another record and domestic inventories rose more than expected.
(Dailyft)

Activity in secondary bond market moderates

Activity in the secondary bond market moderated yesterday with sentiment turning bearish. Limited trades were seen consisting of the 01.07.19 and 15.07.23 maturities at levels of 10.80% and 11.50%, respectively.

The total secondary market Treasury bond/bill transacted volumes for 7 November was Rs. 10.64 billion.

In the money market, overnight call money rate remained steady to average 8.47% as the OMO Department of the Central Bank was seen infusing liquidity by way of an overnight and a seven-day term repo auction for successful amounts of Rs. 24.15 billion and Rs. 20 billion, respectively, at weighted average yields of 8.46% and 8.50%. The net liquidity shortage in the system stood at a high of Rs.88.02 billion yesterday.

Rupee loses further

Continued buying interest from banks saw the rupee rate on spot contracts losing further to close at Rs. 175.10/20 against its previous day’s closing level of Rs. 174.85. The total USD/LKR traded volume for 7 November was $ 71.65 million.

Some of the forward USD/LKR rates that prevailed in the market were 1 month – 176.00/30, 3 months – 178.00/30, and 6 months – 181.00/40.
(Dailyft)

Haycarb records turnover of Rs. 8.9 b & profit before tax of Rs. 502 m for H1 2018/19

Sri Lankan multinational Haycarb Plc reported revenue of Rs. 8.9 billion and profit before tax of Rs. 502 million for the six months ending 30 September 2018.

The profit after tax stood at Rs. 428 million.

Haycarb Plc Managing Director Rajitha Kariyawasan said that the adjustment of sales prices due to the sharp increases in raw material cost resulted in the growth in turnover. As the shortage and cost

escalation of raw material coconut charcoal continued during the first half of the year in most of the supply locations, Haycarb focused on its lean platform, targeted cost-saving initiatives and process improvements to minimise price escalations to its customers while protecting the group's profitability.

Considerable success achieved from product development efforts to expand its value-added product portfolio strongly contributed to the overall business performance.

Kariyawasan said: "Though we are expecting improved coconut crop and charcoal availability in most of our locations in the 2019 coconut season, the company is expecting a challenging period due to the increased competition from key coconut carbon-producing countries."

He further noted that Haycarb's strategy of broad-basing the raw material supply network and support for environmentally friendly charcoaling methods under its flagship initiative 'Haritha Angara' had contributed to the improvement of sustainable charcoal supply, which will be continued as a core supply chain strategy of the group.

Kariyawasan noted that Puritas Ltd., the environmental engineering business segment, is expected to continue to be a key contributor to the group's performance during the second half of the year, with projected growth in its business in water and waste water treatment systems in Sri Lanka and the region.

In the background of increasing emphasis on environmental sustainability worldwide, Haycarb remains positive in its medium to long-term outlook in its activated carbon and water treatment systems businesses.

Haycarb is the pioneer manufacturer of coconut shell activated carbon in any coconut producing country with manufacturing facilities in Sri Lanka, Thailand and Indonesia supported by marketing offices in the UA, UK and Australia. The company contributes net foreign exchange revenues with its value-adding processes whilst remaining a leading and technologically superior manufacturer in its chosen segment.

The Board of Directors of Haycarb Plc comprises Mohan Pandithage – Chairman, Rajitha Kariyawasan – Managing Director, Dhammika Perera, Arjun Senaratna, Sarath Ganegoda, Jeevani Abeyratne, Dr. Sarath Abayawardana, Sujeewa Rajapakse, M.S.P. Udaya Kumara, Brahman Balaratnarajah, Ali Asgar Caderbhoy, Sharmila Ragunathan, James Naylor and M.H. Jamaldeen.

(Dailyft)

Asian Stocks Decline; Dollar Holds Gain on Fed: Markets Wrap

Stocks in Asia retreated Friday after three days of gains and an overnight decline in their U.S. counterparts. The dollar strengthened after the Federal Reserve stayed on course to hike interest rates again in December and maintained its gradual tightening path.

Benchmarks fell across the region with the deepest losses seen in Hong Kong, while moves in U.S. futures were muted. Energy shares underperformed after oil entered a bear market, and crude prices fell for a tenth day. Treasury yields ticked lower. The offshore yuan held this week's drop as Friday's inflation data was in line with expectations. Emerging market currencies slid, with the Korean won, Indonesian rupiah and Philippine peso all lower amid strength in the greenback.

Investors had largely anticipated that the Fed wouldn't change interest rates on Thursday and were more focused on looking for any signals on the pace of policy tightening into 2019. The central bank said "economic activity has been rising at a strong rate" and job gains "have been strong," acknowledging a

drop in the unemployment rate, while repeating its outlook for "further gradual" rate increases in its statement.

"The Fed kept with the game plan," said Chris Rupkey, an economist in New York at MUFG Union Bank.
Fed Is Being Very Vague and Closer to Neutral, Economist Coronado Says

Julia Coronado, Macropolicy Perspectives president and founder, says the Fed is being 'very vague.'
Source: Bloomberg

Elsewhere, Italian bond yields jumped after the European Union warned the nation's budget deficit will move dangerously close to the bloc's limit of 3 percent. European stocks pared an earlier advance spurred by strong earnings from companies including AstraZeneca Plc.

Coming Up

- The U.K. economy probably picked up in the third quarter, economists forecast. GDP is seen rising 0.6 percent from the prior period and 1.5 percent on the year.

These are the main moves in markets:
Stocks

- The MSCI Asia Pacific Index fell 0.8 percent as of 10:30 a.m. Tokyo time.
- Topix index slid 0.2 percent.
- Hang Seng declines 1.5 percent.
- Australia's S&P/ASX 200 Index declined 0.4 percent.
- Futures on the S&P 500 Index fell 0.1 percent.

Currencies

- The Japanese yen climbed 0.2 percent to 113.90 per dollar.
- The offshore yuan rose 0.1 percent to 6.9376 per dollar.
- The euro rose less than 0.05 percent to $1.1367.
- The Bloomberg Dollar Spot Index held overnight gains of 0.6 percent.

Bonds

- The yield on 10-year Treasuries fell one basis point to 3.23 percent.
- Australia's 10-year yield rose three basis points to 2.79 percent.

Commodities

- West Texas Intermediate crude rose 0.1 percent to $60.74 a barrel.
- Gold fell 0.1 percent to $1,222.85 an ounce.
- LME copper rose less than 0.05 percent to $6,155 per metric ton

(Bloomberg)