

NEWS ROUND UP

Wednesday, 10th April, 2019

Contents

Sri Lanka stocks fall 0.21-pct, selling on Dialog, Distilleries	2
Sri Lanka rupee closes weaker, bond yields rise.....	2
Sri Lanka awaits legal approvals, better terms from China for new debt	3
Sri Lanka to force down bank lending rates	4
Below normal rainfall forecast in Sri Lanka till June	5
Revived US-EU trade war hits stocks in both regions	6

Sri Lanka stocks fall 0.21-pct, selling on Dialog, Distilleries

Sri Lanka's Colombo Stock Exchange fell 0.21 percent on Tuesday, with selling on Dialog Axiata stock, market data showed.

The All Share Price Index (ASPI) fell 11.80 points to 5,583.66.

The ASPI reached an intra-day high of 5,598.82 in the first few minutes of trading Tuesday morning, and fell to an intra-day low of 5,579.49 through the day, before closing higher.

The more liquid S&P SL20 Index closed flat at 2,720.41.

Market turnover was 187.61 million rupees with 41 stocks gaining and 68 falling.

There was foreign selling, with outflows of 93.5 million rupees from the market.

Dialog Axiata contributed most to the ASPI fall, generating 50.5 percent of total turnover and closing 30 cents lower at 9.10 rupees a share

Distilleries Company of Sri Lanka closed 50 cents lower at 14.50 rupees a share and Asian Hotels and Properties closed 3.90 rupees lower at 41 rupees a share, pushing down the benchmark index.

Index-heavy John Keells Holdings closed 1.50 rupees higher at 152.50 rupees a share. (EconomyNext)

Sri Lanka rupee closes weaker, bond yields rise

Sri Lanka's rupee closed weaker at 174.70/85 to the US dollar in the spot market Tuesday, while bond yields rose, dealers said.

The rupee closed at 174.60/70 to the US dollar in the spot market on Monday.

Dealers said there was activity in the government securities market in the morning session, followed by a dull evening session.

Gilt yields had continued to rise throughout the day, dealers said.

In the overnight market, banks were seen taking money out through the window as people demand money ahead of the holiday season.

An overnight liquidity short increased to 14.36 billion rupees from 2.84 billion rupees despite injections from the central bank.

The government bonds market was active with rates falling amidst local and foreign buying, dealers said.

Twelve month bills closed at 10.00/15 percent on Tuesday, unchanged from Monday's 10.00/15 percent.

A newly issued bond maturing on 15.03.2022 closed at 10.55/65 percent, up from 10.50/65 percent.

A bond maturing on 15.07.2023 closed at 10.80/85 percent, rising from 10.70/85 percent.

A 5-year bond maturing on 15.03.2024 closed at 10.90/95 percent, up from 10.85/00 percent.

New bond maturing on 15.01.2027 closed at 11.10/17 percent, up from 11.02/07 percent.

A bond maturing on 01.05.2029 closed at 11.27/33 percent, rising from 11.20/30 percent. (EconomyNext)

Sri Lanka awaits legal approvals, better terms from China for new debt

Sri Lanka's central bank is awaiting legal approvals and better terms on a delayed loan from the Bank of China, Governor Indrajit Coomaraswamy said.

"The job of the central bank is to expect the worst, and we're going into an election year, so premium would be attached to raising money relatively quickly," he told reporters on Monday.

"We want to raise money which would look after much of our obligations up to mid-2020."

"We have some plans, but we need some things first."

The central bank in February had said that Samurai and Panda bonds would follow the March International Sovereign Bond (ISB).

Further approvals from the Appropriation Act are required for normal debt raising activities, Coomaraswamy said on Monday.

He said the Active Liability Management Act (ALMA) needs to be activated as well.

ALMA was approved in parliament last year to enable the central bank to raise debt above the limit of the Appropriation Act to meet maturing debt obligations.

Sri Lanka is currently in the peak of a foreign debt repayment cycle, which would last till 2022.

"We have to activate ALMA, and for that, we need the debt number for the previous year," Coomaraswamy said.

"That will be finalized on the 31st of May."

Sri Lanka had been planning to raise up to one billion US dollars through a loan from the Bank of China in February.

However, the loan never came through.

Coomaraswamy said the Bank of China had offered a three year loan at higher rates tentatively, which was not as competitive as the 5-year and 10-year 2.4 billion US dollar March ISB.

"In the first quarter, ISB rates had gone through the roof after 26th October and the developments during that time, including the downgrading."

"Yields were extremely high, and there was some doubt if we could go to the market and raise funds through ISBs."

"ISBs were our first choice, and we needed at least a 5-year tenor, but people were worried if we could."

"Once we repaid the one billion ISB maturing on January 15, things started to improve."

"We had talked to the Reserve Bank of India about a swap, which we didn't use, and the China loan also we didn't use."

"Right now, we don't need that money."

"We went for the ISB in the longer term."

Coomaraswamy said the local branch of Bank of China had initially offered 300 million US dollars, but Sri Lanka needed 1 billion US dollars, which required head office approval.

Bank of China had also not offered a firm term sheet.

The central bank is still open to a loan from China, at better rates, Public Debt Department Superintendent M. Z. M. Aazim said.

"We have asked them to come with better terms," he said. (EconomyNext)

Sri Lanka to force down bank lending rates

Sri Lanka's central bank is in a battle to grow private credit, and will target high lending rates at banks, Governor Indrajit Coomaraswamy said, after the monetary board decided to hold rates steady in April.

"We have witnessed a private credit slowdown," he told reporters on Monday.

"There could be an adverse credit cycle if it is not given proper attention."

Sri Lanka's private credit fell by 4.3 billion rupees in January and grew by 7.6 billion rupees in February.

Coomaraswamy said if the 13.5 percent annual private credit growth target for 2019 is to be achieved, credit growth has to average 75 billion rupees per month for the rest of the year.

However, retail lending rates at banks have not fallen in line with benchmark rates such as bills and call money/reverse repo rates, he said.

"All the benchmark interest rates have come down significantly this year, but deposit and lending rates are still going up," he said.

"So there's a disjuncture there."

The central bank had left policy rates unchanged in April for the next one and a half months, despite the lack of credit growth, while suggesting that there is a strong case for a rate cut in the future.

"To support private sector credit growth, one way is to reduce rates, other is to attack the margin between the benchmark and lending rates," Coomaraswamy said.

There is a 200 basis point margin between benchmark rates and retail lending rates, which is 'far too large', the governor said.

"First we will attack the margin, and then look at the policy rates," Coomaraswamy said.

He said the Prime Minister, along with central bank officials, chartered accountants and bankers had held a meeting on how to address the gap between the rates and grow private credit.

A working group was set up at the meeting to generate specific actions to reduce the margin, and the report will be handed over on Thursday, Coomaraswamy said.

He said Sri Lanka needs higher credit growth to reach an economic growth of 4 percent in 2019.

Sri Lanka's credit growth was 15 percent in 2018, or a total of 762 billion rupees, while economic growth was 3.2 percent. (EconomyNext)

Below normal rainfall forecast in Sri Lanka till June

Sri Lanka's Meteorological Department has forecast below normal rainfall in April, May and June over the island which is already suffering from power cuts owing to delays in building new plants and low water levels in hydro-electric reservoirs.

“Most of the global models predicted below normal rainfall for the AMJ (April-May-June) season,” it said in a report on the consensus seasonal rainfall outlook for these months.

The department said that its forecast models “predict that there is higher chance of receiving below normal rainfall for districts located along southwestern coast.”

Sri Lanka’s main southwest monsoon season runs from May to September.

The report said that weather patterns were complicated by the strengthening of the El Nino effect in March 2019.

The North Central, Eastern and Uva provinces are likely to get below normal rainfall during the AMJ season in 2019.

Below normal rainfall could affect cultivation of crops, drinking water supplies and hydro power generation. (EconomyNext)

Revived US-EU trade war hits stocks in both regions

European and US stocks fell Tuesday amid a flare-up in trade tensions between Washington and Brussels, while the pound fluctuated ahead of a key Brexit summit.

US President Donald Trump threatened to impose tariffs on billions in European imports in retaliation over subsidies to aviation giant Airbus, reviving a contentious trade matter that had been put on the backburner for months.

The statement signaled the White House could pivot to a tough negotiation with Europe once it resolves a months-long trade dispute with China.

Trump's remarks were likely to raise the temperature for US and EU negotiators, who have been meeting since last year in preparation for proposed trade talks after a cease fire was called last summer.

"Most people were happy we were likely close to a resolution to the trade dispute with China," said CFRA Research Chief Investment Strategist Sam Stovall. "We now have to endure a trade dispute with Europe."

The trade threat came as the International Monetary Fund trimmed its 2019 global growth forecast to 3.3 percent from 3.5 percent, citing downside risks associated with Brexit, trade uncertainty and other factors.

Wall Street finished firmly lower as the S&P 500's eight-day winning streak ending with a 0.6 percent drop to 2,878.20.

Earlier, bourses in Frankfurt, Paris and London also finished solidly lower.

The pound fluctuated and was modestly lower against the euro and the dollar near 2040 GMT as Prime Minister Theresa May made last-ditch visits to Paris and Berlin to press for more time to win support for her Brexit plan.

May asked to be given until June 30 to arrange Britain's orderly departure, but EU leaders fear that won't be long enough and are now expected to offer her up to a year.

Another extension would remove the possibility of Britain crashing out of the EU on Friday with no agreement to govern economic ties with the bloc afterwards.

US Treasury Secretary Steven Mnuchin said such a "hard Brexit" remained possible.

"I think at this point we need to be prepared for a hard Brexit as a very realistic outcome," Mnuchin said during testimony to the House Committee on Financial Services.

He added that the US Treasury had coordinated with the Federal Reserve and other banking regulators to be ready for such a scenario, as London and Brussels scramble to avoid a potentially chaotic "no deal."

Besides the Brexit summit, markets also are looking ahead to Wednesday's meeting of the European Central Bank and the release of minutes from the last Federal Reserve meeting.

Analysts expect the ECB to hint at moves to support the eurozone economy but stop short of new action.

ECB President Mario Draghi "will have no choice but to give a downbeat assessment" at his news conference Wednesday, analyst Jack Allen of Capital Economics predicted.

Draghi looks set to repeat his long-standing formulation that "an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation" to the bank's target of just below two percent.

New York - Dow: DOWN 0.7 percent at 26,150.58 (close)

New York - S&P 500: DOWN 0.6 percent at 2,878.20 (close)

New York - Nasdaq: DOWN 0.6 percent at 7,909.28 (close)

London - FTSE 100: DOWN 0.4 percent at 7,425.57 (close)

Frankfurt - DAX 30: DOWN 0.9 percent at 11,850.57 (close)

Paris - CAC 40: DOWN 0.7 percent at 5,436.42 (close)

EURO STOXX 50: DOWN 0.6 percent at 3,417.22 (close)

Tokyo - Nikkei 225: UP 0.2 percent at 21,802.59 (close)

Hong Kong - Hang Seng: UP 0.3 percent at 30,157.49 (close)

Shanghai - Composite: DOWN 0.2 percent at 3,239.66 (close)

Oil - Brent Crude: DOWN 49 cents at \$70.61 per barrel

Oil - West Texas Intermediate: DOWN 42 cents at \$63.98 per barrel

Pound/dollar: DOWN at \$1.3056 from \$1.3061 at 2100 GMT on Monday

Euro/pound: UP at 86.26 pence from 86.23 pence

Euro/dollar: UP at \$1.1264 from \$1.1263

Dollar/yen: DOWN at 111.15 yen from 111.48 yen. (AFP)