NEWS ROUND UP

Friday, May, 10, 2019

Contents

Bond yields seesaw during the day

The secondary market bond yields fluctuated yesterday, increasing during morning hours of trading and decreasing once again towards the latter part of the day. Selling interest saw yields hit intraday highs of 10.62% and 11.02% on the liquid two maturities of 15.03.24 and 01.05.29 respectively before rebounding to intraday lows of 10.52% and 10.95%.

In addition, the maturities of 2021's (i.e. 01.08.21 & 15.12.21), 15.03.22, three 2023's (i.e. 15.05.23, 15.07.23 and 01.09.23) and two 2026's (i.e. 01.06.26 and 01.08.26) were seen changing hands at levels of 9.85% to 9.90%, 10.00% to 10.01%, 10.40% to 10.42% and 10.80% respectively as well. On the very short end of the curve, the 01.07.19 and 01.11.19 maturities were seen changing hands at levels of 8.60% and 9.10% respectively while continued demand for bills saw the latest 364 bill dip to a low of 9.15%.

The total secondary market Treasury bond/bill transacted volumes for 8 May was Rs. 21.90 billion.

In money markets, the overnight call money and repo rates averaged 8.38% and 8.52% respectively as the Open Market Operations (OMO) Department of the Central Bank was seen draining out an amount of Rs. 20.00 billion on an overnight basis by way repo auction at a weighted average of 8.38%. Furthermore, the OMO department drained out amounts of Rs. 13.00 billion and Rs. 1.00 billion on a four day and seven day basis respectively at weighted averages of 8.55% and 8.50% as the net surplus liquidity in the system stood at a high of Rs. 51.55 billion yesterday.

Rupee losses marginally

The USD/LKR rate on spot contracts depreciated marginally once again to close the day at levels of Rs. 175.60/80 against its previous day's closing levels of Rs. 174.90/10 on the back of buying interest by banks.

The total USD/LKR traded volume for 8 May was $ 93.41 million.

Some of the forward USD/LKR rates that prevailed in the market were 1 month - 176.55/95; 3 months - 178.40/80 and 6 months - 181.00/50.
(Dailyft)

ComBank named most valuable private bank brand in Sri Lanka

The Commercial Bank of Ceylon has been named the most valuable private bank brand in Sri Lanka in 2019 in the 16th edition of the Brand Finance rankings of the country's most valuable brands.

The only private bank among the five most valuable consumer brands in the country, Commercial Bank has retained its position at No 4 and has the honour of being in the top 10 of this prestigious ranking since its inception.

Brand Finance assigned Commercial Bank a brand value of Rs 37.269 billion for 2019, up 27% from last year, reaffirming Commercial the Bank's status as the largest private bank and the leading private bank brand in Sri Lanka.

Brand Finance computes the value of brands listed on the Colombo Stock Exchange using a method based on the Royalty Relief approach – a brand valuation method used by the company globally.

Considered one of the world's leading independent brand evaluation and ratings firms, Brand Finance PLC is headquartered in London and has a network of offices around the world. The Brand Finance rankings for Sri Lanka are published annually by LMD.

One of the most active and vibrant brands in Sri Lanka, Commercial Bank said its brand building efforts maintain a healthy balance between corporate and product communications and ground level customer engagement events. In addition to traditional media, the Bank is very active in social and digital media and customer engagement events, at national and regional level.

The Bank stated that it places heavy emphasis on strategy when formulating marketing plans and brand building activities. Commercial Bank maintains a constant watch over its brand performance and measures it both qualitatively and quantitatively. Parameters such as brand equity and top of mind recall are periodically monitored through research and the key takeouts are taken into account when communications are developed. This strategic approach has helped the brand to evolve through the years and become one of the strongest brands in the country.

The only Sri Lankan Bank to be ranked among the world's top 1000 banks for eight years consecutively, Commercial Bank operates a network of 266 branches and 830 ATMs in Sri Lanka. The Bank has won multiple international and local awards in 2016 and 2017 and over 40 international and local awards in 2018.

Commercial Bank's overseas operations encompass Bangladesh, where the Bank operates 19 outlets; Myanmar, where it has a Representative Office in Yangon and a Microfinance company in Nay PyiTaw; and the Maldives, where the Bank has a fully-fledged Tier I Bank with a majority stake. (Dailyft)

Move to let SOEs borrow in foreign currency

New regulations were moved yesterday in Parliament, permitting the Government and the State-owned enterprises (SoEs) to borrow in foreign currency from outside foreign sources.
Moving the motion, State Minister of Finance Eran Wickramaratne said: "Under section 7.1 of the Foreign Exchange Act No. 12 of 2017, the Minister shall in consultation with the Monetary Board and with the approval of the Cabinet of Ministers authorised by regulations the permitted class or classes of capital transaction in foreign exchange for the purposes of section 7. Under this section, in the regulation 1 published in Government Gazette 17th November 2017, the Minister authorising capital transactions, however, in the Gazette no specific permission has been granted for the Government and state-owned enterprises of the Government (SoEs) to borrow in designated foreign currency from outside foreign sources."

Wickramaratne also said the new measures were introduced to bridge gaps in the existing law.

"As there is no permission granted to Government and the SOEs to borrow from foreign sources from regulations stated above, we have taken necessary actions to incorporate such permission in the paragraph with the proposed amendments to the said gazette notification. However, during the discussion we have had in the Treasury it has been revealed that there are practical difficulties that the Department of External Resources had to experience in terms of facilitating borrowings to be made by Government and SoEs," he added.

"Due to the practical difficulty in bringing in proceeds through an inward investment account of the lender, it was decided to remove such conditions for the local loans borrowed by the Government of Sri Lanka and the State-owned enterprises of the Government from foreign sources. However, for information purposes on the all inward and outward foreign currency reporting requirement was introduced," explained the Minister. (AH)

(Dailyft)

Stocks fall for 6th session, rupee snaps 2 days of gains

Sri Lankan shares extended falls into a sixth session on Thursday and closed at their lowest levels in six-and-a-half years, due to shattered investor confidence after the Easter Sunday bombings.

Investigators have dismantled a major part of the network linked to the Easter Sunday bombings, Prime Minister Ranil Wickremesinghe said on Tuesday, but warned the chance of further Islamist militant attacks could not be ruled out.

The benchmark stock index ended 0.39% weaker on Thursday at 5,352.20, its lowest close since 5 December, 2012.

Turnover was Rs. 228.8 million ($1.31 million), lower than this year's daily average of Rs. 567 million. Last year's daily average was Rs. 834 million.

Foreign investors bought a net Rs. 30.8 million worth of shares on Thursday, but they have been net sellers of Rs. 4.4 billion worth of equities so far this year.

The rupee closed weaker on Thursday, snapping two straight sessions of gains, on dollar demand from banks.

The rupee weakened 0.34% to close at 175.60/90 per dollar, compared with Wednesday's close of 175.00/50, market sources said.

Analysts expect it to weaken further due to possible outflows from stocks and government securities.

The island's currency lost 1% last week, but is up 3.98% this year as exporters converted dollars after investor confidence stabilised following the repayment of a $1 billion sovereign bond in mid-January.

The rupee dropped 16% in 2018, and was one of the worst-performing currencies in Asia due to heavy foreign outflows.

Foreign investors sold a net Rs. 3.3 billion worth of government securities in the week ended 30 April, extending the net foreign outflow to Rs. 10 billion from the securities so far this year, the latest Central Bank data showed.
(Dailyft)

Most Asian currencies slide on trade jitters

Most emerging Asian currencies weakened on Thursday, with the South Korean won sliding to a more than two-year low as concerns about an escalation in trade tensions ahead of crucial US-China talks hit exporter currencies.

Markets nervously await the start of two-day trade talks between US and Chinese officials in Washington, due later in the day. Chinese Vice Premier Liu He is seeking to salvage a deal to avert a sharp rise in tariffs, after US officials said Beijing had backtracked on earlier commitments.

US President Donald Trump accused China of breaking the deal it had reached in trade talks, while Beijing announced it would retaliate if tariffs rise as planned on Friday.

“If talks break down and most exports from China to the US face 25% tariff from this Friday onward, risks of a financial market collapse, extreme risk aversion, and sharp slowdown in global growth will spike,” DBS Bank said in a note.

“Even if last moment developments lead to a postponement of escalation, the ill-will generated by this week’s developments will not go away.”

China’s yuan traded 0.4% lower against the dollar, its weakest level in four months.

The Philippine peso edged lower, after data showed that the Philippines economy grew at its weakest pace in four years in the first quarter, reinforcing views the central bank could lower key interest rates when it meets later in the day.

The Indonesian rupiah depreciated 0.4% to the dollar, touching its lowest point since Jan. 4, while the Indian rupee eased 0.2%.

Meanwhile, the Thai baht, emerging Asia’s top performing currency this year, swung between positive and negative territory.

Long-delayed results of Thailand’s first election since a 2014 military coup released on Wednesday produced no clear winner, but gave the pro-army party, which is seeking to keep the current junta leader in power, a clear advantage.

S. Korean won hits more than 2-year low

Leading declines in the region, the South Korean won weakened 0.7% against the dollar, in tandem with a slump in the local equity benchmark index.

“Korea is strongly linked to China because of cross border trade, and the won is also a great indicator of trade in emerging Asia at large,” Mahesh Sethuraman, Deputy Head of Sales Trading, Asia Pacific at Saxo Capital Markets said.

“So, if the US-China trade deal breaks down, it is very likely to have an adverse impact on emerging Asia trade at large, and therefore shorting Korean won is a good proxy for expressing that view.”

The won is emerging Asia’s worst performing currency this year, declining about 5.2%, after South Korea’s economy suffered its worst quarter since the global financial crisis in the January-March period. (Dailyft)

World shares sink as US-China trade talks go to the wire

World shares tumbled for a fourth day running on Thursday after a warning from US President Donald Trump that a long-worked-on trade deal with China was in serious danger.

Chinese Vice Premier Liu He was heading to Washington for two days of talks but Trump’s insistence that China “broke the deal”, and then Beijing’s response that it would retaliate against tariffs were ratcheting up the stakes.

Europe’s main stock markets sank almost immediately after a torrid day for Asia had battered 1.8% off China and more than 3% off South Korea, which is often seen as the bellwether for how this trade war hits home.

Both countries' currencies were hit too, the won skidding to a more than two-year low and the yuan to a four-month trough, which kept traders buying the traditionally safe Japanese yen and US and German bonds instead.

"Markets remain on edge ahead of the Chinese vice premier's visit to Washington today," Rabobank analyst Bas van Geffen said.

"Doubt that this tariff increase can be avoided is growing," he added as Goldman Sachs also put the chance of a hike at 60%.

If talks do fall short, Washington has promised to raise tariffs on $ 200 billion of Chinese goods to 25% from 10% at 12:01 a.m. ET (0401 GMT) on Friday. For economists, the worry is that it will further slow the global economy.

Kazuhiko Fuji, senior fellow at RIETI, a Japanese government-affiliated think-tank, said the trade talks looked fragile.

"I would suspect the US will just hand China an ultimatum. No wonder the US yield curve is almost inverting again," he said.

The yield spread between three-month US government bonds and the 10-year notes shrank to 3 basis points, compared with about 15 basis points a few weeks ago.

The closely watched spread turned negative in late March, spooking investors, who read the development as portending a recession.

The benchmark 10-year Treasury yield stood at 2.4423% in Europe, having touched its lowest level in five weeks of 2.426% on Wednesday.

Wall Street futures pointed to a 0.85% lower start after a choppy previous session had seen the Dow Jones Industrial close fractionally higher but the S&P 500 and Nasdaq drop 0.2% and 0.3%.

As well as the trade headlines, traders will also be closely watching the pricing on ride-hailing firm Uber's initial public offering, which is set to be the biggest of the year so far.

"In the event of a complete breakdown in talks and higher tariffs, we would expect this to see US stocks trade 10-15% below their highs and a fall of around 15-20% in the Chinese market," Mark Haefele, global chief investment officer at Global Wealth Management at UBS, said.

In the currency market, the Japanese yen surged to a three-month high of 109.64 yen while China's yuan fell half a percent to hit a four-month low of 6.838 and was headed for its worst four-day decline in a year.

Sterling, meanwhile, tried to brush off signs that Brexit talks between Britain's government and the main opposition party may soon collapse to claw back above the psychologically key $ 1.30 level.

Commodity markets also felt the US-China trade strains.

Brent crude futures dropped 0.6% to $ 69.92 a barrel, while US West Texas Intermediate crude also retreated 0.6% to $ 61.75 despite a surprise fall in US crude stockpiles.

Benchmark London copper hit its lowest in nearly three months, going as low as $ 6,111 a tonne.
(Dailyft)

Stocks Climb in Asia as Tariff-Hike Deadline Nears: Markets Wrap

Asian shares climbed and U.S. equity futures fluctuated as investors prepared for news on pivotal U.S.-China trade talks, with tariff hikes set to kick in Friday. The yuan remains near its weakest since January.

The Shanghai Composite opened up more than 1%, clawing back some of this week’s plunge. S&P 500 Index futures swung from a drop of as much as 0.2 percent to a gain as much as 0.6 percent in the first half hour of trading Friday, mirroring greater fluctuations on Wall Street overnight. Global stocks are heading for their worst week since December as the tariff clock ticks down, though benchmarks in Tokyo and Seoul also saw gains Friday morning. Oil has also been volatile, rising after a sell-off yesterday. In the Treasury market, 10-year yields dipped below three-month ones, in the first inversion since March.
S&P 500 is poised for its worst week since before Christmas

High-level negotiations in Washington, led by Vice Premier Liu He on the Chinese side, have ended their Thursday session and are set to continue Friday. Investors are also looking for any read-out on an expected telephone call between Presidents Donald Trump and Xi Jinping, after Trump said he received a “beautiful letter” from his counterpart and flagged that they’d probably talk by phone. U.S. tariff hikes are scheduled for 12:01 a.m. New York time -- midday Friday in Hong Kong -- with China retaliation expected soon after.

“Deal, no-deal means the sentiment could actually sharply rebound” on news of an agreement, said Ben Emons, managing director for global macro strategy at Medley Global Advisors, on Bloomberg Television. “Or we get a significant deterioration” in case of a breakdown, he said. “There’s still a conviction in the market that this deal will happen, it just takes more time perhaps.”

Emons added that, assuming tariff hikes proceed, investor focus will shift to economic data, such as May retail sales and consumer confidence. If the trade war proves to have a significant impact on growth, it will affect the outlook for the Federal Reserve, which could take “an even more neutral stance, if not accommodative.’’

As was the case during trade-war flare-ups last year, China’s stocks have been harder hit than other markets. The Shanghai Composite Index is down 6 percent this week, while the S&P 500 is on a 2.5 percent loss. China’s yuan has dropped more than 1 percent for the week in offshore trading, while the yen has appreciated about 1 percent.
'There Could Be More Downside' in Stocks, Says Jim Paulsen

The sell-off could be a buying opportunity, "this is a two-way trade," says Jim Paulsen of Leuthold Weeden.
Source: Bloomberg

Meanwhile, simmering geopolitical tension elsewhere this week -- from North Korea testing missiles again to renewed stress between America and Iran -- have added to the cautious mood. The lira remained volatile after Turkey’s central bank unexpectedly raised borrowing costs for the country’s lenders.

These are the main moves in markets:
Stocks

- The MSCI Asia Pacific Index gained 0.4% as of 11:06 a.m. in Hong Kong.
- Japan’s Topix index rose 0.8%.
- Hong Kong’s Hang Seng climbed 0.5%.
- The Shanghai Composite gained 1.2%.
- Australia’s S&P/ASX 200 Index was little changed.

- South Korea’s Kospi rose 0.2%.
- Futures on the S&P 500 Index were little changed. The underlying gauge fell 0.3% Thursday.

Currencies

- The yen was at 109.86 per dollar, down 0.1%.
- The offshore yuan held at 6.8394 per dollar.
- The Bloomberg Dollar Spot Index added 0.1%.
- The euro bought $1.1232, up 0.2%.

Bonds

- The yield on 10-year Treasuries added two basis points to 2.46%.
- Australia’s 10-year bond yield was little changed at 1.73%.

Commodities

- West Texas Intermediate gained 0.6% to $62.37 a barrel.
- Gold was steady at $1,284.95 an ounce.
  (Bloomberg)