

# NEWS ROUND UP

*Tuesday, September 11, 2018*

## Contents

Special counter for VAT refund at BIA .....	2
VAT on apartments from 1 April 2019.....	2
Rupee falls on importer dollar demand, dollar strength .....	2
Shares slip to 1-week closing low on foreign selling .....	3
Upward momentum in secondary bond market yields continue.....	3
TAP to be presented to Cabinet this month .....	4
Asian Stocks Trade Mixed, Yen Pushes Lower: Markets Wrap.....	5

## ***Special counter for VAT refund at BIA***

Sri Lanka has introduced a procedure for repayment of 15% VAT to tourists upon their departure for goods purchased by them during their stay in Sri Lanka, which will be implemented from today.

A special counter will be opened at the departure terminal of the Bandaranaike International Airport in Katunayake by Finance and Mass Media Minister Mangala Samaraweera on Tuesday evening, the Finance Ministry said in a statement.

This procedure, which was proposed by Budget 2018, is implemented by the Department of Inland Revenue (IRD) and business enterprises should register with IRD under this program for repayment of VAT to become eligible under this scheme.

Eighteen shops that sell goods including garments have already registered under the Department of Inland Revenue to become qualified under this procedure. Any enterprise that is willing to be stakeholders of this system can register under the Department of Inland Revenue based on their permanent VAT number.

The objective of this program is to attract more foreign tourists to Sri Lanka, transforming the country into a trading hub of Asia, in line with Budget 2018.

As per the global trend, with the initiation of this procedure for VAT repayment that is followed by most countries in the world, Sri Lanka will fall in line with global standards. Therefore it is expected that Sri Lanka's economy will reach a significant milestone in its economic development through this procedure for tourist attraction. (DailyFt)

## ***VAT on apartments from 1 April 2019***

The Finance Ministry yesterday said that 15% VAT would only be imposed on apartments from 1 April 2019 and ruled out any policy inconsistency on behalf of the Government.

The confusion of dates was due to a technical error in the initial document that deferred imposing 15% VAT for a year. However, developers, and other stakeholders had subsequently been notified of the error by letter.

(DailyFt)

## ***Rupee falls on importer dollar demand, dollar strength***

The Sri Lankan rupee ended weaker yesterday as importer dollar demand surpassed greenback sales by banks and the US currency strengthened globally, dealers said.

The dollar traded higher against a basket of currencies amid fears of a potentially major escalation in the China-US trade conflict. The rupee hit a fresh low of 162.65 per dollar on 6 September, hurt by strong demand for the dollar from importers amid weakness in regional currencies, before the Central Bank cut the net open positions (NOP) of commercial banks, forcing banks to sell dollars.

Central Bank Senior Deputy Governor Nandalal Weerasinghe said on 7 September that the monetary authority had observed commercial banks were building up their positions without any fundamental reasons, which led to the cut in NOP.

The local currency, which hit a low of 162.42 in intraday trade on Friday, ended at 162.35/45 per dollar, compared with Friday's close of 161.90/162.10.

Junior Finance Minister Eran Wickremaratne last week told Reuters that the Government would leave the rupee for market forces to decide.

The currency has weakened 0.56% so far this month after a 1.2% drop last month, and has declined 5.8% so far this year. It will be under depreciation pressure due to year-end seasonal importer dollar demand, dealers added.

The rupee is also hurt by weakness in the Indian rupee. India is Sri Lanka's biggest trading partner and the Indian rupee, which also hit a record low yesterday, has been one of the worst performers in Asia this year.

Foreign investors sold Government securities worth a net Rs. 6.44 billion (\$39.68 million) in the week ended 5 September, extending the net outflow so far this year to Rs. 53.3 billion worth of securities, Central Bank data showed. (DailyFt)

### ***Shares slip to 1-week closing low on foreign selling***

Shares fell to one-week closing low on Monday as foreign investors sold blue chips such as conglomerate John Keells Holdings Plc.

The Colombo stock index ended 0.35% weaker at 6,096.54, its lowest close since 3 September. It rose 0.6% last week in its third straight weekly gain.

Turnover was Rs. 615.9 million (\$3.79 million), less than this year's daily average of Rs. 795.6 million.

"Today also, foreign selling was there and it impacted the market.

Foreigners are exiting with the dollar strengthening," said First Capital Holdings Plc Assistant Manager – Research Atchuthan Srirangan.

"Local investors are worried over continued foreign selling on the back of dollar strengthening globally and they are on the sidelines."

Analysts said investors also waited for cues from the National Budget which the Government is set to unveil in November.

Foreign investors sold a net Rs. 112.1 million of shares on Monday, extending the year-to-date net foreign outflow to Rs. 4.4 billion worth of shares.

Shares of Distillers Company of Sri Lanka Plc fell 3.1%, while conglomerate John Keells Holdings ended 0.7% down and AIA Insurance Lanka Plc lost 4.4%. (DailyFt)

### ***Upward momentum in secondary bond market yields continue***

The selling interest mainly on the 15.12.21 and 15.06.27 maturities led to its yields increasing and in turn saw two-way quotes on the rest of the yield curve increasing as well in choppy trading yesterday.

The said two maturities were seen hitting intraday highs of 9.72% and 10.37% respectively against its previous day's closing levels of 9.65/70 and 10.25/30 while the maturities of the two 2020s (i.e. 01.05.20 and 15.12.20), 01.03.21, 15.07.23 and two 2026's (i.e. 01.06.26 and 01.08.26) inched higher to levels of 9.32% to 9.39%, 9.53% to 9.55%, 10.00% to 10.02% and 10.25% to 10.30% respectively as well. In the secondary bill market, the 22nd February 2019 maturity changed hands at levels of 8.40%.

The total secondary market Treasury bond/bill transacted volumes for 7 September was Rs.4.83 billion.

In the money market, the Open Market Operations (OMO) Department of the Central Bank of Sri Lanka refrained from conducting any auctions yesterday as the net surplus liquidity decreased to Rs.15.77 billion. The overnight call money and repo rates averaged at 7.88% and 8.01% respectively.

Rupee losses

The USD/LKR rate on spot contracts depreciated yesterday to close the day at Rs.162.35/50 against its previous day's closing levels of Rs.162.00/20 on the back of continued importer demand.

The total USD/LKR traded volume for 7 September was \$ 43.67 million.

Given are some forward USD/LKR rates that prevailed in the market: one month – 163.15/45; three months – 164.65/95; six months – 167.15/45.

### ***TAP to be presented to Cabinet this month***

The Trade Adjustment Programme (TAP) by the International Trade and Development Strategies Ministry is likely to be presented to Cabinet this month, after recommendations and feedback from stakeholders, including Cabinet members, are incorporated into the final document.

A draft of the long-awaited Trade Adjustment Programme (TAP) was released late last month for stakeholder feedback. The document details how domestic enterprises would be supported through regulatory and policy reforms, as well as specific schemes of grant support, when local businesses are affected by increased liberalisation, including planned tariff removals by the Government.

The TAP document was also presented to Cabinet, but approving it was deferred as several Cabinet members had requested time to peruse the document and give feedback to Ministry officials. The responses from the Cabinet would be incorporated along with private sector and other stakeholder recommendations into the final draft, a top official said.

“The Ministry is in the process of creating the final draft that will include proposals from different associations and Cabinet,” International Trade and Development Strategies Ministry Secretary Chandani Wijewardana told Daily FT adding that it would be presented to Cabinet by Minister Malik Samarawickrama. Earlier this week, Prime Minister Ranil Wickremesinghe said that TAP had been approved “in principle” by Cabinet. Both the Prime Minister and Samarawickrama are participating at the Association of Southeast Asian Nations (ASEAN) summit in Vietnam this week.

Private sector stakeholders had recommended a clear demarcation of powers for the special unit that would oversee TAP to be set under the Finance Ministry and had requested more information on funding, timelines, and duration of the program, sources said.

TAP aims to provide comprehensive assistance for firms and workers and institutional mechanisms to ensure transparent, credible, and timely delivery of trade adjustment assistance.

It is focused on data-driven decisions, making use of analytical tools to assess vulnerable industry sectors, a skills retraining and labour market flexibility program alongside tariff liberalisation, mechanisms for industry sectors to reveal their productivity constraints and have them resolved, and clear communication to stakeholders of the why, what, and how of TAP, the document said.

The draft said a Trade and Productivity Commission (TPC) would be established to be the independent body that analyses TAP, which examines quantitative and qualitative evidence, investigates and

responds to industry requests on tariff phase out, monitors the recommendations from the Industry Competitiveness Councils (ICCs) that are established to solve productivity constraints of affected sectors, and makes recommendations to the Ministry of Finance for action.

The TPC will consist of independent Commissioners (possibly appointed by the Constitutional Council) and accountable to Parliament, supported by a Secretariat of qualified professionals who are competent in trade and industry economics (initially can be seconded from the Department of Commerce and Central Bank).

“A new unit at the Ministry of Finance will be the ultimate arbiter of TAP, and would be headed by the Secretary to the Treasury, who will take final decisions regarding TAP matters, following the recommendation of the TPC. For example, taking the final decision to slow the tariff phase out for a particular sector, following the investigation and recommendation by TPC,” the draft document said. (DailyFt)

## ***Asian Stocks Trade Mixed, Yen Pushes Lower: Markets Wrap***

Asian stocks traded mixed Tuesday after their U.S. counterparts eked out modest gains amid lingering concerns on trade tensions. The dollar edged higher and the yen slid.

Equity indexes gyrated early in the Asian session, with Japanese and Australian shares rising while Hong Kong and Chinese stocks fluctuated. The MSCI Asia Pacific Index lingered near a one-year low. Earlier, the S&P 500 Index broke a four-day slide even as the so-called FANG stocks underperformed. U.S. two-year yields hovered near the highest level in a decade in the run-up to an anticipated Federal Reserve interest-rate hike later this month.

FANG Stocks Lose Bite

S&P 500 far less driven by Facebook, Amazon, Netflix, Google than in past quarters

Source: Bloomberg

Percentages are based on absolute value of S&P 500 point changes.

Persistent trade frictions and turmoil in emerging markets continue to mar the outlook for global equities. Investors are bracing for the next step in the U.S.-China trade dispute after the Trump administration signaled it's ready to impose tariffs on even more goods imported into the U.S.

Emerging Markets Lack Catalyst to Generate Sustained Recovery, Perpetual Says

Matthew Sherwood at Perpetual Ltd. talks about emerging markets

Source: Bloomberg

Elsewhere, the pound jumped earlier after European Union chief Brexit negotiator Michel Barnier said a deal with the U.K. is “realistic” and “possible” within eight weeks. Crude was steady after slipping to the lowest in more than two weeks as investors weighed a potential production surge from Saudi Arabia and Russia against concern that Iranian sanctions will trigger a global supply crunch.

Here are some key events coming up this week:

- Policy decisions from the Bank of England and the European Central Bank on Thursday.
- Russian President Vladimir Putin and Japanese Prime Minister Shinzo Abe will meet.
- Apple unveils its latest iPhones on Wednesday
- Australia employment is due Thursday.

- China releases August industrial production, retail sales data on Friday.
- U.S. retail sales, industrial production, consumer sentiment on Friday.

These are the main moves in markets:

#### Stocks

- Japan's Topix index rose 0.5 percent as of 10:42 a.m. in Tokyo.
- Australia's S&P/ASX 200 Index climbed 0.4 percent.
- Hong Kong's Hang Seng Index fell 0.2 percent, extending a 1.3 percent slide Monday and teetering on the brink of a bear market.
- S&P 500 Index futures rose 0.1 percent. The underlying measure climbed 0.2 percent.
- The MSCI Emerging Market Index was little changed near the lowest in 14 months.

#### Currencies

- The Japanese yen lost 0.3 percent to 111.41 per dollar.
- The offshore yuan fell 0.2 percent to 6.8827 per dollar
- The Bloomberg Dollar Spot Index rose more than 0.1 percent.
- The euro was at \$1.1579, down 0.1 percent.
- The British pound held onto an 0.8 percent gain to \$1.3027.

#### Bonds

- The yield on 10-year Treasuries edged higher to near 2.94 percent and the two-year yield clung to 2.71 percent.
- Australia's 10-year bond yield rose one basis point to 2.59 percent.

#### Commodities

- West Texas Intermediate crude was little changed at \$67.58 a barrel.
- Gold fell 0.2 percent to \$1,194.05 an ounce.

(Bloomberg)