NEWS ROUND UP

Thursday, October 11 , 2018

Contents

Fuel prices increased

Prices of petrol and super diesel were increased with effect from last night, the Finance Ministry said yesterday.

Issuing a statement, the Ministry said the price of 92 Octane petrol would be increased by Rs. 6 to Rs. 155 a litre, 95 Octane petrol by Rs. 8 to Rs. 169 a litre and super diesel by Rs. 8 to Rs. 141 a litre.

However, the Government has decided not to increase the price of diesel, due to adverse effects on the public, especially transport and fishery industries.

“Although diesel should have been increased by Rs. 11 according to the pricing formula, the Government has decided not to increase it due to the adverse effects it will have on the public, transport and fisheries industry,” the Ministry said.

The Ministry pointed out that the price of a barrel of crude oil, which had been $ 75 when fuel prices were last raised on 10 September, had now increased to $ 84.
(Dailyft)

Rupee hits fresh low for 6th straight session; stocks down

The rupee hit a record low for a sixth straight session yesterday as importers and foreign banks bought the dollar amid outflows from Government securities, while stocks ended weaker for a second straight session.

The rupee fell to an all-time low of 171.60 per dollar, surpassing the previous low of 171.00 hit on 9 October amid foreign selling in Government securities and exporter greenback sales, dollar sales by states banks capped the fall, market sources said.

The Central Bank surprised financial markets on 2 October by leaving its key policy rates unchanged, despite heavy pressure on the rupee and foreign outflows from Government securities.

The Central Bank said on 2 October it purchased $ 4 million from the market in the previous day, but it has sold a net $ 184 million to the market so far this year to defend the currency.

The rupee ended at 171.30/50 per dollar, compared with the previous close of 171.00/20.

The rupee has weakened 1.18% so far this month after a 4.7% drop in September against the dollar. It has declined 11.47% so far this year, recording its sharpest fall since 2001.

The Colombo stock index ended 0.14% down at 5,872.02, slipping further away from its highest close since Sept. 20 hit on 8 October. The index fell to its lowest close since 13 December 2013 on 9 October. It fell 3.6% last month and is down 7.8% so far this year.

Data from the Central Bank showed foreign investors sold Government securities worth a net Rs. 1.8 billion ($10.58 million) in the week ended 3 October. Sri Lanka has seen a net outflow of Rs. 74.3 billion in securities so far this year.

Stock market turnover was Rs. 230.5 million ($1.35 million) yesterday, a third of this year’s daily average of Rs. 769.4 million.

Foreign investors were net buyers in 16 sessions. They bought a net Rs. 15.9 million worth of shares yesterday, but have been net sellers of Rs. 6.3 billion worth of equities so far this year.
(Dailyft)

Feud over fuel pricing formula

Prime Minister Ranil Wickremesinghe yesterday cautioned the nation to prepare to bear the adverse impact from a possible increase of oil prices in November.

The increase is likely due to the US enforcing restrictions on Iran, the ongoing excise duty disagreement between US and China, and the annual demand for oil with the winter season, which will last until mid-2019.

Responding to a question raised by Chief Opposition Whip JVP MP Anura Dissanayake, the PM explained the macro-economic factors considered in deciding the retail prices of fuel.

"The new method to use the fuel price formula was introduced on 11 May. The Cabinet appointed a committee on 10 July to revise the retail price of fuel. The respective committee factors in the landing costs and operational costs in deciding the fuel price. Globally the oil prices change daily. We proposed the use of the new method, which would pass the benefit of the fluctuations to the public. The oil price fluctuates daily in India. Some countries revise prices every month. Platts prices on international oil price is also considered," said PM Wickremesinghe.

"Today a barrel stands at $ 80. The anticipated sanctions on Iran in November may impact the oil prices. The use of oil will go up till next April due to the winter season. Companies in Europe have started to express their concerns on the purchasing oil from Iran. The global issues play a major role in the oil price. Nobody can predict the future of oil prices. The tax issue between the US and China will also another important factor in this matter. Taxes are imposed by all countries regardless of manufacturing oil or refining at home," he added.

However, MP Dissanayake who was unable to get the Government to table the formula in Parliament for the information of the public, said: "A request to obtain this formula under the RTI was also rejected. The Finance Minister expresses that he is not aware of the factors of this formula. The Government is not tabling this formula but keeps deciding the oil prices. People are expected to bear the price fluctuations but are unaware of the formula used to take the decision.

"The landing cost of a litre of petrol remains at Rs. 81. PAL tax of Rs. 6.12, Excise Duty of Rs. 27 and Customs Tax of Rs.35 is added per litre. A litre of diesel is levied a tax of Rs. 34.58. If the dollar is going up, you could change the tax to keep the price stable rather than increasing the price."
(Dailyft)

Frontier market governments with maturing international bonds face refinancing risks: Moody's

Moody's Investors Service says that international bonds issued by frontier market governments including Sri Lanka, Asia Pacific and Africa are coming due over the next two years in a tighter refinancing environment. It said Sri Lanka (B1 negative), Armenia (B1 positive) and Pakistan (B3 negative) in particular — and to a lesser extent, Honduras (B1 stable) and Kenya (B2 stable) — will prove the most exposed to more costly debt financing as their international sovereign bonds mature in 2019 and 2020.

Moody's also says that if the tighter financing conditions are pronounced and sustained, such a situation would weaken the debt affordability for these countries, and raise their debt burden, especially if local currencies depreciate.

And, while such a vulnerability is embedded in Moody's ratings for Sri Lanka, Armenia and Pakistan, a further drain on these sovereigns' foreign exchange reserves would raise the risk of lower capital inflows and higher refinancing costs; posing negative pressure on the three countries' credit profiles.

Moody's analysis is contained in its just-released report titled 'Sovereigns — Frontier markets: Maturing international bonds contribute to exposure to financing risks'.

Moody's report reviewed international bond issuance from frontier market governments, defined as governments with a rating of Ba1 or lower and relying on concessional financing for more than 40% of their external financing needs. The report covered 40 governments that met this criteria.

Moody's explains that over the last decade, abundant global liquidity has favoured an increase in international bond issuance by frontier market governments, with about $ 4 billion of frontier market international sovereign bonds maturing each year from 2019 through 2021, mainly from Asian governments.

And, from 2022-30, refinancing needs jump to around $ 7-$ 9 billion a year, driven by sub-Saharan Africa governments.

For some frontier market sovereigns, international bonds now account for a sizeable share of economy-wide external debt and total government debt. Sharp and sustained rises in financing costs would therefore hurt the credit profiles of these countries.

Tajikistan (B3 stable) and Zambia (Caa1 stable) face high bond refinancing after 2020, and demonstrate limited track records on measures to mitigate refinancing risks. In particular, from 2021-30, Tajikistan and Zambia have a high value of international bonds maturing in relation to their current foreign exchange reserves, and unless these reserves rise markedly, these sovereigns will face significant external refinancing challenges.

Planned reforms in Tajikistan and Zambia that support fiscal consolidation and reduce external vulnerabilities provide some scope to manage debt obligations, but weak policy effectiveness points to significant institutional hurdles.
(Dailyft)

Dhammika shows way out of middle income trap

- Says education is key; calls for hike in Budget allocation for education
- Suggests branches of popular national schools in suburbs may help tackle Colombo's traffic congestion
- Encourages CAs to take up challenges for better career growth
- Next social project aimed at web-based mathematics teaching to 10,000 underprivileged O/L students

Business tycoon Vallibel One Plc Chairman Dhammika Perera yesterday said quality education to a wider audience was the only solution to escape the middle-income trap, a well-kept secret that many developed economies have practiced.

Sharing his visionary thoughts towards a sustainable economic development at the Technical sessions of the 39th National Conference of the Chartered Accountants themed 'Hyperleap,' Perera highlighted the need to increase the Budget allocation for the education sector, insisting that it would help build the lives of the socially and economically challenged communities in rural Sri Lanka.

"Quality education is a key cornerstone in developing our economy. Having an educated human capital is one of the main components that investors watch out for, apart from Doing Business Index ranking, a sound public transportation system and cheap energy," he pointed out.

Noting that only 4% or 25,000 graduates were employable, he said that a system needed to be developed to absorb the remaining 96% in economic activities.

"I think we need to build a system where the Government can invest on their education, where the beneficiaries' knowledge transpires into Gross Domestic Product (GDP)," he added.

With a total of 10,500 schools islandwide, Perera pointed out 2,900 schools lacked proper sanitary, water and electricity facilities. However, these are the schools that the majority of underprivileged children attend. "To build proper infrastructure in 1,000 schools, we can roughly estimate a cost of Rs. 300 billion, along with the inclusion of smart classes in schools that lack competent teachers," he stressed.

He also emphasised on the need to open up branches of popular national schools in the suburbs, pointing out that it would help children who attend these schools as well as tackle traffic. "Instead of concentrating only within Colombo, I think it is important that these popular schools branch out to areas such as Maharagama, Homagama, Panadura, Moratuwa, Wattala and Ja-Ela to better accommodate students coming from these areas. It also can work as a solution to beat traffic within Colombo," he added.

Considering the evolution of the education benchmark, Perera said a bachelor's degree taught in English would be the key yardstick for future employment.

"Although leaders of developed countries and international funding agencies keep pointing out that Sri Lanka is in a middle income trap, no one is really saying that the solution to get rid of it is education. Lee Kuan Yew had written many books, but he never mentioned education because it is a practical solution that can be executed within three years if there is a proper system in place," Perera stated.

In terms of availability of chartered accountants, he said that there was a lack of qualified chartered accountants applying themselves to positions apart from their safe zones, which hindered them from seeking their true potential.

"When the average number of students passing as Chartered Accountants is as low as 300 per annum, they will definitely have opportunities in the accounting field, hence they are reluctant to explore other sectors beyond their comfort zone. Right now, accountant professionals are caged into their fields, but if we can at least increase this number to 700 students per year, then they will at least look for opportunities in other sectors," he said.

Reiterating that there was no point in criticising the Government, he said that as a business community they should be able to provide solutions to the Government, adding that he had submitted several proposals similar to legal drafts that could be implemented.

Perera, who has built 1,000 fully-fledged pre-schools in the country in his personal capacity as a businessman over the past two years, said his next social project was aimed at teaching mathematics to 10,000 underprivileged Ordinary Level (O/L) students via web-based classes. (Dailyft)

364-day bill weighted average jumps above 10% for first time in over 15 months

Spot light on Rs. 40 b in Treasury bond auctions

The 364 day bill weighted average was seen jumping above the psychological level of 10.00% for the first time in over 15 months or 62 weeks at its weekly auction yesterday, registering an increase of 68 basis points to 10.19%.

The 91 day bill followed suit increasing by a higher difference of 72 basis points to 9.28%. The total offered amount of Rs. 11 billion was fully accepted as the bid to offer ratio dipped to a sixty weeks low of 1.57:1.

The secondary bond market yields increased following the outcome of the weekly bill auction as the liquid two maturities of 01.03.21 and 15.07.23 was seen increasing to intraday highs of 11.15% and 11.40% respectively against its days opening lows of 10.85% and 11.18%. Activity on the rest of the yield curve remained muted.

This was ahead of the Treasury bond auctions due today, where a total amount of Rs. 40 billion will be on offer consisting of Rs.20 billion each on a four years and nine month maturity of 15.07.2023 and a 14 years and three month maturity of 15.01.2033. This is in lieu of a Treasury bond maturity of Rs. 36.5 billion due on 15 October.

The previous Treasury bond auctions conducted on 13 May for the maturities of 15.10.2021 and 15.10.2025 recorded weighted averages of 10.03% and 10.32% respectively.

The total secondary market Treasury bond/bill transacted volumes for 9 October was Rs. 6.6 billion.

In the money market, the overnight call money and repo rates averaged 8.44% and 8.48% respectively as the net liquidity shortfall in the system stood at Rs. 20.04 billion yesterday. All attempts to inject liquidity by way of reverse repo auctions were unsuccessful yesterday with the overnight auction rejected while no bids were received for the seven and 14 days.

Dollar continues to strengthen

A globally strengthening dollar coupled with importer dollar demand saw USD/LKR rate on spot contracts losing further yesterday to close the day at Rs. 171.20/40 against its previous day's closing levels of Rs. 171.00/30.

The total USD/LKR traded volume for 9 October was $ 34.75 million. Given are some forward USD/LKR rates that prevailed in the market: one month – 172.40/90; three months - 174.40/90; six months – 177.40/90. (Dailyft)

Stock Rout Rolls Through Asia; Dollar Slides: Markets Wrap

The biggest stock sell-off since February rolled from the U.S. through Asia on Thursday, with benchmarks from Tokyo to Hong Kong seeing declines in excess of 3 percent. The dollar weakened against all major peers while the yen pushed higher and some emerging-market currencies came under pressure.

Treasuries, which helped trigger the stock decline when 10-year yields hit the highest since 2011, extended gains posted Wednesday. China's Shanghai Composite gauge dropped more than 4 percent, while Australian shares managed to keep losses to about 2.5 percent. The MSCI Asia Pacific Index hit its lowest level since July 2017. The plunge began in the U.S., where the Nasdaq 100 Index tumbled more than 4 percent for its worst day in seven years. U.S. futures extended losses. Behind the rout: fresh news of damage to corporate earnings from the trade war, along with intensifying pressure from the global shift away from monetary stimulus.

Industrial and construction supplies distributor Fastenal Co. added to angst that the trade conflict with China is raising materials costs that will crimp profit margins, while French luxury goods maker LVMH confirmed China is enforcing customs rules more strictly.

Ten-year Treasury yields slipped to 3.15 percent, down from the seven-year high of 3.26 percent reached on Tuesday. Yields have been climbing under the influence of a shrinking Federal Reserve bond portfolio and expectations for further interest-rate hikes. President Donald Trump, who has claimed credit for record U.S. stock levels, said after the U.S. stock market closed that the Fed is making a "mistake" and "has gone crazy."

"The sharp rise in U.S. 10-year yields has caused investors to suddenly reprice the impact of moving from post-crisis low yields to a rising rate environment," Eleanor Creagh, an Australian market strategist at Saxo Capital Markets in Sydney, said in an email. "We have the global growth engines, price of energy rising, price of money rising and quantity of money falling combined with the ongoing trend of deglobalization which has started to impact markets and the cracks are showing."

Just a day before the start of America's third-quarter earnings season, signs are mounting that companies might not be able to deliver the runaway growth that's bolstered equities so far in 2018. Investors have long fretted that the trade war would crimp profits, and now a group of companies is warning that is happening at the same time that rising bond yields make the cost of borrowing higher.

Read more on the $900 billion rout in global technology stocks

"Earnings are really important because that was part of the concern that sparked the sell-off," Darrell Cronk, president and chief investment officer at Wells Fargo Investment Institute, told Bloomberg TV in New York. "The concern heading into the third quarter earnings season is about how much trade and tariffs will dent earnings."

Trump also said the stocks decline was "a correction that we've been waiting for for a long time," after being briefed on the market turmoil. Treasury Secretary Steve Mnuchin said he's not surprised the market is having "somewhat of a correction.

We're Seeing a Natural Correction in U.S., Says Fidelity's Samant

Medha Samant at Fidelity International discusses the sell-off on Wall Street and what it means for investors.
Source: Bloomberg

Elsewhere, Wall Street's "fear gauge," as the Cboe Volatility Index, or VIX, is known, soared the most since February. American crude fell back below $73 a barrel as Hurricane Michael threatened to slash fuel demand across the U.S. Southeast.

Here are some key events coming up:

- The U.S. Treasury is in the midst of $230 billion worth of debt auctions this week.
- The IMF and World Bank will hold meetings in Bali from Friday, where finance chiefs from around the world will gather.
- A closely watched gauge of U.S. consumer prices probably remained elevated in September and rose 2.3 percent from a year earlier, according to forecasts ahead of Thursday's release.
- JPMorgan Chase & Co., Citigroup Inc. and Wells Fargo & Co. kick off earnings season for U.S. banks on Friday.

These are the main moves in markets:
Stocks

- Japan's Topix index tumbled 3.5 percent as of 12:30 p.m. in Tokyo.
- Hong Kong's Hang Seng slid 3.9 percent.
- The Shanghai Composite Index dropped 4.4 percent.
- South Korea's Kospi index slumped 3.5 percent.
- Australia's S&P/ASX 200 Index declined 2.4 percent.
- S&P 500 futures dropped 1 percent. The S&P 500 Index declined 3.3 percent. The Nasdaq 100 lost 4.4 percent to the lowest since July 3.

Currencies

- The yen gained 0.2 percent to 112.09 per dollar after gaining 0.6 percent.
- The offshore yuan fell 0.2 percent to 6.9399 per dollar.
- The euro bought $1.1563, up 0.4 percent.
- The Bloomberg Dollar Spot Index dropped 0.2 percent.

Bonds

- The yield on 10-year Treasuries fell two basis point to 3.14 percent
- Australia's 10-year bond yield dropped four basis points to 2.71 percent.

Commodities

- West Texas Intermediate crude fell 1.8 percent to $71.88 a barrel.
- Gold fell 0.1 percent to $1,193.10 an ounce.

(Bloomberg)