NEWS ROUND UP

Tuesday, 12th March, 2019

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Sri Lanka rupee ends weaker, stocks fall

Sri Lanka's rupee ended weaker at 178.50/65 to the to the US dollar on Monday, while bond yields edged up and stocks fell 0.73 percent, dealers said.

The rupee had opened stronger at 178.35/55 on Monday morning, before edging down. The rupee had closed at 178.40/55 to the US dollar in the spot market on Friday.

Bond yields of mid to long-term maturities edged up from Friday in a dull market, dealers said.

Market participants were awaiting a bond auction on Tuesday, dealers said.

The state debt department will issue 70 billion rupees in Treasury Bonds, in 5-year and 10-year maturities.

Twelve-month bills closed at 10.47/55 percent on Monday, down from 10.50/55 percent at Friday's close.

A bond maturing on 01.08.2021 closed at 10.65/70 percent today, up from Friday's close of 10.61/69 percent.

A bond maturing on 15.07.2023 ended at 10.85/90 percent, slightly up from 10.80/87 percent at the previous close.

A 7-year bond maturing 01.08.2026 ended at 11.05/15 percent on Monday, up from Friday's close of 11.00/07 percent.

A bond maturing on 15.06.2027, closed at 11.10/20 percent, higher than the previous close of 11.08/15 percent.

A bond maturing on 01.09.2028, closed at 11.20/30 percent, up from 11.17/25 percent at Friday's close.

At the Colombo Stock Exchange, the All Share Price Index closed 41.95 points lower at 5,680.30, with selling on banks.

The more liquid S&P SL20 Index fell 41.27 points to 2,818.32.

Market turnover was 401 million rupees. High foreign participation saw net inflows of 6.1 million rupees into the market.

Hatton National Bank share closed 7.50 rupees lower at 180 rupees, while Sri Lanka Telecom ended 1.30 rupees lower at 20.70 rupees, weighing down the All Share.

Seylan Bank ended trading at 61.90 rupees per share, down 7.90 rupees, while Sampath Bank closed 5 rupees lower at 194.90 rupees per share.

Commercial Bank closed 1.40 rupees lower at 100.60 rupees per share, with most of the trades happening through negotiated deals. (EconomyNext)

Sri Lanka's budget, IMF deal will help cut risks, currency collapse worsens debt

Sri Lanka's budget and a deal with the International Monetary Fund (IMF) would help cut economic risks and get over the disruptions from a political crisis in October 2019, though a collapse of a soft-peg with the US dollar has worsened debt, Fitch Ratings said.

"The agreement with IMF staff to extend a three-year Extended Fund Facility that began in 2016, if eventually approved by the Executive Board, would give the Sri Lankan authorities more time to complete the agreed economic reform agenda," the Fitch Ratings said.

"The budget announced this week sets out plans to get fiscal consolidation back on track."

But Sri Lanka's foreign debt has risen due to a collapse in the currency.

Sri Lanka has an unstable soft-peg and a policy of unsound money which institutionalises permanent depreciation of the currency, which critics say has made the country a lagging nation in Asia after independence from British rule compared to East Asian nations with better Central Banks.

About half of Sri Lanka's debt (not counting state-owned enterprises) is now denominated in foreign currency, which makes it less easy for the central bank to inflated away debt by depreciating the currency.

With the capital account partially open, domestic interest rates also rise when monetary instability hits.

"General government debt is around 84% of GDP in 2018, according to provisional numbers provided by authorities, which is well above the 65.4% median for sovereigns rated 'B' or lower," Fitch said.

"Moreover, nearly half of government debt is in foreign currency, which makes debt projections sensitive to currency movements. The depreciation of the rupee against the US dollar is likely to have held back debt reduction in 2018, for example."

The full statement is reproduced below:

Fitch Ratings: Sri Lanka Taking Steps to Reduce Fiscal and Economic Risks

Fitch Ratings-Hong Kong-10 March 2019: Sri Lanka's agreement with IMF staff on the fifth review and extension of its programme, together with its recent budget targeting medium-term fiscal consolidation, are steps toward restoring policy certainty after the disruptions caused by political upheaval in 2018, says Fitch Ratings. There remain risks to the government's fiscal projections, which would rise if the approach of presidential election due by end-2019 triggers renewed political tensions.

We downgraded Sri Lanka's sovereign rating to 'B' from "B+" on 3 December to reflect heightened external refinancing risks, an uncertain policy outlook, and the risk of a slowdown in fiscal consolidation following the president's sudden replacement of the prime minister in October, which sparked a political crisis. The subsequent reappointment of the ousted prime minister in mid-December restored calm, but the disruption has led to setbacks in addressing significant economic and fiscal challenges. Submission of the 2019 budget was delayed from its original date of 5 November, for example.

The agreement with IMF staff to extend a three-year Extended Fund Facility that began in 2016, if eventually approved by the Executive Board, would give the Sri Lankan authorities more time to complete the agreed economic reform agenda. The IMF also noted in its press release that fiscal and foreign reserve targets were missed in late 2018. However, Sri Lanka raised USD2.4 billion through a sovereign bond issuance last week, which should help to ease near-term fiscal and external financing constraints.

The budget announced this week sets out plans to get fiscal consolidation back on track. The budget deficit for 2020 is unchanged from before the political crisis, at 3.5% of GDP, despite the deficit reaching 5.3% in 2018, compared with an original target of 4.8%. The target for 2019 is set at 4.4%, an upward revision to the earlier deficit targeted for 2019.

Hitting these targets will be challenging as it will require sharper deficit reduction over the next two years than we had expected, and would be more aggressive compared with the government's 2018 budget.

The budget includes measures to boost revenue, such as an increase in excise duty on cars, a new luxury tax on motor vehicles, an increase in the nation building tax for some transactions and higher toll rates. These revenue proposals would generate around 0.9% of GDP based on the figures provided by the government. The benefits of an Inland Revenue Bill that came into effect in April 2018 could also continue to feed through. However, the government's budget estimates incorporate a sharp rise in the revenue-to-GDP to 15.8% in 2019 from 14.1% in 2018, which may not materialise. The government's GDP growth assumptions of 3.5% in 2019 and 4.0% in 2020 are also slightly more upbeat than our own, of around 3.5% in both years.

The government has reinforced its commitment to a medium-term debt management strategy and we still expect the deficit and government debt ratios to continue declining.

Nevertheless, fiscal finances will remain a key weakness in Sri Lanka's credit profile.

General government debt is around 84% of GDP in 2018, according to provisional numbers provided by authorities, which is well above the 65.4% median for sovereigns rated 'B' or lower.

Moreover, nearly half of government debt is in foreign currency, which makes debt projections sensitive to currency movements. The depreciation of the rupee against the US dollar is likely to have held back debt reduction in 2018, for example.

Sri Lanka's external liquidity position also remains weak as the sovereign's foreign currency-denominated debt payments between 2019-2022 amount to USD20.9 billion, compared with foreign-exchange reserves of just USD6.2 billion at end-January.(EconomyNext)

Sri Lanka's budget deficit, debt targets challenging

Achieving the Sri Lankan government's deficit and debt targets set out in last week's budget for 2019 will be challenging without a big increase in fiscal policy effectiveness and faster economic growth, Moody's Investors Service said.

The budget presented on 5 March, highlights the government's "credit-positive commitment" to revenue-led fiscal consolidation and debt reduction, the rating agency said in a statement.

After a fiscal deficit of 5.3 percent of Gross Domestic Product in 2018, the government aims to reduce it to 4.4 percent of GDP in 2019 and to 3.5 percent in 2020, in line with its International Monetary Fund programme targets.

"However, achieving its deficit and debt targets will be challenging without a significant increase in fiscal policy effectiveness and faster GDP growth," Moody's said.

"Sri Lanka's ambitious fiscal consolidation targets – when the country has not had a fiscal deficit below 5.0 percent since at least 1990 – will rely on effective tax collection and administration and increases in some taxes."

The government has lifted revenue to 14 percent of GDP in 2018 from as low as 11.6 percent in 2014 by raising the value-added tax rate in October 2016 and implementing the Inland Revenue Act (IRA) in April 2018.

Moody's said the budget anticipates that this trend will continue, projecting revenue increasing to 15.8 percent of GDP in 2019 and 16.8 percent in 2020, which equates to annual growth of about 22 percent in 2019 and 16 percent in 2020.

These projected revenue growth rates exceed what the government has achieved, on average, in recent years, Moody's said.(EconomyNext)

Norges Fund investments in Sri Lanka grow 15.3-pct to US$98.3m in 2018

The world's largest sovereign wealth fund has increased its equity investments in Sri Lanka by 15.3 percent to 98.3 million US dollars in 2018, the fund management said.

The Norwegian Central Bank said it upped the Norges Fund's investment in diversified conglomerate John Keells Holdings shares 720.3 percent to 18.3 million US dollars in 2018, from a year earlier.

The fund favoured banks.

Investments in Commercial Bank voting and non-voting stock more than tripled to 16.7 million US dollars, while the exposure to Hatton National Bank fell 20 percent to 14.7 million US dollars.

The fund grew its investment in Sampath Bank 59.2 percent to 10.7 million US dollars.

It entered into the shareholder list of Nations Trust Bank with an investment of 1 million US dollars.

The fund fully sold its shares in Melstacorp worth 5.8 million US dollars, and Tokyo Cement worth 1.4 million US dollars in 2018.

Investments in Access Engineering fell 71.9 percent to 1.3 million US dollars.

It bought into Cargills Ceylon with an investment of 4.5 million US dollars, and the Distilleries Company with 1.3 million US dollars.(EconomyNext)

The bull market turns 10 years old

The longest bull market in American history was dealt a scary brush with death late last year. But it survived, narrowly, and it's now been alive for a decade.

The market upswing, born out of the ashes of the Great Recession, turned 10 years old on Saturday.

The S&P 500 has more than quadrupled from its devil's bottom of 666 in March 2009.
The Dowhas spiked nearly 19,000 points, or almost 300%. And the Nasdaq has skyrocketed just under 500%.

The remarkable bull market reflects the slow-but-steady recovery in the economy, record corporate profits and ridiculously easy money from global central bankers. Extremely low interest rates and massive central bank balance sheets left investors hoping to generate decent returns with little choice but to gamble on risky stocks.

The 10th birthday of the bull market brings about an obvious question: If it's already the oldest in history, how much longer can it last? But the adage is that bull markets and economic expansions don't die of old age.

"Bull markets don't have expiration dates," said Scott Clemons, chief investment strategist at Brown Brothers Harriman. "A bull market usually comes to an end when financial excesses go to extremes, and we don't see that anywhere right now."

The market anniversary deserves a bit of an asterisk. That's because the S&P 500 hasn't closed at a record high since September. If the broad index closes in a bear market prior to hitting a new high, history will say the bull market officially ended last fall.

In other words, it would have spanned just under a decade.

It's also worth noting that while the bull market is the longest on record, it's not the strongest. That title goes to the 1990s bull market, which lifted the S&P by 417% at its peak, according to LPL Financial.

The market mayhem of late 2018 served as a blunt reminder: The bull market won't last forever. In fact, the Dow and S&P 500 nearly closed last December in a bear market, defined as a 20% decline from prior highs. And the Nasdaq did officially enter a bear market as Wall Street freaked out about an imminent recession.

US stocks have raced back to life in 2019.

Recession fears have eased, thanks to progress in US-China trade talks and a sharp reversal from the Federal Reserve, which is no longer rushing to raise interest rates. Despite this week week's selloff, the S&P 500 is less than 8% away from its all-time high.

David Kelly, chief global strategist at JPMorgan Funds, doesn't think the bull market is near its demise.

"The bull market should continue until the economy actually goes into recession," Kelly said. "The only thing that will keep it down is if people are truly scared about the economy."

The stock market is once again being aided by global central bankers. Not only is the Fed on pause and considering an end to its balance sheet winddown, but the uber dovish European Central Bank is backing off plans to hike interest rates. The ECB said this week that it expects rates to remain at record lows -- in negative territory -- through the end of 2019.

"Interest rates are so low that stocks look attractive," Kelly said. "It's going to be very hard to see a sustained slump until people become really worried about the profit outlook."

Slowdown fears were brought back to the forefront this week by the latest economic numbers. China's exports plunged 21% in February, the most severe decline in three years.

And the United States created just 20,000 jobs in February, far shy of the 160,000 that economists had predicted. It was the biggest jobs miss relative to expectations since December 2008, according to Bespoke Investment Group.

But economists argue it's too early to get worried about a single poor month of employment gains. January's jobs report was a blockbuster, with nonfarm payrolls surging by 304,000 jobs.And February's poor report was likely muddied by bad weather and the lingering impact of the government shutdown.

The jobs report "was the strangest I've seen in some time," Clemons said. "Clearly the government shutdown and winter weather played havoc with the figures."

Clemons said it makes sense to wait and see whether the jobs market rebounds in March. He expects that it will.

Still, the overall economic trend isn't pretty. The US economy grew at a robust pace of 3.4%annually in the third quarter, but GDP slowed to 2.6% in the fourth quarter.

And the Atlanta Federal Reserve's GDPNow forecasting tool is calling for first-quarter growth of just 0.5%.

"This economy is probably just decelerating rather than stalling," said Kelly.

If he's wrong, the bull market might not live for 10 years after all.(CNN)