NEWS ROUND UP

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Contents

Sri Lanka stocks recover Easter Sunday losses

Sri Lanka stocks closed 0.71 percent higher on Thursday, returning to levels seen before the Easter Sunday terror attacks, brokers said.

Colombo's All Share Price Index (ASPI) closed 39.45 points up at 5,561.28, after reaching a daily high of 5,562.44 in the afternoon session.

The S&P SL20 Index of more liquid stocks closed 0.66 percent or 17.06 points up at 2,611.66.

"The market is now almost at the level where it was before the Easter Attacks," an analyst said.

The last market day before the attack, the ASPI was at 5,606.35, but in the weeks earlier, the index was as low as 5,511.77.

The market had recovered since May 16, after falling to a 7-year low of 5,199.98.

On Thursday, market turnover was 523 million rupees with 80 stocks gaining and 60 stocks declining.

The turnover was boosted by three crossings (negotiated trades) split into a single crossing in Sampath Bank (87.6 million rupees) and two crossings in Melstacorp totaling up to 97.9 million rupees.

Retail activity has picked up, with more trading in mid-sized companies, brokers said.

Index-heavy John Keells Holdings closed 4.80 rupees down up 145.00 rupees a share contributing to the ASPI rise.

LOLC Holdings closed 5.80 rupees up at 102.10 rupees a share and Sri Lanka Telecom closed 1.50 rupees up at 23.60 rupees a share, also pushing the ASPI up. (EconomyNext)

Sri Lanka rupee ends firmer, bond yields ease.

Sri Lanka's rupee closed firmer at 175.35/45 rupees to the US dollar in the spot market Thursday, while bond yields fell, market participants said.

The rupee closed at 175.55/65 against the greenback on Wednesday.
Liquidity in the overnight money market was 25.98 billion rupees, up from 18.9 billion rupees previous day.
Central Bank mopped up 12.91 billion rupees in an overnight repo auction at a rate of 7.77 percent.
In the government securities market, bond yields eased in an active market, dealers said.
The monetary-policy meeting held today concluded with Central Bank's decision to hold the rates at current levels in a bid to maintain inflation at around 4.6 percent, despite weak credit.

Dealers said they had expected the rates remain unchanged, so there is no major impact on the market.
"I am expecting the rates to come down further because the rates have not eased in the lending side, so I am expecting the rates to come down at least by 25 basis points since there's room for 50 basis points", a dealer said.
The dealers are expecting another rate cut towards the end of year.
A bond maturing on 15.10.2021 closed at 8.70/80 percent on Thursday, easing from 8.90/95 percent on Wednesday's close.
A bond maturing on 15.03.2023 closed at 9.40/48 percent, down from 9.50/53 percent.
A bond maturing on 15.6.2024 closed at 9.73/78 percent, falling from 9.75/80 percent.
A bond maturing on 01.08.2026 closed at 9.93/98 percent, down from 10.02/07 percent.
A bond maturing on 15.01.2027 closed at 9.97/10.02 percent, declining from 10.08/12 percent yesterday's close.
A 10-year bond maturing on 01.05.2029 closed at 10.05/15 percent, down from 10.15/22 percent. (EconomyNext)

Sri Lanka floor policy rate unchanged at 7.50-pct in July

Sri Lanka is holding policy rates at curent levels in a bid to maintain inflation at around 4.6 percent, despite weak credit, the central bank said.

Private credit fell by 2 billion rupees to 5,542 billion rupees in May from a month earlier, continuing a credit contraction seen in 2019 after monetary instability in 2018.

"The year-on-year growth of credit extended to the private sector by commercial banks continued to decelerate during the first five months of 2019, while recording an absolute cumulative decline during the period," the central bank said.

"Weaker than originally envisaged growth in tourism and related services in the aftermath of the Easter Sunday attacks could affect economic growth in the near term, while subdued global growth is likely to hamper the medium term growth prospects of the economy.

"However, the ongoing recovery in the tourism sector as well as the performance of exports provide some confidence of a speedy recovery, with the support of actions taken by the sectoral authorities, as well overall fiscal and monetary policies.:

"The decision of the Monetary Board is consistent with the aim of maintaining inflation in the desired 4-6 per cent range while supporting economic growth to reach its potential over the medium term.

The full statement is reproduced below:

The Monetary Board of the Central Bank of Sri Lanka, at its meeting held on 11 July 2019, decided to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank at their current levels of 7.50 per cent and 8.50 per cent, respectively. The Board arrived at this decision following a careful analysis of current and expected developments in the domestic economy and the financial market as well as the global economy. The decision of the Monetary Board is consistent with the aim of maintaining inflation in the desired 4-6 per cent range while supporting economic growth to reach its potential over the medium term.

Softening global growth spurs a dovish turn in monetary policies

Amidst expectations of softening global growth due to increased trade and geopolitical tensions, monetary policies in advanced economies have turned increasingly dovish since the beginning of this year. A number of central banks in emerging market economies have also reacted by relaxing their monetary policies, with a view to supporting domestic economic growth amidst subdued inflationary pressures and volatile global market conditions.

Sri Lankan economy to recover gradually, following the Easter Sunday attacks

The Sri Lankan economy grew at a relatively healthy rate of 3.7 per cent (year-onyear) during the first quarter 2019, compared to 1.8 per cent recorded in the fourth quarter

2018, according to provisional estimates published by the Department of Census and Statistics. Weaker than originally envisaged growth in tourism and related services in the aftermath of the Easter Sunday attacks could affect economic growth in the near term, while subdued global growth is likely to hamper the medium term growth prospects of the economy. However, the ongoing recovery in the tourism sector as well as the performance of exports provide some confidence of a speedy recovery, with the support of actions taken by the sectoral authorities, as well overall fiscal and monetary policies.

Narrowing trade deficit amidst a challenging global climate

The continued growth of exports along with the sharp decline in imports led to a further contraction in the trade deficit during the first four months of 2019. In relation to other inflows to the current account, earnings from tourism suffered a setback following the April terror attacks, while inflows from workers' remittances remained moderate. In the meantime, the successful issuance of the International Sovereign Bonds (ISBs) in June 2019 reflected investors' continued confidence on Sri Lanka's medium term growth prospects. Following the receipt of the proceeds of the ISBs, gross official reserves reached US dollars 8.9 billion by end June 2019, which provide an import cover of 5.1 months. The contraction in the trade deficit and the receipt of the proceeds from the ISBs, along with the continuation of the Extended Fund Facility Programme with the International Monetary Fund (IMF-EFF) have eased the pressure on the exchange rate, resulting in the Sri Lankan rupee recording a cumulative appreciation of 4.1 per cent against the US dollar thus far in 2019. This appreciation of the rupee has partially corrected its sharp depreciation observed in late 2018.

Private sector credit to pick up gradually towards the latter part of 2019

The year-on-year growth of credit extended to the private sector by commercial banks continued to decelerate during the first five months of 2019, while recording an absolute cumulative decline during the period. Following this trend in the growth of credit, the year-on-year growth of broad money (M2b) also decelerated thus far in 2019. Credit to the private sector is expected to gradually pick up in the latter part of 2019, with the expected decline in market lending rates.

A sizable downward adjustment in market lending rates is expected in the near term

Market deposit rates have declined in response to the measures already taken to ease monetary policy and monetary conditions. In particular, the reduction of policy interest rates in May 2019, coupled with sizable liquidity injections through the reduction in the Statutory Reserve Ratio (SRR) and the imposition of maximum interest rates on deposit products in April 2019, have resulted in a notable drop in the Average Weighted Call Money Rate (AWCMR), yields on government securities, new deposit rates as well as the Average Weighted Prime Lending Rate (AWPR). However, the transmission of recent easing of monetary conditions to market lending rates, including AWPR, is not yet complete. It is expected that the ongoing downward adjustment in market lending rates would expedite in the immediate future, thus supporting the revival of demand for credit by the private sector and the recovery in economic activity.

In spite of near-term upticks, the medium-term inflation outlook remains favourable

Both year-on-year headline and core inflation, measured using the Colombo Consumer Price Index (CCPI), decelerated in June 2019, while those based on the National Consumer Price Index (NCPI) are also expected to decline in June. In the near term, some price pressures could emerge, reflecting elevated fuel prices, possible increases in global food commodity prices and a rise in domestic food prices due to adverse weather conditions. Such hikes in inflation are likely to be transitory, and in general, inflation is projected to remain well anchored in the desired 4-6 per cent range. With subdued economic activity, aggregate demand pressure on inflation is not expected in the near term, while the favourable medium-term inflation outlook will be supported by appropriate monetary policy measures.

Policy interest rates maintained at current levels

Considering the current and expected macroeconomic conditions, the Monetary Board was of the view that there is ample space for market lending rates to adjust downwards in response to the policy measures already taken. Accordingly, the Monetary Board decided to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the

Central Bank at their current levels of 7.50 per cent and 8.50 per cent, respectively. The Central Bank will continue to monitor the developments in the global and domestic financial markets and take appropriate further action as necessary to support economic growth in the context of well-anchored inflation and inflation expectations. (EconomyNext)

Sri Lanka eying 10-year Samurai bond sale in 2019

Sri Lanka is eying a 10-year Samurai bond to raise funds for debt management, after parliament gave the go ahead to raise around 480 billion rupees outside the 2019 budget requirements, the Central Bank Governor Indrajith Coomaraswamy said.

"We are going to Tokyo in a couple of weeks to explore the possibility of a Samurai bond," Governor Coomaraswamy told reporters.

"It would not be wise to borrow less than 10-years (tenure)."

He said Sri Lanka was 'agnostic' about the type of bond, and wanted to borrow at the lowest rate.

Governor Coomaraswamy said a credit guarantee was also available from the Japan Bank for International Corporation for the Samurai bond.

Though yen loans have low rates, Sri Lanka wants to swap the yen to dollars to guard against an appreciating Japanese currency.

Sri Lanka had already gone to dollar sovereign bond markets twice in 2019. (EconomyNext)

Sri Lanka banks considering relief for Rs101bn in tourism debt

Sri Lanka banks may give relief about 100 billion rupees in hotel borrowings for one year to help the tourism industry recover from the Easter Sunday attack, official said

Governor Indrajit Coomaraswamy said that there have been 3,641 requests to banks for a moratorium.

"The amount considered for moratorium is 101 billion rupees and so far 945 requests have been approved and 2,696 are under process for approval."

"A very high proportion of that 2,696 will be approved, because when they are taken into processing they are broadly conforming with the requirement," he said.

In total, the tourism sector has borrowed 285 billion rupees from banks.

The moratoriums are also applicable on borrowings from finance companies, which make up around 7 percent of the financial system.

Coomaraswamy said that the moratorium will not reduce bad loans in banks.

"What has happened, is that we have kind of frozen the situation as of the date (April 18) the moratorium kicked in, because the people who are eligible are those who are current on the day the moratorium was implemented."

"So people who had bad loans when the moratorium took place are not eligible for the moratorium."

Coomaraswamy said that there was some delay in implementing the moratorium, as it took time for banks to instruct their branches on moratoriums.

"Clearly it took the banks a bit of time to gear up."

"It took them time to figure out the decision making process; where decisions will be made."

"Then they had to get the messages down to their branches."

"So that took a bit of time, but we now see that arrivals are picking up momentum."

He said that during talks, the tourism industry has said that it is satisfied with the moratorium.

He said that the tourism industry was showing a faster recovery than expected.

Tourism firms and employees in the industry can apply for moratorium on debt. (EconomyNext)