

# NEWS ROUND UP

*Wednesday, December 12, 2018*

## Contents

Rupee, stocks slide as political crisis spurs outflows .....	2
IMF warns storm clouds gathering for global economy .....	3
Asia shares near 3-week lows, sterling struggles on Brexit woes .....	3
Gihan Cooray appointed Chairman of Nations Trust Bank.....	4
Bond yields increase marginally ahead of weekly bill auction .....	5
Stocks, Yuan Rise on U.S.-China Trade Optimism: Markets Wrap.....	6

## ***Rupee, stocks slide as political crisis spurs outflows***

The Sri Lankan rupee ended weaker on Tuesday, as foreign investors continued to exit from bonds and stocks as a lingering political crisis weighed on market sentiment ahead of a key ruling by the island nation's Supreme Court.

The ruling, expected this week, will determine if the current parliament can continue in the next year or an election should be held. The decision could help end the political crisis.

Foreigners sold a net Rs. 165.7 million (\$928,812) worth of stocks on Tuesday, and they have been net sellers of Rs. 10 billion since the political crisis began on 26 October. The bond market saw outflows of about Rs. 51.2 billion between 25 October and 5 December, Central Bank data showed.

Foreign investors sold a net Rs. 17 billion (\$95.3 million) worth of Government securities in the week ended 5 December, the highest weekly net outflow since the third week of February 2017. The stock market had net foreign outflows to the tune of Rs. 929.1 million last week.

The rupee ended at 179.20/40 per dollar on Tuesday, compared with 179.00/20 in the previous session.

The Colombo stock index fell 0.29% to 6,026.26 on Tuesday. It rose 0.83% last week after a 1.5% rise in the previous week. It has declined 5.4% so far this year.

Stock market turnover was Rs. 689.3 million (\$3.86 million), less than this year's daily average of Rs. 827.3 million.

Credit rating agencies Fitch and S&P downgraded Sri Lanka's sovereign rating last week, citing refinancing risks and an uncertain policy outlook, after President Maithripala Sirisena's sacking of his prime minister in October triggered the political crisis.

On Wednesday, Fitch downgraded Sri Lanka's financial institutions and Sri Lanka Telecom, citing the sovereign downgrade.

This year, there have been Rs. 19 billion of outflows from stocks and Rs. 143.4 billion from Government securities, the latest data from the Bourse and Central Bank data showed.

The rupee hit a record low of 180.85 per dollar on 28 November, surpassing its previous low of 180.50 hit the previous day. It has weakened about 3.3% since the political crisis began. The currency fell 1.8% in November and has slid 16.5% so far this year.

Moody's downgraded Sri Lanka on 20 November for the first time since it started rating the country in 2010, blaming the political turmoil for aggravating its already problematic finances.

The political paralysis remains the main concern for investors. While Mahinda Rajapaksa and President Sirisena have failed to win support in Parliament for their new Government, the deposed Prime Minister Ranil Wickremesinghe's coalition, which claims it does have majority support in Parliament, has not been allowed to try to form a Government.

A lower court has stayed Rajapaksa and his Cabinet functioning in their positions, after they refused to step down despite being ousted via two confidence votes.

The Central Bank on 14 November unexpectedly raised its main interest rates to defend the rupee, which has faltered as foreign capital outflows pick up due to the domestic crisis as well as rising US interest rates.

Five-year government bond yields have risen 40 basis points since the political crisis unfolded on 26 October, while yields on Sri Lanka's dollar bonds due in 2022 have risen by more than a percentage point to 8.31% since then. (DailyFt)

### ***IMF warns storm clouds gathering for global economy***

One of the International Monetary Fund's top officials warned on Tuesday that storm clouds were gathering over the global economy and that governments and central banks might not be well-equipped to cope.

The fund had been urging governments to "fix the roof" during a sunny last two years for the world economy, IMF First Deputy Managing Director David Lipton said.

"But like many of you, I see storm clouds building, and fear the work on crisis prevention is incomplete," he said at a banking conference hosted by Bloomberg.

He also warned that strains could leave policymakers under pressure and in uncharted waters.

"Central banks would likely end up exploring ever-more unconventional measures. But with their effectiveness uncertain, we ought to be concerned about the potency of monetary policy."

Many governments won't have much room for manoeuvre, either, having already racked up high debts.

"We should not expect governments to end up with the ample space to respond to a downturn that they had 10 years ago," Lipton said. Stimulus may also be a hard sell politically, considering the financial burden it creates, he said.

The biggest immediate risk, though, is the current trade war between the United States and China. If all of the threatened tariffs are put in place, as much as three-quarters of a per cent of global GDP would be lost by 2020, the IMF has estimated.

"That would be a self-inflicted wound. So it is vital that this ceasefire (recently announced between Washington and Beijing) leads to a durable agreement that avoids an intensification or spread of tensions."

If it doesn't and a stalemate sets in, there could be a damaging "fragmentation" of the global economy that causes a downturn, he said. (DailyFt)

### ***Asia shares near 3-week lows, sterling struggles on Brexit woes***

Chinese shares pulled ahead on Tuesday after Beijing confirmed it was still in trade talks with the United States, though sentiment remained fragile in Asia as the pound wallowed near 20-month lows on deepening political turmoil over a Brexit deal.

Chinese Vice Premier Liu He spoke with US Treasury Secretary Steven Mnuchin and Trade Representative Robert Lighthizer on Tuesday, exchanging views on pushing forward the next stage of trade talks, China's Commerce Ministry said.

The news soothed sentiment somewhat although there were still uncertainties over the prospects for a lasting resolution to a trade dispute that has turned increasingly bitter in the past several months.

Chinese shares opened in the positive territory with the blue-chip index up 0.3%. Australian shares gained 0.2% while the Aussie bounced too.

However, that barely helped MSCI's broadest index of Asia-Pacific shares outside Japan which was languishing near a 3-week trough.

Japan's Nikkei reversed early gains to be down 0.3% and Hong Kong's Hang Seng index eased 0.4%.

Analysts expect investors to remain cautious given the uncertainty around a durable trade deal between China and the United States.

Also weighing on sentiment, British Prime Minister Theresa May abruptly postponed a parliamentary vote on her Brexit agreement on Monday, a move that hit risk assets globally and sent the pound spiralling down to \$1.2505.

Disappointing data from major economies including China and Japan have also fanned worries about corporate earnings and factory output, with the Sino-US trade battle clouding the outlook for world growth.

Among emerging markets, investors will focus on India, where the Central Bank Governor shockingly resigned on Monday.

Singapore Nifty futures slumped almost 2.5% on Tuesday to a near six-week trough, indicating a weak opening for Indian shares.

These uncertainties have put the brakes on equities this year, with the MSCI ex-Japan index skidding more than 16% after surging 33.5% in 2017.

In a global outlook note released late on Monday, BofAML forecast more volatility in 2019 with modest gains in equities and credit, a weaker dollar, widening credit spreads, and a flattening to inverted yield curve.

"The bear market vibe at the end of 2018 is expected to continue, with asset prices finding their lows in the first half of 2019 once rate expectations peak and global earnings expectations trough," it said.

In currencies, sterling slumped below important chart support around \$1.26 on May's delayed Brexit vote. With European Union refusing to renegotiate the deal lawmakers doubted her chances of winning big changes.

The dollar climbed on the yen to 113.19. An index that measures the greenback against a basket of major currencies has jumped 5.5% so far this year on safe-haven demand.

The currency has also gained broadly as the US Federal Reserve stayed on its policy tightening path, although uncertainties over how much further the Fed can tighten have turned bullish dollar bets sour lately. The dollar index was last down 0.1% at 97.134. (DailyFt)

### ***Gihan Cooray appointed Chairman of Nations Trust Bank***

Nations Trust Bank PLC has announced the appointment of Gihan Cooray as Chairman of the Board of Directors, with effect from 1 December. Cooray takes over as Chairman following the retirement of

Krishan Balendra who stepped down after having served the stipulated maximum nine year tenure as a Director of Nations Trust Bank PLC.

Gihan Cooray

Cooray is the Group Finance Director of John Keells Holdings PLC and has overall responsibility for the Group's Finance and Accounting, Taxation, Corporate Finance and Strategy, Treasury and Information Technology functions (including John Keells IT) and John Keells Research. He is also a Director of several other companies in the John Keells Group.

Cooray holds an MBA from the Jesse H. Jones Graduate School of Management at Rice University Houston, Texas. He is an Associate Member of the Chartered Institute of Management Accountants, UK, a Certified Management Accountant of the Institute of Certified Management Accountants, Australia and has a Diploma in Marketing from the Chartered Institute of Marketing, UK. He also serves as a Committee Member of the Ceylon Chamber of Commerce.

Nations Trust Bank PLC is among the top 30 business establishments in Sri Lanka as ranked by Business Today Magazine, ably providing a host of financial products and services to a wide range of customers. Nations Trust is also the bank behind Sri Lanka's first fully digital bank, FriMi. The bank operates 94 branches across the country, boasting an ATM network covering 127 locations and 44 Cash Deposit and Withdrawal Machines, plus more than 3,500 ATMs on the Lanka Pay Network and is the issuer and sole acquirer for American Express Cards in Sri Lanka.

(DailyFt)

### ***Bond yields increase marginally ahead of weekly bill auction***

The secondary bond market yields increased marginally yesterday, with the liquid maturities consisting of the two 2021's (i.e. 01.03.21 and 01.08.21) and 15.06.27 hitting highs of 11.50%, 11.55% and 12.00% respectively against its previous day's closing levels of 11.40/55, 11.50/60 and 11.90/95. Furthermore, limited amount of activity was witnessed of the 15.09.19 maturity at 10.50%. Meanwhile, in the secondary bill market, March, May, October and November 2019 maturities traded at levels of 9.60%, 10.00%, 11.00% and 11.05% respectively.

At today's auction, the total offered amount will be at a nineteen week high of Rs. 23 billion, consisting of Rs. 7 billion on the 182 day and Rs. 16 billion on the 364 day maturities. The 91 day maturity will not be on offer. At last week's auction, the weighted average yields of the 182 day bill increased to 10.01% while the 364 day bill remained steady at 11.20%.

The total secondary market Treasury bond/bill transacted volumes for 10 December was Rs. 3.25 billion.

In the money market, the overnight call money and repo rates averaged 8.92% and 9.00% respectively, with the net liquidity shortfall standing at Rs. 65.58 billion.

The OMO Department of the Central Bank, conducted two reverse repo auctions of Rs. 10 billion and Rs. 15 billion for durations of one and seven days, which were successfully subscribed at weighted average yields of 8.69% and 8.71%. In addition, a further amount of Rs. 48.87 billion was injected at the Standing Lending Facility Rate (SLFR) of 9.00%. However, all bids received for the five outright purchases of Treasury bills totalling Rs. 20 billion were rejected for a third consecutive day.

Rupee loses further

The USD/LKR rate on spot contracts depreciated further yesterday, amidst moderate trading, to close the day at Rs.179.20/50 against its previous day's closing levels of Rs.179.00/25.

The total USD/LKR traded volume for 10 December was \$ 117.52 million.

Some of the forward USD/LKR rates that prevailed in the market were 1 month - 180.25/65; 3 months - 182.25/75 and 6 months - 185.25/75.

(DailyFt)

## ***Stocks, Yuan Rise on U.S.-China Trade Optimism: Markets Wrap***

Asian equities climbed with U.S. and European stock futures and the offshore yuan following positive signs on the outlook for U.S.-China trade talks.

Equity benchmarks rose in Japan, Hong Kong and South Korea, and the Aussie ticked higher. News that Canada granted bail to the chief financial officer of Chinese tech-giant Huawei Technologies Co., who had been arrested at the behest of the U.S., helped bolster sentiment as trading began in Asia. President Donald Trump added to the positive mood, telling Reuters he'd consider intervening in the case if it helped get a China deal, and would meet with President Xi Jinping if needed to advance trade negotiations.

Elsewhere, oil traded above \$52 a barrel in New York. Overnight, a rally in U.S. stocks was snuffed out and the S&P 500 Index ended Tuesday flat. Carmakers in the U.S. rose as China signaled it may cut tariffs on auto imports. The pound continues to struggle thanks to Brexit woes. A leadership challenge to U.K. Prime Minister Theresa May could be close, but the BBC reported the threshold of votes by Conservative members of parliament hasn't been reached. Elsewhere, Treasuries were little changed after Trump warned the Federal Reserve against hiking interest rates.

Investors are also keeping watch on the risk of a shutdown of parts of the federal U.S. government, with Trump at odds with Democratic leaders in Congress over funding for a border wall with Mexico. But trade news is at the forefront, after the arrest of Huawei CFO Meng Wanzhou earlier this month spurred condemnation in China.

"Trade tensions will probably ease somewhat in 2019," Didier Borowski, head of macroeconomic research at Amundi Asset Management, told Bloomberg TV in Singapore. "But we have to keep in mind from a strategical standpoint that trade tensions are here to stay and they will probably be much more elevated than they were over the last few years."

U.K.'s May May Face Leadership Challenge, CSIS's Conley Says

Heather Conley, senior vice president at the Center for Strategic and International Studies, discusses Brexit.

Source: Bloomberg

Indian assets are back in focus after the country appointed a former bureaucrat who oversaw Prime Minister Narendra Modi's controversial cash ban program as its new central bank chief. Urjit Patel had abruptly quit a day prior following disagreements with the government.

In France, the spread between government bond yields and those in Germany rose to the highest since the 2017 election. France's Prime Minister Edouard Philippe confirmed that President Emmanuel Macron's efforts to meet protester demands will have an impact on the country's deficit, with the situation causing a new headache for the EU in its talks over the Italian budget.

Here are some key events on the calendar this week:

- U.S. inflation data is due Wednesday.
- The European Central Bank is set to end asset purchases at its final policy meeting of 2018 on Thursday.
- China industrial production, retail sales data for November is due Friday.

And these are the main moves in markets:

#### Stocks

- The MSCI Asia Pacific Index was up 1.3 percent as of 11:52 a.m. in Tokyo.
- Japan's Topix index added 2 percent.
- Hong Kong's Hang Seng rose 1.4 percent.
- Shanghai Composite gained 0.2 percent.
- Australia's S&P/ASX 200 Index advanced 0.7 percent.
- Futures on the S&P 500 rose 0.4 percent. The S&P 500 was little changed at the close of trading in New York.
- Futures on the Euro Stoxx 50 added 0.3 percent.

#### Currencies

- The yen held at 113.45 per dollar.
- The offshore yuan added 0.3 percent to 6.8831 per dollar.
- The euro was little changed at \$1.1332.
- The British pound was at \$1.2510 after falling 0.6 percent Tuesday.

#### Bonds

- The yield on 10-year Treasuries edged up to 2.89 percent.
- Australia's 10-year bond yield was stable at 2.45 percent.

#### Commodities

- West Texas Intermediate crude rose 1 percent to \$52.17 a barrel.
- Gold was little changed at \$1,245.56 an ounce.  
(Bloomberg)