

# NEWS ROUND UP

*Wednesday, March 13, 2019*

## Contents

Shares fall to more than 5-1/2-year low, rupee falls ahead of budget vote .....	2
Fuel prices increased .....	2
CDB raises \$ 60 m in foreign funding for SMEs .....	3
Bullish and successful IFS expands investments and operations in SL .....	4
Budget passes first hurdle .....	5
Pound jumps, Asian shares rise after changes to Brexit deal.....	6
Secondary market bond yields increase following bond auctions .....	7
Asian Stocks Drop as Rally Eases; Pound Holds Loss: Markets Wrap .....	8

## ***Shares fall to more than 5-1/2-year low, rupee falls ahead of budget vote***

Sri Lanka's shares fell for a third straight session to a more than 5-1/2-year low on Tuesday, as investors awaited a Budget vote later in the day to assess the political stability of the Government led by Prime Minister Ranil Wickremesinghe.

The Colombo Stock Exchange index fell 0.59% to 5,646.78, its lowest close since 9 September 2013. The benchmark stock index had fallen 1.63% last week, recording its third straight weekly fall. It declined 2.9% in February, its second straight monthly fall. The turnover was Rs. 390.6 million (\$2.19 million), less than half of last year's daily average of Rs. 834 million.

Foreign investors sold a net Rs. 10.8 million worth of shares on Tuesday, taking the year-to-date net foreign outflow to Rs. 5.98 billion worth of equities so far this year. Shares in Nestle Lanka fell 2.9%, while Sampath Bank lost 3.1% lower.

The rupee closed a tad weaker at 178.70/90 per dollar compared to Monday's close of 178.50/65. Inflows from a sale of \$2.4 billion sovereign bonds were expected to boost the rupee. The sale is crucial for the island nation to boost investor sentiment, which was dented by rating downgrades by all three rating agencies after the political crisis in October.

Sri Lankan Finance Minister Mangala Samaraweera last week presented the 2019 Budget, which raises spending while setting an ambitious goal to reduce the country's large fiscal deficit.

An interim Budget vote is scheduled for Tuesday. The Wickremesinghe-led Government's political stability has been questioned by the Opposition since he was reinstated as Prime Minister after a 51-day political crisis. The final budget vote is scheduled for 5 April.

The rupee has climbed 2.2% so far this year as exporters converted dollars and foreign investors purchased government securities amid stabilising investor confidence after the country repaid a \$1 billion sovereign bond in mid-January. Worries over heavy debt repayment after the 51-day political crisis that resulted in a series of credit-rating downgrades dented investor sentiment as the country struggled to repay its foreign loans.

The rupee dropped 16% in 2018, and was one of the worst-performing currencies in Asia due to heavy foreign outflows. Foreign investors bought a net Rs. 636.3 million worth of government securities in the week ended 6 March, the first net inflow in three weeks, but they have sold a net Rs. 2.8 billion so far this year, the Central Bank's latest data showed.

## ***Fuel prices increased***

Fuel prices were increased from midnight yesterday, the Finance Ministry said.

Petrol (Octane 92) will be increased by Rs. 3 a litre and the revised price is Rs. 132. Petrol (Octane 95) will now be sold at Rs. 159, after an increase by Rs. 7 a litre.

Auto Diesel will be increased by Rs. 1 and the new price would be Rs. 104. Super Diesel will be increased by Rs. 8 and the new price would be Rs. 134.

However, the price of Lanka Kerosene will remain at Rs. 70 per litre.  
(Dailyft)

## ***CDB raises \$ 60 m in foreign funding for SMEs***

With its strong ethos of nurturing and fostering micro and SMEs in the country to optimise their contribution towards the nation's macro growth, Citizens Development Business Finance PLC (CDB) raised \$ 60 million in FY 2018/2019 to uplift and develop this vital engine of growth in the country's economy.

Having already gained a first loan of \$ 6 million by BIO in 2013 which CDB disbursed astutely to micro and SMEs in the country and paid back fully, the platform of trust and credibility given to CDB by foreign agencies is reiterated further with this larger tranche. Working with three funding agencies whose objective is to develop and improve the micro and SME sectors in developing and emerging economies, CDB's collective of \$ 60 million in the current financial year comprises \$ 10 million from the Belgian Investment Company for Developing Countries (BIO) and \$ 25 million each from the Dutch development bank of the Netherlands FMO and impact investment manager Blue Orchard Finance Ltd. headquartered in Switzerland. The timeline for repayment is spread over five years. The funds from FMO and Blue Orchard were arranged by Emerging Markets Global Advisory Ltd. (EMGA).

As Corporate Finance Director Roshan Abeygoonewardena explains, "With our aspiration of being a financial powerhouse, we have to look at the big picture and the big picture shows us that SMEs form the nucleus of growth. Micro entities and SMEs have contributed with great tenacity towards building this country and as a responsible corporate steward, it is vital that CDB fosters that tenacity to maximise on the immense potential these SMEs and micro enterprises possess."

While appreciating the funding agencies for their trust in allocating the \$ 60 million to CDB for disbursement, Abeygoonewardena also mentioned that the funding objectives fall well in line with the extensive financial services that CDB provides. "This is definitely a springboard for the country to build a strong private sector. With CDB spearheading a drive to achieve the country's Sustainable Development Goals, we herald the collaborations we have established with these three funding agencies which will assist us in moving closer towards meeting these goals."

FMO, which holds an AAA rating from both Fitch Ratings and Standard & Poor's, is a public-private partnership with 51% shares held by the Dutch state and 49% by commercial banks, trade unions and the private sector investing in over 85 countries. It emphasises sustainable growth through income generation and business development via responsible environmental and social emphasis. FMO arranged risk-participations from three of its funds, the ACTIAM-FMO SME Finance Fund, NN FMO Emerging Markets Loans Fund and FMO Privium Impact Fund, for a total of \$ 11.5 million. These funds have been set up by FMO for investment by institutional investors and private banking clients to allow them to co-finance with FMO.

Blue Orchard is a leading global impact investment manager, dedicated to fostering inclusive and climate-smart growth. Blue Orchard was founded in 2001, by initiative of the UN, as the world's first commercial manager of microfinance debt investments. Today, Blue Orchard provides institutions in emerging and frontier markets with debt and equity financing and investors around the world with premium investment solutions, including credit, private equity, and sustainable infrastructure. With a major global presence and offices on four continents, Blue Orchard has invested to date more than \$ 5.7 billion across 80 emerging and frontier markets, enabling tangible social impact.

BIO's capital is held by the Ministry for Development Cooperation in Belgium and adds entrepreneurship development among micro and SMEs as its objectives for funding. BIO invests directly and indirectly in SMEs in developing countries and as such makes a structural contribution to the socio-economic growth of those host countries. (Dailyft)

## ***Bullish and successful IFS expands investments and operations in SL***

- To increase number of software engineers by 500 to 1,600 in next 12 months
- Relocates most of its operations and team to six floors of Orion City new tower
- Says SL a cost-effective centre and a great source and place for innovative young talent

A global leader in enterprise software, IFS, the second largest IT company in Sri Lanka, is further expanding its investment and operations here by doubling office space and increasing staff by over 40%. IFS Global CEO Darren Roos - Pic by Sameera Wijesinghe

Operating in Sri Lanka for over two decades, IFS has 1,100 employees (31% of the global team) at present and aims to increase it to around 1,500-600 in the next 12 months. In June it will relocate most of its operations to six floors of Orion City's new tower, occupying double the space of its original location in Wellawatte.

Sweden-headquartered IFS Global CEO Darren Roos yesterday told journalists in Colombo that Sri Lanka is an important, essential, and integral part of its global operations, serving over 10,000 customers, including over 150 top companies in Sri Lanka and South Asia.

Sri Lanka office carries out global support, global consultancy, IFS Labs, and IFS Academy. In 2018, IFS net revenues rose by 23% (as opposed to 15% annual growth in recent history) to \$ 606 million, as it won more new clients for superior Enterprise Resource Planning (ERP) and Field Service Management (FSM) and cloud solutions among others.

"Sri Lanka is an essential part of our global growth strategy," Roos stressed.

"In Sri Lanka we are ramping up capacity. We will add about 300 more staff within the next few months, and have around 1,500-600 by the next 12 months," he added.

He noted that Sri Lanka isn't the lowest-cost location, but a cost-effective centre, apart from a great source and place for innovative young talent.

Around 60% of IFS product development takes place in Sri Lanka. Additionally around 80% of the IFS Labs team is based in Sri Lanka, and the technologies that it is currently developing includes wearables, augmented reality, bots, drones, robotic process automation, and artificial intelligence. Via its efforts, IFS seeks to prototype the emerging technologies, trends, and concepts of today that customers will ask for tomorrow. IFS invests 14% of its revenue on Research and Development (R&D).

"The more successful IFS is globally, the better it is for Sri Lanka," Roos emphasised.

Last year, licence revenue of IFS grew by 22%, maintenance revenue by 13%, and consulting revenue by 10%, whilst cloud and Software as a Service (SaaS) jumped by 300% from a lower base. This year, a similar or better organic revenue growth is envisaged, whereas in the past, mergers and acquisitions boosted top line for IFS.

"We are targeting 45% Compounded Annual Growth Rate between 2019 and 2021. Sri Lankan and South Asian operations will be a significant contributor towards this growth," said Roos, who noted that their main markets in Europe and the Americas have been robust, with Asia Pacific expected to deliver higher growth.

“We are focused on delivering sensible next generation solutions to customers faster and at low total cost of ownership. This is IFS key differentiator as against competition,” said Roos, who noted that as per IT industry research firm Gartner, customers have voted IFS ERP and FSM solutions as number one. (Dailyft)

## ***Budget passes first hurdle***

- Budget 2019 second reading passed in Parliament
- 119 MPs voted in favour, 76 against, 30 MPs absent at time of vote
- Budget 2019 is engine for entrepreneurs: Mangala
- Insists Budget not about hand-outs but creating entrepreneurs
- Plans to restart giving vehicle permits from 1 May
- Defends taxing foreign transactions by credit cards, says it will create local e-commerce boost

Finance Minister Mangala Samaraweera yesterday batted away criticisms, defending Budget 2019 as an engine for creating entrepreneurs, while outlining measures to resume vehicle permits from 1 May, and create more space for local e-commerce sites by charging 3% NBT on credit card transactions on foreign transactions.

The second reading of the Appropriation Bill 2019 received parliamentary approval yesterday, with 119 lawmakers voting in favour while 76 were against it. At the time the division was taken, 30 lawmakers were not present in Parliament. The final budget vote is scheduled for 5 April.

Summing up the salient features of Budget 2019, themed ‘Enterprise Sri Lanka – Empowering the People and Nurturing the Poor’, Finance Minister Mangala Samaraweera told Parliament he has no hesitation to what the Opposition has to, say or the obstacles that would come in his way to prevent taking the country forward.

Criticising the Rajapaksa Government, the Minister held the constitutional crisis had impacted the nation heavily, and said the cost should be recovered by those who were a part of it.

Rejecting the Opposition charges of giving false hopes and selling unrealisable dreams, the Minister blamed the former Government for supporting unscrupulous microcredit issuing companies. In this year’s Budget speech, he told Parliament debt relief has been provided for about 45,000 women who are residents of the drought-affected districts of Trincomalee, Ampara, Batticaloa, Jaffna, Mullaitivu, Kilinochchi, Vavuniya, Mannar, Kurunegala, Puttalam, Anuradhapura and Polonnaruwa, who have availed themselves of micro-finance loans, up to a maximum of Rs.100,000 (initial capital) and outstanding for at least 3 consecutive months, since June 2018.

Promoting reconciliation has helped the Government to get more favourable responses from the international community, he said. The Minister questioned the Opposition as to why they dislike peace and harmony. “Is it treason to talk about racial harmony? We managed to win the GSP plus as a result of the harmony now prevailing in the country. Europe didn’t gain anything by providing us GSP plus. It is us who gets the advantage from GSP plus,” he held.

The Minister, in his speech responding to the Opposition, said Sri Lanka lost its credit ratings during the 52-day constitutional crisis, which resulted in the Government struggling to gain funds for debt repayment.

Presenting this year's Budget, the Government tabled its hopes for growth led by private enterprise, and have identified it as a part of the 'Enterprise Sri Lanka' that was introduced in the previous 'Blue Green Budget'. According to the Minister, the genuine entrepreneur who uses ingenuity to compete in a fair market, the small and mid-size businesses that embody the spirit of Sri Lankan trade and commerce, and the Sri Lankan companies that compete on the global stage and win, will be able to go forward using the facilities in Budget 2019.

"Budget 2019 is aimed at encouraging entrepreneurs and increasing production, rather than making the entire country dependent on the Government. We are putting our best foot forward to enable them to have skills, rather than providing them with free food. It is true that there is no concessionary food offered in Budget 2019. We want to create people who can stand on their feet. The Government has allocated money for the development of agriculture, rather than providing subsidised fertiliser. We want the farmers to be entrepreneurs. We have catered for the safekeeping of agriculture products in warehouses and freezers. Enterprise Sri Lanka has provided more facilities to start your own business. We have allocated Rs.1.3 billion for the development of the fisheries harbours and anchorages," he said.

Rejecting the Opposition allegation of putting up a barrier that discourages imports of small vehicles, the Minister said: "There were so many small vehicles imported to Sri Lanka last year. It was more like a vehicle tsunami that clogged the roads by sending out our valued foreign currency. However, since last Friday we have removed the 100% cash margin. In terms of the vehicle permits, discussions are underway to remove barriers along with the appreciation of the Sri Lankan rupee. Most probably this will be allowed from 1 May."

According to Samaraweera, no account receiving less than Rs.50,000 interest will be subjected to tax. "It falls that we have started to tax the children's savings accounts. You will have to have at least Rs.1.2 million in your account to receive an interest of Rs.50,000. Perhaps the rich kids of the Opposition lawmakers could enjoy such interest income, but not the average man," he said.

According to the Minister, 3.5% Nation Building Tax (NBT) will be enforced on purchases made through foreign websites, and advertisements placed on social media platforms. "There is a levy of 3.5% NBT applied on Internet purchases made from abroad. Facebook advertising will also be affected. However, it will not be applied on the local website and e-commerce transactions. So, it will only replace the stamp fee. In terms of the accommodation provided for the tourists, the hotels with over five rooms will have to be registered with Sri Lanka Tourism. Places less than five rooms may not need to register," he explained, making room for more e-commerce sites to come up in Sri Lanka.

Touching upon the State sector salaries, the Minister held that the current Government was responsible for increasing the salaries 107% during the last three years. "We have increased salaries of all State sectors, and this year we have provided an allowance of Rs.2,500 until the schemes are made. You were only using the military for marketing purposes. But we have increased their allowances. We have increased the salaries of police by 40% by our Government and their allowances," he noted. (Dailyft)

## ***Pound jumps, Asian shares rise after changes to Brexit deal***

The pound jumped yesterday and Asian shares rose after the European Commission agreed to changes in a Brexit deal ahead of a vote in the British parliament on a divorce agreement.

European Commission head Jean-Claude Juncker agreed to additional assurances in an updated Brexit deal with British Prime Minister Theresa May on Monday, but warned UK lawmakers would not get a third chance to endorse it. Sterling, which had risen ahead of the talks between May and Juncker,

extended gains in hopes the changes may be enough to sway rebellious British lawmakers who have threatened to vote down May's plan again yesterday.

The pound was up 0.7%, buying \$ 1.3239 and taking its gains for two days to more than 1.6%.

In early trade, MSCI's broadest index of Asia-Pacific shares outside Japan was up 0.3%, following on from a rally on Wall Street overnight.

Australian shares were up 0.4%, while Japan's Nikkei stock index jumped 1.6%.

The amended Brexit deal gave a further boost to investors' appetite for riskier assets, after global equity indexes climbed overnight on gains in technology stocks and expectations of more stimulus from China.

US shares rebounded from a week-long losing streak, with news that US chip supplier Nvidia Corp has agreed to buy Israeli chip designer Mellanox Technologies Ltd. for \$ 6.8 billion helping to boost tech shares.

A nearly 7% gain in Nvidia shares helped to propel the Nasdaq Composite 2.02% higher, to 7,558.06 points.

The Dow Jones Industrial Average rose 0.79%, with gains tempered by a 5.3% drop in Boeing shares after some airlines grounded the company's new 737 MAX 8 passenger jet following a second deadly crash of the airliner in five months.

The S&P 500 gained 1.47% to 2,783.3.

In a morning note, analysts at ANZ said comments from US Federal Reserve Chairman Jerome Powell on the weekend that the central bank is in no hurry to raise rates had helped to boost riskier assets.

US retail sales data from January, which came in above expectations, also helped to support shares despite downward revisions to December data, National Australia Bank analysts said in a note. Yields on US Treasury bonds rose, with benchmark 10-year Treasury notes at 2.6591% compared with its US close of 2.641% on Monday.

The two-year yield was at 2.4957% compared with a US close of 2.477%.

The dollar index, which measures the greenback against a basket of rivals, shed 0.18% to 97.034. But the dollar gained against the yen, adding 0.12% to 111.31.

The euro was up 0.1% on the day at \$1.1259. US crude ticked up 0.3% at \$ 56.96 a barrel. Brent crude was also 0.3% higher to \$ 66.77.

Spot gold was 0.1% less precious at \$ 1,292.77 per ounce. (Dailyft)

### ***Secondary market bond yields increase following bond auctions***

The two Treasury bond auctions conducted yesterday were successfully subscribed for its total offered amount of Rs. 70 billion at its phase I stage. The 5 year maturity of 15.03.2024 recorded a weighted average of 11.04% while the 10 years and 2 month maturity of 01.05.29 recorded a weighted average of 11.35%.

Activity in the secondary bond market picked up yesterday as yields were seen edging up during the latter part of the day following the bond auction outcomes. The auctioned maturities of 15.03.24 and

01.05.29 were seen changing hands at levels of 11.05% to 11.08% and 11.45% respectively. In addition, the maturities of the two 2021's (i.e. 01.08.21 & 15.12.21), two 2023's (i.e. 15.03.23 & 15.12.23) and 01.08.26 were seen trading at levels of 10.65% to 10.70%, 10.85% to 10.90% and 11.03% to 11.15% respectively as well. On the short end of the curve, the one year bill and the 01.05.20 bond was seen changing hands at levels of 10.50% and 10.47% to 10.53% respectively.

Today's Treasury bill auction will see an total amount of Rs. 24 billion on offer consisting of Rs. 3 billion on the 91 day bill, Rs. 5 billion on the 182 day bill and a further Rs. 16 billion on the 364 day bill. At last week's auction, the weighted average on the 364 day bill was seen dipping to 10.64% while all bids received for 91 day and 182 day bills were rejected.

The total secondary market Treasury bond/bill transacted volumes for 11 March was Rs. 2.45 billion.

In money markets, overnight liquidity stood at Rs. 19.44 billion as the OMO department of Central Bank injected an amount of Rs. 10.00 billion on seven day basis at a weighted average of 9.00% by way of a Reverse Repo auction. Overnight call money and repo averaged 8.91% and 8.92% respectively.

#### Rupee dips further

In the Forex market, the USD/LKR rate on the spot rate dipped further to close the day at Rs. 178.82/90 against its previous day's closing levels of Rs. 178.50/65 on the back of continued buying interest from banks and importer demand.

The total USD/LKR traded volume for 11 March was \$ 51.20 million.

Some forward USD/LKR rates that prevailed in the market were: 1 month - 179.80/00; 3 months - 181.60/80; 6 months - 184.60/90. (Dailyft)

### ***Asian Stocks Drop as Rally Eases; Pound Holds Loss: Markets Wrap***

Stocks in Asia dropped Wednesday as the positive sentiment at the start of the week faded for lack of fresh data alleviating global growth concerns. The pound held losses as the U.K.'s Brexit woes deepened anew.

Shares posted losses across the region, with the heaviest declines coming in Japan, while futures signaled lower starts in Europe and the U.S. Earlier, the S&P 500 Index closed slightly higher. Treasuries and the dollar steadied after yields fell Tuesday in the wake of softer inflation data that bolstered bets the Federal Reserve will remain patient. Australia's dollar weakened with bond yields after weak consumer confidence data reinforced a deteriorating outlook for the economy. The yen edged higher. OECD gauge has slipped lower, pointing to easing global momentum

"We're pretty concerned about the direction of global growth partly because we can't see who is going to come and save us this time," Steve Diggle, CEO and founder of Vulpes Investment Management Ltd., told Bloomberg TV in Singapore. "We are way ahead of the fundamentals after this bounce" in risk assets this year, he said.

Sterling is on the back foot again after U.K. lawmakers Tuesday rejected the government's latest deal to leave the European Union, raising the prospect that the divorce will be delayed or even reversed. Parliament will now probably vote to postpone Brexit this week, and lawmakers -- including some of May's own Cabinet -- will likely try to maneuver to force the government to rip up its Brexit plans and start again.



Alongside Brexit developments, investors have a slew of economic data to digest. The latest inflation reading came amid falling prices for autos and prescription drugs, adding to evidence the American economy is in no danger of overheating. In the coming days the focus will turn to Chinese production and retail sales, as well as a Bank of Japan policy decision.

China A-Shares 'Affordable,' Principal Global's Chandgothia Says

Binay Chandgothia, portfolio manager at Principal Global Investors, discusses the outlook for markets.  
Source: Bloomberg

Elsewhere, crude oil prices climbed after an industry report showed an unexpected drop in U.S. fuel supplies.

Here are some of the key events coming up:

- Chinese retail sales and industrial production data are scheduled for release this week. The National People's Congress is set to wrap up on Friday.
- Bank of Japan Governor Haruhiko Kuroda will speak on Friday, after he and his board meet to decide on monetary policy.

And these are the main moves in markets:

Stocks

- The MSCI Asia Pacific Index fell 0.7 percent at 12:26 p.m. in Tokyo.
- Japan's Topix index slipped 1.2 percent.
- Hong Kong's Hang Seng Index fell 0.5 percent.
- Australia's S&P/ASX 200 Index declined 0.5 percent.
- Shanghai Composite slipped 0.3 percent.
- South Korea's Kospi index declined 0.9 percent.
- Futures on the S&P 500 Index fell 0.3 percent. The underlying gauge increased 0.3 percent Tuesday.

Currencies

- The yen rose 0.1 percent to 111.21 per dollar.
- The offshore yuan fell 0.1 percent to 6.7157 per dollar.
- The Australian dollar lost 0.4 percent to 70.56 U.S. cents.
- The euro bought \$1.1284, little changed.
- The British pound rose 0.1 percent to \$1.3085 after declining 0.6 percent.

Bonds

- The yield on 10-year Treasuries rose one basis point to 2.61 percent.
- Australia's 10-year bond yield dropped seven basis points to 1.96 percent, falling below 2 percent for the first time since 2016.

Commodities

- Gold rose 0.3 percent to \$1,305.05 an ounce.
- West Texas Intermediate crude gained 0.5 percent to \$57.13 a barrel.  
(Bloomberg)