NEWS ROUND UP

Thursday, December 13th, 2018

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Sri Lankan stocks end up, foreigners buy into Sampath Bank

Sri Lankan stocks closed higher Wednesday with continued foreign selling in John Keells Holdings and foreign buying seen in Sampath Bank, brokers said.

The All Share Price Index closed at 6,035.27, up 9.01 points or 0.15 percent while the more liquid S&P SL20 index ended at 3,151.00, up 2.52 points or 0.08 percent.

Crossings or negotiated block deals dominated the total turnover of 904 million rupees, brokers said.

Crossings accounted for 55 percent of the turnover with one crossing each in National Development Bank at 106.5o rupees and retailer Odel at 26.80 rupees a share.

Foreign investors were net sellers of 272.2 million worth of shares, with estimated net foreign buying mainly in Sampath Bank and selling mainly in JKH.(EconomyNext)

Sri Lanka parliament votes to back Wickremesinghe

Sri Lanka parliament has supported ousted Prime Minister Ranil Wickremesinghe with with 117 legislators out of 225 voting in favour of a resolution to express confidence in him after President Maithripala Sirisena plunged the country into a crisis by appointing Mahinda Rajapaksa in his place.

The Janatha Vimukthi Peramuna which has 6 members were absent, after voting against Wickremesinghe in a vote of no confidence earlier in the year.

The JVP had voted against Rajapaksa.

President Sirisena had refused to reappoint Wickremesinghe as Prime Minister despite repeated no confidence motions against Rajapaksa.

Sri Lanka's Supreme Court has barred Rajapaksa from acting in office.(EconomyNext)

Sri Lankan teas moved from estates to avoid strike impact

Sri Lankan tea brokers have moved teas from estates to minimise the impact of a strike by unions with the Colombo auctions seeing firm demand by buyers trying to meet their needs before shortages occur.

Tea estate unions have struck work to back demands to double their daily wage to 1,000 rupees, which regional plantations companies say they cannot afford given sliding tea prices.

Global tea trading company Van Rees said in a report there was good overall demand at the last auction.

Buyers displayed their intention to cover their reqirements in anticipation of a shortfall if the strike drags on.

Van Rees said brokers had moved out most of the made tea from estates to minimise the impact of the strike which had caused concern among exporters. (EconomyNext)

Sri Lanka, UNDP to improve tourism sustainability standards

Sri Lanka's state tourism office will be launching a sustainable tourism certificate scheme for the industry in partnership with the United Nations Development Programme in 2019, an official said.

"Next year we are planning to implement a sustainable tourism certificate scheme for the country with the UNDP," Sri Lanka Tourism Development Authority Director General Upali Ratnayake said.

Speaking at the Sri Lanka Tourism Awards 2018, he said that the certification will incentivize local businesses to improve sustainability standards.

"You have to bear in mind that we are responsible for utilizing our own resource base," he said.

"The environment, the culture, heritage and society is our essence of tourism."

The new hotel star grading system launched in 2016 takes into consideration some sustainability aspects, but analysts warn that it is not enough, and that the star grading system is being ignored by modern travelers who value peer reviews on the internet.

Research done by Ralph Buckley, a tourism academic at Griffith University in Australia, shows that businesses tend to implement superficial sustainability practices as public relation exercises if achieving sustainability targets is left to the industry.

Many hotels have been accused of sucking up ground water, depriving the resource for local communities.

Others have been found to dump untreated sewage and solid waste into rivers, lakes and oceans.

Accommodation units have also been built ignoring environmental standards.

However, some local businesses have won international recognition for sustainable practices.

Following the end of a civil war in 2009, tourist arrivals to Sri Lanka have grown a compounded 18.25 percent annually from 2010 to 2017, to reach 2.1 million visitors.

This has started a debate on how many tourists Sri Lanka can accommodate for a year, given its environment, culture, and economic and technological constraints.

The government has already admitted that popular attractions such as the heritage site Sigiriya and the national park Yala are over visited.

Sri Lanka last year commissioned a report on the tourism capacity of the country's tourism regions, but it is yet to be published.

Globally, overtourism is becoming an issue among popular destinations, with Bali facing a water crisis and residents in Barcelona, Paris and Venice growing more resentful towards tourists.

The United Nations World Tourism Organization recently said that overtourism is becoming a big concern.(EconomyNext)

Dow rises more than 150 points on new US-China trade hopes

Stocks jumped Wednesday following the latest twist in the US-China trade saga, but the enthusiasm cooled off toward the end of the day.

President Donald Trump suggested that he could use the arrest of Meng Wanzhou, the chief financial officer of Chinese tech giant Huawei, as a bargaining chip in trade talks. Trump told Reuters in an interview Tuesday that he'd consider getting involved in Meng's case if it could help move trade talks along.

"If I think it's good for the country, if I think it's good for what will be certainly the largest trade deal ever made -- which is a very important thing -- what's good for national security -- I would certainly intervene if I thought it was necessary," Trump said.

The Dow surged more than 450 points at one point before pulling back as the day progressed. The Dow finished Wednesday up only 157 points, led by gains in US companies with significant exposure to China, such as Apple (AAPL), Boeing (BA), Caterpillar (CAT) and 3M (MMM).

The S&P 500 and Nasdaq ended the day higher as well but also finished near their lowest points of the day. Nonetheless, the rally helped push the Dow and S&P 500 closer to breakeven territory for the year. The Nasdaq is up nearly 3% in 2018.

China's Shanghai Composite and Hong Kong's Hang Seng also rallied Wednesday. And shares of leading Chinese companies that trade in the United States -- including Alibaba (BABA), Baidu (BIDU) and JD (JD) -- were all higher.

Stocks also got a lift from a Wall Street Journal report that suggested China is looking to soften some of its protectionist stances and allows more access to the Chinese market for US and other foreign companies.

The market has been extremely volatile for the past few weeks, rising and falling with the latest headlines about what's next for US-China trade relations.

But some experts are shaking off the turmoil.

"Volatility doesn't strike us as anything out of the ordinary," said Thomas Cole, CEO of Distillate Capital, a Chicago-based investment manager.

"Is there something looming that will cause corporate cash flows to be in trouble? It doesn't seem like there is anything egregious," Cole said.

Stephen Lee, a portfolio manager with Logan Capital, added that the uncertainty with trade talks has created some good values for investors, who should be focusing less on day-to-day headlines and more on corporate earnings.

"Fundamentals will drive things more next year. Merit starts to matter," said Lee, adding that Nike (NKE), Amazon (AMZN) and MasterCard (MA) are companies that look attractive. (CNN)

Nearly half of US CFOs fear a 2019 recession

America's finance chiefs fear the economic expansion is nearly over.

Almost half (48.6%) of US chief financial officers believe the United States will be in recession by the end of next year, according to the Duke University/CFO Global Business Outlook survey released on Wednesday.

And 82% of CFOs surveyed by Duke believe that a recession will begin by the end of 2020.

"The end is near for the near-decade-long burst of global economic growth," Duke finance professor John Graham said in a statement.

The CFO survey's pessimism about 2019 will raise eyebrows because mainstream economists are still projecting steady, albeit slower, growth next year.

Wall Street has begun to sniff out an economic slowdown, evidenced by the wave of selling and extreme volatility infecting the stock market. The S&P 500, down 8%, is on track for its worst quarter since 2011. Banks, which are especially exposed to economic trouble, have plummeted.

Some economists are getting more worried, but few are calling for an imminent recession.

"That's a surprisingly high number, maybe even shockingly high," Ameriprise chief economist Russell Price told CNN Business of the Duke survey. "I'm not worried about a recession in 2019 unless it comes about due to a man-made situation."

Price said that the US economy is strong enough to avoid a recession next year unless the Federal Reserve makes a mistake by aggressively raising interest rates or the US-China trade war "deteriorates substantially."

The Duke survey, taken on December 7 and featuring CFOs from 212 US companies, signaled finance chiefs are pessimistic about corporate earnings. CFOs are calling for 4.5% earnings growth over the next 12 months, down from nearly 13% as of September. Capital spending, hiring and revenue estimates were all downgraded.

After hitting an all-time high in the third quarter, US CFO optimism about the economy declined in this quarter's Duke survey. Not surprisingly, executives are nervous about America's workforce. The percentage of CFOs reporting difficulty hiring and retaining qualified employees rose to an all-time high. (The Duke CFO survey began in 1996.)

Companies were split on the impact of the trade situation. Half indicated trade conditions and tariffs will hurt them, while half expect the environment will help.

Mainstream economists say the odds of a 2019 recession have gone up, though they don't see it as the base case.

Last week, S&P Global Ratings warned "signs of cooling could be emerging" in the US economy. The credit ratings firm raised its odds of a recession in the next 12 months to a range of 15% to 20%, up from 10% to 15% in August.

"This cycle is either in -- or fast approaching -- its latter stages," S&P said.

JPMorgan Chase estimates that the odds of a 2019 recession, based on a combination of economic data and market signals, has climbed to 36%, up from 25% at the end of September.

The economic expansion that began in June 2009 is the second-longest in American history. If it stays alive until July 2019 it would surpass the 1991-2001 boom as the longest expansion on record.

The outlook for 2020 looks more precarious. Just 18% of the CFOs polled by Duke believe the United States will avoid a recession prior to the end of 2020.

"All of the ingredients are in place," Duke professor Campbell Harvey said in the report. He pointed to elevated market volatility, the impact of "growth-reducing protectionism," and the "ominous" flattening of the yield curve.

The yield curve is one of Wall Street's most reliable fortunetellers. The gap between the two-year and 10-year Treasury yields is getting uncomfortably close to inverting. That occurs when shortterm rates are higher than long-term ones. Inversion has occurred prior to every US recession over the past 50 years.

No matter when the next recession strikes, Corporate America could have a debt problem. Egged on by low interest rates, US companies have taken on tons of debt over the past decade.

Former Federal Reserve chief Janet Yellen told New York Times columnist Paul Krugman on Monday that "quite high" levels of corporate debt are "a danger," according to CNBC."

"High levels of corporate leverage could prolong the downturn and lead to lots of bankruptcies," Yellen said. (CNN)