

NEWS ROUND UP

Friday, September 14 , 2018

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No change in policy direction: Eran

Despite global challenges, twin deficits and slow growth, the Government remains dedicated to its reform policies centered on fiscal consolidation and liberalisation, State Minister of Finance Eran Wickramaratne said yesterday, ruling out a change of direction.

Speaking at the Sri Lanka Economic Summit titled 'On the fast track to a turnaround', organised by the Ceylon Chamber of Commerce (CCC), Wickramaratne acknowledged that significant challenges remained for the Government as it headed towards elections next year. Displaying a frank perspective of the situation faced by the Government as it attempts to stick to its fiscal consolidation process in the midst of slow growth, political uncertainty, high interest rates, appreciating dollar, rising oil prices and weather woes, Wickramaratne counselled the private sector to take a long-term perspective.

"We will not divert from fiscal consolidation because we think that we need to look at the vulnerabilities and take a much longer perspective. Given the reforms that we have undertaken in 2017 the macroeconomic indicators are doing better, budget deficit and inflation are trending down, while reserves and exports are up," he said.

However, the road has been hard, he conceded, noting that the narrower fiscal space had resulted in fewer opportunities for economic expansion. He also agreed with the fellow panellists who were present at the conference who pointed out that attracting significant Foreign Direct Investment (FDI) remained elusive for Sri Lanka, despite nearly a decade of peace and attempts to improve its standing in the Doing Business Index rankings of the World Bank.

"Looking at some of the measures taken since 2015 in terms of reforms, one of the casualties has been the growth rate because of the other fiscal discipline that has been put in place. Sri Lanka is in a more vulnerable situation because of the twin deficit we face. In 2015 the budget deficit as a percentage of the GDP was in excess of 7%, while it has now come down to 5.5% and we hope it will go below 5% in 2018."

Political realities have also intruded on the path to reform with elections around the corner forcing the Government to make concessions and shift policy trajectory, however minutely. Wickramaratne praised the 'Enterprise Sri Lanka' program of Finance Minister Mangala Samaraweera, touching on the importance of creating entrepreneurs and calling for more support as the Government and banks would eventually have to limit their reach. For the State Minister, Sri Lanka's current economic challenges were the result of decades of imprudent policy decisions, which could not be turned around by one government in the space of five years.

"Politicians will have to think about the next election. This is the conflict that we are facing immediately. This is what the Finance Minister is grappling with over the next few weeks. Sri Lanka has over time unfortunately made the wrong decisions. Unlike a single-party government, under a single mandate which is able to take unilateral decisions, unity governments sometimes by their nature have re-visitation."

"Looking at reforms there are a lot of sensitive issues we need to look at. But as politicians we don't want to talk about them because they are so sensitive. We don't have a decade, we just have a few months before the next election," he added.

Matters have not been helped by private sector groups lobbying for tax concessions and other relief, Wickramaratne went on to say. Nonetheless, the Government has made an effort to maintain policy consistency and stick to crucial reforms such as the Inland Revenue Act (IRA), which was implemented earlier this year.

“We have to understand the benefits of competition, not protection. Most people who come to see us generally want their industries protected. Our exporters have done extremely well, so we can compete. We must compete. There is no other way for this country to grow unless we are ready to compete, we have to access larger markets. We have to be the gateway to the South Asian market.”

“We have undertaken tax reforms, but we will be removing para tariffs over the next period. I know that will mean competition from a airport development levy to cesses. We are going in that direction.”

Such reforms would have to be supported by the public sector, which remains a critical facilitator of economic growth, Wickramaratne emphasised.

“Public sector reform I believe should be the number one objective of the new President’s mandate.”

Responding to a remark made by International Monetary Fund (IMF) Resident Representative Dr. Eteri Kvintradze on how Sri Lanka should know where it was headed because otherwise it may end up somewhere other than its goal, Wickramaratne insisted the country was aware of where it was heading and it was for Sri Lanka to figure out its own destination.

“This is our economy and this is our country. We think we know where we are going and we will make sure that it goes in that direction.”

(DailyFt)

Kapila Jayawardena appointed Seylan Bank Deputy Chairman

The Seylan Bank Board of Directors has appointed its Non-Executive Director and LOLC Group Managing Director/CEO Kapila Jayawardena as Deputy Chairman of the Board with effect from 10 September, according to a CSE filing.

Director/CEO Kapila Jayawardena

Jayawardena holds a MBA in Financial Management and is a fellow member of the Institute of Bankers and an Associate Member of the Institute of Cost and Executive Accountants, London. He served as Country Head and CEO (Sri Lanka and Maldives) of Citibank NA from 1998 to 2007.

Jayawardena joined LOLC in 2007 as the Group Managing Director/CEO of LOLC Group and is also the Chairman/Director of Eden Hotel Lanka PLC, LOLC General Insurance Ltd., LOLC Securities Ltd., Palm Garden Hotels PLC, Browns Capital PLC, Director Seylan Bank PLC, BRAC Lanka Finance PLC, Brown and Company PLC, Riverina Resorts Ltd., LOLC International Ltd., Browns Investments PLC, Browns Advanced Technologies Ltd., LOLC Asia Ltd., LOLC Private Ltd., and Ceylon Ltd.

Moreover, he also serves on the Boards of the subsidiaries of the LOLC Group.

Jayawardena will represent the material shareholders of Seylan Bank, Brown and Company PLC and LOLC Investments Ltd.

LOLC Investments currently owns 9.55%, and Brown and Company owns 13.87% of the voting shares of the bank. In addition, Lanka ORIX Leasing Company PLC has 43.93% interest in the non-voting shares. (DailyFt)

Tea volumes drop to 18-month low

Tea auction volumes continued to decline due to adverse weather conditions in the tea-growing regions, tea brokers said yesterday, with the lowest volume on offer since March 2017.

Auction No. 38, the catalogues for which were closed last week, totalled 5.2M/kg, of which Ex-Estate offerings comprised 0.6M/kg, Forbes and Walker said in their latest auction report.

Auction offerings declined significantly and totalled 5.8M/kg. There was fair general demand all-round, mostly at firm to easier rates, it added.

Ex-Estate offerings totalled 0.73M/kg, recording a decline over 0.8M/kg on offer the previous week.

Overall, quality showed a general decline. Consequently, the majority of the better tea lost out in value with the seasonal Uvas recording a sharp decline in prices. Best Western BOPs were mostly easier following quality, whilst the corresponding BOPFs declined Rs. 10-20 per kg, barring a few select invoices which appreciated following special inquiry.

In the Below Best category, BOPs declined up to Rs. 20 per kg, whilst the BOPFs were firm to irregularly easier. At the lower end, coloury BOPs gained Rs. 10-20 per kg, whilst the thin liquoring teas were neglected. Corresponding BOPFs - neat leaf invoices gained Rs. 20 per kg, whilst the others were irregular.

Nuwara Eliya BOPs were irregular and barely steady whilst the corresponding BOPFs declined Rs. 20 per kilogram. Uvassellawas remained irregular following quality. Uva seasonal teas were substantially lower following limited inquiry and the general decline in quality. Coloury BOPs were firm, whilst their corresponding BOPF declined up to Rs. 20 per kg. The limited availability of liquoring leafy teas met with improved demand and appreciated substantially on their last levels.

A total of 2.8M/kg came up for sale in the Leafy/Tippy catalogues. There was fair demand. In the Leafy catalogue, better made BOP1/OP1s sold at dearer rates. Others were barely steady following quality. Select best PEK/PEK1s too were firm to dearer whilst others declined. OP/OPAs were in general irregular and lower barring a few select best teas that held firm.

In the Tippy catalogue select best FBOP/FF1s together with the cleaner secondaries met with better demand this week and were mostly firm to dearer. Prices declined where others quality was not maintained.

At the lower end too cleaner varieties gained Rs. 5-10 per kg and more. In the Premium catalogue, prices were mostly irregular and lower compared to the preceding sale. There was fair demand from CIS, Saudi Arabia, Iraq, Libya, Turkey and Dubai.
(DailyFt)

Hambantota Port signs historic TSA with K-Line

The Hambantota International Port Group (HIPG) has entered into its very first Terminal Service Agreement (TSA) with K-Line Ltd. (KLPL), one of the world's largest Ro Ro operators and a member of the global giant in transportation, Kawasaki Kisen Kaisha Ltd. of Japan.

The TSA was a result of K-Line's decision to partner HIPG to improve its throughput via the Hambantota Port, as the international standard service delivery levels consistently achieved and maintained by HIPG met with its own exacting levels.

A high-powered delegation from K-Line led by KLPL President and CEO Makoto Hashizume arrived at the Hambantota Port recently and was welcomed by HIPG CEO Ray Ren and COO Tissa Wickramasinghe.

The reception was followed by the signing ceremony that took place at the administration offices of HIPG.

Leveraging synergies and views on future cooperation were points of discussion between K-Line and HIPG during the signing ceremony. Key amongst the subjects taken up were improvement of future service quality and ways of improving throughput volumes.

The signing of the TSA is not only a first for HIPG but a milestone for the Sri Lankan industry as this is the first such agreement to be signed with a Ro Ro operator in the country's history. (DailyFt)

Janashakthi acquires 31% stake of Dunamis Capital for Rs. 1.4 billion

Janashakthi PLC (JPLC) yesterday announced the acquisition of 31.14% of the issued capital of Dunamis Capital PLC, the holding company of First Capital PLC and Kelsey Developments PLC, for Rs. 1.4 billion (Rs. 36.60 per share). The sellers were Nextventures Ltd. and Dinesh Schaffter.

The transaction will result in the consolidation of all of the listed holdings of the Schaffter family under one entity, making Janashakthi PLC the parent company of all the family-controlled businesses.

Speaking on behalf of the Schaffter family, Janashakthi PLC Chief Executive Officer Ramesh Schaffter, said that the restructure brings about a return to the status-quo that existed 12 years ago.

“The transaction will function as a launchpad for a range of strategic partnerships in future, which the company is confident it will attract, given its current structure and growth prospects. The fusion of multidimensional expertise within the finance industry via its insurance, investment banking, asset management, stock brokering and non-banking finance companies consolidates JPLC as a leading financial services conglomerate in the country.”

Consequent to the acquisition, Janashakthi PLC will make a mandatory offer to all other shareholders of Dunamis Capital. With the undertaking from Dinesh Schaffter and Manjula Mathews to accept the mandatory offer, upon conclusion of the mandatory offer, JPLC is expected to have a shareholding in excess of 90% in Dunamis Capital. The transaction will result in Dunamis Capital along with First Capital and Kelsey Developments becoming subsidiaries of Janashakthi PLC.

First Capital Holdings is the investment banking arm of the Dunamis Capital Group and consists of First Capital Treasuries, First Capital Asset Management, First Capital Equities, First Capital Markets, and First Capital Ltd. Kelsey Developments is the property development arm of the Dunamis Group.

Incorporated in 1994, Janashakthi PLC is the holding company of Janashakthi Insurance PLC, Dunamis Capital Group and Orient Finance PLC. It is headed by Chief Executive Officer Ramesh Schaffter, and the Board of Directors comprises C.T.A. Schaffter, Prakash Schaffter, Ramesh Schaffter, Eardley Perera and Mohan Dias.

(DailyFt)

Rupee touches record low

The rupee hit a fresh low against the dollar on Thursday but sources said the market expects the currency to recover, tracking gains in other emerging market currencies.

Hard-hit emerging market currencies were 0.43 percent stronger, helped by a weaker greenback. The US dollar index fell as hopes grew of concessions by Canada that would resolve disputes over reworking the North American Free Trade Agreement.

The Sri Lankan rupee touched a fresh low of 162.92 per dollar, surpassing its previous low of 162.70 in the previous session.

The currency ended at 162.80/90 per dollar, weaker from Wednesday's close of 162.35/45.

Sri Lanka's Finance Ministry would not intervene in exchange rate management, junior finance minister Eran Wickremaratne said on Thursday at an economic forum.

"We believe in an independent central bank. We have given space to the central bank unlike in the past and it (exchange rate management) is independently done by the Central Bank," he said. "I understand that the central bank would intervene as and when necessary to curb excess volatility in the exchange rate. The central bank will in fact punish speculators."

Sri Lanka's Central Bank cut the net open positions of the banks last Thursday to increase dollar liquidity, forcing commercial banks to sell dollars to ease the pressure on the currency.

Currency dealers have declined to speak to the media since Tuesday, citing instructions from the central bank.

Central bank Governor Indrajit Coomaraswamy said late on Tuesday he was unaware of any such move.

The Sri Lankan rupee has weakened 0.8% so far this month after a 1.2% drop last month, and has declined 6.1% so far this year. It will be under pressure due to year-end seasonal dollar demand from importers, dealers have said.

The currency has also been hurt by weakness in the Indian rupee. India is Sri Lanka's biggest trading partner and the Indian rupee, which also hit a record low on Wednesday, has become Asia's worst performing currency this year.

Foreign investors sold government securities worth a net Rs. 6.44 billion (\$ 39.6 million) in the week ended 5 September, extending the net outflow so far this year to Rs. 53.3 billion worth of securities, Central Bank data showed.

(DailyFt)

Stocks Rally, Dollar in Worst Week Since February: Markets Wrap

Asian stocks extended a rally after their recent battering drove valuations to a two-year low, following a technology-supported advance in U.S. equities. The dollar held declines after U.S. inflation unexpectedly cooled in August.

With the dollar heading for its biggest weekly loss since February, prospects for U.S.-China trade talks and action by Turkey to support its currency, it all made for a largely positive tone Friday. Shares in Japan, South Korea and Hong Kong climbed. China stocks were little changed after August economic data. Oil headed for a weekly gain as traders keep watch on Hurricane Florence's path to the U.S. east coast.

Equities in Asia are ending the week on a high after a 10-day losing streak through Wednesday. News that the U.S. and Chinese governments are working out the details for a new round of trade talks helped lift sentiment, though it's far from certain whether meaningful progress will eventuate. U.S. stocks pulled back from the day's highs after President Donald Trump tweeted that the U.S. isn't under pressure to reach a trade agreement with China.

Nobel Laureate Shiller Says 'Risky' Stock Market Could Get a Lot Higher

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Source: Bloomberg

While U.S. equities are now “highly priced,” they could still go “a lot higher,” Robert Shiller, the Nobel laureate famed for his analysis of asset-price bubbles, said on Bloomberg Television. “The U.S. is just doing great right now in terms of the strength of the economy and the stock market,” with Trump’s tax cuts and deregulation moves helping stoke sentiment, he said.

Read more here about Shiller’s take on the market.

The pound held gains following the Bank of England’s increase to its growth forecast, with weakness in the greenback also buoying sterling. The euro retained its advance as European Central Bank President Mario Draghi expressed confidence on wage growth and the outlook for inflation. The lira kept most of its gains after Turkey’s larger-than-expected interest-rate hike.

Here are some key events coming up for the remainder of this week:

- U.S. retail sales, industrial production, consumer sentiment on Friday.

These are the main moves in markets:

Stocks

- Japan’s Topix index rose 1 percent as of the lunch break in Tokyo.
- South Korea’s Kospi index advanced 1.3 percent.
- Hong Kong’s Hang Seng gained 0.8 percent.
- The Shanghai Composite slid 0.1 percent.
- Australia’s S&P/ASX 200 Index rose 0.6 percent.
- Futures on the S&P 500 Index were little changed. The S&P 500 rose 0.5 percent Thursday.
- The MSCI Emerging Market Index gained 0.6 percent, rising for a third straight day.

Currencies

- The yen was flat at 111.97 per dollar as of noon in Tokyo.
- The offshore yuan held at 6.8483 per dollar.
- The euro was little changed at \$1.1693.
- The Bloomberg Dollar Spot Index was little changed Friday, down 0.9 percent for the week.

Bonds

- The yield on 10-year Treasuries held at 2.97 percent.
- Australian 10-year government bond yields were steady at about 2.60 percent.

Commodities

- West Texas Intermediate crude rose 0.4 percent to \$68.83 a barrel.
- Gold was steady at \$1,204.68 an ounce.

(Bloomberg)