# NEWS ROUND UP

*Wednesday, November 14th, 2018*

## Contents

## *Sri Lanka rupee ends weaker, stocks up 0.21-pct with Odel dominating turnover*

The Sri Lanka rupee closed Tuesday at a new low of about 176.15/25 rupees against the US dollar, as stocks closed 0.21 percent higher with fashion retailer Odel Plc accounting for a little over 93 percent of the day's 6.7 billion-rupee turnover, market participants said.

The rupee traded at an intraday low of 176.15 rupees against the US dollar in the spot market. The currency ended Monday at around 175.70/80 rupees against the greenback.

Gilt yields edged higher in the secondary market after a 98 billion rupee bond auction earlier in the day.

A three-year bond maturing in 2021 ended at 11.30/75 percent, a quoted wide compared to the previous day's closing of 11.30/55 percent.

A five-year bond maturing in 2023 edged higher to 11.60/12.00 percent, up from 11.55/85 percent the previous close.

In equities, Colombo's All Share index ended 0.21 percent higher, up 12.60 points to 5,993.54 and the S&P SL20 index of more liquid stocks gained 0.74 percent, up 22.89 points to 3,128.87.

Market turnover was 6.68 billion rupees with 66 stocks gaining against 51 that declined.

Odel gained 10 cents to close at 26 rupees after 6.23 billion worth of shares were traded during the day.

There were six crossings, or off-market negotiated trades, in Odel for 6.22 billion rupees where 248.9 million shares were traded at 25 rupees each, according to stock exchange data.

Parent company Softlogic Holdings Plc is reported to have transferred the shares to Softlogic Retail Holdings which was created to consolidate the retail activities of the group, brokers said.

The deal is treated as an internal transfer with no material change in ownership, they said. However, a disclosure was yet to be made.

Hatton National Bank (up 4.80 rupees to 214.80 rupees), John Keells Holdings (up 1.30 rupees to 152.30 rupees) and AIA Insurance Lanka (up 29.50 rupees to 950 rupees) contributed to the benchmark index gain.

Sri Lanka Telecom gained 80 cents to 22.10 rupees and Dialog gained 10 cents to 11.80 rupees.

Net foreign buying was 53.8 million rupees, down from buying of 81 million rupees the previous day.

Foreign buying in Softlogic Life Insurance was 94 million rupees, according to Asia Securities.

There was a crossing each in Softlogic Life Insurance for 61.2 million rupees and Teejay Lanka for 33 million rupees.Teejay Lanka gained 90 cents to 32.90 rupees. (EconomyNext)

# *Sri Lanka raises rates, cuts reserve ratio amid BOP trouble*

Sri Lanka's Central Bank has raised rates by 50 basis points and cut the reserve ratio by 150 basis points to release liquidity shortages that came from defending a soft-pegged exchange rate regime.

"The large and persistent shortage in rupee liquidity required the Central Bank to conduct open market operations (OMOs) on a short- and long-term basis in addition to overnight operations," the Central Bank said in a statement.

The liquidity shortages came from defending a peg and maturing swaps.

The cut in the reserve ratio would release liquidity to the interbank markets and reduce a large portion of the short, sterilizing a large volume of iterventions made since the beggining of September, when balance of payments troubles intensified.

Sri Lanka's rant into balance of payments trouble from February 2018 after the central bank failed to mop up inflows as credit picked up.

The central bank hiked its overnight liquidity facility by 50 basis points to 9.0 percent.

The full statement is reproduced below:

Economic Research Department 14.11.2018

The Monetary Board of the Central Bank, at its meeting held on 13 November 2018, decided to reduce the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks by 1.50 percentage points to 6.00 per cent. In order to neutralise the impact of this reduction and maintain its neutral monetary policy stance, the Monetary Board decided to increase the Standing Deposit Facility Rate (SDFR) of the Central Bank by 75 basis points to 8.00 per cent and the Standing Lending Facility Rate (SLFR) of the Central Bank by 50 basis points to 9.00 per cent.

The Board arrived at this decision following a careful analysis of current and expected developments in the domestic and global economy and the domestic financial market, with the broad aim of stabilising inflation at mid single digit levels in the medium term to enable the economy to reach its potential.

**Tight monetary conditions persisted in the domestic market**

The large and persistent shortage in rupee liquidity required the Central Bank to conduct open market operations (OMOs) on a short- and long-term basis in addition to overnight operations. Overnight interest rates were allowed to remain around the upper bound of the policy interest rate corridor reflecting the prevailing liquidity conditions. The yields on government securities experienced a notable increase in recent weeks while most other market interest rates remained high both in nominal and real terms. 2

Year-on-year growth of broad money (M2b) continued its deceleration in September 2018. Nevertheless, there was a possibly short-lived acceleration in credit obtained by the private sector from commercial banks as the businesses advanced their borrowing in anticipation of measures to curb excessive spending on imports. Based on the data up to the third quarter of 2018, credit to all major sectors of the economy recorded an expansion with personal loans and advances showing a notable acceleration. It is expected that the growth of credit to the private sector would return to the expected path as measures taken by the government and the Central Bank gain traction.

**Inflation declined to low single digit levels**

Headline inflation, based on both the Colombo Consumer Price Index (CCPI) and the National Consumer Price Index (NCPI), decelerated below the desired mid single digit levels, largely driven by the decline in volatile food prices. Core inflation has also remained subdued reflecting well anchored inflation expectations due to the tight monetary policy stance maintained in the past. With these developments, headline inflation is projected to remain in low single digit levels during the remainder of the year and is expected to be maintained in the targeted range of 4 – 6 per cent during 2019 and thereafter with appropriate policy adjustments.

**Both international and domestic developments affected the external sector performance**

The expansion in import expenditure continued to outpace the growth in export earnings during the first nine months of 2018 leading to a wider trade deficit than in the corresponding period in the previous year. However, a slowdown in import expenditure is expected in the period ahead in response to the recent measures adopted as well as the depreciation of the rupee against major currencies. The moderation in tourism related inflows and workers' remittances remained a concern in terms of the performance of the external current account. In the financial account, both the government securities market and the Colombo Stock Exchange experienced net outflows of foreign investment, particularly in the context of rising global interest rates and elevated political uncertainty.

The significant growth in imports as well as recent capital outflows amidst the broad based strengthening of the US dollar exerted pressure on the exchange rate. Although the pace of depreciation has moderated recently, the Sri Lankan rupee has depreciated by 12.9 per cent against the US dollar during 2018 up to 13 November. Meanwhile, supported by the receipt of the foreign currency term financing facility of US dollars 1 billion by the government, gross official reserves amounted to US dollars 7.9 billion as at end October 2018, providing an import cover of 4.2 months.

**Economic growth is expected to remain below envisaged levels in 2018**

As per the available economic indicators, real GDP growth is likely to remain subdued and below the envisaged levels in 2018. In order to accelerate growth on a sustainable basis, it is essential that growth enhancing structural reforms are carried out within a coherent and transparent framework, rather than relying on unsustainable short term monetary and fiscal stimulus, which leads to overheating of the economy.

**The monetary policy decision is expected to have a neutral effect on the market**

Considering the current and expected developments in relation to inflation and economic growth, as well as the current conditions in the domestic money market and the foreign exchange market, the Monetary Board of the Central Bank, at its meeting held on 13 November 2018, was of the view that the continuation of the current neutral monetary policy stance is appropriate. However, the Monetary Board observed that large and persistent liquidity deficit in the domestic money market requires policy intervention, and decided to reduce the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks by 1.50 percentage points to 6.00 per cent from the current level of 7.50 per cent with effect from the next reserve maintenance period commencing 16 November 2018.

The reduction in SRR is expected to release a substantial amount of rupee liquidity to the banking system, thus reducing the cost of funds of banks. At the same time, in order to neutralise the impact of the SRR reduction and maintain its neutral monetary policy stance, the Monetary Board decided to raise policy interest rates of the Central Bank with immediate effect.

Accordingly, the Monetary Board raised the Standing Deposit Facility Rate (SDFR) by 75 basis points to 8.00 per cent and the Standing Lending Facility Rate (SLFR) of the Central Bank by 50 basis points to 9.00 per cent, thereby narrowing the policy rate corridor to 100 basis points. These adjustments are also expected to narrow the spread between deposit and lending rates in the market.

**Monetary Policy Decision:**

Standing Deposit Facility Rate (SDFR) 8.00-pct Standing Lending Facility Rate (SLFR) 9.00-pct Statutory Reserve Ratio 6.00-pct (EconomyNext)

## *Sri Lanka's Hayleys in second successive quarterly loss*

Sri Lanka's Hayleys group reported a loss of 143.4 million rupees in the September 2018 quarter, with a sharp rise in costs and minority interest earnings, despite sales growing by more than half.

The loss, compared with net profit of 168.3 million rupees the year before, was Hayleys' second successive quarterly loss, the group having lost 264 million rupees in the June 2018 quarter.

The loss amounted to 1.91 rupees per share in the September 2018 quarter compared with earnings per share of 2.24 rupees the year before.

In the six months to September 2018 the loss per share was 5.39 rupees. The share closed Tuesday at 189.60 rupees, down 5.40 rupees or 2.8 percent.

Second quarter group sales shot up 58 percent to 52.4 billion rupees from the previous year with gross profit up 71 percent to 11.6 billion rupees, interim accounts showed.

Net finance costs of Hayleys, which is in manufacturing, consumer durables, logistics and plantations, more than doubled to 2.6 billion rupees in the September 2018 quarter mainly because of the inclusion of Singer group, borrowings to fund acquisitions and exchange rate fluctuations.

Total profit after tax in the September 2018 quarter fell 23 percent to 509 million rupees while the profit share of non-controlling or minority interest rose 33 percent to 652 million rupees, the accounts showed.

A company statement said Hayleys surpassed 100 billion sales in the first half of the 2018/19 financial year, fueled by topline growth across all of its key businesses.

“The group incurred an increased net finance cost of 5 billion rupees, mainly due to the inclusion of Singer group, financing costs of the recent acquisitions and exchange rate fluctuation.”

All segments except for plantations contributed to the healthy expansion in turnover for the group during the half-year, the statement said.

“Revenue within the Consumer & Retail segment expanded substantially from 2.7 billion rupees to 31.5 billion rupees in 1HFY18/19, bolstered by the contributions of Singer (Sri Lanka) Group which were acquired by Hayleys at end of 2Q18, generating 2.4 billion rupees in operating profits.” (EconomyNext)

## *Sri Lanka Supreme Court restores parliament in boost to ousted PM*

Sri Lanka's Supreme Court on Tuesday overruled President Maithripala Sirisena's dissolution of parliament in a major boost to sacked prime minister Ranil Wickremesinghe's fight to reclaim the post from an arch-rival.

The heavily guarded court also halted preparations for a snap election in the latest twist in a power struggle that began when Sirisena dismissed Wickremesinghe on October 26 and replaced him with former strongman president Mahinda Rajapakse.

The 225-member parliament could meet as early as Wednesday to decide which of the duelling pair it backs.

Amid mounting international concern, Wickremesinghe has refused to accept his sacking and has remained in his official residence while Rajapakse has sought to build a parallel administration.

Wickremesinghe's United National Party (UNP) is the largest single party in the assembly. He told reporters that he expected the legislature to meet Wednesday, as was scheduled before Sirisena dissolved the body to prevent a majority test.

"I will go to parliament tomorrow and we will show we are the legitimate government of Sri Lanka," Wickremesinghe said at the Temple Trees residence that has become the opposition headquarters.

Wickremesinghe called the court ruling a "a victory for the people and a victory for decent politics in this country."

Parliamentary officials said Speaker Karu Jayasuriya called a meeting of political party leaders on Wednesday morning ahead of a formal meeting of legislators who could vote between Wickremesinghe and Rajapakse.

There was no immediate comment from Sirisena or Rajapakse after the Supreme Court's unanimous decision.

The UNP led petitions against the dissolution of parliament and the three-judge bench, headed by the Chief Justice Nalin Perera, gave the landmark decision to a packed court guarded by hundreds of heavily armed police and commandos.

The court said it would give a final verdict on the petition on December 7, after three more days of hearings.

The judges ordered the independent Elections Commission to halt preparations for the January 5 vote, which Sirisena had announced on Friday.

- Tight security -

Security at the courtroom had been beefed up ahead of the hearing as authorities feared clashes between rival supporters.

However, there was no trouble and supporters of Sirisena melted away when it was known that parliament had been restored.

The United States, European Union and other nations have raised concerns over the crisis in the strategically important island nation of 21 million people.

Only China has recognised the appointment of Rajapakse, who during his decade as president until 2015 relied heavily on Beijing for diplomatic and financial support.

As president from 2005 until 2015, Rajapakse ended Sri Lanka's four-decade civil war in 2009 by crushing the Tamil Tigers.

But 40,000 ethnic Tamils were allegedly massacred in the process.

During his time in office from 2001 until 2004, Wickremesinghe is credited with pulling Sri Lanka out of its first ever recession, in part with reforms that have endeared him to the West. (EconomyNext)

## *Oil nosedives 7%, its biggest plunge in three years*

Crude oil prices are in free-fall as fears of a supply glut mount.

US oil prices plummeted 7% to a one-year low of $55.69 a barrel on Tuesday. It was crude's worst day since September 2015.

The losses in the oil world have been staggering as worries deepen about excess supply. Crude is down 12 straight days, the longest losing streak since futures trading began in March 1983.

"Bearish sentiment has seized control of the oil markets," said Clay Seigle, managing director of oil at Genscape.

It's been a huge reversal considering oil spiked to a four-year high of $76 a barrel as recently as early October.

Crude crashed into a bear market last week and the selling has only accelerated since then. Not even efforts by Saudi Arabia calmed nervous oil traders down.

The kingdom announced plans on Monday to cut shipments by 500,000 barrels per day. Saudi Arabia also threw its weight behind potential OPEC production cuts at next month's meeting in Vienna.

Much of the concern surrounds the sanctions imposed on Iran. Although the Trump administration initially vowed to zero out Iran's oil exports, American officials later took a softer approach out of fear of riling the energy markets. The Trump administration granted waivers allowing China, India and other nations to keep buying oil from Iran.

Yet Saudi Arabia, Russia and the United States ramped up output in recent months in a bid to avoid a shortfall caused by Iran. US output has spiked to record highs, led by the shale boom in the Permian Basin of West Texas.

At the same time, worries about the health of the world economy have cast a shadow on the demand outlook. Nearly half the fund managers surveyed by Bank of America Merrill Lynch expect global growth to decelerate in the next 12 months, the worst outlook since November 2008.

"Even though demand seems to be holding up pretty well, there are lots of worries over trade wars, emerging markets and the strong dollar," said Michael Wittner, global head of oil research at Societe Generale. "The negative sentiment is palpable."

Meanwhile, President Donald Trump is lobbying Saudi Arabia and OPEC to keep output on track.

"Hopefully, Saudi Arabia and OPEC will not be cutting oil production," Trump tweeted on Monday afternoon. "Oil prices should be much lower based on supply!"

Seigle said that Trump's pressure has added a further element of unpredictability into the oil markets.

"Previous presidents walked on eggshells with OPEC," said Seigle.

At the same time, Saudi Arabia is still reeling from the controversy around the death of Washington Post journalist Jamal Khashoggi.

"Saudi Arabia probably correctly perceives they are in the doghouse internationally," said Seigle. (CNN)

## *Draft Brexit deal reached more than two years since divisive vote*

British and European Union negotiators have agreed on a draft Brexit deal, UK Prime Minister Theresa May's office said Tuesday, more than two years after the country voted in a divisive referendum to withdraw from the bloc.

May has called an emergency Cabinet meeting for Wednesday to discuss the draft deal, her office announced, after months of tortuous negotiations. Marathon talks this week had stretched late into the night.

A Downing Street spokesman said the Cabinet would meet at 2 p.m. Wednesday to "consider the draft agreement the negotiating teams have reached in Brussels, and to decide on next steps. Cabinet ministers have been invited to read documentation ahead of that meeting."

Key ministers were seen entering the Prime Minister's office to be briefed one by one on the text, believed to run over hundreds of pages.

It was a significant moment for May, whose rocky premiership hangs on reaching a Brexit deal. She had hoped to strike a draft agreement by this week to have any chance of getting the deal through the required ratification processes by the time Britain leaves the EU at the end of March.

She is now faced with the task of selling the deal to her divided Cabinet, amid talk that some of her senior ministers are so dissatisfied with the deal that they are considering resigning.

Even if the Cabinet grudgingly approves the draft, May must then get it through the UK Parliament, where she does not have a majority of MPs.

Boris Johnson, who resigned as foreign secretary earlier this year, made it clear he would not vote for the deal. "It is not the right way forward, there's a better deal to be done," he told Sky News. "There's no point in leaving the EU if you end up being run by the EU."

Nigel Dodds, deputy leader of the Democratic Unionist Party, a right-wing bloc from Northern Ireland that props up May's government in Parliament, said the party would consider its position. "The trick will be for Theresa May, can she satisfy everyone? It is going to be a very, very hard sell, I would have thought, but let's wait and see the actual detail," he said, according to Reuters.

EU officials urged caution, saying there were still details to be agreed upon. One diplomat said the EU was in "a waiting mood."

"The EU member states have not seen the draft. It's at the technical level. We have an idea of the main parameters, a broad backstop that includes a custom union for the UK and regulatory alignment for Northern Ireland. But the member states have not seen the text at this stage," the official told CNN on condition of anonymity.

Another EU diplomat said: "You can't consider it a deal until it's agreed by British Cabinet."

Ambassadors from the EU's other 27 states will meet in Brussels on Wednesday at the same time as the UK Cabinet.

The agreement sets out the terms of Britain's divorce from the union after 45 years of membership. It was reached after talks went through the night and the two sides agreed to all the technical details of the withdrawal.

Talks had stalled over the thorny issue of the border between Ireland, which remains an EU member, and Northern Ireland, which is part of the United Kingdom.

Both sides wanted to avoid a "hard border" between the territories but reached an impasse over the terms.

Hardline Brexit supporters in May's Conservative Party, like Johnson, have argued that the Prime Minster's negotiating approach would leave the country too close to existing EU rules and regulations.

Chief among hardliners' concerns is that an agreement on the EU-UK land border will tie the country to the EU's customs union and parts of the single trade market.

"It is vassal state stuff," Johnson said, according to Reuters. "Chuck it out." (CNN)