

# NEWS ROUND UP

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## ***Sri Lanka stocks end 0.40 percent lower, rupee in sharp rebound***

Sri Lanka stocks closed 0.40 percent lower on selling interest in John Keells Holdings and Distilleries, while the rupee gained sharply to end at 169.40/80 rupees against the US dollar and gilt yields were down, market participants said.

Colombo's All Share index fell 0.40 percent on Friday, to end 23.45 points lower at 5815.03, and the S&P SL20 index of more liquid stocks closed at 0.65 percent lower, down 19.19 points to 2,946.63.

Market turnover was 408.95 million rupees, as 65 stocks declined during the day, against the 33 that gained.

Turnover was low levels with lacklustre investor participation, brokers said.

John Keells Holdings (down 1.90 rupees to 128.10 rupees), Distilleries (down 40 cents to 17.10 rupees) and Sampath Bank (down 3.80 rupees to 225 rupees) contributed to the benchmark index decline.

LOLC Holdings ended 1.90 rupees lower at 87.60 rupees and Commercial Bank was down 90 cents down to 111.60 rupees.

Net foreign selling was 311.5 million rupees, up from selling of 50.1 million rupees the previous day.

Net foreign selling in HNB was 252 million rupees, followed by Sampath Bank for 41 million rupees,

HNB closed at 208 rupees up from one rupee on Friday.

There were three crossings, or off-market negotiated trades, in HNB totalling 200 million rupees, which was 48.9 percent of turnover.

The Sri Lanka rupee strengthened sharply to 169.40/80 rupees against the US dollars in the spot market Friday, up from the previous close of 171.35/45 rupees, on sudden selling interest of the greenback, market participants said.

The currency traded at an intraday low of 171.43 against the US dollar.

Gilt yields were lower in the secondary market.

A three-year bond maturing in 2021 ended at 11.35/50 percent down from 11.40/75 percent the previous day after spiking to 10.80/90 levels in yesterday's morning trading.

A five-year bond maturing in 2023 closed at 11.65/75 percent, down from 11.85/95 percent, after spiking to 12.05 percent in intraday trade. (EconomyNext)

## ***Sri Lanka's Lion Brewery regrets leaving Indian market***

Sri Lanka's Lion Brewery regrets leaving the Indian beer market to focus on its home market, a senior company official said, noting that many local firms are reluctant to risk venturing overseas and fear foreign competition.

Suresh Shah, Executive Director of the Lion Brewery (Ceylon) Ltd., said they understood the risks and complexities of the Indian market when they entered, but withdrew to give priority to investments to grow the home market, recovering after the ethnic war.

The Carson Cumberbatch controlled Lion Brewery withdrew from the Indian beer market in May 2011 having ventured into it in partnership with Carlsberg South Asia Pte Limited. It sold its stake to Carlsberg for 2.1 billion rupees.

“We know it is tough to do business in our region,” Shah told a World Bank forum to launch its new report on regional trade in South Asia which highlights the lack of intra-regional trade and investment.

“We understood the complexity of doing business in India. If we wanted the rewards of a very large market we had to face it. You go in knowing the risks and challenges,” Shah said.

Shah said they went into India knowing the alcohol business in India was extremely complex, more than elsewhere, and would take lot of money to succeed.

“Unfortunately, entering the Indian market involved a lot of cash upfront. We needed to expand capacity in Sri Lanka. So we took the call that we had to first protect the home market. That’s why we got out of it. We will regret it.”

Venturing into overseas markets required taking risks and staying power which many Sri Lankan firms appeared reluctant to do, Shah said.

He noted how global multinationals went into the big Chinese market although the Chinese governing system was very different to their own and markets also complex.

“Everyone who wanted to be big on a global scale are all in China,” Shah said. “A lot of them made losses and are still making losses.

“Nevertheless, they take that risk wanting to be known as global players. A lot of it is also in the mindset.”

Asked if it was apathy on the part of Sri Lanka’s private sector that so few had ventured overseas, Shah replied: “Of course it is. When you can make 100 rupees in Sri Lanka versus making 25 rupees somewhere else, 100 rupees is easy for the making here.

”If you want to take your business overseas you’ve got to be competitive and productive. Many Sri Lankan businesses are unfortunately neither productive nor competitive because we don’t face competition. Sri Lankan businesses need to be competitive for which we need to open our markets. We need to liberalise.” (EconomyNext)

## ***Sri Lanka apparel exports up 7.8-pct in Aug despite Brexit hit***

Sri Lanka’s apparel exports grew 7.8 percent from a year earlier to 444 million dollars in August 2018, despite a fall in exports to the European Union amid Brexit troubles, data from the Joint Apparel Association Forum (JAAF), an industry body, showed.

Exports to the EU fell 7.8 percent in August 2018 from a year earlier to 177 million dollars.

"The Brexit problem is disturbing the market," JAAF Secretary General Tuli Cooray said.

The British market, currently in turmoil over the uncertainty of the terms of its exit from the EU, is the biggest for Sri Lankan apparel within the EU.

The UK took in 40.9 percent of Sri Lankan apparel exports to Europe in 2017.

Payment platform Visa said that despite a small uptick in consumer spending in the UK in August, household expenditure fell again in September, reflecting an ongoing trend due to financial uncertainty.

Shipments to the US grew 21.5 percent from a year earlier to 209 million dollars in August 2018.

"Exports to the US were similar to seasonal trends from earlier years," Cooray said.

Sri Lanka is a big supplier to US-based Victoria's Secret. The brand has been hit by competition in the recent past.

Although sales for Victoria's Secret, fell 5 percent in August from a year earlier, sales grew 1 percent in September, interim financials of the parent, L Brands, showed.

Fluctuating Victoria's Secret sales over the past two years had trickled down to Sri Lanka's apparel exports to the US.

But Sri Lankan apparel manufacturers have coped by increasing sales to other brands such as Calvin Klein, which are capitalising on new consumer trends to compete with Victoria's Secret's traditional products, industry analysts say.

Apparel exports to other markets were up 20.8 percent to 58 million dollars from a year earlier.

Exports for the first eight months of 2018 were up 4.5 percent to 3.3 billion dollars from 2017.

Exports to the US were up 4.4 percent to 1.4 billion dollars from a year earlier and shipments to the EU were up 5.1 percent to 1.4 billion dollars up to August. (EconomyNext)

## ***Sri Lanka off-season tourism campaign draws over 1,000 bookings***

A campaign to boost off-season tourist traffic to Sri Lanka branded 'Island Escapes' launched in mid-September has drawn over a thousand bookings in three weeks, the island's tourism minister said.

"We have got over 1,000 bookings," John Amaratunga said told a business forum in Colombo on October 05.

The promotional campaign developed by the government with an investment of 65 million rupees was launched on September 15, and is expected to run until November.

Tourists arriving in Sri Lanka on average spend around 165 dollars per day.

The off-season tourism campaign is offering numerous budget packages, as low as 99 dollars per person for a three-night stay.

The packages were developed by the government in collaboration with some airlines, travel agencies and hotels.

In the peak December to March period, Sri Lanka got over 230,000 visitors a month.

But the island welcomed only 149,000 visitors in September up 2.8 percent, considered an off-season period.

The Tourism Ministry had said that the campaign, which features short videos on Sri Lanka and links to purchase the packagi

The campaign is mainly targetting Middle Eastern, Indian and Chinese tourist markets as well as Sri Lankans living abroad.

Depending on the success of the inaugural campaign currently underway, the government is expecting to run it annually, during the April to July and September to November off-peak seasons.

Visitors in April 2018 fell to 180,000 from 233,000 in March. May visitors were down to 129,466.

It is not clear whether price floors in the capital Colombo prevented the market from naturally cutting prices to draw visitors. However if there is wider knowledge that off-peak prices are low more visitors may come.

The off-peaks loosely correspond to rainy periods. The peak corresponds to the Western winter season.

The government was hoping the campaign would help attract 2.5 million tourists in 2018, requiring a growth of 19 percent over the year from the 2.1 million arrivals in 2017.

For the first nine months of 2018, arrivals grew 11.6 percent to 1.7 million. (EconomyNext)

## ***China bemoans 'confusing' US signals but holds hope for a Trump-Xi meet***

US President Donald Trump and Chinese leader Xi Jinping will "probably" meet at a G20 summit next month, a US official said Sunday, as both sides seek answers for a badly strained relationship that a Chinese official called "very confusing."

"The presidents will probably meet at the G20 in Buenos Aires," Trump economic adviser Larry Kudlow said on the "Fox News Sunday" program.

But he added that trade talks with China -- with each side imposing a mounting series of tariffs on the other, raising fears of a shock to the global economy -- had so far been "unsatisfactory."

"The relationship has not been positive lately," Kudlow said.

China's ambassador to the US, Cui Tiankai, raised similar doubts about the relationship between the world's two largest economic powers.

Also appearing on Fox, he said China has grown frustrated in trade talks because of conflicting signals from the Trump administration. Cui said other ambassadors in Washington shared his frustration.

"They don't know who was the final decision-maker" in the administration, he said. "Of course, presumably the president would take the final decision. But who is playing what role? It can be very confusing."

Chinese officials have complained before about receiving mixed signals from Trump's economic team. One Chinese official appealed in June to "our American interlocutors to be credible and consistent" while another called the US side "capricious."

- Litany of complaints -

The latest airing of grievances occurred at the end of a week that saw a sharp drop in the US stock market, which analysts blamed partly on uncertainties sparked by the trans-Pacific trade dispute.

At a World Bank/International Monetary Fund meeting this week in Bali, global finance chiefs warned that the US-China trade spat, coupled with rising US interest rates and tanking emerging-market currencies, could push the world to financial crisis. They added, however, that there was still time to avert such a disaster.

Trump has levied billions of dollars in tariffs on Chinese imports as he presses Beijing to change restrictive trade practices that he says unfairly hurt American businesses and innovators.

His move comes at a time when the US economy has been growing robustly while Chinese growth has slowed, adding to the pressure on Beijing.

But some Americans -- like soybean farmers whose product is being priced out of China's market by its retaliatory tariffs -- are also suffering.

- 'American intervention' -

The differences between the two sides extend beyond trade, both Cui and Kudlow acknowledged.

Cui complained about a recent incident in which a US navy ship, in a so-called "freedom of navigation" exercise, sailed close to a disputed island claimed by Beijing in the South China Sea, where China has steadily extended its presence.

"This is a very good example of American intervention into Chinese internal affairs," Cui said, adding that US officials would not be pleased to see Chinese warships in the Gulf of Mexico.

Kudlow said that relations have "not been positive lately, and we have to have reciprocity in all of these areas: trade, security, military issues. That's what is at stake."

Earlier this month, US Vice President Mike Pence issued a long litany of complaints against China. He accused Beijing of "predatory" trade practices, of military "aggression," of attacks on personal freedoms and religious minorities, and even of electoral interference aimed at unseating Trump by running ads in American newspapers.

Cui replied on Fox that Chinese media were "just learning from American media to use all these means to buy commercial pages from newspapers," adding, "This is a normal practice for all the

media."

But the ambassador also held out hope for the Buenos Aires meeting.

Two earlier encounters between the presidents, he said, had made it "clear that such top-level communication played a key role, irreplaceable role in guiding the relationship forward. And there is good mutual understanding and good working relationship between the two.

"I hope, and I'm sure, this will continue." (EconomyNext)

## ***Saudi Arabia's stock market plunges on fear of sanctions over Khashoggi***

Shares in Saudi Arabia plunged as the fallout over the disappearance of journalist Jamal Khashoggi got worse over the weekend.

The main stock market index in Riyadh fell as much as 7% on Sunday and billions of dollars were wiped off the value of leading Saudi companies. The index recovered some ground later to close 3.5% down.

Stocks have dropped as much as 9% since Khashoggi disappeared on October 2 after walking into the Saudi consulate in Istanbul. The losses wiped out all the market's gains in 2018, although it is still up 8% from a year ago.

For more than two years, the kingdom has been on an ambitious plan to modernize and diversify its economy away from oil. The plan, known as Vision 2030 and spearheaded by Crown Prince Mohammed bin Salman, aims to increase foreign investment, boost tourism and grow the private sector.

According to a United Nations report earlier this year, direct foreign investment in Saudi Arabia fell to \$1.4 billion in 2017, the lowest level in 14 years.

Still, the Saudi economy has been recovering from a recession and investors were encouraged earlier this year when index compiler MSCI granted the country emerging market status. That means that stocks traded in Saudi Arabia can now be included in broader funds, making it easier for investors around the world to put their money into the kingdom's economy.

But the unexplained disappearance of Khashoggi, a former Saudi government adviser turned critic, has already prompted some big-name business partners to cut ties with projects that are central to Saudi's plans of building a modern economy with technology at its core.

Turkish authorities claim to have evidence that Khashoggi, a US resident and columnist for the Washington Post, was murdered inside the consulate — an accusation the kingdom strenuously denies.

British billionaire Richard Branson has pulled back from two projects to develop Red Sea tourism and has suspended talks with the Saudi government about a \$1 billion investment in his space companies.

"What has reportedly happened in Turkey ... if proved true, would clearly change the ability of any of us in the West to do business with the Saudi government," he said in a statement.

And a huge investment conference dubbed "Davos in the Desert", scheduled for later this month, has seen some leading speakers and participants drop out. Most international media partners have pulled their sponsorships.

President Donald Trump has vowed that the United States will get to the bottom of what happened to Khashoggi, and has warned of "severe punishment" if he were found to have been killed in the consulate.

In a statement on Sunday, the kingdom said it rejected any threats of economic sanctions or political pressure and would retaliate accordingly.

"Markets start to price in a fundamental change in the nature of the relationship between the US and Saudi Arabia," said Jaap Meijer, managing director and head of equity research at Arqam Capital. "We believe it is not warranted given the long term relationship between the two countries, and Saudi being the swing oil producer."

Saudi Arabia has been pumping more oil into global markets to make up for a shortfall created by Trump's decision to reimpose sanctions on Iran.

There's now some doubt about whether US Treasury Secretary Steven Mnuchin will attend the Riyadh conference. At the closing press conference of the International Monetary Fund meeting in Bali, Indonesia, on Saturday he said he still planned on going.

But speaking later that day in the Oval Office, Secretary of State Mike Pompeo would not confirm that Mnuchin would be attending the Future Investment Initiative.

"I think we need to continue to evaluate the facts and we'll make that decision," he said.

The BBC reported on Sunday morning that UK Trade Secretary Liam Fox may also pull out. (CNN)