NEWS ROUND UP

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Rupee ends lower on foreign sell-off on uncertainty

The rupee ended weaker on Friday amid pressure on the currency due to foreign outflows from bonds and stocks as uncertainty from a lingering political crisis weighed on sentiment.

On Thursday, the Supreme Court ruled that President Maithripala Sirisena's decision to dissolve Parliament ahead of its term was unconstitutional, in a setback for the embattled leader in his dispute with an ousted Prime Minister.

If a Budget is not approved by Parliament this month, the Government might face a shutdown, Government officials have told Reuters. Foreigners were net buyers for the first time in 14 sessions on Friday, buying a net Rs. 56.6 million ($ 314,969) worth of stocks. But they have been net sellers of Rs. 10.6 billion since the political crisis began on 26 October.

The bond market saw outflows of about Rs. 56 billion between 25 October and 14 December, Central Bank data showed. The rupee ended at 179.90/180.10 per dollar, compared with 179.55/75 in the previous session. Credit rating agencies Fitch and S&P downgraded Sri Lanka's sovereign rating last week, citing refinancing risks and an uncertain policy outlook, after Sirisena's sacking of his Prime Minister in October triggered the political crisis.

This year, there have been Rs. 20 billion of outflows from stocks and Rs. 148.2 billion from government securities, the latest data from the bourse and Central Bank showed.

The rupee hit a record low of 180.85 to the dollar on 28 November. It has weakened about 3.8% since the political crisis began. The currency fell 1.8% in November. It has lost 17.1% this year. Moody's downgraded Sri Lanka on 20 November for the first time since it started rating the country in 2010, blaming the political turmoil for aggravating its already problematic finances.

The political paralysis remains the main concern for investors since Sirisena abruptly sacked Ranil Wickremesinghe as the Prime Minister and replaced him with Mahinda Rajapaksa, who was later voted out twice in Parliament through confidence votes.

Five-year government bond yields have risen 60 basis points since the political crisis began, while yields on Sri Lanka's dollar bonds due in 2022 have risen around a percentage point to 8.21% since then.

The Colombo stock index ended 0.04% up at 6,062.55 on Friday. Turnover was Rs. 296.8 million, well below this year's daily average of Rs. 824.6 million. (DailyFt)

Parallel upward shift of yield curve for first time in three weeks

Overall activity in the secondary bond market moderated during the week ending 14 December with most market participants opting to be on the sidelines, despite the successful conclusion of the final bond auction for the year, where the weighted average yields and volumes were impressive.

The yields of the liquid maturities of 15.12.21 and 01.08.26 were seen increasing during the week to hit highs of 11.85% and 12.10% respectively against its previous weeks closing levels of 11.50/60 and 11.80/90. Furthermore, two way quotes along the rest of the yield curve too increased, resulting in a parallel shift upwards of the overall yield curve, with foreign selling of rupee bonds for the week ending 12 December recording an outflow of Rs. 4.83 billion.

The weighted average yields at the weekly Treasury bill auction increased by 02 and 04 basis points respectively on the 182 day and 364 day maturities.

The daily secondary market Treasury bond/bill transacted volumes for the first four days of the week averaged Rs. 5.22 billion.

In money markets, the average net liquidity shortfall in the system stood at a Rs. 82.12 billion, with the OMO (Open Market Operation) Department of the Central Bank injecting liquidity throughout the week on an overnight and seven day basis at weighted averages ranging from 8.64% to 8.82% and 8.68% to 8.82%. The overnight call money and repo rates averaged 8.93% and 9.00% respectively. In addition, liquidity was also infused by way of auctions for the outright purchase of Treasury bills, where an amount of Rs. 2.15 billion was injected in total at weighted average yields ranging from 10.00% to 10.10% for periods ranging from 158 days to 186 days.

Rupee loses again

The dollar rupee rate on spot contracts closed the week lower again at Rs. 179.90/10 against its previous weeks closing of Rs. 178.60/90 on the back of buying interest.

The daily USD/LKR average traded volume for the first four days of the week stood at $ 89.08 million.

Some of the forward dollar rates that prevailed in the market were one month – 180.90/30; three months – 182.90/30 and six months – 185.90/40. (DailyFt)

Korean Depository to collaborate with Lankan counterpart CDS

Central Depository Systems Ltd. (CDS), a fully owned subsidiary of the Colombo Stock Exchange (CSE), signed a MoU with Korea Securities Depository (KSD) on the sidelines of the 22nd Annual General Meeting of the Asia-Pacific Central Securities Depository Group (ACG) hosted in Colombo.

The MoU aims to strengthen the relationship between the depositories and will pave the way for cooperation focused on knowledge sharing and mutual development. CDS Sri Lanka has previously signed agreements with depositories in India and Pakistan and formalising efforts for cooperation with KSD further strengthens regional ties of the Sri Lankan depository.

KSD and CDS Sri Lanka through the MoU aim to establish new operational linkages while maintaining a specific focus on the development of new service areas. The move will also pave the way for capacity building for both depositories, where a number of cross training opportunities for the staff are expected to be facilitated in the near future.

Commenting on the development, CSE and CDS Chairman Ray Abeywardena said: “We are pleased to further strengthen our regional ties with a fellow depository in Asia. The MoU signed is certainly a positive outcome of the ACG AGM we recently hosted in Colombo and offers CDS an opportunity to collaborate with and benefit from one of the largest depositories in the region. KSD is in a prime position to support the long-term business plan of CDS and could potentially make a vital contribution to transforming CDS into a modern depository driven by operational excellence.”

KSD Chairman and CEO Dr. Lee Byungrhae said, “We are excited to have signed a MoU with CDS, which plays a crucial role in the rapidly growing Sri Lankan capital market. This MoU will be a catalyst to facilitate the establishment of a mutual partnership between CDS and KSD. With over 40 years’ experience and knowhow as a core financial market infrastructure of Korea, we believe that KSD will have much to offer CDS in its efforts to further develop the capital market of Sri Lanka. We hope to work with CDS in conducting various knowledge sharing programs and spearhead financial market cooperation between the two countries.”

KSD is the world class securities service provider of Korea, providing custody and settlement services for the Korean securities market. KSD has a constantly evolving business portfolio which includes investment fund services, collateral management services, repo market services and securities lending and borrowing services. KSD also offers a stable and efficient financial investment infrastructure to diverse capital market participants. In addition, as a core institution of the capital market in Korea, KSD promotes the development of the financial industry. (DailyFt)

Emergence of fintech, challenges under spotlight at ACG AGM

The 22nd Annual General Meeting (AGM) of the Asia-Pacific Central Securities Depository Group (ACG), themed 'FinTech – shifting or shaping the future of CSDs', discussed key issues relating to ACG policy and activities as well as the future a Central Securities Depository (CSD) in light of new technological developments with the participation of over 100 delegates representing 19 countries across 25 depositories and clearing organisations in Colombo recently.

The two-day gathering, hosted by Central Depository Systems Ltd. (CDS), a fully-owned subsidiary of the Colombo Stock Exchange (CSE), discussed areas such as the future direction of CSDs, embracing technological change and the outlook of the CSD industry with a specific focus on considerations for Asia-Pacific (APAC).

ACG is an association of securities depositories and clearing organisations in the APAC region and was formed in 1997 to facilitate the exchange of information and promotion of mutual assistance among its members. The AGM is the premier event on the ACG calendar and it opened new ground for the Sri Lankan capital market as it marks the largest gathering of depositories and clearing organisations Sri Lanka has ever hosted.

Technological revolution shaking up financial services industry

Delivering the opening remarks at the inaugural session of the AGM, CSE and CDS Chairman Ray Abeywardena said the ACG had remained resilient despite world markets constantly seeing a fair share of challenges and continuing to do so in the face of new developments in the global financial arena, be it financial, technological or in other spheres.

Pointing out that fintech was certainly the buzzword, he asserted that the technological revolution was now shaking up the financial services industry, probably more than any other industry. According to him, mobility, access to connectivity and the emergence of alternative payment methods combined with the demand for secure, personalised and convenience-driven experiences were giving new impetus to the adoption of fintech within the financial services industry.

"In terms of the capital market, disruption driven by fintech is exhibiting entirely new conceptions of investing, trading, clearing, settlement and custody and look to drive a robust infrastructure. It is therefore opportune that we all meet here today to understand the implications of fintech on CSDs and the opportunities for CSDs to leverage fintech to drive the growth of our respective capital markets," he added.
Acknowledging that CDS was introduced to the Sri Lankan capital market in 1991 during an era of low liquidity levels and inefficiencies, he said CDS sparked the process of dematerialisation (DEMAT) and introduced electronic settlement to the country.

"Today, CDS handles DEMAT operations, accounts services, corporate action services and clearing and settlement services to its stakeholders – all possible as a result of a transformational journey of constant innovation, stakeholder focus and technical advancement. Currently, the CDS has dematerialised over

97% of listed securities, which, you would agree, is a commendable achievement for any depository," he said.

Abeywardena also noted that Sri Lanka's CDS was the first depository in South Asia to embrace the mandate of the ACG, which obtained ACG membership in 1998, a year after the formation of the group. "This year will mark another milestone in our journey as we complete 20 years as a member of the ACG," he pointed out.

As for the CDS in Sri Lanka, he said they recently announced a number of new offerings focused on raising the bar in the services offered to its stakeholders.

"We have expanded our service offering to include Corporate Action services and Registrar services for companies listed on the CSE and also privately held unlisted companies, which is essentially a forward integration into our value chain. We intend to leverage technology even further in the near future by introducing an end-to-end digital CDS account opening process, which will go a long way in making the market accessible around the country and also in broad-basing our local investor base, which is pivotal to the progress of the Sri Lankan stock market in the long run," Abeywardena outlined.

Challenges faced by CDS

Sharing further insights, ACG Chairman Dr. Byungrhae Lee emphasised that CDS as a group was faced with numerous challenges in areas such as client demand, cyber security and competition and suggested that a combination of a personal viewpoint and adapting to current situations was the only way to survive the rapid changes.

"We could maintain our independence and uniqueness and at the same time we could pursue co-prosperity through open-minded cooperation and engagement within ACG. It is important that we have our own interpretation of the current situation and adjust ourselves to the changes accordingly. The problem is that we could be tempted to be complacent and that is why we must be connected," he added.

He also elaborated on the importance of being cautious about cyber-attacks when developing new services, noting that multiple layers of intermediaries were involved in facilitating transactions which makes it challenging to remain protected at all times.

Given that member economies are agile and adoptable, Dr. Lee said digitalisation could bring about enhanced productivity and advanced technology, while on the flipside it could result in disruption and dislocation, seeing a dip in unskilled workers in transition.

"As an economic bloc, Asia has 60% global growth and is faced with problems concerning trade, population and digitalisation. Many Asian countries, including South Korea, have taken the export-driven growth model. However, with the emergence of protectionism and trade war, our region will continue to become vulnerable. Rising population is also a rising concern for many of our member economies and digitalisation is a doubled-edged sword," he added.

As technology continues to advance, he said institutions and regulators need to be more cautious and prepared if the advancement was to be reaped and enjoyed.

"People say the future is about platforms, linkages, synergic effects and integration. I say the future belongs to those who can take advantage of connectivity. In my view, this year's ACG general meeting is the very place we can enhance our connectivity," Dr. Lee stressed.

SEC calls on CDS Sri Lanka to be proactive

Securities and Exchange Commission Chairman Ranel T. Wijesinha assured that as the regulator they were deeply committed to providing assistance and support that was necessary for CDS Sri Lanka to play a larger role in the ACG and on the international stage.

"CDS in Sri Lanka needs to be more proactive and integrated with the ACG. The SEC is deeply committed to provide all the assistance and support that is necessary for the CDS to reach that goal," he added.

Sharing his remarks on fintech, he stated that embracing technology remained a key priority for capital markets around the world and went on to outline the importance of strongly considering all risk management aspects when implementing innovative technologies.

Wijesinha also stressed the need to create a taskforce to redress issues in terms of regulations, legislation and building infrastructure in ACG in order to be a proactive regulatory partner.

"To me, the role of the regulator is extremely important and the robust regulation is a fundamental ingredient in a sustainable market economy. We can't live in isolation from technological developments. We need to create taskforces to keep abreast and ready for the technological changes to come," Wijesinha added.

Central Bank reiterates support to promote e-payments

Delivering the keynote address, Central Bank Governor Dr. Indrajit Coomaraswamy told the financial services sector that the bank would not stand in the way of progress with its controls but insisted that the regulator would closely monitor processes to ensure the progress achieved did not lead to the destabilisation of the financial system.

"As a regulator, the Central Bank is faced with the challenge of promoting technological advancement, and at the same time doing so in a manner that is not disruptive and ensures the stability of the financial sector is not consolidated. This is more complex than it sounds, particularly in Sri Lanka with our financial system having a large branch network — lots of bricks and mortar. To move from a branch-based model to embracing technology without destabilising the financial system, it is a real challenge for the regulator to ensure that they don't stand in the way of progress, but ensure that the progress leads to disruption which undermines the whole system," he pointed out.

He said that regardless of who innovated, all fintech companies require a Central Bank review if it relates to the banking and financial industry.

"Sri Lanka is working to strengthen its data protection laws. Similarly, we must ensure that fintech and financial institutions respect customer data and do not misuse. Many times customers are unaware of the gravity of what they do and eventually expect regulators to protect them. Thus, all regulators need to raise awareness of the risks involved in data sharing among customers and their networks," Dr. Coomaraswamy said.

Reiterating that the Central Bank had been proactively encouraging electronic payments over cash to allow expansion of economic activities in the areas of e-commerce, he noted they had allowed non-bank fintechs to enter services such as digital payments service provision and encourage collaboration with the banking industry, which also allows them to regulate fintechs better.

"If fintech is used well it has immense potential to improve the financial services offered to the public. There is often a confusion that regulation somehow gets in the way of liberalisation and increases transaction cost, but as modern technology advances there are immense benefits. We are supportive of fintech innovations, but we are also cognizant of the regulatory challenges they hold. To address this,

the Central Bank has initiated a regulatory stamp box so that they can provide fintechs with necessary guidelines when developing their products in a safe and secure manner," he emphasised.

New electronic trading platform for domestic financial market

In terms of the payments and settlements landscape, Dr. Coomaraswamy said the Central Bank was continuously aligning its infrastructure with international best practices.

"The Central Bank plans to establish a state-of-the-art electronic trading platform and central counterparts clearing and settlement system to facilitate electronic trading and straight through processing of transactions in the domestic financial market. This would enhance transparency, develop the financial market and ensure financial system stability," he stressed.

Dr. Coomaraswamy said the proposed system had multifaceted objectives which included deepening the domestic activities of the domestic financial market to facilitate efficient price discovery and enhancing efficiency of properly managed settlement and counter party risks as well as greater investor protection to secure financial system stability.

In addition, he asserted that the National Payments Council appointed a committee to look into possible ways of reducing usage of cheques.

"One of the findings of the committee is that there is a high volume of cheques issued as dividend payments from the listed companies of the CSE, even for very small values. We encourage and request the CSE to consider the possibility of the mandatory use of electronic payment methods for dividend payments. Similarly, there are new technologies that can be explored by securities and exchanges," he added.

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CDS in Sri Lanka needs to be more proactive and integrated with the ACG. The SEC is deeply committed to provide all the assistance and support that is necessary for the CDS to reach that goal - Securities and Exchange Commission Chairman Ranel T. Wijesinha

Other speakers of the inaugurations session included APAC Digital Asset Business Development Director Jonathon Rout, McKinsey and Company Associate Partner Dr. Andreas Waschto, China Securities Depository and Clearing Corporation Ltd. Deputy Chairman and General Manager Dr. Wenhua Dai, LSEG Technology Head of Post Trade Solutions Terry P. Gibson and an eminent line-up of international and local professionals as panellists.

LSEG Technology, the technology business of the London Stock Exchange Group, supported the 22nd ACG AGM as the Platinum Sponsor. SWIFT, Central Depository Services (India) Ltd. (CDSL), Percival, LankaClear, Iron One Technologies Ltd. and Deutsche Bank supported the event as Silver Sponsors. HSBC and Citi Bank were the Bronze Sponsors of the event.

(DailyFt)

Asian Stocks Mixed as Sell-off Eases; Yuan Steady: Markets Wrap

Stocks in Asia traded mixed, following two weeks of losses driven by a backdrop of uncertain trade conditions and signs that some key economies are slowing. Treasury yields steadied just below 2.90 percent.

U.S. equity futures edged up with stocks in Japan and Australia, while shares fluctuated in Shanghai and Hong Kong. Treasuries held last week's gains and the yen was steady after a bout of risk aversion that hammered global equities in recent sessions. The dollar edged lower after a strong week that took it to the highest in a month. Oil remains below $52 in New York. The yuan is little changed offshore. Japanese bonds are in focus as a recent slide in yields threatens to push the benchmark 10-year bond yield below zero percent.

With global growth forecasts for 2019 being questioned amid the U.S.-China trade tussle, investors may get some clues on the policy path from this week's Federal Reserve meeting and press conference from Chairman Jerome Powell. That's the last key event scheduled as global equities round out what's been the worst year since 2011, on course to drop about 9 percent amid concern surrounding the earnings outlook.

"There's been a reevaluation of growth and inflation prospects over 2019 with the trade war now looking extremely negative," Steve Goldman, fund manager at Kapstream Capital, told Bloomberg TV in Sydney. "We're going to see a lot of volatility."

This weekend brought further changes at the Trump administration. Interior Secretary Ryan Zinke will leave at the end of the year amid a swirl of federal investigations. Next on the list could be Homeland Security Secretary Kirstjen Nielsen, and the president has also mused about replacing Commerce Secretary Wilbur Ross, people familiar with the matter said.

Investors will keep monitoring Brexit developments after Theresa May's team pushed back against reports they are warming to a second referendum on Brexit. David Lidington, her effective deputy, and Chief of Staff Gavin Barwell rejected the idea of another vote after newspapers reported they'd held talks on the issue. The U.K. prime minister will face Parliament on Monday.

Coming Up

- The Federal Reserve holds its final policy meeting of 2018 on Tuesday and Wednesday. The rate decision will be followed by a press conference with Chairman Jerome Powell.
- The Bank of Japan's monetary policy decision is due Thursday, followed by a briefing from Governor Haruhiko Kuroda.

- Chinese President Xi Jinping marks the 40th anniversary of Deng Xiaoping's opening of the nation's economy to the world with a keynote speech at a conference scheduled for Tuesday.
- A partial U.S. government shutdown could start this week if lawmakers and President Trump fail to resolve how much money to allocate for Trump's wall along the Mexican border.

And these are the main moves in markets:
Stocks

- Japan's Topix index added 0.4 percent as of 12:10 a.m. in Tokyo.
- Shanghai Composite Index was little changed.
- Hang Seng Index up 0.2 percent.
- Australia's S&P/ASX 200 Index rose 0.7 percent.
- Futures on the S&P 500 rose 0.4 percent. The S&P 500 Index fell 1.9 percent on Friday.

Currencies

- The yen held at 113.36 per dollar.
- The offshore yuan was steady at 6.9021 per dollar.
- The Bloomberg Dollar Spot Index ticked lower 0.1 percent. It jumped 0.3 percent on Friday to the highest in over a month.
- The euro bought $1.1308.
- The pound was flat at $1.2581.

Bonds

- The yield on 10-year Treasuries held at 2.89 percent.
- Australian 10-year bond yield slipped two basis points to 2.44 percent.

Commodities

- West Texas Intermediate crude added 0.4 percent to $51.42 a barrel.
- Gold slipped 0.1 percent to $1,237.48 an ounce.

(Bloomberg)