

NEWS ROUND UP

Friday, January 18, 2019

Contents

CB to raise over \$5b in 1Q	2
Rupee, stocks rise after IMF statement.....	3
Planters' Association to go to Wages Board if talks fail to reach agreement	4
Performance of the insurance industry in Q3, 2018	5
Bond yields continue to decline.....	7
Arjun Fernando joins NTB Board	8
China Port City awaits Sri Lanka incentives, laws, to sell land.....	8
Sri Lanka Tea Smallholder Factories Dec net up 47-pct.....	10
Asia Stocks Advance as Trade Optimism Aids Rally: Markets Wrap.....	10

CB to raise over \$5b in 1Q

- CB plays safe, aims to raise bulk of funds needed for \$5.9 b debt repayments by March
- In negotiations to raise \$1b from RBI swap, \$1b from Bank of China
- \$500m from China Development Bank also likely
- Cabinet approval given this week to raise \$2b more, CB prepares for ISB and Panda and Samurai bonds
- Says structural reforms essential to boost growth, defends 19% rupee depreciation

The Central Bank is steaming ahead to raise funds for debt repayments, aiming to raise in excess of \$5 billion over the next two months from a range of sources, including currency swaps from India, loans from Chinese banks, an international sovereign bond, lines of credit from State banks, as well as Panda and Samurai bonds, a top official said yesterday. Central Bank Governor Dr. Indrajit Coomaraswamy, speaking at the Ceylon Chamber of
Central Bank Governor Dr. Indrajit Coomaraswamy

Commerce (CCC) 2019 outlook launch, acknowledged the monetary authority was scrambling to raise funds to meet \$5.9 billion in debt repayments this year, of which \$2.6 billion needs to be met in the first quarter.

“Money had been lined up with various lenders to mobilise the resources that we need, but they fell into abeyance and we had to start all over again.

But there is real urgency, because total external debt repayments amount to \$5.9 billion, of that \$1.2 billion ISBs that can be rolled over, effectively we need to borrow about \$3 billion of new money. In the first quarter, there is \$2.6 billion worth of repayments, including the \$1 billion repayment on Monday,” he told the gathering.

Having had its plans derailed during the seven-week constitutional crisis, the Central Bank repaid \$1 billion in debt on Monday from its reserves, and has reached out to India and China to bolster reserves to acceptable levels by the end of January.

“We are now moving very quickly to raise the money that we need. Here we have to really acknowledge the role of Sri Lanka’s friends. The Reserve Bank of India (RBI) very quickly agreed to give us \$400 million as a swap. In addition, they are actively considering a bilateral swap of \$1 billion, but this is really short term as swaps are usually for three to six months, but given this crunch we have, this money is clearly very helpful. Bank of China, which has a branch in Sri Lanka, has agreed to give a three-year loan at very attractive interest rates, and they have also said they would give us the money by the end of the month,” Dr. Coomaraswamy said.

The loan from Bank of China is likely to come at an interest rate of about 5.5%.

“We are very keen to get this money into our reserves by the end of the month, so that the reserve number published at the end of the month gives sufficient confidence to markets. The \$300 million loan being negotiated with Bank of China can be scaled up to \$1 billion. The reason we broke it up is because the approval process from the Bank of China side takes a long time, but they could give us \$300 million.”

In addition, the Central Bank is also working to upscale a \$1 billion loan from China Development Bank, which was received in the last quarter of 2018, by a further \$500 million. These funds would also be available in February. "Sri Lanka's friends, the two regional giants, have stepped up to support us in this time when we were pushed into a rather difficult corner."

The Central Bank is also moving quickly to ready to issue an International Sovereign Bond (ISB). Cabinet approval was granted this week to borrow up to \$2 billion, of which a large portion would be a dollar denominated ISB, but the Central Bank would also likely issue Panda and Samurai bonds, as announced last year.

"We want to try and get all these transactions done in the first quarter of this year. The job of Central Banks is to prepare for the worst and we learnt a lesson on 26 October. We don't know what political tsunami might come next, so we have to plan and get the money in as fast as possible."

State banks Bank of Ceylon, People's Bank, and National Savings Bank are raising lines of credit on behalf of the Government. National Savings Bank is negotiating a \$750 million line of credit, while People's Bank is currently on a road show in the Middle East. The Central Bank expects Bank of Ceylon and People's Bank to jointly raise \$200 million to \$300 million.

Acknowledging that 2019 would likely be a year with modest growth, the Governor noted that structural reforms were essential to improve exports, and investment to reduce debt and improve economic expansion. Changes in monetary policy would be unlikely, as there is little space for manoeuvring and would only result in short term "sugar high" growth, he warned.

Dr. Coomaraswamy argued that a 19% depreciation of the rupee was not as deeply negative as generally believed by the public, as it improved the competitiveness of exports, and provided incentive for import substitution industries. He also contended that the pass through to inflation was much less, given commodity prices are presently at a low point, and the Central Bank had shifted to an inflation targeting regime that aims to keep inflation at single digit levels. Nonetheless, Dr. Coomaraswamy conceded that the rate of depreciation would be reduced this year, and the Central Bank would consider easing policy rates if the economic environment improved.

(Dailyft)

Rupee, stocks rise after IMF statement

Sri Lanka's rupee and shares closed firmer on Thursday, a day after the International Monetary Fund (IMF) said it would resume discussions with the island nation for further disbursement of part of a \$1.5 billion loan.

After a meeting with Sri Lanka's Finance Minister Mangala Samaraweera, the global lender said the discussions would resume in February, after a political crisis led to talks being delayed by three months.

The rupee ended at 181.60/75 per dollar on Thursday, compared with 182.30/40 in the previous session, with a foreign bank selling dollars, market sources said. On 3 January, the rupee fell to an all-time low of 183.00 against the dollar. The rupee fell 19% in 2018, making it one of the worst-performing currencies in Asia, according to Refinitiv data, due to heavy foreign outflows.

Central Bank Governor Indrajit Coomaraswamy on Thursday said the sharp depreciation was a powerful "pro-growth inducement" for the country's exports.

The rupee has declined about 5% since a political crisis started in October. That crisis had dented investor sentiment and delayed Sri Lanka's borrowing plans.

A series of credit rating downgrades have made it harder for Sri Lanka to borrow as it faces record high repayments of \$5.9 billion this year, with \$2.6 billion of it due in the first three months.

Sri Lanka will receive a loan of \$1 billion from Bank of China before the end of the March quarter, the chief of the Central Bank said on Thursday, to help the country meet repayments in the coming months.

The Central Bank on 9 January said that the Reserve Bank of India (RBI) had agreed to provide \$400 million to it under a regional swap facility, and it had also requested a further bilateral swap arrangements of \$1 billion.

The Colombo Stock Index ended 0.26% firmer at 5,989.12 on Thursday. The benchmark index lost 5% in 2018.

Turnover was Rs. 341.7 million, less than half of last year's daily average of Rs. 834 million.

Foreign investors sold a net Rs. 7.2 million worth of shares on Thursday. They have been net sellers of Rs. 15.3 billion worth of stocks since a political crisis began on 26 October. The bond market saw outflows of Rs. 77.9 billion between 25 October and 9 January, the latest Central Bank data showed.

Foreign investors pulled a net Rs. 22.8 billion out of stocks last year, while they net sold Rs. 159.8 billion from Government securities from January through 26 December, Bourse and Central Bank showed data.

Sri Lanka President Maithripala Sirisena appointed a Cabinet of Ministers from his rival party on 21 December after he was forced to reinstate Ranil Wickremesinghe as Prime Minister, 51 days after he was sacked.

(Dailyft)

Planters' Association to go to Wages Board if talks fail to reach agreement

The Regional Plantation Companies are gearing to approach the Wages Board if the deadlock in wage negotiation with trade unions continues, industry spokesman Roshan Rajadurai told the Daily FT.

Despite multiple rounds of negotiations, talks over a new Collective Agreement between the three major plantation trade unions and the Regional Plantation Companies (RPCs) have reached a complete deadlock with no concrete solution in sight for over five months.

"As the RPCs are public quoted companies, the wages cannot be imposed on us other than by Collective Agreement or Wages Board for tea and rubber," said Rajadurai who is the Chairman of Plantation Services Group.

The latest round of discussion to break the deadlock in wage negotiations, held last week and chaired by Plantation Minister Navin Dissanayake along with Labour Minister Daya Gamage and all stakeholders, failed to reach an agreement acceptable to both parties.

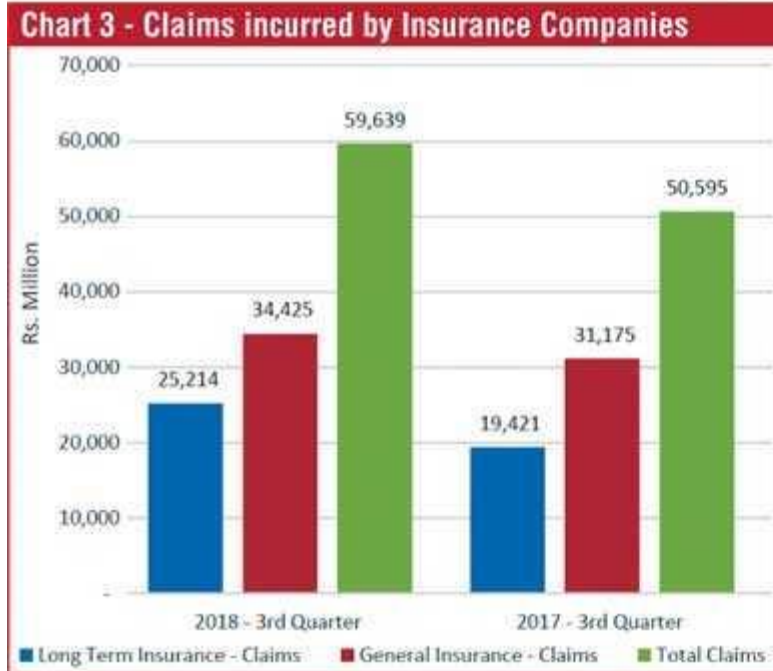
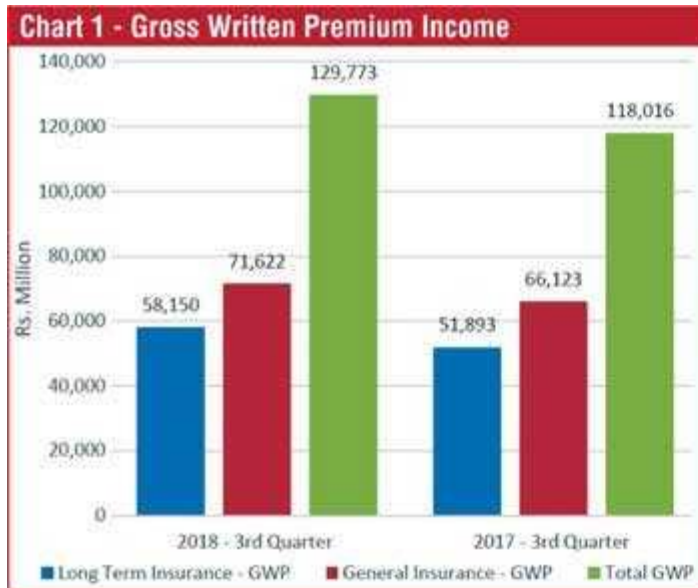
"We see no light at the end of the tunnel yet, as nobody is willing to diverge from their ultimatum and viewpoints to reach an agreement," an industry source told Daily FT.

At the meeting, Minister Dissanayake asked the Plantation companies to pay the demanded wage of Rs. 1000, which the RPCs have refused. Instead, the RPCs said they are able to pay a daily wage of Rs. 940, including all incentives and benefits.

The RPCs maintained that it was not financially viable to pay the basic daily wage of Rs. 1000 as demanded by the trade unions, insisting that workers should adopt a productivity-based model.

However, the three main plantation trade unions, Ceylon Workers Congress (CWC), Lanka Jathika Estate Workers' Union (LJEWU), and the Joint Plantation Trade Union Centre (JPTUC), had refused to accept RPCs alternative option to earn a daily wage of Rs. 1,000, refusing the offer made by the RPCs. (Dailyft)

Performance of the insurance industry in Q3, 2018



Gross Written Premium

The insurance industry was able to achieve a growth of 9.96% in terms of overall Gross Written Premium (GWP), during the 3rd quarter of 2018, recording an increase of Rs. 11,757 million when compared to the same period in the year 2017.

The GWP for Long Term Insurance and General Insurance Businesses for the period ending 30 September 2018 was Rs. 129,773 million compared with the same period in 2017 amounting to Rs. 118,016 million posting a growth of 9.96% (Q3, 2017: 15.53%). The

GWP of Long Term Insurance Business amounted to Rs. 58,150 million (Q3, 2017: Rs. 51,893 million) recording a growth of 12.06% (Q3, 2017: 11.50%). The GWP of General Insurance Business amounted to Rs. 71,622 million (Q3, 2017: Rs. 66,123 million) recording a growth of 8.32% (Q3, 2017: 18.89%). (Refer chart 1)

Total assets

The value of total assets of insurance companies has increased to Rs. 588,746 million as at 30 September 2018, when compared to Rs. 548,361 million recorded as at end of 30 September 2017, reflecting a growth of 7.36% (Q3, 2017: 10.14%).

The assets of Long Term Insurance Business amounted to Rs. 417,347 million (Q3, 2017: Rs. 387,461 million) indicating a growth rate of 7.71% year-on-year. However, the growth of assets of long term insurance business has significantly dropped compared to 13.27% growth recorded during the 3rd quarter of 2017.

The assets of General Insurance Business amounted to Rs. 171,400 million (Q3, 2017: Rs. 160,900 million) depicting a growth rate of 6.53% (Q3, 2017: 3.28%) at the end of the 3rd quarter 2018. Accordingly, the growth of assets of general insurance business has shown a significant increase compared to the same period of 2017. (Refer chart 2)

Investment in

Government securities

At the end of the 3rd quarter 2018, investment in Government Debt Securities amounted to Rs. 162,672 million representing 43.30% (Q3, 2017: Rs. 181,791;51.33%) of the total investments of Long Term Insurance Business, while such investments of the total investment of General Insurance Business amounted to Rs. 40,787 million representing 36.70% (Q3, 2017: Rs. 34,685;33.88%).

Accordingly, the total investment of both Long Term Insurance Business and General Insurance Business in Government Securities amounted to Rs. 203,460 million (Q3, 2017: Rs. 216,476 million). Thus, the investment in Government Securities of Long Term Insurance Business has decreased by 10.52% and the investment in Government Securities of General Insurance Business has increased by 17.59% respectively.

Claims incurred by insurance companies

The claims incurred by insurance companies during the 3rd quarter of 2018 in both Long Term Insurance Business and General Insurance Business was Rs. 59,639 million (Q3, 2017:Rs. 50,595 million) showing an increase in total claims amount by 17.87% year-on-year. The Long Term Insurance claims, including maturity and death benefits, amounted to Rs. 25,214 million (Q3, 2017: Rs. 19,421 million). The claims incurred in General Insurance Business, including Motor, Fire, Marine and other categories, amounted to Rs. 34,425 million (Q3, 2017: Rs. 31,175 million).

Hence, during the 3rd quarter of 2018, there has been an increase in claims incurred by 29.83% and 10.43% for Long Term Insurance and General Insurance Businesses respectively, when compared to the same period in 2017. The claims incurred in Long Term Insurance as a percentage of GWP of Long Term Business is 43%, whereas the claims incurred in General Insurance as a percentage of GWP of General Insurance Business is 48%. (Refer chart 3)

Profit (Before Tax) of Insurance Companies

The profit (before tax) of insurance companies as at end of the 3rd quarter 2018 in both Long Term Insurance Business and General Insurance Business amounted to Rs. 24,785 million (Q3, 2017: Rs. 10,854 million) showing an increase in total profit amount by 128.36%. The profit (before tax) of Long Term Insurance Business amounted to Rs. 18,571 million (Q3, 2017: Rs. 5,110 million) while the profit (before tax) of General Insurance Business amounted to Rs. 6,214 million (Q3, 2017: Rs. 5,743 million). Thus, profit (before tax) of Long Term Insurance Business and General Insurance Business has increased by 263.42% and 8.19% respectively. Profits (PBT) of Life insurance business shows a significant increase (Rs. 13.46 b) mainly due to profit recorded by an insurer from sale of its subsidiary. Further, three life insurance companies reported a notable growth in PBT compared to the 3rd quarter of 2017. (Refer chart 4)

Number of insurance companies

Out of 25 insurance companies in operation as at 30 September 2018, 12 are engaged in Long Term (Life) Insurance Business, 11 companies are carrying out only General Insurance Business and two are composite companies (dealing in both Long Term and General Insurance Businesses).

Insurance brokering companies

The 65 insurance brokering companies registered with the Commission as at 30 September 2018 mainly concentrate on General Insurance Business. The premium income generated through insurance brokering companies in the 3rd quarter of 2018 with respect to General Insurance Business amounted to Rs. 5,983 million, 4.61% of total GWP (Q3, 2017: Rs. 5,827 million; 4.93% of total GWP) while the premium income generated with respect to Long Term Insurance Business amounted to Rs. 131 million, 0.22% of total GWP. (Q3, 2017: Rs. 65 million; 0.12% of total GWP).

The total premium income generated through insurance brokering companies with respect to General and Long Term Insurance Businesses and Reinsurance Business amounted to Rs. 6,646 million, 5.12% of total GWP, during the 3rd quarter of 2018, compared to Rs. 6,167 million, 5.22% of total GWP during the 3rd quarter of previous year. Thus, the total premium income generated through insurance brokering companies witnessed a growth of 7.76% during the 3rd quarter of 2018 when compared to the 3rd quarter of 2017. Insurance brokers are also acting as intermediaries in selling foreign health insurance products.

Loss adjusters

The IRCSL has also registered 10 individuals to carry out loss adjusting activities for the industry.

Notes:

Figures published for 3rd quarter of 2017 were revised due to the classification differences and rectifying errors noted.

Above analysis does not include information in respect of NITF and MBSL.

Inter segment transactions (i.e. transactions between Long Term and General Insurance segments) have not been considered. (Dailyft)

Bond yields continue to decline

The secondary bond market remained active yesterday as foreign and local buying interest across the curve led to yields decreasing further. The liquid maturities of two 2021's (i.e. 01.03.21 & 15.12.21), two 2023's (i.e. 15.05.23 & 15.12.23), 15.03.25 and two 2026's (01.06.26 & 01.08.26) saw its yields dip to intraday lows of 10.80%, 10.88%, 11.25%, 11.15%, 11.39% and 11.42% and 11.40% respectively against its previous day's closing levels of 10.80/90, 10.92/94, 11.20/30, 11.25/29, 11.43/48, 11.48/53 and 11.40/48.

Furthermore, buying interest on the 01.09.28 maturity saw its yield dip to an intraday low of 11.40% as well against its days opening high of 11.50%. Meanwhile, in the secondary Treasury bill market, December 2018 and January bills were seen changing hands at levels of 10.57% and 10.66% respectively.

The total secondary market Treasury bond/bills transacted volume for 16 January was Rs. 25.32 billion.

In the money market, the OMO Department of the Central Bank infused liquidity by way of an overnight reverse repo auction for successful amount of Rs. 25 billion, at a weighted average yield of 9.00% as the net liquidity shortfall stood at Rs. 96.45 billion yesterday. The overnight call money and repo rates averaged 8.98% and 8.99% respectively.

Rupee appreciates considerably

The USD/LKR rate on spot contracts was seen appreciating yesterday on the back of foreign buying in rupee bonds and export conversions to close the day at Rs. 181.60/80 against its previous day's closing of Rs. 182.35/45.

The total USD/LKR traded volume for 16 January was \$ 147.20 million.

Some of the forward USD/LKR rates that prevailed in the market were one month – 182.45/85; three months – 184.40/80 and six months – 187.40/80. (Dailyft)

Arjun Fernando joins NTB Board

Veteran banker Arjun Fernando has been appointed to the Nations Trust Bank (NTB) Board as a Non-Executive Director.

Fernando is a professional banker with over 30 years' experience in banking, finance and business administration. He was the CEO and Director of DFCC Bank from October 2013 to August 2017.

Prior to that, he was the Deputy CEO from August 2010 to September 2013.

Before joining DFCC, Fernando was with HSBC for 28 years, holding various management positions both locally and overseas. He was the COO of HSBC Sri Lanka from 2005 to 2007, Chief Technology and Services Officer of HSBC Bangladesh from 2007 to 2010 and Regional Head of Change Delivery, Commercial Banking, Trade and Supply Chain - Asia Pacific of HSBC, Hong Kong from 2010 to 2012.

Fernando is currently a Director of eight companies including Central Finance PLC, Home Finance Company in Fiji, NDB Capital Holdings PLC and NDB Securities Ltd.

He is an Associate of the Chartered Institute of Bankers (UK). He holds an MSc in Management from Clemson University of South Carolina, USA and a BSc in Engineering from Southern Illinois University, USA.

With the latest appointment, the Board of NTB comprises of Gihan Cooray (Chairman), Renuka Fernando (CEO/Director), M. Jafferjee, D.P. De Silva, K.O.V.S.M.S. Wijesinghe, C.D. Souza, R. Rajapaksa, N.I.R. De Mel, S. Maheshwari, S.L. Sebastian, R.S. Cader, C.H.A.W. Wickramasuriya and A.R. Fernando. (Dailyft)

China Port City awaits Sri Lanka incentives, laws, to sell land

Sri Lanka's CHEC Port City (Pvt) Ltd, which has reclaimed 369 hectares of sea to build a brand new city expanding the island's capital Colombo is awaiting tax incentives to begin marketing, officials said.

The reclaimed area will have 178 hectares of buildable space and 91 hectares of public areas including a park.

"We look forward to government policy support to attract more investors to the port city," CHEC Port City Managing Director Jiang Houliang said, after the company said the first stage of reclamation had been finished on January 16.

The firm now has to develop the land, build water and sewer lines and power connections. Utilities are expected to be managed by a separate public private partnership.

Sri Lanka has not yet announced the tax structure for investors after a so-called Strategic Development Law, which gave ad hoc tax breaks amid charges of corruption, was suspended partly as measure to boost revenues amid an expansion of debt.

CHEC will sell 113 hectares of land over two decades for development, while the government will get the balance. The areas have already been allocated by drawing lots.

The land is expected to draw 15 billion US dollars of investments.

The land is expected to be given on 99-year leases, but more clarity is required on title industry analysts say.

Sri Lanka's economic affairs ministry is expected to develop a separate legal framework for the area, which is expected to house a financial centre.

The legal framework is expected to create similar environment like the Dubai International Financial Centre and a draft was due to have been vetted by international legal experts. But it is not yet passed by parliament.

Thulci Aluwihare, head of strategy and business development at CHEC Port City said the firm hopes to start selling land in the second quarter of 2019.

He said the firm was targeting investors in East Asia, India and the Middle East.

There were expectations earlier that marketing would begin in October, shortly before President Maithripala Sirisena triggered a political crisis.

A budget to be presented in November was also delayed to March.

Meanwhile doubts have been raised about the ability of Sri Lanka to house a financial centre, with the central bank operating a soft or non-credible pegged exchange rate regime which is prone to balance of payments crises and IMF bailouts when credibility of the peg is lost.

Hong Kong, a top financial centre, has a currency board (hard peg) targeting a fixed exchange rate and Singapore has a modified currency board with a floating policy rate.

Dubai has a currency-board-like system which follows US policy rates, and does not attempt independent monetary policy.

In 2018 Sri Lanka slapped trade and exchange controls to maintain its soft peg and has lost about 1.2 billion US dollars over four months ending December 2019. (Colombo/Jan16/2019)(Economynext)

Sri Lanka Tea Smallholder Factories Dec net up 47-pct

Sri Lanka's Tea Smallholder Factories said net profit rose 47 percent to 13.7 million rupees in the December 2018 quarter from a year ago although it was still in the red for the nine months.

The company, in which John Keells Holdings has a 37.62 percent stake, reported earnings per share of 46 cents for the quarter in which sales fell 27 percent to 481 million rupees. .

Interim results filed with the stock exchange showed that for the nine months to December 2018 it made a loss per share of 50 cents compared with earnings of 1.82 rupees the year before.

In the December quarter, Tea Smallholder Factories, which makes black tea from leaves bought from small farmers, made lower profits in the southern Galle low country district where it has the bulk of sales.

The loss from its factories in the Ratnapura region rose to 12 million rupees while profits rose from its factories in the hill country Nuwara Eliya district.

The other two main shareholders of the firm are Akbar Brothers Limited with 24.39 percent and Central Finance Company with 22.85 percent.
(Colombo/January 18/2019)(DailyFt)

Asia Stocks Advance as Trade Optimism Aids Rally: Markets Wrap

Stocks in Asia gained Friday, building on the recent rally in risk assets, amid optimism for progress in U.S.-China trade talks that earlier lifted U.S. equities and Treasury yields.

Shares in Japan and Hong Kong led the advance. The S&P 500 Index earlier exceeded its 50-day average for the first time since December after the Wall Street Journal reported Treasury Secretary Steven Mnuchin proposed easing China tariffs. While the Treasury denied that reporting, the story reinforced previous signs the administration is more eager for a deal to help support financial markets. The dollar was little changed, while oil extended a third week of gains toward \$53 a barrel in New York.

"Certainly evidence that the administration is approaching a deal would be good news," said Laura Rosner, senior economist at MacroPolicy Perspectives. "We've heard noise around trade policy before though, so I would want to make sure the progress happens and sticks."

Meantime, offering some relief from concerns about a worsening outlook for U.S. growth was the Federal Reserve Bank of Philadelphia's factory index, which rebounded in January after three months of declines. Risk assets are posting a strong January amid signs of support from policy makers in the U.S. and China, with global equities heading for a fourth week of gains.

Chicago Fed President Charles Evans said the American economy is doing well, but "I think we can easily be patient" in deciding on further interest-rate increases, echoing dovish messages from colleagues in prior weeks.

The pound remained near a two-month high after U.K. opposition leader Jeremy Corbyn said that a second referendum remains an option in the Brexit saga.

These are the main moves in markets:

Stocks

- The MSCI Asia Pacific Index advanced 0.7 percent as of 11:11 a.m. Hong Kong time.

- Japan's Topix index rose 1.2 percent.
- Hang Seng added 1 percent.
- Australia's S&P/ASX 200 Index gained 0.5 percent.
- Futures on the S&P 500 rose 0.3 percent. The S&P 500 Index advanced 0.8 percent Thursday.

Currencies

- The yen was at 109.33 per dollar, down 0.1 percent.
- The offshore yuan fell 0.2 percent to 6.7861 per dollar.
- The Bloomberg Dollar Spot Index was steady.
- The euro bought \$1.1399, up 0.1 percent.
- The pound was flat at \$1.2978.

Bonds

- The yield on 10-year Treasuries was at 2.75 percent, down one basis point.
- Australia's 10-year yield gained four basis points to 2.32 percent.

Commodities

- West Texas Intermediate crude rose 1 percent to \$52.58 a barrel.
- Gold was flat at \$1,291.95 an ounce.

(Bloomberg)