

NEWS ROUND UP

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Economy recovers to 3.7% growth

- 2018 second quarter performance better than 3% growth a year earlier and slightly above 3.5% gain achieved in 1Q
- Agriculture rebounds with 4.5% growth as against 3.1% contraction a year earlier
- Services sector resilient with 4.8% growth in comparison to 2.7% in 2Q of 2017
- Industrial sector expands by 2.3% but far slower than 5.6% a year earlier

The country's economy has recovered in the second quarter to manage a 3.7% growth, higher in comparison to 3% a year earlier but marginally above 3.5% gain in the first quarter.

The Department of Census and Statistics (DCS) in releasing National Accounts estimates for the second quarter of 2018 yesterday said that economic growth rate of the country is estimated as 3.7% for the second quarter of 2018. The Gross Domestic Product at constant (2010) prices for the second quarter of 2018 recorded as, Rs. 2,264,445 million, and GDP reported for second quarter of 2017 was Rs. 2,183,122 million.

The four major components of the economy – Agriculture, Industry, Services and Tax – less subsidies on products have contributed their shares to the GDP at current price by 8.4%, 25.6%, 57.1% and 8.9% respectively.

In 2Q, Agricultural activities expanded favourably by 4.5%, compared to the contraction of 3.1% reported in the second quarter of 2017. The Industrial activities performed a slight expansion of 2.3% and Service activities expanded further by 4.8% during the second quarter of 2018, compared to second quarter of 2017.

Among the sub activities of Agriculture, 'Growing of Cereals, 'Growing of Rice', 'Growing of Vegetables' and 'Growing of Oleaginous fruits including coconut' have expanded by 19.2%, 59.3%, 9.6% and 5.4% respectively recovering the heavy contractions recorded in the second quarter of 2017.

The sub activities of 'Growing of fruits,' Growing of Spices,' 'Animal production' and 'Fresh water fishing' have further expanded by 6.9%, 3.1%, 2.6% and 32.8% respectively. In the meantime 'Growing of Tea and 'Growing of Rubber' reported substantial declines of 7.1% and 11.9% while a slight contraction of 0.5% is recorded for 'Marine Fishing'.

The Industrial activities which share one fourth of the GDP in the second quarter of 2018, expanded by 2.3%. The manufacturing sector alone has expanded further by 3.2% during this period, supported mainly by the sub activities of 'Manufacture of food, beverages and tobacco,' 'Manufacture of textile and wearing apparels,' 'Manufacture of coke and refined petroleum products,' 'Manufacture of basic metals and fabricated metals' and 'Manufacture of furniture,' which recorded positive growth rates of 5.2%, 1.9%, 22.4%, 6.3% and 5.9% respectively.

The 'Construction' activity, one of the main contributors, to the total GDP, grew moderately by 1.4% in this quarter compared to the 6.0% growth recorded in the second quarter of 2017. The sub activity of 'Electricity gas, steam and air' reported a considerable growth of 2.3% in the second quarter of 2018.

Three-fifth of overall GDP is shared by the service economy of the country recorded an expansion of 4.8% in the second quarter of 2018, when compared to the same quarter in year 2017. Performance of the service activities were strengthened by the sub activities of 'Wholesale and retail trade,' 'Accommodation, food and beverage services,' 'Telecommunication services,' 'Information Technology services,' 'Financial services,' 'Insurance services,' 'Real Estate activities' and 'Other personal service' expanded by 4.9%, 6.4%, 14.4%, 9.0%, 12.0%, 11.0%, 3.7% and 4.8% respectively compared to the second quarter of 2017. The activity of 'Programming and broadcasting' contracted substantially by 15.5% within this quarter compared to the respective quarter in 2017.

DCS stated that a detailed report on the National Accounts estimates for the second quarter of 2018 has been published in the DCS website: www.statistics.gov.lk.
(DailyFt)

Budget 2019 to be presented on 5 Nov

The Government is set to present the Budget for 2019 on 5 November.

According to UNP sources, it was initially decided during the Government parliamentary group meeting at Temple Tees on Monday morning (17), chaired by Prime Minister Ranil Wickremesinghe, that it would be presented on 8 November.

However, the date was changed after the Opposition pointed out that this would not leave adequate time to debate the Budget.

Accordingly, Finance Minister Mangala Samaraweera will present Budget 2019 on 5 November at 2.00 p.m.

The Budget debate has been scheduled for 26 days.

The Second Reading of the Budget will be from 7-14 November while the vote on the Second Reading of the Budget will take place on the evening of 14 November.

The Budget Debate will also take place on Saturdays and the final vote will be on 8 December.
(DailyFt)

High growth, future potential make SL 'important strategic market' for Jaguar Land Rover

High sales growth so far and future upside have made Sri Lanka an "important strategic market" for world-renowned automobile brands Jaguar Land Rover, its Asia Pacific chief told journalists in Colombo yesterday.

The combined sales of the two marquee brands in financial year 2017/18 had grown by 57% as against 40% in the previous year. The growth of Land Rover sales was 110%. "Sri Lanka is an important strategic market with a strong growth trajectory," revealed Jaguar Land Rover Asia Pacific Managing Director Robin Colgan at a media conference to announce the construction of a \$ 5 million globally-compliant retail centre integrating sales, service and spare parts in one location in Boralesgamuwa by sole agents SML Frontier Automotive.

He said the Government's support to electrification had given further impetus to growth in the Sri Lankan market.

“We are strongly positioned in the electric segment,” Colgan said, adding that Jaguar Land Rover had committed to a vision that by 2020 it would offer electric options on all its new models.

The Government has pledged to replace all state-owned vehicles with electric or hybrid models by 2025, a move that will be extended to private vehicles by 2040, in alignment with what most countries across the world are doing to adopt cleaner energy use.

With the rollout of electric options later this year, Jaguar Land Rover sole agents SML Frontier Automotive expressed confidence of higher sales growth in the current 2018/19 financial year.

A new Plug-In Hybrid Electric Range Rover and Range Rover Sport will be launched by SML Frontier Automotive this November and the first first-ever electric vehicle from Jaguar will make its much-anticipated debut in Sri Lanka before the second quarter of 2019.

SML Frontier Automotive CEO Ravi Perera said: “This (FY19) is a critical year for SML Frontier as we look forward to welcoming the new breed of Jaguar and Land Rover vehicles to Sri Lanka. The new generation of vehicles is set to change the luxury automotive market, and will propel the growth of the brands in Sri Lanka with over 100 confirmed orders to date for these vehicles. We aim to deliver an unprecedented level of customer experience, combined with unparalleled service to all our customers.”

“We are looking at the long term not just five years but 50 years and we are investing to make Jaguar Land Rover the number one automobile brand in Sri Lanka,” said SML Frontier Automotive Chairman Sumal Perera. The world-class integrated sales, service and spare parts facility will be ready by the middle of next year.

(DailyFt)

Rupee hits record low for 5th straight session

The rupee hit an all-time low of 166.10 per dollar on Tuesday due to dollar demand from importers and banks to facilitate foreign bond outflows, but selling of the US currency by a state bank limited the fall, market sources said.

Exporters expect the rupee to be under pressure due to continued importer dollar demand and less exporter dollar sales.

Meanwhile, the dollar held near seven-week lows against its rivals while riskier currencies gained after US President Donald Trump escalated his trade war with China by imposing 10% tariffs on about \$ 200 billion worth of Chinese imports.

The rupee surpassed its previous record of 165.10 per dollar hit in the previous session, and closed at 165.90/166.00, compared with Monday’s close of 165.00/30.

An illiquid market for dollars, dollar buying by foreign banks to facilitate bond outflows and importer demand weighed on the currency, said the sources.

Sri Lanka’s Finance Ministry would not intervene in exchange rate management, Junior Finance Minister Eran Wickremaratne said on Thursday, adding that the central bank would intervene as and when necessary to curb excess volatility in the exchange rate and also punish speculators.

The Central Bank cut the net open positions of banks on 6 September to increase dollar liquidity, forcing commercial banks to sell dollars.

Since last week, currency dealers have been refusing to speak to the media, citing instructions from the Central Bank. However, Central Bank Governor Indrajit Coomaraswamy has said that he was unaware of any such move.

The rupee has weakened 2.7% so far this month after a 1.2% drop last month, and has declined 8% 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 Tuesday, is Asia's worst performing currency this year.

Foreign investors sold government securities worth a net Rs. 2.6 billion (\$ 15.78 million) in the week ended 12 September, extending the net outflow so far this year to Rs. 55.9 billion worth of securities, Central Bank data showed. (DailyFt)

Bourse ends at 30-month low on foreign selling, weak rupee

Shares breached the 6,000-point psychological barrier and hit a 30-month closing low on Tuesday, weighed down by a weak rupee and heavy foreign selling in market heavyweight John Keells Holdings.

The Colombo stock index ended 0.95% weaker at 5,971.21, its lowest close since 15 March 2016. It lost 1.4% last week, its first weekly drop in four.

Earlier in the session, the rupee fell 0.5% and hit an all-time low of 166.00 per dollar, dented by higher dollar demand from importers amid reluctant greenback sales by exporters, market sources said.

The sliding rupee and political uncertainty weighed on sentiment, said Acuity Stockbrokers CEO Preshan Fernando.

"Foreign selling in Keells dragged the market," he said.

Conglomerate John Keells Holdings Plc ended 2% down at Rs. 131.90 after hitting a 30-month low earlier in the trade.

Foreigners sold a net 2.1 million shares in Keells, data from the Bourse showed.

Turnover was Rs. 881.2 million (\$ 5.32 million) on Tuesday, more than this year's daily average of Rs. 797.5 million.

Foreign investors sold a net Rs. 200.7 million worth of shares extending the year-to-date net foreign outflow to Rs. 4.8 billion worth of equities.

Analysts said the fuel price hike also hurt investor confidence as it could hit corporate earnings. Fuel retailers raised gasoline and diesel prices for a third time in four months this month due to higher global oil prices and a weaker rupee.

Investors are awaiting cues from the national budget in November.

Shares of Distilleries Co of Sri Lanka Plc ended 4% lower, Sampath Bank Plc closed 3.7% weaker and Nestle Lanka Plc ended down 2.8%.

Leading mobile phone operator Dialog Axiata Plc ended 2.4% lower and the biggest listed lender Commercial Bank of Ceylon Plc closed 2.5% weaker. (DailyFt)

Upward momentum continues ahead of weekly bill auction

The upward momentum in secondary market bond yields continued yesterday albeit at a slower pace and on the back of moderate volumes in comparison to its previous day's trading.

Selling interest on the two 2021's (i.e. 15.10.21 and 15.12.21), 01.07.22 and 15.07.23 resulted in their yields increasing to intraday highs of 10.40%, 10.58%, 10.66% and 10.60% respectively against its previous day's closing levels of 10.27/32, 10.25/35, 10.30/40 and 10.50/55.

Today's bill auction will have on offer a total amount of Rs. 17.5 billion, consisting of Rs. 4 billion of the 91 day maturity, Rs. 1.5 billion of the 182 day maturity and Rs. 12 billion of the 364 day maturity. At last week's auction, the weighted averages increased to 8.07% and 9.05% respectively on the 91 day and 364 day maturities while the 182 day maturity was not on offer for a third consecutive week.

Meanwhile, GDP growth rate for the second quarter 2018 was seen increasing to 3.7% against its revised 1st quarter of 3.5% and 3.0% for the 2nd quarter of 2017.

The total secondary market Treasury bond/bill transacted volumes for 17 September was Rs. 5.7 billion.

In the money market, the Open Market Operations (OMO) Department of the Central Bank injected an amount of Rs. 5 billion at a weighted average rate of 8.07% for seven days in addition to adding a further Rs. 15 billion to the system on an overnight basis at a weighted average rate of 7.97% as the net liquidity shortage stood at Rs. 26.08 billion yesterday. The overnight call money and repo rates averaged 8.01%.

Dollar continues

to gain against LKR

The rupee on its spot contracts was seen depreciating further yesterday to close at Rs. 165.90/10 against its previous day's closing levels of Rs. 165.00/30 on the back of continued importer demand.

The total USD/LKR traded volume for 17 September was \$ 71.20 million.

Some of the forward USD/LKR rates that prevailed in the market were one month – 166.85/15; three months – 168.40/80; and six months – 171.00/40. (DailyFt)

Asia Stock Rally Extends to Second Day; Yuan Gains: Markets Wrap

Asian stocks extended a rally as investors wagered the world's two-biggest economies have time to iron out trade differences in the wake of the latest salvos on tariffs. Treasuries held losses and the dollar remained steady.

Equities in Japan led the charge, with the Topix index touching a three-month high. Shares in Hong Kong and China also climbed. A rally that began in Asia Tuesday extended into the U.S. session despite the U.S.-China trade war deepening as Beijing announced retaliatory tariffs on \$60 billion of U.S. goods and the Trump administration threatened duties on virtually all Chinese imports. The yuan gained as China's Premier Li Keqiang said he won't let the currency devalue to stimulate exports.

The threat to global growth remains, though investors have now had months to take a view on the trade war and many assets are pricing in rising tensions, helping to cushion the impact from the latest blows. The S&P 500 Index registered its biggest gain in almost three weeks, led by technology stocks, which had been hammered in Monday's session. Treasuries declined, pushing the yield on 10-year U.S. bonds above 3 percent, as most European government bonds drifted lower.

"It's more likely that there will be some negotiated resolution coming through in the near term," George Schultze, founder and CEO of Schultze Asset Management in New York, told Bloomberg TV. "Cooler heads will eventually prevail because otherwise both sides are shooting themselves in the foot by taking these extreme stances and going back and forth with tit-for-tat tariffs."

Trade Tensions Might Take Longer to Resolve, Says Schultze Asset Management

George Schultze, founder and CEO at Schultze Asset Management, discusses how the trade war impacts markets.

Elsewhere, oil retained the bulk of gains triggered by Saudi Arabia's expression of comfort with Brent oil prices rising above \$80 a barrel. West Texas crude briefly breached \$70 a barrel. The yen was steady after the Bank of Japan left its policy unchanged, keeping monetary stimulus in place. And North Korea's capital Pyongyang hosted a summit between the North's leader Kim Jong Un with South Korea's President Moon Jae-in. Follow live coverage [here](#).

Here are some key events coming up this week:

- The Bank of Thailand decides on policy Wednesday.
- Britain releases inflation data on Wednesday.
- European PMIs are due on Thursday.
- The Organization of Petroleum Exporting Countries and its allies meet in Algiers this weekend.

These are the main moves in markets:

Stocks

- Japan's Topix index rose 1.8 percent as of 12:30 p.m. in Tokyo.
- Hong Kong's Hang Seng Index gained 1.2 percent.
- The Shanghai Composite Index added 1 percent. It jumped 1.8 percent Tuesday.
- South Korea's Kospi index 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 underlying gauge climbed 0.5 percent Tuesday.
- The MSCI Asia Pacific Index climbed 1.2 percent.

Currencies

- The yen was steady at 112.31 per dollar after slipping 0.5 percent.
- The offshore yuan rose 0.2 percent to 6.8512 per dollar.
- The Bloomberg Dollar Spot Index ticked lower.
- The euro bought \$1.1674.

Bonds

- The yield on 10-year Treasuries held at about 3.05 percent after jumping six basis points to the highest in almost four months.

- Australia's 10-year bond yield jumped five basis points to 2.71 percent.

Commodities

- West Texas Intermediate crude added 0.1 percent to \$69.90 a barrel.
- Gold rose 0.2 percent to \$1,200.59 an ounce.
(Bloomberg)