NEWS ROUND UP

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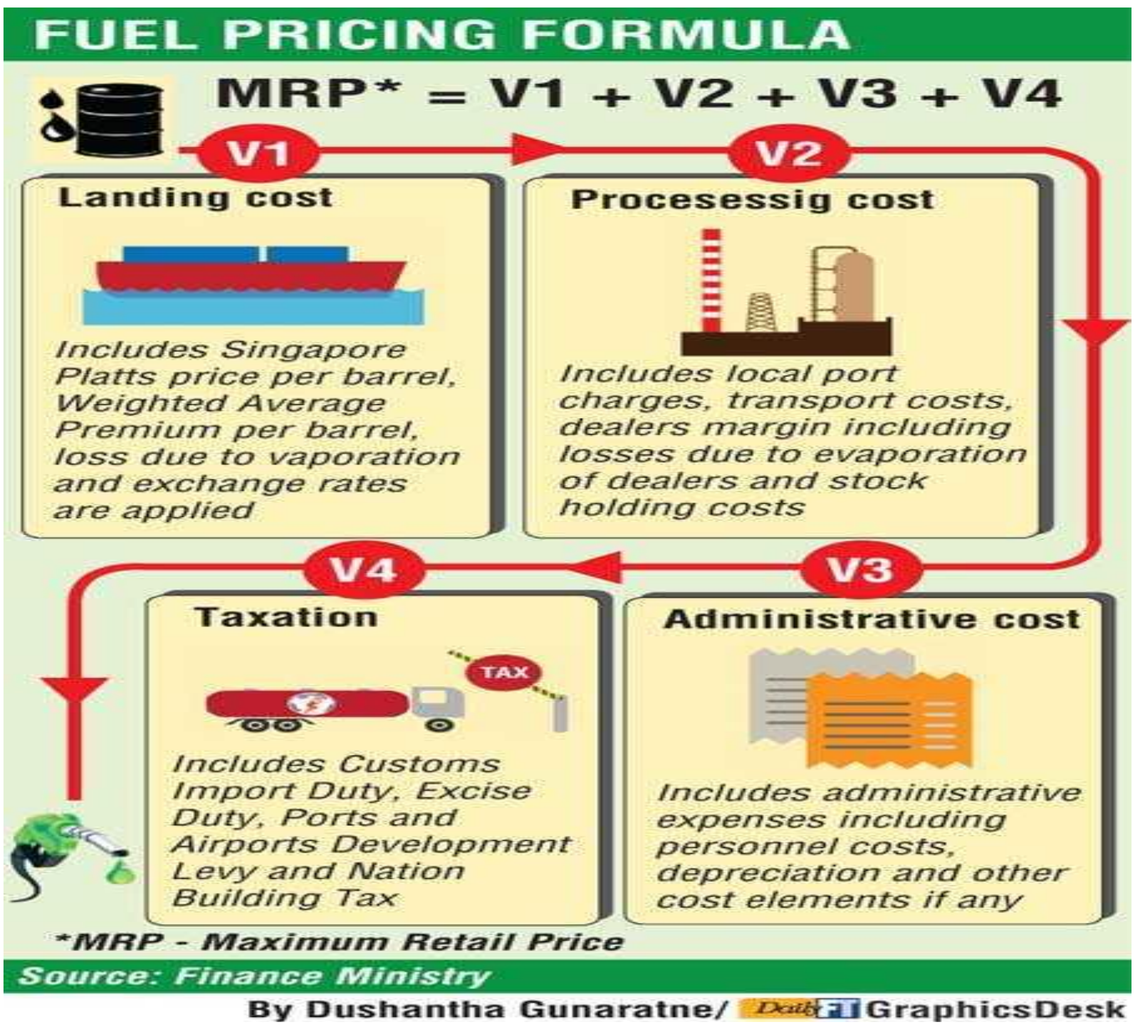

Despite being buffeted by currency depreciation and higher fuel prices, Finance Minister Mangala Samaraweera yesterday fiercely backed the Government's liberalisation policies and insisted that all efforts were being made to keep the economy as even-keeled as possible.

"It is clear that Sri Lanka's potential remains as bright as ever. Whilst we face a couple of challenging years ahead in the short term, we have built the necessary stability and safeguards to face up to these challenges," he said.

"The future holds tremendous potential as Sri Lanka is at the heart of the fast-growing South East Asian region, and this government is putting in place the policies to leverage a greater external orientation of the economy."

Releasing the complex fuel pricing formula to the public, Samaraweera pointed out that even though the formula called for upward price revisions, the Treasury had made all efforts to keep prices as low as possible.

"Every country around the world including oil producing nations such as the US and Saudi Arabia tax their fuel. This is important as it is a source of public revenue that is used to fund other socially important State expenditure. However, Sri Lanka has some of the lowest taxes on fuel in the region and every effort is made to keep fuel prices as moderate as can be done under the circumstances," he said.

The Minister noted that India imposes a 43% tax or Rs. 82.14 per liter of petrol and a 33% tax or Rs. 57.52 on diesel. Pakistan imposes a 38% or Rs. 29.93 tax on petrol and 58% or Rs. 49.68 on diesel. The UK imposes a tax of 61% or Rs.178.70 on petrol and 60% tax or Rs.180.27 on diesel. However, Sri Lanka only imposes a tax of Rs. 53.68 or 34% tax on petrol and 19% or Rs. 25.48 tax on diesel, according to data handed out to reporters by the Finance Ministry.

The calculation of the maximum retail price of fuel was made by adding V1, V2, V3, and V4 components together, Samaraweera said. Even though the final calculation appears simple each of the components takes into consideration a wide variety of variables under different segments.

For example V1 includes the Singapore Platts Price per barrel, the Weighted Average Premium per barrel, loss due to evaporation and exchange rate changes.

V2 encapsulates local port charges, transport costs, dealer's margin including losses due to evaporation and stockholdings costs. V3 deals with administrative expenses of the Ceylon Petroleum Corporation (CPC) including personnel costs, depreciation and other cost elements. Taxes such as customs import duty, Excise Duty, Ports and Airport Development Levy and Nation Building Tax are included in V4.

"Sri Lanka has very little control over international fuel prices. Much of that is decided by the actions of US President Donald Trump," Samarasinghe said. "In the past prices only moved in one direction, up. But under this pricing formula we are working to keep prices transparent so that if prices go down then that relief is immediately passed on to the consumer."

Samarasinghe also argued that the Government had not passed on the historical losses of the CPC in this evaluation and expected to see a reduction in the State entity's debt eventually. Officials also noted that it was too early to see if there was any impact from the efforts to temporarily reduce imports.

"If we wanted to stick only to the formula then on 10 October petrol prices should have increased by Rs. 9 but we raised it only by Rs. 6 while diesel should have been raised by Rs. 11. Diesel prices were not changed at all because we understand the impact that can have on the public. When this Government came into power in 2015 we reduced fuel by Rs. 33. We have always cared about the people," Samaraweera said.

Addressing the Sri Lanka Retail Forum earlier in the day, Samaraweera presented a succinct picture of growing exports and investment balanced by a challenging external environment and higher debt repayments. However, he was upbeat of the Government policies pointing out that a focus on entrepreneurship had resulted in Rs. 53 billion being disbursed under the Enterprise Sri Lanka program of which Rs. 5.2 billion was infused from public funds.

“We have also taken temporary measures to impose cash margins on vehicles and imports of selected high volume non-essential import items. I must stress that these are temporary measures that are being reviewed regularly. The external sector has begun to stabilise in response to the measures that have been taken – but we remain cognisant of global developments.” (Dailyft)

Rupee ends weaker; stocks slip to near 5-year closing low

The rupee ended weaker on Wednesday as banks and importers bought the US dollar while stocks edged lower to end near a five-year closing low.

The Central Bank on Wednesday said it has secured a $ 1 billion eight-year loan from China Development Bank.

The rupee ended at 171.00/15 per dollar, compared with its previous close of 170.90/171.10.

The rupee had fallen to an all-time low of 171.60 per dollar on 10 October due to foreign selling in government securities and importer demand for greenback.

The Central Bank surprised financial markets on 2 October by leaving its key policy rates unchanged, despite heavy pressure on the rupee and foreign outflows from government securities.

The rupee has weakened 1.1% so far this month after a 4.7% drop in September against the dollar. It has declined 11.3% so far this year.

The Colombo stock index fell 0.33% to 5,776.75 points, ending near its lowest close since 3 December 2013 hit on Monday. It fell 3.6% last month and is down 9.3% so far this year.

Data from the Central Bank showed foreign investors sold government securities worth a net Rs. 6.3 billion ($ 37.04 million) in the week ended 10 October. Sri Lanka has seen a net outflow of Rs. 80.6 billion in securities so far this year.

Stock market turnover was Rs. 448.3 million ($ 2.62 million) on Wednesday, well below this year’s daily average of Rs. 774 million.

Foreign investors were net sellers of Rs. 110.4 million worth of shares on Wednesday, extending the year-to-date net foreign outflow to Rs. 8.95 billion worth of equities. (Dailyft)

Fitch publishes Cargills Bank’s first-time ‘BB(lka)’ Rating; Outlook Stable

Fitch has published Sri Lanka-based Cargills Bank Ltd.’s (CBL) National Long-Term Rating of ‘BB(lka)’ with a Stable Outlook.

Key rating drivers: National ratings

CBL’s rating reflects its small and developing domestic franchise, evolving business model and limited operating history in Sri Lanka’s banking sector. The rating also captures its high risk appetite and pressures on its financial profile, particularly asset quality and funding and liquidity, due to the bank’s aggressive growth aspirations in the medium term. CBL began its operations in July 2014, and had only an insignificant share of system assets at end-June 2018.

Fitch expects the bank to remain focused on the retail, SME and agricultural segments (1H18: 58% of gross loans, 2017: 39%) as it diversifies away from the corporate sector. Corporate loans remain dominant, constituting about 42% of gross loans, but the proportion is likely to shrink in the medium term.

CBL's reported gross non-performing loan (NPL) ratio jumped to 3% at end-June 2018 from 1% at end-2016, due to two large corporate NPLs. The bank's NPL ratio is likely to be higher than that of the industry in the short to medium term, as it expands rapidly into the more economically vulnerable segments.

Fitch foresees pressures on CBL's funding and liquidity as it pursues an aggressive growth plan in the medium term, as its deposit franchise is still developing and competition for deposits is high. To address this, it believes the bank may supplement its funding mix with wholesale funding and equity.

Fitch expects CBL's pre-impairment profitability to improve further in the medium term, although higher credit costs from asset quality pressures and the implementation of SLFRS 9 could limit the gains. The bank's core profitability improved in 2017 but it remained weaker than peers'.

Fitch expects CBL's capital ratios to decline from the current Tier 1 capital ratio of 34%, weighed down by rapid loan growth that exceeds internal capital generation. The regulator in October 2017 increased the minimum capital requirement for licensed commercial banks to Rs. 20 billion to be met by end-2020, which Fitch believes CBL will require capital injections to meet as internal capital generation will be insufficient.

The Cargills Group, which owns supermarket chain Cargills Food City, has a 53% effective stake in CBL (voting rights restricted to 30% by the regulator), which gives the bank benefits of the strong "Cargills" brand and group synergies. Fitch has not factored in any extraordinary support in CBL's rating, although ordinary support has been incorporated.

Rating sensitivities: National ratings

A rating upgrade could be triggered if CBL is able to build a sustainable business model through the execution of its medium-term strategy. A sustained improvement in its financial profile, particularly in profitability and funding, could also lead to a positive rating action.

Deterioration in loss-absorption buffers, either through aggressive loan expansion or greater share of unprovisioned NPLs, could place downward pressure on the rating. Failure to support growth through more diversified funding sources would be negative for the rating.
(Dailyft)

Ravi Abeysuriya appointed to Seylan Bank Board

Ravi Abeysuriya has been appointed to the Seylan Bank Board as an Independent Director from 17 October.

Abeysuriya is the Group Director of the Candor Group, owned by National Industries Group (NIG), one of the largest listed companies in Kuwait with assets over $ 4.7 billion.

He was formerly the Head of Strategic Business Development at the Hayleys Group, Managing Director of Amba Research Lanka and Managing Director of Fitch Ratings Lanka.

He is currently responsible for private equity investments for a $ 200 million private equity fund. Previously he was responsible for establishing the Candor Group of Companies, Amba Research, a pioneer global investment research outsourcing company and the first credit rating agency in Sri Lanka as CEO/MD.

Prior to that Ravi was the head of corporate finance at JP Morgan, where he handled international equity placement and the restructuring of companies. He has held senior roles in private equity investment, consulting for the World Bank and the Sri Lankan Government.

He is a Fellow Member of the Chartered Institute of Management Accountants, UK, and a Chartered Financial Analysts, USA and has an MBA from Monash University, Australia. He was named as a 'Lifetime Achievement' Award laureate by the CFA Institute in 2017 for his outstanding work and dedication to the investment management profession.

He functioned as a permanent member of the Financial Sector Reforms Committee (FSRC), a prime ministerial task force appointment. He was also twice appointed a Commission Member of the Securities and Exchange Commission of Sri Lanka and was a Director of the Sri Lanka Insurance Corporation and Chairman of the Investment Committee.

He was also the President of the Colombo Stock Brokers Association, President of the Association of Alternative Financial Institutions and a Member of the National Agenda Committee of the Ceylon Chamber of Commerce. He was also the former President of CFA Sri Lanka, President of ITESA and Vice President of SLASSCOM.
(Dailyft)

Fitch affirms Standard Chartered Bank, Sri Lanka branch at 'AAA(lka)'; Outlook Stable

Fitch Ratings Lanka has affirmed Standard Chartered Bank, Sri Lanka Branch's (SCBSL) National Long-Term Rating at 'AAA(lka)'. The Outlook is Stable.

Key rating drivers: National ratings

SCBSL's rating is at the highest end on the National Rating scale for Sri Lanka and reflects the credit profile and financial strength of its head office – Standard Chartered Bank (SCB: A+/Stable/a). It also reflects Fitch's expectation of continued strong parental support, if required, as SCBSL is a branch of SCB and forms part of the same legal entity. The relatively small size of the branch (less than 0.2% of the total assets of SCB) implies that support, if needed, would not be material to the head office.

SCB's Long-Term Issuer Default Rating (IDR) is higher than Sri Lanka's Long-Term Local- and Foreign-Currency IDRs of 'B+'/Stable and as a result SCBSL's rating on the National Rating scale is mapped to 'AAA(lka)'.

Fitch believes that support from SCB would be forthcoming, if required, subject to any regulatory constraints on remitting money into Sri Lanka. The high probability of support is underpinned by SCBSL's strong operational integration with the SCB group through the use of common systems and regular reporting. The branch's strategic objectives are also aligned with those of the group.

SCBSL's non-performing loan (NPL) ratio has remained better than that of the industry and stood at 2.3% by end-June 2018. This is despite the sharp increase in the bank's NPL ratio to 2.4% by end-2017 from 1.1% at end-2016, following the classification of one corporate loan as NPL. Fitch does not expect a significant change in SCBSL's NPL ratio, at least in the short term, despite pressure from the retail segment.

SCBSL maintains above-industry-average capitalisation to support its business plans despite regular profit repatriations. SCBSL's Fitch Core Capital ratio remained flat at 20.9% at end-June 2018 but the ratio is likely to decline with its profit repatriation and the expansion of its loan book.

Rating sensitivities: National ratings

A downgrade of SCBSL's rating could result from SCB's rating falling below Sri Lanka's IDR, although Fitch sees that as highly unlikely in the near-to-medium term. Significant changes to Fitch's expectation of support from SCB could also have a negative impact on the rating. There is limited scope for upward rating action on the National Long-Term Rating as it is already at the highest point on the scale.
(Dailyft)

Bond yields broadly steady in thin trade

The secondary bond market yields were seen fluctuating yesterday as selling interest during morning hours of trading saw the yield on the five-year maturity of 15.07.23 increase to an intraday high of 11.59% against its previous day's closing of 11.45/52. Buying interest at these levels led to its yield decreasing once again to hit an intraday low of 11.47% and close the day at 11.48/52. In addition, 01.03.21, 15.10.21 and 15.03.23 maturities were seen changing hands at levels of 11.00%, 11.05% and 11.45% to 11.52%, respectively, as well.

The total secondary market Treasury bond/bill transacted volume for 17 October was Rs. 18.09 billion.

In the money market, the OMO Department of Central Bank injected liquidity by way of an overnight and a seven-day term repo auction for amounts of Rs. 12 billion and Rs. 10 billion, respectively, at weighted averages of 8.36% and 8.41% as the net liquidity shortfall stood at Rs. 28.08 billion yesterday. The call money and repo averaged 8.46% and 8.42%, respectively.

Rupee continues to slide down

The rupee on its spot contracts depreciated further yesterday by around 30 cents to close the day at levels of Rs. 171.30/45 against its previous day's closing levels of Rs. 171.00/05 on the back of continued importer dollar demand and a globally strengthening dollar.

The total USD/LKR traded volume for 17 October was $ 119.41 million. Some of the forward USD/LKR rates that prevailed in the market were 1 month – 172.30/70, 3 months – 174.40/80, and 6 months – 177.40/80.
(Dailyft)

Dollar at one week high after hawkish Fed minutes; Asia stocks capped

Asian stocks were capped and the dollar rose to a one week-high in early Thursday trade after the minutes of the Federal Reserve's latest meeting showed broad agreement among board members on the need to raise borrowing costs further.

The spectre of rising US dollar yields, which along with global trade tensions were at the centre of last week's global equities rout, kept riskier appetite in check in Asia.

MSCI broadest index of Asia-Pacific shares outside Japan fell 0.2%, while the Australian benchmark also dropped 0.2%.

Japan's Nikkei average was flat, and appeared to struggle for headway. Data out earlier in the day showed exports from the world's third-biggest economy dropped for the first time since late 2016, hit by declines in shipments to the United States and China.

The US dollar index and Treasury yields rose to its highest levels in a week on Wednesday.

The dollar index, which measures its value against six major peers, last traded at 95.654, little changed on the day, while 10 year Treasury yield last stood at 3.211%, 3.2 basis points higher than the US close.

The minutes from the Fed's Septa 25-26 meeting showed every Fed policymaker backed raising interest rates last month and also generally agreed borrowing costs were set to rise further, despite US President Donald Trump's view that the tightening have already gone too far.

Major currencies have shown limited reaction after the US government late on Wednesday refrained from naming China or any other trading partner as a currency manipulator, as it leans on import tariffs to try to cut a trade deficit with China, soothing investor sentiment in Asia.

In its semi-annual currency report, the US Treasury Department said a recent depreciation of China's yuan currency will likely exacerbate the US trade deficit, but US officials found Beijing appeared to be doing little to directly intervene in the currency's value.

The yuan was steady at 6.9315 per dollar in the offshore trade, not far off 1-1/2-year low of 6.9587 touched in August. But some investors remain wary of a slide towards the psychologically important level of 7 to the dollar.

"With US Treasury yields beginning to creep higher again, President Trump hinting at further tariffs on Chinese goods and the CSI 300 trading at close to its lowest level since the summer of 2016, the continued risk of a fresh bout of weakness (in the yuan) cannot be ignored," said Simon Derrick, chief currency strategist at BNY Mellon.

In Europe, the European Council meeting kicked off on Wednesday with a roundtable dinner, with British Prime Minister Theresa May's address ahead of it, though expectations that anything substantial will come out of it have already been fading.

"Hopes for Brexit deal has supported the pound for the past two months. So if there's no meaningful development, other than longer transition period, the pound could come under short-term selling pressure," said Tohru Sasaki, head of markets research at JPMorgan Chase Bank in Tokyo.

Oil prices fell on Wednesday, with US futures settling below $70 a barrel for the first time in a month, after US crude stockpiles rose 6.5 million barrels, almost triple what analysts had forecast, while exports dropped.

The West Texas Intermediate crude futures and Brent crude futures last traded at $69.79 and $80.08 a barrel, respectively.
(Dailyft)

Asia Stocks Fall; China Erases Drop After Support: Markets Wrap

Asian stocks posted further losses Friday after another slide in the U.S. overnight. China's equities rose, reversing losses, after verbal intervention by the nation's top financial regulators, who assured they'll keep financial risks under control.

The MSCI Asia Pacific Index headed for its worst three-week slide since January 2016 as shares fell from Sydney to Hong Kong. Earlier, the S&P 500 Index fell more than 1 percent and the Nasdaq 100's drop topped 2 percent. China's Shanghai Composite rose from a four-year low. The yuan stabilized after earlier losses, and the dollar held overnight gains.

China's recent rout spurred the most explicit comments by policy makers to date, with the central bank and other regulators moving to assure that liquidity risks are being addressed. Guo Shuqing, chairman of the China Banking and Insurance Regulatory Commission, said China will allow insurance companies to introduce products designed to ease liquidity pressures caused by share pledging of listed companies. The comments came as data showed China's economy expanded at 6.5 percent in the third quarter from a year earlier, just shy of the 6.6 percent average forecast in a Bloomberg survey.

Meantime, earnings misses from several U.S. industrial firms and a Bank of America downgrade of the housing sector added to worries that higher interest rates and the trade war are hitting profits. Weak results from Germany's SAP and Taiwan Semiconductor dragged American tech indexes lower. Also hurting the appetite for risk was Italy's debt crisis. The spread between Italian and German bond yields hit the highest level since 2013 as European Union officials questioned the country's budget plan.

Read how it's a long way down for Chinese stocks channeling past traumas
Fed's Powell to Balance Views of Economy, Markets, Mahajan Says

Mona Mahajan, investment strategist at Allianz Global Investors, discusses the U.S. outlook amid Fed tightening.
Source: Bloomberg

Elsewhere, oil traded near the lowest level in almost a month after expanding American stockpiles overshadowed tensions between the U.S. and Saudi Arabia over the disappearance of a prominent kingdom critic.

These are the main moves in markets:
Stocks

- Japan's Topix Index fell 1.1 percent as of the lunch break in Tokyo.
- The Shanghai Composite rose 0.6 percent after sliding as much as 1.5 percent at the open.
- South Korea's Kospi slipped 0.2 percent.
- Australia's S&P/ASX 200 Index fell 0.2 percent.
- Hong Kong's Hang Seng declined 0.2 percent.
- S&P 500 futures added 0.3 percent after the underlying gauge fell 1.4 percent Thursday.

Currencies

- The Japanese yen fell 0.2 percent to 112.40 per dollar after climbing 0.4 percent.
- The offshore yuan was flat at 6.9391 per dollar.
- The Bloomberg Dollar Spot Index was little changed Friday, trading near the strongest since mid-2017 after gains earlier in the week.
- The euro traded at $1.1457.

Bonds

- The yield on 10-year Treasuries dipped about one basis point to 3.17 percent after approaching fresh seven-year highs earlier this week.

- Australian 10-year bond yields fell about five basis points to 2.68 percent.

Commodities

- West Texas Intermediate crude rose 0.4 percent to $68.93 a barrel.
- Gold rose 0.1 percent to $1,227.02 an ounce.

(Bloomberg)