

# NEWS ROUND UP

*Monday, November 19th, 2018*

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## ***Sri Lanka rupees ends steady, stocks down 0.20-pct***

The Sri Lanka rupee closed steady at around 176.50/65 rupees against the US dollar Friday, while stocks ended 0.20 percent lower after another day of chaotic scenes in the country's legislature as the nation plunges deeper into crisis. Loyalists of Mahinda Rajapaksa occupied the Speaker's Chair to prevent a fresh vote of no-confidence against him.

The speaker later entered the chambers under heavy police security and took a voice vote amidst a hail of projectiles including copies of the constitution. The speaker adjourned parliament to November 19.

The country continues to be without a prime minister and cabinet.

The rupee fell to an intraday low of 176.65 rupee against the greenback in the spot market Friday.

The currency closed Thursday at 176.50/70 rupees to the dollar.

In equities, the All Share closed 0.20 percent lower, down 11.91 points to 5,955.43, and the S&P SL20 of more liquid stocks ended 0.13 percent higher, up 3.93 points to 3,109.50.

Market turnover was 346.6 million rupees with 56 stocks gaining in the day compared to 54 that declined.

Ceylon Tobacco (down 22.90 rupees to 1,401.10 rupees), Sri Lanka Telecom (down 90 cents to 21 rupees) and LOLC Holdings (down 1.90 rupees to 88.10 rupees) contributed to the benchmark index decline.

Net foreign selling was 55.5 million rupees, down from buying of 23.4 million rupees the previous day.

Foreign selling in John Keells Holdings was 47 million rupees, according to Asia Securities.

and John Keells Holdings gained 60 cents to close at 152.90 rupees.

Crossings, or off-market negotiated trades, amounted to 63.7 million rupees.

There were two crossings in NDB Bank for 40.8 million rupees and one.

NDB Bank ended 1.80 rupees lower at 102.40 rupees.

Gilt yields eased in the secondary market.

A five year bond maturing in 2023 ended lower at 11.65/80 percent, down from 11.80/12.10 percent the previous close.

A bond maturing in 2027 closed lower at 12.22/32 percent, down from the previous closing of 12.33/38 percent. (EconomyNext)

## ***Sri Lanka talks fail to end crippling power struggle***

Crucial talks to resolve a power struggle in Sri Lanka failed to break the political deadlock, officials said Sunday, as the three key players met for the first time since crisis erupted last month.

The Indian Ocean nation has been paralysed since October 26 when President Maithripala Sirisena controversially sacked the prime minister and replaced him with a former rival, Mahinda Rajapakse.

Deposed premier Ranil Wickremesinghe insists he is still prime minister, and parliament voted twice last week to reject Rajapakse as leader.

In a bid to resolve the crisis, Wickremesinghe and Rajapakse both went to meet the president at his office in the capital Sunday for what were widely regarded as crucial negotiations.

All three men were at the Presidential Secretariat building for nearly two hours with their aides and party seniors -- but failed to end the political deadlock.

Wickremesinghe has demanded his government be restored, challenging Rajapakse to demonstrate a majority in the 225-member assembly.

But brawling erupted in parliament Friday with Rajapakse loyalists smashing furniture, throwing chilli powder and launching projectiles at rivals in a bid to disrupt a no-confidence motion against him.

Rajapakse's party has admitted that they lacked a simple majority in the legislature. Their rivals accuse them of delaying a vote because they do not yet have the required number of MPs.

"He (Rajapakse) must submit himself to a floor test," said Lakshman Kiriella, an MP from Wickremesinghe's United National Party.

"Otherwise he cannot run a government."

Kiriella said the United National Party and their allies have twice demonstrated that they had 122 legislators -- nine more than the 113 required to demonstrate an absolute majority.

Rajapakse's legislator son Namal confirmed the talks had failed and said they would press for the snap election which was called by Sirisena on November 9 -- though later suspended by the Supreme Court until it determines the legality of an early vote.

"We reiterate our call for a general election so that people can decide who should be their

government," Namal Rajapakse said on Twitter.

- No government -

Sirisena said the parties agreed on Sunday to ensure the peaceful conduct of parliament when it meets again on Monday afternoon.

According to his office, the president called Sunday's meeting "in order to end the current political unrest and conflict situation and to allow the normal functioning of the parliament".

Wickremesinghe has said Sri Lanka needs "stability" and that he is ready to work with Sirisena, despite the personality clash that triggered the constitutional crisis.

After sacking Wickremesinghe on October 26, Sirisena initially suspended parliament and dissolved it on November 9. The legislature only reconvened on November 14 after the Supreme Court overruled his action and demanded a full hearing.

For 19 days, Sri Lanka had two claimants to the prime minister's post -- but on Thursday parliament speaker Karu Jayasuriya held that he would recognise neither as premier, leaving the country suspended in constitutional crisis.

Officially, Sri Lanka no longer has a government.

Legislators say that with the administration at a standstill, key sectors such as tourism are taking a serious battering.

Both sides have also warned that a prolonged power vacuum could lead to unrest.

(EconomyNext)

## ***Sri Lanka manufacturing, service sectors accelerate in October***

Sri Lanka's manufacturing and service sectors grew faster in October 2018 from a month earlier, outpacing global averages of the Purchasing Managers' Index (PMI), the Central Bank said.

The October manufacturing sector PMI grew to 58.2 points, up from 4.1 points in September, compared to 52.1 points in the global PMI, which was down 0.1 points.

Index values of over 50 show a growth.

"The improvement observed in manufacturing activities in October was mainly driven by the improvement in new orders and production, especially in manufacturing of food and beverages activities, led by the positive outlook with the seasonal demand," the Central Bank said.

The new orders sub-index grew to 59 points, up 5 points from a month earlier.

Production grew to 61 points, up 7.5 points.

Employment in the sector slowed down 0.5 points to a 55 index value.

"Even though the employment in the manufacturing of food and beverages activities has improved with seasonal trend, overall employment slowed down," the Central Bank said.

This was mainly evident in manufacturing of textiles, wearing apparels, leather and related activities due to difficulties to find employees in the market."

Supplier delivery time was flat at 54 points.

Furniture manufacturers stocking up supplies to cater to the coming holiday season saw stock purchases grow 5 points to a 61 index value.

Service sector PMI grew 2.5 points to 55.5, while the global PMI read 53.4, up 0.5 points.

Business activities sub-index grew 6.1 points to 57.1, while new business grew 3 points to 58.2 and expectations for activity grew 4 points to 63.6.

"The expansion in business activities was seen mainly across financial services and transportation and warehousing sub sectors," the Central Bank said.

"However, respondents cited that the depreciation of the local currency had an adverse impact on import volumes and thereby on their activity growth."

"New businesses also expanded across financial services and professional services sub sectors."

Employment sub-index was up 1.2 points to 55.4 due to growing business activities.

"Service providers' optimism on the three months business outlook strengthened in October 2018 due to upcoming festive season and the peak season for tourism."

"However, respondents raised concerns over the current political situation and the weakening of the domestic currency which could moderate the realisation of expectations."

"Prices charged of the services sector increased at a higher rate while the expected labour cost in the services sector also increased during October due to bonus payments." (EconomyNext)

## ***Sri Lanka private credit surges in Sept amid liquidity injections***

Sri Lanka's private credit surged 107.3 billion rupees, up from 46 billion rupees a month earlier, as central bank injected liquidity (printed money) to keep rates down and sterilize maturing

swaps, and credit to the government also rose, official data showed.

Private sector credit rose by 15.4 percent to 5,355 billion rupees accelerating from 14.3 percent a year earlier.

Central Bank credit (printed money) rose by 122.6 billion rupees, 368.4 billion rupees in September from 245.8 billion rupees a year earlier as interventions in forex markets and maturing legacy swaps were sterilized with liquidity injections.

Net foreign assets of the central bank fell by the rupee equivalent of 90.3 billion rupees to 811.2 billion rupees, as the rupee also fell from 161.4 to the US dollar from 169.2 to the US dollar during the month.

Sri Lanka's rupee came under renewed pressure in August as the excess liquidity was allowed to build up without being mopped up.

Sri Lanka's credit to government from the banking system rose by 155.1 billion rupees in the month, driven by central bank credit.

Credit to state enterprises rose 15.6 billion rupees to 656 billion rupees in the month. (EconomyNext)

## ***Tokyo stocks open higher with improved sentiment***

Tokyo stocks opened higher on Monday as investors refocused on sound corporate earnings helped by optimism about trade, but there were still lingering concerns about issues including Italian politics.

The benchmark Nikkei 225 index was up 0.17 percent, or 37.51 points, at 21,717.85 in early trade while the broader Topix index was up 0.11 percent, or 1.77 points, at 1,631.07.

Investors in Tokyo appeared to take heart from hopeful comments on trade from US President Donald Trump last week "to buy shares in companies with brisk earnings", said Tsuyoshi Nomaguchi, a strategist at Daiwa Securities.

However, worries over the Italian budget persisted, Nomaguchi added, noting "if Italy keeps refusing to accept the EU's proposal on the budget, Italian long-term rates could rise and destabilise the financial market".

Investors are also watching US housing starts data due on Tuesday and data Wednesday on the number of foreign tourists in Japan for further clues, he added.

The dollar fetched 112.78 yen in early Asian trade, against 112.88 yen in New York on Friday.

In Tokyo, game titan Nintendo was up 2.45 percent at 32,640 yen and telecom giant SoftBank was up 3.93 percent at 9,148 yen.

Toyota edged up 0.38 percent to 6,616 yen and Sony rose 1.32 percent to 5,765 yen. (AFP)

## ***Trump opens door to trade deal with China soon***

President Donald Trump said Friday that China was ready to make a deal to defuse trade tensions, so he might not have to punish the country with more import tariffs.

A deal to resolve the dispute would be a huge breakthrough on the issue that has dominated much of Trump's two years in office, blowback from which threatens to take the steam out of the US economy.

"China wants to make a deal," Trump told reporters. "They sent a list of things that they are willing to do."

While the offer is not acceptable yet, he said he was optimistic for an agreement to get "reciprocal" trade.

Trump this year has imposed steep tariffs on \$250 billion of Chinese goods and has threatened to hit the remaining \$267 billion in products the US imports from the world's number two economy each year.

US companies and farmers have complained of lost business and rising prices for key components as a result of the trade friction and that was a factor in some of the contests in the midterm congressional elections early this month.

"I think a deal will be made and we will find out very soon," Trump said, noting Beijing's list included 142 items and includes "a lot of the things we asked for."

"Some things were left off. We will probably get them, too," he said.

But the statements seemed to contradict comments from Trump's Commerce Secretary Wilbur Ross, who just hours earlier had said a deal with Beijing before January was "impossible."

Trump is due to meet with China's President Xi Jinping late this month in Buenos Aires on the sidelines of the Group of 20 leaders summit.

However, Ross said those talks would serve as a framework to resolving the dispute. "We certainly won't have a full formal deal by January. Impossible," he said, according to Bloomberg.

The January date is key since the 10 percent tariffs in place on \$200 billion in annual imports from China is due to increase to 25 percent.

Trump indicated he will continue to continue to take a hard line with China until the country changes.

US officials have highlighted high Chinese tariffs but also the country's trade and investment rules that allows rampant theft of American technology.

"We have to have reciprocal trade," he said. "We can't have trade meant for stupid people. That's the way they took advantage of our country."

US stocks jumped following Trump's remarks, but quickly retreated although the benchmark Dow Jones Industrial Average ended the day with a slight increase.

Investors are hoping for a deal soon to end the uncertainty which hurts the bottom line for many companies as well as increasing prices for consumers.

Some firms have even warned that they might have to postpone investment plans if they cannot insure a steady supply of material.

Economists say the tariffs' full bite has yet to hit the American economy but the trade conflict comes at a bad time for China, which is seeing slower growth.

In addition, Chad Bown of the Peterson Institute for International Economics, who has been studying the impact of the trade tariffs closely, said in a report on Thursday that Trump's tariffs on steel, which largely targeted China and other big producers, were inflicting collateral damage on poorer nations that are small producers and pose no threat to the US economy. (AFP)