

NEWS ROUND UP

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364 day bill average increases for a second consecutive week

The upward momentum in the weekly Treasury bill weighted average yields continued for a second consecutive week as the 364 day maturity was seen increasing by 04 basis points to 9.43%. This was closely followed by the 91 day bill as it was seen increasing by 03 basis points to 8.35%. The weighted average on the 182 day bill remained steady at 8.85%. The total accepted amount was seen falling short of the total offered amount for a second consecutive week, with Rs. 11.02 billion been accepted against a total offered amount of Rs. 15 billion.

However, the secondary bond market remained inactive with limited amount of trades seen on the 15.01.19, 01.07.19, 15.03.23 and 01.09.28 maturities at levels of 9.10%, 9.55% to 9.65%, 10.40% to 10.47% and 10.76% respectively. In the secondary bill market, January, March and June 2019 maturities changed hands at levels of 9.00%, 9.30% and 9.45% respectively.

The total volume of bonds transacted in the secondary market on 03rd July 2018 was Rs. 4.19 billion.

In money markets, the overnight call money and repo rates averaged at 8.49% and 8.46% respectively as the OMO department of Sri Lanka was seen injecting an amount of Rs. 30.26 billion on an overnight basis by way of a Reverse repo auction at a weighted average of 8.41%.

Furthermore the OMO (Open Market Operations) Department of Central Bank injected an amount of Rs. 2.64 billion by way of outright auctions to purchase Treasury bills from the market at weighted average of 8.30% for a period of 57 days, 8.35% for 64 days and 8.31% for 71 day, valued today.

The net liquidity shortage stood at Rs. 30.60 billion yesterday with a further amount of Rs. 12.83 billion been drawn down from its Standing Lending Facility at 8.50% against an amount of Rs. 23.49 billion been deposited at CBSL's Standing Deposit Facility (SDF) at the rate of 7.25%.

Rupee losses for a third consecutive day

The USD/LKR rate on the spot contract depreciated for a third consecutive day to close the day at Rs. 158.65/80 against its previous day's close of Rs. 158.50/60 on the back of continued importer demand.

The total USD/LKR traded volume for 3 July was \$ 41.00 million.

Some of forward USD/LKR rates that prevailed in the market were 1 Month - 159.45/60; 3 Months - 161.10/30 and 6 Months - 163.60/80.

(DailyFt)

Shares hit 15-month closing low on foreign selling

Shares extended losses yesterday to hit their lowest close in more than 15 months as continued foreign selling in blue-chip stocks dampened sentiment.

Concerns about lower economic growth also dented sentiment, analysts said.

The Colombo stock index declined for a 17th session in 19 and closed 0.61% weaker at 6,044.03, its lowest close since March 30, 2017. On Monday, the index fell the most in intraday trade in nearly 28 months.

Foreign investors sold for the 10th consecutive session, extending the foreign outflow to Rs. 1.1 billion (\$ 6.94 million) worth of equities.

Foreign selling has continued, and this is mainly due to the foreign investors' exiting from emerging markets," said First Capital Holdings Head of Research Dimantha Mathew.

Foreign investors net sold equities worth Rs. 82.1 million, extending the year-to-date foreign outflows to Rs. 1.82 billion.

Turnover was Rs. 261.6 million, less than a third of this year's daily average of Rs. 926.2 million.

Top conglomerate John Keells Holdings closed 1.3% lower, Distillers Co. of Sri Lanka PLC ended 1.5% lower, leading fixed line telephone operator Sri Lanka Telecom PLC ended down 3.2%, and Lanka ORIX Leasing Co. PLC closed 3.1% lower.

Investors are waiting for some positive news, both on the economic and political fronts, said analysts, adding that the Government's policy implementation had been sluggish since both main parties in the ruling coalition suffered local polls in February. Finance Minister Mangala Samaraweera said last month that the economy was likely to grow about 4.5% this year, below a Central Bank estimate of 5%.

The International Monetary Fund (IMF) said on 20 June that Sri Lanka's economy remained vulnerable to adverse shocks because of sizable public debt and large refinancing needs.

Ratings agency Moody's said yesterday that a strengthening dollar since mid-April has increased the credit risk of several emerging markets, including Sri Lanka, due to currency depreciation.

Moody's said a strong dollar would also lead to a drop in foreign exchange reserves of countries such as Argentina, Ghana, Mongolia, Pakistan, Sri Lanka, Turkey and Zambia.

(DailyFt)

Commercial Bank in World's Top 1000 Banks for record 8th consecutive year

The Commercial Bank of Ceylon has been ranked among the Top 1000 Banks of the World in 2018, and remains the only bank in the country to be on this prestigious ranking for eight consecutive years.

The Top 1000 Banks of the World are ranked by the UK's 'The Banker' magazine on the basis of Tier I capital, assets, capital assets ratio, pre-tax profits, return on capital, return on assets, BIS (Basel) Capital ratio, NPL to total loans, loans to assets ratio, risk weighted assets (RWA) to total assets (TA) ratio and cost income ratio.

Commenting on Commercial Bank's longstanding presence in the ranking, the bank's Managing Director/CEO Jegan Durairatnam said: "A ranking in the Top 1,000 could be approximated to being among the top 6% of the banks of the world, which is extremely respectable. Holding one's position within that elite group for eight years means that we are maintaining growth rates that are keeping pace with or are exceeding those of other leading international banks, despite the challenges we face."

The top four positions in the 2018 global ranking are held by Industrial and Commercial Bank of China, China Construction Bank, Bank of China and Agricultural Bank of China.

For the financial year 2017, Commercial Bank reported total assets of Rs. 1.143 trillion, gross income of Rs .115.6 billion, net profit of Rs. 16.5 billion, a deposits base of Rs. 850.1 billion and total loans and receivables of Rs. 754.7 billion.

In terms of Capital Adequacy Ratios, the bank's Total Tier 1 capital ratio (with capital buffers) at 12.11% as at 31 December 2017 was well above the 7.75% required under Basel III. The Total Capital Ratio of 15.75% at the end of 2017 was comfortably above the Basel III requirement of 11.75%.

Sri Lanka's largest and most awarded private bank, the Commercial Bank of Ceylon plays a pivotal role in the economy of the country, especially in terms of empowering small and medium industries. In the past year it paid Rs. 11.5 billion in taxes to the Government and lent Rs. 131.8 billion to SMEs. The bank also channelled 10.56% of the country's imports and 18.58% of its exports in 2017, and was the Sri Lankan bank with the largest footprint in Asia. (DailyFt)

Rupee ends slightly weaker in dull trade

The Sri Lankan rupee edged lower for a third straight session yesterday in dull trade, as importer dollar demand outpaced inflows from inward remittances, dealers said.

The rupee ended at 158.60/75 per dollar, compared with 3 July's close of 158.50/60.

"It was a dull day but we saw some general import demand," a currency dealer said. "The state banks were not seen selling dollars."

Dealers said the downward pressure on currencies seen in emerging markets was due to the rise in Fed rates, the trade war between China and the United States, and the rise in oil prices.

The spot rupee hit an all-time low of 160.17 per dollar on 20 June and is down 3.4% so far this year.

A strengthening dollar since mid-April has increased the credit risk of several emerging markets, including Sri Lanka, due to currency depreciation, ratings agency Moody's said yesterday. Moody's said a strong dollar would also lead to a drop in foreign exchange reserves of countries such as Argentina, Ghana, Mongolia, Pakistan, Sri Lanka, Turkey, and Zambia. The downward pressure on rupee has shown signs of easing after the island nation received more than half a billion dollars from a Chinese port operator last month.

China Merchants Port Holdings made a \$584 million payment as part of a \$1.12 billion deal to operate the deep sea Hambantota port.

The International Monetary Fund (IMF) said last month Sri Lanka's economy remains vulnerable to adverse shocks because of sizable public debt and large refinancing needs.

Foreign investors sold Government securities worth a net Rs. 3.5 billion (\$22.11 million) in the week ended 27 June, bringing the outflows so far this year to Rs. 29 billion, Central Bank data showed. (DailyFt)

Vallibel One opens trading at CSE to mark S&P SL 20 inclusion

Vallibel One PLC (Vallibel One) rang the opening bell to commence trading at the Colombo Stock Exchange (CSE) yesterday, as part of a ceremony organised to mark the company's inclusion in the S&P SL 20 Index. The S&P SL 20 Index includes the 20 largest companies, by total market capitalisation, listed on the CSE that meet minimum size, liquidity and financial viability thresholds.

CSE CEO Rajeeva Bandaranaike speaking at the ceremony commended Vallibel One for making it to the S&P SL 20 index, within a relatively short period of time. He also stated that charismatic and decisive leadership with transformative ideas has enabled Vallibel One to achieve considerable success, where the company has effectively aligned its interests with key growth sectors in the Sri Lankan economy such as manufacturing, leisure, finance and others.

Vallibel One Chairman/MD Dhammadika Perera speaking at the event stated that Vallibel One was pleased to have achieved S&P SL 20 status within seven years of listing the company. He stated that the company aims to achieve further growth across the group, through a focus on cost optimisation, implementing international best practices and driving innovation.

Chairman/MD Dhammadika Perera, Directors Harsha Amarasekera, Sumith Adhihetty, Kimarli Fernando, Rajan Asirwatham, CEO Yogadinusha Bhaskaran and other invitees from Vallibel One were present at the ceremony.

Directors Anton Godfrey, Dumith Fernando, Dilshan Wirasekara, CEO Rajeeva Bandaranaike and the senior management from CSE were also present at the occasion. Market opening ceremonies at CSE serve as a platform to generate exposure for listed companies as they celebrate important corporate and capital market milestones.

The S&P SL 20 index has been designed in accordance with international practices and standards. All stocks are classified according to the Global Industry Classification Standard (GICS), which was co-developed by S&P Dow Jones Indices and MSCI and is widely used by market participants throughout the world. (DailyFt)

Cargills Bank records improved net operating income although quarterly profits are down

Cargills Bank recorded a post tax profit of Rs. 18.3 million for the first quarter ended 31 March 2018, a decline of 57% compared with the corresponding period in the previous year. The post-tax profit was adversely impacted by higher operational expenses and increase in impairment provision.

However, the interest income growth of 51% to Rs. 876 million during Q1 2018 compared to Q1 2017 reflects the robust business performance. There was also satisfactory growth in the Net Interest Income (NII) by 41% to 462Mn backed by improved Net Interest Margin (NIM), from 5.53 to 5.74%.

The bank's focus on improving non fund based income witnessed satisfactory returns. Net fees and commission income of Rs. 33 million recorded a growth of 15% for the period under review benefiting from the higher trade volumes in core banking activities. The total other income of the bank grew by 31% for the period amounting to Rs. 44 million reflecting the growth in gains generated from investments in government securities.

The bank's operating expenses of Rs. 376 million increased by 30% compared to the first quarter of the previous year. The expansion in business activities and investments in technology resulted in such increased costs and the management is confident that these investments will yield due returns.

Since the end of first quarter 2017, the bank opened branches at Ratnapura, Wattala, Kaduruwela and Rajagiriya. A new ATM facility was commissioned at Ratnapura branch.

The bank also invested in Kiosks which are now being promoted under the concept “Bank in a Box”. These Kiosks can facilitate key transactions such as cash deposits, payment of utility bills and settlement of credit card bills, further enhancing customer convenience. It is expected that more such kiosks will be rolled out and eventually we believe that staffing in outlets could be more economically managed. The employee headcount as at 31 March 2018 was 475 whilst the comparable 31 March 2017 number was 436. The bank successfully launched Sri Lanka’s first contactless Mastercard branded Debit card with EMV Compliant Chip and PIN Technology in July 2017 replacing the previously issued proprietary ATM cards. The new debit card enables the Bank to onboard customers speedily and offers customers greater access to many service points. The launch of the Master Card Debit Card was a precursor to the launch of the Master Card Credit Card. The bank has invested in procuring a state of art Card Management System and looks forward to a grand launch of its credit card shortly. We are confident of not only making our presence felt significantly in the market but also expect the card segment to be a substantial revenue stream for the bank.

Despite the growth in the topline, the profit after tax for the period was Rs. 18 million compared to the Rs. 42 million profit recorded in the previous period. The increase in the individual and collective impairment due to portfolio growth and the stresses faced by few individual customers in the loan portfolio has primarily impacted the profitability growth during the period. The NPA ratio increased to 3.01% from the previous period’s 0.7%. This increase in NPA is receiving management attention and we are confident that the ratio would be reduced in the coming quarters.

Customer deposits stood at Rs. 21 billion while the Loan portfolio was Rs. 24 billion as at 31 March 2018. The promotional campaigns and the continuous engagement with customers were instrumental in enhancing the customer deposits and the loan portfolio.

The bank entered into several new partnerships with remittance agencies such as Ria, Trans Fast, TransferTo and Crosspay and is gradually expanding the number of partners. Our customers now have more than 350 access points to collect their remittances and the convenience and service provided in this sphere is unmatched.

Cargills Cash, the bank’s agency banking concept at Cargills Food City is witnessing month on month growth in transactions and this augurs well for the future of this novel concept. To date, more than Rs. 5 billion funds have been deposited via Cargills Cash at Cargills Food City which clearly reflects the public appeal of this product.

The bank also launched its private banking centre at Maitland Crescent branch where tailor-made solutions are made available to discerning customers. This private banking centre is also expected to bring in attractive business volumes in the coming months. The bank is very much cognisant of its core business objectives of fostering entrepreneurial and SME centric growth and financing the Agri sector. We are pleased to state that satisfactory growth is witnessed in these segments and, in particular, Agri lending represents 6.69% of total loans and advances as at 31 March 2018 and continuing to grow month on month. Our bank has been an active partner in Central Bank enabled agri programs such as National Agribusiness Development Programme (NADEP), Non Comprehensive Rural Credit Scheme (NCRCS), Saubhagya, etc. We are in continuous engagement with the Central Bank in partnering them on impending programs such as Smallholder Agribusiness Partnership Program (SAPP).

The bank’s branch network, currently stands at 18 including 8 “instore” branches at Cargills Food City. The Rajagiriya in store branch was the newest addition to the branch network during the first quarter 2018. Further, over 350 Cargills Food City outlets spread across the country continued to serve as contact points of the bank. (DailyFt)

June tourist arrivals grow 19%

The total number of tourist arrivals to Sri Lanka during June reached 146,828, latest data released by the Government said yesterday, posting a growth of 19% and pushing cumulative arrivals to 1.16 million.

This month, the largest source market for tourists is India, followed by China and United Kingdom.

As at 30 June, 1,164,647 tourists had visited Sri Lanka for this year. It is a 15.3% growth over last year when 1,010,444 tourists had visited the country during the same period.

Asia and Pacific continued to be the largest source of tourist traffic to Sri Lanka with 58% of the total traffic received in June 2018. Europe accounted for 28% of the total traffic, America 7%, Middle East 6% and Africa 1%.

India, China, United Kingdom, Australia and Germany were Sri Lanka's top five international tourist generating markets in the month of June this year.

India was the largest source of tourist traffic to Sri Lanka with 22% of the total traffic received in June.

China accounted for 14% of the total traffic, while United Kingdom, Australia and Germany accounted for 8%, 7% and 4% respectively.

Earnings from tourism in March were estimated at \$433 million, with cumulative earnings amounting to \$1,313 million during the first quarter of 2018, the Central Bank said in its latest External Performance report.

Total tourist arrivals during the first quarter of 2018 at 707,924 were a 17% increase over the first quarter of 2017. (DailyFt)

Yen 100 b loan for Central Highway stage III

Cabinet this week gave approval to seek a Japanese loan of 100 billion yen to construct the third section of the Central High Way from Pothuhera to Galagedara, Cabinet Co-spokesperson Gayantha Karunathilaka said.

The construction of the third section of the Central Highway stretching 32.05 km has been arranged as an Engineering Procurement Contract (EPC) of Japanese contractors under Japanese Banks Financing through a syndicated loan.

The loan is to be obtained at an interest rate of JPY TBOR + 0.95% at a tenure of 15 years including 4 years' availability period, two years' grace period and a nine year repayment period, the Cabinet of Ministers were informed.

The Bank of Mitsubishi UFJ Ltd (TMU) now known as MUFG Bank, has been appointed as the Mandated Lead Manager, while Nippon Export Investment Insurance (NEXI) has been appointed as the Credit Agency.

The effective interest rate of the loan is 2.7% per annum inclusive of all related costs, a "relatively favourable" rate, the Ministers were told. The Monetary Board of the Central Bank has recommended

the loan facility, outlining the need to take appropriate policy measures to mitigate the short-term monetary implications of the loan, due to its shorter repayment period and high insurance costs.

As part of the loan agreement, the NEXI will be carrying out an Environmental and Due Diligence (ESDD) for the entire project initially, and on several individual sections later.

\$ 300 m ADB loan to finance Port Access Elevated Highway

The Government this week decided to obtain a loan facility from Asian Development Bank, valued at \$ 300 million, to build a Port Access Elevated Highway to Colombo Fort and Port, aimed at minimising traffic congestion in the area, Cabinet Co-spokesperson Gayantha Karunathilaka said. Loan negotiations to build the highway from Colombo Katunayake Expressway via New Kelani Bridge, with a total estimated cost of \$ 360.2 million, is to take place in the third quarter of this year, with the balance amount of \$60.2 million to be borne by the Government.

The loan is to be obtained at an annual interest rate of LIBOR + 0.6% less a credit of 0.1% , with a repayment period of 29 years and a grace period of 8 years, the Cabinet of Ministers were told.

The development has clearly outlined outputs where the new highway of 5.3 km from Kalani Bridge is to have a dedicated ramp to the Colombo Port. The existing 1.4 km port access road will be upgraded to 6 lanes. Further, 49 port trade facilities will be relocated to make way for the developments, with a separate Maritime Facilitation Centre, where the Ministry of Ports and Shipping and Sri Lanka Ports Authority will be appointed as the executing agency. Sri Lanka Customs will be the agency to implement the project components dealing with trade logistic facilitation, including a diagnostic study on risk management system, a feasibility study for off-dock facility preparation, and technical design of cargo tracking system.

The project also aims to strengthen the operation capacity of the expressways, where the Road Development Authority will prepare toll rate guidelines under the expressway network, establish an IT section in the RDA, and improve expressway management. (DailyFt)

Asia Stocks Mixed, Yuan Slips Lower as Policy Eyed: Markets Wrap

Asian stock markets were mixed, with the region's shares close to the lowest in nine months, ahead of the planned implementation this week of trade restrictions between the U.S. and China. The yuan slipped despite the strongest fixing to its daily reference rate since October.

Shares dropped in Japan, while rising in Hong Kong and China. South Korean stocks were little changed. Treasury yields ticked higher as trading resumed after the Independence Day holiday and the dollar steadied. Earlier, the euro got a lift and market pricing for a September 2019 interest-rate hike jumped as some European Central Bank policy makers were said to be uneasy that investors aren't betting on an increase until December next year.

Trader focus is shifting to a busy end to the week, with trade action looming alongside minutes from the last Federal Reserve meeting and American employment numbers for June. On the trade front, China has pledged it won't implement tariffs before the U.S. is scheduled to do so on Friday, accounting for the difference in time zones.

SocGen Says Corporate America Not Worried About Recession

Kit Juckes, strategist at Societe Generale, discusses the U.S. yield curve and Fed policy.

Source: Bloomberg

Elsewhere, oil held gains near \$74 a barrel as investors weighed tightening U.S. supplies against a pledge from Saudi Arabia to expand output.

These are key events coming up this week:

- Federal Reserve releases minutes of its June 12-13 meeting, when FOMC policy makers raised the benchmark rate a quarter point for the second time this year and lifted the median forecast to four total increases in 2018.
- U.S. payrolls are due Friday.
- Also on Friday, the U.S. is scheduled to impose tariffs on \$34 billion of Chinese goods. Beijing has said it will slap tariffs on an equal value on U.S. exports including agricultural and auto exports.

Here are the main market moves:

Stocks

- Japan's Topix Index fell 0.3 percent as of 10:33 a.m. in Tokyo.
- Hong Kong's Hang Seng slid 0.2 percent.
- The Shanghai Composite added 0.1 percent.
- Korea's Kospi declined 0.4 percent.
- S&P/ASX 200 Index rose 0.3 percent.

Currencies

- The Bloomberg Dollar Spot Index was little changed.
- The euro was flat at \$1.1658.
- The pound was little changed at \$1.3226.
- The yen climbed 0.1 percent to 110.38 per dollar.
- The yuan slipped 0.1 percent to 6.64 per dollar.

Bonds

- The yield on 10-year Treasuries rose two basis points to 2.85 percent.
- Australia's 10-year yield climbed two basis point to 2.60 percent.

Commodities

- West Texas Intermediate crude fell 0.2 percent to \$73.99 a barrel.
- Gold rose 0.1 percent to \$1,256.22 an ounce.
- LME copper gained 0.6 percent to \$6,424 per metric ton

(Bloomberg)