NEWS ROUND UP

Friday, 21st June, 2019

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JKH drags Sri Lanka stocks 0.37-pct lower at close

Sri Lanka's stocks closed 0.37 percent lower on Thursday, dragged down by index-heavy John Keells Holdings (JKH), provisional data showed.

The benchmark All Share Price Index (ASPI) closed 19.93 points down at 5,372.37.

The ASPI had fluctuated within a narrow band in the morning session before reaching a daily high of 5,395.29 at the start of the afternoon session, and then fell sharply.

The more liquid S&P SL20 Index closed 0.77 percent or 19.42 points down at 2,494.54, moving downwards throughout the day.

Ratings agency Moody's on Thursday said that the government would find the refinancing of 3 billion US dollars in maturing foreign debt challenging, as tourism revenue and economic growth would be lower after the Easter Sunday attack.

India-based NDTV, quoting Indian intelligence documents, reported that ISIS, which claimed responsibility for the Easter Sunday terror, is increasing its focus on India and Sri Lanka.

Indian intelligence had warned Sri Lanka ahead of the bombings that an attack was imminent.

Locally, a state of emergency which has existed since the bombings will be extended further, a legislator loyal to President Maithripala Sirisena was quoted as saying on our sister site RepublicNext.

Turnover at the Colombo Stock Exchange was 136 million rupees, with 46 stocks gaining and 50 falling.

There was moderate foreign activity with net outflows of 34.4 million rupees from the market.

The trend of heavy crossings which had boosted turnover to between 500-2,200 million rupees witnessed over the past four days ended on Thursday.

JKH, which was the most active, fell 3.50 rupees to close at 137.50 rupees a share, contributing most to the benchmark index fall.

Dialog Axiata closed 10 cents down at 9 rupees a share and Hatton National Bank fell 2 rupees to 135 rupees a share, also pushing the ASPI down.

Retail buying interest was seen on LOLC Finance Plc, which closed 30 cents up at 4 rupees a share. (EconomyNext)

Sri Lanka rupee ends steady, gilt yields ease

Sri Lanka's rupee closed flat at 176.70/80 percent against the US dollar in the spot market on Thursday while bond yields eased, dealers said.

The rupee closed at 176.70/75 against the greenback on Wednesday.

Liquidity in the overnight money market was stable at 24.7 billion rupees.

The central bank mopped up 8 billion rupees in an overnight repo auction at 7.75 percent and 10 billion rupees in a 6-day term repo auction at 7.8 percent.

Dealers said that there was some buying interest in the secondary bond market, as participants are expecting fund inflows to emerging markets such as Sri Lanka with the US Fed taking a dovish stance.

The anticipation of a 1.5-2 billion US dollar international sovereign bond (ISB) issue was also influencing bond investors, dealers said.

Sri Lanka's cabinet on Tuesday gave the nod to raise additional debt, and parliamentary approval is now required before the state debt office goes ahead with the ISB.

Bond yields eased, with the little activity in the market centred on the 2021 maturities, dealers said.

A bond maturing on 15.10.2021 closed at 9.58/63 percent, falling from 9.60/65 percent at Wednesday's close.

A bond maturing on 15.12.2021 closed at 9.60/65 percent, easing from 9.63/68 percent.

A bond maturing on 15.03.2023 closed at 10.00/10.05 percent, stable from 10.00/10.03 percent.

A bond maturing on 15.03.2024 closed at flat 10.15/20 percent.

A bond maturing on 01.08.2026 closed at 10.35/45 percent, down from 10.40/43 percent.

A bond maturing on 15.01.2027 ended 10.48/52 percent, easing from 10.50/52 percent.

A 10-year bond maturing on 01.05.2029 ended 10.55/65 percent, down from 10.60/66 percent. (EconomyNext)

Sri Lanka govt US$3bn debt refinancing challenging

Sri Lanka’s government could face risks in refinancing its three billion US dollars of foreign debt in the next five years, especially if investor sentiment changes, Moody's Investors Service said.

“Domestic and external obstacles pose challenges to Sri Lanka's refinancing of government debt,” the rating agency said in a new report.

Potential for sudden shifts in investor sentiment could affect the availability and cost of funding sources, it said.

The terrorist attacks of April 2019, in which suicide bombers killed over 250 people, including tourists, will hurt tourism, curbing already-soft GDP growth, and further straining public and external finances, the agency said.

Moody's Investors Service said that Sri Lanka, rated B2 with a stable outlook, faces numerous domestic and external obstacles that will pose challenges to the government's ability to refinance its large upcoming debt obligations.

"The primary challenge facing Sri Lanka is its large external debt refinancing needs over the next five years, with over $3 billion principal payable annually on external government debt over 2020-2024," said Matthew Circosta, a Moody's Analyst.

"While a range of financing options, including international dollar bond issuance and loans from bilateral and multilateral lenders, could support refinancing, the government is highly vulnerable to sudden shifts in investor sentiment that could affect the availability and cost of these funding sources," said Circosta.

Moody's said lower tourism arrivals and spending following the April 2019 terrorist attacks will hit GDP growth and add further pressure to public and external finances.

"Political tensions could also resurface before and after the presidential elections scheduled for late 2019 and the parliamentary election in 2020, with the potential to interrupt reforms and undermine investor confidence." (EconomyNext)

Mercedes dealer in Sri Lanka running thinner margins to boost market

Sri Lanka's Mercedes Benz dealer Diesel & Motor Engineering Plc (DIMO) has reduced margins to absorb part of a steep currency collapse in a bid to win customers, though the rupee has appreciated in recent months, a top official said.

"Exchange rate risk is a massive one for us. We are dealing with Europe and Euro is a very volatile currency for our market so that is heavily impacting us," General Manager (Mercedes-Benz) Rajeev Pandithage told EconomyNext.

Sri Lanka's rupee collapsed from 153 to 182 to the US dollar during 2018 as a soft-peg with the US dollar collapsed as the central bank printed money to keep rates artificially low as the economy recovered. Monetary instability was worsened by a political crisis.

In the same period however the Euro has weakened, taking part of the edge off the fall. In 2019 as private credit collapsed, Sri Lanka's rupee has appreciated from 182 to 176 to the US dollar. The Euro appreciated from 209 to 197 rupees in 2019.

Reviving Economy

DIMO says the benefit of the stronger rupee will be passed on to customers to help revive the market.

"The currency has appreciating for the last six or seven months, so that means we are going to pass it on to the customers," Pandithage said.

He was speaking at the launch of a new DIMO brand identity and the 27th Mercedez Trophy golf tournament at the Royal Colombo Golf Club.

"We are already running thin on our margins and when you increase the price on a luxury item like this, it’s really going to impact on us," he said.

For each dollar spent, cars are among the highest sources of revenue for the government as rates of taxes are in excess of 200 percent for ordinary citizens, helping reduce the budget deficit.

Tax rates for the elected ruling class and state workers, are much lower in the style of a feudal privilege, critics have said.

Petrol car owners in particular pay high rates of tax on fuel after they buy a car.

The central bank has removed letters of credit restrictions place in 2018 as it printed money to generate monetary instability, but with higher prices and credit restrictions the car market remains weak.

Suicide blasts in April also has not helped the economy or sentiment.

Pandithage said DIMO has lost 50 percent of its vehicle sales since the import controls were brought in, while in its luxury segment which has the Mercedes Benz brand, sales fell 40 percent.

"Even before the attack, people did not have the disposable income to spend on goods and services," he said.

"Everyone was tightening their belts, there wasn’t much money circulating in the market, and we were really feeling the pinch," he said.

He said DIMO Batta, a mini-truck used by small and medium scale enterprises (SMEs), was one of the worst affected vehicle brands.

"The SMEs don’t have a lot of money so we are waiting for this to improve," he said.

SMEs which make a large share of businesses in Sri Lanka have been hit by worsening economic sentiment after the attacks, though agriculture is doing better this year.

With monetary stability returning in the first liquidity shortages, which prevailed during the capital flight of 2018 have ended and the interest rates have fallen.

But the market is yet to pick up. "There's not much sales happening," Pandithage said.

Boosting Demand

In addition to reducing margins DIMO is also taking other measures to boost demand.

With the 200 percent cash margin being reduced to the normal 50 percent, DIMO is offering attractive financing, but sales remain low due to the current economic sentiment, Pandithage said.

"What we can do about it is give financial packages and solutions, to make it easier for them to pay the rest of the 50 percent, but even then, not much we can do," he said.

Pandithage said that DIMO is seeking further diversification from its core vehicle business.

The firm's profits from the vehicle business has fallen over the past two years.

Vehicles are a favourite whipping boy of the government for taxes and the central bank when it makes monetary policy errors.

DIMO has businesses in the vehicle, heavy equipment, agriculture machinery and chemicals, electro-mechanical, bio-medical and marine engineering.

The firm has diversified its business segments over the past three years, entering into power generation with a solar plant in Sri Lanka, and diversifying its geographic footprint with expansions into Myanmar and Uganda as well. (EconomyNext)

Oil prices jump on US-Iran tensions, dovish Fed boosts stocks

World oil prices spiked Thursday on rising US-Iran tensions, while the S&P 500 surged to a fresh record as global stock markets smiled on the Federal Reserve's dovish tilt.

Oil prices rallied on the latest escalation between Washington and Tehran after Iran shot down a US spy drone near the Strait of Hormuz, a major choke point for world crude shipments.

Iran's Islamic Revolutionary Guard Corps said it brought down the surveillance drone after it entered the country's airspace near the strategic waterway. The Pentagon said the incident occurred in international airspace.

US benchmark West Texas Intermediate jumped 5.4 percent to $56.65 a barrel on the news, while international benchmark Brent oil climbed 4.3 percent to $64.45 a barrel.

"This will only stoke tensions in the region and produce short-term support for oil prices," said analyst Neil Wilson at trading site Markets.com.

Robbie Fraser, senior commodity analyst at Schneider Electric, said the latest US-Iran fight was a "key bullish driver" for oil prices but did not appreciably affect market conditions.

"From a supply and demand perspective, these escalations have limited impact at present, with US sanctions already dropping Iranian crude exports essentially to zero following the expiration of import waivers on May 2nd," he said in a note.

"However, rising tensions will raise concerns of continued attacks on crude and product traffic through the Hormuz Strait, which serves as a choke-point for roughly 30% of global seaborne crude trade."

The US has previously accused Iran of being behind a series of operations against oil tankers in highly sensitive waters, including two tanker attacks in the Gulf of Oman last week.

Tehran has denied involvement, and floated the possibility Washington could be the author of the attacks, using the operation to justify force against Iran.

- Fed spurs markets higher -

Global equities were meanwhile spurred higher after Fed boss Jerome Powell said bank officials felt the case for a rate reduction had "strengthened," citing the trade standoff with China and weak inflation. The Fed vowed "act as appropriate" to support growth.

The central bank also dropped the word "patient" in describing its stance on interest rates, fueling speculation of a reduction as soon as July.

Stocks rose across international markets, with some of the biggest gains coming in the US. The broad-based S&P 500 ended the day at 2,954.18, up 1.0 percent from Wednesday's close and about eight points over the record set in April.

The Bank of England, meanwhile left key interest rates unchanged, but warned against the rising danger of a no-deal Brexit, which analysts took as a sign that it, too, seems ready to take a more accommodating stance.

"The fact that Bank of England policymakers are flagging that the perceived risk of a 'no deal' Brexit is rising suggests that interest rates are unlikely to rise this year," said James Smith, an economist at ING.

"The latest statement is slightly more dovish than might have been expected."

- Key figures around 2130 GMT -

Brent North Sea oil: UP 4.3% at $64.45 per barrel

West Texas Intermediate: UP 5.4% $56.65 per barrel

New York - Dow: UP 0.9 percent at 26,753.17 (close)

New York - S&P 500: UP 1.0 percent at 2,954.18 (close)

New York - Nasdaq: UP 0.8 percent at 8,051.34 (close)

London - FTSE 100: UP 0.3 percent at 7,424.44 (close)

Frankfurt - DAX 30: UP 0.4 percent at 12,355.39 (close)

Paris - CAC 40: UP 0.3 percent at 5,535.57 (close)

EURO STOXX 50: UP 0.4 percent at 3,468.08 (close)

Tokyo - Nikkei 225: UP 0.6 percent at 21,462.86 (close)

Hong Kong - Hang Seng: UP 1.3 percent at 28,550.43 (close)

Shanghai - Composite: UP 2.4 percent at 2,987.12 (close)

Euro/dollar: UP at $1.1289 from $1.1226 at 2100 GMT

Pound/dollar: UP at $1.2702 from $1.2639

Dollar/yen: DOWN at 107.27 yen from 108.10 yen. (AFP)