NEWS ROUND UP

Tuesday,Augest 21st, 2018

Contents

Sri Lanka rupee weakens, stocks end 0.11-pct lower

The Sri Lanka rupee closed weaker at 160.50/60 rupees against the US dollar Monday as stocks closed 0.11 percent lower on selling in John Keells Holdings and banking stocks, brokers and dealers said.

The rupee reached an intraday low of 160.60 rupees against the greenback in the spot market on importer demand, dealers said.

The US dollar closed Friday at 160.50/58 rupees.

The currency is under pressure due to importer demand driven by excess liquidity in money markets, while foreigners were seen selling government securities and equities, dealers said.

Overnight interbank liquidity fell by 4.89 billion rupees from a day earlier on Monday to 33.51 billion rupees. Excess interbank liquidity was 10.29 billion on 25 July.

Foreign investors sold 817.8 million rupees worth of government securities last week and net foreign selling in equities was 679.7 million rupees.

Gilt yields edged higher in the secondary market for government bonds.

A five-year bond maturing in 2023 closed at 9.96/10.05 percent in two-way quotes, up from 9.91/10.00 percent the previous close.

An eight-year bond maturing in 2026 closed at 10.15/25 percent, up from 10.10/25 percent the previous day.

A ten-year bond closed at 10.25/40 percent unchanged from Friday's close of 10.25/40 percent.

In equities, Colombo's All Share index closed 0.11 percent lower, down 6.87 points to 6,044.23, and the S&P SL20 of more liquid stocks closed 0.33 percent lower, down 10.64 points to 3,227.61.

Market turnover was 193.22 million rupees, down from Friday's turnover of 569.36 million rupees.

Dialog (down 30 cents to 13.90 rupees) and Commercial Bank (down 1 rupee to 122.10 rupees) contributed to the benchmark index decline on a day where 89 stocks declined against 36 that gained.

John Keells Holdings closed 10 cents lower at 137.90 rupees and Chevron Lubricants Lanka was down 1.40 rupees to 87.10 rupees.

Sampath Bank closed 60 cents lower at 278 rupees and DFCC was down 2 rupees to 95 rupees.

HNB gained 1.90 rupees to 222 rupees.

Net foreign selling was 11.7 million rupees, compared to selling of 229 million rupees on Friday.

Foreign selling in John Keells Holdings was 34 million rupees. Foreign buying in Dialog was 17 million rupees. (EconomyNext)

Sri Lanka pension fund to value hotel stake eyed by HPL Hotels

Sri Lanka's central bank said the pension fund it manages was getting a valuation done of its stake in a southern beach resort managed by Marriot ahead of its sale to Singapore's hospitality management firm HPL Hotels & Resorts.

The Employees' Provident Fund (EPF) is in talks about the sale of Marriott Weligama Bay Resort & Spa with Weligama Hotel Properties Limited (WHPL) which is owned by East West Properties PLC.

A statement said the EPF Department had got a letter from the Chairman of WHPL in June 2018 to sell its stake in the hotel situated in Weligama Bay, a popular tourist resort, to HPL Properties Group.

East West Properties had signed a letter of intent to sell 72% of the shares of Weligama Hotel Properties Ltd. to HPL Hotels and Resorts Pte Ltd Singapore.

"The Monetary Board of the Central Bank of Sri Lanka has decided to obtain a valuation of EPF's equity stake in WHPL and the valuation process is currently in progress," the statement said.

"A comprehensive valuation would be essential to determine the value of EPF's stake in WHPL prior to divesting, in order to ensure an adequate return to the Fund to maximize the benefits for its members." (EconomyNext)

Sri Lanka coconut prices plunge 30-pct at auction; export ban may be lifted

Sri Lanka's fresh coconuts dropped to an average 30 percent to 30,793 rupees for 1,000 nuts at the latest auction in August 2018 from a month earlier, amid a global fall in commodity prices and weak demand from desiccated coconut producers.

Industry sources said an export ban on fresh coconuts may be lifted to help boost farm gate prices.

In July the average price for coconuts were about 45,000 rupees.

At the auction on August 16, 1.3 million nuts were sold at the Colombo auction, with 1.7 million nuts being offered for auction.

In the previous auction, sellers withdrew most of the nuts after demand fell.

Sri Lanka may lift a ban on the export of fresh coconut exports, imposed when coconut prices soared above 50,000 rupees earlier in the year, officials said.

Sri Lanka only exports small volumes of fresh coconuts, but the move may help prices, industry officials said.

The recent price falls are mainly coming from weak demand from the desiccated coconut sector, which stopped exports and lost markets when prices spiked earlier in the year, officials said.

It may take time for Sri Lanka to regain buyers lost to other countries.

Coconut prices have plunged in most producing countries.

In the Philippines, fresh coconut prices had fallen 64 percent in the 12-month to July from 12.50 peso to 4.50 pesos, report said.

Sri Lanka's retail prices have also started to fall, with prices down to about 55 rupees a nut from around 60 rupees last week, with more weakness expected.

Global commodity prices have been falling sharply amid an underlying strengthening of the US dollar.

It is not clear yet to what levels coconut auction prices will fall.

When prices start to fall, commodity prices tend to overshoot, economists say as wholesalers and traders try to reduce stocks.

The prices later bounce back tomore normal levels, in a so-called 'commodity price snapback' though not to levels at the height of the bubble.

In 2016, coconut auction prices fell as low as 22,000 rupees per 1,000 nuts as oil prices also fell amid an underlying weakness of the US dollar.

With fresh coconut prices falling desiccated coconut and coconut milk powder production will pick up, industry analysts said. (EconomyNext)

Demand for Sri Lanka office space, apartments strong

Demand for office space and apartments will remain strong in Sri Lanka, despite a rapid increase in supply in recent years, given an anticipated influx of expatriates and diaspora returnees, a property consultancy said.

Research Intelligence Unit (RIU) said the Chinese-funded Colombo Port City reclamation project itself will generate a lot of demand for real estate.

“The market will certainly benefit from the foreign and expat community who are likely to play a more significant role in the coming years ahead with the Cabinet approving new visa regulation changes for visitors and expats early this year,” RIU said in its annual report.

“Already, the number of dual-citizenship that have been given to the diaspora community has increased significantly according to our sources.”

According to the newly released report the Chinese Port City will function as a catalyst for future development and investment.

“The development process itself, which may last for up to another 25 years, will serve to increase demand for residential, commercial and hotel real estate within the prime Colombo area,” RIU said.

The Port City project is expected to create more than 83,000 jobs.

“If we consider that 10 percent of these will be at the senior management and consultant levels, then we are looking at new demand from around 8,300 professionals who will be working on this project,” RIU said.

The report said that Sri Lanka has enjoyed a sustained growth in the supply of high-end luxury apartments.

In 2009, the semi-luxury and luxury housing stock stood at just 783 units with the number increasing beyond 4,000 units by 2016.

When the number of developments that have been approved or are currently under construction is calculated, the number of units will top 14,000 by 2020, the 2018 Research Intelligence Unit (RIU) annual report said

Growth in service sectors like wholesale and retail trade, hotels and restaurants, transport and communication and banking, insurance and real estate will continue to drive demand for Grade A or B office space.

Demand for retail space will be driven by a growing middle class and rising incomes which will increase consumption and demand for international brands.

According to RIU’s market intelligence, this sector has many shortcomings which in turn can be made into opportunities by the developers.

“In the current context Sri Lanka is still driven by the traditional shopping experience. In fact the local consumer has not really experienced the real international shopping mall experience,” the report said. (EconomyNext)

This is how China controls its currency

China's currency has declined around 9% versus the US dollar since April and is trading near its lowest level in more than a year. The fall has drawn the attention of President Donald Trump, who has previously accused China of keeping the value of its currency artificially low to boost its huge export industry. The yuan is "dropping like a rock," he said last month.

How much control does Beijing have over what its currency does?

The yuan doesn't trade freely like other major currencies such as the dollar and the pound. Every morning, China's central bank sets a "band" within which the yuan's value is only allowed to move 2% up or down.

China has historically had reasons for wanting to keep its currency on a tight leash, said Aidan Yao, a senior economist at money manager AXA Investment Managers.

When China was first opening up its economy in the 1970s and 1980s, it was in the country's interest to keep the yuan artificially low to make its growing export industry more competitive against Asian rivals, he said.

Another reason is stability. China escaped the worst of the Asian Financial Crisis in the late 1990s, which battered the currencies of nearby countries, because it was largely shut off to foreign investors.

Like the Federal Reserve in the United States, China's central bank sets interest rates to help guide the economy, which can also influence the value of the currency.

The People's Bank of China (PBOC) also uses other tools, like dictating how much cash Chinese banks must keep in reserve.

But the PBOC works differently. It's not independent of the ruling Communist Party, so it ultimately takes its orders on monetary policy from China's top leaders.

The central bank has been known to intervene in the markets either through state-owned banks or by delving into its vast foreign currency war chest to prop up the yuan.

It also drops the occasional big surprise, like when it devalued the yuan in 2015.

"The PBOC is still a major player in the foreign exchange market," Yao said. "You don't really see that same kind of intervention with the Fed, European Central Bank or the Bank of Japan."

Despite China's ability to play a significant role in how the yuan trades, analysts are skeptical it has driven the currency's recent drop against the dollar and other major currencies.

They say the escalating trade war with the United States and concerns over a slowdown in the Chinese economy have helped push the yuan lower at a time when the Federal Reserve is steadily raising interest rates. That policy makes it more attractive for investors to hold US dollars, prompting them to sell other currencies.

Even though a weaker yuan makes Chinese exports cheaper, helping offset the impact of US tariffs, analysts argue that Beijing is more concerned with supporting the yuan at the moment. They point to a recent measure Chinese authorities introduced that made it more expensive to bet against the currency.

Such moves are a "signal of intent" that the Chinese government wants a stable currency, said Viraj Patel, a foreign exchange strategist at investment bank ING.

Even though the yuan has fallen sharply in the past couple of months, the PBOC has said in recent statements that it's seeking to keep the yuan broadly stable.

China wants markets to eventually play a far greater role in determining its currency's value. But it has been gradual process.

Over the past decade, a market has grown for investors to buy and sell a more freely traded version of the currency in financial centers outside mainland China like Hong Kong, London and New York. But its value is still strongly linked to the yuan's price inside China.

Other initiatives in recent years, such as a stock- and bond-trading links with Hong Kong, have made it easier for foreign investors to buy and sell assets priced in yuan.

"China wants to raise its influence in the global financial system," Yao said. (CNN)

The gold rush is over

It's supposed to be the classic fear trade, something to buy when things are falling apart in the world. But the price of gold has been tumbling.

It's below $1,200 an ounce for the first time since January 2017 and about 13% below its peak this year of more than $1,365. What gives?

Gold does best when the US dollar is weakening. That's when investors truly appreciate the value of gold as an alternative form of currency, not just a precious metal.

But the greenback has surged this year as the Federal Reserve has raised interest rates and is expected to hike them two more times this year. Strong corporate profits and solid economic growth have helped, too.

And gold doesn't always do well when investors are scared.

During both the 1997-1998 Asian emerging markets meltdown and the 2008 financial crisis, the price of gold plunged, and the dollar rallied.

So as long as the dollar remains red hot, gold could continue to lose luster, Simona Gambarini, commodities economist for Capital Economics, wrote in a report last week.

"Given our view that the dollar will remain strong into 2019, we don't expect the price of gold to recover much ground before then," Gambarini wrote.

It's not just gold that's tumbling lately. Copper and other economically sensitive commodities have dipped, too. That could be a sign that investors are worried about the health of the rest of the world, even as the US economy holds up.

"Commodity prices are falling along with gold, indicating a lack of pricing pressure," wrote Paul Nolte, portfolio manager with Kingsview Asset Management.

Rich Sega, global chief investment strategist at Conning, agrees with that assessment. For the time being, weaker emerging markets are a bad thing for copper, gold and other metals, not a reason to buy them.

"Generally, commodity prices have softened due to slack in demand. Inflation fears have been allayed too," Sega said. Although prices are starting to pick up, few economists are worried about runaway inflation anytime soon.

And the continued concerns about Trump administration tariffs could keep copper and gold prices depressed as well.

Sega adds that gold usually tends to be a fear trade for geopolitical reasons, not necessarily economic ones. He notes that improved US-North Korea relations and a recent cooling of tensions in the Middle East have made gold less attractive.

So while panic can motivate people to rush to gold, it has to be a specific type of fear — and, for now, that fear is absent. (CNN)