NEWS ROUND UP

Wednesday, November 21st, 2018

Contents

Sri Lanka rupee weakens, stocks end 0.12-pct lower

The Sri Lanka rupee weakened sharply to close at a new low of 177.30/50 rupees against the US dollar on Monday while stocks ended slightly weaker amidst foreign selling in Commercial Bank and Dialog, as the country enters into the fourth week of a constitutional crisis.

The currency traded at an intraday low of 177.35 rupees in the spot market for US dollar, market participants said.

The rupee closed 176.50/65 rupees against the greenback on Friday.

Colombo's All Share index closed 0.12 percent lower, down 7.53 points to 5,947.90, and the S&P SL20 of more liquid stocks ended 0.14 percent higher, up 4.56 points to 3,114.06.

Market turnover was 299.6 million rupees with 66 stocks declining during the day against 52 that gained.

Singer Sri Lanka (down 2.90 rupees to 29 rupees), Commercial Bank (down 1.10 rupees to 113 rupees) and Union Assurance (down 16.40 rupees to 303 rupees) contributed to the benchmark index decline.

Dialog was down 10 cents to 11.50 rupees and LOLC Finance also ended 10 cents lower at 3.50 rupees.

Among the gainers, Melstacorp closed 1 rupee higher at 53 rupees and Aitken Spence also gained 1 rupee to 47 rupees.

Sampath Bank gained 3.40 rupees to 233.60 rupees and Hatton National Bank edged 1.30 rupees to 215.30 rupees.

There were two crossings, or off market negotiated trades: one in John Keells Holdings for 48.4 million rupees and RIL Property for 23 million rupees.

John Keells Holdings gained 20 cents to 153.10 rupees and RIL Property closed unchanged at 7 rupees.

Net foreign selling was 147 million rupees, up from 55.5 million rupees the previous day.

Foreign selling in Commercial Bank was 81 million rupees, following by 51 million rupees in John Keells Holdings and 16 million rupees in Dialog, according to a Research.

In bonds, gilt yields edged higher in the secondary market.

A five year bond maturing in 2023 ended higher at 11.70/85 percent, down from 11.65/80 percent the previous close.

A bond maturing in 2027 closed lower at 12.25/30 percent, slighly up from the previous closing of 12.22/32 percent.(EconomyNext)

Sri Lanka Treasuries yields down amid BOP pressure

Sri Lanka's 12-month Treasury bill yield fell 04 basis points to 11.21 percent at an auction Monday, data from the state debt office showed, amid balance of payments pressure and a liquidity release.

The 3-month yield also fell 06 basis points to 10.01 percent.

The debt office offered 3.0 billion rupees of 3-month bills and accepted 4.5 billion rupees of bills. After offering 9.0 billion rupees of 12-month bills, 11 billion rupees of bills were accepted.

Bids for 3.5 billion rupees of 6-month bills were rejected.

On Friday the central bank released an estimated 90 billion rupees of new liquidity to the interbank market through a reserve ratio cut, which give banks free money to buy bonds, bills and give new credit and push up imports and worsen pressure on the currency, critics say.

In addition to policy errors, Sri Lanka has now been hit by a political crisis. (EconomyNext)

Sri Lanka warned of further downgrades by Moody's if reforms are halted

Sri Lanka may face further downgrades if recent reforms to reduce budget deficit and improve investment flows were reversed or halted and foreign reserves fell faster, Moody's Investors Service, a rating agency said after cutting the island's speculative B2 rating to B1.

"Moody's would consider downgrading the rating if external and domestic financing conditions were to deteriorate further than currently expected," the rating agency said.

"In particular, a larger drain on foreign exchange reserves would increase the risk of lower capital inflows and sharply raise refinancing costs.

"This would contribute to repayment stresses that would be more consistent with a B3 rating."

Sri Lanka has a soft-pegged exchange rate regime, which means the currency does not float, but interventions are made in the forex markets, which are they filled by printed money.

Sri Lanka has attempted to operate an inflation targeting framework without a floating exchange rate. Moody's said a floating regime will help.

Sri Lanka is now in a political crisis after President Maithripala Sirisena appointed Mahinda

Rajapaksa as Prime Minister, who has since been defeated twice in no-confidence motions in parliament.

Moody's said it downgraded Sri Lanka because a political crisis seemed "likely to have a lasting impact on policy even if ostensibly resolved quickly, have heightened refinancing risks beyond levels anticipated when the rating agency affirmed the rating at B1 with a negative outlook in July."

Moody's said a reversal or halt of current reforms could also trigger more downgrades, but a credible continuation of reforms could boost confidence.

Following the political crisis Sri Lanka has already suspended a fuel pricing formula and cut some trade taxes, but said the deficit will be in track.
"Moody's would also consider downgrading the rating if the government were to reverse recent reforms or to halt implementation of future reforms to address fiscal and external vulnerabilities and bolster GDP growth potential," the rating agency said.
"That would lead to much wider fiscal deficits, larger gross borrowing requirements and higher government debt than Moody's currently projects, weighing on already very low fiscal strength and further heightening liquidity risks.
"A steady and credible implementation of planned fiscal and economic reforms would improve Sri Lanka's ability to sustain investor confidence through the upcoming period of large debt maturities," Moody's said in a rating report.

"However, the likelihood of the government pursing its reform agenda on the previously planned schedule has fallen following recent political events that have interrupted the reform momentum.

"Moody's does not expect the current political crisis to be fully resolved rapidly, and the crisis is in any event likely to leave its mark on the pace and content of the reform programme.

"Even if past episodes of political disruption have not changed the broad direction of reforms in Sri Lanka, delays in the pace of reform will at a minimum limit the government's ability to respond to changing market conditions."

Moody's budget deficits may reduce to 5 percent in the coming years, but debt may remain above 75 percent of gross domestic product, higher than Moody's previously expected and higher than B-rated countries.

Even that progress will rely heavily on the successful implementation of durable revenue reforms and expenditure restraint, the risks associated with which have risen in recent weeks.

Sri Lanka wants to raise more loans from China, the Middle East and a yen - denominated loan in the short term to repay maturing debt, Central Bank Governor Indrajit Coomaraswamy had said. State banks were also expected to borrow abroad.

He said Sri Lanka had the ability to repay maturing billion dollar sovereign bond in January2018.

"These options may somewhat mitigate but are unlikely to materially reduce refinancing risks, as ongoing tightening in financing conditions raise uncertainty around the timing and availability of funding sources," Moody's said.

Sri Lanka has annual foreign debt repayments of about 4 billion US dollars. But if the central bank is steadily injecting rupees in the banking system, credit expands and it is not possible to collect reserves to repay debt. (EconomyNext)

Laugfs, Exxon-Mobil extend Sri Lanka lubricant market gains in 2018 2Q

Laugfs and Exxon Mobil, has extended its market share in the second quarter of 2018, from while Chevron Ceylon and the Indian Oil Corporation has seen their share fall, amid a shrinking market, data from the regulator shows.

Chevron Ceylon saw their share fall to 6,242 kilolitres (38.46-pct) in the second quarter from 7,054 million kilolitres (41.88 pct) in the first quarter while the total market also fell to 16,227 kilolitres from 16.84 million kilolitres.

Indian Oil Corporation sales fell to 2,414 kilolitres (14.88-pct), from 2,807 kilolitres (16.67-pct) a quarter earlier.

Laugfs Holdings expanded sales to 1,667 kilolitres (10.28 percent), from 999 kilolitres (5.93 pct) a quarter earlier, becoming the third player.

ExxonMobil Asia also increased sales to 1,531 kilolitres (9.44 percent), from 1,208 kilolitres but (7.17-pct), despite falling to fourth place. (EconomyNext)

Global stock markets plunge as tech fears mount

Global stocks plunged Tuesday as a sharp downward trend in the technology sector hit valuations hard and the Dow gave up all its gains for the year.

In Europe and Asia, there was much talk about the surprise arrest of Carlos Ghosn, boss of the Renault-Nissan-Mitsubishi alliance, and stocks in the three companies plunged, while Wall Street suffered a second big decline.

Analysts at Capital Economics forecast the tech sector would continue to underperform in the coming quarters because of expected economic weakness in both the United States and China.

"Given the highly-cyclical nature of the IT sector, we have been arguing for a while that growth in its earnings would be hit especially hard in these circumstances," they said.

In New York, the Dow shed more than 550 points or 2.2 percent to 24,465.54.

The S&P 500 also slid into the red for the year, while the tech-rich Nasdaq Composite Index clung to a modest gain for all of 2018.

"Today was again a big sell-off," said JJ Kinahan, chief market strategist at TD Ameritrade. "Investors are repricing stocks."

Besides technology, US sectors with bruising declines included petroleum, following a big dip in oil prices, and retail, after a series of mixed earnings reports just ahead of the key holiday shopping season.

Analysts have blamed the weakness on worries about slowing global growth exacerbated by a series of Federal Reserve interest rate hikes and the burgeoning US-China trade dispute.

Some market watchers have said the fall has been exacerbated by light trading volumes this week ahead of Thursday's Thanksgiving holidays when markets will be closed.

President Donald Trump reentered the central bank fray on Tuesday, calling on the Fed to lower interest rates.

"We have much more of a Fed problem than a problem with anyone else," Trump told reporters, the latest sign of the US president's indifference to criticism that his comments on monetary policy help undermine central bank independence.

- Ghosn weighs on automakers -

In Asia, Nissan lost 5.5 percent and Mitsubishi sank 6.9 percent as they prepared to sack Ghosn after it emerged he had been taken into custody as detectives looked into claims he underreported his income for years.

Ghosn has long been a major player in the car industry and is credited with resurrecting the once-troubled Nissan, which he allied with Mitsubishi and France's Renault.

He heads the Renault-Nissan-Mitsubishi alliance and serves as CEO of Renault.

Renault said Tuesday Ghosn would remain chief executive despite his arrest. But the French company appointed Chief Operating Officer Thierry Bollore as deputy CEO to ensure day-to-day management while Ghosn is "temporarily incapacitated."

Renault's share price closed 1.2 percent lower, extending Monday's eight percent dive.

"The market doesn't consider the share's fall to be a buying opportunity," said Cedric Besson, a portfolio manager at Gaspal Gestion.

Shares in Deutsche Bank dropped nearly five percent in Frankfurt amid fears that the German banking giant is being drawn into a money laundering scandal dogging Danish peer Danske Bank, dealers said.

Investors suspect that a former high-ranking Danske Bank manager meant Deutsche Bank when he told a parliamentary commission in Copenhagen that nearly $150 billion of doubtful transactions had been handled by the US subsidiary of "a big European bank".

- Key figures around 2200 GMT -

New York - Dow: DOWN 2.2 percent at 24,465.64 (close)

New York - S&P 500: DOWN 1.8 percent at 2,641.89 (close)

New York - Nasdaq: DOWN 1.7 percent at 6,908.82 (close)

London - FTSE 100: DOWN 0.8 percent at 6,947.92 (close)

Frankfurt - DAX 30: DOWN 1.6 percent at 11,066.41 (close)

Paris - CAC 40: DOWN 1.2 percent at 4,924.89 (close)

EURO STOXX 50: DOWN 1.4 percent at 3,116.07 (close)

Tokyo - Nikkei 225: DOWN 1.1 percent at 21,583.12 (close)

Hong Kong - Hang Seng: DOWN 2.0 percent at 25,840.34 (close)

Shanghai - Composite: DOWN 2.1 percent at 2,645.85 (close)

Euro/dollar: DOWN at $1.1370 from $1.1454 at 2200 GMT

Pound/dollar: DOWN at $1.2787 from $1.2854

Dollar/yen: UP at 112.75 yen from 112.55 yen

Oil - Brent Crude: DOWN $4.24 at $62.55 per barrel

Oil - West Texas Intermediate: DOWN $3.77 at $53.43 per barrel. (AFP)

Oil Prices Halt Slide After API Reports Small Crude Draw

The American Petroleum Institute (API) reported a surprise crude oil inventory draw this week, of 1.545 million barrels for the week ending November 16. The draw this week was the first week that saw a draw after six weeks of straight builds as reported by the API, which had weighed on oil prices under the combined weight of disappointing Iranian sanctions results combined with growing U.S. stockpiles.

The report was in contrast to analyst expectations that we would see a build in crude oil inventories of 2.941 million barrels.

Inventories in the Cushing, Oklahoma facility this week had climbed by 398,000 barrels, while analysts had estimated a bigger build of 2.419 million this week.

Prices fell sharply on Tuesday prior to the data release as the market braced for another inventory build, holding onto a sliver of hope that OPEC would offer up some production cut plan prior to its December meeting. Oil prices have not fared well in recent weeks not only due to the inventory builds, but also due to demand forecasts that have been adjusted downward for a couple months in a row.

At 3:30 pm EST, WTI was trading down 6.82% (-$3.90) at $53.30—nearly $4 per barrel lower than this time last week. The Brent crude benchmark was trading down 6.63% (-$4.43) at $62.36, a roughly $5 per barrel decline week on week.

The API reported a build in gasoline inventories for week ending November 16 in the amount of 706,000 barrels. Analysts had predicted a draw of 198,000 barrels for the week.

U.S. crude oil production as estimated by the Energy Information Administration was also bearish in nature, showing that production for the week ending November 9 stood 11.7 millionbpd—a brand new high for the United States for a second week in a row.

Distillate inventories were down by 1.832 million barrels, compared to an expected draw of 2.754 million bpd.

The U.S. Energy Information Administration report on crude oil inventories is due to be released on Wednesday at 10:30a.m. EST.

By 4:42pm EST, WTI was trading down for the day at $53.20 and Brent was trading down at $62.25.(Oilprice.com)