

# NEWS ROUND UP

*Friday, March 22, 2019*

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## ***Inflation rises to 2.4% in Feb.***

Inflation rose to 2.4% in February from 1.2% in January, largely on non-food items, the Census and Statistics Department said yesterday.

Headline inflation as measured by the year-on-year change in the National Consumer Price Index (NCPI, 2013=100) increased to 2.4% in February 2019 from 1.2% in January 2019 mainly due to the base effect.

Meanwhile, year-on-year Non-food inflation increased to 6.7% in February 2019 from 6.5% in January 2019 while Food inflation also increased to -2.9% in February 2019 from -4.8% in January 2019.

The change in the NCPI measured on an annual average basis marginally decreased to 1.7% in February 2019 from 1.8% in January 2019. The month on month change of the NCPI was -0.5% in February 2019. This was mainly due to decrease in the prices of the items in the Food category where vegetables,

green chillies, rice, coconuts, limes, big onion and banana recorded significant decreases.

However, on month on month basis, the prices of the items in the Non-food category increased among which the Education sub-category recorded the highest increase. Further, Health, Transport, Alcoholic Beverages and Tobacco, and Housing, Water, Electricity, Gas and Other Fuels sub-categories also reported increases during the month.

The core inflation, which reflects the underlying inflation in the economy, increased from 5.1% in January 2019 to 5.5% in February 2019 on year-on-year basis. Meanwhile, annual average core inflation also increased from 2.7% in January 2019 to 3% in February 2019 (Dailyft)

## ***Shares fall for fourth session; rupee ends firmer***

Sri Lanka's share index fell for a fourth straight session on Thursday to a more than 6-year closing low as investors exited the island nation's risky assets, while they awaited cues from the third and final vote on the 2019 Budget, market sources said.

The Colombo Stock Exchange index fell 0.36% to 5,571.30, hovering near its lowest close since 26 December 2012. The benchmark stock index fell 1.85% last week, recording its sixth straight weekly drop. It has declined 7.95% so far this year.

Turnover was Rs. 844.3 million (\$4.74 million), more than last year's daily average of Rs. 834 million. Foreign investors bought a net Rs. 1.7 million worth of shares on Thursday but they have been net sellers of Rs. 6.15 billion worth of equities so far this year.

Parliament last week passed the second reading of the 2019 Budget that raises spending while setting an ambitious goal to reduce a large fiscal deficit. The final vote is scheduled for 5 April. The stability of Prime Minister Ranil Wickremesinghe's Government has been questioned by the Opposition since he was reinstated after a 51-day political crisis.

The rupee ended firmer at 177.90/178.10 to the dollar on greenback selling by some banks, compared with Tuesday's close of 178.40/50. Markets were closed on Wednesday for a public holiday.

The rupee has climbed 2.64% this year as exporters converted dollars and foreign investors purchased government securities amid stabilising investor confidence after the country repaid a \$1 billion sovereign bond in mid-January.

Worries over heavy debt repayment after the 51-day political crisis that resulted in a series of credit-rating downgrades dented investor sentiment as the country struggled to repay its foreign loans. The rupee dropped 16% in 2018, and was one of the worst-performing currencies in Asia due to heavy foreign outflows.

Foreign investors bought a net Rs. 1.16 billion worth of government securities in the week that ended on 13 March, the second net inflow in four weeks, but they have sold a net Rs. 1.7 billion this year, the latest Central Bank data showed.

(Dailyft)

### ***Secondary market bond yields retreat***

The secondary bond market rallied yesterday as yields retreated across the yield curve on the back of fresh foreign and local buying interest. Demand mainly for the 15.03.24 and 01.05.29 maturities saw its yields dip to intraday lows of 11.00% and 11.35% respectively against its days opening highs of 11.05% and 11.45%. In addition, the two 2021's (i.e. 01.08.21 and 15.12.21), 15.05.23 and 01.08.26 maturities were seen changing hands within the range of 10.66% to 10.73%, 10.70% to 10.73%, 10.96% to 11.02% and 11.12% to 11.16% respectively. On the very short end of the yield curve, February 2020 bills and 01.05.20 were seen changing hands at levels of 10.38% and 10.40% to 10.45% as well.

The total secondary market Treasury bond/bill transacted volumes for 19 March was Rs. 8.31 billion.

In money markets, the overnight call money and repo rates averaged 8.85% each as the Open Market Operations (OMO) department of the Central Bank of Sri Lanka injected amounts of Rs. 10.00 billion, Rs. 6 billion and Rs. 12.6 billion on an overnight, seven days and fourteen days basis at weighted averages of 8.77%, 8.74% and 8.80% respectively yesterday. The net liquidity shortfall in the system decreased to Rs. 18.73 billion yesterday.

Rupee appreciates

In the Forex market, the USD/LKR rates on spot contracts were seen appreciating yesterday to close the day at Rs. 177.90/05 against its previous day's closing levels of Rs. 178.40/45 on the back of selling interest by Banks.

The total USD/LKR traded volume for 19 March was \$ 78.38 million.

Some forward USD/LKR rates that prevailed in the market were: 1 month - 178.85/05; 3 months - 180.70/00; 6 months - 183.65/95.

(Dailyft)

### ***Sri Lanka to discuss Draft National Policy on LNG***

The Ministry of Highways and Road Development together with Petroleum Resources Development has developed the Draft National Policy on Liquid Natural Gas with a view to establish and develop the natural gas industry in Sri Lanka.

With the view of further improvement and development of the policy, Public Utilities Commission of Sri Lanka together along with the Ministry of Highways and Road Development and Petroleum Resources Development Secretariat has decided to call public and expert comments on the Draft National Policy on Liquid Natural Gas. Exploratory evidence on natural gas deposits in Mannar Basin and the pursuit of relatively clean alternative fuels for enhancing the diversity of power generation energy mix have heightened the interest in natural gas in the country.

The first natural gas discovery in Sri Lanka was made in the Mannar Basin, off the North Western coast in 2011. So far, exploratory drilling has made two discoveries from the same block with estimated reservoir capacities in excess of one Trillion Cubic Feet (TCF) of natural gas and 10 million BBL (barrels) of condensate.

The Draft Policy explained despite positive prospects, however, Sri Lanka has no experience in natural gas in any economic sector so far and there is substantial evidence to indicate that Sri Lanka can reap significant economic, social, and environmental benefits from using natural gas as a source of energy in power, industrial, transportation, household and commercial sectors and a raw material for industrial purposes.

The national policy on natural gas will facilitate the exploration and production of natural gas, importation and exportation of Liquefied Natural Gas and utilisation of natural gas as an energy source and raw material; and to establish the legal, regulatory and institutional framework for the natural gas industry in Sri Lanka.

The Draft Policy is available on [www.pucsl.gov.lk](http://www.pucsl.gov.lk) and the written comments can be submitted via post (Chairman, Public Utilities Commission of Sri Lanka, Level 06, BoC Merchant Tower, No. 28, St. Michael's Road, Colombo 03), via fax (0112392641) or via email ([consultation@pucsl.gov.lk](mailto:consultation@pucsl.gov.lk)).

The oral submission or the discussion will be held on 28 March at Cinema Lounge – BMICH and interested parties can be participated by registering via 0718622800.  
(Dailyft)

### ***Pound falls again amid Brexit chaos as US stocks rally***

The pound fell further as EU leaders met in Brussels on Thursday to consider a Brexit delay, while Wall Street stocks bounced as investors shrugged off worries about the US economy.

Sterling, seen as a barometer in Britain's long-running Brexit saga, slid on rising fears that the country could crash out of the EU without a deal.

British Prime Minister Theresa May was back in Brussels on a last-gasp mission to beg EU leaders for more time to deliver a Brexit deal that was twice rejected by her own parliament.

May declared that she is "determined" to deliver Brexit, after formally requesting a three-month delay on Wednesday.

However, investor fears persist that the 27 other EU leaders could refuse the request, potentially sending Britain crashing out of the bloc in just eight days.

The pound, which started the day at nearly \$1.32, fell as low as \$1.3004 during the day before recovering somewhat.

"For the third time this week investors ignored solid UK economic data, distracted by Brexit drama," said City Index senior analyst Fiona Cincotta.

British retail sales rose 0.4 percent in February from the previous month, official data showed, illustrating that shoppers have not been frightened off from making purchases by Brexit.

However, the Bank of England expressed concern that further "uncertainties" over a "cliff-edge" no-deal Brexit "could have a significant effect on spending" by businesses.

As expected, it held its main interest rate steady at 0.75 percent.

- Wall Street rallies -

Meanwhile, the broad-based S&P 500 jumped 1.1 percent as Wall Street shrugged off doubts about the US economy following the Fed's surprisingly dovish announcement on Wednesday.

US stocks had sold off on Wednesday after the Fed signaled it planned no interest rate increases in 2019, raising doubts about .

But Thursday's rally showed investors believe "the Fed will do what it can to please the markets," said Meeschaert Financial Service's Gregori Volokhine, adding that money managers fear losing out on more gains later in the year.

Apple surged 3.7 percent on positive buzz ahead of a March 25 event expected to unveil a new streaming service. Apple was upgraded by Needham and its price target was lifted by Citigroup.

Levi Strauss, returning to the public markets for the first time in nearly 35 years, soared 31.8 percent from its initial public offering price. Analysts said the positive reaction to the offering lifted expectations for larger initial public offerings later in the year, including from Lyft and Uber.

But biotech company Biogen plunged 29.2 percent after it halted clinical trials for a medication once thought to offer promise for treating Alzheimer's disease.

- Key figures around 2040 GMT -

New York - DOW: UP 0.8 percent at 25,962.51 (close)

New York - S&P 500: UP 1.1 percent at 2,854.88 (close)

New York - Nasdaq: UP 1.4 percent at 7,838.96 (close)

London - FTSE 100: UP 0.9 percent at 7,355.31 (close)

Frankfurt - DAX 30: DOWN 0.5 percent at 11,549.96 (close)

Paris - CAC 40: DOWN 0.1 percent at 5,378.85 (close)

EURO STOXX 50: DOWN 0.2 percent at 3,367.40 (close)

Hong Kong - Hang Seng: DOWN 0.9 percent at 29,071.56 (close)

Shanghai - Composite: UP 0.4 percent at 3,101.46 (close)

Tokyo - Nikkei 225: Closed for a public holiday

Pound/dollar: DOWN at \$1.3102 from \$1.3198 at 2100 GMT on Wednesday

Euro/pound: UP at 86.77 pence from 86.48 pence

Euro/dollar: DOWN at \$1.1369 from \$1.1413

Dollar/yen: UP at 110.80 yen from 110.70 yen

Oil - Brent Crude: DOWN 56 cents at \$67.94 per barrel

Oil - West Texas Intermediate: DOWN 32 cents at \$59.91

(Economynext)

## ***Asia Stocks Mixed, Bond Yields Hit Lowest in Years: Markets Wrap***

Asian stocks were mixed, while bond yields slumped to multi-year lows as investors assess prospects for the end of monetary-policy normalization by major central banks.

Hong Kong and Chinese equity benchmarks slid, while Australian shares rose and Japan was little changed. U.S. futures dipped after an S&P 500 Index rally overnight that saw a broad-based advance. Japan's 10-year bond yield fell to the lowest since 2016, New Zealand's fell below 2 percent for the first time and Australia's approached a record low -- all underscoring the return to globally low long-term rates. The yield on 10-year Treasuries held just above the lowest level in more than a year. The dollar steadied.

S&P 500 closes at highest since October after the Fed's dovish turn

The MSCI index of global equities has returned to its highest level since early October amid optimism that a dovish tilt from the Fed can help prolong the bull market. Bonds, however, are signaling worries that momentum in growth and inflation remains subdued. Inflation in Japan crept lower, highlighting the struggles facing the Bank of Japan as some question its commitment to a 2 percent inflation target.

"With the start of a global easing cycle, the prospect of the resolution of the trade war, maybe some positive development on the Brexit front, we have the foundations and the catalysts for a revival of growth," Sandip Bhagat, chief investment officer at Whittier Trust Co., told Bloomberg TV in New York. "I wouldn't be surprised if growth, both of the earnings and economic variety, bottoms out in the first quarter. The market is now focused on the second half of 2019, where we see this revival."

Elsewhere, sterling was off its recent lows as European leaders moved to stop a chaotic no-deal Brexit happening next week, handing the U.K. an extra two weeks. The U.K. now needs to decide by April 12 what it will do next. Earlier in Brazil, stocks and the real sank after former Brazilian president Michel Temer was arrested as part of the "Carwash" corruption probe, clouding the outlook for the government's key economic reforms.

Mandel Says the Fed Is Throwing Inflation Forecast Out the Window

The Fed is throwing its inflation forecast out of the window, says Ben Mandel, of JPMorgan Asset Management.

Source: Bloomberg

These are the main moves in markets:

Stocks

- The MSCI Asia Pacific Index was little changed as of 11:04 a.m. in Hong Kong.
- Japan's Topix index slipped 0.1 percent.
- South Korea's Kospi dropped 0.2 percent.
- Hang Seng fell 0.5 percent.
- The Shanghai Composite declined 1 percent.
- Australia's S&P/ASX 200 Index climbed 0.5 percent.

- The S&P 500 Index gained 1.1 percent. Futures were down 0.2 percent.

#### Currencies

- The yen was at 110.71 per dollar.
- The offshore yuan held at 6.7051 per dollar.
- The Bloomberg Dollar Spot retained Thursday's advance, trading little changed.
- The euro bought \$1.1375.
- The British pound added 0.3 percent to \$1.3141.

#### Bonds

- The yield on 10-year Treasuries was at 2.53 percent.
- Japan's 10-year bond yield dipped to -0.06 percent.
- New Zealand's 10-year bond yield was at 1.98 percent and Australia's was at 1.84 percent.

#### Commodities

- West Texas Intermediate crude fell 0.3 percent to \$59.82 a barrel.
- Gold was flat at \$1,309.35 an ounce.  
(Bloomberg)