

NEWS ROUND UP

Wednesday, 22nd May, 2019

Contents

Sri Lanka's Hayleys profits down 72-pct in March.....	2
Growing taste for Sri Lankan tea among Chinese youth triggers export boom.....	3
Sri Lanka CB Governor says strong case to relax monetary policy.....	4
Sri Lanka tourism boosted by regional MICE association.....	5
US stocks rally on Huawei reprieve as pound gyrates on Brexit news.....	6

Sri Lanka's Hayleys profits down 72-pct in March

Profits at Sri Lanka's Hayleys Plc, which is in glove and activated carbon exports, consumer durables, agriculture and power fell 72 percent from a year earlier to 230 million rupees in the March 2018 quarter, as borrowings and interest grew, interim accounts showed.

The group reported earnings of 3.07 rupees for the March quarter.

For the year to March Hayleys reported earnings of 3.54 rupees per share on total profits of 265 million rupees down 74 percent from a year earlier. The stock closed at 150 rupees up 1.35 Tuesday.

Revenues grew 11 percent to 56.4 billion rupees during the March quarter, cost of sales grew at a faster 12 percent to 43.3 billion rupees, direct interest costs grew 26 percent to 349 million rupees, allowing gross profits to grow at a slower 8 percent.

Unspecified other income grew sharply to 1.1 billion rupees from 397 million rupees, while unspecified administration expenses grew 49 percent to 8.0 billion rupees.

In January the group sold Hunas Hotels booking a 445 million rupees.

Net finance costs grew 39 percent to 2.7 billion rupees.

Short and long term borrowings grew by 20.6 billion rupees from 92.6 billion rupees to 113.2 billion rupees during 2018. Full year interest costs grew to 10.5 billion rupees in 2018 from 5.9 billion rupees a year earlier.

Hayleys has taken on debt for acquisitions, including Singer Sri Lanka, a consumer durables firm.

..[T]he Group will continue to take strategic and focused measures aimed at rationalizing finances , however as a Group, we are ready for a challenging macroeconomic environment,” the Hayleys Chairman Mohan Pandithage told shareholders.

Sri Lanka's central bank generated monetary instability in 2018 just as the economy recovered, and the rupee fell from 153 to 182 during 2018, partly worsened by a political crisis.

While a falling rupee will help export business by destroying real salaries of workers, but the currency collapse also kills domestic demand by destroying salaries and savings of an entire population.

Corrective action in the form of prolonged liquidity shortages and capital flight will also add to a demand contraction. (EconomyNext)

Growing taste for Sri Lankan tea among Chinese youth triggers export boom

Chinese youth are acquiring a taste for Sri Lanka's black tea, with shipments to China, mainly a green tea market, growing strongly this year, Sri Lanka Tea Board Chairman Lucille Wijewardena said.

"From nothing about three to five years ago, last year they bought 10 million plus kilos of tea," Wijewardena told economynext.com in an interview.

In the first quarter of this year, almost 2.8 million kilos of 'Ceylon tea' were exported to China, up 210,300 kilograms or 8.2 percent from a year ago.

China's market share of total Sri Lankan tea exports in the first quarter was 3.77 percent, up slightly from a year ago..

"These numbers are huge," Wijewardena said. "And this is a great opportunity for our industry as we are now open to a market with the highest population in the world."

Wijewardena attributed the surge in tea exports to China mainly to Chinese youth developing a liking for consuming black tea with milk.

"And that is going to be a big market for us," he said, noting that they expect exports to China to increase further.

China was the seventh highest export market for 'Ceylon tea' in March this year, ahead of other key markets like Syria, Germany and Japan.

Iraq was the top buyer of Sri Lankan tea in 2018, importing almost 10 million kilograms of tea, up by 4.02 percent from a year ago.

Prices for Sri Lankan tea are higher when compared with other competing countries like Kenya.

Wijewardena said Sri Lankan tea carries a premium quality image, which attracts higher demand and global recognition.

That's why consumers in a big market like China resort to buying Sri Lankan tea instead of many others like CTC type tea which is what Kenya mainly produces.

"Fortunately the ethnic problem has not affected us." Wijewardena said referring to recent turmoil within the country. "Transportation takes place and auctions are going on as usual.

"We didn't have a single auction which was canceled. We got security for such possible cases and so far no disruptions were seen." (EconomyNext)

Sri Lanka CB Governor says strong case to relax monetary policy

Sri Lanka has a 'strong case' to relax monetary policy, Central Bank Governor Indrajit Coomaraswamy said as the islands private credit fell and bank balance sheets contracted.

"If you look at all indicators, there's a strong case for relaxing monetary policy," Governor Indrajit Coomaraswamy was quoted as saying by Bloomberg Newswires.

"All options are there. It could be a SRR (statutory reserve ratio), it could be a policy-rate reduction, it could be a combination of the two."

Sri Lanka's central bank triggered two runs on the rupee in 2018, by trying to artificially push down rates by printing large volumes of money as the credit demand and the economy recovered in so-called lost generation economics and the US tightened policy.

Sri Lanka targets a published real effective exchange rate making the rupee a sitting duck, and also has other convertibility undertakings including an International Monetary Fund forex reserve target, a undertaking to prevent 'disorderly adjustment' and 'excessive volatility'.

But there is no floating short term rates to allow the exchange rate to be targeted in any way making it a classic balance of payments prone soft-peg.

The rupee fell from 153 to 182 in 2018 as 246 billion rupees were printed to generate excess liquidity and sterilize outflows and foreign investors in rupee bonds fled.

However after October 23, a political crisis undermined confidence, which analysts say made it even more difficult for the central bank to juggle the soft-peg and the credit system was hit with prolonged liquidity shortages.

Sri Lanka is seeing a private credit contraction after four years, analysts have said. When private credit contracts there will be a 'surplus' of dollars and the rupee faces appreciation pressure.

With credit contracting the central bank has bought dollars in the first quarter from commercial banks as well as the Treasury.

The central bank has managed the liquidity spike that occurs in late April and early May which tends to de-stabilize the rupee when credit is strong through repo auctions (auctions that withdraw money) and there was also uncertainty among foreign bond holders after Easter Sunday blasts.

Analysts say the risk may now have passed.

Short term rates are now being held repo auctions (auctions that withdraw money) at around 8.50 percent and may be kept artificially up. (EconomyNext)

Sri Lanka tourism boosted by regional MICE association

Sri Lanka's tourism industry received support from the International Congress and Convention Association (ICCA) to recover from the Easter Sunday bombings, a government statement said.

"Sri Lanka is continuing to attract global support for the quick revival of its tourism industry which took a heavy blow following the terrorist attacks last month," a Tourism Ministry statement said.

It said that ICCA's Asia Pacific Chapter held a special meeting in Frankfurt, Germany, called by the association's Regional Director for Asia Pacific Noor Ahmad Hamid, at the sidelines of the IMEX trade show for MICE (Meetings, Incentives, Conventions and Exhibitions) tourism.

The association held the meeting to show solidarity with Sri Lanka and New Zealand, following terrorist attacks on the two countries.

A minute's silence was observed when the entire Asia Pacific Region came together to back the two nations in their bid to support the recovery of tourism.

Sri Lanka Convention Bureau (SLCB) Chairman Kumar De Silva told 200 members of the association that the country in general and the tourism industry in particular were fast returning to normal.

He said that every possible measure has been taken to ensure the safety of visitors and that the country was open for business.

De Silva said that none of Sri Lanka's major tourism sites were affected by the attacks and that these places remained ready to welcome visitors.

SLCB which is the country's apex convention organizer is making a determined push to establish Sri Lanka as a hub for MICE tourism in the South Asian region.

He requested the industry to work together to overcome the challenge of global terrorism and invited industry leaders especially in the Asia Pacific region to visit Sri Lanka and witness firsthand how the country has recovered and is ready to welcome visitors.

He termed this turnaround as being 'So Sri Lanka.'

Last week, United Nations World Tourism Organization Secretary General Zurab Pololikashvili requested the global community to offer its unwavering commitment to Sri Lanka Tourism by resuming travel to the country.

The Easter Sunday attacks killed 258 persons, including over 40 foreigners, and wounded over 500.

The Islamic State claimed responsibility for the attacks, which it said was carried out by local affiliated organizations.

The Sri Lankan government said that it has caught almost all persons related to the organizations, and the remainder will be arrested soon.(EconomyNext)

US stocks rally on Huawei reprieve as pound gyrates on Brexit news

Global stocks rallied Tuesday as the United States took a step away from imposing crushing restrictions on Chinese telecom company Huawei, while the pound gyrated on fresh Brexit drama.

Wall Street stocks gained ground following two straight losing sessions, with tech companies leading after the US Commerce Department announced it would delay implementation of a ban on Huawei for 90 days to allow companies to adjust their operations and avoid sudden disruption.

Nate Thooft, senior portfolio manager of Manulife Asset Management, said Huawei seems to be a "bargaining chip" in the broader US-China trade talks, raising concerns China could respond by targeting US tech companies.

Many analysts expect more volatility in markets ahead.

"We don't know what's going to happen on trade," Thooft said.

"Our baseline remains the view that basically there is going to be a trade deal. But the timeline is very questionable on when it's going to happen."

After falling on Monday, large tech companies such as Apple and Google parent Alphabet pushed higher, lifting the Nasdaq by 1.1 percent.

European bourses also rallied with the United States, while Asian markets were mixed.

The pound, meanwhile initially shot higher in anticipation of British Prime Minister Theresa May's latest Brexit announcement.

May, who has already said she will leave office next month, promised to give lawmakers a chance to set a confirmatory referendum on whatever version of Brexit they end up approving in the weeks or months to come.

But the pound later pulled back after critics attacked it as a rehash of earlier May efforts that have made little headway politically.

"The market was all geared up to hear something new," said Boris Schlossberg of BK Asset Management, adding said May's decision to link a second vote to her Brexit plan meant the announcement was a "warmed-over" version of a rejected idea.

"There was definitely a misreading of the headline first from the market," said Erik Nelson, a currency strategist at Wells Fargo.

"It seems that nothing has really changed with regards to Brexit and it is more likely today than it did yesterday that Prime Minister may well fail."

- Key figures at 2100 GMT -

New York - Dow: UP 0.8 percent at 25,877.33 (close)

New York - S&P 500: UP 0.9 percent at 2,864.36 (close)

New York - Nasdaq: UP 1.1 percent at 7,785.72 (close)

London - FTSE 100: UP 0.3 percent at 7,328.92 (close)

Frankfurt - DAX 30: UP 0.9 percent at 12,143.47 (close)

Paris - CAC 40: UP 0.5 percent at 5,385.46 (close)

EURO STOXX 50: UP 0.5 percent at 3,386.51 (close)

Tokyo - Nikkei 225: DOWN 0.1 percent at 21,272.45 (close)

Hong Kong - Hang Seng: DOWN 0.5 percent at 27,657.24 (close)

Shanghai - Composite: UP 1.2 percent at 2,905.97 (close)

Pound/dollar: DOWN at \$1.2706 from \$1.2726 at 2100 GMT

Euro/pound: UP at 87.84 pence from 87.76

Euro/dollar: DOWN \$1.1161 from \$1.1166

Dollar/yen: UP at 110.50 yen from 110.06 yen

Oil - Brent Crude: UP 21 cents at \$72.18 per barrel

Oil - West Texas Intermediate: DOWN 11 cents at \$62.99 per barrel (AFP)