# NEWS ROUND UP

*Wednesday, January 23, 2019*

## Contents

## *Rupee falls on importer dollar demand; stocks post 8-week closing low*

Sri Lanka's rupee closed weaker yesterday due to dollar demand from importers, while stocks fell to an eight-week closing low amid concerns over debt repayment by the Government.

The rupee closed at 182.00/20 per dollar, compared with 181.75/90 in the previous session, market sources said. On 3 January, the rupee fell to an all-time low of 183.00 against the dollar. The currency has depreciated 0.3% so far this year, Refinitiv data showed.

It fell 19% in 2018, making it one of the worst-performing currencies in Asia, according to Refinitiv data, due to heavy foreign outflows.

Worries over heavy debt repayment after a 51-day political crisis have dented investor sentiment as the county is struggling to repay its foreign loans, with a record $ 5.9 billion due this year including $ 2.6 billion in the first three months.

The Central Bank chief last week said around $ 5 billion borrowing in the pipeline could help debt repayments.

The International Monetary Fund last week said it would resume discussions for further disbursal of part of a $ 1.5 billion loan amid investor worries of heavy debt repayments.

The rupee has declined 4.9% since a political crisis started in October. That crisis had dented investor sentiment and delayed Sri Lanka's borrowing plans.

A series of credit rating downgrades have made it harder for Sri Lanka to borrow as it faces record high repayments.

The Colombo Stock Index ended 0.24% weaker at 5,944.17 yesterday. The benchmark index lost 5% in 2018.

Turnover was Rs. 206.6 million ($ 1.14 million), well below last year's daily average of Rs. 834 million.

Foreign investors were net buyers for the first time in 11 sessions, buying a net Rs. 18.7 million worth of shares. But they have been net sellers of Rs. 2.4 billion worth of stocks so far this year and Rs. 15.8 billion since the political crisis began on 26 October.

The bond market saw outflows of Rs. 86.7 billion between 25 October and 16 January, the latest Central Bank data showed. (Dailyft)

## *War against Fall Armyworm*

- Over Rs. 300 million allocated for compensation and mitigation activities
- Sirisena sets up Presidential Special Task Force to find urgent solutions
- Dept. of Agriculture asks for assistance from FAO to bring in foreign experts
- 80 crops including paddy risk infection

The Government yesterday announced a host of new measures to intensify the battle against the Fall Armyworm (Spodoptera frugiperda) attacking maize cultivations in the country, to mitigate any possibility of it spreading to other crops, allocating funds of over Rs. 300 million for compensation and mitigation activities.

The Cabinet yesterday approved an allocation of Rs. 200 million for a compensation scheme paying a maximum of Rs. 40,000 per acre for total crop damage to farmers affected by the Fall Armyworm.

“We have decided to give compensation for crop damage due to this infestation, in the same system followed to give compensation for crop damage due to natural disasters for seven main crops. The compensation scheme will kick off immediately,” Agriculture Minister P. Harrison told journalists yesterday.

The worm, suspected to have reached Sri Lanka through India during the September-October period last year, has infected close to 50% of maize cultivations in the country, extending to 82,000 hectares, Department of Agriculture Director General Dr. W.M.W. Weerakoon told Daily FT. The total estimated damage of the crop is about 20%, he said, noting that the pest attacks leaves and is not able to infect maize pods.

With the ability to float as far as 100km on wind currents per night, it is believed that the Fall Armyworm reached the country from India, which suffered an infestation in March last year, Dr. Weerakoon said, dispelling speculations that the country was infected through seed imports.

“After it reached India, the worm has been detected in all of the South Asian countries, as soon as we heard that India has got infected, we carried out awareness programs and we detected the worm for the first time in September,” he said.

The Government has allocated a further Rs. 118 million for preventive and control measures, while giving a further 50% subsidy on pesticides used to control the pest. While regular awareness programs by the Agriculture Department are to continue, a Presidential Task Force was also set up by President Maithripala Sirisena yesterday comprising of all stakeholders, including the Agriculture, Mahaweli Development and Environment, and Plantation industries Ministries, to take action against the spread of the pest, a statement issued by the President’s Office said.

Deputy Environment Minister Ajith Mannapperuma, an Additional Secretary of the Presidential Secretariat, and senior representatives of the Ministry of Plantation Industries have been tasked with coordinating the work of the Presidential Task Force.

“The President has asked for a weekly report from the Task Force, which has been set up with all departments and other State institutions to deal with the situation,” Harrison said.

Faced with the risk of infection to paddy cultivations, as the pest attacks over 80 different crop varieties, the Agriculture Department has also sought the assistance of the Food and Agriculture Organization, to bring down experts to help the Agriculture Department mitigate the threat, Dr. Weerakoon said.

“We have already asked for assistance from FAO and the International Centre for Maize and Wheat Improvement (CIMMYT) to help us with the situation, and we have had received a positive reply,” he said.

The Agriculture Department has also taken steps to bring down special chemicals used to control the pest in the US, where the pest was contained until 2016, while importing 20,000 pheromone trap units from Switzerland, Dr. Weerakoon added.

However, no permanent solution has been devised in the world yet, Dr. Weerakoon stressed, noting the need to have an inter-sectoral approach for combating and controlling the menace. “We cannot control the menace with just pesticides, there need to be an integrated action, like pheromone traps, and traditional methods, to deal with the issue,” he said.
(Dailyft)

## *Dollar steady, global growth concerns support safe-havens*

The dollar hovered near two-week highs against its peers on Tuesday as a slowdown in China’s economy to 28-year lows revived investor concerns over global growth and supported safe-haven currencies.

Overnight, the International Monetary Fund (IMF) cut its 2019 and 2020 global growth forecasts, citing a bigger-than-expected slowdown in China and the Eurozone, and said failure to resolve trade tensions could further destabilise a slowing global economy.

Those fears were brought to the fore on Monday when data showed the Chinese economy grew at its slowest pace since 1990 last year in an ominous sign for 2019. Cooling growth in the world’s second largest economy has already put a dent on profits for firms ranging from Apple to big carmakers.

The dollar index, which measures its strength against a group of six major currencies, was steady at 96.33, holding near a two-week high of 96.43 hit on Monday.

The yen, another safe-haven currency, was steady against the dollar, fetching 109.64 in early trade.

On the whole, the dollar is also facing indirect pressure from slackening momentum in the global economy which has forced the US Federal Reserve to take a cautious approach on any further interest rate increases. Speculation is rife the Fed might soon pause its tightening cycle.

“We do not see the Federal Reserve raising rates this year which should lead to weakness in the dollar. We also think the dollar is overbought and over-valued on fundamental metrics,” said Jason Wong, senior markets strategist at BNZ markets.

Sterling is another currency facing heightened uncertainty as the United Kingdom prepares to leave the European Union on 29 March, with no sign yet of any permanent agreement to secure Britain’s economic future with the EU.

May’s Brexit deal was roundly rejected by parliament last week and on Monday she set out a proposal to overcome the impasse by seeking further concessions from the EU on a plan to prevent customs checks on the Irish border.

“With deadlines fast approaching and what seems to be a real impasse between the various sides involved, the prospect of a hard ‘no deal’ Brexit appears to becoming more likely,” said Nick Twidale, chief operating officer at Rakuten Securities in a note.

Sterling was last steady $1.2888.

Elsewhere, the euro was flat at $1.1367. The single currency is likely to remain under pressure as growth in Europe’s economic powerhouses such as Germany and France is languishing and inflation remains weak. The European Central Bank is widely expected to maintain an accommodative mode for this year.

The Australian dollar was marginally lower at $0.7157, after holding up in the face of the weak growth numbers from the nation’s largest trading partner China. (Dailyft)

## *Bond yields continue to increase ahead of weekly bill auction*

The secondary bond market yields increased further yesterday on the back of continued selling interest ahead of today's weekly Treasury bill auction. Yields on the maturities of 15.12.23, 15.03.25, two 2026's (i.e. 01.06.26 & 01.08.26) and 15.06.27 were seen increasing to intraday highs of 11.30%, 11.46%, 11.48%, 11.50% and 11.49% respectively against its opening lows of 11.26%, 11.42%, 11.41%, 11.43% and 11.45%.

Furthermore, the two 2021 maturities (i.e. 01.03.21 & 15.12.21), 01.07.22, 15.07.23, 01.08.24 and 01.09.28 were also traded at levels of 10.70% to 10.72%, 10.80% to 10.84%, 10.98% to 11.00%, 11.30%, 11.38% and 11.52% to 11.53% respectively while December 2018 and January bill maturities were seen changing hands at levels of 10.50% and 10.58% respectively as well in the secondary bill market.

Today's bill auction will have on offer a total amount of Rs. 23.5 billion consisting of Rs. 5 billion of the 182-day and Rs. 18.5 billion of the 364-day maturities. At last week's auction, the weighted average yields decreased to 9.87% and 10.75% respectively on the 182-day and 364-day maturities.

The total secondary market Treasury bond/bills transacted volume for 21 January was Rs. 5.8 billion.

In the money market, the overnight call money and repo rates averaged 9.00% and 8.99% respectively as the OMO Department of Central Bank was seen infusing liquidity by way of an overnight reverse repo auction for a successful amount of Rs. 40 billion at a weighted average yield of 9.00%. The net liquidity shortfall reduced to Rs. 129.13 billion yesterday.

Rupee dips further

The USD/LKR rate on spot contracts was seen depreciating further yesterday to close the day at Rs. 182.10/20 against its previous day's closing of Rs. 181.75/85 on the back of continued buying interest by banks.

The total USD/LKR traded volume for 21 January was $ 100.07 million.

Some of the forward USD/LKR rates that prevailed in the market were 1 Month – 183.00/30; 3 Months – 184.85/15 and 6 Months – 187.70/10.
(Dailyft)

## *Oil prices edge down as global growth worries threaten demand*

Oil prices edged lower on Tuesday as concerns over global economic growth stoked fears over future demand.

International Brent crude oil futures were down 10 cents, or 0.2%, at $62.64 by 0106 GMT. They closed down 0.1% on Monday.

US West Texas Intermediate (WTI) crude futures were at $53.70 per barrel, down 0.1%, or 4 cents.

"Trade war concerns have reduced global growth expectations and with it comes a lower demand for energy," said Alfonso Esparza, senior analyst, OANDA.

The International Monetary Fund trimmed its global growth forecasts on Monday and a survey showed increasing pessimism among business chiefs, highlighting the challenges facing policymakers as they tackle an array of actual or potential crises, from the US-China trade war to Brexit.

Also clouding the outlook was data showing a slowdown in growth in China, the world's second biggest economy.
(Dailyft)

## ***IMF fears trade war and weak Europe could trigger sharp global slowdown***

The International Monetary Fund on Monday cut its world economic growth forecasts for 2019 and 2020 due to weakness in Europe and some emerging markets, and said failure to resolve trade tensions could further destabilize a slowing global economy.

In its second downgrade in three months, the global lender also cited a bigger-than-expected slowdown in China's economy and a possible "No Deal" Brexit as risks to its outlook, saying these could worsen market turbulence in financial markets.

The IMF predicted the global economy to grow at 3.5% in 2019 and 3.6% in 2020, down 0.2 and 0.1 percentage points respectively from last October's forecasts.

The new forecasts, released on the eve of this week's gathering of world leaders and business executives in the Swiss ski resort of Davos, show that policymakers may need to come up with plans to deal with an end to years of solid global growth.

"After two years of solid expansion, the world economy is growing more slowly than expected and risks are rising," IMF Managing Director Christine Lagarde told a briefing.

"Does that mean a global recession is around the corner? No. But the risk of a sharper decline in global growth has certainly increased," she said, urging policymakers to be ready for a "serious slowdown" by boosting their economies' resilience to risks.

The downgrades reflected signs of weakness in Europe, with its export powerhouse Germany hurt by new fuel emission standards for cars and with Italy under market pressure due to Rome's recent budget standoff with the European Union.

Growth in the euro zone is set to moderate from 1.8% in 2018 to 1.6% in 2019, 0.3 percentage point lower than projected three months ago, the IMF said.

The IMF also cut its 2019 growth forecast for developing countries to 4.5%, down 0.2 percentage point from the previous projection and a slowdown from 4.7% in 2018.

"Emerging market and developing economies have been tested by difficult external conditions over the past few months amid trade tensions, rising US interest rates, dollar appreciation, capital outflows, and volatile oil prices," the IMF said.

China's economy cools

The IMF maintained its US growth projections of 2.5% this year and 1.8% in 2020, pointing to continued strength in domestic demand.

It also kept its China growth forecast at 6.2% in both 2019 and 2020, but said economic activity could miss expectations if trade tensions persist, even with state efforts to spur growth by boosting fiscal spending and bank lending.

“As seen in 2015-16, concerns about the health of China’s economy can trigger abrupt, wide-reaching sell-offs in financial and commodity markets that place its trading partners, commodity exporters, and other emerging markets under pressure,” the IMF said in the report.

The report came hours after data showing China’s economy cooled in the fourth quarter on faltering domestic demand and bruising US tariffs, dragging 2018 growth to the lowest in nearly three decades. (Dailyft)

## *Sri Lanka’s Kelani Valley Plantations profits soar on capital gain*

Sri Lanka’s Kelani Valley Plantations said net profit soared to 354 million rupees in the December 2018 quarter from 27 million rupees a year ago, as it booked a gain from selling a stake in a tea extracting unit.

According to interim accounts filed with the stock exchange, sales of the firm, part of Hayleys group, rose 16 percent to 2.2 billion rupees.

Quarterly earnings per share were 10.42 rupees. The stock closed at 93 rupees, up 6.10 rupees or 7.02 percent, Tuesday.

In the nine months to December 2018, EPS was 9.97 rupees with sales up seven percent to 6.8 billion rupees.

A note to the accounts said that on 1st November 2018, Martin Bauer Group of Germany joined Hayleys Global Beverages (Pvt) Ltd. as a strategic partner by investing in a 51 percent stake of the company.

This reduced Kelani Valley Plantations PLC‘s shareholding in Hayleys Global Beverages, now renamed Martin Bauer Hayleys (Pvt) Ltd., to 10 percent.

The subsidiary has ceased to be accounted as an equity accounted investment resulting in a gain on disposal of 205 million rupees. (Colombo/January 23/2019)
(Economynext)

## *Global stocks fall amid revived trade worries*

Global stocks fell Tuesday amid revived worries over US-China trade relations and a sense the January rally is fading.

Wall Street indices, which have been on a nearly unbroken ride higher the last four weeks, following December's rout, fell more than one percent.

Earlier, European and Asian shares also pulled back due in part also to profit taking and economic worries after the International Monetary Fund on Monday trimmed its global growth forecasts.

Tuesday's pullback "fostered a sense that the rally from deeply oversold conditions has run its course, such that the stock market will now be more attuned to stories highlighting weak growth or sticking points in trade negotiations with China," Briefing.com analysts said.

Stocks could soon retest their recent lows, according to notes released Tuesday from Wells Fargo and Canaccord Genuity that were based on historic precedents akin to the current situation.

"For markets to defy history," said Wells Fargo strategist Sameer Samana, "we believe it would take a significant clearing of the decks in terms of market concerns," which include monetary tightening, trade, Brexit and slowing growth, especially in China.

But such a scenario still has "a low probability," added Samana.

Stocks had gotten support in recent sessions due to increased hopes over US-China trade relations. But some of that optimism came under question Tuesday.

Bloomberg News reported that said the two sides were struggling to reach agreement on the crucial matter of intellectual property, which is a key source of anger in Washington.

Later Tuesday, The Financial Times and CNBC reported that the United States had rejected Beijing's offer to hold a preparatory meeting in Washington ahead of next week's high-level trade talks.

The White House denied the report shortly before the closing bell, lifting US stocks a bit but not enough to push them into positive territory.

- 'Hard landing' in China ? -

Worries about China were front and center after the official Xinhua News Agency reported that President Xi Jinping had told top provincial leaders the Communist Party "is facing long-term and complex tests in terms of maintaining long-term rule, reform and opening-up."

The comments suggested he was becoming worried about the effects of slowing economic growth.

"Recent signs suggest that China is struggling to sustain economic momentum, and risks of a hard landing are rising. If China falls back to Earth, we will all feel the tremor," economists at Northern Trust said in an analytical note.

But a Chinese official expressed confidence in the country's prospects at the World Economic Forum in Davos.

"China is slowing down but it's not going to be a disaster," said Fang Xinghai, vice-chairman of China's Securities Regulatory Commission, a key government watchdog.

"China has been able to avoid financial crisis in the last 40 years. We have a very top down approach to financial risk management," Fang said.

"If there is any risk accumulated in the system, the government will step in and order the risk to be reduced."

- Key figures around 2140 GMT -

New York - DOW: DOWN 1.2 percent at 24,404.48 (close)

New York - S&P 500: DOWN 1.4 percent at 2,632.90 (close)

New York - Nasdaq: DOWN 1.9 percent at 7,020.36 (close)

London - FTSE 100: DOWN 1.0 percent at 6,901.39 Frankfurt - DAX 30: DOWN 0.4 percent at 11,090.11 (close)

Paris - CAC 40: DOWN 0.4 percent at 4,847.53 (close)

EURO STOXX 50: DOWN 0.4 percent at 3,112.80 (close)

Tokyo - Nikkei 225: DOWN 0.5 percent at 20,622.91 (close)

Hong Kong - Hang Seng: DOWN 0.7 percent at 27,005.45 (close)

Shanghai - Composite: DOWN 1.2 percent at 2,579.70 (close)

Euro/dollar: DOWN at $1.1361 from $1.1365 at 2200 GMT Monday

Pound/dollar: UP at $1.2957 from $1.2892

Dollar/yen: DOWN at 109.37 yen from 109.67

Oil - Brent Crude: DOWN $1.24 at $62.74 per barrel

Oil - West Texas Intermediate: DOWN $1.23 cents at $52.57
(Economynext)

## *Asian Stocks Pare Early Losses; Yen Declines: Markets Wrap*

Asian stocks reversed early losses as traders juggled continuing doubts about the prospects for progress on trade with signs of China stimulus and moves to end the U.S. government shutdown. The yen slid as the Bank of Japan cut its inflation outlook.

Shares in Hong Kong, China and Korea led the turnaround, even after all major U.S. benchmarks declined. White House adviser Lawrence Kudlow said that negotiations scheduled for next week will be “very, very important” and “determinative.” Meantime, the Senate scheduled a vote for Thursday on Democratic-backed legislation to reopen the government, the first sign of a possible way out of the shutdown. China’s central bank pumped liquidity into the banking system through a new tool.

Meanwhile, the yen extended losses against the dollar after the Bank of Japan left its policy unchanged and cut its inflation outlook again. The yuan rose even after the People’s Bank of China offered 258 billion yuan ($38 billion) to banks through its medium-term lending tool, part of efforts to encourage lending to small businesses and bolster growth.

“Investors obviously are still a little bit edgy and therefore we would expect periods of volatility to continue,” said Mark Hackett, chief of investment research at Nationwide Funds Group, which manages $60 billion. “As the headlines continue to get more nerve wracking with regards to a global slowdown and trade wars and government shutdowns, it’s easy to spook investors, but we think those are temporary versus permanent.”
Goldman's Oppenheimer Sees Relatively Flat Trading Range for Most Markets

Peter Oppenheimer, chief global equity strategist at Goldman Sachs, talks about the outlook for stock markets.

Elsewhere, oil held losses near $53 a barrel.
These are some events investors will be watching out for in the coming days:

- Earnings season is in full swing: IBM, United Technologies, Texas Instruments, and Ford are among companies posting results this week.
- The World Economic Forum, the annual gathering of global leaders in politics, business and culture, continues in Davos, Switzerland.

- There are monetary-policy decisions for the Bank of Korea and the European Central Bank, both Thursday.

And these are the main moves in markets:
Stocks

- The MSCI Asia Pacific Index was little changed at 11:09 a.m. Hong Kong time.
- Japan's Topix Index fell 0.2 percent as of the lunch break in Tokyo.
- S&P/ASX 200 was flat.
- Hang Seng Index rose 0.3 percent.
- Shanghai Composite Index rose 0.1 percent.

S&P 500 futures rose 0.3 percent. The S&P 500 Index fell 1.4 percent, while the Nasdaq Composite Index tumbled 2 percent.

Currencies

- The Bloomberg Dollar Spot Index was flat.
- The euro was little changed at $1.1363.
- The British pound was little changed at $1.2955 after increasing 0.5 percent.
- The Japanese yen fell 0.3 percent to 109.74 per dollar.
- The offshore yuan rose 0.2 percent to 6.8046 per dollar.

Bonds

- The yield on 10-year Treasuries rose one basis point to 2.75 percent.
- Australian 10-year bonds yielded 2.29 percent.

Commodities

- West Texas Intermediate crude steadied around $53.00 a barrel.
- Gold was little changed at $1,284.40 an ounce.
  (Bloomberg)