NEWS ROUND UP

Friday, November 23, 2018

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Inflation slows to 3.3% in Oct.

Inflation continued to decline for the third consecutive month, dropping to 3.3% in October, the lowest since January 2016, from 4% in September, the Central Bank said in a statement.

The deceleration observed in year-on-year inflation in October is mainly driven by the higher base that prevailed during the corresponding month of the previous year due to higher food prices. Year-on-year food inflation dropped for the third consecutive month and recorded -6.6% in October.

However, year-on-year Non-Food inflation continued to increase and reached 5.8% during the month. The change in the NCPI measured on an annual average basis decreased to 3.3% in October from 4% in September.

The month-on-month change of the NCPI increased by 0.4% in October due to increase in the prices of the items in the Non-Food category; particularly that of Transport (petrol, diesel, bus fare, and train fare) and Miscellaneous Goods and Services sub-categories.

Meanwhile, prices of the items in the Food category declined during the month where prominent price declines were observed in fresh fish, eggs and coconuts. The core inflation, which reflects the underlying inflation in the economy, increased to 3.4% in October from 3.1% in September on a year-on-year basis. Meanwhile, annual average core inflation remained unchanged at 2.4% in October.
(Dailyft)

Full day stock trading today from Disaster Recovery Site

The Colombo Stock Exchange (CSE) is to conduct a planned full day of trading from the Disaster Recovery Site using ATS Version 7 Disaster Recovery Solution today (23 November.)The exercise will be an industry-wide activity with the participation of all stakeholders to ensure the preparedness of all participants to meet the recovery needs of the industry,as a part of the Annual Business Continuity Planning (BCP) process. (Dailyft)

Govt. opts for local options as Moody's downgrade ups pressure on intl. borrowing costs

With the international borrowing cost likely to be higher following the downgrade by Moody's, the Sirisena-Rajapaksa administration is looking inwards as the first option to raise much-needed cash.

National Economic Council Secretary General Prof. Lalith Samarakooon told journalists yesterday that three state banks - NSB, Bank of Ceylon and People's Bank - will raise $ 1 billion locally and overseas via the issuance of Sri Lanka Development Bonds (SLDBs).

"The plan is to raise up to $ 1 billion by the consortium of these three banks in addition to the $ 650 million or so we have in the GST account in the Central Bank," he added.

"Obviously when the credit rating has been downgraded it can have an impact on the cost of borrowing. The yield that the investors will demand could potentially go up, so that would lead to a higher cost of borrowing at this particular moment in time," Prof. Samarakoon told the media.

"We have arranged certain other financing options, including the leftover money from the Hambantota Port, NSB, People's Bank and Bank of Ceylon, raising $ 1 billion through Sri Lanka Development Bonds, China Development Bonds and swap agreements between multiple countries," he added.

“These alternative financial sources we are trying over the next several months will enable us not to go to the global market at this point in time and if conditions actually become unfavourable,” he opined.

“We have sovereign bonds which are maturing in early 2019 to the tune of $ 1.5 billion and I must say that we already have $ 650 million left over from the Hambantota transaction lying in the accounts at the Central bank,” he said.

“As a responsible Government, financing is always important in terms of lower cost, therefore if the cost of financing goes up due to the political situation of the country, then the Central Bank will wait till conditions are favourable in order to raise money through international sovereign bonds, if at all,” the NCE Chief explained.

Moody’s Investors Service on Tuesday downgraded Sri Lanka’s foreign currency issuer and senior unsecured ratings to B2 from B1 and changed the outlook to stable from negative.

Prof. Samarakoon said that the changed outlook was based on two things - they think that there is a heightened refinancing risk in a period of further tightening of financial conditions worldwide.

“We are expecting the US Treasury to increase interest rates in December and further at least three times next year. Therefore there is this idea that financial conditions outside of Sri Lanka could be tighter when financial conditions become tighter. Moody’s believes Sri Lanka will have difficulty in raising funds outside of the country,” he explained.

“And secondly, the slower pace of fiscal consolidation. However, I must point out yesterday we were able to brief the Cabinet along with Secretary to the Treasury and Central Bank Governor of the conditions facing Sri Lanka,” he added.

Prof. Samarakoon also assured that all of Sri Lanka’s debt obligation will be honoured and the Government will maintain fiscal discipline in the medium term.

“We have the capacity, more than adequate capacity, to pay the debt obligations as they come to view,” he said.

“There is no intention to deviate from our fiscal discipline either, which we have agreed with the financial institutions in our medium-term framework. To the extent there are minor deviations in terms of revenue shortfalls or increase in expenditure, we will be able to maintain the targets,” he added.

(Dailyft)

Janashakthi Insurance announces new Chairman, Board Members

Janashakthi Insurance PLC announced the appointment of renowned business leader Prakash Schaffter as its Executive Chairman. Schaffter, who has three decades of experience in the Insurance industry, had led Janashakthi as its Managing Director since 2006.

This announcement comes with the addition of two new board members, Nathan Sivagananathan and Avindra Rodrigo. These appointments, which are subject to regulatory approval, came as Husein Esufally and Anushya Coomaraswamy stepped down from their roles of Chairman and Director of the Board respectively.

Esufally took on the mantle as the Chairman of Janashakthi Insurance PLC in 2016. He was a key driver of the Company’s post-segregation strategy, and played an important role in the acquisition of AIA General. He was instrumental in bringing specialised focus to the Life and General Insurance categories, with the appointment of dedicated Chief Executive Officers to head each business. He also saw the Company through the recent divestment of Janashakthi General Insurance Limited, one of the largest transactions in not only the Insurance industry, but the entire corporate sector.

As a member of the Board of Directors of Janashakthi Insurance PLC since 2006, Coomaraswamy has been known for her technical expertise in Finance and Accounting, as well as her strategic contribution and leadership to the Board Audit Committee and the Related Party Transactions Review Committee.

"While we bid adieu to Mr. Esufally and Ms. Coomaraswamy, we thank them for their leadership, support and guidance to the Janashakthi business. Their experience and contribution have helped place Janashakthi well on our journey of becoming one of the key players in the Life Insurance industry. I am pleased to welcome Mr. Nathan Sivagananathan and Mr. Avindra Rodrigo to the Board of Directors of Janashakthi Insurance, and I am confident that their expertise will add greatly to the strategic growth journey of our Life Insurance business," said Janashakthi Insurance PLC Chairman Prakash Schaffter.

In addition to the three decades of invaluable industry experience which Schaffter brings in, the Company believes that the diverse experience and skills of the new appointees to the Board will strengthen its efforts of building a specialised Life Insurance business.

Under Schaffter's leadership, the Company became the country's third largest insurer, acquired AIA's General Insurance business, and most recently engaged in the divestment of Janashakthi's Non-Life segment. He has led the discussion on regulatory changes, including the segregation of Life and Non-Life segments through several industry-related committees. He holds a Bachelor's degree from the University of London and an MBA from the University of Cambridge, in addition to being one of the youngest Fellow Members of the Chartered Insurance Institute.

Sivagananathan is currently the Chief Growth Officer of MAS Holdings and Board Director of MAS Capital. A 2015 Eisenhower Fellow and 2018 Kauffman Fellow, he has been a supporter of local entrepreneurship and small businesses, as well as an active angel investor in the country. He holds a BSc in Engineering Management from the University of Hertfordshire and has completed the General Management Program at Harvard University.

Rodrigo, who is a leading counsel and an active practitioner in commercial and corporate litigation as well as arbitration and alternative dispute resolution, has a wealth of experience in the areas of Banking Law, Finance, Insurance, Construction and Telecommunications Law. Receiving his LLB (Hons) from the University of Warwick, England, he has appeared in numerous actions arising out of Insurance Contracts, representing either the Insurer or the Assured.

With the new additions, the Board of Directors of Janashakthi Insurance PLC comprises of: Prakash Schaffter, Executive Chairman; Jude Fernando, Chief Executive Officer; Ramesh Schaffter; Manjula Mathews; Eardley Perera; Nathan Sivagananathan and Avindra Rodrigo.
(Dailyft)

3-year bond yield hits 12% for first time in over 19 months

The three year Treasury bond yield in the secondary market was seen hitting the 12.00% psychological level on Wednesday for the first time in over 19 months or since the first week of April 2017, on the back of foreign selling interest.

The 15.12.2021 maturity was seen changing hands within the range of 11.97% to 12.07% while the eight year maturity of 15.06.2027 was seen changing hands from a daily low of 12.35% to a high of 12.45% as activity remained muted across the rest of the yield curve.

The overnight call money and repo rate was seen averaging 8.95% and 8.94% respectively on Wednesday as the net liquidity shortfall stood at Rs. 64.35 billion. The Open Market Operations of Central Bank conducted three reverse repo auctions for durations of overnight, seven days and 14 days for successful amounts of Rs. 30.1 billion, Rs. 15 billion and Rs. 19.35 billion at weighted averages of 8.56%, 8.76% and 8.70% respectively. In addition, all bids received for the five outright purchases of Treasury bills totalling Rs. 25 billion were rejected.

Rupee dips below Rs. 178

The continued political uncertainty coupled with foreign selling in Rupee bonds saw the USD/LKR rate on spot contracts dip below Rs. 178 to close the day at a new low of Rs. 178.40/70 on Wednesday against its previous day's closing of Rs. 177.30/50.

The total USD/LKR traded volume for 19 November was $ 112 million.

Given are some forward USD/LKR rates that prevailed in the market: one month – 179.15/65; three months – 181.15/65; six months – 183.80/30.
(Dailyft)

Asian shares fragile as growth worries sap confidence

Asian shares seesawed in cautious trading on Thursday with China extending losses as investors fretted about slowing global growth in the face of rising US interest rates and trade tensions.

US stock futures also briefly pulled down after a bounce in Wall Street overnight, underscoring fragile investor sentiment following a rout in October and steep sell-offs in recent sessions.

MSCI's broadest index of Asia-Pacific shares outside Japan momentarily turned lower after earlier rising about 0.2%. It was last up 0.1%. The index has so far managed to hold up in November after three straight monthly declines, but is on track for its worst annual performance since 2011.

Japan's Nikkei was also off morning highs to be up 0.4%. Chinese shares were in the red after opening higher, with the blue-chip index falling 0.8%. Hong Kong's Hang Seng index slipped 0.1%.

"This was a half-hearted rally to start with," said Shane Oliver, Sydney-based head of investment strategy at AMP.

"Investors are still wary about whether they'll see further lows given none of the issues that drove the recent correction have dissipated."

The bitter Sino-US trade war remains the biggest concern for markets, with signs of weakening corporate profits, steep sell-off in tech stocks and rising US interest rates encouraging investors to take money off the table before year-end.

"And that's all tying in to worries about the global economy," Oliver added.

Singapore warned earlier on Thursday that trade frictions will likely hurt economic growth in the city state, widely seen as a bellwether for international trade and investment.

E-Minis for the S&P 500 were mostly flat during Asian trading while FTSE futures were down 0.1%.

Overnight in Wall Street, the benchmark S&P 500 stock index ended higher but near session lows while the Dow gave up its gains to end flat ahead of the US Thanksgiving holiday in a sign of lingering bearishness.

Investors are looking to a meeting between US President Donald Trump and his Chinese counterpart Xi Jinping late this month for any signs of a de-escalation in the trade war between the economic superpowers.Trump and Xi plan to meet on the sidelines of a G20 summit, which is being held in Argentina at the end of November and early December.

The United States and China have slapped import duties on each other’s goods in a tit-for-tat tariff war that investors worry could put the brakes on global trade and growth.

Markets will also pay close attention to manufacturing activity reports from Japan, Europe and the United States due over the coming week or so.

“PMIs have held up reasonably well so far but if they trend lower it could add to the nervousness,” AMP’s Oliver said.

The synchronised global expansion that began roughly two years ago has now plateaued, and fresh signs are emerging of a weakening outlook. Global trade volumes are still increasing although at a slower pace.

Moreover, leading economic indicators monitored by the OECD have weakened since the start of the year and point to slower expansion ahead for the United Kingdom and the euro area.

All-weather currency

The Federal Reserve has stayed on its tightening path after ending seven years of near-zero interest rates in December 2015 that took the Fed funds rate to the current 2.00 to 2.25%. Investors expect the Fed to go again in December.

In response to the tightening, the US dollar has outperformed most of its peers this year with its index against a basket of major currencies up almost 5%. In comparison the Japanese yen is flat so far in 2018.

Marios Hadjikyriacos, analyst at broking firm XM.Com, said the greenback is currently an “all weather currency.”

“It can shine both in risk-off sessions given its status as the world’s reserve asset, and on risk-on days as wide yield differentials brighten its carry appeal,” he said.

The dollar index was last off slightly at 96.64 while the yen inched higher to 112.99 following two straight sessions of losses.

Elsewhere, the euro rose on hopes that the Italian budget dispute would be resolved even as the European Commission took its first step toward disciplining Italy over its deficit. It was last at $1.1396.

Oil reversed early gains although prices were still well above one-year lows touched earlier this week.

US crude futures were last down 16 cents at $54.47 a barrel after hitting a one-year low of $52.77 on Tuesday. Brent eased 18 cents to $63.30 from the last close and well off Tuesday’s trough of $61.71. (Dailyft)

Asia's cash-rich firms more resilient in this year's equity selloff

Shares of cash-rich firms in Asia have weathered this year's sell-off in much better shape than key stock indexes, a Reuters analysis showed, reinforcing views that investments in companies with strong finances safeguard returns during market crises.

An analysis of top 200 Asian firms based on their cash and short-term investments showed they outperformed the broader MSCI Asia-ex-Japan index during the market crashes in 2008, 2013 and 2015.

So far in 2018, their shares have fallen just 5% on average, compared with the MSCI Asia-ex-Japan index's fall of 14.5%.

With U.S. interest rates slowly but steadily rising, companies with higher debt burdens are likely to face more pressure and hence investments in cash-rich firms could be safer bets, analysts said.

"In times like this, I think the focus of investors moves from the profit and loss account toward the balance sheet....If you are an investor and you are looking for safety in markets, ultimately the one metric that does not change despite market volatility is the absolute cash balances of companies," said Jim McCafferty, head of Asia-ex-Japan equity research at Nomura.

He said South Korea, China and Japan appear to be the safer markets in terms of cash balances in Asia.

Traditionally, Asian companies prefer to sit on huge cash piles, keeping them idle, but recently the culture has started to change due to government's efforts and corporate governance reforms to enhance shareholder returns.

A Reuters analysis of Asian companies with market capitalization of at least $1 billion showed their total dividends rose to $203.9 billion in the first three quarters of this year, the highest in at least 10 years.

Refinitiv data showed Asian firms have announced $10 billion worth of share buybacks so far this year, the highest since 2012.

"We may see some of those improvements in the return on equity (through dividends and share buybacks) that we have seen in the US equity market in the last five years," said Paul Kitney, chief equity strategist at Daiwa Securities in Hong Kong.

"In Japan, we have seen efforts over recent years, promoting corporate governance, including increasing share buybacks, dividends through government policies."Some companies are also expected to cut their expansion plans due to slowing global demand and divert their cash to improve shareholder returns.

"Given the uncertainty arising from USChina trade tensions, we have observed that corporates in Asia are deferring or are more cautious on capital expenditure," said Colin Ng, Head of Asia (ex-Japan) Equities at UOB Asset Management.

Refinitiv data showed Asia's companies' capex growth is expected to fall 2% in the next 12 months, at the same time dividends are to grow by 6.5%.

"The downward capex intensity trend suggests likely cash redirection into shareholder returns," said HSBC analysts in a note.
(Dailyft)

Foreigners turned net buyers of Asian bonds in October

Foreign flows into Asian bonds turned positive in October, in stark contrast to the sharp outflows faced by equity markets due to slowing earnings and concerns over trade.

Data from central banks and bond market associations showed overseas investors bought a net $2.24 billion in Malaysian, Thai, Indonesian, South Korean and Indian bonds in the last month. That compared with net outflows of $2.46 billion in September.

Malaysia's bond market led the region with inflows of $1.8 billion in October, the highest in 2018. At the end of last month, foreign ownership of Malaysian government securities rose to 40.7% from 39.5% in September, the data showed. Thailand and Indonesian bond markets also attracted foreign money of $1.07 billion and $886 million, respectively.

"Thailand's large current account surplus and growth recovery have boosted the perception of Thai debt as a relative safe haven in the region," said Khoon Goh, Singapore-based head of Asia research for ANZ Banking Group in a note.

"Meanwhile, Bank Indonesia's aggressive interest rate hikes this year and the proactive measures taken by the Indonesian government to stabilise the rupiah are bearing fruit." On the other hand, foreigners sold $1.35 billion worth of Indian bonds and 240 million worth of South Korean bonds in the last month. (Dailyft)

Gold gains as dollar dips and equities slide into red

Gold prices crept higher on Thursday towards a two-week peak scaled in the previous session, helped by an easing dollar and as investors sought refuge from weakness in financial markets on economic growth concerns.

Spot gold was up 0.2% at $1,228.39 an ounce at 1326 GMT, though moves were contained by the U.S. Thanksgiving holiday. Prices on Wednesday had peaked at $1,230.07, the highest level since Nov. 7.

U.S. gold futures were up 0.1% at $1,228.90.

The dollar fell for a second day running, while Europe's share markets dropped into the red as investor worries mounted about slowing global growth.

"Weaker stocks tend to be supportive of the gold market, given the uncertainty that is prevailing in the market," said Saxo Bank analyst Ole Hansen, adding that the softer dollar was also adding support.

Gold could be vulnerable to more gains if the dollar weakens further, making bullion cheaper for holders of other currencies, analysts said.

"Some of the recovery since we tested $1,200 last week has been driven by speculation that the U.S. Federal Reserve might step back from its aggressive stance (on raising interest rates). If that signal grows stronger, we could see the dollar lose some momentum, which could be good for gold," Hansen said.

Markets expect the Fed to lift rates again in December, but concerns about a potential global slowdown raised doubts about the number of rate increases next year.

Investors are now looking ahead to the forthcoming meeting between Chinese President Xi Jinping and U.S. counterpart Donald Trump at this month's G20 summit in Argentina.

Bullion prices have recovered about 6% from 19-month lows hit in mid-August.

“There are massive speculative net short positions that need to be covered, therefore we expect gold prices to increase further towards year-end,” said Commerzbank analyst Carsten Fritsch.

Investor interest was reflected in holdings of SPDR Gold Trust, the world’s largest gold-backed exchange-traded fund, which rose on Wednesday to their highest since the end of August at 762.92 tonnes.

“It shows a shift in the market perception that more investors regard gold as a necessary store of value,” Fritsch said, adding that the “huge stock market correction” recently caught many investors on the wrong foot and has prompted a shift back into gold.

Among other precious metals, silver was down 0.2% at $14.46 an ounce, hovering near two-week highs hit in the previous session.

Platinum jumped 1% to $849.10, while palladium was steady at $1,148.41.

(Dailyft)

Asia Stocks Drop; Pound Holds Gain on Brexit Deal: Markets Wrap

Asian stocks were mostly weaker on low volumes, rounding out a third week of losses on a note of caution. The pound kept its gains following a breakthrough over the Brexit deal between the U.K. and EU.

Chinese equities led regional declines, with stocks also falling in Hong Kong, Malaysia and South Korea, while Australian shares outperformed. U.S. equity futures indicated declines when trading begins in New York following the Thanksgiving break. Volumes were lower than average in most markets as the week ends with Japan and India shut for holidays, and Treasuries won’t start trading until the London open. China’s yuan slipped amid speculation policy will need to be eased further in 2019 as the economy slows.

The pound held on to gains as a draft Brexit deal for deep ties between the U.K. and European Union as well as a solution to the Irish border question was reached. Now it depends on whether opponents of Prime Minister Theresa May can be convinced, with markets expectations showing volatility for sterling will remain elevated.

Equities came under pressure again this week as headwinds built. Investors are questioning the growth outlook ahead of a meeting between the Chinese and U.S. presidents next week, with hope for progress in trade talks dimming a little. There’s also a murky picture for earnings growth next year as financial conditions tighten with the Federal Reserve poised to keep raising rates.

“Fears of the trade war and slowing macro prevail,” said James Soutter, head of global equities at K2 Asset Management Ltd. in Melbourne. “Investors are waiting for either a conclusion to the trade war or for Xi to present some meaningful stimulus. Chinese companies are actually more sanguine than investors, and in many cases still seeing growth, although not at the levels of last year.”

Elsewhere, West Texas oil fell below $54 a barrel as an increase in U.S. crude inventories added to the recent bearish mood. Bitcoin declined and is on course to lose about 20 percent this week. Treasuries didn’t trade because of the U.S. holiday.
JPMorgan Asset Is 'Constructive' on Asian Stocks, Tsang Says

JPMorgan Asset Management’s Janet Tsang talks about the outlook for Asian equities.

Source: Bloomberg
Coming Up

- Presidents Donald Trump and Xi Jinping plan to meet at the G-20 leaders' meeting in Argentina next week.
- Federal Reserve Vice Chairman Rich Clarida speaks in New York on Tuesday and Chairman Jerome Powell addresses the New York Economic Club on Wednesday. Next Thursday sees the release of the minutes from the Federal Open Market Committee's November meeting, while New York Fed President John Williams speaks on Friday. Powell will testify before Congressional lawmakers on Dec. 5.

These are the main moves in markets:
Stocks

- Hong Kong's Hang Seng index slipped 0.6 percent as of 11:23 a.m.
- The Shanghai Composite lost 1.4 percent.
- Australia's S&P/ASX 200 Index added 0.4 percent.
- South Korea's Kospi index fell 0.6 percent.
- Futures on the S&P 500 Index decreased 0.3 percent.
- Futures on the U.K.'s FTSE 100 Index advanced 0.3 percent.

Currencies

- The yen held at 112.94 per dollar.
- The offshore yuan fell 0.1 percent to 6.9336 per dollar.
- The Bloomberg Dollar Spot Index was little changed.
- The euro nudged 0.1 percent higher to $1.1414.
- The British pound bought $1.2876 after gaining 0.8 percent Thursday.

Bonds

- Australia's 10-year bond yield held at 2.66 percent.

Commoditieshcp

- West Texas Intermediate crude decreased to $53.23 a barrel.
- Gold slipped 0.1 percent to $1,227.34 an ounce.

(Bloomberg)