NEWS ROUND UP

Thursday, 24th January, 2019

Contents

Sri Lanka rupee flat, bonds close lower

Sri Lanka's rupee was quoted at 182.10/25 to the US dollar in the spot market Wednesday almost unchanged, while bond yields fell, and stocks gained, dealers said.

The rupee closed at 182.10/20 levels to the US dollar Tuesday, dealers said.

After the bill auction the 12-month bill 12-month was quoted 10.60/70, compared to the auction average of 10.70 percent at today's auction.

A bond maturing on 15.12.2021 was closed at 10.73/80 percent Wednesday down from yesterday's close of 10.80/90 percent, dealers said.

A bond maturing on 15.12.2023, closed at 11.20/25 percent Wednesday down from 11.30/35 on Tuesday.

A 6-year bond maturing on 15.03.2025 bond closed at 11.37/11.43, down from yesterday's of 11.41/47 percent.

A bond maturing on 01.06.2026 closed at 11.40/11.47 percent down form Tuesday's 11.46/50 percent.

A bond maturing on 01.09.2028 bond closed at 11.40/50 down from Tuesdays 11.48/55 percent.

The All Share Price Index of the Colombo Stock Exchange closed 0.12 percent or 7.39 points higher at 5,951.56 on Wednesday from the previous close.

The more liquid S&P SL20 Index was down 0.41 percent or 12.59 points to 3,032.73.

Foreigners bought into the market with inflows of 20.9 million rupees on a turnover of 202.5 million rupees.

There was buying interest in Sri Lanka Telecom Plc stock, up 2.40 rupees to 24.50 rupees per share, pushing up the index.

Cargills (Ceylon) Plc share gained 7.60 rupees from the previous close, ending at 200 rupees on Wednesday.

John Keells stock was up 1 rupee to 153 rupees per share.

Overall, 70 stocks gained at 69 stocks closed lower on Wednesday. (EconomyNext)

Sri Lanka apparel exporters target new markets to reach US$8bn in 2025

Sri Lanka's apparel exporters are looking to break into new markets to achieve an 8 billion US dollar revenue target for 2025, but is facing domestic policy disruptions, an industry association said.

"In order to achieve the 2025 target an annual average compound growth of about 6 percent is required," the Sri Lanka Apparel Exporters Association (SLAEA) said in a statement.

"This is higher than the actual rate that was achieved in 2018," it said.

"As the traditional market is more or less static, the Sri Lankan apparel industry needs to penetrate into emerging markets such as India, China and Brazil."

According to the Sri Lanka Export Development Board, apparel exports grew 4.6 percent to 4,960 million US dollars in 2018.

SLAEA Incoming Chairman Rehan Lakhani, speaking at the association's annual general meeting, said the government has to continue the trade policies it had begun to support the industry.

"On the domestic front, we are faced with the challenge of overcoming a number of serious issues, namely the Sri Lanka Ports Authority tariff increase, new shipping policy draft, new procedure for monitoring of export proceeds, and the non-issuance of export releases," he said.

The increase in Sri Lanka Ports Authority tariffs came into effect in January, on a decision made by the temporary government which had existed between October and December.

The central bank's new system to monitor whether export proceeds are being repatriated is aimed at controlling the country's current account in view of the ever depreciating rupee.

Goods released as exports from ports are not being logged in state information systems in a timely manner, delaying administrative processes.

Outgoing SLAEA Chairman Felix Fernando said with government tax relief for setting up factories in the conflict zones of the past civil war, youth in such areas are being employed in the industry.

SLAEA said it has launched a new program to eliminate negative stereotypes on women employed in the industry, to attract more employment into the labour deprived industry. (EconomyNext)

SriLankan Airlines lose Rs40bn amid currency fall

State-run SriLankan Airlines had lost 135 million US dollars (40 billion rupees) up from 66 million US dollars (11 billion rupees) in the 9-months ending December 31, amid a steep fall in currency, the airline said.

SriLankan had also paid 23 million US dollars to the government as withholding tax on lease payments on aircraft. The government had already proposed a waiver of the tax.

Interest cost for the nine months were 47 million US dollars, the airline said.

The currency loss on forex loans were not separately given.

Sri Lanka's rupee fell from around 150 at the beginning of the year to 180 to the US dollar by the end of the year.

SriLankan said revenue from airline operations rose 8 percent to 746 million US dollars.

But operating costs rose 15 percent to 902 million US dollars, with higher fuel costs.

Available Seat Kilometres were raised by 6.5 percent.

Cost per Available Seat Kilometer excluding fuel and interest cost had fallen 3 percent.

Total passengers carried were up by 0.3 percent, and the overall seat factor (use of available seats) were flat at 82 percent.

"Effective and timely management of aircraft deployment and flight frequencies on the basis of market dynamics allowed the Airline to optimize revenue amidst the increased competitive climate," the airline said in a statement.

"Flight frequencies to markets such as London, Melbourne, Dubai, Abu Dhabi, Doha and Delhi were increased to meet the seasonal demand and it proved to be aneffective strategy as the performance of these routes improved significantly."

"Melbourne – Australia that saw Australia rising to the 5th highest tourist generator of 2018 ahead of some of the traditional tourist markets." (EconomyNext)

British pound rises as markets await ECB decision

The British pound rose to two-month peaks against the euro and the dollar on Wednesday as traders girded for a likely dovish message from the European Central Bank.

Britain is still far from a deal with the European Union ahead of a March 29 deadline but currency traders continue to bet against a no-deal exit, seen as the worst outcome for the country.

The British currency fetched $1.3068 near 2120 GMT from $1.2954 the prior day, also advancing against the euro.

"The pound's resilience suggests that markets see a greater chance of Brexit getting delayed beyond March or possibly being put to a second referendum," said Western Union Business Solutions Senior Market Analyst Joe Manimbo.

Hopes "Britain might avoid an ugly, economy-throttling exit from the EU" overshadowed weak factory data, Manimbo added.

Analysts are not expecting any bombshells at Thursday's European Central Bank meeting but chief Mario Draghi could acknowledge growing risks to the eurozone economy while sticking to the bank's patient course.

The central bank is caught at an intermediate stage of withdrawing crisis-era stimulus, having wound up net purchases of government and corporate bonds -- so-called "quantitative easing" -- but seeing the economy still too fragile to lift interest rates from their historic lows.

Draghi said last month that QE had been "the crucial driver of recovery in the eurozone" since its introduction in 2015 -- while insisting growth could continue after its withdrawal and blaming one-off factors for signs of weakening momentum.

Since then, new data "have done little to stop fears of a more prolonged slowdown," ING-DiBa economist Carsten Brzeski said.

"Confidence indicators are still plunging, hard data remains weak and latest Brexit developments suggest that new turbulence in both financial markets and the real economy is still on the horizon."

- Mixed day for stocks -

Equity markets in Europe and Asia mostly fell on lingering worries about US-China trade relations following news reports that suggested significant impediments to a deal.

Wall Street finished a volatile session higher following strong earnings reports from Dow members IBM, Procter & Gamble and United Technologies that lifted all three companies and boosted the Dow by 0.7 percent.

But US indices slid into negative territory for a stretch in the middle of the session amid worries over trade and the shutdown.

Economists have downgraded their growth estimates for 2019 and some financial analysts view an earnings recession -- defined as two or more quarters of falling profits -- as a rising possibility.

- Key figures around 1715 GMT -

New York - DOW: UP 0.7 percent at 24,575.62 (close)

New York - S&P 500: UP 0.2 percent at 2,638.70 (close)

New York - Nasdaq: UP 0.1 percent at 7,025.77 (close)

London - FTSE 100: DOWN 0.9 percent at 6,842.88 (close)

Frankfurt - DAX 30: DOWN 0.2 percent at 11,071.54 (close)

Paris - CAC 40: DOWN 0.2 percent at 4,840.38 (close)

EURO STOXX 50: FLAT at 3,112.13 (close)

Tokyo - Nikkei 225: DOWN 0.1 percent at 20,593.72 (close)

Hong Kong - Hang Seng: FLAT at 27,008.20 (close)

Shanghai - Composite: UP 0.1 percent at 2,581.00 (close)

Euro/dollar: UP at $1.1383 from $1.1360 at 2200 GMT Tuesday

Pound/dollar: UP at $1.3068 from $1.2954

Dollar/yen: UP at 109.60 yen from 109.37

Oil - Brent Crude: DOWN 36 cents at $61.14 per barrel

Oil - West Texas Intermediate: DOWN 39 cents at $52.62 per barrel. (AFP)

China to Davos: Stop freaking out about our economy

China has a message for the Davos crowd: Fear about an economic slowdown is overblown.

In a speech at the World Economic Forum, Vice President Wang Qishan said that growth remains substantial, and that it's important for China to focus on the long term.

"There will be a lot of uncertainties in 2019, but something that is certain is that China's growth will continue and will be sustainable," he said Wednesday.

Earlier this week, China reported that its economy grew 6.6% in 2018, the slowest pace in almost three decades.

Activity has been hit by government efforts to rein in high levels of debt with the aim of putting the vast economy on more stable footing**.** Momentum has also been blunted by the trade war with the United States, which has led to tariffs on hundreds of billions of dollars in Chinese exports.

Wang, for his part, took a glass-half-full view of the data.

"I think [6.6%] is a pretty significant number," he said. "Not low. At all."

Wang said that the Communist Party is "trying to remind people that speed does matter, but what really matters for the time being is the quality and efficiency" of development.

Chinese officials have echoed this sanguine take throughout the week.

Fang Xinghai, vice chairman of the China Securities Regulatory Commission, said at a panel on Tuesday that growth as low as 6% would not be "a disaster."

Still, concerns about China's slowdown and what it means for global growth have rattled markets.

Chen Xingdong, chief China economist at BNP Paribas, said Wednesday that Beijing faces the most difficult economic situation since the global financial crisis.

"Growth is slowing down quite dramatically," Chen told reporters. "The magnitude of the slowdown has been intensifying."

China has been working to support growth through a combination of looser monetary policy and fiscal stimulus such as tax cuts for small businesses.

And bright spots do remain. Retail sales in China are set to reach more than $5.6 trillion this year, about $100 billion more than in the United States, according to a report published Wednesdayby research firm eMarketer.

But the specter of tougher trade penalties looms.

China and the United States are racing to cut a deal on trade before March 1, when tariffs on $200 billion in Chinese goods will otherwise rise to 25% from 10%. Negotiations with top officials are scheduled later this month in Washington, although an invitation by Beijing to hold preliminary talks this week was rejected by the White House.

BNP Paribas sees a 60% to 70% chance that a US-China trade deal gets done. The alternative is grim, and would "cause a massive increase in job losses," Chen said.

Wang appeared to take a jab at the Trump administration and to offer an olive branch at the same time.

"Shifting blame for one's own problems onto others will not resolve the problems," he said in prepared remarks.

Later, asked about the US-China relationship during a question-and-answer session with the WEF chairman, Wang said that the two economies rely on each other, so "there has to be mutual benefit and win-win."(CNN)