NEWS ROUND UP

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Contents

Sanjay Tiwari to head Piramal Glass US operations

Piramal Glass Ceylon PLC's (PGC) longstanding Managing Director and CEO Sanjay Tiwari has been appointed to head the Indian giant's manufacturing operations in USA as the Chief Executive Officer of Piramal Glass USA Inc.

Piramal Glass Ceylon (PGC) longstanding Managing Director and CEO Sanjay Tiwari

Tiwari served PGC for past 13 years and will continue to be in the Board of Directors overseeing the operations.

PGC attained several milestones under the leadership of Tiwari. He was instrumental in relocating the plant from Ratmalana to Horana as a BOI venture by tripling the capacity from 100 tonnes per day to 300 tonnes per day, development of the export markets, execution of green initiative rooftop solar project, expansion of the silica processing facility, initiating digital journey in the company called Innohub, manufacturing excellence certification and RTMI.

Taking over from Tiwari is Sanjay Jain, a mechanical engineer who has experience of over 29 years in marketing and manufacturing. He is associated with the group for over 10 years and his last assignment with the parent group was as Vice President Marketing, with the global responsibility of sales and marketing for food and pharmaceutical glass business.

Bond yields increase marginally in moderate trade

The secondary bond market yields were seen increasing marginally yesterday on the back of moderate volumes changing hands. The yields on the liquid two maturities of 15.07.23 and 15.03.24 increased to intraday highs of 9.90% and 9.97% against its opening lows of 9.85% and 9.92% while the maturities of 01.08.24, two 2026's (i.e. 01.06.26 and 01.08.26), 15.01.27 and 01.09.28 were seen hitting highs 10.10%, 10.30%, 10.27%, 10.30% and 10.43% respectively against its previous day's closing levels of 10.00/10, 10.15/25, 10.20/25, 10.25/27 and 10.35/45. In addition, the maturities of 2021's (i.e. 01.08.21, 15.10.21 & 15.12.21), two 2022's (i.e. 01.07.22 & 01.10.22), 15.12.23 and 01.01.24 traded at levels of 9.35% to 9.42%, 9.77% to 9.82%, 9.93% and 10.00% respectively as well. The total secondary market Treasury bond/bill transacted volumes for the 22 May was Rs. 25.48 billion.

In money markets, the overnight net surplus liquidity in the money market was seen decreasing further to Rs. 10.57 billion yesterday as the Open Market Operations (OMO) Department of Central Bank refrained from conducting any cash value auctions. Nevertheless, it drained out an amount of Rs. 21.1 billion by way of ten day repo auction at weighted averages of 8.67%, valued today. The overnight call money and repo rates averaged 8.50% and 8.56% respectively.

Rupee closes stronger

The selling interest by banks on forward and spot contracts saw the USD/LKR rate appreciate yesterday to close the day at Rs. 176.30/40 subsequent to dipping to an intraday low of Rs. 176.85 against its previous day's closing of Rs. 176.65/80.

The total USD/LKR traded volume for the 22 May was $36.68 million

Some of the forward USD/LKR rates that prevailed in the market were one month - 177.15/30;

Three months - 178.80/00 and six months - 181.30/50.

Asian stocks, pound, crude tumble on trade and Brexit fears

HONG KONG, AFP: Asian equities tumbled Thursday as China-US trade frictions continue to dog investors, while the pound hit a fresh four-month low on Brexit worries and energy firms were battered by plunging oil prices.

Markets across the region were in the red as traders ran to the hills, with no signs of a break in the tariffs stand-off between the world's top two economies keeping optimism in check.

The heavy selling comes after a relatively sedate couple of days in Asia and follows losses on Wall Street, with warnings that more volatility is expected for some time.

Tensions between China and the US have increased after Donald Trump banned telecoms giant Huawei from the US market and prevented American firms from selling to it.

The move has led a number of companies around the world to cut back their business with the firm, including Google, Japan's Panasonic and EE in Britain, among others.

The row, which has seen the trade war widen to also become a battle over technology, has hammered the sector with major firms seeing their valuations tumble in recent weeks.

On Thursday Hong Kong market heavyweight Tencent 3.8%, Sony shed 3.7% in Tokyo, Seoul-listed LG Display dived more than 3% and TSMC shed a similar amount in Taipei.

"As ever, the sentiment is vulnerable to headline flashes on trade, and we can expect this sort of flip-flopping in sentiment daily until more clarity emerges on any progress on the US-China trade front," said OANDA senior market analyst Jeffrey Halley. "In the bigger picture, equities may find upward momentum difficult on a consistent basis, while the trade picture and its knock-on effects remain so cloudy."

Hong Kong was among the worst performers with the Hang Seng Index diving 1.6%, Shanghai 1.4% lower and Tokyo ending down 0.6%.

Taipei was 1.4% off while Seoul shed 0.3% and Manila fell 0.5%.

"Trade is still front and centre for equity markets with the mood looking increasingly downbeat," said Markets.comchief market analystNeil Wilson. "It rather seems the US and China are hunkering down for the long haul -- a new long march."

However, Mumbai's Sensex soared more than 2% to break the 40,000 for the first time ever as traders welcomed polls indicating business-friendly Prime Minister Narendra Modi's BJP were on course to win another majority.

The Nifty market of 50 firms also crossed 12,000 points to chalk up a new landmark.

Despite the broad market losses, many observers remain hopeful of an eventual China-US trade agreement.

"Markets are expecting something to happen around the G20 next month,"Standard Chartered bank'sSteven Englandertold Bloomberg TV.

"There is still the expectation that there is going to be a deal, even if it's not a terribly friendly deal." Forex traders were offloading the pound as Prime Minister Theresa May faces being ousted after her revised plan to push through her Brexit agreement faced a barrage of criticism making it unlikely to be passed by MPs.

Her political career appeared to be in tatters after Andrea Leadsom – one of the Cabinet's strongest Brexit backers – resigned over May's handling of the crisis, while members of her Conservative party are said to be planning ways to force a No-Confidence vote in the premier.

With May expected to be gone even before June, there are concerns she will be replaced by a hardline Brexiter, making it increasingly likely Britain will leave the EU without a deal.

Energy companies were taking a hit after oil prices tanked on news of another sharp rise in US inventories, which added to worries about demand.

Both main contracts plunged Wednesday, and extended losses in Asia, on the surprise increase, with downward pressure also coming from concerns about the impact of the trade war on the global economy.

In early trade London fell 0.8%, while Paris and Frankfurt each tumbled more than one%.

Stocks edge up in light turnover; rupee up

Sri Lankan shares closed slightly firmer on Thursday and extended gains into a fifth session, but trading volume slumped to a near five-month low amid worries over economic slowdown and lack of investor appetite for risky assets.

Traders said the Easter day bombings and aftermath violence weighed on investor sentiment. Most investors have shied away from the market since the April 21 bombings that killed more than 250 people.

Sri Lanka is unlikely to hit its full-year economic growth target of 3-4% following the Easter Sunday bombings, junior finance minister Eran Wickremeratne told Reuters on Tuesday. A Reuters poll has predicted the growth to slump to its lowest in nearly two decades this year.

The International Monetary Fund (IMF) on May 14 approved the disbursal of a $164 million tranche of a loan program, bringing the total disbursed to more than $1.16 billion.

The benchmark stock index ended 0.19% firmer on Thursday at 5,305.80. It fell 1.28% last week.

Turnover was Rs. 83.5 million ($ 473,490), the lowest since 4 January and well below this year's daily average of around Rs. 552.6 million. Last year's daily average was Rs. 834 million.

Foreign investors sold a net Rs. 8.4 million worth of shares on Thursday, extending the year-to-date net foreign outflow to Rs. 5.8 billion worth of equities.

The rupee ended 0.2% firmer at 176.30/45 per dollar, compared with Wednesday's close of 176.65/80, on exporter dollar sales, market sources said.

Analysts, however, expect the currency to weaken as money flows out of stocks and government securities.

The rupee gained 0.1% last week and is up 3.4% for the year. Exporters had converted dollars as investor confidence stabilised after a $1 billion sovereign bond was repaid in mid-January.

Tourism wails over VAT cut volley

- Act prohibits persons charging VAT at the rate of 5% to claim 15% input VAT paid to supplies and imports
- Industry urges amendment of third proviso to Section 22 (3) of the VAT Act
- Other experts propose reduction of VAT rate to 6% to enable total difference in VAT of 9% to be passed on to the tourists and customers or a rate of below 4%
- Industry wants full input credits without restriction where there is significant capital investment, to be set off against any tax payable

The terror-struck tourism industry is now faced with a fresh dilemma, as the much-lauded reduction of Value Added Tax (VAT) from 15% to 5% would in fact give more problems than relief. On the face of it, though the reduction of VAT from 15% to 5% reflects a 66.6% saving, it renders the hotels, restaurants and others unable to claim an input VAT paid on purchases, imports and other supplies. The current VAT Act restricts the claim of input credit if output VAT is at 5%.

For example, previously, if the room rate is $ 100, the VAT-inclusive cost at 15% VAT will be $ 115. If the same hotel buys or imports goods worth $ 100, the VAT payable is 15%, incurring a total cost of $ 115. However, with VAT chargeable by hotels at 5%, using the same example, the room rate will be priced at $ 105, but purchases will be at 15% VAT and costs remain unchanged.

As per the law, those with 5% output VAT cannot claim for input-output VAT calculation therefore end price for the consumer will increase by 3-4% and net benefit for the customer/guest which should have been 10% will be reduced to 5%.

Tourist Hotels Association of Sri Lanka (THASL) Chairman Sanath Ukwatte, when contacted by the Daily FT, confirmed that the industry was in a quandary, as the relief of 5% VAT on tourism industry has created more complications, without any material benefit to the Industry.

"At a time when the Industry needed all the support from the Government to survive, although the 5% VAT looks like a reduction from the present 15% VAT, the restriction via the Act doesn't offer a real benefit," he said. "This is mainly due to the third proviso to Section 22 (3) of the VAT Act, which prohibits persons charging VAT at the rate of 5% to claim an input VAT paid to suppliers and the Director General of Customs for imports," he added.

"Depending on the quantum or the availability of input VAT, most hotels and other tourism-related businesses may find this new structure detrimental. To make it more transparent and fair, THASL has decided to request the Government to amend the third proviso to Section 22 (3) of the VAT Act, to permit claiming of 15% of input VAT," Ukwatte revealed.

Other industry experts said the Government could look at reducing the preferential yet temporary preferential VAT rate for tourism to 6%. "This would circumvent the current restriction in the VAT Act, which restricts the claim of input credit if output VAT is at 5%," they said, adding, "This would enable the total difference in VAT of 9% to be passed on to the tourist." Another suggestion is to reduce the VAT rate to below 5% i.e. 4%.

The third proviso to Section 22(3) of the VAT Act reads as: "Provided further, that any person who accounts for the output tax at the rate of five per centum shall not be entitled to deduct any input tax in relation to such supply other than in the case of a motor vehicle used for purposes of transportation of machinery for production."

The experts also suggested that the Government could afford the tourism industry full input credits without restriction, where there is significant capital investment.

"Any excess input credits over output tax in a given taxable period – which could arise due to capital investment in refurbishing or installing security systems – could be considered as tax credits available for set off against any tax payable to the Commissioner General of Inland Revenue, including but not limited to VAT, NBT, Income Tax, WHT, PAYE etc. This should be available for set-off against any tax payable from the date of filing the VAT returns in which the excess credit arose," they pointed out.

"This will provide a cash flow relief to the industry, and does not result in any tax leakage to the Government," the experts added.

"If not, reducing VAT to a lower rate to allow for a price reduction to the consumer (tourist) would not have the full intended result, since limiting input credits or having to fund of VAT refunds for a period of time would have the effect of increasing cost to the industry," it was stressed.

Experts also noted that the concessionary rate of VAT should be afforded to the total supplies by any institution licensed under the Tourism Act, No. 38 of 2005 other than which is governed under Sec 7 (Zero Rating) or 8 (Exemption) of the VAT Act. It should also include domestic air travel.

Effective date as per Inland Revenue notice is 22 May 2019, whereas the experts suggest relief period to be covered to be from 01/06/2019 to 30/06/2020 (13 months).

Stocks Pare Drop With Yields as Trade Woes Linger: Markets Wrap

Stocks in Asia pared losses, though remain on track for a third week of losses, as investors digest the latest headlines on the trade war. Treasuries steadied following the recent rally.

Declines on Japan's Topix index eased, with shares in Hong Kong opening higher alongside gains in S&P 500 Index futures. Shares in Australia remained lower. The drop in South Korea's key index erased its 2019 advance. After the close on Wall Street, President Donald Trump said that Huawei Technologies Co., which was put on a U.S. blacklist earlier this month, could be part of a trade pact with the country. The rally in sovereign bonds showed signs of easing after yields on 10-year Treasuries touched the lowest since 2017. Crude oil took back a sliver of its worst sell-off this year.
Ten-year Treasury yield fell Thursday amid trade, growth concerns

Elsewhere, Australia's 10-year bond yield reached a fresh all-time low amid calls for as many as three central bank interest-rate cuts this year. The yuan was flat amid signs of stabilization from China's central bank this week.

Ahead of a long U.S. holiday weekend, concerns are mounting that the trade dispute could cripple global growth and disappointing U.S. factory data Thursday showed the fragility of the expansion there.

"The trade war is going to cause growth to slow, both in the U.S. and China, and therefore globally -- there is no doubt about that," Komal Sri-Kumar, founder and president of Sri-Kumar Global Strategies Inc., told Bloomberg TV in New York. "The trade war is taking on new dimensions."
Where Are the Opportunities in China Amid the Trade Spat?

Christopher Wang, chief investment officer at Yunqi Capital, talks about Chinese stocks, the economy, and trade.
Source: Bloomberg

Meantime, the pound remained volatile. Theresa May is set on Friday to announce a timetable for her resignation as U.K. Conservative Party leader and prime minister after a backlash over her Brexit plans, people familiar with the matter said.

And these are the main moves in markets:
Stocks

- Japan's Topix index fell 0.4% at the lunch break in Tokyo after sliding as much as 1% earlier.
- Hang Seng gained 0.5%.
- Shanghai Composite rose 0.4%.
- Australia's S&P/ASX 200 Index dropped 0.6%.
- South Korea's Kospi index declined 0.9%.
- Futures on the S&P 500 Index added 0.3%. The underlying gauge declined 1.2% Thursday.

Currencies

- The yen was flat at 109.62 per dollar.
- The offshore yuan dipped 0.1% to 6.9321 per dollar.
- The Bloomberg Dollar Spot Index was flat.
- The euro bought $1.1182, little changed.
- The British pound was at $1.2661.

Bonds

- The yield on 10-year Treasuries held at 2.32%.
- Australian's 10-year bond yield dropped five basis points to 1.53%.

Commodities

- West Texas Intermediate crude added 1% to $58.49 a barrel.
- Gold was flat at $1,283.72 an ounce.

(Bloomberg)