

NEWS ROUND UP

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Ports Ministry to present Cabinet paper on ECT development

Port and Shipping Ministry is preparing to present a Cabinet paper for procurement of equipment needed to operationalise the East Container Terminal, set to be managed by the Sri Lanka Ports Authority (SLPA), utilising its own funds.

Denying reports that the ECT was to be managed as a Public-Private Partnership, subject Minister Mahinda Samarasinghe, speaking at a press conference held at the Sri Lanka Freedom Party Head Office yesterday, said that the Cabinet has given approval for the Terminal to be managed by the Ports Authority.

The National Economic Council and Cabinet of Ministers have both decided to have the SLPA manage the ECT to ensure “continuity and financial viability of the Ports Authority”, Daily FT learnt. According to sources within the Ports Authority, initial investment was estimated to be \$ 100 million under Phase 1 of development.

Following the decision, the Ministry is now ready to go ahead with the much delayed development of the ECT.

“Colombo International Container Terminals (CICT) is the only deep-water terminal able to receive large container ships. It has not reached its capacity, and we need ECT running as soon as possible,” Samarasinghe said.

The Minister is expected to present a Cabinet paper seeking approval to appoint a negotiating committee and technical evaluation committee to proceed with procurement of equipment needed to operationalise ECT under Phase 1 of development.

Further, the same Cabinet paper will also seek approval for leasing of equipment needed to commence work in ECT until the permanent equipment can be procured and delivered, the Minister said.

“The equipment under Phase 1 of development of the project will only be delivered 15 to 20 months after the order is placed. But, since we need to start receiving ships in the Terminal as soon as possible, we will be leasing the equipment needed to operationalise the Terminal so that we can start work as soon as possible,” Samarasinghe said.

According to the master plan of the Colombo Port Expansion Project (CPEP), the East Container Terminal has a 1,200m-long quay wall, alongside water depth of 18m and a yard capacity of 2.4 million TEUs.

The Government, on earlier occasions, had attempted to form a consortium to manage the ECT with preference given to a partner from the Indian subcontinent. The preference to have a partner from the subcontinent was largely viewed as an attempt to neutralise the growing Chinese presence in Colombo Port.

The Chinese firm China Merchants Port Holdings Company Ltd. already manages CICT, having a 35-year build-operate-transfer basis with 85% share ownership.

Although Cabinet appointed negotiation committees and technical evaluation committees, the deal did not fall through.

(DailyFt)

Govt. to amend legislation on finance and microfinance companies

The Government will bring in amendments to legislation pertaining to finance and microfinance companies before the presentation of Budget 2019. Finance Minister Mangala Samaraweera said that amendments would be introduced to ensure that the Central Bank is able to fully implement its relief program to bail out women who have obtained high interest loans from microfinance companies, particularly in the North of the island. (SG)

“To address that loophole, we will amend legislation relating to finance companies and microfinance companies prior to Budget 2019,” he said in response to concerns raised by Chief Opposition Whip and JVP Leader Anura Kumara Dissanayake.

The Chief Opposition Whip had pointed out that despite the Government’s promise to put a lid on the interest rates of microfinance companies, officials of the Central Bank had revealed that present laws restrict the Central Bank from interfering.

Minister Samaraweera went on to say that the Central Bank had been instructed to release the personal details and loan amounts of women who are entitled to receive the relief measures of the Government before the end of the month.

“About 75,000 women will benefit from the Government’s recent decision to write off the non-consumption loans granted up to Rs. 100,000 by registered microfinance institutions,” Minister Samaraweera said.

He assured the House that although this financial relief was being granted to women in the 12 drought-hit districts of Trincomalee, Batticaloa, Mullaitivu, Kilinochchi, Jaffna, Mannar, Vavuniya, Anuradhapura, Kurunegala, Polonnaruwa and Puttalam, the relief measures will be extended to encompass the entire island in the second stage.

However, the Minister noted that the Government would only provide this debt relief to those who procured loans from registered microfinance companies and not for individuals who had been duped, unregistered companies and loan sharks (Poli Mudalalis).
(DailyFt)

Rupee hits record low on importer dollar demand

The rupee hit a fresh low of 160.82 per dollar on Thursday as importer dollar demand and foreign outflows from government securities weighed on the currency, dealers said.

The rupee closed at 160.73/83 per dollar in thin trade, compared with Tuesday’s close of 160.60/70. The markets were closed on Wednesday for a holiday.

The local currency surpassed its earlier record of 160.65 hit in the previous session. The currency has declined 4.7% so far this year.

“There was dollar demand. There were no remittances because exchange houses were closed due to Eid holidays. Until salary remittances come in, the pressure will be there,” a currency dealer said asking not to be named.

“Generally, September is a month when we see a lot of imports for the year-end. So, we think the rupee will be under pressure.” Absence of dollar conversions by exporters and outflows from equities pushed the rupee lower, said analysts.

Foreign investors sold shares worth a net Rs. 888.8 million (\$ 5.54 million) in the five sessions through Tuesday. Exporters are holding on to dollars as they expect the local currency to decline further, dealers said.

Asian currencies fell against a resurgent dollar on Thursday as investors awaited US Federal Reserve Chair Jerome Powell's speech on Friday for fresh cues.

The Sri Lankan currency is also hurt by declines in the Indian rupee, as India is Sri Lanka's biggest trading partner. The Indian rupee, which hit a record low on Aug. 16, is the region's worst performing currency this year.

Sri Lanka's Central Bank Governor Indrajit Coomaraswamy told reporters after holding key monetary policy rates steady that several emerging market currencies had declined more than the Sri Lankan rupee, adding that "if we reduce rates that would put further pressure on the exchange rate". Foreign investors sold government securities worth a net 818 million in the week ended 15 August, bringing the outflow so far this year to Rs. 3.99 billion, Central Bank data showed.

(DailyFt)

Shares snap 8 sessions of falls on foreign buying

Shares closed higher for the first time in nine sessions on Thursday as foreign investors bought beaten-down stocks, although worries over new tax proposals limited the upside.

Foreign buying accounted for about two-thirds of the day's turnover of Rs. 1.07 billion (\$ 6.67 million) which was better than this year's daily average of Rs. 826 million.

Foreign investors purchased a net Rs. 82.5 million of shares, making them net buyers for the first time in six sessions. They sold a net Rs. 888.8 million in the previous five sessions, taking the total net outflow so far this year to Rs. 3.44 billion.

The Colombo stock index rose 0.25% to 6,055.76, edging up from its lowest close since 30 March 2017 hit in the previous session. It has declined about 4.8% so far this year. "The market is up on foreign buying. Local investors are still on the sidelines with the proposed new taxes. We saw foreigners returning to the market with the index hovering near 6,000 mark as it is attractive to them," said Dimantha Mathew, head of research at broker First Capital Holdings. Banking and telecom stocks were recently under pressure after a local media reported last week that the government planned to impose new levies on these sectors to boost revenue, analysts said. Lacklustre corporate results and a Moody's report saying Sri Lanka could face significantly tighter external refinancing conditions in the next five years, have also dented investor appetite for riskier assets, analysts said.

Market heavyweight John Keells Holdings gained 0.9%, while Lanka ORIX Leasing Co Plc rose 3.3%.

The Central Bank left its key policy rates unchanged, as expected, on 3 August, citing its goals of stabilising inflation and fostering sustainable economic growth. Central Bank Governor Indrajit Coomaraswamy said the economy was unlikely to grow more than 4% in 2018, falling short of an earlier estimate of 5%.(DailyFt)

Investors trim bearish bets on most Asian currencies as Sino-US trade tensions ease: Reuters poll

Investors have trimmed their short positions on Asian currencies over the last two weeks, a Reuters poll showed, as a weaker dollar, coupled with optimism over Sino-US trade tensions and tightening monetary policy in the region improved risk appetite.

Bearish bets on the Chinese yuan were sharply reduced in the wake of the latest round of Sino-US trade talks, the survey showed. Short positions fell to their lowest since late-May, when bets on the Chinese currency were slightly bullish.

“At least they are talking, that’s the bottom line and the fact that they’re talking itself has been taken as a positive,” said Sim Moh Siong, FX Strategist at Bank of Singapore.

The poll of 10 market participants also showed that investors trimmed their short positions on four other Asian currencies.

The broad lift in sentiment towards emerging Asian currencies came on rising optimism over ongoing US-China trade talks, and after US President Donald Trump’s critique of Federal Reserve’s interest-rate hike cycle led to a weakness in the dollar. Risk appetite was also bolstered by policy responses from several Asian central banks.

Earlier this month, Philippine central bank made its biggest rate hike in 10 years – raising key interest rates by 50 basis points – and left the door open for further policy tightening. The poll showed short positions in the Philippine peso narrowed to levels last seen in mid-May.

Short positions on the Thai baht also hit their lowest since May-end, bolstered by hawkish comments from the central bank governor.

This week, Bank of Thailand Governor Veerathai Santiprabhob said the country cannot buck the global policy tightening trend but noted any interest rate hike would be gradual.

“I think the response of the regional central banks has been in the right direction,” said Bank of Singapore’s Sim.

“Whether the currencies can stabilise ultimately depends on the outcome of the China-U.S. trade tensions but at least on the part of the individual countries within the region, policy makers are stepping up to the plate.”

Export-driven South Korean won and Taiwan dollar saw bearish positions fall to their lowest since May and mid-July, respectively. However, investors raised short positions on the Indonesian rupiah, Indian rupee and Singapore dollar.

Indonesia’s central bank raised interest rates for the fourth time since mid-May last week, in an effort to defend a beleaguered currency.

The rupiah has lost nearly 7% since this beginning of the year, making it second-worst performing Asian currency so far.

The Indonesian currency has been hit with a combination of a rising trade deficit, worsening macro trade conditions and lower growth outlook.

Meanwhile, short positions on the Singapore dollar hit their highest since late June.

Singapore's economy grew slower than initial estimates in the April-June period on a quarter-on-quarter basis, as the government flagged a likely moderation in growth in the second half. Short positions on the Indian rupee, the worst performing Asian currency so far this year, also rose. The rupee hit an all time low on 69.62 per dollar on August 13. India faces significant headwinds as rising oil prices could spur its trade deficit and prop up inflation, which remains a central concern.

Last week, India's Statistics Ministry said that retail inflation numbers eased in July but remained over central bank's target medium-term target of 4%.

The Asian currency positioning poll is focused on what analysts and fund managers believe are the current market positions in nine Asian emerging market currencies: the Chinese yuan, South Korean won, Singapore dollar, Indonesian rupiah, Taiwan dollar, Indian rupee, Philippine peso, Malaysian ringgit and the Thai baht.

The poll uses estimates of net long or short positions on a scale of minus 3 to plus 3.

A score of plus 3 indicates the market is significantly long US dollars. The figures included positions held through non-deliverable forwards (NDFs).

(DailyFt)

Upward trend in bond yields continue, term auction to drain out liquidity

The upward trend in secondary bond market yields continued yesterday as well, with yields of the 15.12.21, 15.07.23 and 01.09.28 maturities increasing further to intraday highs of 9.75%, 10.02% and 10.36%, respectively, against its previous day's closing levels of 9.68/78, 9.98/03 and 10.30/40. Furthermore, the two 2019's (i.e. 01.07.19 and 15.09.19), 01.05.20 and 15.03.23 maturities were also seen changing hands at levels of 9.05% to 9.10%, 9.35%, and 9.90% to 9.98%. Meanwhile, in the secondary bill market, January, February, March, May and June 2019 maturities traded at levels of 8.60%, 8.67%, 8.72% and 8.90%, respectively.

The total secondary market Treasury bond/bill transacted volumes for 21 August was Rs. 5.33 billion. In money markets, overnight call money and repo rates averaged at 7.76% and 7.75%, respectively, as the net surplus liquidity in the system stood at Rs. 25.30 billion. The OMO Department once again conducted a term repo auction and drained out an amount of Rs. 11.75 billion at a weighted average rate of 7.68% for seven days.

Rupee slides further

The rupee on spot contracts depreciated further to close the day at Rs. 160.75/85 against its previous day's closing level of Rs. 160.65/70 on the back of importer demand and a strengthening dollar.

The total USD/LKR traded volume for 21 August was \$ 66.75 million.

Some of forward USD/LKR rates that prevailed in the market were 1 Month - 161.60/70; 3 Months - 163.20/30, and 6 Months - 165.60/75.

(DailyFt)

Asia Stocks Mixed; Dollar Holds Gain Before Powell: Markets Wrap

Asian stocks traded mixed Friday as U.S.-China trade negotiations produced no breakthrough, while the dollar retained gains ahead of an address from Federal Reserve chairman Jerome Powell.

Shares in Japan rose, while Hong Kong, Chinese and South Korean stocks declined. Stocks in Sydney climbed and the Australian dollar jumped after Treasurer Scott Morrison replaced Malcolm Turnbull as prime minister. The yuan ticked up after China said talks with the U.S. were constructive and honest. The dollar held gains and Treasuries steadied, with attention now shifting to Powell's scheduled comments at Jackson Hole later Friday. U.S. futures were little changed.

"Any comments on current Fed policy will draw even more than the usual attention given recent and unprecedented criticism of the Fed by President Trump," said Larry Hatheway, chief economist at GAM Investments in London. "While Powell prefers to speak plainly and in non-technical terms, he may find reason to take a more guarded approach in order to avoid the appearance of open conflict with the Administration."

Turmoil in emerging markets, ongoing trade tensions and high stakes going into November midterm elections in the U.S. aren't steering bond traders away from bets that the Fed will hike rates twice by the end of the year as the economy grows fast enough to warrant tighter policy.

Fed Rate Hikes Are Baked Into Markets Says Turnill

Richard Turnill, global chief investment strategist at BlackRock, says Fed rate hikes are priced into markets.

Source: Bloomberg

Elsewhere, oil is poised for its first weekly gain in two months as shrinking U.S. crude inventories, a strike in North Sea fields and impending American sanctions on Iran point to tighter supplies.

These are the main moves in markets:

Stocks

- The MSCI Asia Pacific Index fell 0.2 percent as of 12:01 p.m. Tokyo time.
- Topix index rose 0.3 percent.
- Hong Kong's Hang Seng Index declined 0.7 percent.
- Kospi index fell 0.1 percent.
- Australia's S&P/ASX 200 Index increased 0.2 percent.
- Futures on the S&P 500 Index rose 0.1 percent to 2,861.25.

Currencies

- The Japanese yen fell 0.1 percent to 111.39 per dollar.
- The offshore yuan gained 0.2 percent to 6.8832 per dollar.
- The euro rose 0.1 percent to \$1.1555.
- The Bloomberg Dollar Spot Index sank 0.6 percent to 1,186.24.

Bonds

- The yield on 10-year Treasuries rose less than one basis point to 2.83 percent.
- Australia's 10-year yield jumped one basis point to 2.54 percent.

Commodities

- West Texas Intermediate crude rose 0.6 percent to \$68.21 a barrel.
- Gold rose 0.1 percent to \$1,186.36 an ounce.
- LME copper fell 0.1 percent to \$5,978.00 per metric ton.
(Bloomberg)