NEWS ROUND UP

Friday, January 25, 2019

Contents

Rupee edges up on exporter dollar sales; stocks gain

Sri Lanka's rupee closed slightly firmer on Thursday due to dollar selling by exporters, while stocks edged higher for a second straight session, moving away from an eight-week closing low hit early this week.

The rupee closed at 181.60/80 per dollar, compared with 182.15/25 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 appreciated 0.6% so far this year, Refinitiv data showed.

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 fell 16% in 2018, according to the Central Bank data. It was one of the worst-performing currencies in Asia, Refinitiv data showed, due to heavy foreign outflows.

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 after the political crisis have made it harder for Sri Lanka to borrow as it faces record high repayments.

The Colombo Stock Index ended 0.15% firmer at 5,960.34 on Thursday. The benchmark index lost 5% in 2018. Turnover was Rs. 725.2 million, less than last year's daily average of Rs. 834 million.

Foreign investors were net buyers for a third straight session on Thursday, buying a net Rs. 310.7 million worth of shares. But they have been net sellers of Rs. 2.05 billion worth of stocks so far this year and Rs. 15.4 billion since a political crisis began on 26 October 2018.

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

HNB ups funds raising via debenture to Rs. 10 b

The Hatton National Bank (HNB) has announced that it has decided to increase the number of debentures to be issued to 50 million, Basel III compliant, tier II, listed, rated, unsecured, subordinated, and redeemable debentures with a non-viability conversion feature, amounting to Rs. 5 billion, with the option issue a further 20 million debentures (Rs. 2 billion) in the event of an oversubscription in the first tranche, and with a further option to issue 30 million debentures (Rs. 3 billion) at an issue price of Rs.100 per debenture.

Earlier the debenture issue was to be worth Rs. 7 billion.

The tenure of the debentures will be five and seven years and would be subject to market conditions and obtaining all necessary regulatory and shareholder approval. (Dailyft)

Amana Bank amongst the LMD Top 100

The LMD 100 has been ranking the Top Sri Lankan listed corporates for the last 25 years. Ranked at 95th position, Amãna Bank is the youngest listed company to be among the LMD 100 in 2018.

Commenting on this recognition, Amãna Bank's Chief Executive Officer Mohamed Azmeer said: "Being a Bank of just over 7 years and only 5 years listed in the CSE, we have made great strides in terms of revenue growth and profitability, owing to the commendable progress in customer deposits and customer advances amidst challenging market conditions. With growing acceptance to our people-friendly banking approach, we are confident the Bank would reach much greater heights in the years to come."

Amãna Bank is the country's first and only Licensed Commercial Bank to operate in complete harmony with the globally growing non-interest based participatory banking model. With the mission of 'Enabling Growth and Enriching Lives', the Bank reaches out to its customers through a growing network of 28 branches and 4000+ ATM access points, and has introduced an array of customer conveniences, such as internet & mobile banking, Debit Card with SMS alerts, online account opening, 365 day banking, Saturday banking, extended banking hours, 24x7 cash deposit machines and banking units exclusively for ladies.

Amãna Bank PLC is a stand-alone institution licensed by the Central Bank of Sri Lanka and listed on the Colombo Stock Exchange, with Jeddah-based IDB Group being the principal shareholder, having a 29.97% stake of the Bank. The IDB Group is an 'AAA' rated multilateral development financial institution with a capital base of over $150 Billion, which has a membership of 57 countries. Fitch Ratings, in October 2017, affirmed Amãna Bank's National Long Term Rating of BB (lka) with a Stable Outlook. Amãna Bank does not have any subsidiaries, associates or affiliated institutions representing the Bank. (Dailyft)

Secondary market bond yields remain broadly unchanged

The secondary market yields remained broadly unchanged yesterday with activity moderating towards the latter part of the day. A limited amount of trades consisting of the 15.12.23, 01.09.23, 15.03.25 and the 01.08.26 maturities were witnessed at levels of 11.20% to 11.27%, 11.25%, 11.40% and 11.45% to 11.46% respectively.

The total secondary market Treasury bond/bills transacted volume for 23 January was Rs. 10.63 billion.

In the money market, the net liquidity shortfall stood at Rs. 135.82 billion yesterday with call money and repo averaging at 9.00% and 8.99% respectively. The OMO department of Central Bank was seen infusing liquidity by way of an overnight repo auction for a successful amount of Rs. 40.00 billion at weighted averages of 9.00%. A further total amount of Rs. 2.06 billion was injected by way of outright purchases of Treasury bills at weighted averages ranging of 9.50% and 9.55% respectively for duration of 70 days to 105 days, valued today.

Rupee appreciates

In the Forex market, the USD/LKR rate on spot contracts appreciated yesterday to close the day at Rs. 181.65/75 against its previous day's closing levels of Rs. 182.10/25 on the back of selling interest by Banks.

The total USD/LKR traded volume for 23 January was $ 133.75 million.Some forward USD/LKR rates that prevailed in the market: 1 month - 182.60/80; 3 months - 184.55/75; 6 months - 187.40/70.
(Dailyft)

Fitch downgrades HDFC Bank to 'BB+; Outlook Stable

Fitch Ratings has downgraded the National Long-Term Rating and senior unsecured debentures of Housing Development Finance Corporation Bank of Sri Lanka (HDFC Bank) to 'BB+(lka)' from 'BBB-(lka)'. All ratings have been removed from Rating Watch Negative, and the Outlook is Stable.

Key rating drivers

National ratings

The downgrade reflects Fitch's assessment of HDFC Bank's standalone strength, as we believe timely support from the sovereign cannot be relied upon. Its assessment takes into consideration that the state, as a major shareholder, has not injected new capital into HDFC that the bank would need to meet the minimum regulatory capital requirement of Rs. 5 billion that came into force in 1 January 2016. Its view also reflects the weakening of the sovereign's ability to provide support following the downgrade of the sovereign rating to 'B'/Stable from 'B+'/Stable on 3 December 2018.

HDFC Bank's current rating reflects its high risk appetite and potential challenges in accessing capital, when required. The rating also captures asset quality and profitability which is weaker than its peers. This reflects a large exposure to low- and middle-income customers, who are particularly susceptible to economic and interest-rate cycles.

HDFC Bank's reported non-performing loan (NPL) ratio has been increasing over the past few years – standing at 20.5% at end-3Q18, well above the industry average. This has been due mainly to defaults from housing finance backed by the Employees' Provident Fund (EPF), which contributed more than half of the bank's total housing NPLs at end-3Q18. Nevertheless, the Central Bank of Sri Lanka reimburses HDFC Bank annually for EPF-backed loans in arrears for more than three months. The bank's NPL ratio remained high even without the EPF-backed housing loans, at 10.0% (9.0% at end-2017), which reflects the concentration of its credit risk in the low- and middle-income housing-finance market.

The bank's Fitch Core Capital ratio improved marginally in 3Q18 to 17.3% owing to muted balance-sheet expansion. Nevertheless, Fitch sees capitalisation as weak because of its substantial unreserved NPLs. Profitability is likely to remain soft in light of its high cost structure and rising credit costs.

Fitch expects HDFC Bank's asset and liability mismatches to persist due to its longer-tenor loan book and short-tenor deposit base, exerting pressure on liquidity. Dependence on high-cost term deposits also weighs on the net interest margin and profitability.

Senior debt ratings

The bank's outstanding senior unsecured debentures are rated in line with its National Long- Term Rating, and rank equally with the claims of other senior unsecured creditors.

Rating Sensitivities National ratings and senior debt

HDFC Bank's rating could be downgraded if there is a sustained deterioration in capitalisation, either through aggressive loan growth or higher unprovisioned NPLs. An upgrade would be contingent on moderation of its risk appetite and a sustained improvement in asset quality and profitability.

The ratings of the senior unsecured debentures will move in tandem with HDFC Bank's National Long-Term Ratings. (Dailyft)

Asian shares edge up; ECB decision awaited

Asian shares inched up in subdued trade on Thursday after Wall Street ended higher, but political uncertainty in the United States and worries about weakening global economic growth kept many investors on the sidelines.

Financial spreadbetters expect London's FTSE Frankfurt's DAX and Paris's CAC to dip marginally when they open, with investors awaiting news from the European Central Bank's first policy review of the year.

MSCI's broadest index of Asia-Pacific shares outside Japan added 0.3%, while Japan's Nikkei average eased 0.1%.

"There is no new news to buy, and there are no fresh triggers to sell. Investors are staying on the sidelines," said Yasuo Sakuma, Chief Investment Officer at Libra Investments.

China's benchmark Shanghai Composite and the blue-chip CSI 300 climbed 0.5% and 0.6%, respectively, taking positive cues from financial firms' profits and the approval for a new technology board in Shanghai. Hong Kong's Hang Seng index rose 0.3%.

On Wednesday, Wall Street ended slightly higher after a spate of upbeat earnings reports, including International Business Machines, but lingering concerns about trade tensions and the longest US government shutdown ever limited the advance.

White House Economic Adviser Kevin Hassett said in a CNN interview the US economy could see zero growth in the first three months if the partial government shutdown lasts for the whole quarter.

Japan's manufacturing growth stalled in January as export orders fell at the fastest pace in 2-1/2 years, a preliminary business survey showed Thursday, offering the latest sign of slower growth hitting a major developed economy.

More companies warned of weakening demand in China, including South Korea's SK Hynix Inc, the world's second-biggest memory chipmaker, and Hyundai Motor.

Analysts at Capital Economics warned that China's economic slowdown looks set to be of a similar scale to that in 2015-16, though there are some significant differences so far, most notably less downward pressure on the yuan and no signs of major capital outflows.

"Against a backdrop of various concerns about other economies, weakness in China adds to reasons to expect a marked global slowdown," they wrote in a note.

"Since China makes up 19% of the world economy, the slowdown this year compared to last will knock 0.2%age points off global growth."

President Donald Trump said on Wednesday that the United States was doing well in trade talks with China, saying that China "very much wants to make a deal."

But sources familiar with the talks say the two sides are still far apart on key, structural elements critical for a deal.

"Above all, (investors) are wary there's a possibility that the economic slowdown will go on amid the uncertainty over the US-China trade tension," said Harumi Taguchi, principal economist at IHS Markit.

"In such circumstances, the likelihood is becoming a little bigger that a situation remains where it's hard to buy stocks and the yen is likely to strengthen."

Markets await direction from central banks

The ECB is widely expected to stay on hold at a policy meeting that ends later on Thursday, but may acknowledge a sharp slowdown in growth, raising the prospect that any further policy normalisation could be delayed.

The ECB's meeting will come a day after the Bank of Japan cut its inflation forecasts on Wednesday but maintained its massive stimulus program, with Governor Haruhiko Kuroda warning of growing risks to the economy from trade protectionism and faltering global demand.

The US Federal Reserve will hold its first policy meeting of 2019 next week, with investors hoping for more clues on how patient it will be before raising interest rates again. Fed officials have left little doubt in recent weeks that they want to stop raising rates – at least for a while.

In currency markets, the dollar was last off 0.1% against the yen, changing hands at 109.70 yen per dollar. , also in thin trade.

The greenback hit a year-to-date high of 110.00 yen against the Japanese currency after the BOJ kept its policy on hold the previous day.

Sterling hit a fresh 11-week high against the dollar, rising to $1.3094, on bets that a no-deal Brexit can be avoided if parliament exerts greater control over the process.

The euro was basically flat at $1.1383. It has lost more than 1.5% since climbing to a three-month high of $1.1570 on 10 January.

The Australian dollar suffered a setback when a hike in mortgage rates by one of the country's major banks added to the case for a cut in official rates, even as domestic job data showed a still solid labour market.

The Aussie dollar skidded to $0.7100, unwinding all of a data-inspired jump to $0.7168.

The yield on benchmark 10-year Treasury notes fell to 2.746%, compared with its US close of 2.755% on Wednesday.

In commodity markets, oil prices declined on Thursday amid lingering concerns over slowing global economic growth that may limit fuel demand and after a surprise build in US crude inventories.

US West Texas Intermediate (WTI) crude futures fell 0.5% to $52.38 a barrel, while Brent crude futures were last down 0.4% at $60.87.

Gold held steady, supported by a softer dollar. Spot gold was last traded at $1282.10 per ounce.
(Dailyft)

Asian Stocks Push Higher Led by Tech; Pound Climbs: Markets Wrap

Stocks in Asia climbed on the final day of a week that has seen the equity rally stall amid conflicting signals over U.S.-China trade progress. The pound climbed on reports Northern Ireland's Democratic Unionist Party has privately agreed to back the Brexit deal.

Shares in Japan, Hong Kong and China all gained with European and U.S. futures. Technology companies led the way following a strong U.S. session for chipmakers, and shrugged off a weak sales forecast from Intel Corp. Sentiment remained fragile as Secretary of Commerce Wilbur Ross said the world's two biggest economies remain "miles and miles" apart on trade. White House economic adviser Lawrence Kudlow later said President Donald Trump is optimistic about trade talks and the January jobs report will be up a significant amount. Treasuries edged lower after Thursday's climb and the dollar held gains.

The pound advanced to its highest since Nov. 8 after the Sun reported that the DUP -- which provides crucial support for U.K. Prime Minister Theresa May's government in Parliament -- has agreed to back her new Brexit deal. The euro held a loss stemming from regional economic data that fell short of forecasts and a report circulated that the German government cut its growth forecast.

Global equities are rounding out the first down week in five as investors question the pace of the post-Christmas rally and earnings season rolls on. Traders are scrambling for hints at progress in trade talks ahead of discussions next week in Washington and are assessing the economic impact of the longest shutdown in U.S. history that's hampering the normal flow of growth data. The Senate voted down a measure Thursday that could have ended the deadlock.

"I'm reasonably positive," Axel Merk, chief investment officer at Merk Investments LLC in San Francisco, told Bloomberg TV. "I don't think we have an imminent recession which is usually one of the key ingredients to a real bear market, but it's prudent to diversify."

Elsewhere, Australian bonds extended gains amid worries on economic growth. Oil climbed amid growing instability in Venezuela, where local bonds extended their rally on speculation President Nicolas Maduro's opponents will gain momentum in their efforts to oust him.
Volatility Is Back to Normal, Says Natixis Investment Managers's Raby

Natixis Investment Managers CEO Jean Raby discusses his markets outlook, volatility, central bank policy in Davos.

These are the main moves in markets:
Stocks

- The MSCI Asia Pacific Index gained 0.9 percent as of 10:45 a.m. Hong Kong time.
- Japan's Topix Index rose 0.9 percent.
- Futures on the S&P 500 Index added 0.3 percent after the underlying gauge rose 0.1 percent.
- Hang Seng added 1.4 percent.
- Shanghai Composite index gained 0.6 percent.

Currencies

- The yen was flat at 109.67 per dollar.
- The offshore yuan added 0.1 percent to 6.7843 per dollar.
- The Bloomberg Dollar Spot Index slipped 0.1 percent.
- The euro traded at $1.1317, up 0.1 percent.
- The British pound rose 0.4 percent to $1.3117.

Bonds

- The yield on 10-year Treasuries held at 2.72 percent.
- Australia's 10-year bond yield dropped six basis points to 2.21 percent.

Commodities

- West Texas Intermediate crude rose 1.4 percent to $53.87 a barrel.
- Gold held at $1,281.80 an ounce
  (Bloomberg)