NEWS ROUND UP

Tuesday, September 25 , 2018

Contents

Headline inflation down 2.5% in August; core inflation up 2.7%

The Central Bank said headline inflation, as measured by the change in the National Consumer Price Index (NCPI) compiled by the Department of Census and Statistics (DCS), decreased to 2.5% in August from 3.4% in July on year-on-year basis, mainly driven by monthly decline in food prices in August.

The change in the NCPI measured on an annual average basis decreased from 5.1% in July to 4.7% in August.

When the monthly change is considered, the NCPI decreased from 126.6 index points in July to 125.4 index points in August largely due to decline in prices of the items in the Food category – particularly that of vegetables, coconuts, green chillies and fresh fish.

Price increases were observed in the sub-categories in the Non-Food category – particularly that of petrol, diesel and taxi in the Transport sub-category; some items in Housing, Water, Electricity, Gas and Other Fuels categories, and Furnishing, Household Equipment and Household Maintenance; and Alcoholic Beverages and Tobacco.

The NCPI core inflation, which reflects the underlying inflation in the economy, increased to 2.7% in August from 2.3% in July on year-on-year basis. Meanwhile, annual/average NCPI core inflation declined to 2.5% in August from 2.7% in July.(Dailyft)

Brent oil jumps to 4-year high near $81

Brent oil soared Monday close to $ 81, reaching the highest level since November 2014 after OPEC and other global producers snubbed pressure from US President Donald Trump to dampen prices.

At 0840 GMT, Brent North Sea crude for delivery in November soared to a peak of $ 80.94 per barrel. That was the highest level since 12 November 2014.

The benchmark Brent contract later stood at $ 80.85, up $2.05 from Friday's close.

New York's main contract, West Texas Intermediate (WTI) or light sweet crude for delivery in November, added $ 1.52 to $ 72.30 after earlier striking a two-month pinnacle.

Oil leapt after the world's top producers decided to maintain output during a meeting in Algeria at the weekend.

A committee comprised of the Organization of the Petroleum Exporting Countries (OPEC) cartel and non-OPEC producers said it was satisfied with the current market outlook, which represented "an overall healthy balance between supply and demand".

However, Saudi Arabia's influential Oil Minister Khalid al-Falih left the way open to a future production hike, as supplies tighten due to the US imposing sanctions on Iranian oil from November this year.

"Saudi Arabia and Russia confirmed that they not raising output – and this is bad news for President Trump as he wants a lower oil price that is good for business," said CMC Markets David Madden.

"Last week, Trump verbally attacked OPEC and some traders thought we might see an increase in supply from the United States' Middle Eastern allies.

"The Algiers meeting did not bring about an increase in output – and that is fuelling the rally.

"Fears that supply will be hit when the US sanctions on Iran kick in come November are pushing up oil prices." OPEC in December 2016 concluded an agreement with non-member states – including Russia – to reduce output in order to arrest sliding prices.

Sunday's meeting in Algiers brought together OPEC oil ministers and non-OPEC signatories to the 2016 agreement, as they seek to extend their cooperation.

Trump has repeatedly called for a hike in production by countries other than Iran to reduce oil prices. (Dailyft)

Dialog Finance PLC debuts

The finance company of telecom giant Dialog Axiata PLC has been launched as Dialog Finance PLC.

The change of name has been incorporated and approved by the Registrar General of Companies recently.

The entity was previously known as Colombo Trust Finance PLC.

In September 2017, Dialog bought 80.34% stake in Colombo Trust Finance for Rs. 1.07 billion, paying Rs. 28.70 per share from Cargills Bank Ltd. Following the mandatory offer ended in October 2017, Dialog acquired 98.87% stake.

The Company's core business includes leasing and hire purchases, treasury/investments, margin trading, lending.

As at 30 June, the Company assets were worth Rs. 1.97 billion, up from Rs. 1.26 billion as at 31 March. For the quarter ended 30 June, pre-tax profit was Rs. 5.4 million, up by 36% from a year earlier.

Via a Rights Issue in the proportion of 309 shares for 559 held, the Company in July raised Rs. 599 million and increased the StatedCapital from Rs.309.88 million to Rs. 909 million.

In the Company's 2017/18 Annual Report the Chairman Dr. Wijayasuriya said Dialog envisages that the acquisition will facilitate the expansion of the scope of operations of the Dialog Group into the sphere of mainstream Digital Financial Services and bring together the realms of advanced digital connectivity and cutting edge Financial Technology (FinTech) to deliver a revolutionary suite of products and services which will expand the vistas of financial inclusion in Sri Lanka.

"We are certain that the execution of the Company's vision to deliver innovative and inclusive FinTech solutions will be leveraged by focusing on operational efficiencies between your Company and Dialog in future," he added.

The Board of Directors of Dialog Finance PLC comprises of Dr. Hans Wijayasuriya (Chairman), Supun Weerasinghe, Sheyantha Abeykoon, Roshaan Hettiaratchi, Priyan Edirisinghe and Asanga Priyadarshana (Executive Director/CEO).(Dailyft)

Yield curve shifts upward for a second consecutive week

The secondary bond market took a beating for a second consecutive week as yields continued to leapfrog driven by foreign and local selling interest on the back of market uncertainties.

The liquid maturities of 15.10.21, 15.12.21, 15.03.23, 15.07.23, 01.08.24 and 15.10.25 saw its yields fluctuate during the week, hitting highs of 10.58% each, 10.80%, 10.70%, 10.90% and 10.80% respectively during the early part of the week against its previous weeks closings of 10.07/12, 10.15/20, 10.23/30, 10.27/32, 10.32/40 and 10.45/50.

However, following the rejection of the weekly Treasury bill auction due to market participants demanding higher yields, secondary market bond yields reversed its upward trend and edged lower to hit weekly lows of 10.37%, 10.41%, 10.53%, 10.50%, 10.60% and 10.55% respectively before edging up again towards the latter part of the week.

The week on week increase on the given maturities were 39, 38, 34, 32, 34 and 27 basis points respectively, registering a parallel shift upward of the overall yield curve for a second consecutive week.

Furthermore, the foreign outflow from rupee bonds was seen hitting a 19-month high of Rs. 8.81 billion for the week ending 19 September.

The daily secondary market Treasury bond/bill transacted volume through the first four days of the week averaged Rs. 7.05 billion.

The Open Market Operations (OMO) Department of Central bank was seen injecting liquidity throughout the week by way of overnight and four to seven days reverse repo auctions at weighted averages ranging from 7.85% to 8.15%.

This in turn led to call money and repo rates remaining steady in the money market to average 8.01% and 8.02% respectively for the week. Liquidity averaged a net deficit of Rs.26.96 billion for the week.

Rupee loses further

In the forex market, the downward trend on the rupee continued during the week to close the week at Rs. 168.30/70 against its previous weeks closing levels of Rs. 163.60/80 subsequent to hitting a new low of Rs. 169.00 on the back of importer demand and foreign outflows in rupee bonds.

The daily USD/LKR average traded volume for the first four days of the week stood at $ 66.23 million.

Some of the forward dollar rates that prevailed in the market were: one month – 169.40/80; three months – 171.10/50; and six months – 173.80/50.
(Dailyft)

Bond yields dip marginally as activity remains high

The secondary bond market remained active yesterday as continued buying interest led to yields dipping across the yield curve. The liquid maturities of 2021's (i.e. 15.10.21 and 15.12.21), 2023's (i.e. 15.03.23 and 15.07.23), 01.08.24 and 15.10.25 saw its yields dip to intraday lows of 10.37%, 10.41%, 10.53%, 10.50%, 10.60%, and 10.55%, respectively, against its previous day's closing levels of 10.45/53,

10.48/58, 10.58/65, 10.55/65, 10.65/75 and 10.70.80. However, profit taking at these levels curtailed any further downward movement.

The total secondary market Treasury bond/bill transacted volumes for 19 September was Rs. 9.15 billion.

In money markets, the overnight call money and repo rates averaged 8.02% and 8.01%, respectively, as the Open Market Operations (OMO) Department of the Central Bank injected an amount of Rs. 10 billion and Rs. 5 billion on an overnight basis and five days at weighted averages of 8.06% and 8.15% respectively. The market liquidity remained negative at Rs. 18.25 billion yesterday.

Rupee loses

The rupee on its spot contracts was seen depreciating considerably yesterday to close the day at Rs. 168.50/00 against its previous day's closing levels of Rs. 167.00/40 on the back of continued importer demand.

The total USD/LKR traded volume for 19 September was $ 52.95 million.

Some forward USD/LKR rates that prevailed in the market are 1 month – 169.50/00, 3 months – 170.70/20, and 6 months – 173.80/30.

Closing secondary market yields of the most frequently traded Treasury bills and bonds

(Dailyft)

Asian Stocks Mixed, With Trade, Politics in Focus: Markets Wrap

Asian stocks traded mixed Tuesday as investors pondered concerns about the outlook for global trade and American politics. The dollar ticked higher as 10-year Treasury yields consolidated above 3 percent, and oil traded at a four-year high.

Equities climbed in Japan as traders returned from a holiday, though Chinese shares headed in the opposite direction after a long weekend. Australia was little changed. Hong Kong -- where stocks fell Monday on escalating trade tensions -- and South Korea are shut Tuesday. Industrial shares led the S&P 500 Index lower after China warned it won't meet with American officials unless they stop threatening to expand tariffs. Reports that Deputy Attorney General Rod Rosenstein will leave his post also weighed on stocks.

An uptick in political tensions and the escalation in the U.S.-China trade dispute are testing global equities, which have posted two strong weeks of gains in part due to optimism that the global economy can weather any potential tariffs. Coming up this week is the Federal Reserve's policy meeting, which will likely see interest rates increased for the third time this year and will feature fresh projections for the policy rate over the next few years.

"What will be more interesting will be to find out" the number of rate hikes anticipated for next year, Iain Stealey, portfolio manager at JPMorgan Global Strategic Bond Fund, who expects two Fed rate hikes this year and two in the first half of 2019, said on Bloomberg TV. "Inflation is above target, so they can keep going on this sort of slow normalization. I don't see them stopping unless we see a pickup in trade rhetoric which actually does impact the overall economy."
Eastspring Is 'Overweight' Singapore, Malaysia, Thailand, H.K.

Sarah Lien at Eastspring Investments talks about the opportunities she sees in Asian and emerging-market stocks.
Source: Bloomberg

Elsewhere, Brent traded above $80 a barrel as OPEC and its allies signaled less urgency to boost output despite U.S. pressure. The pound pared some gains made on increasing talk of a second U.K. referendum on the final Brexit deal.

Here are some key events coming up this week:

- Japanese Prime Minister Shinzo Abe meets with President Donald Trump in New York to discuss trade.
- The Fed decision on Wednesday will be followed by a press conference with Chairman Jerome Powell.
- Thursday sees durable goods, GDP data and jobless claims for the U.S.

These are the main moves in markets:
Stocks

- Japan's Topix index rose 0.7 percent as of 12:31 p.m. in Tokyo.
- The Shanghai Composite Index lost 0.8 percent.
- Australia's S&P/ASX 200 Index was little changed.
- S&P 500 futures are flat. The underlying measure fell 0.4 percent Monday.

Currencies

- The yen was steady at 112.82 per dollar.
- The offshore yuan held at 6.8613 per dollar.
- Bloomberg Dollar Spot Index edged 0.1 percent up.
- The euro fell 0.1 percent to $1.1738.

Bonds

- The yield on 10-year Treasuries was steady at 3.09 percent, near the highest since May.
- Australia's 10-year bond yield climbed about 4 basis points to 2.75 percent.

Commodities

- West Texas Intermediate crude rose 0.2 percent to $72.21 a barrel after jumping 2.2 percent Monday.
- Gold was flat at $1,198.85 an ounce.
- LME copper slid 2 percent to $6,227 a metric ton.

(Bloomberg)