NEWS ROUND UP

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Budget deficit 5.3% says CB Chief

- Governor insists dedication to structural reforms remains crucial
- Dismisses speculation of economic collapse; monetary and fiscal policy steadfast
- Says deficit higher than 4.8% target because of weather compensation
- Highlights higher exports, investment as signs structural reforms are taking root
- Expects to hit 4% growth, concedes it's slow but argues data shows gradual rise
- Fuel prices not driving inflation, food prices competitive
- Points out SL has sustained under higher Treasury bill rates and currency account deficits

Persisting with structural reforms remains crucial, believes Central Bank Governor Dr. Indrajit Coomaraswamy, who this week dismissed monetary and fiscal slippage with macroeconomic fundamentals remaining sound despite a budget deficit of 5.3% for 2018.

Attempting to set the record straight on Sri Lanka's economy, Dr. Coomaraswamy gave an extensive rundown of the economy while addressing the Asia Securities Financial Sector Investment Conference 2018 on Tuesday and decisively decimated speculation of an economic collapse.

"The budget deficit this year is going to be 5.3% of GDP, which is higher than the target of 4.8%, but it is almost entirely due to flood and drought relief. In fact the IMF has given us the space for 5.3% because they've realised that this relief had to be accommodated. The Government has increased taxes and initiated a fuel price formula so it's hard to argue there has been slippage."

A primary surplus for the second consecutive year is also a signal of structural change within the Government but it is essential that policymakers stay the course, he insisted, even though elections are looming. "If discipline is not maintained, then all bets are off." On the monetary side, Dr. Coomaraswamy pointed out that stakeholders could argue the Central Bank had been conservative with nominal and real interest rates remaining persistently high even though the monetary authority had signalled the tightening cycle was over earlier this year.

However, he stressed that this stance had allowed the economy to grow moderately and protected it from overheating.

"Growth is clearly inadequate. Growth last year was 3.3%, first half of 2018 was 3.6%, and the Central Bank is saying growth will be 4% this year. So while growth is too low, it is on an upward trend, so there is no economic collapse. We need to get growth up. The structural reforms need to be persisted with, but there are signs they are starting to take hold. We had record FDI last year and this year is going to be significantly higher; exports are also going to be a record high in 2018. Things are going in the right direction, certainly not fast enough but there is steady movement up from a low base," he said.

"Macroeconomic indicators could be better, we cannot continue as a twin deficit country – all that is true. But things have been worse and we haven't collapsed. There are no signs of major turbulence and certainly the impending collapse argument is difficult to sustain."

Inflation has remained well within the Central Bank's target range significantly due to lower food prices with locally-produced food becoming more competitive and inflation data coming off a higher base in 2017. September inflation was 4% according to the Census and Statistics Department while credit growth and monetary aggregates have also been contained, Dr. Coomaraswamy noted, insisting there was no basis for assumptions that inflation was rampant.

"The last Treasury Bill rating was 10.44%, having earlier dipped it has gone up recently but in 2000 it was 18.22%, 2007 19.96%, 2008 19.12%, 2012 11.69%. So the economy has had much higher bond yield rates and has not collapsed. While we would like it to be lower, you cannot argue there is massive turbulence.”

Sri Lanka’s current account deficit this year is expected to be 3% of GDP, higher than anticipated because of gold and motor vehicle imports but these have been addressed through tax revisions. The third reason is oil, but oil price is an element the Government has no control over. The Governor however reiterated that current account deficits had been more than double in the past but the economy had sustained.

In an uncharacteristic move, Dr. Coomaraswamy also responded to criticism that mismanagement was placing the banking industry at risk and statements that during the global financial crisis 10 years ago administration of banks was better.

"I’m not sure how much management was necessary because Sri Lankan banks were not exposed to the banks that collapsed or had serious difficulties in 2008 so one did not have to do much to protect the financial system. It is also difficult to argue that there were no problems in the past. The biggest headache has been the legacy of six insolvent finance companies that were passed down to me and nothing was done about that. It’s a major problem. We live in a highly politicised society and regulatory forbearance related to the politicisation of our society and politics had seeped into the Central Bank. We will handle it; we have a game plan and we are quietly working our way through it – but it is a massive challenge.”(Dailyft)

Double win in exports for Piramal Glass Ceylon in FY18

Piramal Glass Ceylon PLC (PGC) were presented with a ‘double win’ for its achievements during 2018 in the export arena.

At the 26th Annual Export awards 2018, conducted by the National Chamber of Exporters of Sri Lanka (NCE), PGC became the Gold award winner in the Extra Large category in Minerals and Mineral-Based Products sector.

At the Presidential Export Awards 2017/18, organised by the Sri Lanka Export Development Board (EDB), PGC also received the award for Highest Foreign Exchange Earner – Ceramics, Porcelain and Glass-Based Products.

PGC has grown rapidly in the export market over the past two years. The company has spread its wings and gained a firm foothold in over 20 countries worldwide with Canada, USA, India, Australia and Myanmar taking the lead. The dominant export categories are the liquor and the food and beverage sectors.

The capacity enhancement done in 2016 with investment in improved technology has facilitated the growth in international markets. PGC, with its state-of-the-art plant at Wagawatte, Horana, has capacity to produce up to 300 MT of glass each day. The investment planned by the company to commission an additional production line will enable the company to ensure close to 100% capacity utilisation.

PGC, whilst supplying the requirements of the domestic customers, plays a major role in the Forex earnings of the country by exporting over 5,000 TEU's worldwide. Some of PGC's major international customers are Diageo, Bacardi, Coca-Cola, and Clearly Canadian.

PGC has been in the business of glass production for over 60 years. PGC sources a major portion of its raw materials locally and does a 70% value addition to its product. PGC pioneered the technology of coloured bottles in Asia, and has thus far developed over 15 shades of glass colours.

With the present slowdown in the domestic market, PGC is focusing more on the export market and is striving to reach more countries worldwide. (Dailyft)

Hemasiri new BOI Chairman

Former People's Bank Chairman and President's Chief of Staff Hemasiri Fernando was yesterday appointed as the new Chairman of the Board of Investment of Sri Lanka (BoI) by President Maithripala Sirisena

Sources confirmed that the new Chairman would take office on Monday (29).

Fernando on Tuesday (23) stepped down from the position of Chief of Staff of the President.

Daily FT learns that BoI's Executive Director – Research and Policy Advocacy Champika Malalgoda will be appointed as the next Director General.

President Sirisena last week dissolved the Board of Directors of the BoI and removed the Director General in a surprise move. The apex investment promotion body had been without a Chairman, Board or Director General for over a week.

Daily FT learns that the remainder of the new Board of Directors will be announced in the next few days.

It is also learnt that plans are underway to reappoint Mangala Yapa and Ajit Gunewardene who were serving the Board before the President dismissed it last week.(Dailyft)

Stocks Rout Hits Asia After U.S. Slide; Yen Gains: Markets Wrap

An equities rout that wiped out this year's gains for U.S. stocks spread to Asia as concerns mounted that corporate profits and economic growth are peaking amid rising borrowing costs. The yen climbed on demand for haven assets, while Treasuries held gains and the dollar nudged lower.

Stock gauges tumbled across the region, pushing the MSCI Asia Pacific Index deeper into a bear market. The S&P 500 Index erased this year's gains following mixed earnings reports from companies such as AT&T and Texas Instruments. The benchmark extended its October rout to almost 9 percent, making it the worst month since February 2009, while the Nasdaq Composite Index fell into a correction. Gold climbed.

"The fear is palpable in stock markets at the moment," Greg McKenna, a markets strategist at McKenna Macro, wrote in a note Thursday. "When folks are struggling to explain the driver of a move that means an obvious circuit breaker is also not in evidence. So this could get much worse before it gets better. Collapses happen after falls. That's the danger."

Sentiment has been tested in October, with stocks poised for their worst month in more than six years as the effects of trade tensions, geopolitics and rising Federal Reserve interest rates begin to bite.

Investors remain apprehensive as a flood of earnings, while mostly stellar, have come with warnings about the future impact of tariffs and rising costs.

Not helping matters Wednesday was underwhelming economic data, particularly on the rate-sensitive housing front with new home sales continuing to slide. Traders also had to deal with reports that potential bombs were sent to two former U.S. presidents and the New York headquarters of CNN.

“A lot of people got in the market in January, thought it was going to be easy money and we’ve had two shakeouts,” Scott Minerd, Guggenheim Partners chairman of investments and global chief investment officer, said on Bloomberg Television. “People are getting nervous.”

Still, Minerd said he was looking for bargains in the recent wipeout: “The fundamentals look great. The whole scenario we talked about in August -- growth in corporate earnings, the benefits of the tax cuts -- it’s all holding up. The big psychological break was when the 10-year note went above 3 percent and all of a sudden it started to wake people up. It doesn’t change my near-term outlook, which is now positive.”
Market Selloff Is More of a Liquidity Shock, Says Credit Suisse's Woods

John Woods at Credit Suisse discusses the market selloff in the U.S. and his outlook for equities.
Source: Bloomberg

A stellar run for profits half way through the U.S. earnings season has done little to calm investors who are beginning to question whether forecasts for next year might be too optimistic.

“Around the world, equity markets in particular are having to get used to the idea of a higher interest rate environment and the possible impact that will have on earnings,” John Woods, Asia-Pacific chief investment officer at Credit Suisse, said on Bloomberg TV.
Elsewhere, European politics remained in focus, with Italian Prime Minister Giuseppe Conte doubling down on his government’s budget proposal and U.K. Prime Minister Theresa May’s cabinet descending into conflict. The pound held losses. Gold gained and oil declined.

Here are some key events coming up this week:

- Earnings season rolls on with notable highlights including Twitter, UBS and Total.
- ECB policy makers could on Thursday confirm that asset purchases will end this year, reiterating its pledge to keep interest rates at record lows through summer 2019. President Mario Draghi will hold a press conference.
- U.S. gross domestic product growth may have slowed in the third quarter, yet remained near its best pace since mid-2015, according to forecasts ahead of Friday’s release.

These are the main moves in markets:
Stocks

- Japan’s Topix index tumbled 2.4 percent and the Nikkei 225 Stock Average slumped 2.9 percent as of 12:42 p.m. in Tokyo.
- Australia’s S&P/ASX 200 Index fell 2.2 percent.
- South Korea’s Kospi index slid 2.1 percent.
- Hong Kong Hang Seng Index declined lost 1.8 percent.
- Shanghai Composite Index was down 1.4 percent.
- S&P 500 futures rose 0.3 percent. The S&P 500 dropped 3.1 percent, while the Nasdaq Composite Index tumbled 4.4 percent.

- The MSCI Asia Pacific Index slid 1.7 percent, taking its drop from a January peak to more than 20 percent.

Currencies

- The yen rose 0.1 percent to 112.12 per dollar.
- The offshore yuan was steady at 6.9490 per dollar.
- The Bloomberg Dollar Spot Index lost 0.1 percent after ending Wednesday 0.4 percent stronger and reaching the highest level of the year.
- The euro traded at $1.1411, up 0.2 percent.

Bonds

- The yield on 10-year Treasuries ticked higher to 3.11 percent. It dropped seven basis points Wednesday.
- Australia's 10-year bond yield declined four basis points to 2.62 percent.

Commodities

- West Texas Intermediate crude dropped 0.7 percent to $66.34 a barrel.
- Gold rose 0.3 percent to $1,237.41 an ounce.

(Bloomberg)