NEWS ROUND UP

Wednesday,September 26th, 2018

Contents

Sri Lanka stocks end 1.21-pct lower, rupee lower

Sri Lanka stocks closed sharply lower Tuesday down 1.21 percent despite low volumes on selling in index heavy stocks like Ceylon Tobacco, Hemas Holdings and Sri Lanka Telecom, as gilt yields edged higher and the rupee weakened against the US dollar, brokers and dealers said.

The spot US dollar closed at around 168.85/169.05 levels, market participants said.

Colombo's All Share index closed 1.21 percent lower, down 71.32 points to 5,833.58, and the S&P SL20 of more liquid stocks was 1.24 percent lower, down 37.47 points to 2,979.29.

Volume was low on dull investor sentiment, brokers said.

Equities have declined 8.41 percent so far in 2018.

Market turnover was 297.56 million rupees on 136 stocks declining during the day against 20 that gained.

Ceylon Tobacco (down 20 rupees to 1,355 rupees), Hemas Holdings (down 3.80 rupees to 85.30 rupees) and Sri Lanka Telecom (down 1.20 rupees to 20 rupees) contributed to the benchmark index decline.

John Keells Holdings closed 1.40 rupees at 128.10 rupees and Colombo Leasing and Finance was down 30 cents to 2.50 rupees.

There was a single crossing, or off-market negotiated trade, in Sampath Bank for 35.7 million rupees. The stock closed 1.60 rupees lower at 237 rupees.

Net foreign selling was 60.9 million rupees, down from selling of 359.9 million rupees the previous day.

Foreign selling in Sampath Bank was 41 million rupees, followed by 20 million rupees in John Keells Holdings.

The Sri Lanka rupee closed weaker at 168.85/169.05 rupees against the US dollar in the spot market Tuesday. The US dollar closed Friday at 168.30/70 rupees.

During the day, the Central Bank injected 59 billion rupees into the banking system through term reverse repo auctions to clear a liquidity shortfall amid currency pressure, market participants said.

Gilt yields edged higher in the secondary market for government securities amidst low volumes, dealers said.

A five-year bond maturing in 2023 closed at 10.65/70percent, up from the previous day's closing of 10.58/65 percent.

A seven-year bond maturing in 2025 ended at 10.73/85 percent, edging higher from 10.70/80 percent the previous close.

A ten-year bond maturing in 2028 closed at 10.75/11.00 percent, up from percent the previous close.(EconomyNext)

Sri Lanka injects Rs75bn to sterilize cash short

Sri Lanka has injected 75 billion rupees through a overnight and 7-day term reverse repo auction to sterilize a liquidity shortage that has cropped up amid pressure on a rupee soft-peg with the US dollar.

The central bank injected 30 billion rupees for 7-days through an open market auction, at a weighted average yield of up to 8.17 percent.

The central bank has an overnight liquidity facility rate of 8.50 percent could inject 7-day money at a higher rate closer to the Sri Lanka Interbank Offered Rate to help protect the rupee, economic analysts say.

Another 39.16 billion rupees were injected overnight at a weighted average rate of 8.10 percent with the lowest bid accepted at 7.95 percent, 55 basis points below the ceiling policy rate.

Banks borrowed 16.49 billion rupees from the 8.50 window and cash plus lenders deposited 1.57 billion rupees in the 7.25 excess cash window.

The central bank has now kept money markets short for 6 straight days of prudent policy which tends to support the rupee when a float is made. Until September 14, money markets were excess, which tends to push the currency down in the case of a float.

Analysts say keeping the market short overnight for around 30 billion rupees will help any float take hold faster.

In July the central bank pegging actively buying dollars and injecting cash from a swap in the style of a peg. However it failed to guide the peg in the wake of unsterilized purchases with unsterilized sales when excess liquidity jumped to over 50 billion rupees overnight in July and August.

The spot US dollar closed at 168.85/169.05 levels Tuesday amid interventions.

The current liquidity shortage coincided with a legacy 2013 swap that matured, as well as interventions, which now being sterilized through overnight term reverse repo auctions. A float will help end interventions. (EconomyNext)

Sri Lanka gilt dealers cut off from cash auctions

Sri Lanka's non-bank primary dealers have been cut - off from open market auctions of cash of central bank that injects or takes away money from the credit system, market participants said.

Open market auctions are conducted earlier in the day and dealers able to get funds to buy more bonds even in case they cannot find client money to participate in the auctions.

However the central banks informed dealers last month that they would lose access to the facility from September 25.

Sri Lanka's money markets are facing unprecedented cash shortages this week.

Gilt dealers will still be able to access the intra-day liquidity facilities and the overnight window that opens late in the day.

Sri Lanka's non-bank primary dealers in government securities have been facing difficulties in the repo market after a so-called bondscam and a fraud at Entrust Securities shocked the market generating risk-averse behavior.

In the repo market, there is now a reluctance to advance cash against longer term bonds, even with a greater haircut, making it less easy than in the past for non-bank dealers to get access to funds.

Non-bank dealers are among the most active in bonds markets and provide liquidity and greater price transparency by providing a more activity in the secondary market.

While using open market auction money for bonds is not a good for a strong currency, the effect is the same whether a bank or non-bank dealer engages in the practice, analysts say.

Sri Lanka recently also has a coercive bond sale system. There are fears that lack of access to the auction, may increase the likelihood of a primary dealer failure if they are unable to finance coercive bonds dumped on them. (EconomyNext)

Suzuki small cars dominate Sri Lanka August vehicle registrations

Suzuki small cars continued to dominate new and pre-owned vehicle registrations in Sri Lanka in August as well as hybrids, an analysis by an equities research house shows.

In the brand-new segment, August recorded 890 units, marginally down from 904 units the previous month and 1,183 units 12 months ago.Small cars below 1,000 cc accounted for 93.4%

of total volumes, it said.

“Maruti/Suzuki continued to be the market leader accounting for 465 units – 255 Wagon Rs, 150 Altos and 60 Celerio models,” the report said.

Financing’s share was 54.6%, slightly down from 55.2% the previous month.

“Preowned cars recorded 6,112 units in August, marginally down from 6,258 units in July but almost 200% up from 12 months ago,”

Small cars accounted for 89.4% of total volumes – 5,466 units.

“Suzuki accounted for the bulk of small cars, recording 3,726 units,” JB Securities said.

The report said 650cc Suzuki models accounted for 3,486 units comprising mainly Wagon R followed by Spacia.

Next came Toyota with 1,493 units of which 1,000 cc models accounted for 1,020 units, mainly Vitz.

Financing’s share was 55.5% in line with the previous month. (EconomyNext)

Argentina on strike as central bank chief resigns amid IMF talks

Argentina was paralyzed by a general strike on Tuesday while the central bank chief resigned amid talks with the International Monetary Fund on a revised crisis loan package.

As president Mauricio Macri negotiated accelerated funding from a $50 billion loan agreed with the IMF in June, the country's beleaguered currency was hit by the news that Luis Caputo had been replaced by Guido Sandleris as central bank chief.

The peso almost immediately slumped 2.2 percent against the dollar.

The IMF seemed to approve of the change, spokesman Gerry Rice expressing the desire to continue its "close and constructive relationship" with Argentina's central bank.

Later, IMF chief Christine Lagarde said a deal with Argentina was "close to the finish line" after a "very good meeting" with Macri on the sidelines of the UN General Assembly in New York.

His center-right government burned through an initial $15 billion tranche of the loan in June to prop up the beleaguered peso, with a further $3 billion due in November and the rest over the next three years.

Argentines protested the loss of purchasing power brought on by the peso losing around 50 percent of its value against the dollar this year.

Many shops, banks and public offices were closed with public transport and taxis at a standstill.

Following Monday's mass demonstration organized by trade unions, left-wing demonstrators faced off against security forces near a key Buenos Aires bridge on Tuesday, but streets in the capital were mostly deserted with many people unable to get to work.

Airports were also deserted with all flights in and out of the country cancelled.

- 'IMF disagreement' -

The central bank stated in the morning that Caputo had resigned for "personal reasons," with the conviction that a "new agreement with the International Monetary Fund will restore confidence in the fiscal, financial, monetary and exchange situation."

Some analysts said there were already rumors on Friday that he would resign due to "a disagreement with the IMF over monetary policy," according to Argentine economist Gabriel Rubinstein.

Formerly chief of trading at JP Morgan and Deutsche Bank, Caputo is close to the center-right Macri and was finance minister before he was appointed president of the central bank in June.

Gabriel Torres, Moody's chief sovereign risk analyst for Argentina, said Caputo's shock departure "will increase near-term currency volatility" and reducing volatility would depend on the final terms of the revised IMF agreement.

Economist Fausto Spotorno said Caputo was never seen as a long-term fixture, though, and that "the government's priority is an agreement with the IMF."

"I don't know if the IMF requested he leave or if Caputo preferred to resign rather than take a different path to the one he was advising," said Management and Fit Institute chief economist Matias Carugati.

"But his departure is linked to the new IMF deal."

His replacement, Sandleris, is an economist who worked previously for the World Bank and the Inter-American Development Bank. He was deputy finance minister before being named central bank president.

Sandleris was given a glowing reference by Finance Minister Nicolas Dujovne, who called him "a brilliant person" with whom Argentina would "start to win the battle with inflation."

Inflation is expected to hit 40 percent by the end of the year while the economy is predicted to shrink by 2.0 percent.

- Crisis of confidence -

A crisis of confidence beginning in April saw the value of the peso plunge, with Argentina negotiating its $50 billion bailout loan from the IMF.

But that failed to prop up the currency and Macri announced in August he would be seeking an accelerated disbursement of the remainder of the funds that were initially due to be transferred over a three-year period.

That sparked two days of damaging drops in the value of the peso, which lost 20 percent against the dollar.

Macri responded by announcing new, and unpopular, austerity measures, including halving the number of government ministries and restoring taxes on grain exports.

The central bank hiked interest rates to a world-high 60 percent and the peso has remained largely stable since its sudden crash in August.

But restoring faith in the peso has proved difficult, with skeptical Argentines believed to be holding $300 billion outside of the country's fiscal circuit, either in cash or abroad, in a bid to protect their assets from the peso's woes. (AFP)

Just showing up is no longer enough for global brands to win in China

Western brands are having to work harder to win over customers in China.

Where American or European companies could once expect to find an enormous market hungry for their products, changing tastes and the challenge from new Chinese rivals are forcing them to adopt new strategies to succeed in the world's second biggest economy.

The sterner challenge facing big names such as Starbucks (SBUX) and Apple (AAPL) has nothing to do with the trade war. At least, not yet. It's about new competition and increased wealth.

"It doesn't work to just show up anymore," said Benjamin Cavender, a Shanghai-based analyst at consulting firm China Market Research Group, referring to brands that are household names in the West. "Chinese consumer tastes are evolving rapidly."

Coca-Cola (CCE) is one of the top companies that's having to adapt to this new reality.

"We've seen a tremendous change in the consumption patterns," Curtis Ferguson, the company's China CEO, told CNN at last week's World Economic Forum in the Chinese city of Tianjin.

Coke has launched more than 30 new drink brands in China in the past six months and now has about 275 in total, Ferguson said. They range from regular Coke to more exotic varieties with flavorings like yellow bean and apple fiber. Coke even has its own line of teas in China.

That's a big change from the Atlanta-based company's previous approach of relying on the strength of its brand.

The philosophy was "let them drink Coke," Ferguson said. He argued Western companies can't afford to treat their brands as sacrosanct.

"Either you destroy your own brand in China, or someone else is going to do it for you," he said.

Starbucks scrambles to keep up

Starbucks learned the difficulties of shifting Chinese consumer habits the hard way.

The coffee chain has about 3,000 stores in the country, making it one of its top markets. But in June, the company reported a sudden slowdown in growth in China, just weeks after it had announced plans for rapid expansion there.

That's partly because it faces growing competition from an upstart local competitor. Luckin Coffee opened its first store in China less than a year ago. Now it has more than 500. Many of its customers order coffees online for delivery or takeout. Chinese consumers are also increasingly turning to delivery apps, like Meituan Dianping, for food or drinks.

"Starbucks has always been slow adopting technology in China," Cavender said. Its customers "were tired of waiting in line to place orders."

The global coffee giant is now trying to correct course. In August, it teamed up with Alibaba(BABA), China's largest e-commerce company, to launch delivery services.

Automakers face 'big challenge'

Global carmakers are also scrambling to keep pace with changes in China's auto market, the world's biggest. It's being shaken up by the rapid spread of electric vehicles, which have been promoted through government subsidies, resulting in a crowded market.

Francois Provost, Asia-Pacific chairman of Renault (RNLSY), said the French carmaker is now fighting competition from both traditional rivals and new upstarts in China. Local player Nio (NIO), for example, sells an SUV in China that costs about half the price of Tesla's (TSLA) Model X.

Sticker price is crucial in China, Provost said, as most customers are first-time buyers. But drivers are also demanding electric vehicles with longer battery life as networks of charging stations are still being built out across the country.

"The big challenge is increasing the efficiency of the range and reducing user costs at the same time," Provost said during a panel discussion at the World Economic Forum. That will be tough for automakers, he predicts: "I can't honestly say we have full visibility on this."

Apple's losing the innovation race

Apple (AAPL) has lost market share in China to local rivals over the past two years. The iPhone accounts for less than 10% of smartphone sales in the country, analysts estimate. In the United States, it accounts for about 40%.

Apple is facing fierce competition from Chinese players such as Huawei, Oppo, Vivo and Xiaomi.

"In recent years, Apple has slid quite a lot in the Chinese market," said Canalys researcher Mo Jia. "The very aggressive tech innovation from Chinese brands is changing the high-end landscape."

The US company's latest models, the XS and XS Max, include features that could boost their appeal in the Chinese market, like dual SIM cards and a larger screen. But analysts are skeptical these will make much difference.

"Apple is fighting a bit of a losing battle," Cavender said. (CNN)