NEWS ROUND UP

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Costly burns via LPG

Considering the rising world market prices and rupee depreciation, Litro Gas Lanka Ltd. yesterday said it would increase the price of a 12.5kg domestic LP gas cylinder by Rs. 195 from today.

In addition, prices of the 5kg domestic LP gas cylinder will also be increased by Rs. 78 and 2.3kg by Rs. 36.

Accordingly, the current price of the 12.5kg domestic cylinder, which was at Rs. 1,538, will go up to Rs. 1,733, while the price of the 5kg domestic LP gas cylinder of Rs. 615 will be increased to Rs. 693. The 2.3kg cylinder of Rs. 283 will go up to Rs. 319. However, the prices will vary according to different districts.

"Based on price applications submitted by both gas companies were passed by the Cabinet. The determination of the price was assigned to the Cost of Living Committee. Considering the rising world market prices and rupee depreciation, we sought for a Rs. 342 hike in prices, but the Consumer Affairs Authority (CAA) only approved a Rs. 195 increase yesterday," Litro Gas Lanka Ltd. Director – Sales, Marketing and Corporate Affairs Chaminda Ediriwickrama told Daily FT.

He said this price increase was possible after continuous lobbying to the Authority since June. Noting that the world market prices are exogenous factors which cannot be controlled by countries, Ediriwickrama however predicted this upward trend in cost would continue till early next year.

He also clarified that this price increase had nothing to do with the appeal made by the LP Gas Distributors Association of Sri Lanka (LPGDASL) yesterday in Colombo.

"The demand made by LPGDASL to increase the 12% channel margin has not been included to the Rs. 195 increase in 12.5kg domestic LP gas cylinder. It has nothing to do with this price hike," he assured.

Meanwhile, LPGDASL President Sathyendra Wijayapura claimed that despite the Government increasing the price of the 12.5kg LP gas cylinder by Rs. 195 yesterday, the distributors or dealers have not received any tangible benefit from the price adjustments.

"The Company has not considered giving a cent to the distributors' from the Rs. 195 price hike announced yesterday, which could have cushioned our burden to some extent," he added.

Acknowledging that there was no co-relation to the price hike and their media briefing yesterday, Wijayapura lamented that now the distributors were in a greater dilemma with having to find additional funds at a time when banks are refusing to provide loans to obtain adequate supply of LP gas cylinders.

He said the Association is planning to meet the hierarchy of Litro Gas Lanka Ltd., soon.

Pointing out that the Company increased prices while putting the entire burden on the consumer, he said they will do the same with another price hike, claiming it is for the distributors, considering only their survival.

In 2015, following the drastic price revisions, Litro Gas Lanka was informed by the distributors that the delivery would collapse with eroded margins. Litro Gas granted an additional cushioning to the margin by 2.56% (Rs. 36for distributors and dealers) and added a maximum of Rs. 142.15 to the channel. However, there had been so many price changes that followed but the margin has been the same, he pointed out.

According to him, Litro sells 1.65 million LP gas cylinders a month, generating a revenue of Rs. 321 million monthly. Its contribution in terms of dividends to the national economy is Rs. 5 billion per annum.

“Our primary effort is to make the decision makers aware of the consequences and avoid the collapse of distribution, and all these related unnecessary inconveniences to the general public,” Wijayapura emphasised.

The regulation of gas business is under the CAA. The CAA signed an agreement on the prices in 2007 with then Shell and continued with Litro after the takeover. The same year, a pricing formula was introduced. Since then, there had been 36 price changes up to now. (Daily FT)

President urges int’l community to look at Sri Lanka with a fresh perspective

President Maithripala Sirisena called upon the international community to look at Sri Lanka with a fresh perspective and consider the tremendous progress made by the Government towards reconciliation, restoration of democratic freedoms, human rights and the rule of law and extend the fullest support to the build a progressive, democratic, free and equal society.

Addressing the 73rd Session of the United Nations General Assembly in New York on 25 September (26 morning SL time), he said Sri Lanka was taking action to consolidate peace and forge ahead to develop the economy, and such a nation deserves the support and understanding of the international community. “I urge the international community to allow Sri Lankan people to solve their problems on their own,” he said.

“As an independent country we do not want any foreign power to exert influence on us. We want to appeal to the international community to give us the room to resolve the problems that we are facing so that the right of the Sri Lankan people to find solutions to their problems is respected,” he said.

The President said that the Government was working to eliminate fear and suspicion among different communities.

Quoting from the Buddha’s preaching in the Sallasutta of Samyuktha Nikaye in Thripitaka, he said: “If a man is pierced with a dart, he will suffer physical pain. When he worries about it, he suffers more pain. Hence, there are two kinds of pains suffered by the man. When it comes to Sri Lanka, it is the people who suffered pain due to war and they continue to feel pain when they think about it. Therefore, I take this opportunity to call upon your support and cooperation.”

The President pointed out that the exodus of refugees was a major issue in international politics and urged the United Nations to play a bigger role because of the paramount importance of the issue.

“Sri Lanka is following a non-aligned policy. In fact, Sri Lanka hosted the Non-Aligned Summit in 1976 and it was the most successful summit. Sri Lanka has a policy of friendship with all and the country does not have any enemy nation in the world,” he said.

President Sirisena said that Sri Lanka’s executive president had been vested with more powers than any other leader in the world and he had curtailed those excessive powers of the executive presidency and transferred those powers to the Parliament.

President Sirisena emphasised on the need to eradicate poverty. At present, the whole world is engaged in an attempt to free itself from poverty and he said the United Nations must play a bigger role in the endeavour.

“I must mention that, today, the whole world is facing challenges posed by severe changes in climate. I would like to propose that the community of nations must focus on implementing the Paris Accord that the world reached in 2015, by further improving the unity that we reached by signing that accord. We must remember that the Paris Accord is critically important to the future of the entire biosphere and humanity,” he said.

The President categorically stated that the Government was committed to work tirelessly to achieve reconciliation by fostering understanding among all ethnic and linguistic groups, while eliminating mutual suspicion and hatred in order to create a society where all can live freely and harmoniously.

“Further, we are dedicated to ensure that the country will accomplish economic prosperity. Specially, my Government is committed to the creating a fair and just society by strengthening the rule of law,” he said.

He said that during the last three-and-a-half years, the Government had taken several important steps that were necessary to consolidate democracy, freedom, good governance, media freedom and independence of the Judiciary. “Through such transformative steps, we have laid the foundation necessary to forge national reconciliation, communal harmony and ensure non-recurrence of conflict in our country,” he said.

“As a country that has suffered violent conflict for 30 years, we are drawing from experience and lessons learned to strengthen national reconciliation, and we are determined to prevent the recurrence of conflict. We have given priority in this context to consolidate freedom and democracy in our country, and through a strong foundation of national reconciliation forged through unity and friendship among communities.”

President Sirisena pointed out that the most ruthless terrorists were defeated by the armed forces and the nation honoured the valiant soldiers who made many sacrifices to bring peace to the country and safeguarded the unity and sovereignty of the nation with utmost commitment.

He emphasised that the vision of the Government was to ensure sustained economic development through the increase of domestic agriculture and industry under an environment friendly policies and programs. He emphasised on the imperative need to adhere to the Paris Protocol on Climate Change for the sake of the future of human beings as well as flora and fauna.

“Sir Lanka has always been a country that has respected its treaties and conventions, agreements and rules and regulations of the United Nations. As such, in our country’s journey where we protect our independence and sovereignty, we respectfully request the support of the international community for us to go on a moderate but steady path to achieve our targets in order to find sustainable solutions to the allegations leveled against us,” the President said.

President Sirisena called on the world leaders to take a collective action for eradication of narcotic drugs and illegal pharmaceuticals. He said he wanted to draw the attention of the respected General Assembly of the United Nations to the problem of drugs that poses a serious threat to human society and asked the world body to play a bigger role in eliminating drugs.

The President said that in the international politics, the issue of Palestine was very important and reiterated Sri Lanka’s support to the people of Palestine. (Daily FT)

Rupee hits fresh low; CB intervention caps fall

The Sri Lankan rupee hit a fresh low of 169.05 on Wednesday on importer dollar demand, while intervention by the central bank limited the fall, market sources said.

Sri Lanka's Finance Minister urged its people to buy local products and shun unnecessary imports in order to reduce the trade deficit and help stabilise a weak rupee, a day after Prime Minister Ranil Wickramasinghe said the Government would take measures to impose taxes to curb imports by up to $1 billion to face the currency crisis.

The rupee fell to an all-time low of 169.05 per dollar on Wednesday, surpassing its previous low of 169.00 hit on Friday. It closed at 169.00/169.20 per dollar, compared with Tuesday's close of 168.90/169.00.

The Central Bank will intervene aggressively to curb excess volatility in the exchange rate, Senior Deputy Governor Nandalal Weerasinghe had told Reuters on Friday.

Exporters expect the rupee to be under pressure due to continued importer dollar demand.

The rupee has weakened 4.6% so far this month after a 1.2% drop last month, and is down 10% so far this year.

The dollar rose modestly on Wednesday before a widely anticipated Federal Reserve interest rate hike priced in by investors still on edge about a trade row between the United States and China.

Dollar buying by foreign banks to facilitate bond outflows and importer demand weighed on the currency, but the Central Bank's intervention prevented a sharp fall in the currency, sources said.

The rupee will be under pressure due to year-end seasonal dollar demand from importers, dealers have said earlier.

The currency has also been hurt by recent weakness in the Indian rupee. India is Sri Lanka's biggest trading partner and the Indian rupee, which hit a record low on 18 September, is Asia's worst performing currency this year.

Foreign investors sold government securities worth a net Rs. 8.8 billion ($52.19 million) in the week ended 19 September, its highest weekly outflow since the week ended 6 December 2017. Sri Lanka has suffered a net outflow of Rs. 63.7 billion in securities so far this year, Central Bank data showed. (Daily FT)

CSE falls to near 5-year closing low on foreign selling

Shares fell over 1% yesterday to their lowest close in nearly five years, as foreign investor selling, a weaker rupee and government plans to curb imports hurt investor sentiment.

Prime Minister Ranil Wickremesinghe said on Monday the government would take measures to impose taxes to curb imports by $ 500 million to $ 1 billion to face the currency crisis. The rupee hit a record low for an eighth straight session on Friday despite the central bank's intervention. It fell to an all-time low of 169.00 per dollar on Friday, weighed down by importer demand for the scarce US currency.

The rupee has weakened 4.5% so far this month after a 1.2% drop last month, and has declined 9.97% so far this year.

Analysts said the acceleration in the rupee's depreciation was creating panic among investors.

The Colombo stock index declined 1.21% to 5,833.58 on Tuesday, its lowest close since 18 December 2013. This was also the sharpest single-day drop since late November 2017.

"It's another disastrous day, lots of exits happened. It's mainly because of panic selling, that's why the market came down sharply in lower turnover," said Dimantha Mathew, head of research at broker First Capital Holdings.

Turnover was Rs. 297.6 million ($ 1.77 million), the lowest since 6 September, and less than half of this year's daily average of Rs. 793.5 million.

Foreign investors sold a net Rs. 60.9 million worth of shares on Tuesday, extending the year-to-date net foreign outflow to Rs. 5.6 billion worth of equities.

Analysts said the recent fuel price hike also hurt investor confidence as it could hit corporate earnings. Fuel retailers raised gasoline and diesel prices earlier this month for a third time in four months due to higher global oil prices and a weaker rupee.

Investors are awaiting cues from the national budget in November.

Shares of Ceylon Tobacco Company Plc fell 1.5%, Hemas Holdings Plc lost 4.3%, Sri Lanka Telecom Plc ended 5.7% down and conglomerate John Keells Holdings Plc closed 1.1% lower. (Daily FT)

CSE recovers from near 5-year closing low on bargain-hunting

Shares recovered from their lowest close in nearly five years hit in the previous session and ended about 1% higher yesterday as investors picked up battered stocks.

The benchmark index hit a near five-year low on Tuesday on foreign selling amid a weaker rupee and Government plans to curb imports hurt investor sentiment.

The Colombo stock index rose 0.92% to 5,887.52, pulling away from its lowest close since 18 December 2013 hit on Tuesday.

"Market bounced back with buying in heavyweights like John Keells which came down over the last few days," said Softlogic Stockbrokers Deputy CEO Hussain Gani.

"We have seen some investors picking up value shares, but most of the investors are still waiting to see if the rupee is stabilising and the economic impact of rupee's fall."

Prime Minister Ranil Wickramasinghe said on Monday the Government would take measures to impose taxes to curb imports by $ 500 million to $ 1 billion to face the currency crisis.

Sri Lanka's Finance Minister urged its people to buy local products and shun unnecessary imports in order to reduce the trade deficit and help stabilise the currency that revisited its all-time low on Wednesday.

The rupee has weakened 4.6% so far this month after a 1.2% drop last month, and has declined 10% so far this year.

Analysts said the acceleration in the rupee's depreciation was creating panic among investors.

Turnover was Rs. 318.5 million ($ 1.89 million), less than half of this year's daily average of Rs. 790.8 million.

Foreign investors sold a net Rs. 49.6 million worth of shares on Wednesday, extending the year-to-date net foreign outflow to Rs. 5.7 billion worth of equities.

Analysts said the recent fuel price hike also hurt investor confidence as it could hit corporate earnings. Fuel retailers raised gasoline and diesel prices earlier this month for a third time in four months due to higher global oil prices and a weaker rupee.

Investors are awaiting cues from the National Budget in November.

Shares of conglomerate John Keells Holdings PLC rose 3.8% while Sri Lanka Telecom PLC jumped 6.5%, and Commercial Leasing and Finance Company PLC closed 8.0% firmer. (Daily FT)

Sri Lanka rupee marginally lower, rates move up providing support

Sri Lanka rupee closed marginally lower around 168.90/160.20 to the US dollar Wednesday dealers said amid intervention, but market interest rates moved up, providing support to the rupee soft-peg with greenback.

Deals were done around 169.05 to the US dollar Wednesday, market participants said. On Tuesdy the rupee closed almostt around the same level at 168.85/169.05 to the dollar.

The central bank injected 25 billion rupees for 7 days at rates as low as 8.17 percent, at a weighted average yield of 8.20 percent which is 30 basis points below the ceiling policy rate.

The maximum rate touched the 8.50 percent overnight window rate, up from 8.26 a day earlier.

OMO money is much more useful for a bank as it comes shortly after noon, while the window opens for a short time just before markets close.

Another 25 billion rupees were injected overnight at rates as low as 8.05 percent, up to 7.95 percent a day earlier. A 9.2 billion term reverse repo deal matured on Wednesday.

The maximum rate at the auction moved up to 8.30 percent from 8.15 percent and the weighted average yield rose to 8.13 percent from 8.10 percent.

Banks also borrowed another 9.48 billion rupees overnight from the 8.50 window down from 16.49 billion rupees a day earlier.

Interventions widen a liquidity shortfall, requiring sterilization with new money. Sterilized forex sales never end generating continuous falls of reserves. A float can break the cycle.

However, when rates also rise, credit slows and the pressure to intervene and inject more money reduces. When interest rates move up, sterilization of forex sales is less than 100 percent.

In the overnight gilt backed repo market, the weighted average rate rose to 8.19 percent up from 8.08 percent a day earlier.

The maximum rate rose to 8.45 percent from 8.15 percent a day earlier. There were expectations that the repo market would rise, after primary dealers were cut off from the open market auctions on September 25.

But in the interbank call money market, where un-backed money is traded, the weighted average yield moved up to 8.29 percent, up from 8.09 percent a day earlier.

The highest rate moved to 8.40 percent from 8.25 percent.

Meanwhile the 3-month bill yield also rose 49 basis points to 8.56 percent, which is still only 6 basis points above the ceiling repo rate.

Analysts say the rupee came under pressure after the central bank failed to sterilize up to 50 billion rupees of excess liquidity it had created from dollar purchases or swaps and failed in engage in unsterilized defence when the new rupees turned into imports.

Sri Lanka claims to operate a 'flexible exchange rate' but the analysts say it is a dangerously inconsistent peg (Sri Lanka is recovering, Central Bank threat looms: Bellwether) which only goes down whenever the economy recovers.

Several measures have been proposed to reform the peg, to stop cost of living being the biggest issue in the country and general political instability.

Several measures have been proposed to reform the peg, to stop cost of living being the biggest issue in the country and general political instability. (What Sri Lanka can do to improve the credibility of its dollar soft peg)

Analysts had also warned that with the soft-peg had to be reformed or abolished outright for free trade to take place. (Sri Lanka's central bank has to be restrained for free trade to succeed)

Already trading in gold and car imports have been controlled during the start of the current reocvery, in Nixon-shock style actions.

In the 1970s Sri Lanka closed the entire economy as the Bretton Woods system of soft-pegs collapsed while the Fed tried to close an 'output gap' by printing money. (Economy Next)

US Fed raises benchmark interest rate to 2.25-pct

With the US economy still strong, the Federal Reserve raised the benchmark interest rate on Wednesday for the third time this year but showed no indication it would be more aggressive in efforts to head off inflation.

However, Fed Chairman Jerome Powell cautioned trade tensions remained a risk to the outlook, including the potential for rising prices, although he indicated it was too soon to tell what impact it this have on the economy.

On the brighter side, Powell said he did not see any "troubling" vulnerabilities in financial markets, even with stocks near their historic highs in some cases.

In a widely anticipated decision, the central bank boosted the lending rate to a range of 2.0 percent to 2.25 percent, a quarter-point increase in the target range.

Shortly after the announcement, President Donald Trump once again criticized the Fed for raising rates.

"Unfortunately, they just raised interest rates a little because we are doing so well. I'm not happy about that," Trump said at a press conference on the sidelines of the UN General Assembly.

"I would rather pay down debt or do other things," he added. "So I'm worried about the fact that they seem to like raising interest rates."

Asked earlier about Trump's previous criticism of Fed rate hikes which he said could undermine the booming economy, Powell said the central bank did not take "political factors" into consideration.

The Fed members "try to set monetary policy to achieve maximum employment in a complex of price stability.... We don't consider political factors or things like that," Powell told reporters.

- Chorus of concerns -

And more moves are on the way with no hint of a pause, although the Fed did not give any sign it was about to become more hawkish and raise rates at a faster pace, as some analysts had suggested.

The Fed once again said "further gradual increases" would allow continued expansion of the economy while keeping inflation around the Fed's two percent target.

Powell said the gradual pace was helping to support the continued economic expansion, even as the benefits have not reached all Americans.

"Many of our country's economic challenges are beyond the scope of the Fed but my colleagues and I are doing all we can to keep the economy strong, healthy, and moving forward," Powell said at a news conference following the announcement.

The statement on the unanimous decision no longer describes the interest rate level as "accommodative," but Powell stressed that that was not an indication of a change "in the path of policy."

The Fed has now raised the key rate eight times since late 2015, with one more expected in the final meeting of the year in December.

The central bank's decision comes amid worsening global trade tensions as President Donald Trump has doubled down on his confrontational stance, with steep tariffs on hundreds of billions of dollars in goods.

Powell said the Fed was hearing a "rising chorus" of concerns from businesses around the country about uncertainty and rising costs.

US companies worry about "disruption of supply chains, materials, cost increases, and loss of markets and things like that."

The Fed's concern is that that could lead to the "loss of business confidence and that can reduce investment."

"It's a risk. You could see prices moving up. We don't see it yet but you could see retail prices moving up," he said.

Wall Street did not appear terribly happy about the Fed decision, and after an initial uptick the three major stock indexes finished the day lower, although such moves are not unusual on the day of an interest rate move.

- Less hawkish -

In their quarterly forecast, the central bankers did not signal that they would have to act more aggressively to constrain prices.

The median forecast continues to expect the federal funds rate to end the year at 2.4 percent, implying one more rate hike this year, and rising to 3.1 percent in 2019, which indicates three more moves.

"The message...was far less hawkish than the worst case in Wall Street forecasts," Chris Low, of FTN Financial, said in a research note.

However, the range of forecasts was spread widely with an equal number of central bankers expecting two, three or four increases in 2019.

Jim O'Sullivan of High-Frequency Economics said his team continued to expect four hikes next year.

"The dropping of the 'accommodative' reference could be viewed as dovish, but there is no hint of a pause," he said, and the updated projections are "consistent with policy becoming at least modestly restrictive in order to nudge the unemployment rate back up a little." (Economy Next)