NEWS ROUND UP

Thursday, December 27, 2018

Contents

Rupee hits record low on foreign outflows

The Sri Lankan rupee fell to a record low on Wednesday due to continued outflows of foreign funds, mainly from Government bonds, as political uncertainty dented investor sentiment.

The rupee hit an all-time low of 181.85 to the dollar in early trade, surpassing its previous record of 181.67 marked in the previous session. It has weakened about 4.8% since Sri Lanka's political crisis began on 26 October, and lost 18.4% so far this year.

The rupee ended at 181.80/182.00 per dollar, compared with 181.50/70 in the previous session.

President Maithripala Sirisena appointed a 30-member Cabinet last week after he was forced to reinstate Ranil Wickremesinghe as Prime Minister, 51 days after he was sacked.

The political crisis was expected to ease, though uneasy relations between the two men could cause fiscal problems, analysts have said.

Parliament approved Rs. 1.77 trillion ($9.39 billion) to meet four months of expenditures and avert a Government shutdown from 1 January.

The Colombo stock index ended 0.09% weaker at 6,019.62 on Wednesday. Turnover was Rs. 670.9 million, below this year's daily average of Rs. 840 million.

Foreigners were net buyers of Rs. 344.7 million ($1.9 million) of stocks on Wednesday. They have been net sellers of Rs. 13.3 billion since the political crisis began.

The bond market saw outflows of about Rs. 56.7 billion between 25 October and 19 December, Central Bank data showed.

Five-year Government bond yields have risen 25 basis points since the political crisis began.

Credit agencies Fitch and S&P downgraded Sri Lanka's sovereign rating in early December, citing refinancing risks and an uncertain policy outlook.
(Dailyft)

Oil rises to $51 after steep slide; growth fears weigh

Oil edged up to $51 a barrel on Wednesday after reaching its lowest since June 2017, on perceptions that a price slide prompted by worries over the global economy had been overdone amid an OPEC-led effort to tighten supply.

Crude has been caught up in wider financial market weakness as the US government shutdown, higher US interest rates and the US-China trade dispute unnerved investors and exacerbated worries over global growth.

Brent crude LCOc1, the global benchmark, was up 43 cents at $50.90 at 0949 GMT. It earlier fell to $49.93, the lowest since July 2017, and posted a 6.2% slide in the previous session.

US crude CLc1 was up 74 cents at $43.27.

"I think there is a little bit of over-extension to the downside linked to global market fears," said Olivier Jakob, analyst at Petromatrix. "It's all about equities. OPEC has shown it wants a higher prices and is working towards that goal."

Trade was thin due to the Christmas holidays. Asian stock markets retreated again on Wednesday. Markets in Britain, Germany and France will remain closed on Wednesday.

While economic worries have weighed, the outlook is not as weak as in 2016 when a supply glut built up, because the Organization of the Petroleum Exporting Countries this time is trying to prop up the market, Jakob said.

Concerned that a new glut could form, OPEC and its allies including Russia decided earlier this month to return to a policy of cutting production in 2019, unwinding a decision taken in June 2018 to pump more oil.

The producers' alliance, known as OPEC+, plans to lower output by 1.2 million barrels per day, of which OPEC's share is 800,000 bpd, next year, and some ministers have even suggested taking further action.

Stephen Innes, head of trading for Asia-Pacific at futures brokerage Oanda in Singapore, said some buying interest had returned after firmer trading in US equity futures.

But, he added, economic worries will continue to weigh unless OPEC reassures the market as to the viability of the supply cuts and "even imposes deeper ones as some members have suggested". (Dailyft)

Gold climbs to six-month peak on waning risk appetite

: Gold prices hit a six-month high on Wednesday as concerns over global growth and a partial government shutdown in the United States fuelled risk aversion, prompting investors to seek refuge in the metal.

Spot gold climbed 0.4% to $1,273.77 per ounce as at 0820 GMT. It hit $1,274.68 in early trade, its highest since June 20.

US gold futures were up 0.4% at $1,276.5 per ounce.

Investors are uneasy about global economic growth and are seeking gold as a safe haven, said Yuichi Ikemizu, Tokyo branch manager at ICBC Standard Bank, adding the sharp sell-off in stock markets has also lent support.

"We always see good demand for gold in the year-end. I would not be surprised if we see gold surpass $1,300 in the near future."

Asian equities were shaky following a Christmas Eve US stocks plunge. Wall Street has dropped sharply in recent weeks on concerns over weaker economic growth, compounded by political instability in the United States after a partial government shutdown.

The US Senate has been unable to break an impasse over President Donald Trump's demand for more funds for a wall on the border with Mexico, and a senior official said the shutdown could continue until 3 January.

Tensions between the White House and the US Federal Reserve over monetary policy tightening also weighed on sentiment in the wider markets.

Trump largely laid the blame for economic headwinds on the Fed, openly criticising its chairman, Jerome Powell, whom he appointed.

“The latest move on gold should be a stark reminder to investors that gold in any form should be an essential part of any long-term investment strategy as again the yellow metal has proven its weight when markets turn turbulent,” Stephen Innes, APAC trading head at OANDA in Singapore, said in a note. (Dailyft)

SEC announces revised Qualification Framework for brokers

The Securities and Exchange Commission (SEC) has announced a revised capital market qualification framework effective from 1 January 2019.

In May 2008, the Capital Market Education and Training Division (CMET) of the Securities and Exchange Commission of Sri Lanka (SEC) developed and formally introduced a Qualification Framework (QF) for capital market professionals, with the intention of strengthening professional standards in the securities industry. This framework has been successfully implemented to date.

Considering the changes that have taken place in the Sri Lankan capital market, CMET conducted a comprehensive revision of this QF. The revised QF provides for the certification of aptitude in each asset class, be it equity, debt, derivatives or unit trusts. Under the revised QF, the existing Registered Investment Advisor (RIA) qualification has been enhanced to an apex qualification in the securities industry.

The Certificate in Capital Markets (CCM) of the revised QF, which will take effect from January 2019 onwards, consists of seven course modules:

Series 1 – Securities Markets and Instruments
Series 2 – Equity Securities
Series 3 – Debt Securities
Series 4 – Derivatives
Series 5 – Unit Trusts
Series 6 – Financial Planning, Advising and Marketing
Series 7 – Securities Regulation and Ethics

Certification

Under the revised QF, there will be five types of certifications. A candidate who seeks to secure a certification in a specific asset class will be required to mandatorily complete series 1, 6 and 7 above, as well as the module (from among series 2 to 5) corresponding to the asset class in which he or she seeks certification.

Upon completion of these four modules, the candidate will be eligible to receive the first level of certification: i.e. a Certificate in Equity Securities, in Debt Securities, in Derivatives or in Unit Trusts, as the case may be.

Upon completion of the first level of certification and with six months of relevant industry experience, candidates may proceed to facing a viva voce examination conducted by a panel comprising SEC and Colombo Stock Exchange (CSE) officials and industry professionals in order to obtain the designation corresponding to the asset class he or she has selected.

Certified Equity Securities Advisor

Certified Debt Securities Advisor
Certified Derivative Securities Advisor
Certified Unit Trust Advisor

Apex qualification

A candidate will be required to complete all seven series in order to earn the CCM qualification. Upon completion of the CCM and with one year of relevant industry experience, candidates may proceed to facing a viva voce examination conducted by a panel comprising SEC and CSE officials and industry professionals in order to become a RIA.

Continuous Professional Development (CPD)

The procedure introduced in Circular 08/2009 (Ref. SEC/LEG/09/10/31) to maintain the RIA designation by fulfilling a CPD requirement will be amended to give effect to a minimum annual requirement of four seminar credits (one hour equals one seminar credit) and the successful completion of a minimum of one CPD module every two years.

Candidates seeking to complete the CPD module will be tested against updated knowledge and skill thresholds as well as market and regulatory developments in the financial sector and securities industry. The CPD module will be updated annually by CMET and testing is computer-based.

Transition provisions

Investment advisors in stock broking firms who were awarded the RIA designation upon completion of investment advisor training programs conducted by CSE prior to 2008 or in accordance with the existing QF are required to fulfill CPD requirements in order to be elevated to the RIA status under the revised QF. This entails the completion of three CPD seminars each relating to series 1, 5 and 6 above within a two-year period from the date of effectiveness of the revised QF.

The Commission at its 401st and 412th meetings approved the revised QF and its implementation date respectively towards enhancing the professional standards of the securities industry.

Therefore, all licenced stockbrokers have been directed to ensure that all individuals dealing with clients for and on behalf of the company follow the revised QF as stated with effect from 1 January 2019.

This directive shall be effective from 1 January 2019.
(Dailyft)

Constituent changes to S&P Sri Lanka 20 Index

Exclusions

No.	Company	CSE Ticker
1	Ceylinco Insurance PLC	CINS.N0000
2	Hemas Holdings PLC	HHL.N0000
3	LOLC Holdings PLC	LOLC.N0000
4	Melstacorp PLC	MELS.N0000
5	Vallibel One PLC	VONE.N0000

Inclusions

No.	Company	CSE Ticker
1	Ceylon Tobacco Co. PLC	CTC.N0000
2	Lanka IOC PLC	LIOC.N0000
3	Nations Trust Bank PLC	NTB.N0000
4	Softlogic Life Insurance PLC	AAIC.N0000
5	Union Bank of Colombo PLC	UBC.N0000

No.	COMPANY	TICKER
1	Access Engineering PLC	AEL.N0000
2	Aitken Spence PLC	SPEN.N0000
3	Ceylon Tobacco Co. PLC	CTC.N0000
4	Chevron Lubricants Lanka PLC	LLUB.N0000
5	Commercial Bank of Ceylon PLC	COMB.N0000
		COMB.X0000
6	DFCC Bank PLC	DFCC.N0000
7	Dialog Axiata PLC	DIAL.N0000
8	Hatton National Bank PLC	HNB.N0000
		HNB.X0000
9	John Keells Holdings PLC	JKH.N0000
10	Lanka IOC PLC	LIOC.N0000
11	National Development Bank PLC	NDB.N0000
12	Nations Trust Bank PLC	NTB.N0000
13	People's Leasing & Finance PLC	PLC.N0000
14	Richard Pieris & Company PLC	RICH.N0000
15	Sampath Bank PLC	SAMP.N0000
16	Softlogic Holdings PLC	SHL.N0000
17	Softlogic Life Insurance PLC	AAIC.N0000
18	Teejay Lanka PLC	TJL.N0000
19	Tokyo Cement Company (Lanka) PLC	TKYO.N0000
		TKYO.X0000
20	Union Bank of Colombo PLC	UBC.N0000

The Colombo Stock Exchange (CSE) announced the following changes in S&P Sri Lanka 20 index constituents made by S&P Dow Jones Indices at the 2018 year-end index rebalance.

The exclusions and inclusions as announced by S&P Dow Jones Indices, effective from 24 December (after the market close of 21 December) are presented in table 1 and 2 in alphabetical order.

The S&P SL 20 index includes the 20 largest companies, by total market capitalization, listed on the CSE that meet minimum size, liquidity and financial viability thresholds. The constituents are weighted by float-adjusted market capitalisation, subject to a single stock cap of 15%, which is employed to reduce single stock concentration.

The S&P SL 20 index has been designed in accordance with international practices and standards. All stocks are classified according to the Global Industry Classification Standard (GICS®), which was co-developed by S&P Dow Jones Indices and MCSI and is widely used by market participants throughout the world.

To be eligible for inclusion, a stock must have a minimum float-adjusted market capitalisation of Rs. 500 million, a six-month median daily value traded of Rs. 0.5 million, have been traded at least 10 days of each month for the three months prior to the rebalancing reference date, and have positive net income over the 12 months prior to the rebalancing reference date. For information, including the complete methodology, please visit: www.spindices.com
(Dailyft)

Effective Bond market remains active as yields fluctuates

The secondary bond markets remained active yesterday as yields were seen fluctuating. The liquid maturities of 15.12.21 and 01.08.26 were seen hitting intraday lows of 11.47% and 11.68% respectively in morning hours of trading against its previous day's closing levels of 11.45/50 and 11.65/70. Nevertheless, yields were seen bouncing back towards the later part of the day to hit highs of 11.60% and 11.78% respectively on the back of selling interest. Furthermore, activity was also witnessed of the 01.05.20, 2021's (i.e. 01.03.21, 01.08.21 and 15.10.21), three 2023's (i.e. 15.03.23, 15.05.23 and 15.07.23), 01.08.24 and 15.06.27 maturities at levels of 11.15% to 11.20%, 11.40% to 11.44%, 11.53% to 11.70%, 11.76% and 11.68% to 11.73% respectively. In the secondary bill market, the 13th December 2019 maturity was traded at 10.90%.

The total secondary market Treasury bond Transacted volume for 24 December was Rs. 11.00 billion.

In the money market, the net liquidity shortfall stood at Rs.101.30 billion yesterday with call money and repo averaging at 8.99%. The OMO department of Central Bank was seen infusing liquidity by way of an overnight and a seven day term repo auction for successful amounts of Rs. 25.00 billion and Rs. 27.4 billion respectively at weighted averages of 8.96% and 8.99%. A further total amount of Rs. 1.00 billion was injected by way of outright purchases of Treasury bills at weighted averages ranging from 9.60% to 9.67% for duration of 78 days to 85 days, valued today.

Rupee loses marginally

In the Forex market, the USD/LKR rate on spot contracts depreciated marginally yesterday to close the day at Rs. 181.80/00 against its previous day's closing levels of Rs. 181.50/65 on the back of continued buying interest from banks.

The total USD/LKR traded volume for 24 December was $ 77.90 million.

Some of the forward USD/LKR rates that prevailed in the market were 1 month - 182.75/15; 3 months - 184.70/20 and 6 months - 187.75/25.
(Dailyft)

Asian stocks retreat as US political tumult adds to growth worry

Asian stock markets retreated again on Wednesday, extending a rout that began last week as US political uncertainty exacerbated worries over slowing global economic growth.

Investors were unnerved by the US federal government partial shutdown and President Donald Trump's hostile stance towards the Federal Reserve chairman.

US Treasury Secretary Steven Mnuchin had also raised market concerns by convening a crisis group amid the pullback in stocks.

S&P 500 emini futures were last down 0.6%, pointing towards a lower start for Wall Street when the US market reopens after Christmas Day, when many of the world's financial markets were shut.

Markets in Britain, Germany and France will remain closed on Wednesday.

MSCI's broadest index of Asia-Pacific shares outside Japan slipped 0.5%, brushing a two-month low.

The Shanghai Composite Index lost 0.4% while South Korea's KOSPI shed 1.6%.

Japan's Nikkei, which slumped 5% the previous day, had a volatile session. It swerved in and out of the red, falling more than 1% to a 20-month-low at one stage, before ending the day with a gain of 0.9%.

US stocks have dropped sharply in recent weeks on concerns over weaker economic growth. Trump has largely laid the blame for economic headwinds on the Fed, openly criticising its chairman, Jerome Powell, whom he appointed.

That has further rattled investors as they grappled with fears of slowing global growth, corporate earnings and US-China trade tensions.

In an effort to reassure investors, Treasury Secretary Mnuchin spoke on Sunday with the heads of the six largest US banks, who confirmed they have enough liquidity to continue lending and that "the markets continue to function properly."

"In the end, we believe that the Fed is the only presence capable of ending the current confusion in the markets," Kenta Inoue, senior market economist at Mitsubishi UFJ Morgan Stanley Securities, said in a note."The White House will probably keep making gestures intended to halt the rout in stocks, but the federal government is likely to remain shut into the new year. The US-China trade war also shows no signs of a resolution."

US bond yields have declined amid the rout, including a steep sell-off in oil, prompted investors to move into safe-haven government debt, adding to the growing pressure on the dollar.

The dollar traded at 110.35 yen after retreating to a four-month low of 110.00 overnight against its Japanese peer, which tends to attract demand as a perceived safe-haven during times of market volatility and economic stress.

The euro was 0.15% higher at $1.1412.

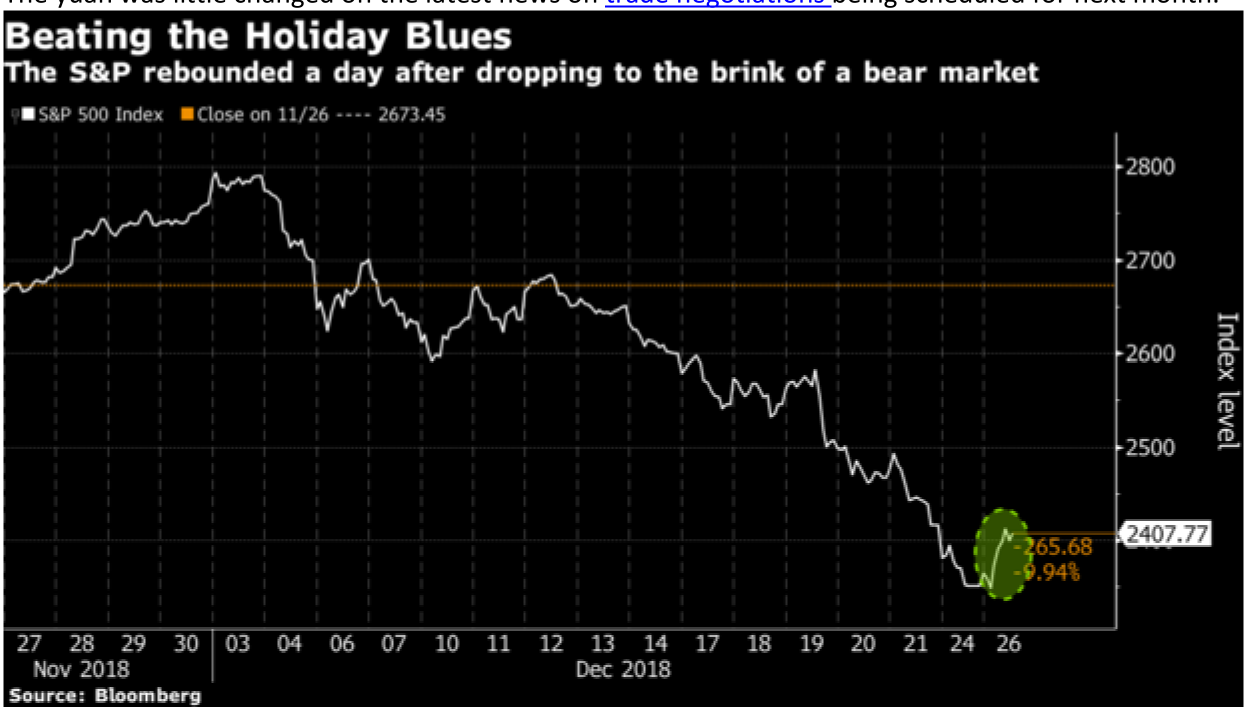
The 10-year US Treasury note yield extended its fall to touch 2.722%, its lowest since early April. (Dailyft)

Asia Stocks See Mixed Gains on Historic U.S. Surge: Markets Wrap

Asian stocks climbed on Thursday after the biggest rally in U.S. equities since 2009 offered relief from this month's wrenching downturn, though gains were restrained outside of Japan.

Tokyo's Topix Index surged more than 4 percent, leading the region, while Australian shares advanced more than 1 percent. Korean and Hong Kong benchmarks rose less than 1 percent, however, and U.S. futures dipped, showing limited follow-through from the blow-out session on Wall Street. American benchmarks soared 5 percent or more Wednesday on signs of robust consumer spending, easing concern about the tenure of the Federal Reserve chief and progress on U.S.-China trade talks.

Elsewhere, crude oil prices gave up a slice of the gains of more than 8 percent overnight. Ten-year Treasury yields are holding around 2.80 percent. The dollar surrendered some of yesterday's advance. The yuan was little changed on the latest news on trade negotiations being scheduled for next month.



"The market right now is very bumpy," Banny Lam, head of research at CEB International Investment Corp., said on Bloomberg Television. Investors are sifting through "how many policy risks are actually on the table," he said. For Hong Kong stocks, Lam anticipates renewed declines over the coming quarter, before signs of rebounding Chinese growth stoke gains later in 2019.

Just one of the S&P 500 members fell on Wednesday, when the Dow Jones Industrial Average jumped more than 1,050 points for its biggest-ever point gain. Consumer shares paced the rally, with Amazon.com Inc. jumping 9.5 percent on record holiday sales. Each member of the FAANG cohort rallied at least 6.4 percent. Nike and Apple rose more than 7 percent.

Yet it's still a horrible month for U.S. stocks, with the S&P 500 down almost 11 percent. Japan's Topix is even worse, with a 14 percent slide. Emerging markets have done better, thanks to expectations of less aggressive tightening by the Fed. The Shanghai Composite is off less than 4 percent, for example. And China's yuan, along with most major Asian currencies, is up against the dollar this month.

"We could still be choppy here and in a bit of a trading range" for stocks, Matt Miskin, a market strategist at John Hancock Financial Services, told Bloomberg Radio. "You're getting whipsawed from all this different information hitting the markets," he said. For the S&P 500, he said "we do not see a real sustainable breakout past the prior highs in the near term."

A report that a U.S. government delegation will travel to Beijing in two weeks to hold trade talks gave stocks a final push higher on Wall Street. Investors had earlier welcomed White House adviser Kevin Hassett's assurance that Federal Reserve Chairman Jerome Powell's job is "100 percent" safe.
Futures on European equity benchmarks were mixed in Asia. Trading in the U.K. and Europe will resume after a two-day holiday.

Read more on the latest twists and turns:

- Plenty of big rallies occurred during a bear-market downturn
- A history of U.S. presidential comments on stocks
- Insiders are pouring money into equities
- Three crazy statistics on a wild day of trading
- Valuations tumbled before the Wednesday rally

And see more analysis in our Markets Live blog. Here are some events investors may focus on in coming days:

- U.S. new-home sales are due Thursday.
- Baker Hughes releases its weekly data on active U.S. oil rigs on Friday.
- Monday is year end.
- Brazil's new president is sworn in on Tuesday.
- And these are the main moves in markets:

Stocks

- The MSCI Asia Pacific Index rose 1.9 percent as of 12:14 p.m. in Tokyo.
- Japan's Topix gained 4.4 percent and the Nikkei 225 rose 3.7 percent.
- Futures on the S&P 500 Index dipped 0.3 percent. The underlying gauge rose 5 percent at the close in New York, after falling within two points of a bear market earlier in the session. The Nasdaq 100 surged 6.2 percent and the Dow Jones Industrial Average rallied 1,086 points.
- Australia's S&P/ASX 200 rose 1.6 percent.
- Kospi rose 0.2 percent.
- Hong Kong's Hang Seng advanced 0.6 percent. The Shanghai Composite rose 0.5 percent.

Currencies

- The Japanese yen gained 0.3 percent to 110.99 per dollar after sliding almost 1 percent Wednesday.
- The euro climbed 0.2 percent to $1.1380.
- China's offshore yuan was little changed at 6.8968 per dollar.
- The Bloomberg Dollar Spot Index dipped 0.1 percent.

Bonds

- The yield on 10-year Treasuries was at 2.80 percent after climbing almost 7 basis points Wednesday
- Japanese 10-year government bond yields were little changed at 0.025 percent.
- Australia's 10-year yields were at 2.38 percent.

Commodities

- West Texas Intermediate crude fell 0.5 percent to $46 a barrel after gaining 8.7 percent Wednesday.
- Gold rose 0.2 percent to $1,269.63 an ounce.

(Bloomberg)