NEWS ROUND UP

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Central Bank issues directive to reduce lending rates by adjusting deposit rates

Central Bank has requested banks and finance companies to reduce interest rates on deposits to accelerate monetary policy transmission through the financial sector, enabling lower rates on lending products in general, and to SMEs in particular, thereby enhancing credit flow to the real economy.

The move follows after the Central Bank, observing high interest rates charged on lending products and excessively high interest rates, offered on-deposit products by licensed commercial banks and licensed specialised banks (licensed banks) and Non-Bank Financial Institutions (NBFIs), despite the measures taken to bring down overnight interest rates and enhance market liquidity through the reduction of the Statutory Reserve Ratio (SRR). Especially in the context of well-contained inflation and inflation expectations, Sri Lanka's interest rates in real terms also have been found to be excessive in comparison to other regional economies.

Central Bank said interest rates on savings and other deposits with tenures less than three months offered by licensed banks and NBFIs will be linked to the Standing Deposit Facility Rate (SDFR) whilst longer tenures will be linked to the 364 day Treasury bill rate.

Licensed banks and NBFIs may offer an additional interest rate up to 50 basis points for savings deposits of children under the age of 18 years, and for Fixed Deposits (FD) of senior citizens with tenure of one year or more.

Debt instruments issued by NBFIs will also be subject to maximum interest rates. In spite of these measures, interest rates on deposits are expected to remain competitive, providing a substantial real return to depositors.

Central Bank said through these measures, that would reduce excessive cost of funds borne by the financial sector, it expects the lending rates to reduce by around 200 basis points to SMEs in the near term.

The reduction in SRR by 250 basis points in two steps in November 2018 and March 2019 has already reduced cost of funds and is expected to result in a narrower margin between deposit and lending rates.

The Central Bank said it will closely monitor the behaviour of interest rates of licensed banks and NBFIs on both deposits and loans and take further measures as appropriate in future. (Daily FT)

Resorts face uncertain future after suicide blasts

The cancellations started before the dust had settled on the hotels and churches hit by suicide bombers in Sri Lanka as tourists and operators pressed the panic button.

Chairman of the colonial-era Mount Lavinia Hotel in Colombo Sanath Ukwatte said he lost about 30% of his bookings within days of the Easter Sunday attacks that killed 253 people.

Many holidaymakers got the first plane out of Colombo after the blasts – at least 40 foreigners were among the dead – raising fears for a tourism industry that had managed to move on from the shadows of a decades-long Civil War.

The United States, Britain, Australia, India and Israel have all warned their nationals against visiting, while the Netherlands is organising a special flight to evacuate hundreds of Dutch tourists.

On Friday, European travel giant TUI announced it had stopped taking bookings for the South Asian country.

And the crisis could get worse before it gets better for the island nation, whose palm-fringed beaches and mountain tea plantations were recently named the best place to visit in 2019 by the Lonely Planet guide.

Finance Minister Mangala Samaraweera had hoped tourism would earn a record $5 billion this year, up from $4.4 billion in 2018. He thinks the attacks could now see the country lose up to one-third of that.

Tourism accounts for about 5% of the economy, with Britain, India and China the main markets. Official figures show tourist arrivals in the first quarter of this year jumped 4.6% to 740,600 from 2018.

But with armed guards now a fixture in some Colombo hotels and cancellations flooding in after the carnage unleashed by coordinated suicide attacks, Samaraweera must work out a rescue plan for establishments now facing ruin.

“We expect a 30% drop in arrivals and that means a loss of about $1.5 billion in foreign exchange,” he said on Friday.

A senior investment analyst at Asia Frontier Capital in Hong Kong, Ruchir Desai, said the next year will be a tough one for Sri Lanka.

“Given the scale of the attack I still think you would see a negative impact on the industry,” Desai told AFP.

“It should recover,” he added, “obviously it depends on the steps the Government takes to improve stability.”

Hotels Association of Sri Lanka President Ukwatte hopes Sri Lanka can “bounce back”.

Sri Lanka’s tourism is heading into its low season, and Ukwatte believes if confidence can be restored by October or November, “then we will be able to revive the industry with European winter travellers.”

Finance Minister Samaraweera highlighted how other countries hit by Islamic State-inspired attacks rebuilt their image and convinced tourists to come back.

“Typically, countries that suffer isolated IS-style attacks see tourism recovering within one to two years, as long as root causes are addressed and security measures taken are well communicated,” the Minister said.

He pointed to tourist industries in Belgium, France, Spain and Tunisia as countries which had all managed to bounce back after suffering indiscriminate terror attacks.

Much will depend on how the Government gets its message across, observers said.

Canadian adventure tourism promoter Wade Campbell criticised the Government’s communications after the attacks, particularly a top defence ministry official – who has since resigned – who said Sri Lankan hotels should have arranged their own security to avoid being hit.

Danger is “a perception thing”, said Campbell, who is now looking at redirecting bookings to rival destinations like Nepal.

Italians Donatella Papi and her husband Maurizio Fantappie were on a 25-day holiday in eastern Sri Lanka when the bombers struck.

“My husband wanted to leave after the bombings. He suggested going to Thailand. But I wasn’t too scared then. I thought it would settle down,” said Papi.

“I think Sri Lanka tourism will fall. We are very sad about it. This year is the 10th anniversary of the end of the War – it was supposed to be a celebration,” she said.

“We have no regrets about staying on but we are very sad and worried – for our safety and for Sri Lanka.” (Daily FT)

So much for the earnings recession

Corporate America's earnings recession might be over before it even began.

Once-booming corporate profits were expected to drop in the first quarter. Sharply. But first-quarter results from the likes of Facebook (FB), Amazon (AMZN) and Ford (F) have easily cleared Wall Street's lowered expectations.

Bottom lines have been boosted by an economy that looks healthier than feared.

Now, some analysts believe profits may not actually decline at all in the first quarter, a welcome shift from the doomsday scenarios investors were once fretting about. S&P 500 earnings haven't fallen year-over-year in any quarter since mid-2016.

At the start of first-quarter earnings season, Wall Street analysts expected a decline of 2.5% in per-share profits, according to Credit Suisse. As of Friday morning, that estimate had climbed narrowly into positive territory.

Accounting for earnings that surpass expectations (analysts typically set the bar low), S&P 500 profits will probably rise by 2.5% to 3% by the end of earnings season, Credit Suisse estimates.

That reversal helped propel stocks higher. The S&P 500 and Nasdaq notched record highs last week. And the Dow isn't far behind. All three major indexes are up double digits in 2019.

It's no fluke. We're well into earnings season: The S&P 500 companies that have already reported earnings make up half of the index's value. Results have impressed so far.

Nearly 80% of companies have reported bottom-line results that exceeded Wall Street's expectations, above the three-year average of 71%, according to Credit Suisse.

Wall Street isn't out of earnings trouble yet, though.

A long list of corporate titans are scheduled to hit the earnings stage this week, led by Apple(AAPL), Alphabet (GOOGL), General Motors (GM), General Electric (GE), McDonald's (MCD) and Under Armour (UA).

Simply topping expectations isn't enough to please shareholders these days.

Companies that have beaten earnings estimates have gained less than 1% on their earnings reaction days, according to Bespoke. That's less than half the average one-day gain of 1.9% over the prior two decades.

And Wall Street has hammered companies that miss. For example, Post-It maker 3M (MMM)plummeted nearly 13% on Thursday after reporting weak results and slashing its outlook.

Companies that have missed earnings-per-share estimates this month have declined by an average of 4.6%, compared with the historical average of 3.5%, according to a research report from Bespoke Investment Group on Friday.

One major area to watch is corporate revenue, which has lagged thus far.

Only 54% of companies that have reported results have beaten revenue estimates, according to Bespoke Investment Group.

"That is definitely a concern," Bespoke analysts wrote.

The Federal Reserve is holding its two-day April and May policy meeting this week, culminating in its interest rate decision and policy update on Wednesday at 2 pm ET.

It's widely assumed the central bank won't change its interest rates. The CME FedWatch shows the market prescribes a 98% chance that rates will be kept on hold. Still, the meeting could be market-moving. Investors will be paying attention to Fed Chairman Jerome Powell's views on the economy.

After raising rates four times last year, the Fed took its foot off the gas in January, throwing financial markets into a frenzy. Investors began wondering whether the next move for the central bank would be to lower rates again, which is intended to stimulate the economy. Friday's GDP print, however, should have put those worries at ease, at least for now. The United States reported a growth rate of 3.2% between January and March, along with muted inflation. That gives the Fed some more wiggle room to let the economy run its course.

3. Jobs, jobs, jobs: A lot of key economic data is on the agenda for this week, including personal income, manufacturing and trade data. Arguably most important, however, is Friday's jobs report, due at 8:30 am ET, which includes non-farm payrolls and hourly wages. The unemployment rate is expected to remain flat at 3.8%.

Last month, the headline number was better than expected, but wages lagged behind.

Wage inflation has been stubbornly low, to the dismay of both market participants and central bankers. The Fed's inflation target is around 2%, but wage inflation numbers have raised questions about the use of inflation targeting.

In the run up to the report on the employment situation, jobless claims for the week ended April 27 are due on Thursday. Claims are expected to be 215,000, according to Refinitiv.

Less staunchly dovish words from the Fed, as well as further economic data hammering home the point that the US economy is healthy, could also inspire the US dollar higher.

Compared with its peers, the United States is the strongest economy on the block. And unless this week's Eurozone GDP print surprises on the upside, there is little to challenge the dollar's supremacy. While a lot of the good stuff is priced into the buck already, analysts say it remains too attractive to miss out on.

On Thursday, the ICE US Dollar Index reached its highest level since May 2017.

Sunday — Milken Global Conference kicks off in California

Monday — Eurozone economic sentiment; Boeing shareholder meeting; Spotify (SPOT) and Alphabet earnings

Tuesday — Eurozone GDP; April consumer confidence; Fed meeting starts; China manufacturing PMI; GM (GM), GE and Apple earnings

Wednesday — Fed decision; Yum Brands (YUM) and CVS (CVS) earnings

Thursday — Bank of England policy update; Under Armour (UA) and Dunkin' (DNKN) earnings; weekly jobless claims; Caixin China manufacturing PMI

Friday — Jobs report; Eurozone inflation, Fiat Chrysler (FCAU) earnings

All week — Japan's markets are closed until May 6 for Golden Week. The holiday goes on for six days in a row for the first time this year, which could lead to volatility in Asian markets amid lower liquidity. (CNN)