NEWS ROUND UP

Wednesday, May 29, 2019

Contents

Singapore's G&G bullish on Sri Lanka agro sector after Hatton Plantations buy

Singapore-based G&G Group is looking to invest in Sri Lanka's agriculture sector in the future, an official said after acquiring tea producer Hatton Plantation Plc (HPL) for 1 billion rupees despite heightened risk perceptions.

"We will use HPL as a platform through which we will consolidate in Sri Lanka's agriculture sector with further opportunities," said Gowri Shankar, a Director of G&G subsidiary Lotus Renewable Energy Pty Ltd.

"We're looking at not only tea, but other agriculture processes," he said.

The group is investing despite risk perceptions have been heightened following Islamist suicide bombings in April.

"We're passionate and want to support Sri Lanka during its time of need," Shankar said.

G&G, which invests in environmentally sustainable agriculture and energy, will be looking to invest in businesses that cater to both local and export markets in Sri Lanka, Shankar said.

"It is a combination of both, but we will be leaning more towards exports," he said.

HPL's former owner Sunshine group, separated the tea operations from the rest of its businesses due to volatility of the commodity. Under Sunshine management, the tea firm was among the most profitable.

However, G&G is confident of the tea industry's prospects in the long run.

"If we were too concerned about the volatility, we would not have invested," Shankar said.

"The investment falls in line with the long-term vision of our group."

G&G's local subsidiary Lotus Renewable Energy Pvt Ltd will also be looking for more investments in hydro and LNG power generation, he said.
Lotus Renewables buys Sri Lanka's Hatton Plantations

Sunshine Holdings focusing on consumer and health after Sri Lanka tea farm exit

The firm paid a premium to market price for 51 percent. It has an option to buy more stock at the same price.

The stock fell from 6.90 rupees to 6.40 after the blasts. The new buyers paid 8.30 rupees for control. The stock closed trading at 7.90 rupees, up 1.80 rupees.

Net assets per share of HPL was 8.25 rupees in December.

The 1 billion rupee acquisition was financed partly through cash as well as debt, through NDB Bank.

Lotus Renewable Energy has been expanding its energy business with acquisitions including Browns Hydro Power and Zyrex Power over the past three years.

The G&G group has a turnover of 400 million US dollars and employs 20,000 people, according to its website. It farms on 50,000 hectares of land in Australia. Most of its operations are in grains, pulses and oilseeds.

The HPL acquisition will add 5,000 hectares and approximately 12.8 million US dollars in revenue to G&G.

It also has interests in companies such as Prima Group subsidiary Ceylon Agro Industries and Origin Teas, which owns 16 plantations in Sri Lanka .

Group Chairman Gary Seaton had held a 45 percent stake in Pussellawa Plantations in the past, before divesting in 2018. (Colombo/May28/2019)(Dailyft)

Central Bank rate cut "inevitable"

- First Capital Research says probability rate at 95%
- Sluggish growth, Easter Sunday attacks, improved macro fundamentals seen as key reasons
- Rate cut also likely given alarming deceleration of private sector credit

Predicts economic recovery will take at least one year, downgrades growth to less than 3%

First Capital Research yesterday said there is a 95% probability for a policy rate cut when the Central Bank announces its latest monetary policy stance on Friday.

Releasing its policy expectations, First Capital said a rate cut was "inevitable," given slowing growth and the impact of the Easter Sunday attacks.

"We are of the view that policy intervention is inevitable to revive the overly sluggish economy and credit growth. Despite the Road Map towards a single policy rate, we believe a rate cut in both SLFR and SDFR is more appropriate, considering the severity of the situation. However, in the case of a 75bps or a 100bps rate cut consideration, though remote, Central Bank may consider a lower cut for SDFR," the report said.

First Capital Research pointed out that the Monetary Board had previously observed that the continuation of the monetary policy stance was appropriate but had hinted at possible monetary easing. This has since been reinforced by statements from the Government calling for banks to reduce interest rates.

Macroeconomic fundamentals have also steadily improved creating space for a policy rate cut.

The Central Bank maintaining foreign reserve position above $7.0 billion ($7.2 billion by end April 2019) is noteworthy considering the major outflows in April 2019. The International Monetary Fund (IMF) approved the 6th tranche of $164.1 million while granting a one year extension until June 2020, providing a cushion to country's economy to recover from the recent attacks, pointed out First Capital Research.

"Falling below the Central Bank credit growth projection of 13.5%, private sector credit growth decelerated at an alarming rate to record an YTD growth of 0.5% during the first quarter leading to a contraction in financial sector asset base," it added.

The Sri Lankan rupee continued to strengthen to close at 176.24 on 22 May, supported by foreign remittance conversions and foreign inflows during the festive seasons. However, REER continued to remain undervalued at 94.74 in March 2019.

A sustained positive liquidity position was created after the lapse of six months resulting from multiple Statutory Reserve Ratio (SRR) cuts and the Government making long delayed payments, providing the ability for the Central Bank to discontinue daily reverse repo auctions and term reverse repo auctions.

"The Easter Sunday attacks are expected to have a detrimental impact on the economy, possibly further slowing down the sluggish economy. We expect the recovery would require at least one year period forcing a downward revision to our 2019 GDP growth projection to below 3% from previous 4.3%." (Dailyft)

Stocks snap 2 days of falls; rupee edges lower

Sri Lankan shares snapped two consecutive sessions of falls on Tuesday in high turnover, led by Hatton Plantations PLC, while the rupee closed slightly weaker.

Traders said the Easter day bombings and aftermath violence, and worries over slowing economic growth weighed on investor sentiment. Most investors have shied away from the market since the 21 April bombings that killed more than 250 people.

Sri Lanka is unlikely to hit its full-year economic growth target of 3-4% following the Easter Sunday bombings, Junior Finance Minister Eran Wickremeratne told Reuters last week. A Reuters poll has predicted the growth to slump to its lowest in nearly two decades this year.

The International Monetary Fund (IMF) on 14 May approved the disbursal of a $164 million tranche of a loan program, bringing the total disbursed to more than $1.16 billion. The benchmark stock index ended 0.04% firmer on Tuesday at 5,293.49. It rose 0.67% last week, recording its first weekly gain in three. The bourse has fallen 12.5% so far this year.

Shares in Hatton Plantations, which accounted for 55% of the day's turnover, jumped 29.5%. Turnover was Rs. 1.81 billion ($10.27 million), the highest since 24 April and more than three times this year's daily average of around Rs. 561.9 million. Last year's daily average was Rs. 834 million.

Foreign investors bought a net Rs. 63.5 million worth of shares on Tuesday, but they have been net sellers of Rs. 5.6 billion worth of equities so far this year. The rupee ended slightly weaker at 176.25/35 per dollar, compared with Monday's close of 176.20/30, market sources said.

Analysts expect the currency to weaken further as money flows out of stocks and Government securities.

The rupee fell 0.23% last week but is up 3.6% for the year. Exporters had converted dollars as investor confidence stabilised after a $1 billion sovereign bond was repaid in mid-January. The rupee dropped 16% in 2018 and was one of the worst-performing currencies in Asia.

Foreign investors bought a net Rs. 2.1 billion worth of Government securities in the week ended 22 May, but the island nation saw a net foreign outflow of Rs. 19.1 billion so far this year, Central Bank data showed.

Investor sentiment was damaged at the end of last year when President Maithripala Sirisena abruptly removed Prime Minister Ranil Wickremesinghe and then dissolved Parliament. A court later ruled the move unconstitutional, but the political turmoil led to credit rating downgrades and an outflow of foreign funds.(Dailyft)

Imports dip 19.3% in 1Q

- Imports drop 5 consecutive months, March sees 12.6% drop
- All imports excluding fuel see drop, CB says reduction due to policies, expected change in 2Q
- But exports increase 5.6% in 1Q, record highest-ever earnings of $ 1.13 b
- Industrial and mineral exports grew but agricultural exports declined
- Apparel records highest-ever monthly earning surpassing $ 500 m
- Trade deficit contracts to $ 1.6 b from $ 2.9 b in 1Q 2018
- Reserves at $ 7.6 b, rupee appreciates 3.8% to date

Imports dropped a steep 19.3% in the first quarter of 2019, even though export earnings increased by 5.6% year-on-year as the trade deficit contracted to $ 1,661 million from $ 2,982 million recorded in the first quarter of 2018, the Central Bank said yesterday.

Releasing the latest External Sector Performance Report, the Central Bank said imports had declined for five straight months, with March seeing a 12.6% drop, on a year-on-year basis, to $ 1,729 million. The Central Bank attributed the drop to policies aimed at discouraging imports and said that an import pick-up may take place in the second quarter as these policies were reversed. All imports other than fuel saw a decline as economic activity slowed.

In March 2019, the deficit in the trade account narrowed to $ 592 million, compared to $ 871 million in March 2018. The considerable reduction in the trade deficit in March 2019 was due to a notable decline in import expenditure by 12.6% (year-on-year) which was further supported by the increase of export earnings by 2.6% (year-on-year), the report said.

The financial account was further strengthened in March with the proceeds of the International Sovereign Bonds (ISBs) amounting to $ 2.4 billion and net inflows of foreign investments to the Government securities market during the month, although some net outflows were observed from the Colombo Stock Exchange (CSE).

Along with the significant reduction in the trade deficit and significant inflows to the financial account, the Sri Lankan Rupee appreciated against the US Dollar by 3.8% by end March 2019 compared to end 2018. Despite the marginal depreciation of the rupee in the aftermath of the Easter Sunday bomb attacks, it recorded an appreciation of 3.8% during the year up to Tuesday.

On 13 May, the Executive Board of the International Monetary Fund (IMF) completed the Fifth Review under Sri Lanka's Extended Fund Facility (EFF) approving the disbursement of the sixth tranche amounting to SDR 118.5 million (approximately $ 164.1 million). The Executive Board also approved an extension of the arrangement by one year, until June 2020, and rephased the remaining disbursements.

The country's gross official reserves stood at $ 7.6 billion, which was equivalent to 4.3 months of imports at end March 2019. The deficit in the trade account narrowed significantly in March this year in comparison to March 2018 due to record high export earnings and considerable reduction in imports.

Expenditure on imports continued to decline due to the policy measures adopted by the Central Bank and the Government. On a cumulative basis, the deficit in the trade account contracted significantly during the first three months of 2019 in comparison to the corresponding period of 2018.

Terms of trade, which represent the relative price of imports in terms of exports, deteriorated by 3.3% (year-on-year) in March due to the decline in export prices at a higher rate than the decline in import prices. Meanwhile, on a cumulative basis, terms of trade deteriorated marginally during the first three months of 2019 in comparison to the corresponding period of 2018.

"Merchandise exports recorded the highest-ever monthly earnings of $ 1,137 million in March 2019 registering a moderate growth of 2.6%, due to the higher base in March 2018. The growth in exports was driven by the improved performance in industrial and mineral exports while agricultural exports declined," the report said.

Under industrial exports, earnings from textiles and garment exports increased notably in March 2019, recording the highest-ever monthly earnings which surpassed $ 500 million for the first time. This growth was mainly due to higher demand for garment exports from traditional markets, namely the USA and the EU, as well as non-traditional markets such as Canada, Australia and China. Export earnings from textiles and other textile articles also increased in March.

Earnings from petroleum exports increased in March, reversing the declining trend observed during the past three months, led by an increase in both volume and prices of bunker and aviation fuel. Export earnings from base metals and articles increased driven by iron and steel articles and aluminium articles. Export earnings from food, beverages and tobacco increased during the month owing to the improved performance in all sub categories except vegetables, fruit and nuts preparations.

Printing industry products, and chemical products also contributed towards the increase in industrial exports in March. However, earnings from machinery and mechanical appliances, gems, diamonds and jewellery, rubber products, leather, travel goods and footwear, and transport equipment exports declined in the period concerned.

Earnings from agricultural exports declined in March, mainly driven by subdued performance in tea, minor agricultural products, natural rubber and unmanufactured tobacco exports. Although the volumes of tea export increased in March, export earnings from tea declined due to lower average export prices. However, earnings from coconut exports increased due to the increase in export of both coconut kernel and non-kernel products. Earnings from spices, seafood and vegetable exports also rose marginally during the month.

Export earnings from mineral exports, which account for about 0.4% of total exports, rose mainly driven by export of titanium ores.

The export volume index in March 2019 increased by 10.6% while the export unit value index decreased by 7.2%, implying that the growth in export earnings was solely driven by the increase in volumes. Expenditure on merchandise imports declined considerably in March 2019 by 12.6%, on a year-on-year basis, to $1,729 million, recording a decline for the fifth consecutive month.

This reduction was mainly due to the effect of the policy measures implemented by the Central Bank and the Government to discourage certain non-essential imports and the significant depreciation of the currency. However, considering the favourable developments in the external sector and measures introduced in Budget 2019, such policy measures were withdrawn in March 2019. Low expenditure on intermediate and consumer goods contributed to the decline in imports during March 2019, while expenditure on investment goods increased. Total imports, excluding fuel, also declined significantly.

Import expenditure on intermediate goods declined in March 2019 mainly driven by gold imports which continued to be stagnant following the imposition of customs duty on gold in April 2018. Expenditure on wheat and maize declined owing to the lower import volume of wheat. Plastic and articles, food preparations and vehicle and machinery parts imports also contributed to the decline in intermediate goods.

In contrast, expenditure on fuel imports increased in March owing to higher import volume and prices of crude oil despite a reduction recorded in refined petroleum and coal imports. In addition, expenditure on fertiliser imports increased in March 2019 mainly driven by higher import volumes when compared with March 2018. Further, import expenditure on textiles and textile articles led by fabrics, base metals led by iron and steel and mineral products led by cement clinkers increased during the period concerned.

Reflecting lower imports of most items in both food and beverages and non-food consumer goods, import expenditure on consumer goods declined significantly in March. Expenditure on personal motor vehicle imports declined significantly in March, continuing its year-on-year declining trend observed since December 2018. However, imports of personal motor vehicles recorded an increase in comparison to the previous month.

Policy measures on motor vehicle imports were changed with the withdrawal of margin requirements against letter of credits (LCs) and upward revision of excise duties on motor vehicles. In addition, import of rice declined with lower import volumes as there was sufficient domestic production of rice in the market while sugar and confectionery imports reduced due to lower import volumes and prices.

In addition, expenditure on most non-food consumer goods such as clothing and accessories, telecommunication devices, home appliances and household and furniture items declined during the month. However, expenditure on dairy products, cosmetics and toiletries, printed materials and stationery imports increased in March.

Import expenditure on investment goods increased in March, driven by higher imports of building material and machinery and equipment. Reflecting higher imports of cement and articles of iron and steel, import expenditure on building material increased. Import expenditure on machinery and equipment increased during the month, mainly due to imports of cranes. In contrast, expenditure on transport equipment declined in March due to lower expenditure incurred on the importation of tankers and bowsers and buses compared with the corresponding period of 2018.

Import volume and unit value indices decreased by 8.9% and 4.1%, respectively, in March, indicating the decline in import expenditure during the month was driven by the reduction in both volumes imported and price, in comparison to the corresponding period of 2018.

Along with the proceeds of the ISBs, as at end March, gross official reserves were estimated at $7.6 billion, equivalent to 4.3 months of imports. Total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to $ 10.5 billion as at end March, equivalent to six months of imports.(Dailyft)

Asia Stocks Drop as Sovereign-Bond Rally Extends: Markets Wrap

Stocks in Asia dropped after an afternoon sell-off on Wall Street as investors gauge the warning signals flashing in the bond market, where sovereign yields have slumped to multi-year lows.

Shares in South Korean bore the brunt of losses and Japan was down about 1%, while those in Hong Kong and China posted modest declines. U.S. stock losses accelerated late Tuesday as the rally in 10-year Treasuries further inverted a part of the yield curve watched for its history of signaling recessions. Japanese government bond yields slid deeper into negative territory, New Zealand's 10-year rates hit a record low and Australia's fell below the central bank's policy rate. The dollar edged higher, and S&P 500 Index futures retreated.

The yuan was mostly steady after the People's Bank of China injected the most in money market operations since January.
10-year Treasury yields dropped to the lowest level since Oct. 2017

Stalled talks in the U.S.-China trade war have soured sentiment for risk assets, with the global economy already showing signs of fragility before the full impact of the most recent tariff hikes kicks in. That's driven sovereign bonds higher and pushed global stocks toward their first monthly decline of 2019.

"The drop of the U.S. Treasury yield is an indicator of growing uncertainty," Lena Komileva, chief economist at G Plus Economics Ltd., told Bloomberg TV in London. "It's quite clear now that we are past that cyclical peak for earnings and the cyclical trough in credit spreads." Treasuries are "going to be very well supported here," she added.

The gap between three-month and 10-year rates reached minus 9 basis points. That's the most negative since March, when this segment of the curve inverted for the first time since 2007.

Elsewhere, oil gave back some of its gains, dipping below $59 a barrel in New York.

Chetan Ahya, Morgan Stanley chief economist, global head of economics, on the impact of China-U.S. trade tensions.
Source: Bloomberg

Here are some key events coming up:

- China provides a first peek at its May economic performance on Friday, with economists anticipating the official manufacturing PMI will tick down to 49.9 — a contraction — amid the worsening trade war with the U.S.
- U.S. first-quarter revised GDP data are due Thursday.

And these are the main moves in markets:
Stocks

- Japan's Topix index fell 0.9% as of the lunch break in Tokyo.
- Australia's S&P/ASX 200 Index dropped 0.8%.
- South Korea's Kospi index lost 1.4%.
- Hong Kong's Hang Seng Index fell 0.8%.
- Shanghai Composite Index lost 0.5%.
- Futures on the S&P 500 fell 0.4%. The underlying gauge dropped 0.8% Tuesday.

Currencies

- The yen was at 109.39 per dollar.
- The offshore yuan dipped 0.1% to 6.9271 per dollar.
- The Bloomberg Dollar Spot Index rose 0.1%.

- The euro bought $1.1165, little changed.

Bonds

- The yield on 10-year Treasuries decreased about one basis point to 2.25%.
- Australia’s 10-year yield dipped about three basis points to 1.50%.

Commodities

- West Texas Intermediate crude slid 1.1% to $58.51 a barrel.
- Gold was at $1,280.18 an ounce, up 0.1%.

(Bloomberg))