

NEWS ROUND UP

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Sri Lanka rupee opens marginally weaker, gilt yields flat

The Sri Lanka rupee was quoted at 181.90/05 to the US dollar in the spot market in mid-morning trade Friday, while bonds yields were flat and stocks opened 0.18 percent higher, dealers said.

The rupee closed at 181.80/00 against the greenback in the spot market on Thursday.

In equities, the Colombo All Share Price Index (ASPI) gained 10.40 points to 5,783.16 and the S&P SL20 of more liquid stocks was up 1.36 percent or 37.49 points to 2,792.40, in the first hour of trade.

The market turnover was 63 million rupees with 36 stocks gaining and 14 falling.

Hatton National Bank gained 5.00 rupees to 159.00 rupees a share, Commercial Bank of Ceylon was up 1.10 rupees to 100.00 rupees a share and Distilleries Company of Sri Lanka gained 20 cents to 16.40 rupees a share, contributing to the gain of the ASPI.

In the secondary bond market, gilt yields remained unchanged, dealers said.

A bond maturing on 15.12.2021 was quoted at 8.75/80 percent on Friday up from 8.70/80 percent at Thursday's close.

A bond maturing 15.07.2023 was quoted at 9.83/93 percent down from 9.85/90 percent.

A bond maturing on 15.09.2024 was quoted unchanged at 10.25/30 percent.

A 15-year bond maturing on 15.09.2034 was quoted flat at 10.80/88. (EconomyNext)

Sri Lanka rupee undervalued, good for producers

Sri Lanka's rupee is undervalued based on a real effective exchange rate index which is good for owners of export and import substituting businesses, Central Bank Governor Indrajit Coomaraswamy has said.

“Right now the real effective exchange rate is below 100 and so the rupee is undervalued, which is favorable for exporters, and producers of import substitutes.” Governor Coomaraswamy said, at a forum on International Trade Agreements: Policy Options for Sri Lanka.

According to central bank data Sri Lanka's REER index number was 92 in February.

A real effective exchange rate index is calculated by measuring the (nominal) changes in exchange rates of a basket of currencies (usually trading partners) against a domestic currency and adjusting it for inflation.

REER calculations make no distinction whether the currencies in the basket are true floating rates, or are pegged strongly with complementary money and exchange policies, or are unstable soft-pegs with contradictory policy that depreciate permanently.

A genuinely floating currency like Australia or Canada may temporarily fall against another currency like the US dollar, based on their credit cycle.

Critics have also said that if a large weight goes to currency produced by a bad central bank like that of India, which has a history of depreciation, the domestic currency will be hostage to the monetary policy of that agency, when the REER is targeted.

When currencies collapse due to central bank policy errors (printing money to target interest rates, while targeting the exchange rate to create 'reserve buffer'), in Sri Lanka and elsewhere claims are made that a currency is 'undervalued'.

The collapse of the US dollar in 1971-73 along with the Bretton Woods soft-peg system, which was due to printing money to target an output gap among other policy errors during the administration of President Richard Nixon, was later blamed on an 'overvalued' US dollar by Mercantilists.

If the basket is changed, or inflation is re-based, the REER index will change, raising questions about past claims. A REER index is usually based on historical trading patterns. (EconomyNext)

Southern Province overtakes Western in Sri Lanka human capital index

Sri Lanka's Southern Province had scored 63.3 points in a global human capital index (HCI) developed by the World Bank, putting the area ahead of Sri Lanka's Western province which scored 61.8.

The HCI looks at both education attainment and health outcomes. The Southern province had a lower per capita income than Western Province which contained the capital and had the most advanced educational institutions.

"However the Southern Province, which has an HCI equal to the Western Province despite being considerably poorer, shows that provinces can develop their human capital ahead of their level of per capita income," the World Bank's, Sri Lanka Human Capital Development report noted.

"The main reason for the better learning levels in the Southern Province is the close attention of policy makers to good teacher management and development.

Harsha Athurupane, Lead Economist and Program Leader for Human Development for Sri Lanka and the Maldives at World Bank said the Southern Province had lifted the level of teaching in the worst resourced schools in two ways.

For estate (plantations) schools which face chronic shortages of teachers, the Southern Province had started recruiting undergraduates from the Jaffna University.

For other schools, the provincial authorities had developed a teacher transfer policy to re-deploy teachers from schools which had excesses to which had shortages.

Teachers were transferred so that the travelling time from home to the new school was not greater than the current time, which reduced resistance to transfers, allowing better resource allocation.

“This policy was successful in allocating teachers,” Athurupane said. “It can be adopted in other areas.”

Sri Lanka’s Eastern Province, which had been hit by a 30-year war scored the lowest at 50.7, followed by the Central Province at 54. Sri Lanka’s Uva Province which had large estate (plantations) population had a score of 55.

The government was already spending more in areas with the lowest scores, in both health and education sector, the report said, and it can be used as a guide to allocate resources in the future. Sri Lanka has also poured resources in former war-torn areas.

In a global comparison Sri Lanka scores 58 in the Human Capital Index giving a ranking of 74 out of 157 countries indicating that a child will be 58 percent as productive in adulthood compared to their full potential.

Sri Lanka did well compared to other South Asian nations but trailed behind the rest of Asia. A child born in Singapore can be expected to achieve 88 percent of their full potential, Japan and Korea 84 and Hong Kong 82.

Athurupane said the educational attainment of student in Sri Lanka after 13 years of schooling was equal to about 8 years in Singapore.

One of the problem areas was maths, he said. (EconomyNext)

Sri Lanka budget deficit reaches 4.4-pct of GDP by July

Sri Lanka’s budget deficit expanded to 684 about 4.4 percent of estimated gross domestic product by July 2019, up from 3.2 percent in 2019, as revenues were hit in the wake of a currency fall last year, official data shows.

Sri Lanka budgeted a 4.4 percent of GDP deficit (685 billion rupees) for the full year 2019.

Total revenues fell 4.4 percent from a year earlier to 1,031.9 billion rupees to 6.7 percent of GDP from 7.5 percent a year earlier, and tax revenues fell to 944.4 billion rupees from 983.3 billion rupees a year earlier, fiscal data published by the central bank showed.

But current spending grew 10.2 percent to 1,343.7 billion rupees or to 8.7 percent of GDP from 8.4 percent, leaving a revenue deficit of 311.8 billion rupees or 2.0 percent of GDP, up from 0.9 percent last year.

Capital expenditure grew 13 percent to 373.4 billion rupees or 2.4 percent of GDP, leaving a total deficit of about 4.4 percent of GDP.

About 3.7 percent of the deficit (about 570 billion rupees) was financed domestically and 1.3 percent (about 187 billion rupees) from foreign sources. (EconomyNext)

Tokyo stocks open lower with eyes on global events

Tokyo stocks opened lower on Monday, following Wall Street's lead, as investors awaited a series of key events, starting with China's manufacturing data later in the day.

The benchmark Nikkei 225 index was down 0.49 percent or 106.74 points at 21,772.16 in early trade, while the broader Topix index was down 0.72 percent or 11.57 points at 1,592.68.

“The Tokyo market is seen starting with falls, weighed down by losses in the US market, with investors' eyes on the Chinese manufacturing PMI” indicator due at 0100 GMT, Yutaka Masushima, market analyst at Monex, said in a note.

The dollar fetched 107.95 yen in early Asian trade, unchanged from the level in New York on Friday.

Market participants were also awaiting key events and data later this week, including the Bank of Japan's Tankan quarterly business confidence survey on Tuesday, and a sales tax hike also on Tuesday, analysts said.

Negative impact from the sales tax hike on domestic demand this time “will likely be smaller than the previous tax hike” in 2014, Mitsuhiro Shibuya, senior strategist at Daiwa Securities said.

In individual share trading, automakers were among losers, with Toyota trading down 1.49 percent at 7,259 yen, Honda down 0.51 percent at 2,825.5 yen and Nissan off 0.67 percent at 681.3 yen.

Some other blue-chip exporters were also lower, with Canon slipping 0.75 percent to 2,904 yen and Hitachi falling 1.22 percent at 4,031 yen.

On Wall Street, the Dow ended down 0.3 percent at 26,820.25. (AFP)

