

NEWS ROUND UP

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Stock market turns bullish with Rs. 52 b value gain

Signs of bullish sentiments, especially by retailers, were apparent yesterday as the Colombo stock market gained sharply the first day of trading since the shocking political developments late Friday.

The market capitalisation saw a Rs. 52 billion increase as the All Share Index and the active S&P SL 20 index gained by 2% each whilst turnover crossed the Rs. 4 billion mark.

Blue chips, led by JKH, dominated turnover with heavy foreign selling, and high net worth individuals and few corporates collecting quantities. Retailers were busy collecting stock which, until yesterday, had dipped in value.

First Capital said yesterday's gain was the highest in nearly four years and turnover was a six-month high.

"Investor sentiment has bounced back," claimed a market analyst on the news of the appointment of Mahinda Rajapaksa as Prime Minister by President Maithripala Sirisena. However, incumbent Prime Minister Ranil Wickremesinghe continuing to be resolute that Sirisena's move was unconstitutional has fuelled greater uncertainty, other analysts pointed out.

Prior to yesterday's gain, the ASI was down 8.4% and the S&P SL fell sharply by 18%.

JKH saw 21.1 million of its shares traded for nearly Rs. 3 billion with 19.6 million shares changing hands via six crossings. Whilst foreigners sold, speculation was that existing shareholders Captains and Melstacorp were on the buying side. The share price of John Keells Holdings increased by Rs. 1.80 (1.28%) closing at Rs. 141.90 whilst foreign holdings decreased by 20.05 million shares. The blue chip also announced an interim dividend of Rs. 2 per share.

HNB saw 2.15 million of its shares trade for Rs. 447 million with foreign selling of 0.8 million shares. Nimal Perera had collected 1 million HNB shares as part of his trading portfolio. HNB gained Rs. 1.70 (0.82%) to close at Rs. 210.

Softlogic Holdings was third highest with a turnover of Rs. 309 million, but it was a crossing of 15.1 million shares involving a transfer between accounts of a foreign fund.

These three stocks accounted for 83.7% of the turnover and total foreign sales accounted for 88.3% of the turnover.

For ASI's gain, Distilleries, Commercial Bank and Hemas Holdings were the major contributors, according to CT CLSA Securities.

Retailers betting on a construction rebound under Mahinda Rajapaksa triggered interest on Access Engineering, which saw 3 million of its shares trade for Rs. 48.6 million and the price closing at Rs. 15.70, up by Rs. 2 or 14.5%. Construction sector gained by 13%, according to Acuity Stockbrokers.

NDB Securities said Chevron Lubricants was also included amongst the top turnover contributors. The share price of Chevron Lubricants appreciated by Rs. 2 (2.94%) to close at Rs. 70. It announced an interim dividend of Rs. 2 per share. (Dailyft)

Rupee hits record low amid political crisis

The rupee slumped to a record low on Monday as growing political turmoil sparked buying of dollars by importers. The rupee dropped to a record low of 174.30 per dollar on Monday, surpassing the earlier

record of 173.08 hit on Friday. The rupee ended at 173.75/90 per dollar, compared with its previous close of 173.05/20.

It has weakened 2.8% so far this month after a 4.7% drop in September against the dollar, and has dropped 13.2% so far this year. (Dailyft)

Dollar hovers near 10-week peak as global sentiment remains frail

The dollar held firm against a basket of its key rivals on Monday, not far off a 10-week peak hit after data showed US economic growth slowed less than expected and as global risk sentiment remained fragile.

The US currency has found support recently on safe-haven buying as investor demand for riskier assets waned on steep declines in world equity markets on concerns over corporate earnings, geopolitical uncertainty and global growth.

On Monday, the dollar index, which measures the greenback's performance against a basket of six major currencies, edged 0.15% higher to 96.499. The index has gained 1.4% this month.

On Friday, it rose as high as 96.860, its best level since Aug. 15, after data showed the US economy slowed less than expected in the third quarter, before turning down to end 0.3% lower on the day.

Trade tensions between the United States and China, and a steady pace of rate increases by the Federal Reserve, have boosted the dollar, which serves as a safe haven in times of turmoil and economic stress.

A relatively strong US economy has also underpinned the dollar, although some weak corporate earnings have started to stoke doubts about the growth outlook especially in an environment of rising borrowing costs.

The euro dipped 0.1% to \$1.1390 even as German Chancellor Angela Merkel's junior coalition partners gave her conservatives until next year to deliver more policy results.

The euro has lost 1.8% this month on concerns over Italy's free-spending budget that would breach European Union fiscal rules. Markets have been jittery and yields on Italy's bonds have spiked since September as the EU disapproved of Rome's budget plans.

Against the yen, the dollar held steady at 111.92 yen. The dollar has weakened 2.3% against the yen, which also acts as a safe haven in times of geopolitical turmoil, from a more than 11-month high of 114.55 yen reached on Oct. 4. (Dailyft)

Asian shares bounce but sentiment remains fragile

Asian shares bounced from last week's steep declines on Monday, though sentiment remained fragile amid heightened worries about corporate earnings and a slowdown in global economic growth.

Wider sentiment in markets has been hit by a range of negative factors from an intensifying China-US trade conflict to worries about US corporate earnings to Italian budget woes as well as Federal Reserve rate increases.

MSCI's broadest index of Asia-Pacific shares outside Japan gained 0.4% after sliding almost 4% last week.

Among emerging markets, Brazilian-linked stocks got a lift from the South American country's presidential election, which saw the victory of far-right candidate Jair Bolsonaro whose campaign centred on promises to clean up politics and crack down on crime.

Japan's Nikkei rallied 1% while Australian shares climbed 0.8%. South Korea's KOSPI added 0.7%.

E-Mini futures for the S&P 500 ESc1 and Dow minis 1YMc1 were also 0.3% higher each after a tumultuous week on Wall Street.

Chinese shares, however, bucked the trend with the blue-chip CSI 300 index down 0.9%. Hong Kong's Hang Seng index jumped 0.7%.

Analysts warn of more volatility after heavy losses across major equity indices left investors with negative returns for the year. Bears are on the rise, with some indices already in official correction territory amid heightened worries over corporate earnings and global growth.

The S&P 500 ended at its lowest level since early May on Friday and flirted with correction territory, pressured by heavy losses in technology and internet shares.

(Dailyft)

Bond yields increase amidst uncertainties

The secondary market bond yields was seen increasing considerably yesterday mainly on the three-year maturities of 01.05.21 and 15.12.21 to daily highs of 11.44% and 11.68% respectively against its previous days closings of 10.85/95 and 10.90/00, driven by foreign selling interest.

In addition, the 15.09.19 and 15.07.23 maturities were traded to highs of 10.95% and 11.75% respectively against its previous days closings of 10.20/25 and 11.35/40.

The total secondary market Treasury bond/bill transacted volume for 26 October was Rs. 4.60 billion.

In the money market, the net liquidity shortfall stood at Rs. 38.18 billion yesterday with call money and repo averaging 8.43% and 8.46% respectively.

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. 10.75 billion and Rs. 20 billion respectively at weighted averages of 8.44% and 8.47%.

A further amount of Rs. 13.4 billion was injected by way of 14 day term repo auction at a weighted average of 8.48%, valued today.

Rupee loses further

In the Forex market, the USD/LKR rate on spot contracts was seen depreciating further yesterday to hit fresh low of Rs. 174.30 before closing the day at Rs. 173.80 against its previous day's closing levels of Rs.173.05/20 on the back of foreign selling in capital markets and dollar buying interest by banks.

The total USD/LKR traded volume for 26 October was \$ 59.90 million.

Some of the forward USD/LKR rates that prevailed in the market were: one month – 174.80/20; three months – 176.80/20; and six months – 179.80/30.

(Dailyft)

Seylan Bank records Rs. 3.1 b PAT in 3Q 2018

Seylan Bank closed the nine months ending 30 September 2018 with a post-tax profit of Rs. 3,138 million, a moderate growth of 4.5 % over the corresponding period last year in the backdrop of challenging market conditions.

The bank increased its Net Interest Income and recorded a commendable growth of 14.4% to reach Rs. 13,013 million in spite of the mounting pressure on the margins due to rising cost of funds. The Net Interest Margin contracted from 4.2% in 2017 to 4.1% in 3Q 2018 due to cost of deposits increased at a faster rate.

Net fee and commission income witnessed a moderate growth of 7.1% from Rs. 2,753 million to Rs. 2,948 million in 3Q 2018. This was mainly attributed from core banking related business.

Other operating income comprising net gains from trading, gains on financial investments, gains on foreign exchange decreased by 18.6% from Rs. 1,227 million reported in 3Q - 2017 to Rs. 998 million in 3Q-2018.

The total impairment costs of the bank increased by 33.6% from Rs. 1,440 million to Rs. 1,923 million. Further, SLFRS 09, issued in July 2014, is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces LKAS 39 Financial Instruments: Recognition and Measurement.

The bank has assessed the impact on transition based on gap analysis and quantifications performed on its Financial Statements as at 31 December 2016 on adoption of SLFRS 9 with the assistance of an external consultant.

Based on the preliminary assessments undertaken, the estimated additional impairment provision on the Financial Statements for the year ended December 31, 2017, on adoption of SLFRS 9 is expected to be in the range of 30% to 45% of the total impairment provision on different portfolios.

Total expenses increased by 8.3% from Rs. 8,200 million to Rs. 8,885 million and were fuelled by new investments in technology, branch expansion etc. Cost efficiency and productivity have taken a predominant role in the bank's day-to-day operations. The bank continues to focus on cost initiatives coupled with process re-engineering and exploring ways of inculcating a culture of working smarter across all the functions by the employees.

The bank reported a net credit growth of 11.7 % with net advances growing from Rs. 280,862 million to Rs. 313,729 million while the deposit base grew by 8.8% from Rs. 307,099 million to Rs. 334,046 million during the nine months ended 30 September 2018. Bank CASA ratio stood at 29%.

Overall as a result of the performance during the nine months, the bank's Earning per Share (EPS) improved from Rs. 8.20 to Rs. 8.57. The bank recorded a Return on Average Assets (ROAA) of 1.5% and Return on Equity (ROE) of 11.9%. The bank's Net Asset value per share as at 30 September 2018 was Rs. 99.40 (Group Rs. 103.79).

The bank's Common Equity Tier 1, Total Tier 1 and Total Capital Adequacy Ratio remained strong at 10.2%, 10.2% and 13.5% respectively as at 30 September 2018, as against the statutory minimum as per the BASEL III requirement applicable with effect from 1 July.

As at 30 September, the bank's network comprised 170 Banking Centres, 207 ATMs and 34 CDMs giving seamless accessibility to its customers across the country.

The bank recognises education as one of the building blocks of the nation and considers it a priority area for its CSR activities. The bank continued its CSR initiatives focusing on education and accelerated its libraries project for underprivileged schools. During the nine months 12 school libraries were opened taking the overall number of libraries opened under the project to 165. Seylan Bank won three ARC awards at the 2018 International ARC Awards for 2017 Annual Report namely a Gold Award for Non-Traditional Annual Report – Banks: Local, a Bronze award for Interior Design and Honours for Financial Data. (Dailyft)

Exports grow 3.7% in August to top \$ 1b

Surpassing \$ 1 billion for the third consecutive month, earnings from merchandise exports increased by 3.7% year-on-year to \$ 1,037 million in August 2018 helping the deficit narrow marginally to 5.8%, the Central Bank said yesterday.

The external sector performance remained subdued in August. During the month, the deficit in the trade account narrowed marginally compared to a year earlier as the rise in export income outpaced the growth in import expenditure. Meanwhile, other inflows to the current account continued to be modest in August with a marginal increase in earnings from tourism and a decline in workers' remittances.

On a net basis, the financial account of the Balance of Payments (BOP) recorded outflows during the month, due to withdrawals of foreign investments from both the government securities market and the Colombo Stock Exchange (CSE) and continued debt service payments.

These developments, alongside the broad based strengthening of the dollar, continued to exert pressure on the exchange rate to depreciate, thus necessitating intervention by the Central Bank in the domestic foreign exchange market to curtail undue excessive volatility in the exchange rate. As at end August, gross official reserves amounted to \$ 8.6 billion.

In August, export earnings increased at a faster pace than the growth in import expenditure, narrowing the deficit in the trade account marginally on a year-on-year basis. Nevertheless, on a cumulative basis, the trade deficit expanded during the first eight months of 2018 in comparison to the corresponding period of 2017.

Merchandise export growth was mainly driven by higher performance in industrial exports while agricultural and mineral exports declined. Under industrial exports, earnings from textiles and garments increased in August, reflecting increased demand from the USA and non-traditional markets, such as India, Japan, Australia and Canada, despite a decline in exports to the EU market. Further, export earnings from rubber products rose during the month due to the better performance in all sub categories, particularly rubber tyres.

Earnings from petroleum products increased substantially in August due to higher export prices of bunker and aviation fuel in line with rising fuel prices in the international market, although a reduction was recorded in export volumes. Export earnings from food, beverages and tobacco also increased during the month due to the good performance in manufactured tobacco and vegetable, fruit and nuts preparations, particularly in coconut-related products. In addition, earnings from machinery and mechanical appliances, base metals and articles and chemical products increased in August, contributing towards the increase in industrial exports.

However, export earnings from leather, travel goods and footwear, and gems, diamonds and jewellery declined during the month. Meanwhile, earnings from agricultural exports declined during the month owing to poor performance in almost all categories except unmanufactured tobacco and rubber. Reflecting the combined impact of lower average export prices and exported volumes of tea, export

earnings from tea declined in August. Export earnings from spices reduced during the month due to the poor performance in almost all sub categories except cinnamon.

Further, earnings from coconut exports were lower due to the reduction in earnings from coconut kernel products, such as desiccated coconut and coconut oil. Leading markets for merchandise exports of Sri Lanka in August were the USA, the UK, India, Germany and Italy, which accounted for about 52% of total exports.

Expenditure on merchandise imports increased by 1.6% (year-on-year) to \$ 1,887 million in August mainly due to the high expenditure incurred on fuel and vehicle imports.

Under intermediate goods, expenditure on fuel imports increased significantly during the month owing to higher import prices of crude oil and refined petroleum products despite a reduction in import volumes. In addition, import expenditure on textiles and textile articles, chemical products, plastic and articles thereof and mineral products increased considerably.

However, gold, base metals, and wheat and maize declined during this period. Under consumer goods, expenditure on personal motor vehicle imports continued to increase on a year-on-year basis for the ninth consecutive month in August mainly due to higher imports of cars with less than 1,000 cylinder capacity (cc), hybrid and electric motor cars.

However, considering the pressure on the BOP from increased imports, both the Central Bank and the Government took several measures aimed at curtailing high vehicle imports. Accordingly, taxes applicable on the importation of cars with less than 1,000 cylinder capacity (cc), hybrid and electric motor vehicles were revised upward with effect from 1 August, and a 100% margin deposit requirement imposed against letters of credit (LCs) on non-commercial vehicle imports with effect from 19 September.

Further, the margin deposit requirement against LCs on non-commercial vehicle imports was increased to 200% while the LTV ratio for credit facilities granted in respect of hybrid motor vehicles was reduced to 50% from 70% with effect from 1 October. Meanwhile, the Ministry of Finance and Mass Media announced the suspension of concessionary vehicle permits for a limited period. With these policy measures, expenditure on vehicle imports is expected to decline in the coming months. Further, consumer goods such as dairy products, medical and pharmaceuticals and telecommunication devices increased during the month while expenditure on rice imports reduced owing to increased domestic supply.

However, recently introduced measures such as the 100% minimum cash margin deposit requirement against LCs/documents against acceptance (DA) terms on selected nonessential consumer goods imports and the prohibition on releasing foreign exchange by authorised dealers for making payments for non-essential goods by converting Sri Lankan rupees are expected to reduce the pressure on the BOP, which was coming through the increased expenditure on non-essential consumer goods imports.

However, import expenditure on investment goods declined in August due to lower expenses in almost all sub categories. China, India, Japan, Singapore and UAE were the main import origins in August accounting for about 55% of total imports. (Dailyft)

Asia Stocks Rise as Trump Discusses a China Deal: Markets Wrap

Asian stocks turned higher after President Donald Trump spoke about a “great” deal with China on trade, helping ease concerns after a report that the U.S. is preparing to put tariffs on all Chinese imports.

Australia's dollar, often considered a proxy for bets on China, also advanced after Trump told Fox News that he envisions a trade deal, though cautioned he didn't think Beijing was ready for one yet. The yen retreated, helping Japanese equities outperform the broader region. China's stocks rose, reversing earlier losses, though Hong Kong's benchmark stayed lower. Futures on the S&P 500 Index advanced after the benchmark had slumped Monday. The yuan was little changed after earlier hitting its weakest against the dollar in a decade.

Selling in U.S. stocks had intensified after Bloomberg reported the U.S. was preparing to announce by early December tariffs on all remaining Chinese imports if talks next month between presidents Donald Trump and Xi Jinping fail to ease the trade war. The news on Trump seeing a trade deal helped turn that around. Trump was also reported to see an agreement with Brazil, which has elected a right-wing army veteran as its next president.

Asia Tech Stocks Looking More Attractive, Templeton's Wilmshurst Says

Peter Wilmshurst in the Templeton Global Equity Group talks about U.S. and Asian stocks.

Source: Bloomberg

Inside the Tempest: Bloomberg Reporters Talk Markets

Elsewhere, the euro was little changed in trading Tuesday after falling in the wake of German Chancellor Angela Merkel saying she will quit as head of her party after nearly two decades. She intends to see out her term as head of state. The pound was steady after falling as U.K. Chancellor of the Exchequer Philip Hammond delivered the country's budget. Oil was set for a second day of declines as some of the world's biggest crude exporters delivered conflicting signals about global supply trends.

Here are some key events coming up this week:

- Highlights from earnings season will include: Facebook, Komatsu, Ping An Insurance, PetroChina, Macquarie, Apple, Alibaba, China Telecom, Fanuc, GE, Airbus, Credit Suisse, Exxon Mobil, Shell and BP.
- Monetary policy decisions are due in Japan and the U.K.
- On Friday, the final U.S. jobs report before the November midterm elections may show hiring improved as payrolls rose about 190,000, and the unemployment rate held at a 48-year low of 3.7 percent, analysts forecast.

And these are the main moves in markets:

Stocks

- The MSCI Asia Pacific Index rose 0.3 percent as of 11:50 a.m. Tokyo time.
- Topix index climbed 0.8 percent.
- Hong Kong's Hang Seng Index fell 0.3 percent.
- Kospi index climbed 0.4 percent.
- Australia's S&P/ASX 200 Index rose 0.2 percent.
- Futures on the S&P 500 Index rose 0.5 percent.

Currencies

- The Japanese yen fell 0.3 percent to 112.65 per dollar.
- The offshore yuan was little changed at 6.9693 per dollar. The onshore yuan hit its weakest in a decade earlier.
- The euro was flat at \$1.1384.

Bonds

- The yield on 10-year Treasuries rose about two basis points to 3.10 percent.
- Australia's 10-year yield rose one basis point to 2.58 percent.

Commodities

- West Texas Intermediate crude was flat at \$67.03 a barrel.
- Gold fell 0.1 percent to \$1,228.46 an ounce.

(Bloomberg)