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NEWS ROUND UP

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Momentum remains bearish ahead of Parliamentary elections

Activity in the secondary bond market remained sluggish during the week ending 14 August as primary auction yields continued to increase on the backdrop of a wait and see policy adopted by most market participants.

The weighted averages on the 182 day bill, 364 day bill and the 10 year bond maturity of 1 August 2025 were seen increasing by 07, 09 and 04 basis points respectively during the week to 6.57%, 6.63% and 9.67%.

However, secondary market bond yields were seen dipping marginally week on week mainly on the belly end of the yield curve with the 1 August 2021, 1 October 2022, 1 September 2023 and 1 August 2025 maturities dipping to weekly lows of 8.86%, 9.08%, 9.25% and 9.55% respectively while yields on the shorter end of the yield curve continued to increase.

On the longer end of the curve, yields remained stagnant translating to a flattening yield curve. In secondary bill markets, selling interest saw durations centering the 182 day and 364 day bills been offered at levels of 6.55% and 6.65% respectively.

Meanwhile, the foreign holding in rupee bonds continued to decline for a seventeenth consecutive week by Rs. 5.12 billion to a total of Rs. 379.12 billion.

In money markets, the surplus liquidity in the system lost its dominance over CBSL's holding of Government securities during the week ending 14 August as surplus liquidity dipped below its holding levels. The overnight call money and repo rates averaged at 6.12% and 5.90% respectively for the week against its previous weeks averages of 6.11% and 5.85% with average liquidity dipping to Rs. 67.10 billion during the week against its previous week's average of Rs. 102.52 billion.

Rupee depreciates further (Daily FT)

Election day guide – Sell if Rajapaksa's party wins: Bloomberg report

Bloomberg: For financial investors, the bet on Sri Lanka's election is simple: Sell if former President Mahinda Rajapaksa's party wins. The Parliamentary vote on 17 August will be the first test at the polls since President Maithripala Sirisena defeated Rajapaksa in January to end his 10-year rule.

Now Sirisena needs his allies to win control of Parliament to ensure stability on the island nation best known for its beach resorts.

Rajapaksa, 69, is doing everything he can to spoil the party. He wants to make a comeback and replace Prime Minister Ranil Wickremesinghe, a scenario that may bring more strife to a nation that ended a bloody civil war in 2009.

A win for the current ruling coalition "will be taken positively by investors as that will mean continuance of the existing policies," said Saurav Anand, South Asia Economist at Standard Chartered Plc. A majority for Rajapaksa's party, however, may lead to a "further period of policy uncertainty".

Political stability and soaring economic growth under Rajapaksa put Sri Lanka on the radar screen of global investors. The island's benchmark stock index is among the top 10 best performers globally over the past decade when measured in total US dollar returns.

But resentment built among the public over moves seen to consolidate Rajapaksa's power, enrich his family and shift the country under China's orbit. The frustration boiled over last year, when Sirisena split with Rajapaksa and went on to defeat him in a presidential vote.

Upon taking power, Sirisena pledged to rollback Rajapaksa's measures to enhance the president's power. He reinstalled a two-term limit and diluted the head of state's influence over the judiciary, military and bureaucracy. He also implemented a more balanced foreign policy.

Sirisena failed, however, to pass a constitutional amendment that would overhaul the voting system to make it more representative, prompting him to dissolve Parliament in June, almost a year before its term expired.

The uncertainty since Sirisena's win has affected perceptions of Sri Lanka. Overseas investors have sold a net $ 5.3 million of Colombo-listed shares in the year to 12 August, compared with net foreign purchases of $159 million in 2014 and $165 million the previous year.

The split between Sirisena and Rajapaksa divided their Sri Lanka Freedom Party, which leads an alliance that controlled about two-thirds of the 225-member parliament. Some Sirisena allies jumped to Wickremesinghe's United National Party.

On Monday, the vote will largely be split between the Wickremesinghe-led bloc and a coalition headed by Rajapaksa. While few opinion polls are reliable, an island-wide survey by the Colombo-based Centre for Policy Alternatives this month showed about 40% backing Wickremesinghe for prime minister, with 28% supporting Rajapaksa.

Rajapaksa's camp rejects assertions that a victory for him would lead to instability. The former President said last month that he wants to help boost growth and restart projects suspended by the Sirisena administration, including a Chinese-funded $1.4 billion Port City, the largest foreign funded project on record.

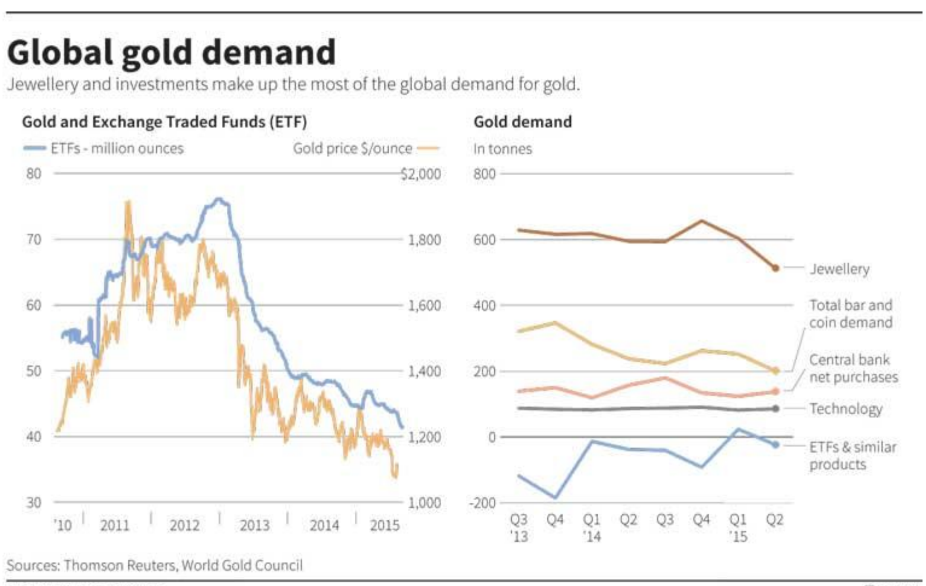
“All people of this country can work with Mahinda Rajapaksa, including President Sirisena,” Manusha Nanayakkara, a spokesman for Rajapaksa, said by phone. “They have worked together for nearly 30 years.”

Expectations of a win for the incumbent parties have helped boost the Colombo All-Share Index. It’s risen 10% since hitting a 2015 low in March, and is up 2% this year. The rupee has depreciated about 2% in the year to 134 to the dollar.

A surprise win for Rajapaksa’s coalition, on the other hand, would set up a direct clash with Sirisena. The President has said that he won’t appoint his top foe as prime minister.

“The office would likely go to a different figure while Rajapaksa would hold most of the power, setting up continual clashes with Sirisena,” said Sasha Riser-Kositsky, Asia Associate at Eurasia Group. “Sri Lanka would face years of highly unstable governance.”

Global gold demand slid to 6-year low in second quarter: WGC



Reuters: Gold demand hit a six-year low in the second quarter, a World Gold Council report showed on Thursday, as sluggish price movement and the prospect of better returns in equities curbed interest in the metal.

Demand fell 12% to 914.9 tons, with declines in China and India accounting for nearly half of the drop, the WGC said. Globally, jewellery buying fell 14%, investment slid 11%, and central bank buying was 13% lower.

“Jewellery demand came under pressure from negative consumer sentiment, while investment was a casualty of directionless prices and stock market gains,” the WGC said.

Chinese consumer demand fell 3%, with consumer sentiment damaged by volatility in equities and concerns over decelerating growth. With offtake of 216.5 tons, China remained the world's biggest gold consumer.

In number two buyer India, jewellery consumption fell 23% as rural incomes were knocked by severe weather, while investment slid 30% to a six-year low, hurt by competition from equities and uncertainty over price direction.

Spot gold was heavily rangebound in the second quarter, with the spread between its highs and lows the narrowest of any quarter in eight years. Prices have since dropped sharply, hitting a 5-1/2 year low late last month.

Lower prices should lead to better demand in Asia in the full year, the WGC said. This week's devaluation of the Chinese yuan is also expected to boost demand, it added.

"One of the big narratives for the development of the global economy is that the renminbi (yuan) will attain an ever greater role in global financial markets," the WGC's market intelligence manager Alistair Hewitt said. "For it to do that, it needs a floating exchange rate, and it needs to internationalise."

"As that happens we're going to see greater degrees of volatility within currency markets and within financial markets. Those factors will ultimately underpin gold demand as people look to hedge their risk."

Consumer demand fell by nearly a quarter in the Middle East in the last quarter, while Turkish buying was down 50%.

US and European consumer demand rose, however, with European investors buying on concerns over Greece.

European bar and coin demand rose 19% or 7.3 tons, against average declines of 1.7 tons across other markets. Investment in European exchange-traded funds rose 6.6 tons in Q2, compared to an outflow of nearly 23 tons in ETFs globally.

"Demand for bars, coins and ETFs was boosted by the Greek crisis and the possible threat to the stability of the euro area," the WGC said.

In the full year the WGC expects global demand to reach 4,200-4,300 tons, it said. Last year it totalled 4,220 tons. (Daily FT)

Golden Key depositors happy with the new repayments

Pursuant to a proposal by Minister of Finance Ravi Karunanayake to repay 41% of the security deposit holding balances of GKCCCL depositors, the Central Bank of Sri Lanka has formulated the modalities to effectuate the repayment plan and submitted same to the Supreme Courts (SC) on 4 August 2015.

During the Supreme Court proceedings of the SC/FR/191/2009 case Viraj Dayaratne, Deputy Solicitor General tendered to Court a motion with notice to the Petitioners and Respondents indicating the modalities that are required to be put in place to effectuate this repayment plan.

Learned Counsels of the Petitioners and the Respondents of the SC/FR/191/2009 had no objection to the modalities being implemented. Accordingly, in view of the settlement reached among the said parties, the Monetary Board of the Central Bank would take steps to give effect to the modalities of the proposal.

Accordingly the Security Deposit Holders (SDH) who have deposits to the value of Rs. 2 m would be paid off within one month. The quantum of funds required for same is Rs. 544.3 m and same has already been received by GKCCCL.

The second tranche would be for the SDH who have deposits ranging from Rs. 2 m to Rs. 10 m and is due to be paid within two months and Rs. 3.9456 billion is required for same. The final tranche amounting to Rs. 4.0551 billion would for the customers who have deposits above Rs. 10 m and is to be completed within a period of one year.

Golden Key Credit Card Company Chief Executive Officer Dinesh Perera, says that depositors are pleased with the move of the Government and the Monetary Board of the Central Bank to settle 41% of the balance of security deposit holders.

He also confirms that the cheques for deposit holdings of up to Rs. 1 m had been posted two weeks back. The payments for deposits have been processed and made by drawing account payee cheques in the name of the security deposit holders. The cheques for depositors up to Rs. 2 m have been posted to their addresses available with the GKCCCL database. The CEO informs that there were a lot of inquiries coming in asking about the new repayment and hence provides the following answers for the frequently asked questions for the easy reference of the customers.

Q: How is the calculation taking place in making the payments?

A: The payments are being made based on a maximum of 41% of the net SD value as at end of 2008.

Q: What is net SD value?

A: The net SD value is the total deposit less any credit card outstanding as at end of 2008.

Q: What is the calculation mechanism?

A: 41% of the deposit less the payments already made under the different phases mentioned above. Hence a depositor having a balance of Rs. 2 m would now receive a payment of Rs. 520,000 as Rs. 300,000 had been paid under the first 3 phases.

Q: Why are the payments limited to 41%?

A: The 41% is the agreed amount to be repaid as per the action plan presented to SC in 2013 and agreed by all parties including the depositors' representatives.

Q: What will happen to customers who had been issued cheques by the company in 2008 but returned for insufficient funds?

A: 41% of such cheques would be settled at the end of the final tranche and confirms that the fund requirement for such payments is also included in the final tranche.

Q: Why are you making payments by way of cheques?

A: This is to be in accordance with the proposed Modalities and approved by SC.

SDH's cheques are released subject to an audit procedure and the payments are audited against the Earnest and Young Audit report and several payments had been held back due to variances in the ID numbers, names, etc., and would only be released after further scrutiny. The CEO also states the audit procedures in sending out of the cheques and the checking mechanism would be further strengthened in handling the payments from the next tranche as the values were increasing. (Daily FT)

A summary of payments already made to the depositors in the past is as follows. (Made in Phase I, II, III.-up to end of 2014)

Deposit Range (RS)	No. of Depositors paid in 1st phase	Amount (Rs)	No. of Depositors paid in 2nd phase	Amount (Rs)	No. of Depositors paid in 3rd phase	Amount (Rs)
0 - 100,000	208	9,264,581	-	-	0	-
100,001 - 200,000	336	30,635,826	146	3,610,661	0	-
200,001 - 300,000	351	35,100,000	304	22,945,611	0	
300,001 - 1,000,000	1681	168,100,000	1554	155,676,711	1573	73,089,308
➢ 1,000,000	5476	548,675,167	5056	504,098,175.27	5260	515,599,163
Total	**8052**	**791,775,575**	**7060**	**685,057,753**	**6833**	**588,688,472**

Payments made under phase 4 in January 2015

- Rs.10, 575, 000.00 to 465 Depositors who have deposited up to Rs.1, 000,000.00. This was made on the basis of 1/3 of the balance to meet the 41% approved in the Plan of Action. The balance 2/3 for these customers were paid recently.

Sampath Group records pre-tax profit growth of 32% in 1H 2015

Sampath Group recorded an impressive half year growth in profitability with a pre-tax profit of Rs 4.7 b, an increase of 32% over the previous year's first half pre-tax profit of Rs. 3.6 b. The profit after tax for the half year ended 30 June 2015 stood at Rs. 3.2 b, which is an increase of 13.8% over the corresponding period in 2014.

The bank, the main entity of the Group, recorded a profit before tax of Rs. 4.4 b, compared to Rs. 3.4 b recorded in the corresponding period of 2014, which is an increase of 30.3%. The post–tax profit for the six months ended 30 June 2015 of the bank has also rose by 11.8%, from Rs. 2.7 b in 2014 to Rs. 2.9 b in 2015.

A lower growth rate in post-tax profits, both at the Group and bank levels than that in pre-tax profits, arose due to reversal of certain tax over provisions of previous years, upon finalisation of the respective tax returns in the 1H 2014.

Net Interest Income (NII) increased from Rs. 7.8 b in 1H 2014 to Rs. 8.5 b in 1H 2015, registering a moderate growth of Rs. 729 m (9.4%). This growth in NII was achieved despite interest margin shrinking from 4.07% in the 1 H 2014 to 3.80% in 1H 2015, as a result of the growth in the fund-based operations of the bank. However, timely re-pricing measures taken by the ALCO, the bank's success in minimising the NPLs and improvement in the CASA ratio, helped to maintain the Net Interest Margins (NIM) at current levels.

The bank's net fee and commission income for the first half of 2015 stood at Rs. 2.8 b, which was a growth of 26%. Increase in business volume from operations such as credit card and debit cards, Trade related services and other banking services contributed to this growth.

Other operating income too recorded an impressive growth of 156% and stood at Rs. 1.3 b in 1H 2015 compared to Rs. 0.5 b recorded in the corresponding period of 2014. The major contributory factors for this increase were realised exchange income and income from currency notes operations.

Operating expenses of the bank increased from Rs. 5.6 b in 1H 2014 to Rs. 6.6 b during the period under review, reflecting a growth of 17%. This was due to general price increases, business promotional campaigns, credit card related expenses and salary increments given to the staff members during the period under review.

Reduction in provisions against the gold loans (pawning) in 2015 was the main reason for the reduction in collective impairment charge by Rs. 578 m, during the period under review, compared to the corresponding period in 2014. The bank's total pawning advances as at 30 June 2015 was only 5.1% of the total advances.

Total deposits recorded a growth of 6.3% from Rs. 342 b as at 31 December 2014 to Rs. 364 b as at 30 June 2015. Despite the drop in pawning advances by Rs. 7.3 b during the period, the bank's total gross advances increased by Rs. 29 b or 9%, from Rs. 311 b as at 31 December 2014 to Rs. 340 b, at the end of the first half of 2015. Total assets stood at Rs. 461 b as at 30 June 2015, reflecting a growth of 6.7% against the total assets as at 31 December 2014.

ROE (after tax) for the six months ended 30 June 2015 stood at 19% reflecting a marginal growth compared to the corresponding period's 18.77%. ROA (after tax) for the six months ended 30 June 2015 stood at 1.34%. Earnings per share too reported an increase in the 1H 2015 and remained at Rs. 17.38, compared to Rs. 15.56 for the corresponding period of 2014. Similarly, NPL Ratio (Net of Interest In Suspense) also showed an improvement from 1.93% as at 31 December 2014 to 1.71% as at 30 June 2015.

Although the Tier I and Total capital adequacy ratios have marginally reduced by 0.36% and 0.75% respectively compared to 31 December 2014, mainly due to the credit growth mentioned above and the cash dividend paid in April 2015, the bank managed to maintain its capital adequacy ratios, Tier1 (8.47%) and Total (12.87%), well above the minimum regulatory requirements of 5% and 10%, respectively at the end of the first half of 2015.

The bank continued to adopt a policy of leveraging its capital to an optimum level, but will ensure to maintain a capital buffer adequate enough to support its future business expansion and risk profile. (Daily FT)

Global money transfer operator Small World FS partners with Commercial Bank

Payment services provider Small World FS has announced the launch of a new service for the global Sri Lankan community through a partnership with the Commercial Bank of Ceylon.

The award-winning Commercial Bank of Ceylon is one of the leading commercial banks in Sri Lanka with over 240 branches and 600 ATMs.

This partnership will enable Sri Lankans worldwide to send money home easily and quickly from any of the 32 countries where Small World FS has a presence, simply by visiting one of the company's dedicated branches, a convenient agent location, by phone, online or using their mobile.

Nick Day, CEO, Small World FS, commented: "Sri Lankans employed abroad send home over $7 billion every year to support their families and friends, and to invest back into their home country. This partnership between Small World FS and Commercial Bank of Ceylon will help the community get their funds to Sri Lanka faster and at much lower cost than with existing services."

Jegan Durairatnam, CEO, Commercial Bank of Ceylon Plc also commented: "Commercial Bank has over 45 years of unparalleled growth and achievement in Sri Lanka.

"We are always looking for ways to improve services to our customers around the world, and today's partnership with Small World FS is just one example of the work we are doing. We look forward to working closely with Small World FS as we support the global Sri Lankan community's payment transfer needs," he said (Daily FT)