

# Dun & Bradstreet South Asia Business Bulletin



## South Asia Business & Finance Update

- According to the World Bank, Bangladesh and Nepal are forecasted to see a growth rate faster than that of India and overall growth in South Asia is projected to slow down this fiscal in line with the global trend. Growth in South Asia is projected to fall to 5.9% in 2019, down 1.1% from April 2019 estimates.
- The Asian Development Bank (ADB) has released a new 5-year Country Partnership Strategy (CPS) for Nepal, through which the ADB expects to lend an estimated USD 500 Mn to USD 600 Mn on an average between 2020-2022. Under the new CPS, ADB will support hydropower development and renewable energy, roads and air transport, logistics, trade facilitation to strengthen domestic, regional and international connectivity, reduce costs of production and trade for businesses other than attracting private investments.
- According to the state of the economy report released by the Institute of Policy Studies in Sri Lanka, the economy is making a slow recovery posting a GDP growth of 3% in H1 2019, down from 4% in H1 2018. Successive setbacks from the October 2018 constitutional crisis and the terror attacks of April 2019 put pressure on the struggling economy.
- According to Hong Kong Trade Development Corporation, Hong Kong's economy expanded by a modest 0.5% year-on-year in real terms in the second quarter of 2019, after growing 0.6% in the preceding quarter. With the dampening domestic consumption and investment sentiments, the Government's forecast of Hong Kong's economic growth for 2019 is revised downwards from 2-3% in the May round of review to 0-1%.
- The World Bank estimates that 80% of the slowdown in India could be coming from international causes. Domestic demand has slipped with private consumption growing 3.1% in the last quarter from 7.3% a year ago, with manufacturing plummeting to below 1% in Q2 2019 compared to over 10% a year ago.

## Stock Markets – Major Asian markets on a gaining spree

Highlights	Indices*	11 Oct	18 Oct	Chg. %	YTD %
• <b>Bangladeshi indices end in negative zone</b>	DSEX <sup>#</sup>	4,810	4,771	(0.81)	(11.41)
	CSE 30 <sup>#</sup>	12,888	12,837	(0.40)	(11.47)
• <b>Sensex positive on economic cues</b>	Sensex	38,127	39,298	3.07	8.95
	Hang Seng	26,308	26,720	1.57	3.38
• <b>Nikkei upbeat on positive global cues</b>	Nikkei 225	21,799	22,493	3.18	12.38
	STI	3,114	3,114	0.00	1.47

The DSEX saw 47 companies that traded below face value of BDT 10, exposing investors to severe financial losses. In the Chittagong stock exchange, out of the 299 traded scrips, 94 advanced, 187 declined and 18 remained unchanged over the week.

The Sensex ended the week on a positive note amid hopes of an economic recovery over the next quarters and positive global sentiment. Indian equities also outperformed global equities for the week, with a rally in FII buying. The Hang Seng was upbeat boosted by positive sentiments towards the end of the week after the city's leader Carrie Lam unveiled a series of measures to loosen mortgage rules and encourage home ownership. The Nikkei 225 inclined over the week with positive cues on the US-China trade front and the Brexit deal. 17 out of the 33 industry categories of the Topix index ending in positive territory. Investors were optimistic after Britain and the EU found consensus on a severance deal. The STI remained unchanged in spite of non-oil domestic exports slipping 8.1% in September amid the seventh straight month of exports contraction.

**\*Note:** DSEX (Dhaka Stock Exchange Index), CSE 30 (Chittagong Stock Exchange), Sensex (Bombay Stock Exchange), Hang Seng (Stock market index for Hong Kong Stock Exchange), Nikkei 225 (Stock market index for the Tokyo Stock Exchange), STI (Stock market index for Singapore stock market)

# The trading week for DSEX & CSE 30 is from Sunday to Thursday

The trading week for all other markets are from Monday to Friday

## Global Currency Markets - Greenback lowers amid recent global economic developments

Highlights	Currency Exchange Rates			
	Currency	10 Oct	17 Oct	Chg. %
<ul style="list-style-type: none"> <li>• Pound gains on the back of potential Brexit deal</li> <li>• Dollar declines on weak retail sales data</li> <li>• Yen loses steam amid improvement in risk appetite</li> </ul>	EUR/USD	1.10	1.11	0.91
	GBP/USD	1.23	1.28	4.07
	USD/CHF	0.99	0.99	0.00
	USD/JPY	107.64	108.68	0.97

The Dollar traded lower against the Pound on Friday, 11 October amid possibility of orderly Brexit after British and Irish Prime Ministers stated that they had found "a pathway" to a possible deal. Safe haven currencies dropped amid improvement in risk sentiments on account of development in US-China trade talks. On Monday, Swiss Franc gained on safe haven appeal as investors witnessed limited progress in US-China trade deal. Meanwhile, the Pound steadied on Brexit talks with the European Union (EU).

The Dollar gained on Tuesday amid fading optimism over the latest US-China trade truce. On Wednesday, the Dollar dropped following the release of lower than expected retail sales data, raising concerns over slowing economic growth. On Thursday, both Euro and the Pound gained after UK and EU reached an agreement on Brexit deal. Meanwhile, the Yen lost steam against the Dollar on improvement in risk appetite.

## Global Commodity Markets - Oil prices continue to gain

Highlights	Commodity Exchange Rates			
	Prices in USD	10 Oct	17 Oct	Chg. %
<ul style="list-style-type: none"> <li>• Weak Chinese economic data weighs on investor sentiments</li> <li>• OPEC hints at deeper output cuts</li> <li>• Oil rises amid built in US crude inventories</li> </ul>	Brent/barrel	59.10	59.91	1.37
	WTI/barrel	53.55	53.93	0.71
	OPEC Basket/barrel	58.71	59.54	1.41
	Gold/ounce	1,494.80	1,492.30	(0.17)

**Crude:** Oil prices gained on Friday, 11 October on news of missile strike on Iranian tanker in Red Sea and positive prospect of trade talks between China and the US. According to the reports, US President Donald Trump outlined the first phase of a deal to end a trade war with China and suspended a threatened tariff hike. This was coupled with data from Baker Hughes which indicated that the number of active rigs drilling in the US increased by 1 to 856 last week, snapping seven weeks losing streak. On Monday, prices declined by more than 1.5% on reports that China wants to have further talks with the US before signing "phase one" of trade deal. On Tuesday, oil prices declined further on weak Chinese economic data coupled with uncertainty surrounding Brexit. On Wednesday, while crude futures price edged higher, the price of OPEC daily basket settled lower following release of weekly data from the Energy Information Administration (EIA) which revealed an increase in US commercial crude inventories by 9.3 Million barrels last week. This was coupled with news of OPEC and other producers to continue to curb supplies. On Thursday, oil traded higher on a softer Dollar amid announcement of UK and EU reaching an agreement on Brexit deal. Prices were also boosted by larger than expected built in US crude inventories. EIA indicated that at 434.9 Million barrels, US crude oil inventories are about 2% above the five-year average for this time of the year.

**Gold:** Gold prices declined after UK managed to eke out a deal for its exit from the EU, lifting risk appetite.

**D&B Country Risk Indicator** – DB5b

**Level of Risk** – High Risk

**Ratings Outlook** – Deteriorating

**Business Environment Quality:** Credit growth has been weak and is likely to remain the same in 2019-20. The non-performing loans ratio rose above 3.8% in 2018 and is expected to rise further in 2019. A number of Sri Lankan corporates face debt-serviceability weaknesses. Non-performing loans were already fairly high (above 5.0%) in the tourism, IT and manufacturing sectors. Sri Lanka faces a debt-servicing crunch in 2019-20, when foreign debt repayments will surge to USD 4.0 Bn, stalling government spending and weighing on overall economic growth. Public finances remain a credit negative factor. The government is starting to consolidate state finances, but reforming the tax system is a huge undertaking. Gross official reserves, for their part, slipped to an estimated USD 7.2 Bn at end April 2019, equivalent to 4.1 months of imports. Sri Lanka's external debt stock remains very high compared with that of its peers as annual repayments are set to rise.



**Market Potential:** Economy slowed sharply in Q2

Sri Lanka's economy grew by 1.6% y-o-y in the second quarter of 2019, the slowest pace for five years. This was lower from the 3.7% annual GDP expansion in the first quarter, according to the Department of Census and Statistics. A contraction of 9.9% in accommodation, food and beverages, alongside a 1.5% decline in transportation of goods and services including warehousing, highlighted the impact on Sri Lanka's tourism industry.

Overall services, which account for almost 60% of the economy grew by a modest 1.6% y-o-y in the second quarter, down from 4.8% growth in the same period of 2018, although it was buoyed by strong expansion in telecommunications, insurance and reinsurance. The industrial sector, which comprises more than a quarter of the economy, grew by 1.4% y-o-y, down from 2.8% in Q2 2018, while agricultural output rose by just 1% y-o-y, compared with 5.6% a year earlier.

Private-sector growth has not yet picked up, despite interventions by the Central Bank to cut key policy rates by 50 basis points in both May and August. Further rate cuts are a possibility in the remaining months of this year and into 2020, given the central bank's confidence that inflation will remain within the 4-6% range in the medium term.

The slowing of Sri Lanka's economy is a concern, given the outlook for tourism and general economic uncertainty. However, the annual growth of 1.6% in the second quarter was slightly stronger than expected, considering the combination of the terror attacks and the damaging political and constitutional crisis that preceded it in October and November 2018. We still expect GDP to expand by 3.1% y-o-y in 2019 as a whole.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7, with DB1 indicating the lowest degree of risk. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on.

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- The US retail sales dropped 0.3% in September 2019 compared to previous month. The revised data for the month of August 2019 showed 0.6% increase.
- Japan's CPI in September 2019 was recorded at 101.9 index points, up 0.2% over a year before seasonal adjustment, and remained unchanged as compared to the previous month on a seasonally adjusted basis, the Statistics Bureau, Ministry of Internal Affairs and Communications indicated.
- Retail sales in the UK marked at 3.10% in September 2019 y-o-y basis and grew by 0.6% on a q-o-q basis, the Office for National Statistics indicated.
- According to the National Bureau of Statistics of China, Consumer Price Index of China ascended to 3.0% y-o-y basis in September 2019 from 2.8% in August 2019 and the Producer Price Index dropped 1.2% y-o-y in September 2019.

- As per the data released by the Central Bank of Russian Federation, the annual inflation rate decelerated by 0.3 percentage points to 4.0% in September 2019. The data further highlighted that on an average the consumer prices decreased by 0.2% during the period under review.

The South Asia Business Bulletin covers Bangladesh, Sri Lanka, Maldives, Nepal and Bhutan.

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