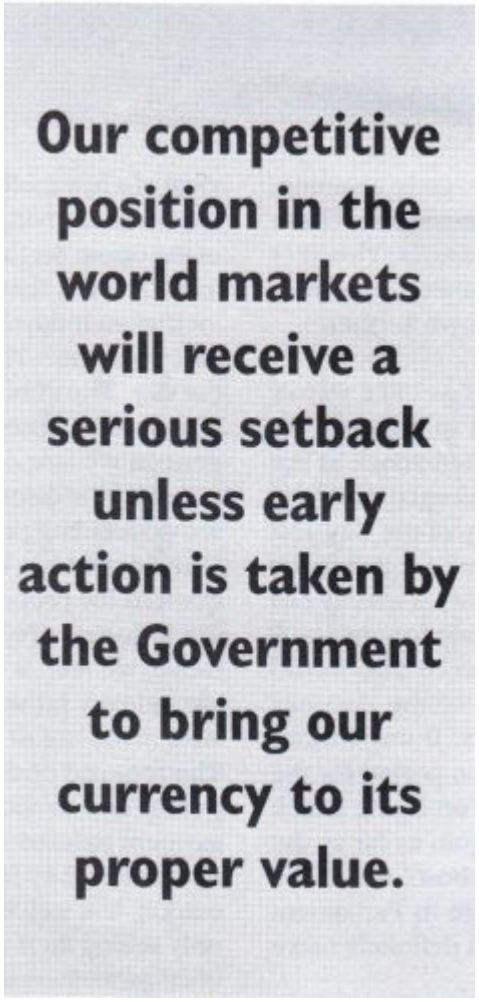
Market Modes

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Market Blues

Financial market turbulence triggered off by the floating and the subsequent collapse of the Thai Baht continued to haunt the global scene. The Hong Kong market crash in late October proved that even markets hitherto considered invincible are as vulnerable as any other to the bearish sentiment sweeping across Asia. The rest of the global markets were not spared either. October ’87 crash started with the massive sell off in Hong Kong. So did the one in October 97. The Westem economies are so closely linked to the Tiger Economies’ in the Far East that they had no chance of being left unscathed when the market turmoil in the East was taking a heavy toll. Posturing by Saddam Hussein added to the market woes and contributed in no small way to the gloom and doom hovering over the markets everywhere. When the markets in the developed countries in the West and those of the newly industrialized countries (NICS) in the East are in trouble one could reasonably expect the market in Sri Lanka, which depends heavily on exports to these countries to react in sympathy. The fallout from the global market fiasco was compounded by the paralysis demonstrated by the Central Bank in not devaluing the Rupee to bring it in line with the newly depreciated currencies in the rest of Asia. Already the exporters have started to feel the pinch. Our competitive position in the world markets will receive a serious setback unless early action is taken by the Government to bring our currency to its proper value. Moreover the overvaluation of the domes tic currency is definitely going to have an adverse effect on the balance of payments. Devaluing one’s currency is, undoubtedly, a politically unpopular move. But it is the ‘bitter pill’ that has to be swallowed to cure the economy from one of the most serious maladies affecting it. At a recent seminar the vice chancellor of the



University of Colombo, Prof. WD Lakshman, an eminent economist, was quoted saying that the problems confronting our country are not Economic, but Political & Social. This is a very accurate assessment of the predicament we are in. We know what has to be done. But we do not have the conviction or the guts to do it. We are aware that if we are to reach NIC status during our lifetime we should reduce our interest rates to single digit levels. But then we have two inefficient state banks which are unable to break even unless the interest rates are kept high. Again no one has the political will to privatize these institutions that hold the economy and the people of this country to ransom.

Impact of the Budget

Numerous tax concessions outlined in the recent budget, aptly described by many as the most market friendly budget to be presented in parliament in recent times,

failed to make any significant impression at the market. Despite the rebuff given by the market and the opposition in parliament the 1998 budget remains one drafted keeping free market policies, deregulation and dismantling of inefficient & counter-productive bureaucratic controls in mind. Reduction in corporate taxes for listed companies with broad based ownership and for businesses big & small engaged in certain target areas of activity are some of the most welcome proposals in the current budget. Reduction of customs duty on a wide variety of imported goods & raw material inputs to industry is a good preliminary move towards the eventual removal of all barriers to free and unhindered international trade. Removal of tariff & non-tariff barriers will ensure the evolution of this strategically located country as the trading & financial center in South Asia. We sincerely hope that the Government will finally muster the necessary courage to follow up this good piece of fiscal policy initiative by much needed monetary policy reforms and incentives. They should, without further hesitation, abandon the imprudent tight money policy that drove the country into a recession.

The IPOs

Maskeliya Plantations shares which started trading on 5th November, brought some life to the lackluster bourse. The share that started trading at Rs 30 touched Rs 50 within a few days of trading, and gradually slid down to Rs 37 by the end of the month. The market may not show the same degree of enthusiasm towards Watawala Plantations shares which will come to the market on 1st December. There are several reasons for this. One is that the estates managed by Watawala are not performing as well as those managed by Maskeliya. Another factor that may dampen the enthusiasm is the threatened strike action by plantation workers. The depressed mood of the market also could affect it adversely.

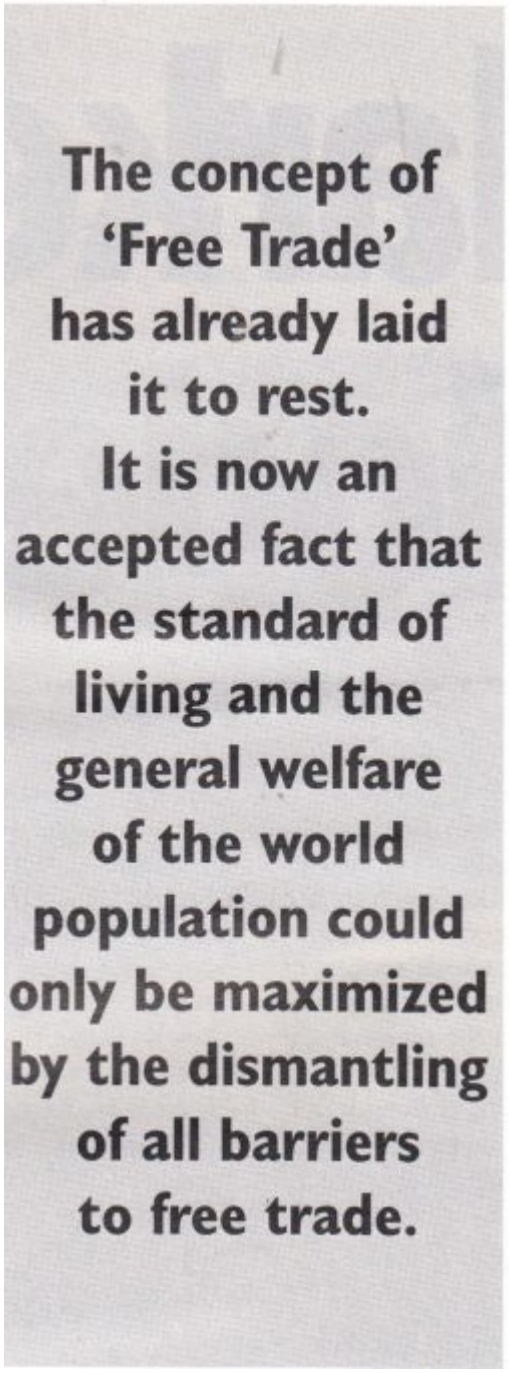
Partial divestiture of LB Finance by Vanik could best be described as a flop. There was hardly any interest in these shares despite their low P/E ratio and good future earnings forecast. The fact that Vanik decided to sell a part of their holding instead of issuing a new block of shares did not help to convince the market regarding their value and growth potential. The underwriters, Pramuka Bank and Ceylinco Securities & Financial Services, we understand, have however arranged with a buyer to dispose of the block of shares they will eventually have to buy honoring the underwriting agreement.

The next plantations IPO, the market is eagerly awaiting. is Madulsima, which may come in early December. These shares are more attractive than those of Watawala.

This IPO is likely to drain a considerable amount of liquidity away from the secondary market bringing the indices down further.

Hotel & Tourism Sector

Tiger supremo Prabakaran's B'Day as well as LTTE Hero's day/week passed almost without an incident to the great relief of those in the tourist industry. The aborted attack at the Kelanitissa power plant again exposed the inadequacy and the impotence of those entrusted with the security of the City and its key installations. Fortunately the industry was not that much affected by the attack at Galadari & Hilton. This is mainly because of the timing of the attack. It was too late for any tourist to cancel their bookings for this season since that would have resulted in their forgoing a large part of the deposits made at the time of making the reservations. If any further attacks between now and the hotel reservation period for the next tourist season could be prevented, the Fort bomb attack this year could well end up being a damp squib as far as the tourism industry is concerned. An end to the hostilities in the North and East as well as the smooth passage in Parliament of the Government's Devolution Proposals will definitely make everybody forget the violent past.



Vanik take-over of Forbes

Vanik's take-over of Forbes Ceylon was successfully concluded on 24th November with the former receiving acceptances for their offer from over 80% of the shareholders of Forbes. Though trading in Forbes shares was temporarily suspended

at the CSE from 25th November, acceptances of the offer was entertained by Vanik till the 27th. The acquisition of cash rich Forbes Ceylon is likely to infuse new life to Vanik. Vanik Bangladesh started operations on the 22nd as a financial services firm. These positive sentiments are likely to assist Vanik's share price in the medium term.

Tea & Rubber

Though tea prices remained high during the month the prices quoted for rubber declined mainly due to the price slump of the Malaysian Ringgit. The cartel of Natural Rubber Producing countries recently decided to redesignate in US Dollars their Floor Price' for compulsory purchases to the Rubber Stockpile'. Though world market price for rubber fell considerably in recent times, the fall was obscured by the rapid fall in value of the Malaysian currency in which the floor price is currently specified.

Textile Industry

The removal of import duty on textiles and garments was viewed with alarm by those engaged in the manufacture of textiles & garments for the local market. Our industrialists like those in many other parts of the developing world have taken protectionism for granted. The old school of thought that believed that the whole populace should suffer to ensure the survival of a few inefficient industries with connections to the party in power, is giving way to the notion of free trade and survival of the fittest. Sri Lanka will benefit more by being the 'Free Port in South Asia than being the Industrialized country nurturing inefficient industries with no comparative advantage to justify their existence. The ideal of Self Sufficiency' is not the order of the day. The concept of 'Free Trade' has already laid it to rest. It is now an accepted fact that the standard of living and the general welfare of the world population could only be maximized by the dismantling of all barriers to free trade. Those who are demanding protectionist support are living in the past. The Government has however shown some consideration, and requested for proposals for State support from those in the textile industry affected by the recent relaxation of tariffs. This move, we feel, is to avoid large scale redundancies in the textile industry rather than due to any special sympathy for those who made unfair profits while they hid behind tariff barriers. The removal of duty on textile and garment imports will also put an end to the widespread practice of the BOI registered garment industries leaking out' textiles imported as raw materials under duty free concessions granted to them, to the local market. It is well known that these

crooked profiteers were not only selling their duty free textiles and accessories but also finished garments made for export, in the lucrative domestic market.