ASSET MANAGEMENT

PRIVATE WEALTH MANAGEMENT

MY WEALTH MANAGEMENT

MARKET UPDATE AND FUND REVIEW

2017
AUGUST

!t's time

NDB | WEALTH

Click here for download

MARKET BRIEF BY NDB WEALTH

INFLATION SPIKES DUE TO BASE EFFECT

Inflation as measured by the CCPI (2013=100), increased to 6% in August 2017 on a year-on-year basis from last month's 4.8% mainly on account of the base effect, despite prices declining by 0.5% during the month. NCPI remained unchanged at 6.3% on a year-on-year basis in July although food prices declined by 0.7%. We expect inflation to remain within the mid single digit levels during the remainder of 2017 with adverse weather related supply side issues being expected to ease during the reminder of the year.

RUPEE APPRECIATED DURING THE MONTH

The Sri Lankan Rupee appreciated by 0.58% against the US Dollar (USD) in August. However, overall, the LKR has depreciated by 1.9% year to date. Globally, the green back fell to its lowest in 33 months on account of geopolitical and adverse weather related pressures.

INTEREST RATES TO DROP FURTHER

Interest rates have continued to drop during the month of August, with the 364 – day T - Bill closing the month at 9.67%. Foreign investor interest continued for the fifth month in a row, with a LKR 12.4 Bn net inflow to the bill and bond market increasing the foreign holding of Government securities to 5.5% at the end of August 2017. However, overall, foreign investors remain net sellers of Rupee denominated bills and bonds amounting to LKR 21.5 Bn for the year. Upward pressure on interest rates still remains a possibility due to weak macro-economic fundamentals.

FOREIGN PARTICIPATION IN EQUITY CONTINUES

The Equity market also continues to capture foreign interest despite the All Share Price Index (ASPI) and the S&P Sri Lanka 20 (S&PSL20) index declining by 3.7% and 3.3% respectively for the month. Overall, the ASPI and the S&PSL20 index has gained 2.6% and 5.43% year to date respectively. Net foreign buying for the month of August stood at LKR 1.75 Bn, whilst year-to-date, net foreign buying stands at LKR 27.0 Bn. However, due to current macro-economic fundamentals being weak, we expect the market to slow down, presenting opportunities to take positions in selected counters.

Ranuka De Silva
Research Analyst

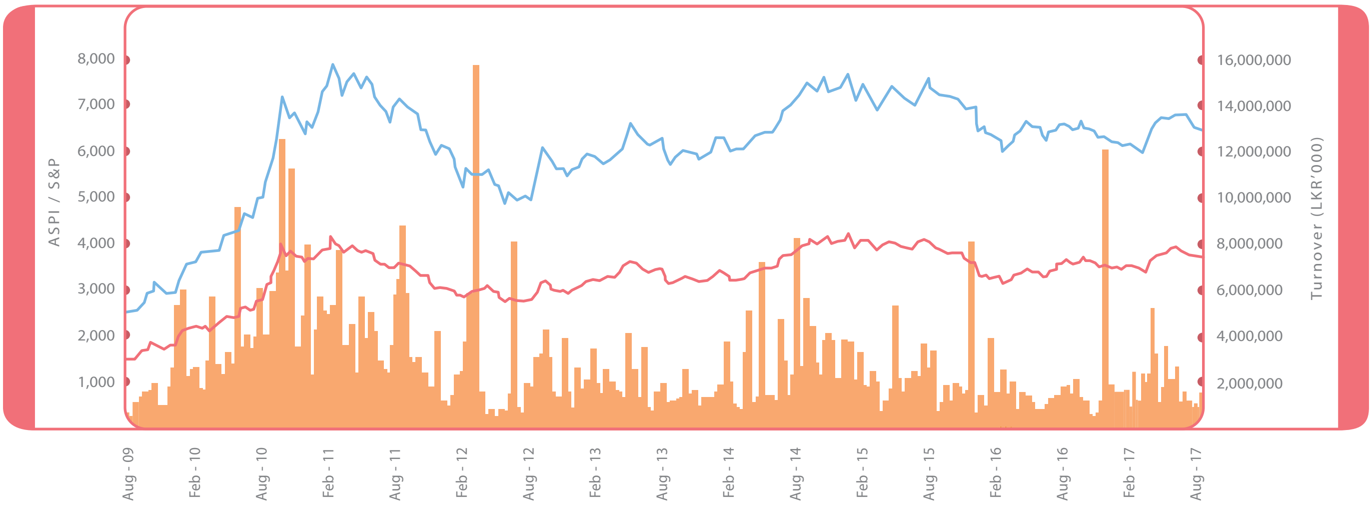
EQUITY OUTLOOK

	Past month Performance (1st Aug – 31st Aug 2017)	Past 12 months Performance (Aug 2016 – Aug 2017)	Year to Date Performance (1st Jan – 31st Aug 2017)
All Share Price Index	-3.72%	-2.11%	2.61%
S&P SL 20	-3.28%	2.81%	5.42%
MSCI Frontier Markets Index	3.70%	26.60%	22.73%
MSCI World Index	0.14%	16.19%	13.47%
MSCI Emerging Markets	2.23%	24.53%	28.29%
MSCI Asia Ex Japan	1.33%	24.83%	31.10%

Source: www.cse.lk and www.msci.com

- The two main indices of the Colombo Stock Exchange (CSE), the All Share Price Index (ASPI) and the S&P SL 20 index recorded sharp declines during the month of August 2017.
- As at August 2017, the year to date returns of ASPI lags the benchmark MSCI frontier market index by over 20% for the year so far.
- The argument for investing in frontier and emerging markets has been the impressive growth rates of the less-developed countries included in the index. Frontier markets have the potential to deliver much higher growth compared to developed markets, but with higher volatility.
- Frontier and emerging market countries, traditionally identified as pure commodity based players, have been striving to upgrade themselves to light manufacturing. For example, goods produced in Taiwan or Japan a few years back have moved to South Korea and China, and now to Vietnam, Cambodia and Pakistan. Some sophisticated industries too are moving to frontier markets such as European automakers that have shifted some manufacturing to Morocco and Turkey.
- The arguments made on valuations are compelling as well. The MSCI Frontier Markets Index has a price-to-earnings ratio of 15.05× compared to 20.02× for the MSCI All World Country Index.
- Frontier markets have relatively low correlations to developed markets, and fairly little correlation with each other.
- Emerging and frontier markets have been able to absorb the modest flows of investors to the markets thus far, which could be overwhelming for smaller markets at times.
- However, it is important to keep a close tab on the capital flows from and to frontier markets, in relation to further rate hikes in the US.

Colombo Stock Exchange Performance



Source: www.cse.lk

		Aug 2017	Aug 2016
CSE	Market PER	10.75 X	13.45 X
	Market PBV	1.42 X	1.50 X
	Market DY	2.89%	3.02%
MSCI Frontier Markets	Market PER	15.05 X	11.88 X
	Market PBV	1.81 X	1.43 X
	Market DY	3.32%	4.47%

Source: www.cse.lk

- Foreign investors were net buyers of around LKR 1.75 billion during August 2017.
- Total net foreign purchases for the first eight months of 2017 exceeded LKR 27 billion (foreign purchases for August 2017 alone was in excess of LKR 6 billion).

Colombo Stock Exchange	Jan - Aug 2017	Jan - Aug 2016
Foreign Inflows	LKR 77.76 Billion	LKR 44.26 Billion
Foreign Outflows	LKR 50.68 Billion	LKR 47.93 Billion
Net Foreign Inflows/(Outflows)	LKR 27.08 Billion	(LKR 3.67 Billion)

Source: www.cse.lk

“STOCKS ARE STILL THE BEST OF ALL THE POOR ALTERNATIVES IN AN ERA OF INFLATION”

— Warren Buffet —

FIXED INCOME OUTLOOK

INTEREST RATES IN SRI LANKA

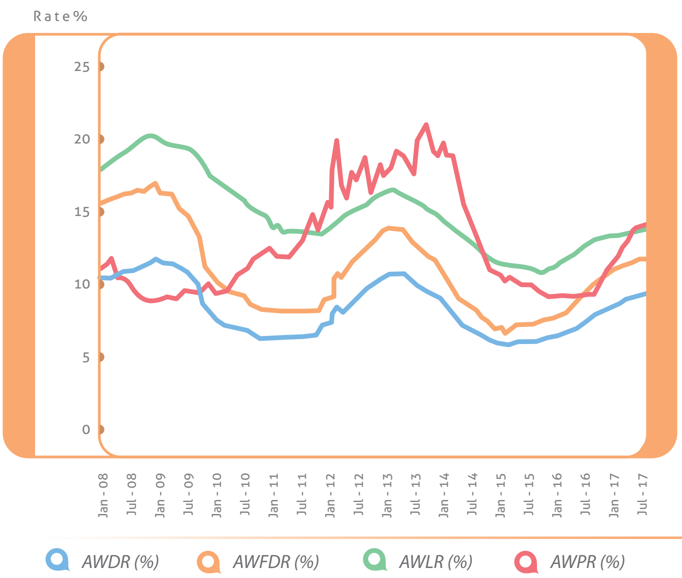
The Central Bank of Sri Lanka (CBSL) maintained the key policy rates stable in August holding the Standing Lending Facility Rate (the rate CBSL lends to commercial banks) and the Standing Deposit Facility Rate (the rate which commercial banks place their excess cash with CBSL) at 8.75% and 7.25% respectively.

	Aug 16	Dec 16	Jul 17	Aug 17
364 Day T-bill	10.75%	10.17%	9.99%	9.67%
5-Year Bond	11.98%	12.21%	11.04%	10.44%
1-Year Finance Company Fixed Deposit (A+)*	10.73%	11.70%	12.19%	12.19%

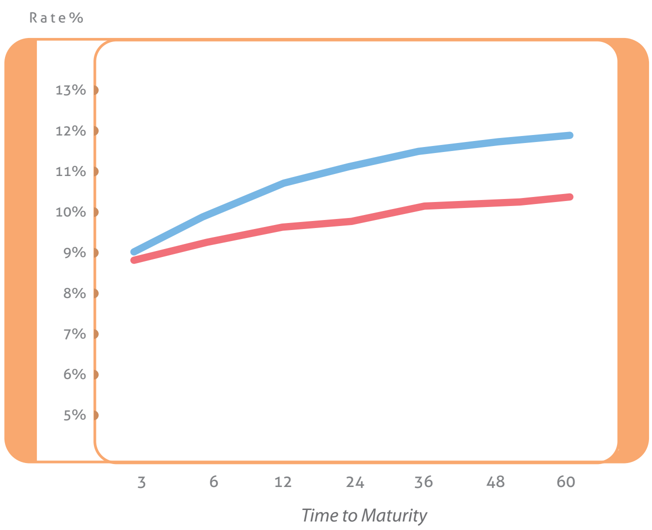
** Net Rate assuming consistent WHT of 2.5% for comparison purposes*

Source: Central Bank of Sri Lanka

AVERAGE LENDING & DEPOSIT RATES



YIELD CURVE - LKR TREASURIES



Aug - 16 *Aug - 17*

Source: Central Bank of Sri Lanka

AWDR: Average Weighted Deposit Rate | AWFDR: Average Weighted Fixed Deposit Rate | AWLR: Average Weighted Lending Rate | AWPR: Average Weighted Prime Lending rate

Treasury Bill rates fell with the 364-day T-Bill rate decreasing to 9.67% and the 182-day and 91-day Treasury Bills closing the month at 9.30% and 8.87% respectively.

Broad money (M_2b) growth slowed marginally to 21.2% year-on-year in June 2017, from 21.4% in the previous month whilst credit extended to the private sector too slowed to 18.6% year-on-year (from 18.9% in May) due to the base effect. In absolute terms the expansion in credit recorded for the month of June was LKR 80.3 Bn.

We believe the pace of credit growth will moderate further with the Central Bank removing the rate caps on banks' loan products. Giving banks the discretion to set their own interest rate caps to reflect market interest rates is expected to further reduce the demand for credit in the economy.

Total Govt. Debt LKR 4,827 Billion / USD 31.71 Billion	
T Bills (Total)	T Bonds (Total)
LKR 807 Billion	LKR 4,020 Billion
Domestic (Bills & Bonds)	Foreign (Bills & bonds)
LKR 4,559 Billion	LKR 268 Billion
Total Foreign Holding of Bills and Bonds – 5.54%	

Source: Central Bank of Sri Lanka

Foreign holding of government securities continued to improve, increasing by LKR 12.4 billion (net) in August to 5.54%, on account of foreign buying interest on local government securities. On a year-to-date basis however foreigners continued to be net sellers (but on a downward trend) on Rupee denominated bills and bonds amounting to LKR 21.5 billion.

1 Year FD Rates – Sri Lankan Banks		
	Aug 2017	Jul 2017
NSB	11.00%	11.00%
COMB	11.00%	11.00%
SAMP	12.00%	12.00%
HNB	11.00%	11.00%
NDB	11.00%	11.50%

Rates on Credit Cards	Aug 17
HSBC	28.00%
SCB	28.00%
Sampath	28.00%
NDB	28.00%
AMEX	28.00%

Source: Respective Commercial Banks

Banks maintained their fixed deposit rates during the month of August.

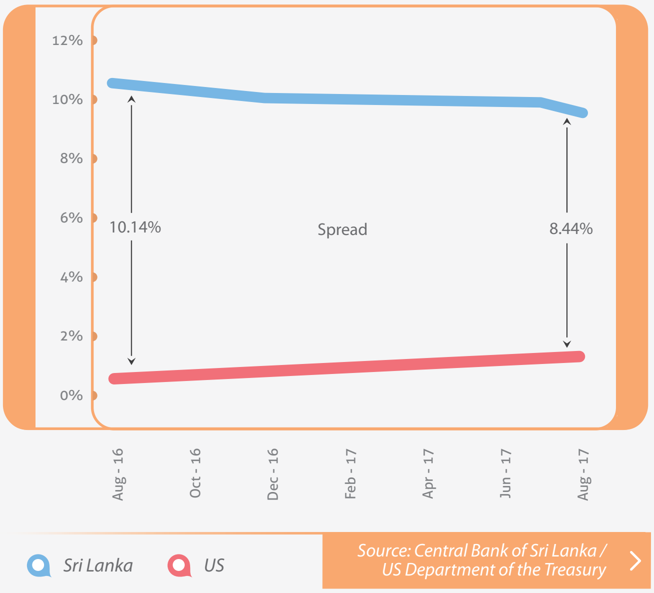
NDIB CRISIL Fixed Income Indices Total return as at 31/08/2017	3 Month Return	1 Year Return	3 Year Return
NDBIB-CRISIL 91 Day T-Bill Index	2.49%	9.33%	7.51%
NDBIB-CRISIL 364 Day T-Bill Index	3.30%	10.93%	7.09%
NDBIB-CRISIL 3 Year T-Bond Index-TRI	5.41%	15.09%	8.34%
NDBIB-CRISIL 5 Year T-Bond Index-TRI	6.87%	17.30%	7.54%

Source: www.crisil.com

Central Bank Policy Rates	2014	2015	2016	Latest
Sri Lanka	6.50%	6.00%	7.00%	7.25%
US	0.0% - 0.25%	0.25% - 0.50%	0.50% - 0.75%	1.00% - 1.25%
Euro Zone	0.05%	0.05%	0.00%	0.00%
Australia	2.50%	2.00%	1.50%	1.50%
India	8.00%	6.75%	6.25%	6.00%

Source: www.cbrates.com

1 YEAR TREASURY RATE - USD Vs. LKR



Source: Central Bank of Sri Lanka / US Department of the Treasury

The US Federal reserve is expected to hold off the possibility of any further rate hike in the near future given that inflation continues to hover below their target 2%.

364 Day Treasury Bill Rate	Aug 16	Dec 16	Jul 17	Aug 17
Sri Lanka	10.75%	10.17%	9.99%	9.67%
India	6.67%	6.34%	6.29%	6.25%
US	0.61%	0.85%	1.23%	1.23%
Euro Zone	-0.64%	-0.82%	-0.71%	-0.77%

Source: Respective Central Banks

	Rates on Savings Accounts - Aug 2017
Sri Lanka	4.00%
US	0.01%
Euro Zone	0.01%
Australia	1.70%
India	3.50%

Source: Respective Commercial Banks

UK inflation as measured by the Consumer Price Index rose to 2.9% year-on-year in August hitting a five-year high, up from 2.6% in July, ahead of the Bank of England's latest Monetary Policy Committee meeting fuelling speculation of a possible rate hike.

“ DO NOT ALLOW FINANCIAL PLANNING TO TAKE A BACKSEAT IN DAILY LIFE - PRIORITIZE ”

— NDB Wealth —

INFLATION RATES

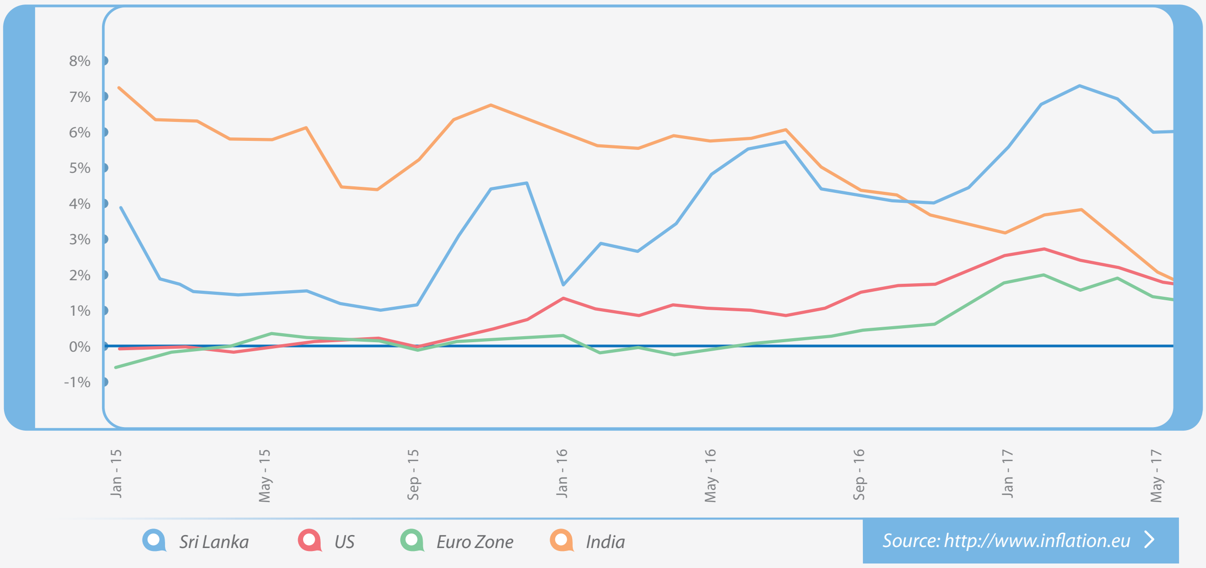
Country	Aug 16	Dec 16	Jul 17	Aug 17
Sri Lanka	4.38%	4.46%	4.83%	5.98%
US	1.06%	2.07%	1.73%	1.73%*
Euro Zone	0.24%	1.14%	1.32%	1.32%*
India	5.05%	3.41%	2.36%	2.36%*

Source: Department of Census and Statistics - Sri Lanka
http://www.inflation.eu/, https://tradingeconomics.com/

*July 2017

- Inflation as measured by the CCPI (2013=100), increased to 6% in August 2017 on a year-on-year basis from last month's 4.8% mainly on account of the base effect. Prices, in fact, declined by 0.5% during the month with prices in the food category falling by 2.5% (mainly fish, vegetables and red onion).
- Core inflation which excludes the more volatile aspects of price movements (food, energy and transport), too accelerated to 6% year-on-year in August from 4.9% in the previous month.
- We are of the view that inflation will hover at mid-single digit levels with weather-related supply-side disruptions expected to ease in the period ahead.
- On the global front, US inflation and Euro zone inflation increased to 1.73% and 1.32% year-on-year respectively in July 2017.

GLOBAL INFLATION RATES



Source: http://www.inflation.eu

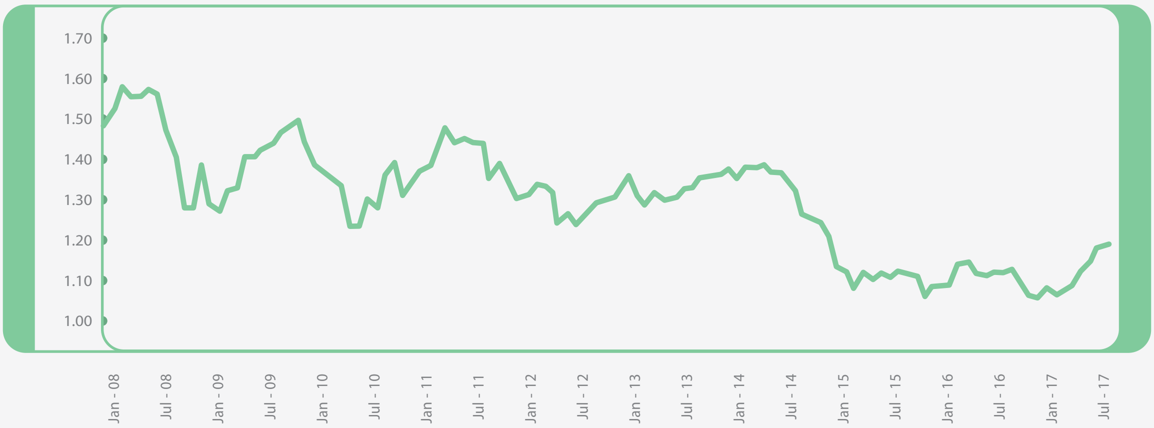
FOREX OUTLOOK

Exchange Rates Vs. LKR	Aug 17	Aug 16	1 Year App / (Dep) LKR
USD	152.84	145.62	-4.72%
GBP	197.38	190.78	-3.34%
EURO	181.51	162.40	-10.53%
YEN	1.38	1.41	2.24%
AUD	120.75	109.62	-9.21%
CAD	120.89	111.28	-7.95%
INR	2.39	2.17	-9.14%
BHD	405.35	386.24	-4.71%
CNY	23.16	21.77	-6.04%

Source: Central Bank of Sri Lanka

- The Sri Lankan Rupee appreciated by 0.58% against the US Dollar (USD) in August to close the month at LKR 152.84 per US Dollar and gained 2.29% against the British Pound.
- The US dollar fell to its lowest level in 33 months succumbing to pressure from a combination of market concerns ranging from hurricane damage and North Korea to the policy direction of the US Federal Reserve.
- The British Pound rallied against the euro as UK inflation hit the highest level in five years (2.9% YoY in August 2017), ahead of the Bank of England's latest Monetary Policy Committee meeting fuelling speculation of a possible rate hike.
- Most emerging Asian currencies strengthened as the dollar weakened and touched a more than two-and-a-half year low.

USD PER 1 EURO MOVEMENT



Source: http://www.x-rates.com/

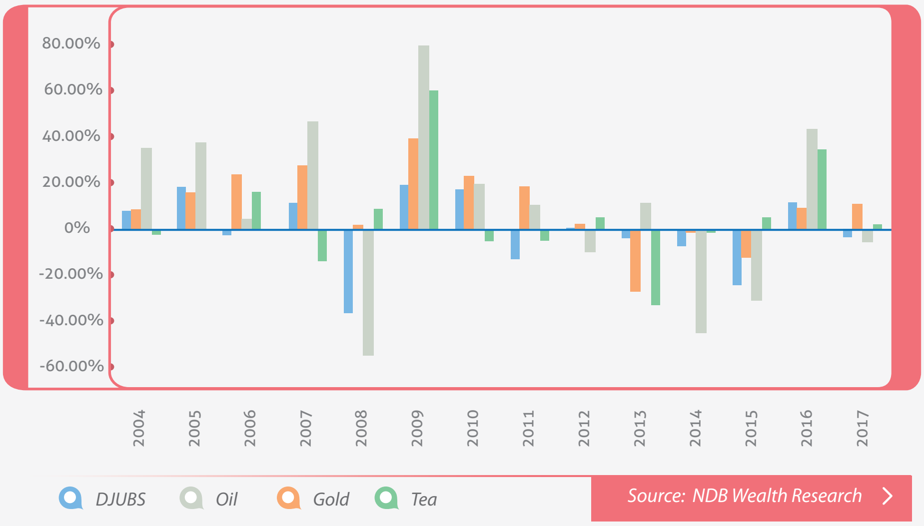
COMMODITY OUTLOOK

	1 month (1st Aug – 31st Aug 2017)	Past 12 months (Aug 2016 – Aug 2017)	YTD (1st Jan - 31st Aug 2017)
Bloomberg Commodity Index	0.31%	2.28%	-3.27%
Tea	2.80%	21.25%	2.10%
Gold	3.73%	-4.26%	10.86%
Oil (Brent)	5.50%	11.34%	-4.99%

Source: www.worldbank.com, Bloomberg and NDB Wealth Research

- The Bloomberg Commodities Index gained 0.31% during August 2017 with gold and energy being among the best performing commodities in August.
- Expansion of China's private sector, at the strongest pace in six months in August, along with the increased activity of both manufacturers and services providers, may have been a key reason for commodity prices to increase during the month.
- With almost a quarter of US refineries shut down due to Hurricane Harvey, US West Texas Intermediate and international-benchmark Brent crude oil prices rose due to lower supply. According to industry estimates, at least 4.4 million barrels per day (bpd) of refining capacity was offline (almost a quarter of total US capacity).
- Gold prices too increased during the month mainly as a result of the slower growth depicted in US job data in August. A weak jobs report may make the Federal Reserve (the Central Bank of the US) cautious about raising interest rates again this year.
- Moreover, continuing uncertainty over North Korea's nuclear ambitions drove gold prices up in the backdrop of increased global geopolitical tensions.

Commodity Price Movemets



Source: NDB Wealth Research

PROPERTY OUTLOOK

- The island is fast approaching a middle-income category with expectations that Sri Lanka will reach USD 4,000 per capita income (currently USD 3,900 per capita) within the next few years.

- This phenomenon has led to increase in disposable income levels that have in turn boosted the growth in the island's retail market. JLL Lanka expects the retail market to have a CAGR of 17% during the next few years, indicating the optimism regarding the retail market.

- Further, apparel, fashion accessories, restaurants and retail banks have been increasing their footprint in the island's retail property space.

- Currently the existing high-street locations attract encouraging foot falls, indicating a healthy level of trading is taking place.

- The Colombo retail areas are traditionally restricted to Pettah, Kollupitiya, Bambalapittiya and Wellawatte for up-market establishments. Further, in the view of JLL, the properties in these areas have a vacancy rate of less than 5%, indicating that the demand for retail space is outweighs the supply.

- Most of the retail malls being constructed are within the Colombo Business District; however, there is opportunity for mall developers in the suburbs.

- Currently there is a vacuum in the development space where shopping, dining and hang-out are all located under one roof, presenting an opportunity for innovative and creative developers. The lack of entertainment and recreational activity within the current malls has not presented consumers with a compelling proposition.

- With the policy makers pushing to increase tourism, there will be an organic increase in demand from tourists for high-street retail outlets and malls. Further, there is a limited brand presence in the island which can be addressed with the introduction of international brands in the malls that are being developed.

- The limited availability of parking is an ongoing problem in the existing malls, and will have to be addressed by the new developers as it is a threat for footfall.

ISLAMIC FINANCE INDUSTRY

Islamic Financing is finance activity that is consistent with principles of Islamic law (Shari'ah) which prohibits the payment or acceptance of interest.

NDB WM provides our client's discretionary management services on a shari'ah compliant basis for portfolio values above Rs. 100.0 million.

The Islamic Money Plus Fund is a unit trust fund offered by NDB Wealth Management and approved by the Securities Exchange Commission of Sri Lanka, investing in a diversified portfolio of Shari'ah compliant short term securities issued by corporates and in Mudharabah deposits and savings accounts. The fund provides reasonable liquidity and tax free income to its investors and would be an ideal substitute for direct investments in Mudharabah savings accounts and deposits. (Trustee: Deutsche Bank)

Mudharabah Deposit Rates of Selected Service Providers

	Savings	1 month	3 month	6 month	1 Year+	2 Year+	3 Year+	4 Year+	5 Year+
Amana Bank - As of August 2017									
Profit Sharing Ratio*	30:70	-	60:40	65:35	75:25	80:20	85:15	-	90:10
Distributed Profit	3.39%	-	6.78%	7.35%	8.48%	9.50%	9.81%	-	10.10%
Bank of Ceylon Islamic Business Unit - As of August 2017									
Profit Sharing Ratio*	45:55	-	-	-	-	-	-	-	-
Distributed Profit	5.13%	-	-	-	-	-	-	-	-
Commercial Bank of Ceylon PLC-Al Adalah Islamic Banking unit - As of August 2017									
Profit Sharing Ratio*	45:55	-	55:45	65:35	75:25	-	-	-	-
Distributed Profit	5.60%	-	7.00%	8.40%	9.90%	-	-	-	-
Hatton National Bank PLC-"Hnb Al- Najah" Islamic Banking unit - As of June 2017 (Released Quarterly)									
Profit Sharing Ratio*	30:70	-	55:45	60:40	70:30	-	-	-	-
Distributed Profit	4.43%	-	8.75%	9.50%	10.50%	-	-	-	-
National Development Bank PLC-"Shareek" Islamic Banking unit - As of August 2017									
Profit Sharing Ratio* 3Mn - 50Mn	40:60	60:40	65:35	40:60	65:35	65:35	-	-	-
Distributed Profit	5.25%	5.50%	7.25%	8.50%	11.00%	11.00%	-	-	-
Citizen Development Business Finance PLC- Islamic Banking unit - As of August 2017									
Profit Sharing Ratio*	34:66	58:42	62:38	66:34	68:32	72:28	72:28	-	-
Distributed Profit	6.54%	8.07%	11.92%	12.69%	13.07%	13.84%	13.84%	-	-
Commercial Leasing & Finance PLC- Islamic Finance - As of August 2017									
Profit Sharing Ratio*	35:65	55:45	58:42	60:40	61:39	65:35	66:34	71:29	72:28
Distributed Profit	5.00%	12.53%	13.10%	13.10%	13.10%	14.10%	14.10%	15.60%	15.60%
LB Al Salamah (LB Finance PLC - Islamic Business Unit) - As of August 2017									
Profit Sharing Ratio*	19:81	26:74	27:73	29:71	30:70	-	-	-	-
Distributed Profit	7.41%	10.14%	10.53%	11.31%	11.70%	-	-	-	-
LOLC Al-Falaah (Lanka Orix Finance PLC - Islamic Business Unit) - As of August 2017									
Profit Sharing Ratio*	30:70	60:40	62:38	66:34	66:34	67:33	69:31	70:30	74:26
Distributed Profit	5.58%	9.75%	11.08%	10.73%	10.73%	10.89%	11.21%	11.38%	12.03%
Peoples Leasing Islamic Business Unit - As of August 2017									
Profit Sharing Ratio*	45:55	-	60:40	65:35	75:25	-	-	-	-
Distributed Profit	7.48%	-	9.97%	10.80%	12.46%	-	-	-	-

Source: Respective Company Data

* Profit sharing ratio provides profit ratio for Customer: Financial Institution;   * Profits distributed at Maturity

The white list of shari'ah compliant stocks provides investors a means of ethical investing. The Core business is screened to ensure that corporate dealing in conventional banking, conventional insurance, alcoholic drinks, tobacco, pork production, arms manufacturing, pornography or related activities are excluded. Companies are also screened in terms of levels of debt, illiquid assets and non compliant investments.

WHITE LIST AS OF AUGUST 2017

Finance and Insurance	Shalimar (Malay) PLC	Telecommunications
Amana Takaful PLC	Diversified Holdings	Sri Lanka Telecom PLC
Amana Takaful Life PLC	The Colombo Fort Land & Building PLC	Manufacturing
Amana Bank PLC	Browns Capital PLC	ACL Cables PLC
Beverages and Food	Expo Lanka Holdings PLC	Agstar Fertilizers PLC
Bairaha Farms PLC	Hayleys PLC	Ceylon Grain Elevators PLC
Ceylon Cold Stores PLC	Hemas Holdings PLC	Chevron Lubricants Lanka PLC
Dilmah Ceylon Tea Company PLC	Richard Pieris and Company PLC	Dankotuwa Porcelain PLC
Harischandra Mills PLC	Sunshine Holdings PLC	Dipped Products PLC
Nestle Lanka PLC	Healthcare	Kelani Tyres PLC
Renuka Agri Foods PLC	Asiri Surgical Hospitals PLC	Kelani Cables PLC
Renuka Foods PLC	Ceylon Hospitals PLC (Durdans)	Lanka Ceramic PLC
Three Acre Farms PLC	The Lanka Hospital Corpoartion PLC	Lanka Tiles PLC
Motors	Land and Property	Lanka Walltiles PLC
Autodrome PLC	CT Land Development PLC	Lanka Cement PLC
C M Holdings PLC	Chemicals and Pharmaceuticals	Piramal Glass Ceylon PLC
Diesel & Motor Engineering PLC	Chemanex PLC	Printcare PLC
Lanka Ashok Leyland PLC	Haycarb PLC	Royal Ceramic Lanka PLC
Sathosa Motors PLC	J.L. Morison Son & Jones (Ceylon) PLC	Sierra Cables PLC
United Motors Lanka PLC	Trading	Bogala Graphite Lanka PLC
Construction & Engineering	Brown & Company PLC	Teejay Lanka PLC
Access Engineering PLC	C. W. Mackie PLC	Tokyo Cement (Company) PLC
Colombo Dockyard PLC	Eastern Merchants PLC	Services
Footwear and Textiles	Stores & Supplies	Hunter & Company PLC
Ceylon Leather Products PLC	Colombo City Holdings PLC	Lake House Printing & Publishers PLC
Odel PLC	Hunters & Company PLC	Kalamazoo Systems PLC
Hayleys Fabric PLC	Plantations	Power & Energy
Oil Palms	Bogawantalawa Tea Estates PLC	Lanka IOC PLC
Good Hope PLC	Kahawatte Plantation PLC	Panasian Power PLC
Indo Malay Plc	Namunukula Plantation PLC	Vallibel Power Erathna PLC
Selinsing PLC	Watawala Plantations PLC	

Source: www.amanaasset.com

Note 1: The White List has taken to consideration company financials as at March 31, 2017 and June 30, 2017

Note 2: No changes from the previous month's list.

DISCLAIMER

NDB WEALTH MANAGEMENT LTD

NDB Capital Building, Level G, No: 135, Bauddhaloka Mawatha, Colombo 4, Sri Lanka

Tel (+94) 77 744 8888 | (+94) 11 230 3232

E-mail : contact@ndbinvestors.com | Web : www.ndbwealth.com