REAL - ESTATE NEWS FEED

JUNE 22

TO

JUNE 26

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1. REAL-ESTATE

• Sapphire Residences resumes construction

Colombo's newest landmark on Galle Face Centre is once again a hub of activity as construction gets back into swing following the lifting of the lockdown.

The Sapphire Residences and the ITC One Hotel development has resumed construction in full compliance with health and hygiene guidelines laid down by the Ministry of Health to ensure safety of the construction crews onsite.

A host of safety measures such as thermal screening, medical checks, frequent hand washing, wearing face masks and face shields, and social distancing will be strictly adhered to in keeping with the official protocols from local health authorities.

"We are pleased to announce that work on site has recommenced enthusiastically. Right through the lockdown, our team has worked tirelessly to ensure the safety and wellbeing of the construction teams, while simultaneously ensuring that our supply chain is ready to spring into action as soon as we received the green light," comments developer WelcomHotels Lanka Ltd. Managing Director Arun Pathak.

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• Elpitiya Plantations partners Sim Leisure for theme park in Galle

Elpitiya Plantations PLC an associate company of Aitken Spence PLC, recently entered into a Shareholders' Agreement with Sim Leisure Group Ltd., a listed company in Singapore Stock Exchange, to develop and operate an adventure theme park under the 'ESCAPE' brand in Galle, Sri Lanka. The investment for the ESCAPE Sri Lanka project is estimated at over US$ 4 million.

While the partnership will formalise and strengthen the business relationship between the two companies, this is an extraordinary step from both parties amid the economic impacts of the COVID-19 pandemic on the country and shows the confidence on the government foreign investment policy.

'ESCAPE' will bring their well-known philosophy for theme parks to Sri Lanka with a unique state-of-the art adventure park. Moreover, the project is the first of its kind in Sri Lanka and obviously the first in Regional Plantation Companies.

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- ## Port City SEZ laws ready by year end

Laws leading to the creation of the Special Economic Zone leading to the International Financial Centre within the Port City project will be ready before end 2020, which is expected to bring in 60% of Sri Lanka's GDP.

The draft is already ready and Prime Minister Mahinda Rajapaksa has appointed a three member Cabinet Sub Committee to review the draft and it will be sent to Parliament after the elections and that should be well prior to the end of 2020. This is outside the laws governing the Board of Investment (BOI), CHEC Port City Colombo (Pvt) Ltd Head of Strategy Thuci Aluwihare told Daily News Finance yesterday.

(CHEC Port City Colombo (Pvt) Ltd is a wholly owned subsidiary of Colombo Communication Construction Ltd)

He said that the approval of the Special Economic Zone was of priority so that Sri Lanka could proceed with the promotion and marketing of the Colombo Port City with the aim of luring investment. He also said that the formation of a coherent policy framework was also important to go ahead with the project.

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- ## No penalties or compensation for LRT suspension

The bilateral loan agreement between the Sri Lankan and Japanese Governments has no conditions on compensation or penalties to be paid in case of delay or cancellation of the Japan International Cooperation Agency (JICA)-funded Colombo Light Rail Transit (LRT) project, Urban Development, Water Supply and Housing Facilities Ministry Secretary Dr. Priyath Bandu Wickrema said.

Commenting on the lead news of a daily Sinhala newspaper (Not of the Lake House Group) published on June 23, the Secretary denied the claim that the Government of Sri Lanka (GoSL) will have to pay compensation of US$ 100 million along with a penalty of Rs. 1 million to the Japanese Government if the proposed project is suspended.

He was speaking to the media at a press conference held at the Government Information Department yesterday.

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2. ECONOMY

• Central Bank cuts Statutory Reserve Ratio to 2%

In another drastic move, the Monetary Board of the Central Bank yesterday slashed the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of licensed commercial banks by 200 basis points to 2 percent.

The cut in SRR will be in effect from the reserve maintenance period that commenced on June 16, 2020.

The Central Bank said the reduction in SRR would inject around Rs.115 billion additional liquidity to the domestic money market enabling the financial system to expedite credit flows to the economy, while reducing the cost of funds of banks.

With yesterday's decision, the Central Bank has reduced SRR by a total 300 basis points thus far during 2020, in addition to several other monetary easing measures implemented already including the reduction of policy interest rates by a total of 150 basis points and the Bank Rate by 550 basis points.

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• Government agrees to settle construction sector pending payments by end-June

The repeated pleas from the construction sector for due payments from the state have finally been answered, with the government having decided to settle all certified invoices by end of June.

The government owes the construction sector an excess of Rs.50 billion, which was to be settled in September 2019. However, due to the presidential election that was held in November and the closure of the economy in March, which went on for eight weeks, the industry did not receive its pending payments.

Chamber of Construction Industries of Sri Lanka (CCI) Secretary General and CEO Eng. Nissanka N. Wijeratne told Mirror Business that after making many representations since last September, at the Task Force meeting held last Thursday, the government announced its decision to settle the dues before the end of the month.

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- ## Global tourism promotion campaign likely next January

Sri Lanka Tourism Promotion Bureau (SLTPB) is planning to launch the long awaited multi-billion five-year global tourism promotion campaign next January, amid fears over possible shortage of funds, if tourism doesn't bounce back to the pre-COVID level in two years.

SLTPB finalised a 5-year global promotional campaign targeting eight tier one (primary) source markets and six tier two (emerging) markets and consequently, the Cabinet approval for the campaign was granted in April.

Currently, the final terms of references (TOR) of the campaign is being reviewed by the appointed Technical Evaluation Committee (TEC), which is likely to be completed within this month.

Upon completion of the TEC evaluation process, their evaluation and recommendations will be reviewed by the standing Cabinet appointed procurement committee from next month onwards, before approving to float the tenders.

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- ## Economic activity to pick up in June - ICRA Lanka

The activities in the real economy are expected to continue to pick up in June. Both short and long-term interest rates are likely to remain low, amid weaker credit demand says ICRA Lanka in their monthly economic update.

'Rupee is likely to display stability as forecasted by the forward rates. Wage growth may slow down. In this context, inflation is likely to be well within 4 to 6%.'

Commenting on May 2020, the report says that the activities in the economy, especially the industry and services sector, improved marginally. However, the economy was still operating with excess capacity.

ASPI rose 6% during the month, more as a correction from the steep fall witnessed earlier as investors picked up undervalued stocks. Foreign participation in the equities was mild and foreigners were net sellers.

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- ## Bourse ends week positive note

The Bourse ended the week on a positive note as the ASPI increased by 133.80 points (or 2.80 percent) to close at 4,914.83 points, while the S&P SL20 Index also increased by 100.39 points (or 5.14 percent) to close at 2,054.96 points.

LOLC Holdings was the highest contributor to the week's turnover value, contributing LKR 1.41Bn or 18.35 percent of the total turnover value. Commercial Bank followed suit, accounting for 13.23 percent of turnover (value of LKR 1.02Bn) while HNB contributed LKR 0.98Bn to account for 12.73 percent of the week's turnover. Total turnover value amounted to LKR 7.68Bn (cf. last week's value of LKR 3.83), while the daily average turnover value amounted to LKR 1.54Bn (+60.33 percent W-o-W) compared to last week's average of LKR 0.96Bn. Market capitalization meanwhile, increased by 2.80 percent W-o-W (or LKR 62.56Mn) to LKR 2,297.82Bn cf. LKR 2,235.26Bn last week.

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- ## PMI records noticeable bounce in May

Manufacturing sector Purchasing Managers' Index (PMI) recorded a noticeable bounce in May 2020 reaching 49.3, which is an increase of 25.1 index points, from the all-time low of 24.2 recorded in April 2020.

The gradual easing of restrictions for mobility has contributed to the resumption of economic activities in the manufacturing sector.

Production sub-index reported an index value of 51.1 in May 2020 compared to 3.5 reported in April, reflecting a significant expansion in volume produced, particularly in manufacturing of food, beverages and manufacturing of textiles, wearing apparels sectors.

Further, new orders, stock of purchases, employment sub-indices also improved during the month of May 2020, yet remained below the neutral level.

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- ## Bond yields close broadly steady ahead of weekly bill auctions

Trades were seen on the maturities of 15.12.20, 15.12.22, 2023's (i.e. 15.01.23, 01.09.23 and 15.12.23), 2024's (i.e. 15. 06.24 and 15.09.24), 01.02.26 and 01.07.28 at levels of 6.85%, 7.50% to 7.54%, 7.60% to 7.62%, 8.17% to 8.18%, 8.15% to 8.17%, 8.45% to 8.47% and 8.76% to 8.80% respectively.

In the secondary bill market, June to July, September and May 2021 maturities changed hands at 6.45% to 6.53%, 6.61% to 6.65% and 6.90% respectively.

Today's bill auction will have on offer a total amount of Rs. 23 billion consisting of Rs. 8 billion of the 91-day bill maturity, Rs. 3 billion of the 182-day maturity and a further Rs. 12 billion of the 364-day maturity. At last week's auction, the weighted average yields decreased across the board to 6.67%, 6.78% and 6.925% respectively.

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- ## National prices ease in May on base effects but core prices up

Sri Lanka's consumer prices measured based on the broader National Consumer Price Index (NCPI) or national prices rose by 5.2 percent in the twelve months to May, marking a deceleration from 5.9 percent in April on the higher base that prevailed in the same month a year earlier, the data from the Census and Statistics Department (DCS) showed.

DCS said its officers resumed on-site collection of prices in all districts from the third week of May after nearly two months of hiatus.

On-site price collection by the DCS officers was restricted to some essential items during the lockdowns, as the department had to suspend on-site visits from the third week of March due to lockdowns imposed to stem the spread of coronavirus.

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- ## **Weekly weighted averages crash to all-time lows**

The weekly Treasury bill auctions held yesterday saw its weighted averages on all three maturities crash to all-time lows, surpassing its previous lows seen during the period of September to December 2014. The market favorite 364 day bill recorded the sharpest decline of 96 basis points to 5.66%, dipping below the 6.00% level for the first time since 17 December 2014. The 91 day and 182 day bills registered dips of 80 and 77 basis points to 5.50% and 5.53% respectively. The total offered amount of Rs. 23 billion was successfully accepted at the auction as its bids to offer ratio stood at 4.75:1.

In the secondary bond market yesterday, the increasing trend in yields witnessed during morning hours of trading reversed swiftly and continued to dip leading to the auction and subsequent to its outcome. The yields on the liquid maturities of 15.12.22, 15.01.23, 15.09.24, 01.05.25, 01.02.26 and 15.10.27 dipped to intraday lows of 5.90%, 6.04%, 6.62%, 6.80%, 6.95% and 7.11%. respectively against its days opening highs of 6.20% each, 7.00%, 7.18%, 7.25% and 7.23% Furthermore, maturities of 2021s (i.e. 01.08.21, 15.10.21 & 15.12.21), 2023s (i.e. 15.07.23 & 01.09.23), 2024s (i.e. 01.10.24, 15.06.24 & 01.08.24) and 01.08.25 were seen changing hands within the range of 5.55% to 6.10%, 6.20% to 6.55%, 6.55% to 7.00% and 7.00% respectively.

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- ## **Bond market continues to be volatile ahead of weekly bill auctions**

The secondary bond market yields continued to be volatile yesterday as yields on the liquid maturities of 15.12.22, 15.01.23, 15.09.24, 01.05.25, 01.02.26 and 15.10.27 hit intraday lows of 6.00%, 6.12%, 6.77%, 6.94%, 7.05% and 7.17% respectively during morning hours of trading against its previous day's closing levels of 6.19/21, 6.25/30, 6.95/00, 7.12/17, 7.25/30 and 7.37/45.

However selling interest from these levels towards the latter part of the day saw yields increase once again with said maturities hitting highs of 6.20%, 6.30%, 6.95%, 7.10%, 7.25% and7.35% respectively. In addition, maturities of 01.03.21, 01.05.21, 15.10.21, 01.10.22, 15.07.23, 01.09.23, 15.12.23, 01.08.25 and 01.08.26 traded at levels of 5.55%, 5.70%, 5.90%, 6.02%, 6.39% to 6.40%, 6.40% to 6.55%, 6.45%, 7.10% and 7.14% to 7.15% respectively.

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- ## ‘CBSL to maintain lower rates to boost economic activity’

With the Government’s intention to open up the economy and the Central Bank of Sri Lanka (CBSL) push to lower interest rates, there are caps being imposed on the recent Bill and Bond auctions which illustrates the intention of the CBSL to maintain lower rates in order boost economic activity and growth, says First Capital Research.

“Considering the risks in the system and the worsening macro indicators we prefer to maintain our bond yield bands at the mentioned levels in the previous slide”

However, with the lacklustre 2Q & 3Q, possible further increase in CBSL Holdings while also considering the intentions and the new rules of the CBSL to push rates lower, First Capital Research highlights that short-midterm yields may decline by 25-50bps for a very limited period.

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- ## Bourse ends in positive territory

Bourse ended in the positive territory for the 7th consecutive session with the Banking counters contributing to 46% of the turnover. ASPI was uplifted predominantly due to the price advances in JKH & CCS. The market recorded a spike within the first few minutes of trading and reached its intraday high of 5,127, thereafter experienced a downward movement and hit its intraday low of 5,087. Later the index recovered and experienced a volatile sideways movement during mid-day. Within the last 30 minutes of trading the market witnessed a continuous uptrend and closed at 5,112 gaining 29 points. Parcel trades boosted the turnover contributing 22%. Market witnessed a net foreign outflow while recording low participation.

The secondary bond market continued to witness aggressive buying interest during the day resulting in a significant downward shift in yields across the board while recording high volumes.

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- ## Reviving tourism - Can and Must Be Done - Dr. Kohona

Despite the COVID pandemic, tourism will become one of Sri Lanka's key sources of income, and employment in the future as well, former Sri Lankan Diplomat and former Permanent Representative of Sri Lanka to the UN, Dr Palitha Kohona said.

He was addressing the SAITO inaugural youth meeting in Ramada Colombo last week.

"The government had planned to boost tourism to be a five billion dollar industry. Unfortunately COVID19 intervened. Now we need to rethink our goals and strategies."

He said that around 300,000 were directly employed in the industry before COVID19. Many more were indirectly employed and COVID19 dealt a bloody blow to the industry globally and locally."

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- ## Inflation dips in May

Headline inflation as measured by the year on-year (Y-o-Y) change in the National Consumer Price Index (NCPI, 2013=100)1 decreased further to 5.2% cent in May 2020 from 5.9% in April 2020.

This was mainly driven by the statistical effect of the high base prevailed in May 2019.

Meanwhile, Food inflation (Y-o-Y) declined to 11.1 per cent in May 2020 from 12.2 per cent in April 2020 and Non-food inflation (Y-o-Y) also declined to 0.8 per cent in May 2020 from 1.1 per cent in April 2020. The change in the NCPI measured on an annual average basis increased marginally to 5.2 per cent in May 2020 from 5.1 per cent in April 2020. Monthly change of NCPI was at 0.4 per cent in May 2020 mainly due to increases observed in prices of items in the Food category. Accordingly, within the Food category, increases were observed mainly in the prices of vegetables, fresh fish, dhal and coconut oil during May 2020.

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- ## Sri Lanka rupee ends weaker, bond yields fall

Sri Lanka rupee closed lower at 186.60/70 to US dollar in the spot market on Wednesday while bond yields were eased, dealers and brokers said.

Sri Lanka rupee ended at 186.55/65 to the greenback on Tuesday's close.

Liquidity in the overnight money market was 207.39 billion rupees on Wednesday, up from 204.74 billion rupees at the previous day's close.

In the secondary government securities market, bond yields fell in active trade, dealers said.

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- ## Exchange controls extended by another 6 months

Cabinet of Ministers has approved to extend foreign exchange controls on outward remittances for another six months to limit outflows to preserve foreign currency reserves while rolling back relaxing of certain regulations on inward remittances amid concerns over money laundering and terrorist financing.

Prime Minister Mahinda Rajapaksa, as the Minister of Finance, Economic and Policy Development submitted the proposal to the Cabinet this week.

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- ## CBSL sustained economic stability during lockdown

The Central Bank of Sri Lanka says that it has taken several operational and policy measures to support the economy, the financial system and the general public in the midst of the COVID-19 pandemic.

The Central Bank actively took stepsto ease the burden on the general public during this unprecedented disruption of global scale, while preserving the focus on its legal mandate to maintain economic, price and financial system stability.

These include, but are not limited to, the following measures: 1. Reduce interest rates, enhance market liquidity, and finance the government, 2. Manage foreign exchange flows, maintain exchange rate stability and preserve international reserves, 3. Maintain financial system stability and enhance credit flows,4. Ensure uninterrupted currency operations and payments and settlements activities, and 5. Manage the public debt.

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- **‘CBSL to maintain lower rates to boost economic activity’**

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- **Colombo Bourse stays on the up, marks Rs. 1 b plus turnover for 14th consecutive day**

The Colombo stock market remained on the up with turnover crossing the one billion rupee mark for the 14th consecutive day as investors remained positive.

The All Share Price Index gained by over 33 points or 0.6% and the S&P SL20 Index by 12 points of 0.5%. Turnover was Rs. 1.09 billion, a feature secured for 14 consecutive days according to NDB Securities.

First Capital said the Bourse ended in the green territory with the market being dominated continuously by foreign sales for almost 3 weeks.

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- **Sri Lanka central bank injects Rs459bn from Feb, spent forex reserves US$1.3bn**

Sri Lanka’s central bank had injected 459 billion rupees in to banking system from late February to avoid selling government securities at market rates or for private credit and spent at least 1.3 billion US dollars in foreign reserves for current and debt payments, official data reveals.

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3. INTERNATIONAL

- ## Pent up demand fuelling housing market

Housing market activity is bouncing back to higher levels than before the lockdown based on home sales, demand and house price growth, Zoopla's House Price Index has found.

The number of agreed home sales has rebounded by 4% between early March and May.

House price growth has risen to 2.4% in May, up from 1.6% at the start of the year.

Meanwhile buyer demand in May was 46% higher than in early March, when demand for housing fell by 70%.

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- ## Hong Kong's Office Market Vacancy Rate Reaches 12-year High

International property consultant JLL's latest Property Market Monitor is reporting this week that Hong Kong's Central's Grade A office rents fell 2.7% to HKD 102.4 per sq. ft in May 2020 as the vacancy rate reached 5% for the first time since the Global Financial Crisis in 2008.

Overall office rents dropped by 2.2% month-over-month in May 2020. The sharpest decline was recorded in Tsim Sha Tsui and Kowloon East, where vacancies were the highest among the major office submarkets. Figures from JLL's research show, the vacancy rates in Tsim Sha Tsui and Kowloon East grew to 6.5% and 13.7% respectively last month.

Alex Barnes, Head of Markets at JLL in Hong Kong said, "Rising vacancy continued to exert pressure on rents, but the decline was milder than in previous months. Central's Grade A office rents dropped by 2.7% m-o-m in May after it fell 4.5% m-o-m in April,"

"As uncertainties persisted and landlords became more willing to lower their rental expectations, tenants tended to renew their leases in order to save on capital expenditure," he added.

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- ## Coronavirus: UK economy could be among worst hit of leading nations, says OECD

Britain's economy is likely to slump by 11.5% in 2020, slightly outstripping falls in countries such as Germany, France, Spain and Italy, it said.

If there were a second peak in the pandemic, the UK economy could contract by as much as 14%.

"The crisis will cast a long shadow over the world," the OECD added.

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- ## IMF says decline in global growth worse than forecast

It now predicts a decline of almost 5% in 2020, substantially worse than its forecast only 10 weeks ago in April.

The UK economy is expected to contract more than 10% this year, followed by a partial recovery in 2021.

That would be one of the most severe declines, although not as deep as forecast for Italy, France or Spain.

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- ## European stocks close sharply lower as surge in coronavirus cases spooks investors

European stocks closed sharply lower on Wednesday as a surge in coronavirus cases around the world spooked investors.

The pan-European Stoxx 600 provisionally closed down by about 2.7%, with all sectors and major bourses in negative territory. Autos stocks, which were over 4.5% lower, led the losses in the region.

Investor sentiment has been shaken by an uptick in the number of Covid-19 cases all over the world as economies emerge from lockdown. White House health advisor Dr. Anthony Fauci warned Tuesday that parts of the U.S. are beginning to see a "disturbing surge" of Covid-19 cases.

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- ## London housing association calls for development tax to ease the housing crisis

The report argued that we need to break the vicious cycle whereby the lack of supply has increased gains for those who can get planning permission, which in turn leads to high land prices, and encourages developers to seek higher returns at the expense of quality and quantity.

Jamie Ratcliff, executive director of business performance and partnerships at Network Homes, said: "Homes that are truly affordable aren't only a good thing in and of themselves – they are also crucial to accelerating the pace of overall housing supply.

"If we're serious about fixing the housing crisis, we need the land market to be aligned to maximising affordable homes.

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- ## Housing market activity rebounds

House sales and demand rebounded in May 2020, NAEA Propertymark's Housing Report has revealed.

There were typically five sales per branch in May, down from nine before the lockdown in February.

Demand for housing has risen from 322 in February to 344 in May.

Mark Hayward, chief executive, NAEA Propertymark, said: "It's great to see the market up and running again, bringing some much-needed confidence back.

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- **European stocks close higher despite fears over rising virus cases; Wirecard files for insolvency**

The pan-European Stoxx 600 closed up by 0.9% provisionally, with auto stocks leading the gains as most sectors and major bourses finished in positive territory.

Global markets continued to digest the IMF's latest forecast for the global economy and warning of soaring debt levels. On Wednesday, the IMF released its latest outlook in which it forecast a contraction of 4.9% in global gross domestic product in 2020, lower than the 3% fall it predicted in April.

The fund also downgraded its GDP forecast for 2021. It now expects a growth rate of 5.4%, down from a forecast of 5.8% made in April. The fund said that the downward revisions were due to social distancing measures likely remaining in place during the second half of the year, with productivity and supply chains being hit.

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- **Effects of U.S.-China tensions could 'spread throughout the world,' says expert**

The U.S. and China are heading into a new "cold war" that could be more damaging to the world compared to the geopolitical contest between the U.S. and Soviet Union at the end of World War II, a consultant said on Friday.

What separates the two rivalries is the extent of inter-dependency between the U.S. and China today, said Alan Dupont, chief executive of risk consultancy Cognoscenti Group. The Australian company advises clients on geopolitical, financial and national security trends.

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- ## Fed acts to keep banks 'prudent' amid virus risks

The US central bank said it would require firms to keep money on hand to guard against the risks.

The Fed said it was barring share repurchases and limiting dividend payments until at least October.

Although banks have been a source of "strength" so far, officials warned of a "high degree of uncertainty".

"Today's actions...to preserve the high levels of capital in the US banking system are an acknowledgment of both the strength of our largest banks, as well as the high degree of uncertainty we face," said Randal Quarles, the Fed's vice chair for supervision of the Federal Reserve's Board of Governors.

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- ## Quarantine rules set by UK to be lifted for many European countries

Ministers are finalising plans for a series of "travel corridors" that will mean people arriving into the UK will not need to self-isolate.

Participating countries could include France, Italy, Spain, Greece, Belgium, Germany, Norway, the Netherlands, Turkey and Finland - but not Portugal.

Restrictions for these countries are expected to be lifted in early July.

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