Fed says beating pandemic is key, but how will it know things are better?

Reuters, *Washington*

With a full three months of responding to a global pandemic under their belt, U.S. Federal Reserve officials have united around one point: lasting progress on the economic front will be dictated by success in containing the spread of the coronavirus.

But agreement beyond that may be elusive as Fed policymakers meet this week to balance fresh signs the United States may be over the worst of the economic fallout from the pandemic against evidence the virus is not yet under control.

A surprise gain of more than 2.5 million U.S. jobs last month will factor into their debate, as will any hint the surge in employment and other activity more broadly is accompanied by more transmission of the novel coronavirus.

Where they end up could shape decisions about whether to expand or create new emergency programs in anticipation of a more extended economic crisis, or about how to best support companies and households if in fact the pandemic is easing.

The U.S. central bank has ongoing debates on each front, both about the long-run commitments it might make to anchor interest rates at a low level for the recovery, and the continued hunt, as Fed Chair Jerome Powell put it last week, for companies with substantial numbers of employees that have not been covered in any of the crisis programs launched so far.

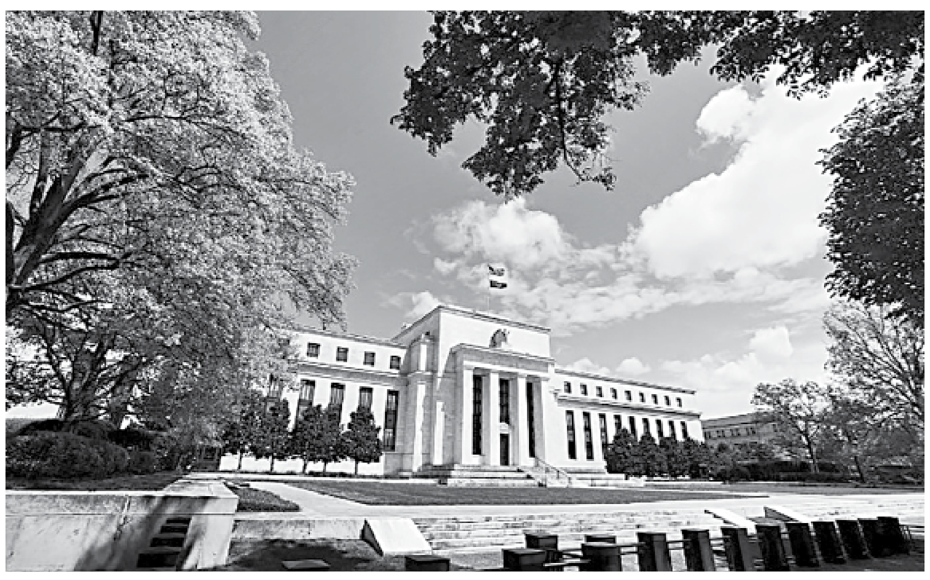
The stunning May payrolls data released by the Labor Department on Friday could temper some of the urgency that has accompanied Fed meetings since March.

After having cut interest rates to near zero and launched a bevy of credit programs in a frenzy of emergency meetings in March, no major policy decisions are expected on Wednesday when the Federal Open Market Committee ends its latest two-day meeting. It is scheduled to release its policy statement at 2 p.m. EDT (1800 GMT) on Wednesday and Powell is due to hold a news conference shortly after.

Policymakers, however, will issue economic projections for the first time since December, before a decade-long economic expansion was snuffed out by a massive wave of unemployment that followed widespread lockdowns to stop the spread of COVID-19, the respiratory illness caused by the coronavirus.

Projections due in March were shelved because there was so much fog around the collapsing economy that policymakers felt it pointless to guess where unemployment, inflation and economic growth were headed.

Three months of data since have verified the scope of the crisis - unemployment may have fallen in May but remains at a Great Depression-like 13.3%. And while it does appear the worst in terms of joblessness may have been reached, Oxford Economics economist Bob Schwartz cautioned on Friday that "the remarkable turnaround last month reflected the easy-lifting part of the healing process."



REUTERS/FILE

The US Federal Reserve building is set against a blue sky amid the coronavirus pandemic in Washington, US.

Furthermore, what remains unknown is perhaps what matters most - the extent to which durable progress has been made in containing a health crisis in which more than 110,000 Americans have died.

Deaths and the rise in new cases, which had been declining on a moving average basis, have recently risen. The easing of restrictions on business and social gatherings, meanwhile, has led to concerns about a possible wave of new infections. Such fears were heightened late last month as Americans flocked to beaches and lakes to celebrate the Memorial Day long weekend.

Two weeks of protests across the nation over the death of George Floyd, an African-American man who died in police custody in Minneapolis, have added even more uncertainty in major cities, including some that seemingly had the virus under control.

For the Fed, how to make sense of it all has become an impressionistic test, with policymakers looking at the same set of information and seeing different trajectories. Asked about the scenes of Memorial Day revelers at one Missouri lake resort, St. Louis Fed President James Bullard said he thought the risk of a second large wave of infections was low because of an expected quick response by health authorities.

"This is not occurring in a vacuum," he told journalists on the Wednesday after the holiday weekend.

That same day, Atlanta Fed President Raphael Bostic said he was paying particular heed "to congregations happening in ways that ... will potentially lead to a second wave that induces another shutdown. If that happens I think there are significant concerns" about the economic recovery.

Morgan Stanley flags risk oil price rally will lead to a fall

Reuters

Oil prices have quickly climbed to levels that raise the risk of price falls as demand is fragile, Morgan Stanley said on Monday, as benchmark crude hit its highest in three months.

Oil climbed on Monday after major producers agreed to extend a deal on record output cuts to the end of July and as China's crude imports hit an all-time high in May.

The bank said its base case expectation remained that oil markets will be progressively under-supplied in the second half of this year and inventories will shrink in the fourth quarter and first quarter next year.

But it said in a note the rally "appears mostly supply-rather than demand-driven, and it is questionable how strong refinery runs can increase against this backdrop".

Refining margins are historically low and inventories of oil products remain elevated relative to crude oil inventories, suggesting the demand recovery is relatively fragile.

Consumption is unlikely to return fully to pre-coronavirus levels until the end of 2021, Morgan Stanley said, adding that inventories are unusually high after the increases in April.

Growth from U.S. shale could return to levels that are too high, if the U.S. benchmark WTI trades too far above the low-$40s, it added. The bank also sees a risk to OPEC's compliance with supply cuts that have led to unusually high levels of spare capacity.

"When the cuts are eventually unwound, production could rise sharply," it said.

Vietnam ratifies free trade deal with EU

Reuters, *Hanoi*

Vietnam ratified a free trade agreement with the European Union on Monday that will cut or eliminate 99 per cent of tariffs on goods traded between the Southeast Asian country and the bloc, and provide Vietnam with a much-needed post pandemic boost.

Deputies in the National Assembly, which nearly always ratifies government proposals, voted by over 94 per cent in favour of the European Union Vietnam Free Trade Agreement (EVFTA).

The EVFTA, expected to take effect in July, is the European Union's second deal with a member of the Association of Southeast Asian nations (ASEAN) after Singapore, and one of few with a developing country.

Vietnam will have a transition period of up to 10 years for some imports, such as cars.

It will open up Vietnam's services, including post, banking and shipping and public procurement markets, align some standards and protect EU food and drinks, such as French champagne or Greek feta cheese, from imitations in Vietnam.

Critics in Europe have taken issue with Vietnam's record on human and labour rights, although the deal does include commitments in those areas.

Safety net outlay to hit 3pc of GDP for first time

FROM PAGE B1

The food and cash support has become crucial as a major portion of the population is facing food insecurity because of the pandemic, Hossain Zillur Rahman, executive chairman of the PPRC, told The Daily Star recently.

There are a lot of questions whether the listing of the beneficiaries is being done properly and the support is being distributed appropriately, he said.

The SSNPs also include the pension going to the civil servants. If the allocation for the retired government employees and their families is excluded, the SSNP budget for the poor would reduce significantly, according to Rahman, also the chairperson of Brac.

So, the real allocation for the poor should be clear, he said.

The allocation for the pension has been kept unchanged at Tk 23,010 crore for the FY21, which is 31 per cent of the total SSNP budget in the FY20 and it would be 24.18 per cent in FY21.

Excluding the allocation for the pensioners and their families, the total SSNP budget stands at Tk 72,145 crore, which would be 2.50 per cent of the Tk 2,885,872-crore GDP of Bangladesh.

The government should step up to introduce schemes for the urban poor as most of the programmes target beneficiaries in the rural areas, Rahman said.

"We don't have any programme for the urban poor in that sense. From the coronavirus pandemic, we came to realise in a big way that the urban poor is the new unaddressed poor. It would be better if there is an explanation how much of the safety net programmes is going to the urban poor."

Safety net programmes in Bangladesh have been contributing to the reduction of poverty and vulnerability by addressing a range of population groups through different forms of assistance, the World Bank said.

These include the provision of income security for the elderly, widows, and persons-with-disabilities, generating temporary employment for working age men and women, and supporting the healthy development of young mothers and children.

The government aims to double the budget allocation in the SSNP sector in the next five years.

Sterling holds near $1.27 as UK plans re-opening

Reuters, *London*

Sterling rose against the dollar on Monday, as plans to ease coronavirus lockdowns in the UK and signs the economy may bounce back due to pent-up demand kept the currency just below the $1.27 touched late last week.

Analysts warned, however, that Brexit remains a risk for the pound - which has rallied for seven consecutive days against the dollar - as talks with the European Union fail to make progress.

The pound has risen 2.8% against the dollar this month as several economies re-open from lockdowns, weakening demand for the U.S. currency.

British Prime Minister Boris Johnson is planning to relax rules on outdoor dining and weddings, as well as speeding up government investment plans to limit the economic damage from the coronavirus, newspapers reported on Saturday.

The Sunday Times said Johnson wanted to relax planning restrictions that stop many pubs, cafes and restaurants from using outside areas, and also to make it legal to hold weddings outside.

The number of British shoppers in early June indicate pent-up demand for shopping in physical stores as the coronavirus lockdown is eased, industry data showed on Monday.

Britain went into lockdown on March 23 to slow the spread of the pandemic, with all retail stores deemed non-essential forced to close.

By 0828 GMT, sterling was up 0.15% against the dollar at $1.2686, just below Friday's $1.27. It was weaker against the euro by 0.12% at 89.10 pence.

"Sterling-dollar remains anchored around the 200-day moving average of $1.2660/65. But it seems that bar the broader weak dollar and positive risk environment, investors currently lack any major catalyst for the pound to move materially above this key level," said Viraj Patel, FX and global macro strategist at Arkera.

"We could see the pound tread water around these levels in absence of any further positive catalysts and investors take stock of what will happen next in broader markets - especially ahead of the Fed meeting later this week. However, with Brexit headwinds also coming to the forefront of investors - the risks are mildly tilted to the downside for the pound this week." Johnson is willing to accept European Union tariffs on some UK goods in an attempt to win a trade deal and break the deadlock in talks with the EU, the Daily Mail reported. Britain's chief negotiator, David Frost, had made a new offer, the newspaper said, citing sources.

Luxury automakers outpace China's May passenger car sales recovery

Reuters, *Shanghai*

China's premium and luxury passenger car retail sales jumped 28 per cent from a year earlier, the best performing sector as the industry, the China Passenger Car Association said, as the country gradually recovers from the coronavirus.

Overall passenger car sales in May rose 1.9 per cent from a year earlier to 1.61 million, the China Passenger Car Association (CPCA) said on Monday.

The association said during an online briefing that the retail sales growth beat expectations and signalled a recovery in the passenger car market. However, it forecasts sales in June will fall, citing last year's strong figure.

Tesla Inc sold 11,065 Shanghai-made Model 3 electric sedans in May, up 205 per cent compared to April.

An executive at Jaguar Land Rover (JLR), owned by India's Tata Motors, said the firm expects sales of China's luxury car segment this year to be level with last year or see slight growth.

Shohoz's crowning glory

FROM PAGE B1

"What Zunaid Ahmed Palak, state minister for ICT, has done amazed me. Every week, he would conduct a number of video-conferencing with officials of several organisations," Maliha said.

Working from home saved time and increased efficiency as physical meetings often get delayed, the entrepreneur said.

The app would be able to include all smartphone users in Bangladesh simultaneously and people should use it from their own sense of responsibility to flatten the curve, she said.

"It will inform people how much they are at risk and when they should go for isolation," she said, referring to World Health Organisation's frequent advice and importance on testing, tracing and isolation.

The app would be particularly helpful in big cities, where most of the people use smartphones but contract-tracing is very difficult because they do not know each other very much.

The technology, which was used to develop the app, used Bluetooth low-energy signal between phones and fine-tuned signal strength and contact duration to identify legitimate contacts as per WHO's guideline.

The app's backend has been built using asynchronous queue-backed scalable microservices and a highly performant NoSQL storage solution.

These highly-decoupled microservices are containerised and thus can be deployed and scaled up individually based on request/data throughput that guarantees availability at a high-scale and minimises infrastructure cost.

The app does not need internet connectivity to be available on phones all the time and uses low bandwidth for communication with backend servers. It is highly energy-efficient.

Harvard Business School-graduate Maliha worked at top institutions such Morgan Stanley, Standard Chartered and Nokia before founding Shohoz, a platform where one can buy tickets for bus and launch trips, events and movies, in 2014.

In 2018, Shohoz made foray into the ride-hailing market. In the same year, the company announced it raised $15 million from Golden Gate Ventures of Singapore and others to expand.

The company added truck to its ride-hailing service and food delivery last year.

"I had a dream that one day we would reach every person in the country with our service, and with this app, I hope we would achieve a lot of our dream."

The seed for the company was sowed many years ago when her mother, who was a top official at state-run Jibon Bima Corporation, handed her a magazine named Real Simple.

The magazine shows how people can make their everyday life simple.

"So, when I wanted to form a new venture in Bangladesh, I gave the name Shohoz, which means simple."

Stock brokers in dire need of incentives

FROM PAGE B1

The DBA called for lowering advance income tax on share trading to 0.015 per cent from the existing 0.05 per cent.

The government imposed higher taxes based on a higher turnover in 2010 but after that year's boom turnover fell, the taxes remained the same, said another stock broker.

The association urged for incentives for investors as well because they have also been struggling with ailing stocks for a while.

It requested the government to scrap the provision for paying annual BO account fees and to provide refinancing facilities to investors who are margin loan account holders to help prevent themselves from going for forced sales.

The refinancing facilities need to come at 3 per cent interest rate for three years.

Sorkar Joynal Abedin, a stock investor, said he has been observing the horrible bleeding in his portfolio since last February.

During this time, the benchmark index of the DSE dropped 17 per cent to 3.956 points.

After the historic market crash of 2010, the index has reached a new low while remaining bearish almost all the time, for which investment slowly eroded in the last one decade, said Abedin, an MBA-degree holder who works at a private company.

"Now the situation has deteriorated to the lowest point, for which the government can consider providing some incentives to investors and listed companies," he added.

The DBA also urged the Bangladesh Securities and Exchange Commission to refrain from charging yearly broker and dealer fees of the current year.

From the DSE, it sought scrapping yearly subscription fees and the authorisation of representative fees so that brokers can give various facilities and services to the investors to bring them back to the market.

Merchant banks are also in trouble due to the bearish market.

"The number of merchant banks is huge compared to the market size so many merchant banks fail to process any issues in a year," said a top official of a leading merchant bank, preferring anonymity.

Merchant banks manage initial public offerings and give the service of under writing and advocacy in investment.

In 2019, 10 IPOs were approved whereas there are 62 merchant banks now in the country, according to the BSEC data.

The asset management companies are also not in a favourable position amid the bearish market.

"Most of the asset management companies which manage mutual funds are struggling to find funds and they will face a big challenge now," said Shahidul Islam, chief executive officer of VIPB Asset Management.

The government can provide refinance schemes for them so that they can survive, Islam said, adding that the mutual funds were very crucial for a sustainable market.