Banks ready to invest Tk 1,650cr in stocks once floor price is lifted

Ahsan Habib

Fourteen banks have together formed a Tk 1,650 crore fund to invest in the stock market but they are now waiting for the lifting of the floor price that the market watchdog set for all stocks earlier.

Bangladesh Securities and Exchange Commission set the floor price for all stocks based on the average price of the past five days on March 19, in order to stop the market slump amid the coronavirus pandemic.

But the DSEX, the benchmark index of Dhaka Stock Exchange, plummeted 4.46 per cent to hit a seven-year low of 3,603 points on March 18, just a day before the floor price was set.

"So we are waiting to see how much it slumps and what effect the market forces have on the stocks once the floor price is lifted," said the managing director of a state-run bank preferring anonymity.

"We wanted to invest, as the index plunged to a seven-year low. But the index was in a declining trend before the floor price was set," said the official of the bank, which also formed such a fund of Tk 200 crore.

"Till there is an understanding on the effect of the market forces on the stock price, we cannot buy stocks with people's money," he said.

"When the floor price is lifted and the market forces get the index to evolve, then we will buy stocks. With purchases the index will also go up on its own. This will be the market's real scenario," he added.

The 14 banks which have formed the special investment fund have taken approval from their boards and informed Bangladesh Bank but are yet to invest, confirmed a top official of the central bank preferring anonymity.

The banks are Sonali, Janata, Agrani, Rupali, NCC, Shahjalal, One, United Commercial, Mercantile, Pubali, City, Exim and two other scheduled banks.

As Bangladesh Bank gave them incentives on investing in the bearish stock market, they are coming forward, the BB official said.

On February 10, the banking watchdog announced a package for banks, allowing each to set up funds worth Tk 200 crore by taking the funds from the central bank through repo.

Repo refers to a system of repurchasing treasury bills from banks to lend money. The banks will have to pay 5 per cent interest for the fund and the credit tenure will be until February 2025.

The funds of Tk 200 crore would not be accounted in the market exposure, meaning the limit on banks' investment in the market, according to the Bangladesh Bank direction.

The central bank official said the banks have taken the approval in March, right after which the stock market closed thanks to the government leave to contain the Covid-19, so they did not get the chance to start investing.

They will invest when they think their money is comparatively safe, he added.

"As the stock prices have come down we have formed a fund to inject in the stock market," said Mohammed Rahmat Pasha, managing director of UCB Capital, a subsidiary of United Commercial Bank.

"But the stock prices are not yet controlled by market forces, so we are waiting to see the demand-supply based stock prices," he said.

"Our analysis shows a number of stocks are waiting to adjust to the demand-supply based market, so why will we buy the stocks now?"

A top official of a private bank said his bank wants to enrich its portfolio with some well-performing stocks and this was the perfect time as many companies' price-earnings ratio has fallen to 7 to 8.

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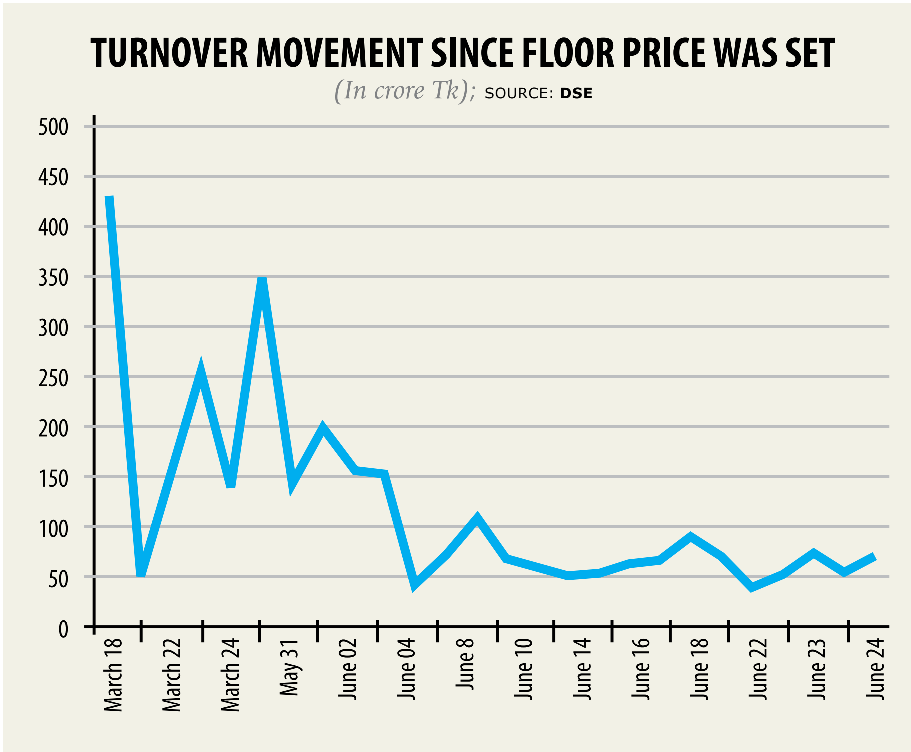

Customs to auction off 3,000 tonnes of abandoned goods today

Mohammad Suman, Ctg

Chattogram customs house will auction off around 3,000 tonnes of abandoned items today, including four luxury cars, which had arrived in the port between 2018 and mid-2019.

The items are stored in over 210 containers, according to customs documents.

The auction will give the port some relief, as it is now suffocating with around 8,413 containers of unclaimed goods worth Tk 11,000 crore that were imported in between January 2015 and March this year.

"Quality of the goods has been checked before putting those up for auction," Faisal Al Mamun, deputy commissioner for auction at Chattogram customs, told The Daily Star.

The bidders are getting a decent response as the quality of the goods is still good, he said.

"To reduce the pressure on auction-able goods, the custom house has taken an initiative to organise one auction every month. Hopefully, if it is done regularly, the products will be saved from turning into waste."

Over 100 types of products are there in the unreleased goods' list, including cosmetics, chemicals, plastics, automobiles, electronic goods, leather goods, construction materials, tiles and ceramics, according to data from the National Board of Revenue (NBR) and Chattogram customs.

Most of them came from China, India, Australia and Singapore.

The customs law states that importers have to take delivery of goods within 30 days of those reaching the port. Defaulting on the timeline results in the customs authority to start the procedures to auction off the goods.

ITEMS TO BE AUCTIONED OFF

Fabrics: **836** tonnes
Animal feed: **729** tonnes
Apple: **612** tonnes
Buffalo meat: **174** tonnes
Art paper: **160** tonnes
Onion: **150** tonnes
Chemicals: **10** containers
Luxury cars: **4**

Deliveries are not taken because of a number of reasons, according to customs officials and importers.

A fall in the prices of goods in the local market, failure to submit original documents in support of the shipment, failure to get clearance permit reports and importers' refusal to pay fines for anomalies are some of the reasons.

The auctions get delayed because of a shortage of manpower and equipment, the officials said. "Some importers or auctioneers also go to the court which leads to further delay."

The auction-able goods lying at the port occupying huge space for years are not only hampering port activities but also causing losses for the respective shipping agents, said Ahsanul Haque Chowdhury, president of the Bangladesh Shipping Agents Association (BSAA).

"The shipping agents have to bear the storage charges as long as the products are not delivered. The losses in rent are huge for these undelivered goods," he said.

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Tanners in a capital crunch, seek Tk 600cr

Refayet Ullah Mirdha

Tanneries are suffering from a capital shortage following a drop in sales amid the ongoing coronavirus pandemic, and subsequently, the country's rawhide business has been severely impacted, according to the Bangladesh Tanners Association (BTA).

Stocks of leather remain unsold at many processing factories due to low demand among buyers and this spells trouble for the business as most tanneries do not have enough working capital to purchase rawhide this year, said BTA President Md Shaheen Ahmed.

Last year, traders were forced to dump thousands of pieces of rawhide after they were unable to get adequate prices for the product from seasonal traders at the field level.

During that time, tanneries did not even pay the arrears owed to rawhide wholesalers for previous purchases. This had a trickle-down effect as wholesale merchants were then unable to pay the seasonal traders, mainly dairy farmers, in advance for their stocks of rawhide.

"However, the current situation may be even worse than last year as the Covid-19 fallout has had an adverse impact on our business," Ahmed told The Daily Star over phone.

BTA leaders met with the officials of the finance ministry, Bangladesh Bank and state-owned banks yesterday to address the industry's financial crisis, he added.

Managing directors of Agrani, Janata, Rupali, Sonali and BASIC banks were present at the meeting as those lenders mainly provide financing to tanners.

Ahmed said they sought Tk 600 crore from the government to solve the rawhide sector's capital crisis.

The BTA president also demanded waiver of the interest owed by tanners on previously availed bank loans.

Since 1990, about Tk 2,600 crore has been circulating in the tanning industry as loans, nearly 95 per cent of which have fallen in the classified category.

"We want a moratorium period for payments of our old loans as much of those turned classified over the years," he said.

The amount of money owed by the industry could be much higher considering the fact that two leather goods manufacturers recently went bankrupt after borrowing Tk 5,000 crore in total.

Most tanners have been unable to enjoy the benefits of the government's Tk 20,000 crore and Tk 30,000 crore stimulus packages due to the stringent conditions tagged with the two schemes.

Only 30 per cent of 155 tanneries at the newly established Savar Tannery Industrial Estate are currently operational due to a thin flow of work orders.

Work orders for finished and crafted leather from four major markets -- Spain, Italy, Hong Kong and South Korea -- dropped 40 per cent because of the pandemic, Ahmed said.

The four markets account for about 60 per cent of the total export of finished and crafted leather products from Bangladesh.

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Exports: riding the waves of uncertainty

Abdur Razzaque

In the wake of Covid-19 spreading in Europe and the US, global trade descended into a free-fall.

Bangladesh's export in March 2020—the first month to take the hit—was $2.73 billion, down by 18 per cent year-on-year.

Then came the most devastating blow in April when the figure decreased 84 per cent year-on-year to $520 million.

Things improved slightly in May, but the export receipt of $1.6 billion was still 62 per cent lower than that of the same month a year ago.

It is almost inevitable that shipments in June will also register a negative growth.

While Covid-19 has made the situation an extreme one, 2019-20 was already an unusual year for Bangladesh.

In the eight months to February this year, export earnings on six occasions were lower than those of the corresponding months in the previous year.

That is, except for July and December, export growth for 10 months in the outgoing fiscal year will be negative.

For many years, our export success had defied overwhelming odds. Bangladesh has repeatedly been shown performing worse than its competitors in various global surveys considered to be the determinants of competitiveness and trade performance.

Furthermore, vulnerability associated with excessive dependence on readymade garments has regularly dominated policy discussions and newspaper headlines.

Yet, in the most recent past decade of 2008-18, Bangladesh achieved the second highest (after Vietnam) average annual export growth amongst the global economies.

Bangladesh's wheel of fortune has now apparently taken a dramatic turn for the worse exacerbated by the global pandemic.

While most global economies have seen their exports plummeting in April and May, Bangladesh looks more vulnerable given its extremely concentrated export basket in which the share of clothing alone is about 84 per cent.

A recent study jointly undertaken by the Policy Research Institute (PRI) and London-based Overseas Development Institute shows that Covid-19 induced recessions in Western countries would lead to an 8-per cent drop in the demand for Bangladesh's exports.

This does not include other factors such as supply-side disruptions, reduced travel and tourism activities, and low consumer confidence that also adversely affects the demand.

McKinsey, a global management consultancy firm, anticipates 40 per cent of European and US consumers would reduce household spending, but a much higher proportion of 60 per cent would cut back spending on clothing and footwear.

Many analysts expect an inverted J-curve in consumer spending in the short term – a very short-lived increase in spending as people leave lockdown, but then a decline of longer duration.

Overall, a 27-30 per cent decrease in the combined demand for apparel and footwear is anticipated.

This economic downturn thus could have a disproportionately larger impact on Bangladesh's exports.

The emerging evidence seems to suggest new orders from the largest buyers (global chains and brands) to be about 30 per cent of the 'normal' level.

Retailers in the importing countries are trying to get rid of unsold spring/summer stock in markets with less seasonal differentiation.

It is now almost inevitable that the garment sector in Bangladesh will undergo significant consolidation and many smaller firms will disappear.

Many analysts and officials in the policy circle held strong views about Bangladesh's having low labour-cost advantage.

They argued that lower-income consumers in the developed countries are dependent on low-priced Bangladeshi products for which there are no alternative suppliers.

However, the notion of comparative advantage based on the labour cost alone has fast changed due to technological progress and automation.

Indeed, rival firms in China, Vietnam and Cambodia have adopted technologies to replace labour at a faster pace than their counterparts in Bangladesh.

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