

# Economic pitfalls risk cooling Egypt’s hot money inflows

REUTERS, Cairo

The threat of conflict in Libya, water security worries and a flat-lining tourist sector risk upending a nascent rally in Egyptian bonds, bankers and economists say.

The North African country has attracted a wave of foreign investor interest in the past three months, emboldened by fresh financing from the International Monetary Fund (IMF), and short-term local debt offering yields of around 13 per cent, among the highest in emerging markets.

Bankers and economists warn, however, that the yield bonanza masks an economy with weak prospects and heightened political risk, with the Cairo bourse falling on several days this month on fears of a Libya intervention. Parliament gave President Abdel-Fattah al-Sisi last week the green light for possible military intervention in Libya.

A deployment of armed forces into Libya could lead to higher military spending at a time when COVID-19 is already hitting the budget deficit.

“Obviously the IMF support package has reassured foreign investors and that is why there has been an improvement in flows, but the fundamentals are still weak,” said Zeina Rizk, executive fixed income director at Arqaam Capital.

“The virus is raging, tourism is down, and government spending needed to boost the economy will add further leverage,” she added.

Adding further uncertainty, Egypt has failed so far to reach a deal with Ethiopia to regulate flows from its Grand Renaissance Dam (GERD) which threatens its main water source.

“The political risk has deteriorated,” said Hasnain Malik, head of equity research at Tellimer Research.



REUTERS/FILE

**A member of a medical team is seen beside a banner for the Egyptian President Abdel Fattah el-Sisi, as he sprays disinfectant as a precautionary move amid concerns over the coronavirus disease outbreak at the underground Al Shohadaa ‘Martyrs’ metro station in Cairo.**

The tourism industry, meanwhile, which makes up as much as 15 per cent of GDP, is unlikely to recover soon, analysts said. Egypt, unlike Tunisia and Morocco, has not been added to the European Union’s list of safe COVID-19 countries.

Egypt’s reported COVID-19 cases have been falling in the past weeks but the number of new infections remains too high for now to lift the travel warning, diplomats said.

Tourist flights to Red Sea resorts have been rising since airports reopened on July 1, but normal occupancy rates would be only back by March or April next year, said Alaa Akel, head of the Egyptian Hotels Association Red Sea.

More than half of the hotels are back in business after two months of lockdown and those still closed will probably re-open by November, he added. The central bank and state press centre did not respond to

questions sent by Reuters.

The government expected growth of 3.5 per cent in the fiscal year 2020/21, which began in July, but growth could slow to 2 per cent if the coronavirus crisis continues until year-end, Planning Minister Hala al-Saeed said in May.

Sisi in March approved a 100 billion pound (\$6 billion) plan to stem the economic fallout, including support for the tourism sector, payments of salaries for staff sent home by their employers and cash for informal workers.

With foreign reserves standing at \$38 billion, Egypt’s finances are in much better shape than in 2011 after the toppling of Hosni Mubarak.

This is down from \$45 billion from before the pandemic, but the central bank has been able to support the currency, which strengthened in July after a dip the

month before, a gain that helped buyers of short-term debt make a profit, bankers say.

“We have been seeing significant flows back into Egypt,” said Farouk Soussa, senior Middle East and North Africa economist at Goldman Sachs.

“The inflows have indeed been at the short end of the curve, reflecting higher short term yields and the potential for near-term strengthening in the pound, which make the carry trade the most lucrative in Egypt at the moment,” said Soussa.

He was referring to a strategy which involves investors borrowing in currencies where interest rates are low to invest in countries where yields are high.

Egypt’s international bonds have performed better than some other similarly rated emerging market sovereigns, such as El Salvador and Sri Lanka, since the March sell-off.

Egypt’s 2025, 2027 and 2040 issues are trading around 12 per cent or less from pre-pandemic highs, Refinitiv data shows.

But analysts say the inflow of “hot money” -- or investments made for short periods -- does not translate into new jobs in the real economy and might disappear if the currency slips.

Barring its energy sector, Egypt had been struggling to attract foreign direct investment (FDI), a predicament blamed by analysts on bureaucracy and an expansion of army-owned firms in sectors from food production to cement.

“Increasing long term foreign direct investment further will require improvement in Doing Business indicators, maintaining a sound, predictable macroeconomic framework and political stability,” Raza Agha, head of emerging markets credit strategy, Legal & General Investment Management.

# US core capital goods orders, shipments accelerate in June

REUTERS, Washington

New orders for key US-made capital goods increased more than expected in June and shipments accelerated, but the gains were likely insufficient to avert the deepest plunge in business investment and economic activity since the Great Depression in the second quarter because of the COVID-19 pandemic.

Orders for non-defense capital goods excluding aircraft, a closely watched proxy for business spending plans, jumped 3.3 per cent last month, the Commerce Department said on Monday. These so-called core capital goods orders rose 1.6 per cent in May and remained below their pre-pandemic level. Orders last month were boosted by strong demand for machinery, fabricated metals, primary metals and electrical equipment, appliances, and components.

Economists polled by Reuters had forecast core capital goods orders advancing 2.3 per cent in June. Core capital goods orders fell 2.3 per cent on a year-on-year basis in June.

Shipments of core capital goods surged 3.4 per cent last month. Core capital goods shipments are used to calculate equipment spending in the government’s gross domestic product measurement. Core capital goods shipments rose 1.6 per cent in May. Stocks on Wall Street opened slightly higher amid hopes of more stimulus to revive the economy. The dollar fell against a basket of currencies. US Treasury prices rose.

Economists expect business spending contracted at its sharpest pace on record in the second quarter, which would mark the fifth straight quarterly decline.

According to a Reuters survey of economists, GDP collapsed at a 34.1 per cent annualized rate last quarter, which would be the sharpest contraction in output since the government started keeping records in 1947. The economy contracted at a 5.0 per cent rate in the January-March quarter, the

deepest since the 2007-09 recession.

The government will publish its snapshot of second-quarter GDP on Thursday. The closure of nonessential businesses in mid-March to slow the spread of the coronavirus almost ground the economy to a halt, with most of the effects felt in April.

Activity has rebounded as businesses reopened, but the nascent recovery is being threatened by a resurgence in cases of the respiratory illness across the country. Some authorities in the hard-hit South and West regions have either shut down businesses again or paused reopenings.

Orders for durable goods, items ranging from toasters to aircraft that are meant to last three years or more, increased 7.3 per cent in June after rebounding 15.1 per cent in May. Durable goods orders were driven by strong demand for motor vehicles, which led to a 20 per cent rise in orders for transportation equipment after a 78.9 per cent surge in May.

Orders for motor vehicles accelerated 85.7 per cent. That followed a 28.8 per cent increase in May. Orders for civilian aircraft tanked 462.3 per cent. Boeing reported only one aircraft order last month after receiving nine in May, according to information posted on its website.

The planemaker reported this month that customers cancelled orders for 355 of its 737 MAX jets in the first half of 2020, as the damage done by the jet’s grounding and the coronavirus crisis to the airline industry mounted.



REUTERS

**Household appliances are offered for sale at Home Depot in Chicago, Illinois.**

# HSBC warned over Huawei role in Chinese govt-backed website column

REUTERS, Beijing

A Chinese government-backed website took aim at HSBC Holdings PLC on Tuesday, accusing the Asia-focused lender of “maliciously” playing a role in the arrest of Huawei Technologies’ chief financial officer.

Huawei CFO Meng Wanzhou’s is fighting against extradition from Canada to the United States, where she is accused of bank fraud for misleading HSBC about Huawei’s relationship with a company operating in Iran, putting HSBC at risk of fines and penalties for breaking U.S. sanctions on Tehran.

Anger in China over the treatment of Meng and Huawei, the world’s biggest telecoms equipment maker, has led to criticism of London-headquartered HSBC intensifying in recent days, with the latest salvo fired by website China.com.cn.

“The role of HSBC in the Meng Wanzhou incident is already clear. HSBC’s credibility has also been wiped out,” said the commentary posted on the site backed by the State Council Information Office and the China International Publishing Group.

“In the U.S. government’s political pursuit of Huawei, HSBC was the one who ‘handed the knife,’” it said in a column written under the byline Tang Hua, and signed by three editors.

HSBC had issued a statement on Saturday saying it had not participated in the decision by the U.S. Department of Justice to investigate Huawei and that it had no “malice” against the company.

The Chinese website article dismissed HSBC’s denial as “meaningless”.

# Gold roars to record high, dollar dives again

REUTERS, London

Gold soared to an all-time high on worsening ties between the United States and China, a sinking dollar and ultra-low interest rates on Monday, while stock markets faltered before a deluge of corporate earnings.

Europe’s main stock markets were still hurting after their first weekly drop in four and as the euro’s fastest gains since early 2016 took past \$1.17, but it was weakening dollar and precious metals surge that dominated.

Gold made a 1.6 per cent jump to surpass its 2011 highs and put \$2,000 per ounce in its sights. Silver climbed another 7.5 per cent, to take its July streak past 30 per cent, which would be its best month on record. A lot of factors were in play for markets, said Shafali Sachdev, the head of FX Asia at BNP Paribas Wealth Management in Singapore, from U.S.-China tensions to a second wave of coronavirus outbreaks.

“If you look at the fact that the dollar’s been higher yielding than many other currencies for quite a while, and with some of the benefits of that being eroded ... and also the continued demand for a safe haven, it all plays into gold’s strengthening,” she said.

“And at this point there doesn’t seem any obvious factor that could help the trend to draw to a close.” European stocks cut some early losses after data from Germany showed an improvement in business morale, but they continued to struggle.

Travel and leisure stocks were down nearly 2.5 per cent, with airlines and tour operators such as TUI AG, , Easyjet, British Airways owner IAG falling between 7.5 per cent and 12 per cent after Britain imposed a 14-day quarantine on travellers returning from Spain, where coronavirus cases are rising again.

Asia was also choppy. A 10 per cent rally in Taiwanese chipmaker TSMC helped the tech sector, after U.S. rival Intel saw its shares plunge more than 16 per cent on Friday.

Elsewhere, mainland Chinese shares

gave up most of their early gains, with the CSI300 index closing up just 0.2 per cent, after steep losses on Friday too.

Japan’s Nikkei fell 0.2 per cent, though S&P 500 futures steadied and were last up 0.5 per cent in Europe.

Global shares had lost steam late last week after Washington ordered China’s consulate in Houston to close, prompting Beijing to close the U.S. consulate in Chengdu. U.S. Secretary of State Mike Pompeo said Washington and its allies must use “more creative and assertive ways” to press the Chinese Communist Party to



# Barishal’s guava traders in a pickle

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Every year, around 800 tonnes of guava are bought and sold each day through at least 10 wholesale centres in the region. This statistic has since fallen below 500 tonnes per day this year, according to DAE data.

“We think prices will see a 50 per cent cut because of the reduced demand for the fruit,” said Suvojit Halder, a wholesaler at the Bhimruli floating guava market under Jhalakati district.

“This time, both the number of traders and wholesalers have decreased significantly due to the coronavirus outbreak,” said Nittananda Samadder, president of Peara-Amra Bagan Malik Samity in Kuriana, an association of guava and hog plum orchard owners.

“We believe sales will be 50 per cent less than what they were in the previous year,” Samadder added.

Getting real value for the produce would be a tough task this year, local

guava farmers said.

“If we don’t get the actual price, we will have to count heavy losses this year as we depend on guava production year-round,” said Tapos Samadder, a guava trader of Adabari village in Nesarabad.

Large-scale wholesaler from Dhaka, Narayanganj and Chattogram are not placing orders with the same volume as previous years, said Md Fayzuddin, a wholesale trader of Huriana union under Nesarabad.

The thousands of people involved in the business could suffer this year as wholesalers are struggling to send guavas to Dhaka and Chattogram, said Tapan Howlader.

“This season, guava production suffered from spot disease,” said Chapal Krishna Debnath, upazila agriculture officer of Nesarabad.

“However, the disease could not leave any lasting impact on yield. But the coronavirus did some harm,” he

added.

The Covid-19 restricted local farmers from reaching the buyers in time, he said.

“They now fear that they may fail to get back the money they spent on the orchards for the last one year.”

The farmers will not have to count any losses if there was a cold storage to preserve the guavas, he said.

If the situation continues for long, the farmers of the fruit would be in big trouble this season, said Tapos Samadder.

“Despite losing our savings due to coronavirus, we spent the last money we had on guava farming. For our survival, we now need low-cost loans from the government,”

The guava cultivators also urged the government to set up cold storages in the region so that they can preserve guava during peak harvesting season and ensure its supply throughout the year.

# IPDC shines against all odds

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By 2015, the IPDC had developed a five-year strategic plan by realigning its focus towards the youth, women and underserved areas.

This innovative lending approach continuously bears fruits for the IPDC, Islam added.

Over the last five years, the NBF’s

half-yearly net profits have grown 3.8-fold while its total revenue has grown 4.9-fold.

Currently, the IPDC has 12 branches in operation across the country.

The NBF recently introduced Southeast Asia’s first digital supply chain finance platform, called Orjon.

It also established the country’s sole retail financing platform, “IPDC Dana”, that provides working capital for retailers in a bid to facilitate financing in an easy, low cost, collateral-free and structured manner.

As of yesterday, stocks of IPDC Finance were traded at Tk 24.40 per unit.

# Bata Shoe sinks into losses for the first time in its 58-year stay in Bangladesh

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Buoyed by the steadily growing economy, which was the fastest in Asia last fiscal year, and a youth population, Bata opened its first-ever sneaker outpost anywhere in the world in November last year. The store, dubbed B-sneakers on the capital’s Gulshan Avenue.

The multinational shoe company has been serving the local customers since 1962. Currently, Bata Shoe Company (Bangladesh) operates two manufacturing facilities: one in Tongi and the other in Dhamrai.

With a production capacity of 160,000 pairs of shoes daily, its annual sales stood at about 30 million pairs before the pandemic.

Bata is the lone franchisee of internationally renowned brands such as Adidas, Nike, Hush Puppies and Skechers in Bangladesh. It has its own sneaker brands: Power and North Star. It has a network of 261 retail stores in Bangladesh. Its store at Bashundhara City shopping centre is the world’s largest Bata store.

Shares of Bata, which was listed on the Dhaka Stock Exchange in 1985, closed unchanged from the previous day at Tk 693 yesterday.

# Finance ministry replaces Janata chairman in less than a year

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Rahman, it seems, would have to be strict disciplinarian to clean up the mess that the bank is mired in, thanks to years of lending ill-discipline.

As of March, default loans at Janata Bank stood at Tk 14,117 crore, which is 15.25 per cent of the banking sector’s total bad loans, according to data from the BB. The amount though is down 51 per cent from a year earlier, and it is not because of a dramatic

improvement in its lending practices or an outside recovery drive but because of wholesale rescheduling by way of using the central bank’s relaxed rescheduling facility offered last year.

Between 2010 and 2015, Janata disbursed more than Tk 5,500 crore to little-known AnonTex Group, involved in the textile business, in violation of the banking rules.

Now, almost the entire amount -- Tk 5,282 crore -- has turned sour.

Crescent Group, another entity involved mostly in leather and footwear industry, has defaulted loans of Tk 3,152 crore with Janata.

Under a large loan restructuring policy in 2015, some 11 corporate groups restructured loans of Tk 14,400 crore. Of the amount, Tk 5,000 crore was restructured by Janata. As much as 90 per cent of these loans had earlier become bad, putting the lender under severe strain.