

US producer prices rebound in July

REUTERS, Washington

US producer prices increased by the most in more than 1-1/2 years in July, but the overall trend in producer inflation remained subdued amid signs the economy's recovery from the COVID-19 recession was faltering.

The jump in producer prices reported by the Labor Department on Tuesday, however, further diminished the risk of deflation, a decline in the general price level. Deflation is harmful during a recession as consumers and businesses may delay purchases in anticipation of lower prices.

Overall, benign inflation should allow the Federal Reserve to maintain its extraordinarily easy monetary policy as it tries to nurse the economy back to health.

"Fed officials will see no reason to be on high alert for inflation pressures after today's modest rebound in producer prices and there is little reason for them to temper their highly stimulative monetary policy," said Chris Rupkey, chief economist at MUIFG in New York.

The producer price index for final demand increased 0.6 per cent last month, driven by a surge in portfolio management fees and rising costs for gasoline. That was the biggest gain since October 2018 and followed a 0.2 per cent decline in June.

In the 12 months through July, the PPI dropped 0.4 per cent after falling 0.8 per cent in the 12 months through June.

Economists polled by Reuters had forecast the PPI would rise 0.3 per cent in July and decrease 0.7 per cent on a year-on-year basis.

Excluding the volatile food, energy and trade services components, producer prices increased 0.3 per cent last month after a similar rise in June.



Workers prepare boxes of free food for distribution at the Chelsea Collaborative, which distributes 6 to 7 thousand of boxes of food a week in a city hard hit by the coronavirus disease outbreak, in Chelsea, Massachusetts, US.

In the 12 months through July, the core PPI edged up 0.1 per cent. The core PPI ticked down 0.1 per cent on a year-on-year basis in June.

The Fed tracks the core personal consumption expenditures (PCE) price index for its 2 per cent inflation target. The core PCE price index rose 0.9 per cent on a year-on-year basis in June. July's core PCE price index data will be released later this month.

There is little scope for inflation to heat up

as the economy continues to take a hit from the COVID-19 pandemic. A separate report on Tuesday showed small business confidence relapsed in July, with owners tempering their economic expectations over the next six months.

Small businesses noted that "sales are often lower due to business restrictions, social distancing requirements, and a still-reduced willingness of consumers to go out and mingle with the general population."

Cathay forecasts weak passenger demand but stronger cargo after record loss

REUTERS, Sydney

Hong Kong's Cathay Pacific Airways Ltd warned it did not expect a meaningful recovery in passenger demand for some time due to the coronavirus pandemic after posting a record first-half loss, but signalled a brighter cargo market outlook.

The airline reported on Wednesday a HK\$9.87 billion (\$1.27 billion) first-half loss, in line with a forecast it made last month, including HK\$2.47 billion of impairment charges as passenger numbers plummeted.

"I don't think we are expecting the second half to be better than the first half," Chairman Patrick Healy told reporters.

Cathay expects passenger capacity to operate at around 8 per cent of normal in August and September, down from an earlier forecast of up to 10 per cent as travel restrictions continue, Chief Executive Augustus Tang said.

Passengers to and from mainland China are currently barred from transiting Hong Kong, though media reports said on Wednesday those restrictions would soon be eased.

"We haven't heard any official news," Chief Customer and Commercial officer Ronald Lam said, adding the airline could gear up to add flights at short notice if needed.

Revenue nearly halved to HK\$27.7 billion in the six months ended June 30 as it slashed passenger flying to a barebones schedule due to lower demand

and border restrictions, though it added more cargo-only flights as freight yields rose 44.1 per cent.

Lam said the cargo business had peaked in May but yields remained high and the outlook heading into the peak Christmas season was positive.

Cargo revenue topped passenger revenue and accounted for 46 per cent of total sales in the first half, up from 21 per cent a year earlier when the freight market was depressed.

"Nonetheless, cargo is no remedy for lost passengers — at most it's like a band-aid on a knife wound. Better than nothing but won't stop the bleeding," BOCOM International analyst Luya You said.

The airline, which received a \$5 billion rescue package led by the Hong Kong government, has so far refrained from large-scale job cuts but has warned it is reviewing all aspects of its business model with the results expected in the fourth quarter.

Several employees have told Reuters on condition of anonymity that they are bracing for major job cuts.

Cathay said it has rearranged its aircraft order book with Airbus SE to delay deliveries and plans to accept 10 jets from the manufacturer in 2020, down from an earlier 17, and eight in 2021, versus 14 earlier.

It said it is in advanced talks with Boeing Co (BA.N) to delay 777-9 orders and has begun sending one-third of its fleet outside Hong Kong for storing in less humid conditions.

Bourse revving up to fire on all cylinders

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The announcement came in the monetary policy for the last half of the current year.

The V-shaped recovery of local businesses and export earnings is happening, although it is yet to reach the pre-pandemic level, Moniruzzaman said.

A V-shaped recovery involves a sharp rise back to a previous peak after a sharp decline.

Exports earnings in July rose about 44 per cent from the previous month to \$3.9 billion, according to the Export Promotion Bureau.

"The economy did not face the devastation that people had feared. People are optimistic now."

Investors come to the market with money when a rally happens.

"And that is happening now," Moniruzzaman added.

Khairul Bashar Abu Taher Mohamed, chief executive officer of MTB Capital, echoed the same, saying the market has been rising after staying low for a long time mainly due to the growing confidence in the new commission.

The new commission has taken some steps against errant directors of listed companies and voided some initial public offering proposals, sounding out a clear message that it would not be easy to manipulate and bring weak companies to the market under the new leadership.

"The message gave confidence and the confidence influenced people to pour money," he added.

In the middle of May, Shibli Rubayat Ul Islam, a professor of Dhaka University, was appointed the new chairman of the BSEC along with three new commissioners.

The past commission led by M Khairul Hossain was blamed for creating an opportunity for weakly performing companies to get listed with the bourses, denting investor confidence.

Moreover, rogue directors and players remained almost untouched during his nine-year stint. So, insider-trading, gambling and fall were a commonplace.

A top official of a stockbroker credited the retail investors' investment for the recent rise.

Recently, 15 banks formed a fund of Tk 1,650 crore by taking loans from the Bangladesh Bank through repo agreement. The banks invested about Tk 260 crore into the market, according to the central bank data.

"But the institutional investors are still silent."

The stock market regulator should ask them why they are not investing now because the rally would not sustain in the long-run if they do not come to the market.

Many stocks are in a very lucrative position now and they can invest buy them. Some stocks are rising abnormally, but their earnings would ultimately fall amid the pandemic.

Several banks may incur losses in the third quarter of the year, which would affect the market in the days to come, he added.

The rise in investment-GDP ratio confounds

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Capital machinery imports plummeted 8.51 per cent and intermediary goods imports slid 17.59 per cent, data on the letters of credit settlement of the central bank showed.

Implementation of the annual development programme (ADP), the government's main investment initiative, also fell to a 27-year low last fiscal year.

The ministries and divisions managed to spend Tk 161,857 crore in fiscal 2019-20, which was 80.45 per cent of the total allocation for the year.

The coronavirus reduced the returns and increased the riskiness of investments. The global economy plunged into a kind of radical uncertainty never experienced before, Hussain said.

The pandemic also slowed drastically the implementation of reforms aimed at improving the investment climate.

Explaining the increase in public investment is equally problematic. Implementation of most megaprojects slowed.

"It is hard to imagine that the state-owned enterprises and local governments made up what the central government was unable to do on the investment front," Hussain added.

Interested investors can view the shuttered jute mills from next week

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The closed mills, mostly in Chattogram, Khulna and Dhaka divisions and established in the 50s and 60s, produced hessian, sacking and carpet backing and have land totalling more than 1,100 acres, according to a notice issued by the Bangladesh Jute Mills Association (BJMA) for its members.

The mills under the BJMC had nearly 11,000 looms and the state agency could operate only half to make jute goods.

Bangladesh has 260 private jute mills, including those employing spinning processes, according to data by the Bangladesh Jute Spinners Association (BJSJA), whose members contribute more than 60 per cent of the total export receipts from jute produced by tens of thousands of farmers.

With the BJMC's 25, the total number of factories shut down so far is about 100. Public and private mills combined had nearly 200,000 workers.

Japan offers \$3.3b for seven key projects

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The project will also help reduce traffic congestion in Dhaka city and the adjoining areas by constructing a mass rapid transit system, thereby contributing to the economic growth and improving the urban environment in Bangladesh.

A 20km-long MRT line 5 is a major part of the mass transportation network of Dhaka which will connect important urban centres such as Gabtoli bus terminal, Mirpur, Banani, Gulshan and Baridhara.

The MRT line 5 will establish east-west connectivity of Dhaka city and connect line 1 and line 6 running through the north-south corridor. After the construction of the MRT line 5, an integrated MRT network will be established in Dhaka city.

CHATTOGRAM-COX'S BAZAR HIGHWAY IMPROVEMENT PROJECT

The Roads and Highways Department will complete the project worth \$18 million within September 2023. The project aims to achieve smooth cargo transportation between Matarbari port and Chattogram by improving roads at congested town areas along National Highway 1 (NH1).

The NH 1 (Dhaka-Chattogram-Cox's Bazar) is the most important highway in Bangladesh, but traffic congestion in town areas along NH1, especially in Chattogram and Chakaria, has been aggravated due to an increase in traffic demand and insufficient road capacity.

The Jica-financed Matarbari port is scheduled to start operation in 2024. After the commencement of the Matarbari port's operation, the traffic demand of N1 will increase and traffic congestion is expected to rise further. "Therefore, it is urgently needed to improve the congested areas between Chattogram and Matarbari port along the NH1," the statement says.

The project will focus on the improvement of five major bottlenecks between Chattogram and Cox's Bazar to secure a proper transportation route in line with the construction schedule of Matarbari port.

The sections to be improved are planned to connect the proposed Chattogram-Cox's Bazar expressway to be developed under a public-private partnership. This first loan will cover engineering services.

FOOD VALUE CHAIN IMPROVEMENT PROJECT

Bangladesh Infrastructure Finance Fund will implement the project worth \$105.1 million within September 2026.

The project will improve credit access for agribusinesses and food processing industries, and enhance their capacity for business development, food processing and food safety by providing concessional financing and technical assistance.

The market size for processed food will be growing at about 7.2 per cent annually for the next five years, according to the statement. However, in Bangladesh, still, there is a lack of value addition in agricultural products with appropriate post-harvest technologies as well as food safety assurance.

"The project will address these issues which are hampering the development of agribusiness and food processing industries and also create employment opportunities in both rural and urban areas."

URBAN DEVELOPMENT AND CITY GOVERNANCE PROJECT

The Local Government Engineering Department will implement the project by June 2026 to develop urban functioning by improving urban infrastructure and strengthening city governance related to infrastructure development in the target cities. The \$264.25-million project would contribute to economic growth, improvement of living conditions and sustainable cities, the statement says.

Though urbanisation is the key contributor to the strong growth of industries and social development, rapid urbanisation will cause an acute shortage in urban infrastructure and services resulting in adverse environmental and social impacts. In this context, the local government institutions will have to improve their capacities to provide public services to urban citizens by strengthening their manpower and financial foundation.

Participatory planning process and coordination among stakeholders are also the key to building a sustainable city. "This project will thus address the urban infrastructure development in parallel with governance improvement of the urban local bodies."

Youth employment prospects darkened by pandemic

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Millions of young people are bearing the brunt of an ever-widening 'digital divide' due to poor access to online and distance learning platforms, a lack of IT equipment and study space at home.

This lack of education and skills training will only further hamper their future career prospects.

Therefore, unless urgent action is taken, the nation's youth will suffer severe and long-lasting impact from this pandemic and its socio-economic fallout, Poutiainen said.

"We must safeguard their education, training and right to access decent work," he added.

The ILO report also called for an

urgent large-scale and targeted policy response aimed at protecting an entire generation of young people from having their employment prospects permanently scarred by the crisis.

Such measures include re-integrating those who recently lost their jobs due to the pandemic back into the labour market and providing unemployment benefits and measures to boost their mental health, from psychosocial support to sports activities.

The study, published by the ILO, was conducted in association with the European Union Emergency Trust Fund for Africa, European Youth Forum, Office of the United Nations High Commissioner for Human Rights and the United Nations Major Group for Children and Youth.

BIDA makes three more additions to its One-Stop Service portal

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The current Awami League-led government has targeted to move to a double-digit rank in the World Bank's Ease of Doing Business index within next year.

"So, we have to forge ahead keeping the target in mind."

The economic growth target cannot be attained without foreign and domestic investment, Rahman said, adding that none could have imagined 10 years back that Bangladesh's economy, export earnings and foreign exchange reserves would be what they are at present.

BIDA is working to ensure an investment-

friendly environment and to improve the ease of doing business status, said Md Sirazul Islam, BIDA executive chairman.

The government agency has signed deals with 12 organisations to provide services online to investors and 10 more will follow suit, he said, while expressing hope that 150 services of 35 organisations would be available online within the next one year.

Md Shahid Ullah Khandaker, secretary to the housing and public works ministry; Md Shahiduzzaman, secretary to Security Services Division; and Md Alamgir, secretary to Bangladesh Election Commission, also spoke.

Higher paddy prices have left seed sellers beaming

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"This will make farmers happy. At the same time, production will also increase," he added.

The demand for seeds in the next boro season would go up further if prices of rice continue to remain high, said Mohammad Masum, chairman of Supreme Seed Company.

Since the supply of seeds will also be higher, the prices are unlikely to increase,

he added.

During the boro season, 140,000 tonnes of seeds are required and the organised sector supplies nearly two-thirds the total demand, according to Ansarey.

"We have good preparations for the next boro season," he added.

Bangladesh has a seed market of Tk 1,000 crore with 30 companies in operation, according to Masum.

The storm over Bangladesh economy has blown over

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According to Anand, the fiscal deficit would widen to 7.5 per cent if the growth disappoints.

There is a room for a rate cut to happen in the monetary policy, he said.

The central bank has already cut 125 basis points. The cash reserve ratio has also been cut to inject liquidity.

Bangladesh is likely to maintain a robust foreign currency reserve of close to \$40 billion in the current fiscal year, providing a good buffer to the economy, Anand said.

The low debt-GDP ratio provides much room to the government to come up with further stimulus measures, he added.

The world has been in the midst of an unprecedented crisis, Lee said. At the same time, the governments have come up with unprecedented measures, both monetary and fiscal.

Compared to the global financial crisis, the banking system is in a much better situation. But companies would not borrow much to invest if their demand is subdued, he said.

There's some recurrence of infections in various parts of the world, including in the US, the UK, Australia, New Zealand and Japan. But the governments are now in a much better position to respond and their health care capacities have expanded.

"The crisis has been unprecedented. But the truth is the governments' responses in terms of monetary and fiscal steps have also been unprecedented. The support is significant and this is a positive aspect."

According to Lee, bringing infections under control should be the utmost priority for any country.

As economies reopen, businesses and consumers need to adhere to standard operating procedures to ensure the sustainability of the

recovery and minimise the risk of recurrence of infections.

"I think you don't want an economic recovery that starts and stops and starts and stops, which makes it very difficult for businesses to plan for investment," Lee added.

The exchange rate of the taka against the US dollar will remain stable for the rest of the year, said Divya Devesh, head of ASA FX Research at Standard Chartered.

"The external balance situation is quite supportive. The balance of payment is likely to be in surplus. The record foreign currency reserve suggests that the central bank has ample dollars to tide over any difficulties."

On most metrics, Bangladesh scores very highly on reserves adequacy, Devesh added.

Still, there is a lot the government can do to amp up economic activities, particularly when it comes to ease of doing business.

The government has taken steps to facilitate doing business in the last three to four years and there is a need to expedite the implementation in the current situation, Anand said.

"Most of the challenges facing the economy are structural and are well-known. This is a domestic situation that can be handled."

Bangladesh has to ensure less reliance on key economic partners and the economy is more resilient to withstand any future shocks.

"As the government gains more experience in handling the Covid-19 situation, there would be more confidence domestically to come out, consume and invest," Anand added.

There are lots of challenges that are not in Bangladesh's hands, said Muhit Rahman, head of financial markets of Standard Chartered Bangladesh.

The country is exposed to Europe and the US for exports.

As the overall external debt to GDP ratio is

very low, the country is in a good position to absorb a V-shaped recovery and Bangladesh has a significant chance of tapping into international liquidity.

"This is a unique opportunity. I don't think any other country would be in such a position. We are very optimistic about the recovery of Bangladesh," Rahman added.

Earlier, the economists spoke at the 2020 Bangladesh session of the Bank's Global Research Briefing series. More than 300 clients joined via video-conferencing.

Speaking at the event, Shibli Rubayat-Ul-Islam, chairman of the Bangladesh Securities and Exchange Commission, said: "We expect Bangladesh to have a V-shaped recovery post-COVID-19 reaching back to more than 8 per cent GDP growth trajectory within 2021."

Bangladesh entered these turbulent times on a much stronger footing compared to many of its peers, due to low external debt, low overall public debt and comfortable debt service capability because of its healthy foreign exchange reserve, said Naser Ezaz Bijoy, chief executive officer of Standard Chartered Bangladesh.

"By working together across the board, we can leverage our solid economic fundamentals and the innate resilience of our communities to quickly regain lost ground and achieve all our ambitions and aspirations for our nation."

"While global economic recovery seems gradual and there will be uncertainties, we need to have robust financial risk management practices and adopt a culture of hedging against adverse movements in interest, foreign currency and commodity prices."

This will allow businesses to reduce uncertainties around volatility, he added.

Bitopi Das Chowdhury, head of corporate affairs, brand & marketing at Standard Chartered Bangladesh, also spoke.