

How to monitor and control money market

by K A Majid

We have described the risks in foreign exchange and money market operations and identified them as rate risk, credit risk, and liquidity risk. We shall now discuss the ways of controlling these risks as they apply to foreign exchange and money market operations. To facilitate presentation, we shall consider these risks in a different order.

Credit risk: In order to control credit risk, lines of credit must be established for each party with whom we deal. These lines should specify separate credit lines for exchange and money market transactions. If several operators have authority to extend credit to a single party, as international banks operating in the international money markets do, it may be useful to establish at headquarters one global line for exchange transactions and one line for money market placements. The individual operators should then receive allocations from this total line.

Credit risk in the foreign exchange market: Credit risk in foreign exchange operations

is either a so-called 10 per cent or a 100 per cent risk, depending on whether the other party to the contract defaults before or at the maturity date. Thus, any operator in the foreign exchange market should have both a limit on the aggregate amount of exchange contracts outstanding with a particular party to cover the so-called 10 per cent risk and a sub limit on transactions maturing on any one day to cover the 100 per cent clear risk at liquidation of the contract.

A bank might be willing to have a total of eight million US dollar out-standing in exchange contracts with a given customer and to bear two million US dollar settlement risks and 10 per cent exchange risks. The line must specifically stipulate that no more than two million US dollar may mature on a single day.

This means that the bank can have two million US dollar worth of contracts maturing on every day of a week Monday through Thursday. This would make an aggregate of eight million US dollar and the total ma-

turity per day would not exceed two million US dollar. A maximum loss in this situation would, in theory be as follows: The customer defaults on Monday, and the bank suffers a 100 per cent loss on the two million US dollar maturing on that day (assuming the bank has already paid for its part of the contract). Losses on the Tuesday through Thursday maturities of the remaining six million US dollar would be limited to the extent to which the exchange rate has deteriorated since the time the original forward contract was made. If we assume that this deterioration usually does not exceed 10 per cent, the loss would be 0.6 million US dollar. The total loss on the entire eight million US dollar outstanding at the beginning of the week would be limited to 2.6 million dollar. The actual foreign exchange line could be worded: Eight million US dollar or equivalent, for aggregate exchange transactions outstanding with a sub limit of two million US dollar or equivalent, for transactions maturing on any one day.

Credit risk in the money market: The credit risk in money market operations is controlled simply by establishing lines for placements with banks or other business institutions. This can be done in the same way that credit lines are established for commercial loans. The wording of these lines is important. Supplementary clauses may be added to the statement of the total size of the line with maturity. For example, a line might read 10 million US dollar or equivalent, for money market placements up to six months, with a sub limit of five million US dollar or equivalent, for money market placements up to twelve months.

Sovereign risk: A bank extending credit in foreign countries must develop a system to measure the total amount of funds exposed to sovereign risk on a country by country basis. One way of doing this is, first, to establish a maximum amount of credit exposure allowed for each country and constantly monitor the exposure.

Rate risk in foreign exchange transactions: The first risk to be controlled is the size of the net exchange position. Changes in the spot rate and in forward outright rates may have a direct impact on the value of a net exchange position. A limit must be established for net overnight exchange positions in each currency including the local currency. The reason for the overnight limit is that political and economic events occurring outside that particular country's business hours may have an important effect on exchange rate. The trader, not working at night, cannot react immediately to these changes and is, therefore, particularly vulnerable. During the day, traders should also be limited in their net positions, but they may be permitted larger positions than overnight. This larger limit is necessary to enable the traders to respond to the foreign exchange needs of their customers. The daylight limit is usually a multiple of the overnight limit.

Rate risk in money market operations: This risk can best

be controlled through limits on cumulative cash flows and on 'GAPPING'. There should be limit on the interest gap i.e. the extent of mismatched position that is permissible.

Liquidity risk: A very large net exchange position in spot may represent a liquidity risk if the currencies involved are not very marketable. This is particularly true in a floating rate environment, when central banks cannot be expected to buy or sell foreign currencies at a fixed rate. This risk is controlled and limited through the net overnight position limit described earlier. Swap, positions, i.e. overbought positions for one maturity and offsetting oversold positions for other maturities in the same currencies, also present a liquidity risk. This risk, as well as the more obvious liquidity risk resulting from money market operations (from lending long and borrowing short), can be controlled through limits on maximum cumulative cash flows.

(The author is the Managing Director of Pubali Bank Ltd)

Visiting Japanese team discusses Geodetic network with Defence Secy

The visiting Japanese team led by Dr M Tajima had a meeting with the Defence Secretary Hasinur Rahman in Dhaka yesterday, says a press release.

During the discussion they exchanged views on Japanese technical assistance on establishment of Geodetic network in Bangladesh.

The two sides discussed the first order control points, first order leveling network, construction of tidal observation station in Chittagong, establishment of National Geodetic Datum point at Gulshan and technology transfer to Survey Of Bangladesh.



The visiting Japanese team led by Dr M Tajima (2nd-R) along with other members seen exchanging views with Defence Secretary Hasinur Rahman (extreme right) yesterday on the establishment of Geodetic network in Bangladesh.

UNHCR, UNIFEM plan joint strategy to help 14 m refugee women

UNITED NATIONS, Nov 8: Two UN agencies are joining forces to help refugee women resolve their immediate food and shelter needs while also enabling them to help provide long-term solutions to rehabilitation problems in their countries, reports UNIS.

The United Nations High Commissioner for Refugees (UNHCR) and the United Nations Development Fund for Women (UNIFEM) have signed a "memorandum of understanding" to work together to help the more than 14 million refugees who are women and children and to try to ensure that their special needs are considered in every aspect of refugee aid programmes.

At a signing ceremony on November 3, UNHCR Sadako Ogata noted that her agency works to ensure the physical and legal protection of women and provide them access to

services. But she added that "UNIFEM's expertise with women in development programmes... and skill in global advocacy on women's issues will greatly help us in fulfilling our own humanitarian mission."

UNHCR is counting on the new partnership because it "is confronted with a dual challenge of responding to humanitarian emergencies on the one hand and to the opportunities of voluntary repatriation of refugees on the other," she said. "Our goal is to integrate refugee women into every aspect of our programme whether responding to emergency of seeking solutions."

UNIFEM Director Sharon Capeling-Alakija stressed that women's issues are not separate from refugee issues, noting that her goal is to "change the mind-set of the way people

perceive women in refugee camps."

Capeling-Alakija said that "whether the world is tackling conflict resolution or environmental protection or human rights or poverty alleviation, the advancement of women is key to success.... We know that each of these issues raises problems of mind-boggling complexity. We know that we will not solve them by merely including women in the process. But we also know that if women are excluded we have no hope of solving them."

Overall, three quarters of the world's 19 million refugees are women and their dependents, and in refugee camps around the world women are dying at three times the rate of men, she pointed out.

She cited the UNHCR/UNIFEM project with Liberian women in refugee

camps in Ghana and Cote d'Ivoire "where we are trying to show that women are not merely victims but are (a) powerful resource. When given the skills, experience, and confidence they can develop portable skills that will, in fact, help in the ultimate reconstruction of Liberia."

In the refugee camps women are being trained to make bricks, build buildings, and handle the financial management of a small construction business, she noted.

"These are skills that you can well imagine are going to be highly sought after as the peace is negotiated in Liberia and as they return home. They will take those skills with them and be able to get employment and, with other resources such as access to credit, play a very important role," Capeling-Alakija said.



Bangladesh Small and Cottage Industries Corporation (BSCIC) organised a two-day exhibition on Jamdani saree at Hotel Sonargaon on Sunday in observance of Tourism Month - 93. —Star photo

Workers urged to boost output

NARAYANGANJ, Nov 8: Jute Minister ASM Hannan Shah has urged the workers to boost production in mills and factories to fulfill the objective and dream of the November 7 sepy-people revolution, reports UNB.

The Minister was addressing a workers' gathering at the Adamjee Jute Mills workers welfare maidan Sunday, organised by Jatayatabadi Samik Dal Adamjee Jute Mills unit. Post and Telecommunication Minister Tariqul Islam also spoke on the occasion as special guest.

Hannan Shah urged the workers to avoid the politics of talk and implement the politics of production initiated by the BNP government.

PLO financial contributors meet in Paris

PARIS, Nov 8: The main financial contributors to Palestinian autonomy met in Paris Saturday to discuss occupied territories' urgent needs, as well as the way to distribute and coordinate international financial aid, reports AFP.

The ad-hoc committee grouping donor countries met at the Paris offices of the World Bank, and its first meeting yesterday was to feature a detailed discussion of the aid the international community promised on October 1 in Washington to Palestinians living in the occupied territories. The assistance is to total 600 million dollar for 1994, and almost two billion dollar over five years.

In Washington, the European Community promised the biggest five-year contribution — 500 million ECU (585 million dollar), while the United States pledged 500 million dollar over five years, and Japan 200 million over a two-year period.

Yasser Arafat, Chairman of the Palestine Liberation Organization, called the pledges "insufficient".

The Palestinian delegation to the Paris talks is headed by the chief of the PLO Economic Department, Ahmad Korei (Abu Alaa), while the Israeli delegation is led by Uri Savir, Director-General of the Foreign Ministry.

Kuwait for non-OPEC talks on oil prices

KUWAIT, Nov 8: OPEC ought to contact non-OPEC producers to see how far they are willing to curb output to support weak oil prices, a senior Kuwait oil official said yesterday, reports Reuters.

The official, who declined to be identified said Kuwait was adhering to its two million barrels per day allocation set in September and added one of the main reasons for low prices was overproduction by non-OPEC producers.

"Kuwait is producing according to its quota. We are adhering to the quota. One of the main reasons for overproduction is the non-OPEC countries, the official added.

"We have to communicate with these people (non-OPEC states) because the slide in prices affects them as well as us."

OPEC ministers have been questioning why prices recently renewed this year's long fall since they believe a new OPEC output pact that took effect on October 1 has balanced supply with demand.

Price down by 20 per cent this year have recently been near post-Gulf War lows despite the production accord.

Something has to be done at the next OPEC meeting, the official said in a telephone interview referring to the next meeting of OPEC ministers in Vienna on November 23. "We have to contact non-OPEC countries to find out their readiness to inflict some voluntary cut in production next month to support prices."

Shipping Intelligence

CHITTAGONG PORT

Berth position and performance of vessels as on 8/11/1993

Berth No.	Name of Vessels	Cargo	Local Agent	Date of Arrival	Leaving
J/1	Nearchos	MOPPI	Ilyi	MSA	19/10 10/11
J/2	Andavia	Sugar	Shan	Seacom	24/10 10/11
J/3	Vishva Karuna	R Seed	Chin	Litmond	30/8 12/11
J/7	Banglar Shobha	GI	Rusa	BSC	5/11 14/11
J/10	Rafah	M Seed	-	Dynamic	18/10 10/11
J/11	Ingenia	Wheat(G)	Mong	BSL	4/11 11/11
J/12	Samudra Samrat	Fert	Kand	SSL	25/8 19/11
J/13	Banglar Asha	Wheat(G)	BSC	R/A	12/11
M/P/1	Eponyma	Cont	CTS	5/11	9/11
CCJ	Pearl of Fujairah	C Clinic	V Pat	Seacom	2/11 12/11
GSJ	Anagel Dignity	Wheat(G)	Dunk	LTL	R/A 12/11
RM/4	Global Metis	CPO	Sing	TSL	3/11 9/11
RM/6	Safar	Cement	Sing	PSAL	4/11 16/11
DDJ	Banglar Shourabh	Repair	BSC	R/A	12/11
DD	Banglar Doot	Idle	-	BSC	R/A 18/11
RM/8	Dolores	-	Seacom	R/A	20/11
RM/9	Banglar Jyoti	Repair	BSC	R/A	12/11
CUFJ	Ronjay Choomie	Urea	Mong	PSAL	3/11 11/11

VESSELS DUE AT OUTER ANCHORAGE

Name of Vessels	Date of Last Port Arrival	Local Agent	Cargo	Loading Port
*Continent-1	8.11.93	Pena	CLA	GL
*Banglar Robi	8.11.93	Mong	BSC	Cont
Mirsini	8.11.93	Sing	USTC	Cement
Shen Yuan	12.11.93	Kela	Seacom	-
Zara	9.11.93	Mong	CLA	-
Krud Jespersen	9.11.93	Sing	CT	Cont
Selatan	10.11.93	Sant	Seacom	Sugar
Sea Tradition	10.11.93	Mong	AML	GL
Nour	15.11.93	-	LTL	E/L
Loyal Bird	15.11.93	Mong	Litmond	-
Ingenuity	10.11.93	Col	BTSA	Cont
Vishva Parag	14.11.93	-	SSL	GL
Inke Wehr	10.11.93	Sing	APL(B)	Cont
Sea Verityure	10.11.93	-	AML	Cement
Sea Musc	11.11.93	-	Seacoast	Wheat
Banglar Moni	11.11.93	Sing	BSC	Cont
Fong Yun	11.11.93	Sing	BDSHP	Cont
Omar Zenith	10.11.93	Sing	CLA	Vehicles
Black Whale	11.11.93	Sing	Prog	GI
Karabeverett	11.11.93	Sing	EBPL	GI
Meng Lee	12.11.93	Sing	AML	Cont
Robert-ee-Lee	16.11.93	-	Karna	Cont
Andrian	12.11.93	Sing	CT	Cont
Goncharov	12.11.93	Sing	RSL	Cont
Optima	12.11.93	Sing	MSL	Mach & Sh
River Wear	13.11.93	-	ect Coils	-
Golden Chase	14.11.93	Sing	OWSL	TSP/P
NGS Ranger	14.11.93	Sing	BDSHP	Cont
Pagurus	14.11.93	Sing	MBL	Cont
Saadi	15.11.93	-	SSL	GL
Al Tabith	8.11.93	-	BSS	B Abbas
Asker Jyoti	15.11.93	-	USTC	Cement
Oranua	20.11.93	-	Seabird	Cement
Indian Glory	16.11.93	-	USTC	Cement
I Yamboorenko	17.11.93	Sing	CT	Cont
Jiang Cheng	20.11.93	-	BDSHP	GI
Shapiaeverett	24.11.93	-	EBPL	GI

TANKER DUE

Neptune Aries	9.11.93	Sing	MSPL	-
Esoo Bayonne	10.11.93	Sing	MSPL	-

VESSELS AT KUTUBDIA

Name of Vessels	Cargo	Last Port Call	Local Agent	Date of Arrival
-----------------	-------	----------------	-------------	-----------------

VESSELS AT OUTER ANCHORAGE

Name of Vessels	Cargo	Last Port Call	Local Agent	Date of Arrival
-----------------	-------	----------------	-------------	-----------------

VESSELS READY

Name of Vessels	Cargo	Last Port Call	Local Agent	Date of Arrival
-----------------	-------	----------------	-------------	-----------------

VESSELS AT KUTUBDIA/OUTSIDE PORT LIMIT

Name of Vessels	Cargo	Last Port Call	Local Agent	Date of Arrival
-----------------	-------	----------------	-------------	-----------------

VESSELS AWAITING INSTRUCTION

Name of Vessels	Cargo	Last Port Call	Local Agent	Date of Arrival
-----------------	-------	----------------	-------------	-----------------

VESSELS NOT ENTERING

Name of Vessels	Cargo	Last Port Call	Local Agent	Date of Arrival
-----------------	-------	----------------	-------------	-----------------

The above were the Monday's shipping position and performance of vessels of Chittagong Port as per berthing sheet of CPA supplied by HRC Group, Dhaka.

Exchange Rates

The following are the Sonali Bank's dealing rates to public for some selected foreign currencies effective as on Nov 8. (Figures in Taka)

Currency	Selling		Buying	
	TT & OD	EC	TT	OD
US dollar	39.9200	39.9500	39.7150	39.6015
Pound Sterling	59.2812	59.3257	58.2199	58.0535
DM	23.7394	23.7572	23.3755	23.3088
F Franc	6.8271	6.8323	6.7210	6.7018
C Dollar	30.9924	31.0156	30.5264	30.4391
S Franc	26.9313	26.9516	26.5086	26.4329
Jap Yen	0.2736	0.2744	0.2610	0.2560
Indian Rupee (AMU)	1.2736	1.2757	1.2670	1.2546
Pak Rupee (AMU)	1.3236	1.3258	1.3193	1.3063
Iranian Riyal (AMU)	0.0240	0.0240	0.0239	0.0236

Currency	Selling		Buying	
	T.T. & O.D.	EC	O.D Transfer	Transfer
S Riyal	10.8500	-	-	10.5200
UAE Dirham	10.8000	-	-	10.7500
Kuwait Dirham	134.1100	-	-	132.2000
Singapore Dollar	25.5200	-	-	25.2100
D Guilders	22.1600	-	-	21.9000
S Kroner	5.0500	-	-	4.9800

Note: AMU—Asian Monetary Union.

Dhaka Stock Prices

At the close of trading on November 8, 1993

Bearish trend: Index plunges by 13 points

A bearish trend took over the floor of the Dhaka Stock Exchange (DSE) on Wednesday as the index and the turnovers declined.

The DSE All Share Price Index plunged by 13.18309 points decreasing to 353.30542 from 366.48851.

A total of 35375 shares changed hands at Taka 472710.10 as against Saturday's 37123 shares valued at Taka 4596292.50. Thus the total volume and total value incurred losses of 4.708 per cent and 89.715 per cent respectively.

The number of traded issues totalled 50 and losers dominated the floor. The losers outnumbered gainers by 26 to 18 while five traded at previous rates. The rest, the Beximco Synthetic Ltd, entered the DSE market, and its each share traded at Taka 120.50.

The Rupam Oil dominated the losers list with a loss of 15.384 per cent in its share price. On the other hand, no issues experienced significant rise in prices as well as in volumes.

Since November 1, DSE has been calculating the index on the basis of IFC All Share Price Index formula and the base date is 01.01.91.

DAY'S TRADING AT A GLANCE

DSE Share Price Index	353.30542
Market Capitalisation Tk	16431532171.77
Turnover in Volume	35375
Turnover in Value Tk	472710.10

Gains (18)

Company's name	Previous price Tk	Closing price Tk	Change price (absolute) Tk	Change % over previous	Number of shares traded
Shares:					
IDLC Bank	221.89	222.00	0.11	0.049	20
National Bank	102.00	104.77	2.77	2.715	175
4th ICB M Fund	146.00	147.00	1.00	0.684	10
Peoples Insurance	295.00	298.36	3.36	1.138	110
Thai Aluminium	82.49	83.04	0.55	0.666	120
Eastern Cables	68.00	68.66	0.66	0.970	380
Renwick Jagneswar	84.00	85.00	1.00	1.190	305
Singer BD	997.16	1000.59	3.43	0.343	567
Shim Pakur Jute	115.00	122.00	7.00	6.086	30