

Instalment Facility Available

SANYO
Japan

Refrigerator
(100% CFC Free)

Transfin Trading Ltd.
Tel: 815307-10, Fax: 813062

The Daily Star BUSINESS

DHAKA, SUNDAY, JANUARY 24, 1999

SANYO
Japan

Dry Battery

Transfin Trading Ltd.
Tel: 815307-10, Fax: 813062

Advance Eid closure of DSE

A move to bailout bigwigs?

By M Shamsur Rahman

The sudden decision of the bourses to shut down businesses two days ahead of the normal Eid holidays has given rise to questions regarding the motive behind the unscheduled closure.

Many market analysts say the total 'game' was arranged to save few stalwarts, who defaulted in depositing shares and money with the clearing houses of the bourses for some time and made a mess of the clearing system.

The extra two-day holiday helped the DSE to untie the knot created over weeks.

The DSE and CSE were closed from January 15, which eventually led to an eight trading-less days. But this unscheduled closure did not give a

chance to investors to plan their purchases and sales of shares before the Eid. As a result, many of them faced losses.

Sources said that the management took the early vacation decision 'apparently under pressure' to save the defaulter market bigwigs.

They also said that the officials of the DSE clearing house attended office on those two days and were busy in 'adjusting' claims of those members who defaulted in delivering shares and money.

"Usually the DSE holidays are observed in line with bank holidays. Banks were open on January 17 and 18, but trading on DSE remained suspended on these days," one DSE source pointed out.

He said that the incidence of defaulting in share and money transfers, arising mainly from short selling, were increasing in recent days and had become a regular affair. Many brokers are selling their stocks without having them physically and others were buying these without having money in possession.

But this trend often leads to non-payment of shares and money.

For example, due to such settlement problems, trading of

Gulf Foods was suspended weeks ago and continues to remain so.

According to sources, the DSE clearing house reportedly failed to settle claims of a brokerage house, which sold shares of Gulf Foods, and the payment for the deal was due from January 17.

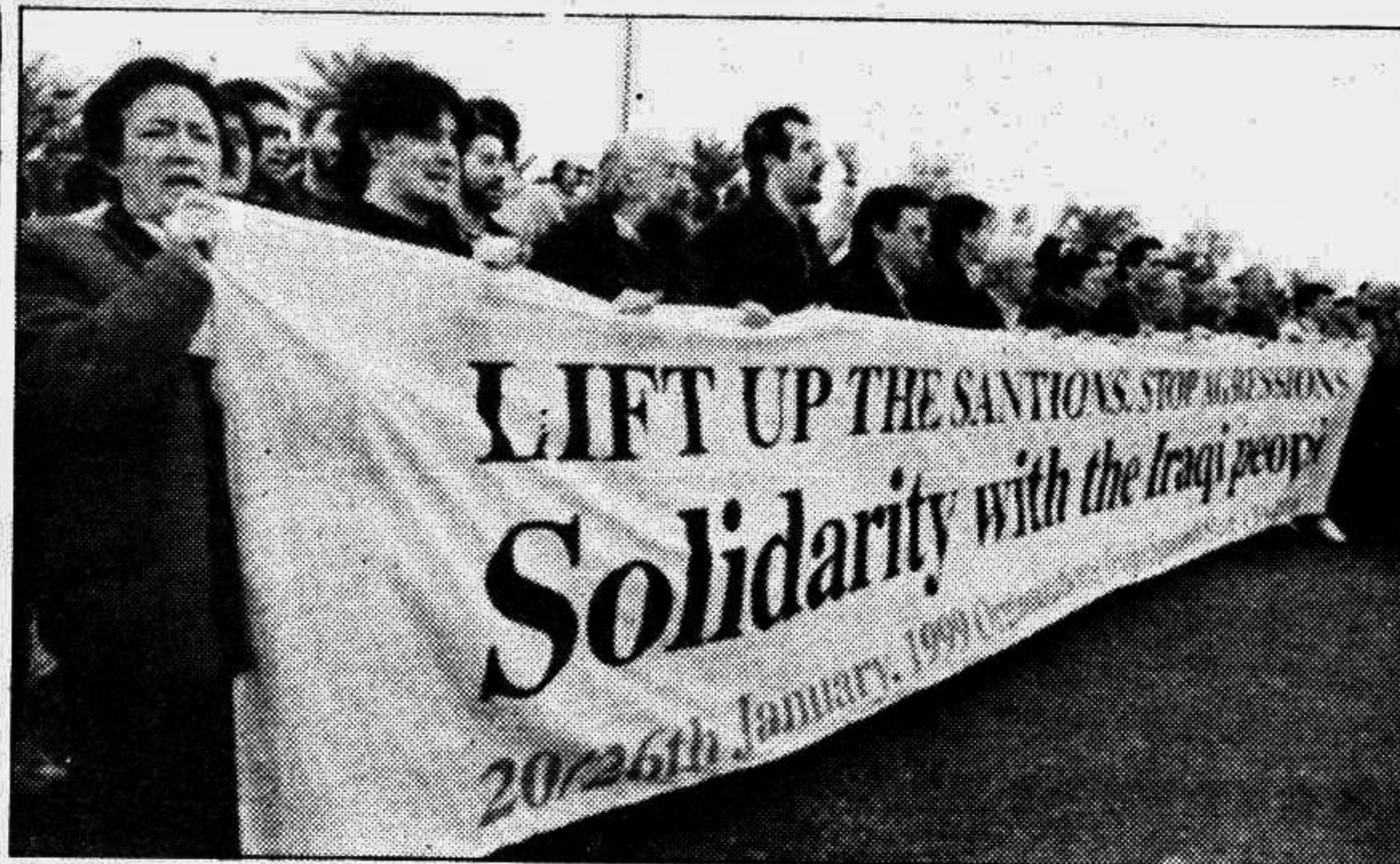
"We are liable to pay our clients within a certain period after confirmation of a deal. How does one expect us to fulfill our obligation to clients if the bourse fails to settle claims in due date," a top DSE broker wanted to know. "The Eid holiday was advanced mainly to bail out some heavyweights of the bourse."

He said that he had to pay his clients from his own pocket

as the DSE failed to make the payment against the sold-out shares. "The clients sold the shares knowing that they would receive the money just before Eid. One might not have sold the shares if he knew that the bourse would close down two days ahead of the scheduled vacation."

"Such abrupt decision affects the orderly growth of the capital market," he said. "The DSE management could not be reached for comments."

When contacted, DSE Chairman M Rakibur Rahman said that it was a unanimous decision of the management of both the bourses to close business early and the council had nothing to do with it.



Spanish demonstrators protest outside the United Nations headquarters in Baghdad Saturday to protest United Nations sanctions against Iraq. A 129-member Spanish delegation of trade unionists, NGO's and others is currently in Baghdad demanding the sanctions be lifted. They will leave Iraq on Monday. — AP/UNB photo

4 more train services to go private soon

PABNA, Jan 23: Four passenger trains of Bangladesh Railway under western zone will be handed over to private sector soon, reports UNB.

Official sources said leases of the Inter-city Mahananda Messers Rainbow on Khulna-Chapainawabganj route and Inter-city Nakhikantha on Khulna-Goalunda Ghat route were given to MM Enterprise for one year.

Messers Islam Builders has been allowed to run Padmarag mail train and 481-up and 482-down local trains on Santahar-Lalmohar route for one year after an agreement.

All the trains will ply on their respective routes under private management after completing of necessary formalities, the sources added.

FBCCI-ZDH seminar postponed

The day-long seminar on "Impact of high interest rates on SME development" organised by the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) in cooperation with the German Confederation of Small Business and Skilled Crafts (ZDH), which was scheduled to be held on January 26, 1999 has been postponed due to unavoidable circumstances, says a press release issued yesterday.

The seminar will now be held on February 9, at 10:00 am at the conference centre of FBCCI.

Finance Minister S A M S Kibria will be present as the chief guest and inaugurate the seminar.

Fuji Bank seeks \$8.8b public funds

TOKYO, Jan 23: Japan Fuji Bank Ltd is to ask for one trillion yen (\$8.8 billion dollars) in public funds the largest amount requested by a bank under the government's bank rescue scheme, a report said today, reports AFP.

Of the one trillion yen Fuji bank plans to use 300 billion to buy more than a 50 per cent stake in the troubled Yasuda Trust and Banking Co Ltd making the trust bank Fuji's subsidiary, the Nihon Keizai Shimbun said.

Fuji Bank currently holds a 16.8 per cent equity in Yasuda Trust and it is Yasuda's largest shareholder. By making Yasuda Trust its subsidiary Fuji Bank aims to stabilise the management of the financially strapped trust bank so that it could fold Yasuda Trust into a financial holding company in 2000, the daily said.

With the public money, Fuji Bank would also write off bad loans and get rid of its unrealised losses on securities holdings in which the daily said the bank has some 580 billion yen at the end of September last year.

Castro sees end to neo-liberalism

HAVANA, Jan 23: President Fidel Castro closed an international economics forum declaring that free-market policies now prevalent around the globe are destined to be replaced in a few decades by something more like socialism, reports AP.

In an odd, 15-minute speech made up of short questions and answers to himself, Castro predicted late Friday that the new world order would be 'socialist, communist or whatever you want to call it.'

The Cuban leader told hundreds of economists gathered for the five-day event that he didn't consider himself "a kind of prophet or divine person" but that he was sure that the current neo-liberal global economy "sooner than later will have to cease to exist."

An Opinion

Irrational short-selling of shares may hurt economy

By Imtiyaz Husain

Short-selling is a valid individual investment strategy in many developed markets in order to counteract the over-zealous activities of the bull behaviour. Individuals are never permitted in any sane market to create a bubble of non-existent shares. In structured markets, short-sale is only permitted against borrowed and existing shares. Thus the bears are allowed to fence with the bulls with a view to rationalise the forces of demand and supply and economic prediction. Otherwise, the very purpose of a free market force of the stock exchange would be lost. Short-selling of shares without rationality or logic is a matter of grave concern to the economy.

The recent trading behaviour of some select stocks listed with both Dhaka and Chittagong Stock Exchanges, essentially of small cap companies, show trade volumes far in excess of the float (the shares readily available with the investors and outside the holdings of the sponsors). In some cases, the entire issued capital appears to have been bought and sold several times each day. Statistically it is impossible to achieve such trading volumes on real and existing shares. Even the most volatile Taiwan market has never been able to

achieve sent per cent turnaround of the float of a listed stock in a single day, leave alone the entire issued stock. Thus many short sales on the exchanges of Dhaka and Chittagong are being created artificially in anticipation of quick profit. This fact is further supported by the actual daily settlement of trades in the exchanges, which is said to be about five per cent of the reported volume.

The growth of this bubble is being further reinforced by the stratagem of arbitrage between the two exchanges. No developed market supports dual listing. This dilution of exchange jurisdiction on parallel listing is further enticing the greedy to supplement its short-selling activities by playing the two markets.

The recent pre-Eid holiday of the Dhaka Stock Exchange appears to be giving vibes about a possible iceberg that is floating in the stock exchange. The exchange has been closed down and trading suspended without any logical reason or due process, something that has never been done before. There is some talk in the media about the increasing level of members' default both in delivery of shares and in making payments.

I fear an imminent danger that may not only affect the members and their clients but could also have an adverse impact on the capital market and its future. Let me remind all about the debacle of the Baring Brothers. Founded in 1863, this investment house helped finance Britain's Napoleonic wars and the United States purchase of Louisiana. It funded the construction of the Panama Canal and later became the banker of the British Royal family.

In 1989, this firm hired a young dealer named Nick Leeson. It took Leeson less than six years to bankrupt the 232-year-old company. In March 1995, Barings was sold to ING for one pound inclusive of the liabilities.

Predictably, the institution's demise was blamed on unauthorised trading. However, an enquiry by the Bank of England concluded that "a serious failure of controls and managerial confusion within Barings" also contributed to the debacle. An uncontrolled environment made it almost inevitable that somebody would exploit the system.

— The writer is a member and former Chairman of Dhaka Stock Exchange (DSE).

DHL posts good growth in shipment of packages

DHL Worldwide Express continues to lead the air express industry as it reported significant increases in the shipment of packages in 1998. Its joint venture in mainland China also saw impressive growth despite the Asian economic downturn, says a press release.

DHL International (Hong Kong) Ltd registered a 22.5 per cent increase in total weight of packages from Hong Kong to the US, 14 per cent increase for Europe, and 2.7 per cent for Asia Pacific. There has been a general decline for the shipment of documents in 1998.

These figures compare very favourably against Hong Kong total export figures, which registered a 0.9 per cent growth for exports to the US, 1.2 per cent for Europe, and 11.4 per cent for Asia Pacific.

In mainland China, DHL-Sinotrans, the joint venture between DHL Worldwide Express and China Foreign Trade Transportation Group Corporation, recorded double-digit growth for documents and over 30 per cent growth for packages.

For Taiwan, where the economy has remained mostly intact despite the Asian economic crisis, DHL achieved single digit growth for documents.

"1998 was not easy year. However, despite the Asian financial turmoil and the Chek Lap Kok airport opening crisis, DHL was able to weather these challenges. We achieved remarkable results through our focus on logistics solutions," said W T Lee, General Manager of DHL International (Hong Kong) Ltd, at the DHL annual press conference.

US share bubble may lead to new global crisis : Soros

A growing "bubble" in the US share market could soon trigger a new world financial crisis, according to international financial speculator George Soros.

In an interview in New York, Soros said a developing "asset price bubble" would provide the next threat to the global financial system.

Soros pointed to two factors creating the bubble: An exodus of capital out of crisis-hit emerging markets into the relatively "safe haven" of Western markets.

Historically low interest rates, producing extremely low bond returns.

As a result, money was flowing into US shares, driving up prices - people were feeling rich and spending accordingly, he said.

"American consumers can now spend more than they earn because of the inflow of savings from all over the world."

'Unsustainable' rises This was neither healthy nor sustainable, he told Japanese publication Nihon Keizai Shimbun.

Soros, via his speculative hedge fund Quantum, has reaped billion-dollar gains in recent years, successfully picking movements in the world financial markets.

His prediction follows similar comments in a speech to a financial conference in Paris on Thursday where he pointed to a similar situation in European markets.

'Wonderful world cannot last'

He said the crisis in Asia, Russia and Latin America over the last 18 months had had a reverse effect in America, bringing near-zero inflation. "Today, American consumers... are spending more than they are earning... this is a wonderful world but it cannot last for ever," he said.

Wall Street and European bourses have rebounded strongly to test record levels since last year's crisis in emerging markets which saw stocks plummet.

New York's Dow Jones index

Euro reference rates against world units

FRANKFURT, Jan 23: The Euro was given the following reference rates against world currencies Friday by the European Central Bank.

1.1567 US dollar
131.88 Japanese yen
0.7040 British pound
1.5983 Swiss francs
7.4372 Danish krona
322.65 Greek drachma
9.0110 Swedish krona
36.287 Czech koruna
250.16 Hungarian forint
4.1587 Polish zloty
0.58173 Cypriot pound
1.7515 Canadian dollar
1.8225 Australian dollar
2.1519 New Zealand dollar

has risen 23.5 per cent from its low last September, while London's FTSE 100 has added more than 26 per cent over that time.

Bears emerge A noted Wall Street analyst, known for his optimistic outlook for US shares in recent years, has also turned bearish, echoing Soros' warning on Thursday.

Ralph Acampora, chief technical analyst at Prudential Securities, foreshadowed last year's downturn and now says another is likely soon.

Recent favourites, such as the Internet stocks appear to be under pressure and are expected to move lower, Acampora said. He cautioned his readers to expect the share market to turn volatile and head downward soon, perhaps triggered by a collapse in Internet stocks.

And further warnings came from a member of the Federal Reserve Board. The President of the Richmond Federal Reserve Bank, J. Alfred Broadbent, Jr, said that although the outlook for the US economy was generally favourable, many people now saw equities as over-valued, and there could be a "significant correction."

"This change could cut sharply into consumer confidence and consumer spending if, as many say, the strong stock market is fueling the high household consumption and remarkably low savings so evident in recent quarters," he added.

— BBC Internet



Models pose with a customised Subaru Impreza racing car on the opening day of the 1999 Motor Salon exhibition at Taipei's World Trade Centre Friday. The limited edition salon racing car, one of 29 super-up production models in the show, is valued at 1.7 million Taiwan dollars (US\$2,000).

— UNB/AP photo

Brazilian stocks, currency plunge

BRASILIA, Jan 23: Brazilian stocks and the real have fallen heavily against a background of rising tension between the federal government and states, says AFP.

The main stock indicator, the Bovespa, showed a fall of 353 points or 4.59 per cent to 7,321 points at the close of trading yesterday.

The real, which has been traded freely since last week, fell to 1.75 to the dollar from 1.59 on Wednesday to show a slump of nearly 40 per cent in a week.

Investors are nervous because six billion dollars have flown out of the country since the beginning of the month, and because of uncertainty in the market, a trader at Brascan Brokerage Ins Ao Paulo said. "It's a vicious circle on the market," the trader said.

Political fighting is the cause of much of the nervousness among investors. The central bank ordered that about 15 million dollars

(19.75 million reais) of a scheduled payment to Minas Gerais, one of the richest states in Brazil, be blocked because the state had announced a moratorium on debt.

Declaration of a 90-day moratorium of debt of 15.4 dollars by Minas Gerais Governor Itamar Franco early in January triggered the economic crisis here.

The decision by the central bank was designed to guarantee payment of the state's debt obligations, and it followed an executive order by President Fernando Henrique Cardoso late on Wednesday.

On Wednesday the chamber of deputies approved a highly unpopular part of Cardoso's reform package, after six hours of debate they passed legislation to impose taxation on government pensions and to increase contributions paid by employees of the government.

The senate agreed on Thursday to take up the proposal, which will raise 2.6 billion dol-

lars a year, as an emergency measure next Tuesday.

Also pending congressional action are several cuts in government expenditure.

But some Cardoso supporters in Congress said that the president had only 90 days in which to oversee a reduction of interest rates and provide evidence of a revival of the economy.

Pro-government lawmakers presented Cardoso with the deadline during a meeting at the presidential residence, noting that Congress was meeting its economic commitments by approving the government's fiscal austerity package.

"Now it is time for the government's economic team to give a concrete response to the crisis," said the parliamentary leader of the Pro-Cardoso centrist democratic movement party (PMDB), Geddel Vieira Lima.

Finance Minister Pedro Malan had said in Washington before returning to Brazil on Thursday that interest rates —

which shot up last week from 25 to 29 per cent — had been raised initially to curb inflation.

Malan said that devaluation of the real had also been intended to contain inflation, and that the main objective of the government was to keep "inflation in the single digit" so that interest rates could be reduced.

But financial markets remained cautious. It is normal for the market to take profits after the lower house approved the important (social security) bill last night, a trader at the Norsul brokerage said.

"But the market is also lower on continued dollar outflows." A trader at the intra brokerage disagreed. "The situation on the market is not looking good. This more than just profit-taking," he said.

A Director of Banco Fleming Graphus, Jose Juli Senna, said that the authorities had to maintain discipline but should not intervene to prop up the real.

ECB suggests easing UK's path to euro

The head of the European Central Bank, Wim Duisenberg, has suggested easing the conditions for Britain to join the single currency.

He said that if the UK decided to abandon the pound and join the euro, it should not be required to demonstrate two years of stability with other European currencies before it is allowed in.

He said that in the current situation, "a protracted period of stability in the pound's exchange rate with the euro" should be all that is required.

The approach, if supported by the 11 EU governments who have joined the single currency and will make the final decision, could mean that the UK could become part of the euro relatively quickly once a decision was taken.

The Treasury is already reported to be working on a six-month plan to implement the potential transition.

The UK Government has said it will call a referendum before deciding whether to join the euro, but pressure is growing for it to do so before euro coins and notes are issued on 1 January, 2002.

Meeting the Maastricht criteria

The need for currency stability is one of the key criteria for joining the euro under the Maastricht treaty.

The UK already meets most of the other criteria for membership, including low interest rates, low inflation, and a limit on the size of government borrowing. It also now has an independent central bank, which is required for membership in the European Central Bank.

The requirement for closely-linked exchange rates is the most politically controversial of the Maastricht criteria in the UK. It was enforced by the requirement to join the Exchange

Rate Mechanism (ERM) which limited currency fluctuations, but which many people believe caused the UK economy to go into recession in the early 1980s. Britain left the ERM in 1992, and the current government has said it has no intention of rejoining.

Differences among the 'outs'

The entire ERM system was disbanded on 1 January when the euro was created, and up to now, it has been unclear whether another system will replace it.

Among the other three countries staying out of the single currency, only Greece and Denmark have shown any interest in rejoining the mechanism. Denmark's central bank is already shadowing the interest rate decisions of the European Central Bank, having cut rates sharply.

— BBC Internet

Investors flee IBM

Shares in the computer giant IBM have dipped in value fuelling fears that the boom in technology shares is over.

Despite the company producing a 12 per cent increase in profits, some investors were still unimpressed.

The fall in IBM shares' value, they opened down \$13 11/16 to 183 5/16, contributed to a bear market that saw the Dow Jones Industrial Index tumble by more than 150 points in the first fifteen minutes of trading.

As well as international worries over Brazil, traders are now concerned that the high tech sector, which has driven market trading, might be over-valued, with earnings growing more slowly in 1999 than this past year.

Impressive numbers

On the face of it, IBM produced a strong set of fourth quarter results, with profits up

to \$2.35bn this time compared to \$2.09bn in 1997.

Its sales for the quarter reached \$25bn, up 6 per cent.

A number of brokers upgraded the stock, with both Merrill Lynch and Solomon Smith Barney setting a new share price target of \$240 a share.

Louis Gerstner, IBM's chief executive, said the results underscored the importance of the company's broad range of computer products and services.

Sales of software and service contracts powered the growth, while sales of hardware like personal computers and mainframes were weaker.

The service division, where IBM helps companies install and maintains computer systems, showed particularly strong growth of 20 per cent for the quarter.

Worries remain

For the pessimists, however,

worries remain. For a start, IBM was hit hard by the world financial crisis, despite the benefits of a cheaper dollar in relation to the yen. Sales to Asia dropped 3 per cent, while sales to Latin America - where the Brazilian crisis is still rumbling on - fell by 22 per cent.

Hardware sales were down 2 per cent, with the new mainframe computer actually priced below its replacement. The poor computer chip market also hurt IBM.

But fundamentally, the problem was that IBM's results lacked the recent sparkle of companies like Microsoft and Intel, who beat market estimates by a bigger margin.

With the high-tech sector undergoing an unprecedented stock market boom, any sign that earnings growth is slowing down is making the markets very nervous.

— BBC Internet