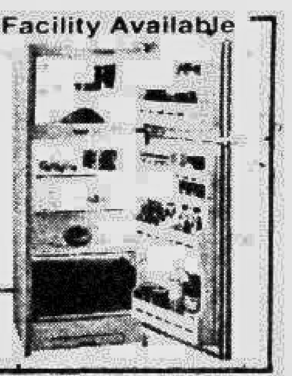

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Order dearth, East Asian revival spell trouble for RMG sector

By Inam Ahmed and Monjur Mahmud

At last the country's ready-made garments (RMG) sector is facing the long-feared nightmare. Orders are drying up as international buyers have become jittery because of last year's massive embargoes over quota forgery.

On the other hand, the sleeping East Asian tigers are once again showing off their claws and kick-starting laid off RMG factories as the regional crisis has already started easing. Jittery buyers are turning to their old Southeast Asian partners for apparels.

Some major buyers have already turned to Indonesia, leaving immediate impact on some 'hot' items. As a result, the quota fill rate this year is very slow.

According to industry sources, Wallmart, a big US buyer, which alone placed orders for over 300,000 dozens of shirts under quota category 340 last year, has quit Bangladesh this year. It has now gone for placing orders in Indonesia, which is offering products at cheaper rates than Bangladesh.

As a result, the fill rate of category 340 items has fallen to 50.8 per cent this year, while it was 67.98 per cent till July 20, last year.

Sources said that the US Customs had imposed embargoes on a number of hot-selling quota items after they detected huge quota forgery last year. This made a permanent dent in Bangladesh's image with the buyers.

As quotas were counterfeited and embargoes imposed, the genuine order holders could not ship their goods and the buyers suffered losses. As a result, these buyers never considered Bangladesh when placing their next orders.

For example, category 634 and 635 had a fill rate of 79.31 and 62.41 per cent till July 20 last year. These two items performed only 26.8 and 46.9 per cent for the same period this year.

Category 334 has also faced the same fate with fill rates falling from 69.34 per cent last year to 23.1 per cent this year.

While orders crunch is putting garments at odds, plummeting unit prices of apparels in the world market is also subjecting the sector to increased pressure.

"Last year, we got orders for TC shirts at US$32 per dozen, but this year we are only offered $27," said Annisul Huq, Managing Director of Mohammadi Group and Vice President of BGMEA. "It is true that fabrics prices have also come down, but it can only compensate for 50 per cent of the fall in apparel prices."

He said the same category of fabrics which used to cost 51cents last year, is now 46 cents.

But another worrisome development is that buyers are getting impatient and are not ready to accept any delay in shipment.

"Earlier, we could even ship our goods one week later than schedule, but now they are unwilling to wait even a day. So, we are often bound to airlift our products because frequent hartals, port congestion and strikes slow down our production," said Engineer Abu Taher of Fortuna Group and Executive Committee member of BGMEA.

"Buyers are also not giving us letters of credit in time. We need at least a 120-day lead time, but we are getting the LCs only 15 days ahead of the shipment date," said Anisur Rahman Sinha, President of BGMEA. "So, we are forced to import fabrics with our own LCs to meet deadlines. This puts us at great risks."

But then, why the RMG sector is not using local fabrics to cut lead time?

"Local fabrics are costlier and it so often happens that factories here fail to supply us on time," said Annisul Huq. He cited his own experience with a reputed local textile firm, which miserably let him down.

Now, as a result of the order squeeze, the informal quota market has been hit hard. Those exporters who bought quotas at higher prices last year, had lost a huge amount as their quotas lost values because of order slump.

Citing examples, a garment exporter said prices of quotas under category 340 was US$ 65 last year. This year it is around US $18.

Employees of Shinjuku-south branch of Japan's luxury department store chain Mitsukoshi bow to customers Saturday on the last day of sales before it's closing down due to part of its restructuring programme in central Tokyo. Japan's largest department store chain Mitsukoshi took an 11.4 billion yen (95 million USD) loss in the past year as the recession hit sales in Japan. — AFP photo

DCCI financial management course for SMEs ends

Star Business Report

The training course on financial management for SMEs' has ended.

It was organised by the Human Resources Development Programme (HRDP) of the Dhaka Chamber of Commerce at its Training Institute in the city on Thursday, says a press release.

In all, 28 participants from the finance and accounts departments of private organisations attended the training course.

Certificates were awarded to the participants of the course.

Speaking on the occasion, the Director of the Dhaka Chamber of Commerce & Industry (DCCI), Iqbal Hassan Mahmood, emphasized the importance of financial management training saying the financial management ought to be basically concerned with getting the best out of the resources of the firm. It is a very vital process of proper management of organisational resources.

The Convenor of the Human Resources Development Standing Committee of DCCI, AFM Obaidur Rahman, also spoke on the occasion.

OPEC panel urges producers to keep curbs on oil output

VIENNA, July 31: A committee of OPEC ministers agreed yesterday to recommend that the exporter group keeps tight curbs on oil output for at least the next eight months to support prices, reports Reuters.

Announcing the agreement, Iranian oil minister Bijan Zanganeh said the Organisation of the Petroleum Exporting Countries should stick by an agreement on cuts at least until it runs out at the end of March 2000.

"After studying the supply and demand situation we have recommended to keep the previous decision (made) in March 1999 at least until March 2000," Zanganeh told reporters.

The market monitoring committee's recommendation will be forwarded to the cartel's September 22 ministerial conference, which has the power to alter the agreement if it so wishes.

Zanganeh, who chairs the committee, said after a meeting of the panel in Vienna that oil prices this year had averaged below $14 and added "This is not enough. We want to increase this."

Oil prices shot to new 20-month highs on Friday amid evidence that reduced OPEC supply and signs of a revival in global demand were trimming stocks.

In March, OPEC — with the exception of Iraq — agreed to cut production by 1.7 million barrels per day for 12 months in an effort to halt one of the worst slumps on record, which saw crude prices hit 22-year lows last winter.

Asked whether OPEC has a target oil price in mind, Zanganeh replied without elaborating: "We have had a previous decision on this issue for the basket price — $21 per barrel average."

The price of OPEC basket of seven crudes stood at $19.15 a barrel on Thursday. The basket comprises Algeria's Saharan Blend, Indonesia's Minas, Nigeria's Bonny Light, Saudi Arabian Light, Dubai of the UAE, Venezuela's Tia Juana and Mexico's Isthmus.

The market monitoring committee has no decision-making powers but reviews compliance and had been expected to indicate whether it saw any sign of the market overheating.

S'pore listed cos' market value tumbles

SINGAPORE, July 31: The market value of companies listed on the Singapore Stock Exchange tumbled 13 billion Singapore dollars ($7.75 billion) in July, the Business Times reported Saturday, reports AP.

The fall would have been almost three times as great if stunning first-half results from DBS Land and DBS Bank had not pushed a sharp price recovery from July 26-30, the newspaper reported.

At the close of trading July 30, the total market capitalisation of companies listed on the local bourse stood at 300.8 billion Singapore dollars ($179.3 billion), down 4.1 per cent from the end of June, the paper reported.

The benchmark Straits Times Index lost one per cent during the month, to close at 2,145.77 on Friday.

Republican-controlled US Senate passes $792b tax cut bill

WASHINGTON, July 31: The Republican-controlled US Senate yesterday passed a $792 billion tax cut — the biggest in nearly two decades — despite threats of a White House veto and pleas from moderates for compromise, says Reuters.

The 10-year Republican tax bill must now be reconciled with a competing measure approved by the House of Representatives. The final package that emerges would be sent to President Bill Clinton, who promised to send it right back with a veto.

Only then will the real negotiations begin, many lawmakers believe. "It's early in the process," House Speaker Dennis Hastert, an Illinois Republican, told reporters.

The Senate bill, approved on a mostly party line vote of 57 to 43, would exempt from taxation the first $1,000 of capital gains, beginning in fiscal year 2006. It would also cut the lowest income tax rate, reduce taxes for married couples, encourage retirement savings, and give special tax breaks to technology companies and other businesses.

The House measure, approved last week, would slash income tax rates by 10 per cent across-the-board and cut capital-gains tax rates for individuals and businesses.

Aides expect the final package, melding the two bills, to include the House's sweeping income tax cuts coupled with the Senate's retirement and marriage-tax penalty reform.

Moderates in both parties see the $792 billion bill as an opening gambit by Republicans. After Clinton vetoes the bill, they expect both sides to work toward a $300-$500 billion compromise as part of an accord to shore up the Social Security retirement system and the Medicare health care programme.

But for the time being, Republicans and the White House are more interested in delivering "political statements" than "good policy," said Sen. John Breaux, a Louisiana Democrat.

For both parties, tax cuts are a key political battleground that could resonate in next year's elections.

Republicans are counting on sweeping tax cut proposals to define the party, whether they are enacted or not. At $792 billion, the House and Senate bills promise the biggest tax reduction since 1981, when Ronald Reagan was president.

View of the traffic jams on the A10 highway in Niort leading to the south-western city of Bordeaux Saturday. The start of the worst weekend of the year on France's roads lived up to its reputation as holidaymakers caused some 400 kilometers (250 miles) of traffic jams, the national traffic center said. — AFP photo

ROK will help develop stock exchange in Vietnam

HANOI, July 31: South Korea will provide Vietnam with a 400,000 dollar grant to help develop a stock exchange, it was reported here today, reports AFP.

The non-refundable aid was announced during the visit of South Korean Foreign and Trade Minister Hoon Soon-Young who met with deputy prime minister and foreign minister Nguyen Manh cam on Friday.

Vietnam is expected to have a pilot exchange running in Ho Chi Minh city by the end of the year.

Hong also announced the country would soon negotiate a soft loan of 7.3 million dollars to fund a water supply project, the Vietnam News reported.

Hong also met with Prime Minister Phan Van Khai and President Tran Duc Luong, pledging stronger cultural and economic ties.

Last year two-way trade with Korea dropped 17 per cent to 1.5 billion dollars from 1.8 billion dollars in 1997, and Vietnam has seen a sharp decline in the number of Korean businessmen in the past 18 months.

There are 5,500 Koreans living in Vietnam, 5000 of whom live in Ho Chi Minh City, the country's economic hub.

South Korea is Vietnam's fourth largest foreign investor with 187 projects worth 3.17 billion dollars approved, the bulk of it before the regional crisis hit.

It is also Vietnam's largest foreign employer, generating 80,000 jobs, especially in manufacturing which accounts for 70 per cent of Korean investment.

A Korean diplomat said the minister's meeting is timely, as it comes just days after Vietnam and the United States agreed in principle on a bilateral trade accord.

"That was really good news, especially for garments, textiles and shoes," he said, noting that some Korean investors were already preparing to increase their plant capacities in anticipation of an accord by the end of this year.

Aside from the chaebol conglomerates, the bulk of Korean investment in Vietnam is in small scale labour intensive manufacturing, including several sub contractors producing shoes exclusively for Nike Inc.

Traders see string of economic changes

Dollar hits multi-month lows against majors

LONDON, July 31: The dollar was under pressure in Europe yesterday, hitting multi-month lows against other major currencies as traders smelled a whiff of changing economic fundamentals, reports Reuter.

Traders said the greenback was still reeling from the previous day's data showing slower US growth and a growing threat of inflation — exactly the opposite of what the markets have become accustomed to seeing in the last few years.

"Yesterday's data was as bad as it gets, particularly since investors are on the lookout for bad news on the dollar," said Nick Parsons, currency strategist at Paribas Capital Markets.

The dollar smashed through Thursday's 114.89 trough late in the European afternoon to hit a new five-month low of 114.62 — barely above crucial support at 114.50/55 yen — a 61.8 per cent Fibonacci retracement of the entire rally from the year's lows near 108 yen to the highs near 125.

Fear of Bank of Japan intervention kept the market jumpy but a mid-morning spike up from around 115 yen failed to ignite much follow through in the absence of actual BOJ action.

"People are very wary that the Bank of Japan might come in," said a European bank trader in London. "But, again, the yen is the most wanted currency at the moment." Although the actual data out of Japan overnight were on balance weaker than expected, dollar/yen is still in a downtrend," noted Michael Metcalfe, a market analyst at NatWest Global Financial Markets in London.

Japanese jobs data overnight showed the jobless rate soaring to a record 4.9 per cent in June and wage-earner spending down.

Nonetheless, the dollar failed to make headway.

"People who have been bottom-fishing are getting frustrated because the price action has been so heavy," said a Japanese bank trader in London.

The euro orbited the $1.07 level throughout the European day after hitting a two-month high of $1.0744 in Asia. It was last trading at $1.0691/95 against $1.0720/24 late on Thursday.

Despite the slight extension to its recent sharp gains, the euro's rally could be starting to slow down, analysts said.

"I think it's largely a function of Welteke's comment earlier in the week," Metcalfe said, referring to a newspaper report on Tuesday that Bundesbank President-designate Ernst Welteke did not want the euro to strengthen too much.

"There's a perception that they're trying to trim the rate of appreciation of the euro around $1.07."

Sterling was firmer against both the dollar and the euro, bolstered by strong UK gross domestic product data.

Sterling hit a 10-week high of $1.6243 before pulling back to $1.6201/06 by late European afternoon against $1.6142/52 on Thursday. Euro/sterling dipped to its lowest levels in more than a week, last trading at 66.01/03 pence against 66.36/43 on Thursday.

Provisional UK second quarter GDP was up 0.5 per cent quarter-on-quarter and up 1.2 per cent year-on-year against forecast rises of 0.4 per cent and 0.8 per cent. The numbers followed an upward revision in first quarter GDP a day earlier.

Brave new world bullish on Internet stocks?

NEW YORK, July 31: Here's an investment strategy that would keep Federal Reserve Chairman Alan Greenspan tossing and turning at night: 10 per cent gold and the rest in Internet stocks.

Sounds crazy? Yes. But this is a Brave New World and people's ideas of investing for their old age are indeed revolutionary.

James Dines, publisher of the Dines Letter, is crazy about Internet stocks.

"This is the real thing," he said. "My vision has been of tremendous bullishness on the Internet, which is where the fortunes are going to be made," said Dines, an original "Internet bug."

Dines does not think the Internet sector is a giant bubble ready to burst, even though some stocks have soared more than 1,000 per cent at the blink to an eye.

"The technology is the future and it's starting to branch out to Latin America, China — and the growth is going to be unbelievable.... the ability of the entire world to communicate instantaneously, practically free, has a potential that frankly blew our minds," he said.

Dines believes the Internet will eventually take some of the play away from the nation's biggest blue-chip companies.

The problem with the sceptics is that some people can't see the future because they are trying to evaluate the Internet in terms of what happened in the last 100 years, he said.

But some Well Streeters worry that investors may be going overboard on the fast-paced industry, and there is a risk that a crash climate could be forming.

Fed chief Greenspan has warned that investors may be foolishly bullish about stocks, and that a sudden market reversal could destroy a lot of the wealth that has produced an annual double-digit market gains for almost five years.

One market strategist thinks that the Internet is just a fat speculative bubble that is just waiting to blow up and drag the rest of the market into the dumpster.

Raymond DeVoe Jr, market strategist for Legg Mason Wood Walker, sees classic signs of trouble in the high-flying Internet sector. He says Internet stocks that have recently been offered to the public should be renamed "Crash.Com."

"Bear markets begin at the point of maximum optimism," he said. "For the Internet stocks, the maximum bullishness occurred in April or early May, when they made their highs as America Online AOL.N reached $175 and Amazon.com AMZN.O $221."

"Sure, the stocks could rebound from here and go even higher since overvalued stocks can become even more overvalued," he said.

"The eye opener for me was MP3.Com (MPPP.O) that went public last week at $28 a share, started trading in the 90s, then hit 105 and has since gone back down to the 50s," DeVoe said.

"What was outrageous was that at one point the company, which is just 16 months old and has no proprietary products, was worth $6 billion and all it does is allows people to download music for free off of the Internet," he said.

DeVoe said that investors' tremendous optimism has also spread to the rest of the stock market, with the overall price/earnings ratio at a record 35.

"In a bull market, there are several stages," he said. "It starts with contempt for stocks. Then guarded optimism. Than enthusiasm, exuberance and unreality."

DeVoe said the start of the current bull market was on Aug. 12, 1982, when the Dow Jones industrial average was at 776 and stock prices were just eight times earnings.

Indeed, some of the excitement may have gone out of the Internet sector, at least in stocks that recently made their debut on Wall Street.

According to Thomson Financial Securities Data, the average first-day gain of Internet IPOs that came out between January and April was 143 per cent. But since then, investors have given the cold shoulder to some of the newcomers, with their average gains at a less impressive 66 per cent.

Also, the gains of the Internet IPOs since they came to market have also shrunk. Stocks that were offered between January and April are still up an impressive 92 per cent while those that were offered since May are up 77 per cent.

Would a major selloff in the popular Internet stocks bring down the entire market.

History shows that the undoing of manias often has sent shockwaves through the entire market.

The most dramatic domino effect was in 1962, when science or technology stocks soared due to the enthusiasm in space exploration that was created after President John F Kennedy pledged to put men on the moon within the decade.

What followed was a headlong plunge of up to 50 per cent for some tech stocks that spread to the rest of the market. The Dow went through a then eye-popping drop from a high of 727 to 535.

"A lot of investors were badly mauled," DaVoe said. "What happened was that people had to raise cash and they couldn't do it because of the illiquidity in the freefalling overvalued stocks, and so they sold the GEs and GMs where there was still a market."

Dines disagrees. The market will keep on ticking, even if the Internets drop sharply, he says.

"Internet stocks have had big drops all the way up and it would have a minimal impact on the overall market," he said.

"This is still 'The Mother of all Bull Markets' and even with the sharp selloffs we've had in the past in Internet stocks, the Dow is still only 1,000 points from its record high," Dines said.

"The older investors are not into Internet stocks... they're terrified of them," said the 40-year veteran investment advisor, who says he caught the Internet bug in 1994.

How can the Internet companies justify their extraordinarily high stock prices in view of their flat or negative balance sheets?

"The truth is that they are new companies in brand new fields that are carving out new niches and people are racing to buy them because they just don't know which companies will flower in the next few years," he said.

— Reuter feature

S'pore Monetary Authority beefs up staff

SINGAPORE, July 31: The Monetary Authority of Singapore, the country's de facto central bank, has hired mid-career professionals and non-bankers as it increased its staff by 30 per cent over the past 18 months to keep up with the fast-paced financial industry, Deputy Prime Minister Lee Hsien Loong was quoted Saturday as saying, reports AP.

Banks are hiring computer scientists, nuclear physicists and rocket scientists to design derivative products, The Straits Times newspaper quoted Lee, who is the Monetary Authority chairman, as saying.

"We are central bankers, so we must be conservative," said Lee. "But we can't be old fogeys."

For the central bank to supervise the new activities it needs people who are as innovative, able and dynamic as those in the private sector, Lee was quoted as saying Friday.

Bank said mid-career professionals accounted for 40 per cent of the 185 new staff members the central bank has hired since the beginning of 1998.