US trade deficit hits $38.5b

AFP, *Washington*

The US trade deficit in goods and services jumped to a record 38.46 billion dollars in August, from a revised 35.07 billion in July, the Commerce Department said Friday.

In percentage terms, the trade deficit widened 9.7 percent. This is the largest trade deficit since records began in January 1992.

The trade deficit widened to a record level in August due to a notable increase in imports, while exports declined. The deficit was exacerbated by a surge in oil imports and a sharp drop in exports of commercial airplanes.

Oil prices slip in quiet trade

AFP, *London*

The price of oil edged lower here Thursday on renewed technical selling amid signs that a lack of fresh major developments on Iraq has resulted in the rally of recent months running out of momentum.

Benchmark Brent North Sea crude oil for December delivery fell to 27.78 dollars in late afternoon trading here from 27.89 at the previous close.

In New York, the reference light sweet crude November contract fell 24 cents to 29.23 dollars per barrel.

The slide in prices came ahead of a report by the US Department of Energy (DoE), which later estimated that US crude oil stocks rose 8.9 million barrels, or 3.3 percent, to 279.4 million in the week ended October 11, when compared with the previous week.

That compared with figures released late Tuesday by the American Petroleum Institute (API), a private trade association, which estimated crude stocks rose by 9.4 million barrels in the same period.

Like the API, the DoE reported that the rise in crude stocks had been largely offset by a sharp fall in stockpiles of gasoline and distillate fuels.

Prudential Bache oil broker Tony Machacek said while prices had "slipped a little bit" after the release of the DoE figures they had subsequently stabilised.

US economy bounces back this year, dollar set to fall: OECD

AFP, *Paris*

The US economy is on course to bounce back this year with growth of 2.4 percent, the dollar is set to fall and the Federal Reserve is on a tightrope between a short-term rate cut and a longer term increase, the OECD said on Thursday.

The report put growth next year at 2.7 percent, a sharp reduction from its forecast in April of 3.5 per centin 2003. It shaved the April figure for this year which had been 2.5 percent.

The Federal Reserve should be ready to cut its key rate of 1.75 per centfurther in the short term if the recovery flags, but would have to raise rates later in any case, the report indicated.

The OECD said in a survey of the US economy that growth was being driven by "remarkable" productivity gains, and it raised a possibility of a significant fall of the dollar.

The consumer, who had never "faltered", and the US Federal Reserve central bank, which had been "skilful", had played vital roles in fighting the downturn, the report signalled, against the background of a stock slump and the September 11 attack on the World Trade Center.

But recovery was "still fragile", depending substantially on continuing strong household spending, in turn sustained by low home-loan interest rates.

The recession last year had been short and "mild" and recovery driven by big cuts in interest rates and high productivity.

Gross national product had declined in the first three quarters of last year, and overall growth in 2001 was 0.25 percent. The longest expansion ever recorded was now "history".

The report said: "The depth of the recession was limited by a continuation of strong productivity gains and rapid responses by fiscal and monetary policymakers ... The strength of productivity bodes well for the recovery."

Real interest rates were nearly zero, reflecting "very accommodative" monetary policy, and activity had also been stimulated by tax cuts and by extra spending on security in response to the terrorist attacks on September 11 last year.

But "while moderate growth is the most likely near-term outcome, several significant risks could derail the recovery. Most prominent among these is a more abrupt weakening in household demand."

High oil prices could also "drag on activity".

Because unemployment had been low before the slowdown, it has so far remained below six per centof the workforce, "close to what would have been considered full employment a few years ago".

Inflation had fallen from 3.4 per centin 2000 to 2.8 per centin 2002, and was now running at 2.7 percent.

But if the effect of oil prices were stripped out, core inflation was running at 2.2 percent.

"The current account deficit has resumed its trend increase", being set to reach five per centof output in the second half of this year from 3.9 per centlast year.

Policymakers face a dilemma in reforming the health system, expensive but not noticeably more effective than other OECD systems, because of the costs of treating the ageing population.

One of the biggest variables is the value of the dollar which, the Organisation for Economic Cooperation and Development indicated, is almost certain to fall, having risen by 26 per centfrom 1995 to 2001.

It was on a downward trend because of US budget and current account deficits, and the OECD quoted an independent report in 2000 suggesting the currency could fall by 40 percent.

The federal budget has shown a surplus of 2.5 per centof GDP in 1999 but was in deficit of nearly 1.5 per centin 2001.

Structural challenges for the federal accounts beyond the next few years might "worsen the fiscal position coinsiderably" and a return to "substantial surpluses in current government projections is unlikely", signalling extra "revenues" or spending cuts.

Japan PM reiterates reform pledge but offers no new initiative

AFP, *Tokyo*

Prime Minister Junichiro Koizumi said Friday Japan will accelerate a reform drive to boost the moribund economy over the next six months, but offered no new economic policy initiatives.

Market watchers had been hoping for an indication of fresh and possibly more radical steps from Koizumi to lift the nation firmly out of recession in a speech given at the start of an extraordinary session of parliament.

But the premier simply reiterated that the government was devising another plan to fight deflation and clean up the debt-laden banking sector.

"I will accelerate reforms over the coming half year to regain economic vigor and will draw up a comprehensive package as soon as possible," he said, adding the government and Bank of Japan would work together on the project.

"Depending on the future economic situation we will take measures boldly and flexibly to stabilise the economy and the financial system," the premier said.

"The government will put an end to the issue of Japanese banks' bad-loan disposals in the year to March 2005 through accelerating these write-offs."

A plan to expand a cap on remaining bank deposits fully guaranteed by the government would be delayed by two years to April 2005.

"(This will) avoid fear and chaos among depositors in proceeding with financial-system reform," said Koizumi.

Turning to his highly touted "anti-deflation" package, the prime minister said the government would implement tax cuts of more than one trillion yen (eight billion dollars) and submit a tax-reform law to the next ordinary session of parliament.

"The government will take necessary tax measures to revive asset markets, including property and securities," he said.

Tokyo plans to create a safety net to protect jobs and enterprises because the disposal of bad loans at banks -- cited as a root cause of Japan's chronic economic and financial woes -- will likely hurt weaker companies.

"(We will also) strengthen measures to support new business, industry reorganisations and corporate resuscitation," Koizumi said.

Disappointment in the lack of detail from Koizumi capped gains on the Tokyo Stock Exchange. But the Nikkei-225 average still managed to close above the symbolic 9,000-points mark for the first time in three weeks thanks to a strong rally on Wall Street.

"The stock market discounted (the speech) as it left out important points completely," said Nagayuki Yamagishi, senior strategist at Tsubasa Securities.

"As is often the case, he makes grand gestures but works out very few concrete measures," Yamagishi said.

"The anti-deflation package, a supplementary budget and bad-loan disposals -- decisions on all of them were just put off."

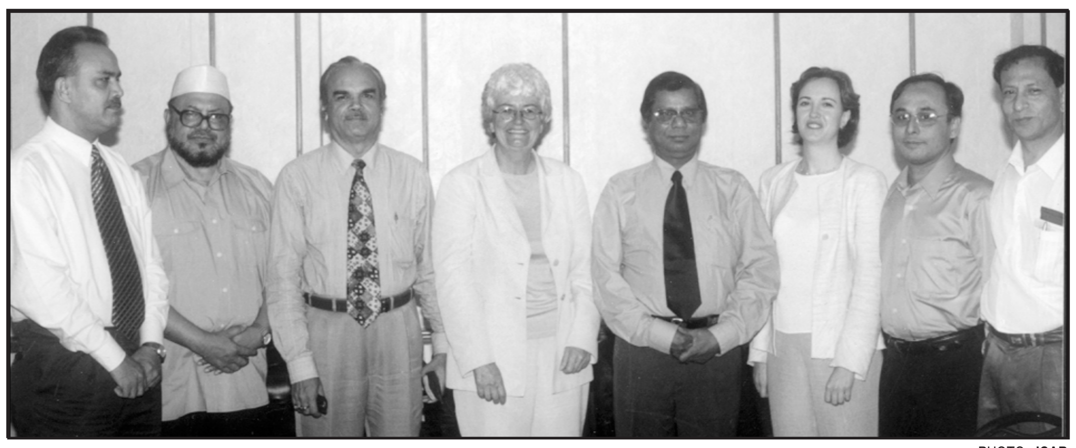

PHOTO: ICAB

Picture shows MA Baree (5th from left), president of ICAB, with World Bank executives Claire Grose (on his right) and Esperanza Lasagabaster (on his left) at the ICAB office in the city on Thursday. Md Humayun Kabir (2nd from left), Md Mustafizur Rahman (extreme left), Abbas Uddin Khan (3rd from right), MG Sobhan (2nd from right) and Jamaluddin Ahmed (extreme right) were also seen.

2 WB executives visit ICAB

Claire Grose, senior financial specialist, and Esperanza Lasagabaster, senior financial economist of the World Bank, visited the Institute of Chartered Accountants of Bangladesh (ICAB) in the city Thursday, says a press release.

A meeting between the officials of the World Bank and ICAB was also held. ICAB President MA Baree, Vice Presidents Md Abu Sayed Khan, Md Humayun Kabir, Md Mustafizur Rahman, former president and Council Member Abbas Uddin Khan, Jamaluddin Ahmed, and Secretary MG Sobhan attended the meeting.

They had detailed discussion on public limited companies (plcs), both listed and non-listed.

They also discussed role of auditors, audit fees, lack of CAs in SEC, listed companies, C & AG Office, stock exchanges, autonomous and semi-autonomous bodies, banks, insurance companies, financial institutions.

Thai banks post huge profits

AFP, *Bangkok*

Thai banks reported big increases in third-quarter profits Friday, as their recovery gathers pace after the 1997 financial crisis which buried them under a mount of bad debt.

Krung Thai Bank Plc., the kingdom's second-largest institution, said its net profits for the three months to September nearly doubled from the previous corresponding period to 2.67 billion baht (61 million dollars).

WEEKLY CURRENCY ROUNDUP

October 12 October 17, 2002

Local FX Market

Demand for dollar remained high throughout the week due to increased demand for import and other outward remittances. Bangladeshi taka continued to get weaker as a result of high demand-supply gap. BDT was quoted at 58.58/62 in the beginning of the week and rose as high as 58.65/70 at the end of the week.

Money Market

Bangladesh Bank borrowed BDT 28,285 million by the treasury bill auction held on Sunday. Weighted average yield of 28-Day bills jumped to 6.65 per cent from 6.58 per cent in the last bid.

Demand for BDT for overnight borrowing was moderate throughout the week. The call money rate eased at 4.50-5.00 per cent by the weekend after ranging between 6.75-7.25 per cent in the beginning of the week.

International FX Market:

New York, Tokyo and Hong Kong market was closed in the beginning of the week. The Euro and yen made slight gains in a holiday-thinned Asian session. The devastating weekend bomb blasts on the Indonesian Island of Bali weighed heavily on some of the Asian currencies and USD. On the other hand a powerful Wall Street rally on Friday pulled the dollar in opposite direction to keep it range-bound. There was also limited buying of Swiss Franc, the traditional safe-haven currency. The other majors also have their problems. Japan's economy remains lifeless, and the measures announced last week by the Bank of Japan to shore up the battered banking sector failed to impress the market. In Europe, Germany lowered its growth targets and pushed a plan to balance its deficit out by two years to 2006.

A strong rally on Wall Street combined with poor economic reports from Japan and Europe on Tuesday lifted the dollar to 4-month highs against the yen and 1 week high against the Euro. Dow Jones Industrial Average and NASDAQ Composite Index both rose by around 5 per cent as a result of better than expected result from Citigroup Inc. and General Motors Corporation. Dollar powered above 125 yen in early Asian trade but ran out of the steam and faltered on Wednesday as Intel reported disappointing earnings. Market was skeptical about the Japanese economy and yen remained vulnerable to it. Sterling was little changed against the US Dollar and Euro.

The dollar had a modestly weaker tone in New York at the end of the week as U.S. stocks pulled back after several days of gains, but dealers were loath to sell the dollar too hard due to a lack of other buying options. Euro showed little reaction to an admission by German Finance Minister that the Euro zone's biggest economy would probably not keep its budget deficit below 3 per cent of GDP as mandated by the European Union's stability pact. While the balance of opinion is still negative toward yen, despite some recent government efforts to shore up the troubled banks. Some analysts say the yen may be due for a correction after weeks of losses.

At 1530 hours on Thursday, euro was quoted at 0.9772/77, GBP at 1.5535/40, yen at 124.14/17 against the dollar. **--Standard Chartered Bank**