Chinese central bank pushes forex reform

ANN/ CHINA DAILY

Pushing China's foreign exchange reform ahead by another step, the central bank on Friday carried out its first currency swap deals with local banks in a move that could help bring more flexibility to the market.

The People's Bank of China confirmed that it was carrying out its first foreign exchange swap deal on Friday, but would not give more details.

A Beijing-based trader for a major state-owned bank said that the central bank offered one-year currency swaps worth US$6 billion at 7.85 Chinese yuan per dollar.

In spot dealings, the yuan closed at 8.0805 to the dollar on Thursday.

Analysts said that it wasn't clear exactly what mechanism the central bank was using in its swaps transactions, but said it could be selling dollars and buying yuan on the spot market, and a year later could reverse the deal at the set rate.

That would have the effect of removing yuan from the money market. At the same time, the central bank could use the swap rate to signal its expectations about how fast it expects the yuan's value to rise, they said.

The swap deal didn't seem to have any immediate effect on the onshore yuan spot market.

Offshore, nondeliverable forwards a measure of expectations for the yuan's value that has no direct impact on current exchange rates moved toward the one-year swap rate set by the central bank, to 7.78 in the morning from 7.75 late Thursday.

Late Thursday, China's State Administration for Foreign Exchange announced it would also introduce a new currency trading system allowing interbank market members to trade directly with each other.

It also invited qualified members to apply to become market makers for yuan spot trading.

A market maker agrees to act as either a buyer or seller in a financial transaction when no other party can be found.

Currently, the central bank is China's key market maker in US dollar trading due to tight restrictions on foreign exchange dealings, though regulators earlier announced they were considering letting other banks become market makers.

The yuan doesn't trade on world markets and Beijing sharply restricts buying and selling on the Chinese exchange.

Since a 2.1 per cent revaluation of the yuan on July 21 to 8.11 yuan per dollar, the Chinese currency has gained only 0.36 per cent.

China's leaders have pledged further reforms to loosen currency restrictions, but say its banks and other financial institutions need time to adjust to handling foreign exchange risks.

Brac Bank to offer banking services thru' GP SMS

Brac Bank Ltd will offer banking services to its clients through SMS (short message service) of the mobile phone operator GrameenPhone Ltd.

An agreement to this effect was signed recently between the two organisations, says a press release.

Kafil HS Muyeed, director (Marketing Division) of Grameen-Phone, and Saifuddin M Naser, head of Retail Banking of Brac Bank, signed the agreement on behalf of their companies.

PHOTO: GREY WORLDWIDE

The first information centre of Apollo Hospitals Dhaka, a joint project of Apollo Hospitals Enterprise Ltd and STS Holdings Ltd, was inaugurated on Friday at Dhanmondi in Dhaka. The centre will remain open from Saturday to Thursday from 10am to 7pm with a break of an hour from 1:30pm to 2:30pm.

PHOTO: MUTUAL TRUST BANK

Officials of Mutual Trust Bank Ltd pose for photographs with the participants of a three-week training course on "Foreign Trade and Foreign Exchange" organised by the bank recently in Dhaka. Mosharraf Hossain, managing director of the bank, inaugurated the training course.

ROK to nurture asset management sector

ANN/ THE KOREA HERALD

South Korea's top financial regulator said Friday that it is seeking to transform the local asset management business into a strategically important industry to expand the pool of institutional investors.

"The completion of the industry-wide restructuring has laid a foundation for the full blown development of the asset management business in Korea," the Financial Supervisory Service Governor Yoon Jeung-hyun told chief executives at a breakfast meeting on Friday.

With the introduction of private equity funds to the local market, the FSS is also preparing to allow local shares to be traded on overseas bourses to expand the market base, he said.

The nation's rapidly aging population is expected to be a boon to the 200 trillion won ($192 billion) asset management sector. The wealth management market is forecast to surge 11-fold to 2 quadrillion won ($1.96 trillion) in 2020, accounting for 28 percent of the financial market, according to a report by the research arm of the Korea Development Bank.

Last year, the wealth management sector accounted for 83.9 trillion won ($80.5 billion), or 11.3 percent, of the entire financial market.

With the introduction of retirement pension policies due at the end of this year, the asset management pool is estimated to increase to 71 trillion won ($68.1 billion), according to the finance ministry.

To give a real boost to the asset management industry within the local market, the banks should be allowed to handle a wide array of derivative financial products and futures, Yoon said.

The future direction of the financial supervisory policy would focus on giving easier access to capital for small businesses with technological prowess.

The FSS will advise local financial institutions to extend their loans to small businesses based on the credit rating system without collaterals, he said.

Many small businesses find it difficult to raise capital as local lenders have reduced their corporate lending to small businesses instead of extending household loans.

PHOTO: GRAMEENPHONE

Kafil HS Muyeed, director (Marketing Division) of GrameenPhone Ltd, and Saifuddin M Naser, head of Retail Banking of Brac Bank Ltd, pose for photographs at an agreement signing ceremony recently. Under the deal, the bank will offer banking services to its clients through SMS (short message service) of the mobile phone operator.

PHOTO: PRIME BANK

Shahjahan Bhuiyan, managing director of Prime Bank Ltd, and Muzaffar Ahmed, president and chief executive officer of Credit Rating Information and Services Limited (CRISL), sign a memorandum of understanding (MoU) on behalf of their companies recently in Dhaka. Under the MoU, CRISL will conduct credit rating of the bank.

EU sugar reform sparks bitter-sweet reaction

AFP, *Brussels*

A sweeping reform of the European Union's 40-year-old sugar regime sparked a bitter-sweet reaction Friday ranging from delight among European sugar refiners to warnings of catastrophe from poor producing nations.

In a third day of marathon talks, EU farm ministers agreed on Thursday to the sugar sector overhaul, which a European Commission spokesman enthused was an "extremely good reform".

The EU had little choice other than to make broad reforms to its sector regime after the World Trade Organisation (WTO) ruled it illegal earlier this year following a complaint from Australia, Brazil and Thailand.

Australia hailed the overhaul of the EU's sugar regime although it was "long overdue" in the eyes Trade Minister Mark Vaile

"Sugar remains one of the world's most heavily distorted trade sectors so reform is long overdue," Vaile said in a statement.

"This announcement is a positive step that will be welcomed by Australian cane growers, who can look forward to less distortion in the world sugar market in the longer term."

HK economy powers ahead in third quarter

AFP, *Hong Kong*

Hong Kong's economy powered ahead in the three months to September, growing 8.2 percent from a year earlier compared with a revised gain of 7.3 percent in the previous quarter as exports and consumer spending picked, official figures showed Friday.

The latest figures prompted the government to raise its 2005 growth forecast to 7.0 percent from the current 4.5-5.5 percent after the economy expanded 7.3 percent in the three quarters to September.

Government economist KC Kwok said the economy grew faster than expected during the period.

Dollar hits 27-month high against yen

AFP, *New York*

The dollar hit a new 27-month high against the yen in thin trading Friday with many US dealers away for a long holiday weekend.

The dollar stood at 119.70 yen at 1800 GMT from 118.83 yen in London on Thursday, when US financial markets were closed.

The euro fell to 1.17.19 dollars from 1.1783 dollars late on Thursday in London.

The yen has been pushed lower as political pressure on the Bank of Japan not to hike interest rates too soon makes a move away from the current zero interest rate policy unlikely for the time being.

As to the dollar, some said the it may be premature to pronounce an end of the rally even though the market is anticipating the US Federal Reserve will stop boosting interest rates early next year while the European Central Bank may lift rates modestly.

"After a meaningful appreciation this year (13 percent against the euro and 17 percent against the yen), the dollar is still in a good position to continue to perform well in the coming months," said Morgan Stanley's Stephen Jen.

"However, the dollar rally in the near term is no longer likely to be as broad-based as it has been since September .. the euro may have bottomed in this cycle."

Mellon Bank analyst Ian Gunner said the market is coming to grips with new projections for interest rates after a period in which higher rates supported the dollar.

"Sentiment could shift erratically in the next couple of months in response to the ebb and flow in the data and what it is suggesting by way of answers to these key questions on (monetary) policy," Gunner said.

"This does introduce an additional downside risk to the dollar - - weak data will now matter more than it did previously, when it was not a major threat to the removal of policy accommodation.

"Of course, this is just a fresh risk and does not necessarily imply that the dollar will fall. For example, if the US data continues to strengthen the dollar will clearly benefit and technically the dollar is still looking good."

In late New York trade, the dollar stood at 1.3199 Swiss francs compared with 1.3156 Thursday.

The pound was being traded at 1.7135 dollars from 1.7226 Thursday.