

Star BUSINESS

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Oil below \$59

AFP, Singapore

Oil prices declined in Asian trade Thursday as the market continued to focus on mild North American weather, dealers said.

At 11:00 am (0300 GMT) New York's main contract, light sweet crude for delivery in February, was down 17 cents to 58.15 dollars a barrel from 58.32 dollars in late US trades Wednesday.

The contract had tumbled 2.73 dollars in US hours to its lowest point since mid-November.

Brent North Sea crude for February fell five cents to 57.91 dollars a barrel, after dropping 2.48 dollars earlier to a November 17 low.

Victor Shum, senior principal at Purvin and Gertz Inc in Singapore, said the unusually warm winter weather in the Northern hemisphere is still the major factor driving the drop in oil prices.

"Weather remains the main catalyst," said Bart Melek of BMO Capital Markets in New York.

"We've had very unseasonal weather in December and the first week of January," Melek said during US trading hours.

US demand for heating oil in the week to January 6 is expected to be about 33 percent below normal because of the mild conditions in the country's northeast, analysts said.

The strong US dollar and stock markets on Wednesday may also have contributed to the sharp decline in oil prices, Shum said.

Arcelor-Mittal bids for India's Sesa Goa

AFP, New Delhi

The world's largest steel manufacturer Arcelor-Mittal has bid to buy a controlling stake in Sesa Goa Ltd, one of India's leading iron exporters, according to a report Thursday.

The Hindustan Times, quoting unnamed investment banking sources, said Arcelor-Mittal has submitted a non-binding offer for the company.

Arcelor-Mittal is seeking to secure a foothold in India and the acquisition would help it meet its iron ore needs for its European operations, the newspaper said.

It added that the European company might also use the ore to set up a greenfield project in India.

Rio Tinto and Brazil's CVRD have also joined the race and bids through investment banker JM Morgan Stanley, the newspaper said.

The bids value the company at between 75 billion rupees and 85 billion rupees (1.7 billion to 1.9 billion dollars), the Hindustan Times said.

In addition to purchasing the 51 percent stake, the buyer would then have to pay for another 20 percent to make an open offer required under Indian takeover regulations, the paper said.

RAWHIDE EXPORT

Exporters eye Tk3000cr earning in FY07

STAR BUSINESS REPORT

Leather and leather goods exporters eye more earning from exports of rawhide this fiscal as additional quantity of the item is available now in the market because the candidates engaged in the electioneering have sacrificed animals more than the usual in a bid to woo their supporters.

They said the extra rawhide would help fetch Tk 3000 crore from the sector in FY 2006-07.

The industry insiders attributed this projection of higher export earning to less extortion centring rawhide trading and low price of crude salt, an essential item that is used in rawhide processing, as well as a better price now offered for the exportable item in the international

market.

Around 180 million square feet of skin and hide worth Tk 800 crore is assumed to be traded locally this Eid-ul-Azha season as against 140 million square feet traded the previous year, according to the business circle.

Tipu Sultan, president, Bangladesh Finished Leather, Leather Goods and Footwear Exporters Association (BFLLEA), told The Daily Star that they found the overall rawhide collection satisfactory despite some hindrances in transportation of hides and local syndication in price of the produce.

He said he is hopeful of achieving this year's target of export earning from the sector set by the government.

The Export Promotion Bureau

(EPB) set the target of earning Tk 2030 crore from exports of rawhide, Tk 980 crore from footwear and Tk 560 crore from leather bags in the financial year 2006-07.

Bangladesh produces over 220 million square feet of leather every year, 70 percent of which come from sacrificed animals.

As per EPB data, finished leather exporters received 26 per cent higher price for their product in FY 2005-2006.

A piece of cow-skin was selling between Tk 800 and Tk 2000 and goat-skin between Tk 180 and Tk 250 at the Posta wholesale market in the capital yesterday.

The prices of cow-skin ranged from Tk 400 to Tk 800, while goat-skin sold between Tk 180 and Tk 200 in the same market last year.

Land tax exemption for foreigners goes in China

AFP, Beijing

China has removed an exemption for foreign investors in land taxes starting from this year, state media reported Tuesday, as part of its latest effort to cool the sizzling real estate market.

"Beginning January 1, joint ventures and wholly foreign-owned firms will no longer be exempt from paying land-use tax," the Xinhua news agency reported.

The ending of the privilege to foreign investors would ensure a "more even playing field" for domestic and overseas companies, Xinhua said.

"The new regulations will also bring to an end to the unfair treatment of domestic companies which had to pay taxes and fees that overseas firms have been exempted from for nearly two decades," it said, citing official sources.

Meanwhile, annual land-use tax rates were also tripled depending on the size of the city and types of land use, it reported.

The new policy is aimed at "bringing better control and better planning to the development and re-development of land," Xinhua quoted government sources as saying.

Jakarta grants tax incentives to attract investment

AFP, Jakarta

Indonesia will grant tax incentives to 15 industries in a bid to attract foreign and domestic investment, a finance ministry official said Thursday.

Director general for taxation Darmin Nasution told reporters that President Susilo Bambang Yudhoyono signed a decree authorising the incentives on January 1, with immediate effect.

"The purpose of the decree is to attract investment in certain industries as well as to stimulate growth of investment in certain regions," Nasution said.

Industries that will receive tax incentives include textiles, chemicals, pulp and paper board, pharmaceuticals, rubber products, iron and steelmaking, electronics, and component products for land transportation.

Nasution said tax incentives would be provided to both domestic and foreign parties, either for new investment or expansion of existing plants.

The incentives would include tax allowances and lower taxes on dividends paid to foreign groups.

Tax incentives, however, would not be given to industries that have previously obtained perks, such as companies located in bonded or industrial zones.

OECD seeks structural reforms in eurozone

AFP, Brussels

Eurozone countries must make more structural reforms to consolidate a nascent economic recovery in the area, the Organisation for Economic Cooperation and Development recommended Thursday.

In a survey on the 12 nations sharing the single European currency in 2006 -- Slovenia became the 13th member this week -- the OECD said structural rigidities were holding back growth and encouraging inflation.

"After several false starts, the economic recovery has taken hold," said the OECD, a policy research body for 30 leading industrialised countries based in Paris.

"If in addition structural reforms continue, the expansion will become durable and self-sustaining, a prospect also supported by sound corporate and household balance sheets and favourable financing conditions," it said.

The organisation tempered any optimism by warning that annual economic growth in 2007 and 2008 was only projected at around a modest 2.25 percent.

DSE indices up Turnover declines sharply

STAR BUSINESS REPORT

Stocks on the Dhaka Stock Exchange (DSE) yesterday bounced back with indices gaining slightly. However, trade turnover declined sharply.

The indices--All Share Price Index, DSE 20 and DSE General Index-- rose by 3.88 points, 4.78 points and 6.32 points to close at 1301.88, 1394.32 and 1589.41.

The turnover in terms of value dropped to Tk 299.359 million yesterday from Tk 324.54 million on Wednesday, the first trading day in the New Year.

Market operators said the ongoing political impasse has been discouraging both institutional investors and general investors for quite a long time. They also said the market will be affected in the long run if the deadlock continues.

The stock market showed a bullish trend with a 78 percent rise in the daily average turnover in the last week of 2006, as there was a possibility of an election to be participated by all major political parties.

But Wednesday's decision to boycott the January 22 elections by the Awami League-led grand alliance halted the turnover rally.

Power Grid Company of Bangladesh (PGCB), AB Bank, Dhaka Electric Supply Company Ltd (Desco), AIMS First Mutual Fund, Southeast Bank, City Bank, Prime Bank, IPDC, Standard Bank and Grameen Mutual Fund One were the top ten turnover leaders in terms of value yesterday.

Meanwhile, the subscription of primary shares of Shahjalal Islami Bank Ltd begins January 14. The bank will float 9,358,250 shares.

China's trade friction to continue this year

XINHUA, Beijing

China will continue to face trade frictions in 2007 despite the government's cooling measures, says a report by the Chinese Academy of Sciences (CAS).

Exports will rise steadily and rapidly, notably in sectors such as textiles and televisions sets where China is highly competitive despite a slow-down in the long term, said CAS researcher Wang Taoyang, the chief compiler of the report.

Emerging fields where China has showed strength in recent years like iron and steel, information technology equipment, automobiles and the chemical industry will become new tension points in which developed nations find it easier to launch protection measures, such as changing technical standards.

Trade disputes with developing countries such as the Czech Republic, Turkey, Ukraine,

Mexico and Brazil will possibly occur due to their overlapping strengths in manufacturing and lack of complementary economic structures.

Official figures show China's aggregate trade surplus surged to 156.52 billion US dollars in the year to November 2006, dwarfing the 102 billion US dollars for the whole of 2005 despite the government's efforts to balance payments.

The government has not released the December figures and Xinhua economic analysts predict the trade surplus is expected to break 200 billion US dollars in 2006.

Wang said the country should attach equal importance to stimulating overseas and domestic demand to support the sustainable economic development.

The country should quicken the pace of improving the market-based economic system to meet WTO rules and enhance its legal framework, he said.

Top Japan executives predict strong economy in '07

ANN/ THE DAILY YOMIURI

Most of the top executives at 30 major companies predict that the current economic upturn will continue this year or beyond, according to The Yomiuri Shimbun's new year survey on business trends.

The boom has been the longest since the end of World War II and exceeds the previous record of 57 months during the Izanagi boom between 1965 and 1970.

Fourteen of the corporate leaders polled said the current boom will last beyond 2008, and 11 predicted it will last until the latter half of this year.

In citing up to three factors that could have a negative impact on the economy, 26 indicated a slow-down of the U.S. economy. Ten cited a drop in consumer spending and 10 cited a rise in crude oil prices. Only five respondents mentioned increased interest rates.

Twenty-two of the executives predicted the Bank of Japan will raise interest rates again sometime in the first half of this year. Their answers indicate a belief that the current economic boom will continue even with a rise in interest rates factored in.

In citing up to three policy tasks that should be top priority for the

administration of Prime Minister Shinzo Abe, 19 pollees said they hoped the government work out a strategy to ensure continued economic growth.

It was followed by reviews on public pension, medical care, nursing care and social welfare in an integrated manner, cited by 17 respondents. Ten cited drastic cuts in government expenditures.

Currently, the government faces the task of securing a stable revenue source to fund a revamp of the public welfare systems, because of the graying population.

Asked whether the consumption tax rate should be raised from the current 5 percent for fiscal reconstruction and future financing of social security, 19, or 63.3 percent, said there was no choice but to increase it.

Eleven cast doubts on the Abe administration's strategy of prioritising economic growth in light of fiscal reconstruction, saying that increased tax revenue as a result of economic growth will not be able to cover the government's fiscal deficit.

Eight said they accepted the strategy as a slogan because if the government chooses tax increases, it could weaken motivation for cutting expenditure.

Low-cost competition may cut Asian airlines' profits

AFP, Sydney

Asian airlines will likely reap reduced profits in 2007 as increased competition offsets gains in passenger and freight traffic, a global aviation body said Thursday.

The International Air Transport Association (IATA) predicted that the sector would see total profits for Asia plummet from around 1.7 billion US dollars in 2006 to some 1.2 billion dollars this year.

"The lower profits are due to the increased competition in the region as a result of liberalisation, aircraft deliveries and new entrants," the IATA said in a statement.

The warning accompanied data showing Asia, which in recent years has seen the emergence of many discount carriers, can expect strong gains in international passenger traffic while leading the global freight growth stakes.

Significant new capacity and routes will boost international passenger growth to an annual average rate of 5.7 percent between 2006 and 2010, beating a global average of 4.8 percent, IATA said.

Pakistan was expected to see the greatest advance at 8.2 percent, with China boasting 8.1 percent and India 7.9 percent while Australia would lag behind at 4.5 percent, the airline organisation said.

It also predicted freight in the Asia Pacific region -- where seven of the world's top ten cargo markets are located -- would grow 6.0 percent, again above the global rate which averages 5.3 percent.

While Asian economies were still expanding at a robust pace, which had helped boost traffic, IATA said the US economic slow-down was likely to soften demand for air travel and pricing power.

It also said the airlines it surveyed for its traffic forecast indicated they would adopt a more cautious approach to deploying new aircraft in the next five years.

Google ties up with China Mobile

AFP, Shanghai

The world's top Internet search engine, Google, said Thursday it forged an alliance with China Mobile to provide mobile and Internet services in China.

Google said in a statement that it would provide technology to China Mobile, the nation's largest handset operator, allowing searches on the Chinese firm's Monternet WAP portal.

The service entered trial operations in December and would be rolled out in early 2007, the Mountain View, California-based company said.

China's 132 million online users rank second only to the United States as the world's largest Internet market, making for potentially mouth-watering revenue opportunities.

Last month, US software giant Microsoft and Chinese Internet search portal Baidu joined forces, with Microsoft to display Baidu search advertising on its MSN, Live and other websites in China.

However, the competition is fierce, and eBay only last month announced it was downgrading its presence in China, handing control of its main website to Beijing-based wireless services group TOMOnline.

In a separate development, Google will buy a stake in Chinese peer-to-peer file sharing network operator, Xunlei Networking Technology Co, according to a state media report Thursday.

Managing volatility: Is hedging the right solution?

The dollar's recent downtrend has left US dollar investors worldwide unhappy. Overriding this investor gloom is the fear that dollar's recent fall may as well revive the global economic imbalance. The greenback has had a torrid 2006 - it hit a 12 year low against the sterling and 20-month low against the euro in early December. Although anyone who is even remotely connected to foreign exchange trade knows that swings are a historical fact, a deeper understanding of what caused this sudden plunge will certainly help us prepare for such volatile behavior of widely traded currencies.

Weak US economic performance coupled with huge current account deficit (above USD 600 billion) mainly contributed to the below par performance of the US dollar. Nevertheless there were other reasons behind dollar's recent slide. Apprehension of rate cut by US Federal Reserve (currently 5.25 percent) vis-à-vis expectation of rate hike in other currencies like Sterling (5 percent) and euro (3.5 percent) may drive investments away from dollar due to the lower yield advantage. Adding to the pressure were indications from Bank of China that it might shift a portion of the USD 1 trillion foreign exchange reserve from dollar to other currencies. Analysts expect the weakness of USD to continue until the first quarter of 2007. However, a subsequent rate cut by the US Federal Reserve may give rise to

more capital investment leading to a healthier economy and consequently a stronger currency later in 2007.

While the world is wondering whether the US currency is undergoing a benign adjustment or a precipitous plunge, how does this affect us here in Bangladesh? The dollar's weakness against major currencies has a direct bearing on various business sectors. The country has seen significant capital investment in the last few years. RMG, the largest export contributor in Bangladesh, registered considerable investment in backward linkage since 2005 resulting in heavy import of capital machineries. During this period, power, telecom and pharmaceuticals sectors among others have also put in huge investment. A large portion of the capital machinery required to support these investments have been imported from the Eurozone. In 2006 alone, the euro has appreciated by around 16 percent against BDT, mainly driven by the EUR/USD volatility in the international market. This rise in euro has caused import costs to escalate leading to project cost overruns and threatened to render projects unviable in some cases. Besides increased imports, the Bangladesh market has recently experienced a rise in commercial foreign currency borrowing among the large corporate. Since most of these loans are linked to some floating index, i.e. LIBOR, the

customers are exposed not only to FX risk but also interest rate volatility.

The way to mitigate these risks faced by corporates in a volatile market scenario is to utilise different hedging products. Better cash flow management, improved cost forecast, better pricing are but a few benefits that hedging offers. However, it is best not to consider hedging as money making tool, rather as insurance against downside risk in adverse market scenario. The beauty of hedging tools is that it can be tailor-made according to the need of the customers. Currently the most common hedging tool is forward which involves fixing the exchange rate in advance. Some of the vanilla derivative products such as FX option, range forward, interest rate swap, interest rate cap etc are also generating interest among customers nowadays. Options, unlike forward, not only provide protection against downside but also offer flexibility to take advantage of favorable market movement. A range forward, a popular derivative structure, provides a range of rates instead of a single rate. Both options and range forward have pros and cons but they offer more flexibility over forward. An importer buying a forward for euro 2 million at USD 1.3 per EUR can save USD 40,000 if euro reaches 1.32 at the time of payment. However, unlike forward, options enable the customers to take advantage of availing the market rate if EUR/USD moves

below 1.3. However, these are few blips in the vast world of derivatives, alternatively known as "Structured Products", because thousands of products of varied complexity can be structured to match the exact need of the customer to hedge all kind of financial risks, starting from foreign exchange, interest rates to commodity. Recently, Bangladesh market experienced the first ever FX derivative transaction - a USD/JPY range forward, marking a positive sign towards market development.

Hedging tools which are quite common in developed markets have also become an integral part of the FX markets in neighboring countries of India and Pakistan. The financial markets of India and Pakistan, once very similar to Bangladesh, have seen phenomenal growth and increased depth after the introduction of risk hedging products. This gave foreign investors a boost in confidence since it provided them with the much needed tools for financial risk management. Even Sri Lanka has recently joined this league by derivatizing the fx market when the country's central bank opened up the Lankan Rupee Option market in December 2006.

With marked rise in volatility, the time is apt for Bangladesh market to explore and mobilise FX risk hedging solutions.

-The write-up is prepared by Standard Chartered Bank



PHOTO: PUBALI BANK

Managing Director of Pubali Bank Ltd Helal Ahmed Chowdhury inaugurates the bank's 355th branch at Ashulia in Savar, Dhaka recently. Other senior officials of the bank are also seen.

India may have to write off Rs850b tax arrears

PTI, New Delhi

The Indian government may have to write off a whopping Rs. 850 billion tax arrears out of the total arrears accumulated over the past several years as these have been found to be "non-recoverable" by the Income Tax department.

Out of the outstanding Rs. 1190 billion tax arrears up to 2003-04, about Rs. 850 billion is "non-recoverable". This includes Rs. 284 billion outstanding against Harshad Mehta Group of Companies, banks and stock brokers involved in 1992 Securities Scam, sources in the Finance Ministry told PTI.

The department, which has so far recovered about Rs. 100 billion tax arrears against the target of Rs. 110 billion for 2006-07, has expressed helplessness in recovering the "non-recoverable" tax arrears.

"In fact, about Rs. 850 billion arrears are outstanding only on paper, and are mounting every year due to interest addition," a senior Income Tax official said.

The "non-recoverable" dues also include about Rs. 120 billion against those companies and assesses, whose assets have reduced due to closure of the units or fall in stocks.

In many cases, the companies have vanished from the market, or funds have already been transferred elsewhere before the recovery of tax arrears, the sources said.

The department has also expressed doubts about recovery of tax arrears from companies and persons involved in various scams like Telgi Scam and Fodder Scam in Bihar.

Income Tax department sources maintained that in some cases, funds have been transferred by assesses abroad through Hawala route, and there was nothing to recover.



PHOTO: JAMUNA BANK

Jamuna Bank Ltd recently opened its 25th branch at Saheb Bazar in Rajshahi. Director of the bank Nur Mohammed inaugurated the branch while other directors and senior officials were present.