

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 dip 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 Hindustani 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 (BFLLFA), 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 percent 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.



PHOTO: PUBLI 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.

Managing volatility: Is hedging the right solution?

The dollar's recent downturn 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. Appreciation of rate cut by 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, the p o w e r, t e l e c o m a n d 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

-The write-up is prepared by Standard Chartered Bank

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 derisking 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.

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 for 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 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.

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DSE indices up

Turnover declines sharply

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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 from Tk 299.359 million yesterday to 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.

China's trade friction to continue this year

XINHUA, Beijing

China 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.

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

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.

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