G8 FINANCE MINISTERS MEET

Aim at strengthening financial market stability

AFP, Potsdam, Germany

The world's most powerful finance chiefs began a two-day meeting Friday to consider steps aimed at strengthening financial market stability, supporting sound governance in Africa and regulating the 1.4-trillion-dollar hedge fund industry.

Although the meeting of finance ministers from the Group of Eight, Britain, Canada, France, Germany, Italy, Japan, the United States and Russia, comes ahead of a G8 summit of heads of state and government in the seaside resort of Heiligendamm in early June 6-8, US Treasury Secretary Henry Paulson has decided to skip the meeting.

The United States will be represented by his deputy, Robert Kimmit.

While the reason for Paulson's absence remains unclear, observers see it as a snub to the meeting's host, German Finance Minister Peer Steinbrueck.

Steinbrueck preferred to go on vacation with his family to Namibia rather than attend a meeting of G7 finance ministers in Washington last month.

Germany and the United States are already at odds over Berlin's determination to establish stricter controls over speculative hedge funds.

Steinbrueck, the German finance minister, said in a recent newspaper interview that he would press for a voluntary code of conduct for the hedge fund industry, even if a deal was unlikely by the G8 summit in June.

In response, US Treasury Secretary for International Affairs Clay Lowery said: "There has not been a lot of clarity on exactly what that means.

"We're not necessarily in favour of that because we think industry best-practice is probably the best way to get to better market discipline. I think there is a lot of consistency among the various positions but obviously if there is more disagreement we'll find out this week."

A senior Canadian finance ministry official earlier this week said he was "not sure there is necessarily as big a gap as is sometimes portrayed."

"Our views is that this process ... has helped improve collective understanding of how global markets function, where some of the risks are and -- very importantly -- where the real benefits there."

The G8 ministers in a final statement Saturday can also be expected to comment on world growth prospects and currency markets.

But their past communiques, calling for China to allow its currency to float more freely and appealing in general for exchange rate stability, have been so bland as to have little impact on world markets.

The closed-door meeting had been threatened of being upstaged by the controversy surrounding Paul Wolfowitz, who had planned to attend the meeting before announcing Thursday he will step down next month as World Bank president over a favoritism scandal.

Wolfowitz, who had been expected to brief the finance ministers on the Bank's programmes to fight corruption and illegal transfers of capital, would not travel to Germany for the meeting, a source said after his resignation announcement.

PHOTO: GRAMEENPHONE

Das Deba Prashad, managing director of Delta Life Insurance Company Ltd, and Stein Naevdal, chief marketing officer of Grameenphone Ltd, sign a corporate agreement recently. As per the deal, the mobile phone operator will provide complete communication facilities under its 'Business Solutions' package for the insurance company. Syed Moazzem Hussain, chairman of Delta Life Insurance, Laszlo Barta, head of Sales, and Mahboob Hossain, head of Direct Sales of Grameenphone, among other senior officials from both the sides, were present.

HSBC warns China meltdown to have serious impact on HK

AFP, Hong Kong

An official at global banking giant HSBC Friday warned of "serious" impact on the Hong Kong stock market if the Chinese market bubble burst, a day after a Hong Kong tycoon made similar remarks.

"I think there's a genuine concern," HSBC executive director Peter Wong said, adding about 40 percent of the local bourse is made up of Chinese stocks.

"If there are any policies that will curb the growth of China, it will directly affect these companies and that will directly affect the stock performance in Hong Kong," he told local radio RTHK.

Wong said recent concerns that the mainland market is overheating were justified and warned the impact would be "quite serious" on the Hong Kong stock market if the Chinese bourse crashes.

He also urged local investors to be extra cautious when making investments.

Wong's comment comes one day after Hong Kong tycoon Li Ka-shing warned about the risks of trading China stocks, saying he was "worried" over the high share prices following their record breaking run.

"As a Chinese, I am worried about the stock market; with P/E being 50/60 times, there is indeed a bubble phenomenon," Li said.

"Of course I do not hope to see a situation when the bubble bursts. It is better for investors to be more careful," he said, adding any fluctuation in Mainland economy would affect Hong Kong.

Last week, the Shanghai Composite Index breached the historic 4,000 points level for the first time, putting stocks there on Price/Earnings Ratios -- a standard measure of valuation -- at about 50 times compared with the Asian average of 14-18, according to analyst estimates.

As the Chinese markets have gone from one record to the next, officials have repeatedly warned of the dangers of a bubble bursting which would hit small investors hardest.

The extent of China's stock market fever was outlined in a recent central bank survey which showed 30.7 percent of the public planned to tap their low-interest savings accounts to buy into equities.

PHOTO: MIDAS FINANCING

MIDAS Financing Ltd recently signed a term loan agreement with Buro, Tangail, a non-government organisation that works for the economic development of the rural poor. Under the deal, MIDAS will extend Tk5 crore term loan to the NGO. Managing Director of MIDAS Financing Md Abdur Rashid Gazi and Executive Director of the NGO Md Zakir Hossain signed the deal, while other senior officials from both the sides were present.

India to lag behind China in business innovation: Study

PTI, New Delhi

India will give away its lead over China as an innovative country in the next five years, even though it has emerged as the second best place for business innovation after the US, says a new study.

In a survey of 485 senior executives worldwide carried out by Hong Kong-based Economist Intelligence Unit, Japan has emerged as the world's most innovative nation in terms of business practices, followed by Switzerland, US and Sweden.

India has been ranked at 58th position, ahead of China's 59th position in a ranking of 82 economies, based on their level of innovation during 2002-06.

According to the study released Wednesday, the top four economies are set to maintain their position during 2007-2011, while China will move up to 54th position, overtaking India.

India would also rise in the ranking, but not as much as China and would be positioned at 56th rank in 2011.

The study further found that both China and India were breaking out of their position as members of the under-developed world.

The US emerged as the country with best conditions for innovation, followed by India at the second position, UK at the third and Japan at the fourth.

However, China is likely to have more favourable conditions for innovation than India in the next four years, the study found.

"While it is still not as efficient at innovation as India, the huge sums of money it is pouring into Research and Development (R&D) and education will ensure that it climbs steadily up the rankings, leaving India behind," it added.

Besides, the commercial infrastructure in China is also modernising rapidly and multinational companies are opening research centres there, lured by low salary costs, the business information unit of Economist Group says.

Local scientists are paid only about 20 percent of what western scientists get, the study reveals, adding more than 300 foreign companies, including major life science firms, have established R&D centres in China.

With annual expenditure of USD 136 billion on research and development, China has already become the world's second largest R&D investors after the US, outspeeding the most innovative nation Japan.

The R&D spending in the US stood at USD 330 billion in 2006, as against Japan's USD 130 billion.

China can also expect to benefit more than India from foreign direct investment because of its more favourable regulatory and economic climate, the study says.

Weekly Currency Roundup

May 13-May 17, 2007

Local FX Market

The demand for US dollar was stable in the week. There was ample liquidity in the market, and the dollar fell slightly against the Bangladeshi Taka this week.

Money Market

Overnight money market was stable. The call money rate was range bound throughout the week and most of the deals ranged between 7.00 and 7.50 percent.

International FX Market

This week saw the yen hit a record low against the euro. The US dollar bounced back against the euro backed by some robust job data, despite the inflation data suggesting that the Fed might cut interest rate later this year.

US dollar

The week began with the market remaining steady against the US dollar, as the market was waiting for the inflation data of the world's largest economy. The inflation data was to give indication whether the Federal Reserve will cut its benchmark interest rate later in the year, as was expected by the market. The data came out on Wednesday, and the data suggested the inflation was well contained, which gave backing to the Fed's rate cut. However the dollar ended the week strongly after data showed surprising strength in the US job market, which reversed the market sentiment of rate cut.

Euro

The euro hit a record high against the yen, and was supported bullish expectations for euro area interest rates that raised the single currency's yield appeal. The euro got a boost as market expectations for higher interest rates firmed in the euro zone after data showing the region's economy grew an above-forecast 3.1 percent in the first quarter from the same period last year. Data on Wednesday also backed up the euro area outlook, showing euro zone inflation in April came in higher than initially estimated.

Yen

The yen was mostly steady against the dollar throughout the week, although hitting record low against the euro. Near the end of the week the yen fell to a three-month low against the dollar. The Japanese growth data halted the rate hike expectations, boosting the appeal of higher-yielding currencies. Japan's gross domestic product expanded at an annualised 2.4 percent in the first quarter, below expectations for 2.7 percent growth. The Bank of Japan, which had the morning to examine the growth figures, ended its two-day policy meeting by leaving interest rates steady at 0.5 percent, as expected. While the GDP data was slightly weaker than expected, it still marked the ninth consecutive quarter of growth and backed expectations for Japanese borrowing costs to be lifted later this year.

-Standard Chartered Bank

PHOTO: JANATA BANK

Janata Bank recently signed a credit rating agreement with Credit Rating Agency of Bangladesh (CRAB) Ltd. As per the deal, CRAB has been assigned to rate the bank. Managing Director of the bank Md Mukter Hussain and Managing Director of CRAB Masihur Rahman signed the deal, while other senior officials from both the sides were present.