International Business News

Oil prices climb above $117 on storm concerns

AFP, *London*

World oil prices rallied on Wednesday as Tropical Storm Gustav remained a threat to US energy installations in the Gulf of Mexico despite being downgraded from hurricane status, analysts said.

The market was meanwhile on tenterhooks ahead of the traditional weekly update on US crude inventories.

New York's main contract, light sweet crude for delivery in October, gained 91 cents to 117.18 dollars per barrel in electronic deals.

London's Brent North Sea crude for October won 68 cents to 115.31.

Tropical Storm Gustav stalled over Haiti on Wednesday, lashing the impoverished island with heavy rain after striking it with hurricane force and killing five people.

The US National Hurricane Center (NHC) warned that Gustav could regain hurricane strength on Thursday once it moved away from Haiti.

"Oil markets are keeping a nervous eye on ... Gustav, with forecasts showing it may move into the Gulf of Mexico," said David Moore, a Sydney-based commodity analyst with Commonwealth Bank of Australia.

Euro rises in Asia as traders take profits

AFP, *Tokyo*

The euro rebounded in Asia on Wednesday from a six-month low against the dollar as traders took profits from the greenback's recent rally while awaiting fresh economic data, dealers said.

The dollar eased to 109.11 yen in Tokyo afternoon trade from 109.67 in New York late Tuesday. The euro rose to 1.4701 dollars from 1.4653 but slipped to 160.34 yen from 160.71.

Market players took profits after driving the euro lower in response to gloomy data from Europe, said Hachijuni Bank forex dealer Masatsugu Miwata.

"Currencies are moving for technical reasons," he said, adding that the euro's rise was likely to be limited.

Markets remained wary about buying the single currency after downbeat consumer confidence and business sentiment surveys in Germany, dealers said.

"Given current conditions of the European economy, it would be difficult to keep buying back the euro," a Tokyo trader told Dow Jones Newswires.

The dollar has been supported recently by speculation that major economies other than the United States may feel the brunt of a global slowdown, prompting the central banks in those countries to lower interest rates.

AFP

Senior Vice President Worldwide Sales of Motorola Bruce Brada addresses the media during the launch of mobile phone 'Motozine ZN5' in New Delhi yesterday. Motorola and Kodak launched their first joint product 'Motozine ZN5' which combines a high quality mobile phone and a 5 megapixels camera.

Singapore's Temasek gets approval to up Merrill stake

AFP, *Singapore*

Singaporean sovereign wealth fund Temasek Holdings has received approval from US anti-trust regulators to raise its stake in Merrill Lynch, a source said Wednesday.

Temasek said in July that it was investing a further 3.4 billion US dollars into Merrill Lynch as part of the American investment bank's efforts to raise new capital.

Temasek is expected to receive the formal letter of approval this week, said the source, who declined to be identified.

The firm initially invested 4.9 billion US dollars in Merrill Lynch in December after the Wall Street titan sought fresh capital in the wake of huge losses following the meltdown in subprime, or higher risk, US mortgages.

Temasek has said it held an estimated 9.0 percent stake in Merrill Lynch at the end of March. The additional investment of 3.4 billion US dollars will raise that to between 13.0 percent and 14.0 percent, said the source.

Thai central bank hikes interest rate to 3.75pc

AFP, *Bangkok*

The Bank of Thailand raised interest rates 25 basis points to 3.75 percent Wednesday in a bid to tame soaring inflation, despite government concern about the impact on slowing economic growth.

The move came in the wake of reports that the central bank and the finance ministry have been at loggerheads over borrowing costs in one of Southeast Asia's biggest economies.

Bank of Thailand assistant governor Duangmanee Vongpradhip said economic growth had slowed in the second quarter to an annual rate of 5.3 percent due to waning domestic demand, lower government spending and high inflation.

Thai inflation reached a decade high of 9.2 percent in July, but Duangmanee said interest rates were now at the right level.

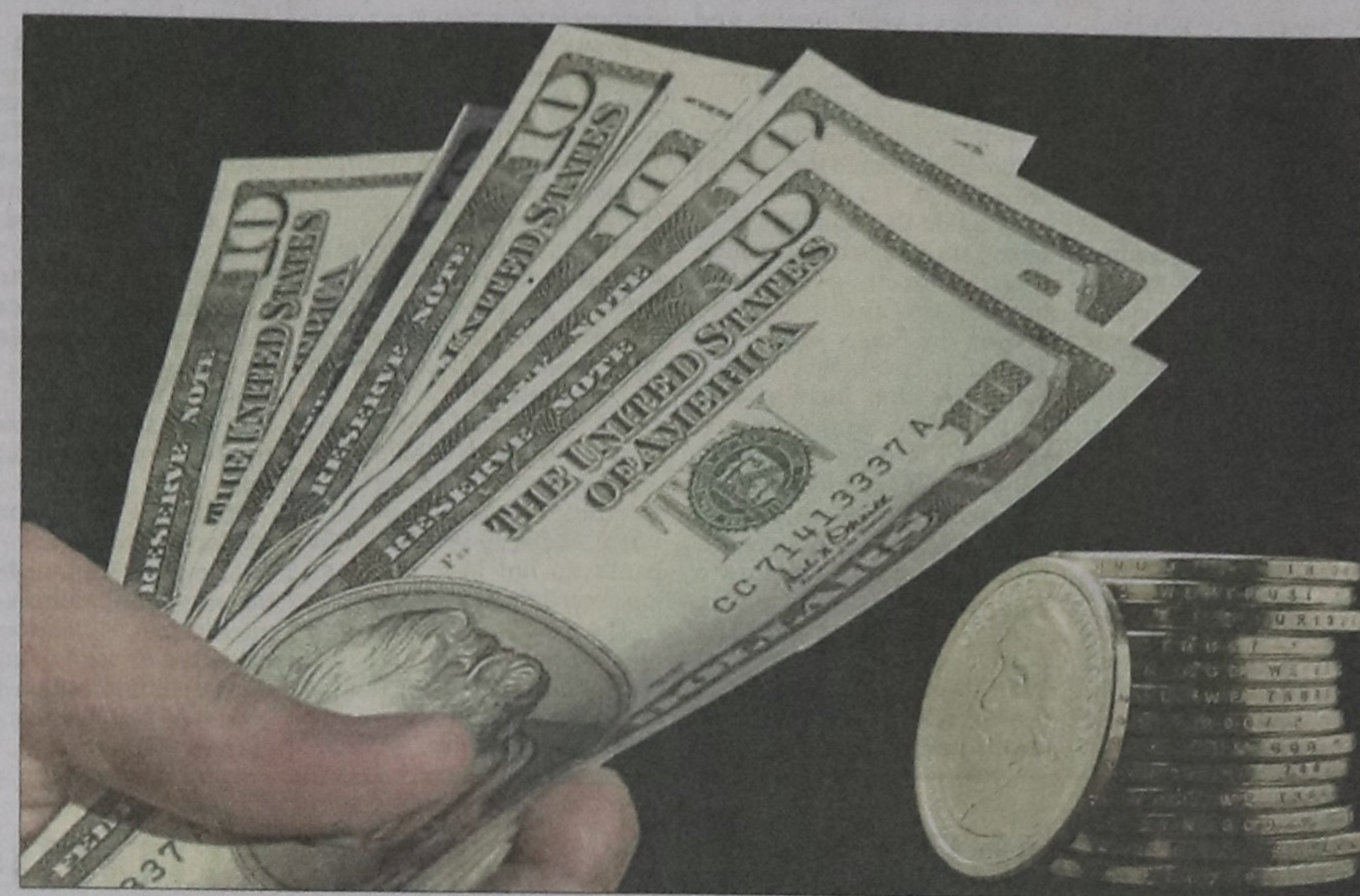
ANALYSIS

Dollar back in vogue

SOHEL PARVEZ

The US dollar is back in vogue and has put pressure on other major currencies euro and pound sterling and yen. Good news for the importers as they will find their imports cheaper.

But it is worrying for the exporters. They may face hurdles in maintaining competitive edge unless the taka weakens. Chances appear dim in near future.



Until August 26, dollar extended gains against euro and other major currencies like British pound and yen as the worries of economic recession in euro zone and other major economies such as Japan deepen on weak data.

The greenback, which was traded at $1.60 against a euro last month, stood at $1.4722 yesterday from $1.4653 the previous day amid profit taking by investors. A rebound in oil prices, persistent concern about the US economy also helped trigger the bout of profit-taking.

The US currency also lost against yen.

The taka remains stable against the dollar after gaining marginally in the third week of July. Taka added 0.42 percent to Tk 68.51 at the end of June 2008 over the end of June last year.

"Strengthening of US dollar means major currencies like euro, pound and yen are getting cheaper which would lower the cost of imports of capital machinery from those countries," said Mamun Rashid, a money market analyst.

So the possibility of a surge in the import of capital machinery, which declined 8.4 per cent last fiscal, cannot be ruled out, although worries are there about uncertainty in the political arena relating to the promised parliamentary election within this year.

Domestic consumers should also get a respite from the high prices of essentials such as edible oil, the price of which is also on the decline in the global market.

Thanks to the recent slide in oil price that has helped ease policy makers' tension much with a comfortable reserve, supported by healthy growth of remittance and export. Oil however gained yesterday.

"Unless there is a change in the external balance situation, there could be no major impact," said MA Taslim, chief executive officer of Bangladesh Foreign Trade Institute.

Inflow of remittances, hard-earned money of about five million Bangladesh people abroad, remains robust and it touched a record at US$7914.78 million in the fiscal year (FY) 2007-08, up over 32 percent from $ 5978.5 million a year ago.

Exports grew about 16 percent to $ 14,110.80 million last fiscal from $ 12,177.86 million in FY 2006-07, thanks to exporters' continued efforts to improve competitiveness in the global market.

Given the present trend of pressure for imports, bankers say, there is fewer possibility of a sharp surge in import payments that marked 26 percent rise to $20212.75 million last fiscal.

"I don't see any sudden change in the exchange rate in the foreseeable future," Taslim added.

Until Tuesday, the dollar also pushed other currencies such as Indian rupee down which may help cut import costs of rice and onion from India, Bangladesh's second biggest import destination.

"Import from non-dollar countries will slightly be better," observed a former central bank analyst, who preferred not to be named.

Unless there is a reduction in the oil price, raised up to 37.5 percent in July this fiscal, the possibility of a dampening effect on the inflation expectation seems to be marginal.

Exporters, mainly garment and knitwear makers, did not complain last fiscal much about the appreciation of taka as they enjoyed competitive advantage over the appreciation of yuan and other currencies.

But the recent gain of the dollar over euro on recession fear in the euro zone, which consumes over half of Bangladesh's exports, may affect knitwear, footwear and shrimp exporters.

It will also be difficult for both the groups exporting against euro and dollar. The traders exporting against euro will find their earnings lower.

Nasim Manzur, managing director of Apex Adelchi Footwear, one of the leading footwear exporters to Europe, said weakening of euro might hurt the earnings of those who are exporting to the EU.

Those exporters who are exporting against dollar may also be affected because Europeans will find dollar more expensive due to weak euro.

"It's not a good news. The gain of dollar will increase European buyers' import costs," said Fazlul Hoque, president of Bangladesh Knitwear Manufacturers and Exporters Association. "But the export earnings from the USA may be better."

The pressure on exporters also increases as the value of various Asian currencies such as Vietnamese dong and Sri Lankan rupee is depreciating, which, Mamun Rashid says, might result in increased competition in export arena.

"We need to maintain our exchange rate competitiveness or encourage the exporters in any other way, to ensure they compete well with their counterparts in Vietnam, Cambodia or Sri Lanka," Rashid said.

Exporters also expect a cut in the value of taka against dollar to cover the gap.

The central bank has yet to take any decision.

"We are keeping close eye on the movement of the greenback...The gain of the dollar may not sustain as the US economy has yet to regain," a senior official of the central bank said.

The official expects that there would be no major imbalance. "Export may be affected a bit but imports will be cheaper and put a dampening effect on inflation," he said.

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COLUMN

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Stocks, Sox and avoiding DSE investor shocks

There has been a great deal of focus in recent weeks on the sell-off in the DSE and whether the bull market for stocks is over or we are just in the midst of a more protracted correction. Rather than assess the near-term prospects for the stock market, in today's column, I wanted to highlight the critical role the stock market could play in offering an alternative, and likely cheaper, source of financing to companies to bank borrowing along with the necessary financial reforms to achieve this.

The stock market should be one of the primary mechanisms by which savers or investors, those with excess capital, provide financing to companies who have a capital deficit. One way of considering the valuation of an individual stock is as a claim on the future earnings of a company discounted for the value of time. The level of stocks is also affected by broad liquidity conditions in the economy, the level of interest rates and the macroeconomic outlook (which clearly affects the earnings outlook).

The level of individual stocks will also vary with investor expectations on the prospects for individual companies earnings as well as those for their sector overall. A well functioning financial system should also see equity investors play an important role in terms of market discipline rewarding the management of those companies who deliver good earnings growth/strong dividends growth and punish those companies who misuse or ineffectively use capital.

If the stock market is working effectively, it should also reward those companies with good corporate governance, openness and transparency by awarding them a premium in terms of higher price earnings (P/E) ratios.

On the other hand, the market should punish the management of companies who not only operate poorly in terms of generating earnings or the return on capital but also give investors either misleading or inaccurate information. This risk premium would be manifested in a valuation discount or low P/E versus other more transparent companies in the market.

An important role for stock market regulators is to ensure that there is transparency and a level playing field in the market, and that either companies or large investors do not trade on inside information. In increasingly complex markets, this requires substantial investment in market-monitoring technology. They also need to ensure that companies that raise capital in the market for the first time in an Initial Public Offering (IPO) do so on the basis of honest and accurate information about the state of the company's finances/balance sheet as well as the current and future prospects for the basis. A key role for market regulators should also be to ensure that companies ongoing reporting of their financial results is honest.

In terms of assessing what market reforms are considered priorities in other developing markets, it is worth considering two surveys done by consulting firm McKinsey and Co of both 40 policymakers from 20 countries as well as 201 investors from more than 30 countries. Although the survey was done in 2002, the results are still relevant for an emerging capital market like Bangladesh.

McKinsey notes governance reformers need to devote more emphasis to driving change through institutional reform of capital markets - and the underlying structure of property rights - to complement practical improvements to governance at the corporate level.

Secondly, the importance of family owned businesses in emerging markets should be recognised more explicitly. Without incentives to change, they could continue to act as a major obstacle to reform. Institutional reform could provide some of these incentives. Enabling family owned businesses to adopt a sequence of incremental changes could help them share in the benefits of reform.

The stock market should be one of the primary mechanisms by which savers or investors, those with excess capital, provide financing to companies who have a capital deficit.

As I have highlighted above, if Bangladesh is to develop an effective capital market, where valuations are driven by economic and corporate fundamentals, it is important for the regulators to ensure that companies report genuine financials and on a timely and systematic basis. Any lack of transparency or honest accounts will undermine both investor confidence and the effective functioning of the market.

As there is greater fundamental research in the marketplace, Bangladesh also needs to develop a framework to avoid analyst conflicts of interest. A lack of fundamental analysis is a recipe for a speculative capital market that is news-driven and an inefficient allocator of capital to the corporate sector. But one needs to recognise the need for effective regulations to avoid market manipulation and insider trading.

The United States, the largest and most sophisticated economy and capital market in the world, suffered accounting scandals as recently as 2002. Worldcom overstated its results by $ 3.9 billion resulting in bankruptcy. Energy trading giant Enron suffered a similar fate. This followed the bursting of the Tech bubble in 2000 when many internet stocks were artificially boosted by analysts publishing glowing reports that exaggerated the positive fundamentals to get more investment banking/IPO business for their capital markets decisions.

As a result, the US Congress passed a bill, Sarbannes-Oxley (popularly known as "SOX").

Among other things, it established the Public Company Accounting Oversight Board, to provide independent oversight of public accounting firms providing audit services ("auditors"). It forced company CEOs and auditors to personally sign and imposed substantial penalties for false reporting or manipulation of accounts. It also legally mandated substantially greater resources to the SEC to ensure they had the capacity to enforce the more complex rules.

The arrival of the Grameenphone IPO and the prospects for a number of large issues in the pipeline from telecoms, privatisations and infrastructure all bode well for the growth of the capital markets. But more significant progress in corporate governance and accounting transparency is an important objective for both the current and the next government. It may be time for Bangladesh to consider its own version of SOX.

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