International Business News

Japan's Nomura to buy Lehman Asian operations

AFP, *Tokyo*

Top Japanese brokerage group Nomura Holdings has won a deal to buy the entire Asian operations of failed US investment firm Lehman Brothers Holdings, two sources said on Monday.

"It should become official later today," one of the sources told Dow Jones Newswires, declining to specify the amount Nomura will pay.

Standard Chartered PLC and Barclays PLC also placed bids for the assets, but Nomura offered the highest price, a second person said.

The assets include all of Lehman's operations in Asia, where it employs about 3,000 people.

A Nomura spokesman declined comment and said there was no immediate plan for any announcement on the issue.

Separately, Nomura and Barclays are contending for Lehman's European operations, a person familiar with the matter has told the news service.

Japan's Jiji Press also reported that Nomura had proposed to buy both the Asian and European units of Lehman.

Investors welcomed the reports.

Shares of the Japanese firm ended up 9.58 percent, outperforming the headline Nikkei index of the Tokyo Stock Exchange, which gained 1.48 percent.

Philippine lender files rehab move for Lehman units

AFP, *Manila*

The Philippines' biggest lender said Monday it had asked a local court to place under rehabilitation two local units of collapsed US investment bank Lehman Brothers.

The Metropolitan Bank and Trust Co. (Metrobank) said the move was meant to ensure that both companies continued to operate normally "and defer all claims, actions and proceedings against them."

"This creditor-led rehabilitation is a preemptive move to protect the bank against possible dissipation of assets by foreign claimants," Metrobank executive vice president Vicente Cuna said in a statement.

Metrobank has a loan exposure amounting to 2.4 billion pesos (51.6 million dollars) to the two Lehman units -- Philippine Investment One Inc. and Philippine Investment Two Inc.

While both companies were currently operating normally, they could suffer setbacks in meeting financial obligations amid pressure from other creditors, Metrobank said.

It said it was confident it would recover its exposures in the two asset management companies, which are engaged in investing in non-performing assets of financial institutions.

AFP

Two tellers wait for clients at the Metropolitan Bank and Trust Co (Metrobank) in Manila, the Philippines' largest lender, yesterday. Metrobank says it had asked a local court to place under rehabilitation two local units of collapsed US investment bank Lehman Brothers as a pre-emptive move to protect them against foreign claimants.

Russia's top investment bank eyes global expansion

AFP, *Moscow*

Russia's biggest investment bank on Monday said it would take advantage of global financial turmoil to expand internationally after unveiling a partnership with one of Russia's top tycoons.

"We have developed an ownership model and partnership which will give us the capital strength and the liquidity to fully exploit this unique global opportunity," said Stephen Jennings, chief executive of the Renaissance Group.

He was referring to the banking group's deal with the Onexim investment fund of billionaire Mikhail Prokhorov.

Prokhorov said Onexim had bought a 50-percent stake in Renaissance Capital for 500 million dollars (343 million euros) in a deal brought on by Russia's stock market collapse last week.

"We've been negotiating for several months. The problems of the global economy sped up the talks... Together with our partners we are ready for major expansion," including in Western markets, Prokhorov told reporters in Moscow.

ECB renews loan offer of $40b

AFP, *Frankfurt*

The European Central Bank renewed its offer of 40 billion dollars (27.6 billion euros) in one-day loans, it said on Monday, adding that banks had bid for more than double that amount.

More than two thirds of the funds were allotted at a favourable rate of 3.25 percent, an ECB statement said, as markets braced for a new week of financial uncertainty.

The central bank's benchmark lending rate currently stands at 4.25 percent.

A total of 48 bidders had sought 82.105 billion dollars, the statement said.

The ECB and the US Federal Reserve have established a new currency swap to provide European banks with access to dollars amid tension fuelled by the collapse of the investment bank Lehman Brothers and a US government bail-out of insurance giant AIG.

EID SHOPPING

Tailors face slack time

SOHEL PARVEZ

Mannequins show off new trendy designs in air-conditioned, cosy readymade garment stores. The approaching Eid festival offers them the privilege of taking a new look quite frequently to pour a buzz into the young minds.

Today's craze for a man is shirts and trousers that fit him the best. For women, it is a short kameez and 'piped' salwar. All are either bought readymade or made by tailors or seamstresses in the hectic hours ahead of the Eid.

The battle between the readymade and tailor-made clothes has intensified, although tailoring workrooms, mainly for men's wears, appear losing their foothold. Many still keep their order books open for Eid delivery.

"I received around 1,300 orders for making clothes during the Eid festival last year. But it appears difficult to get as many orders this year as I have received around 700 orders so far," said Mohammad Sanahullah, owner and tailor-master of Anamika Tailors and Fabrics at Bakushah Market in Nilkhet, Dhaka.

"It seems I will have to continue taking orders until September 25," he said.

Tailoring houses did brisk business last year as winter coincided with the Eid, resulting in increased orders for making suits.

Things have changed a bit this year, as the Eid is coming far ahead of the winter, the main business season for tailors.

During the Eid season this year, except for a few branded tailoring houses, most report a slowdown in business due mainly to erosion in people's purchasing capacity and a rise in the numbers of readymade garment shops and boutiques.

These shops with stylish dresses that bear the testimony of local culture and heritage and the trend of Bollywood and the West are now attracting a section of customers in the city areas due to a wide array of options and choices available there.

Sector people said customers, mainly men, now like to buy readymade clothes instead of tailor-made ones to save time and avoid hassles of repeating visits to get the delivery of dresses.

Consumer sentiments over the quality of fabrics and tailoring arts have also cast a dampening effect on the tailoring business, they added.

The result is, tailor-made men's wears are being showcased for ready sale at the leading tailoring houses. Now the leading branded tailoring houses such as The Raymond Shop, Fit Elegance and Elegant are displaying their own tailor-made items at their shops.

"We haven't yet fully shifted our focus to tailoring. As peoples' interest to readymade clothes is increasing, we are bringing in these dresses more," said Toriqul Islam, an executive of The Raymond Shop.

Islam however said the company, the franchisee of Indian Raymond, recorded around 20 percent rise in orders for tailoring this season.

"Days are coming when people will prefer readymade dresses to tailored ones," he said, citing the trend in India.

Mosharrof Hossain Khan, owner of Elegant Tailoring, Readymade Garments and Fine Clothes, said his shop received good response from the customers for both the tailored and readymade clothes.

"Sales of readymade clothes in my shop have almost doubled this year," he said.

But this is not true for many small tailoring shops.

Officials at different tailoring houses also said customer's response to tailored clothes during this season was less than expected. Tailors in the Elephant Road and Ramna Bhaban areas echoed the same.

But demand for women's tailored clothes is still high, as women prefer tailor-made dresses to readymade ones.

"It's the question of proper fitting. Customers may switch to other options if they get properly-fitted dresses at reasonable prices," said Khalid Mahmood Khan, director of Kay Kraft, one of the leading boutiques.

"But tailoring shops will run on their own legacy. And those tailors who adopt technology on fine finishing will do well," he said.

Ashrafun Siddiqui Dora, co-founder of the country's one of the oldest readymade clothes retailers Cats Eye, attributed the increase in demand for readymade clothes to a change in people's lifestyle and tastes.

"During 80s, there were a few readymade clothes retailers except us. But the number is increasing at a rapid pace now due to change in people's life-style," she said, adding that eventually people will shift to readymade garments.

Dora said tailors will remain as speciality shops dedicated to making serwanis and suits.

"The only hope now is suit tailoring as its demand is rising compared with other dresses," said Selim Ahmed, owner of Progoti Tailors and Fabrics at the Bakushah market.

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AMRAN HOSSAIN

A tailor cuts cloth at a shop in Dhaka yesterday.

COLUMN

MAMUN RASHID

Subprime to liquidity crunch: Lessons learnt

For more than a year we have been hearing about the subprime crisis where predatory lending in real estate sector and its associated leveraged structured products has brought in losses to many global banks, mostly US based though.

The total loss of all the banks from this crisis was reported to be well above US$500 billion. However in last two weeks things fell apart like anything. While multi-hundred-point gyrations in the US equity market grabbed the media headlines, credit borrowing and lending -- the basic functions of finance, on which the real economy of producing, buying and selling depend to function from day to day -- came close to breaking down.

Nothing compares with what's happened in the past fortnight.

The US government bailout of Fannie Mae and Freddie Mac, as announced on September 7, was no surprise. It had been foretold on another balmy Sunday evening in mid-July, and became inevitable as the government-sponsored enterprises' ability to finance themselves was called into question.

But the Treasury bailout of Fannie and Freddie failed to stop the downward spiral. The following Sunday, Treasury Secretary Hank Paulson and Federal Reserve Chairman Ben Bernanke declined to help fund a takeover of Lehman Brothers, as the central bank had done with JPMorgan Chase's acquisition of Bear Stearns in March. Lehman was left with no choice but to file for bankruptcy the following day.

Faced with the possibility it could meet a similar fate, Merrill Lynch rushed to merge with Bank of America. Merrill Lynch had always been fiercely independent, unlike Lehman or Morgan Stanley. (Remember their respective divorces from American Express and Dean Witter?) But getting $29-a share was a lot better than the $10- Bear Sterns got, and the zip Lehman received.

Yet the prospect of failure by American International Group (AIG) posed a bigger risk. AIG has a monstrous $1 trillion balance sheet and its tentacles were everywhere, as New York Governor David Paterson characterised the reach of the nation's largest insurer.

Tuesday afternoon, the Federal Open Market Committee (FOMC) opted to hold its key target rate for federal funds unchanged, at 2%, confounding expectations of a cut by Fed watchers and the futures market. The reasoning would become apparent that evening. The central bank decided to provide a massive $85 billion loan to AIG at stringent terms, and an equity stake of 79.9%, the same as Treasury got for bailing out Fannie and Freddie.

But even that didn't calm the markets. Strains worsened after a major money market fund "broke the buck" -- that is, saw its share price fall below the sacrosanct $1.00-a-share level -- and suspended redemptions.

This was the result of unintended (but foreseeable) consequences. The money fund held Lehman paper, which it wrote down to zero, knocking its net asset value (NAV) to 97 cents. Holders, who had assumed they would always get a dollar out for every dollar they put in, bolted for the exits.

This was especially the case of institutional money funds, which yanked $173 billion out in the week ended Wednesday, most of it that day. Instead, these investors fled for the safety of T-bills, sending their yields to virtually nil.

The tide ultimately was turned Thursday afternoon, after news reports indicated Washington was cooking up a massive scheme: A plan recalling the Resolution Trust Corp., which worked out the savings-and-loan failures of the late 1980s and 1990s, was in the works.

By Friday morning, it was official. Treasury Secretary Paulson announced that the plan would involve "hundreds of billions" of taxpayers' dollars to buy up bad assets.

In addition, the Treasury would provide insurance for money funds analogous to FDIC backing for bank deposits. That was aimed at stopping the modern-day bank run on the money funds and thus alleviating the strains on the money market.

The Fed, for its part, also instituted an array of new lending facilities to stop the crunch. And, the SEC called a halt to short sales of financial stocks, unheard of for last several years, if not decades. That came in reaction to the wholesale selling of icons such as Goldman Sachs and Morgan Stanley. But their credit default swaps-derivatives insuring the credits of the investment banks-cratered to levels that implied imminent bankruptcy. Sellers of credit protection hedged their position by shorting the stock. The resulting plunge in the stock further tightened the credit vise.

The government's actions did help address the liquidity crisis, for the time being. Stocks soared Thursday and Friday, and the strains in money markets eased. But the crux of the crisis remains. Lenders can't lend while they're laden with underwater, illiquid assets and can't raise capital.

The US government may have put out the fire. The rebuilding lies ahead. We must also be vigilant of the impact of the global events on Bangladesh finance and economy. The commercial banks in Bangladesh have about US$500 million worth of foreign currency deposits which are lying with various foreign banks overseas, mostly in the US.

In addition to that, the central bank has about US$ 5.5 billion of reserves. Of these reserves, a significant amount is in USD or USD denominated assets (mostly in US Treasury Bonds). Apart from those, Bangladesh financial sector has very little exposure as the instruments used are mostly deposits and US Treasury bills for central banks. We do not hold any US corporate bonds.

However, we may not face severe credit exposure, but in case of systemic failure, we would be exposed to liquidity risk, which may affect our performance in making cross border payments. Acute systematic crisis may also dwindle investor confidence and cause a slowdown to US economy. This might also trickle down to our economy mostly through reduction of exports and remittances.

The lesson for now is that even the freest economy would require intervention to survive. But the thing that needs to be focused is the risk management process of the banking industry as well as the culture where corporate greed and lack of engaged and forward looking leadership can result in such a catastrophe.

At the same time, all these crises have put the 'monoline' investment banks under long term survival threat and made 'universal banking model' the 'life saving drug' for global financial conglomerates.

AFP

The picture shows the Treasury Department building in Washington, DC. The US Treasury unveiled details of the government's unprecedented $700 billion bailout plan for the US financial sector in the worst market crisis since the Great Depression.

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