Star Business

DHAKA SUNDAY DECEMBER 20, 2009

Stocks

DGEN	▲ 0.99%	4,393.64
CSCX	▼ 1.16%	8,265.08

(Week-on-week)

Asian Markets

MUMBAI	▼ 1.03%	16,719.83
TOKYO	▼ 0.21%	10,142.05
SINGAPORE	▼ 0.38%	2,802.59
SHANGHAI	▼ 2.05%	3,113.89

(Friday closings)

Commodities

Gold	▼	$1,104.50 (per ounce)
Oil	▲	$74.69 (per barrel)

SOURCE: AFP (As of Friday)

News in Brief

Seven more banks shut down in US

AP, *Washington*

US regulators have shut down two big California banks, as well as banks in Alabama, Florida, Georgia, Michigan and Illinois, bringing to 140 the number of US banks brought down this year by the weak economy and mounting loan defaults.

The Federal Deposit Insurance Corp took over all seven on Friday.

As the economy has slumped, with unemployment rising, home prices tumbling and loan defaults soaring, bank failures have accelerated around the country.

The 140 bank failures are the most in a year since 1992 at the height of the savings-and-loan crisis. They have cost the government-backed deposit insurance fund - which has fallen into the red -- more than $30 billion so far this year. The failures compare with 25 last year and three in 2007.

The FDIC expects the cost of bank failures to grow to about $100 billion over the next four years.

Banks have been especially hard hit by failed real estate loans, both residential and commercial.

GM sets end of road for Swedish brand Saab

AFP, *Washington*

General Motors said Friday it would shut down its Swedish auto brand Saab after talks failed to produce a buyer for the money-losing unit.

GM said in a statement it failed to reach an agreement with Dutch sports car maker Spyker on a sale of the division. This followed the withdrawal of a bid last month from Swedish sportscar maker Koenigsegg Group AB.

The Detroit automaker said that it had been in talks with Spyker but that "during the due diligence, certain issues arose that both parties believe could not be resolved."

"Despite the best efforts of all involved, it has become very clear that the due diligence required to complete this complex transaction could not be executed in a reasonable time," GM Europe president Nick Reilly said.

Reilly said that Saab "needed a quick resolution" to continue operations.

AMRAN HOSSAIN

Women gather at a bridal festival and jewellery exhibition at Radisson Water Garden Hotel in Dhaka yesterday. The three-day show that ends today has come up with bridal dresses, jewelleries, appliances and furniture, cosmetics, cars, travel and tour services, beauty care and personal wedding loans.

Move on mutual fund loans draws mixed reactions

SEC's new decision effective from today

SARWAR A CHOWDHURY

The new criteria fixed by the stock market regulator for margin loans for mutual funds have drawn mixed reactions from fund managers, investors and an academic.

The fund managers and investors fear that the new criteria will send wrong signals to market. But some experts said the restriction is a timely initiative to cool down the overvalued mutual funds.

The Securities and Exchange Commission (SEC) on Thursday announced the new criteria for margin loans against mutual funds after around two months of suspension.

The regulator said mutual funds must trade in a limited range to qualify for margin loans. The funds that trade 7.5 percent higher than their latest NAV (net asset value) will not qualify for the loans. It means if a mutual fund has Tk 100 in NAV per unit and trades only up to Tk 107.50 (7.5 percent higher than NAV), margin loans can be approved for the fund.

The decision will come into effect today.

The market trend shows the mutual funds usually trade 20 percent higher than their NAV, Moin Al Kashem, managing director of Prime Finance Asset Management Company, told The Daily Star yesterday.

"More or less, it's a decision of not allowing margin loans for investment securities or mutual funds," he said.

The regulator's new decision will hinder the growth of the mutual fund segment, said another asset manager, seeking anonymity. "The investors will be discouraged to spend in the sector," he said.

Some fund managers and investors have questioned the theoretical basis for the new criteria.

A few days ago, the regulator fixed the price-earnings ratio at 75 for margin loans against equity shares.

The fund managers see the new condition for loans against investment securities as an arbitrary decision.

Margin loans for any security are based on the relationship between a loan provider and a customer, said one of the fund managers.

Salahuddin Ahmed Khan, former chief executive officer of Dhaka Stock Exchange, said: "It's a smart decision by the SEC, as it will make corrections in prices of overvalued mutual funds."

"Overpricing is not sustainable. It must see price correction," said Khan, a professor of finance at Dhaka University.

SEC Chairman Ziaul Haque Khondker could not be reached for comment despite repeated attempts.

Many retail investors said only a few mutual funds will qualify for margin loans with the newly imposed condition.

Even if some mutual funds are still eligible for margin loans, they will not qualify for the loans after a price hike, they said.

It will send a negative signal to the investors and may create volatility in the mutual fund segment, they said.

A retail investor, Alam, who gave one name because of the sensitivity of the issue, said: "It's unfortunate that the most tradable mutual funds will not get margin loans."

Currently, a total of 19 mutual funds are listed and being traded on the bourses with their combined issued capital of around Tk 500 crore.

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Banks' excess liquidity ebbs

SAJJADUR RAHMAN

Banks' excess liquidity came down by nearly Tk 800 crore in the July-September period, showing a slight improvement in sluggish investment.

Surplus liquidity of the scheduled banks stood at Tk 33,995 crore at the end of September 2009, compared to Tk 34,762 crore a quarter ago, Bangladesh Bank (BB) statistics show.

Top bankers however said liquidity dropped because of greater bank investment in government securities, not because of commercial lending.

"Banks are investing their money in different government securities and bonds," said Shahjahan Bhuiyan, managing director of United Commercial Bank.

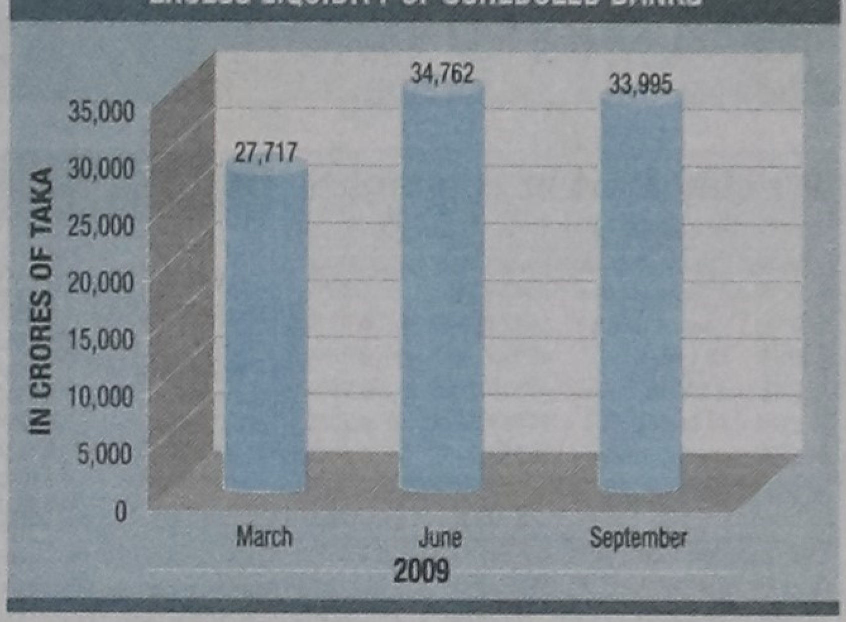
Part of the reason is, banks are increasingly funding raw material imports and capital investments, said Anis A Khan, managing director of Mutual Trust Bank.

"Financing the import of industrial raw materials and capital investments are also rising," Khan said yesterday by phone from abroad.

Investment has been on the decline, hurt by the global financial slowdown and domestic energy crisis, since the third quarter of 2008. Banks' excess liquidity has since been soaring, showing signs of sluggish investment demand.

Excess liquidity, which was less than Tk 13,000 crore in June 2008, almost trebled to Tk 35,000 crore in June 2009. So banks are flocking to government securities to get some returns.

EXCESS LIQUIDITY OF SCHEDULED BANKS



There are a good number of government bonds in the market with maturity periods ranging between 6 months to 25 years. Interest rates on these securities range between 5 percent to nearly 15 percent, based on maturity.

Bankers are also unsure whether industrial term-loans played any role in improving the gloomy investment scenario.

Data shows industrial term-loans rose by nearly Tk 450 crore in the July-September period from the same period last year.

"The figure is not significant compared to the size of our economy," said Shahjahan Bhuiyan, who is also a vice chairman of the Association of Bankers Bangladesh, a platform of private bank managing directors. "Where is the credit going?"

"Is it going towards infrastructure, rehabilitation and maintenance of existing industries or loan rescheduling?" said the UCB managing director.

Bhuiyan however said the investment scenario is improving by the day.

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Spices lose export edge

SOHEL PARVEZ

Spice exporters are losing out to Indian and Pakistani competitors because of rising costs of basic raw materials procurement.

"Our spice exports are being affected by a rise in production costs. New orders for spice have slowed recently," said Khurshid Ahmad Farhad, export manager of Square Consumer Products Ltd, a leading spice exporter.

"Some buyers are now slashing orders while others are waiting for a drop in prices," he added.

Exporters said they faced difficulties in retaining buyers in the last two months after they increased prices to cope with the rising prices of raw materials, such as turmeric, red chillies, cumin and garlic.

"We bought turmeric at Tk 78 a kg in March. But the price has almost doubled now," said Farhad. "Turmeric fills a major portion of our export basket. But the price hike has dampened demand."

Spices that account for about 6 percent of export earnings from agro-processed foods, which was worth $4.66 crore in fiscal 2008-09 and posted growth in the last three years, are struggling to remain competitive.

In fiscal 2008-09, export earnings from spices grew by about 17 percent to $29.68 lakh from $25.41 lakh a year ago, according to Bangladesh Agro-Processors Association data.

Exporters said non-resident Bangladeshis and migrant workers in the Middle East, North America, Australia, the Far East and Europe, are the major consumers of agro-processed foods and spices.

"The main consumers of Bangladeshi spices are migrant workers in the Middle East. They are highly price-sensitive," said Farhad.

Officials said India and Pakistan are Bangladesh's main competitors in the spices segment.

"The prices of spices form our competing countries did not increase because of the relatively lower prices of basic raw materials in those countries."

Kamruzzaman Kamal, marketing director of PRAN-RFL Group, a leading food processor and exporter, said spice exports dropped by more than 20 percent in the last two months.

The production costs of both normal and blended spices, much of which are processed from imported raw materials, such as cumin and cardamom, have increased since September, he said.

Referring to importers, Kamal said the cost of imports of various basic raw materials for blended spices have increased, resulting in a rise in the cost of production.

"High value blended spices generate much our exports earnings. But the current price hike erodes our competitiveness," he said.

To help maintain export competitiveness, he sought a government move to relax import duties and taxes on raw materials of high value spices.

"It will benefit the general people as well as exporters."

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BB clarifies farm loan rescheduling

BSS, *Dhaka*

Bangladesh Bank (BB) has clarified the criteria for rescheduling short-term farm loans to remove confusion among bankers and farmers.

The monitoring team of the central bank has recently observed that farmers face problem in rescheduling their short-term loans, as bankers were not sure whether they could offer farmers the facility under the present criteria.

The criteria say farmers can reschedule their long-term loans by paying a certain amount in down payment.

In a recent circular, BB said the farmers would be allowed to reschedule their short-term loans under the same criteria of the long-term loan rescheduling.

According to the circular, farmers now can reschedule their short-term loans for the first time by paying 15 percent of the default instalment or 10 percent of the outstanding loan.

For subsequent rescheduling, they will have to pay 30 percent of the default instalments or 20 percent of the outstanding loan.

The farmers can reschedule their loan three times. For a third time, they should pay 50 percent of the default instalments or 30 percent of total loan.

The down payment must be paid in cash before submitting application for loan rescheduling.