Star Business

DHAKA WEDNESDAY AUGUST 25, 2010

Stocks

DGEN	▲ 0.54%	6,777.95
CSCX	▲ 0.28%	12,967.93

IDLC Index

IDLC 50	▲ 0.38%	6,813.09

Subject to Conditions contained in www.idlc.com

Asian Markets

MUMBAI	▼ 0.53%	18,311.59
TOKYO	▼ 1.33%	8,995.14
SINGAPORE	▼ 0.11%	2,922.85
SHANGHAI	▲ 0.41%	2,650.31

Currencies

	Buy Tk	Sell Tk
USD	68.89	69.89
EUR	85.53	89.72
GBP	105.02	109.38
JPY	0.79	0.85

SOURCE: STANDARD CHARTERED BANK

Commodities

Gold	▲	$1,226.00 (per ounce)
Oil	▼	$72.23 (per barrel)

SOURCE: AFP (Midday Trade)

SEC aims to calm market, irks brokers

SARWAR A CHOWDHURY

The stockmarket regulator yesterday again tightened margin-loan criteria in an effort to calm overheated bourses, but the brokers and bankers are miffed.

"The market is floating on excess liquidity, and it is getting overheated day by day," said Anwarul Kabir Bhuiyan, executive director of SEC. "The revised loan criteria will hold back the liquidity flow."

Credit providers say the move is so technically flawed that margin loans might as well not exist. "It would be better not to provide any margin loans to the investors," said one merchant banker, requesting anonymity.

The Securities and Exchange Commission (SEC) told margin-loan providers to follow a "net asset value" (NAV) calculation for new margin buys of stocks and for portfolio maintenance.

An NAV margin calculation limits the credit of a merchant bank, or a stockbroker can provide to the value of a stock as determined by adding the market value to NAV and dividing the sum by two.

For example, if an investor buys 100 shares at market price of Tk 1,000 each -- totalling Tk 1,00,000 -- and the company's NAV per share is Tk 500, the value for a margin-loan buy will be Tk 750 [(Tk 1,000 + Tk 500)/2]. The investor can then buy another 75 shares of the company on margin, explained Bhuiyan.

Previously, the computation applied only to margin-loan maintenance, a system that kept a balance between an investor's margin loan and his stock portfolio's current value, comparing the unpaid share with that which was paid.

Those whose loan exposure exceeds the new ratio will have to conform by September 30, he said, adding that the watchdog will discuss the situation with the merchant bankers and stock exchanges on Sunday.

The merchant bankers, however, said the NAV-based computing is complex and hard to implement given their existing systems.

The majority of margin-loan providers say they have no software to determine stock value based on NAV, and a manual calculation would reduce the existing loan ratio by half.

The merchant banks and stock brokers can provide credit at a 1:1 ratio, meaning if an investor has shares worth Tk 1, he/she will get Tk 1 loan.

"Most of the stocks in the Bangladesh's market trade at multiples of NAV, and in most cases investors will get half of their stocks value as loan," said a merchant banker.

"Even if we provide the loan manually as per the new method, we will be non-compliant from the very next day, as loan maintenance will come into effect by then," he said.

It will push almost all the investors to either sell off their holdings on the day after stock prices drop if these are purchased using margin loans, or to immediately put more cash as collateral.

For example, an investor asks his broker to buy a share of a company at Tk 150, using Tk 100 as his own money and Tk 50 as margin loan.

If the company's NAV is Tk 80, and the value of the stock is unchanged on the next day, the trader will be in danger that will cause a trigger sale.

The broker must calculate the market value to maintain the margin requirement not at Tk 150, but at Tk 115 [(Tk 150 + Tk 80)/2]. The equity of the client now stands at Tk 65, showing a margin ratio of 65 percent [Tk 115 - margin loan Tk 50 = Tk 65].

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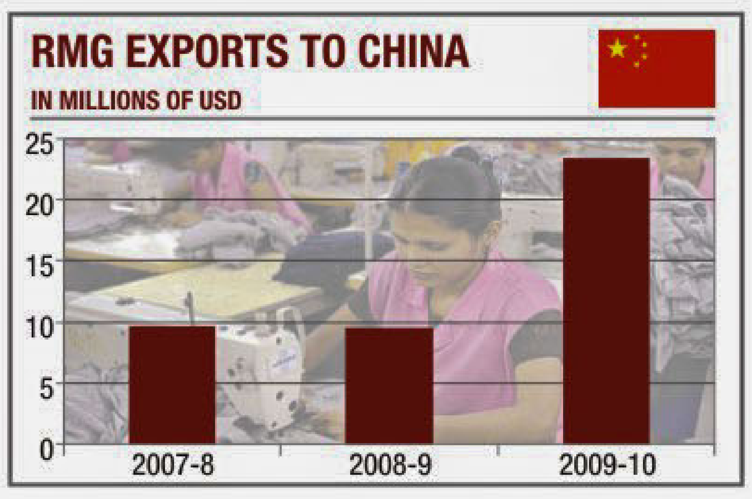
Great leap for garment exports to China?

REFAYET ULLAH MIRDHA

Garment exports to China -- which soared in the last fiscal year -- may grow even faster as the world's largest apparel supplier starts allowing duty-free access to Bangladesh in July.

China recently began to shift its manufacturing focus to hi-end apparel items, and other industries. Basic garment factories are retooling or shutting down due to shortages of low-wage workers, rising production costs and labour unrest, said exporters.

Primary data from the state-run Export Promotion Bureau (EPB) showed that Bangladesh exported knitwear products to China were worth $23.5 million in fiscal 2009-10 -- a whopping 148 percent jump -- in the 12 months ending June 30, 2010.



KI Hossain, owner of a local buying house, said he expects garment exports to China to jump even more after July 1, when the Chinese government started allowing duty-free access to Bangladesh.

Granted, last year's growth was on a small base -- less than 1 percent of total RMG exports. "Until now, we did not export apparel items in bulk amount to China," Hossain said.

China now provides zero-tariff treatment to 4,762 Bangladeshi product categories. China will also phase-in the zero-tariff for 95 percent of the remaining product types exported to China. By the end of this calendar year, 60 percent of the products enjoy zero-tariff treatment, the Chinese embassy in Dhaka confirmed to the commerce ministry on July 4.

But Bangladesh will have competitors in trying to clothe the world's most populous country. China will also be open duty-free to Afghanistan, Nepal, Ethiopia, Kenya, Liberia, Mali, Madagascar, and the Democratic Republic of Congo, Burundi, Malawi, Mozambique, Benin, Togo, Uganda, Zambia and four other nations.

Bangladesh exported apparel, accessories, knit, crochet and non-knit worth $19 million and other textile items, sets, worn clothing of $3.6 million in 2009-10, according to the EPB data. But exports of woven garments declined to $4.1 million in 2008-09 from $6.6 million a year ago.

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Milk Vita churns out record profit

UNB, Dhaka

Bangladesh Milk Producers' Co-operative Union Ltd, popularly known by its brand name Milk Vita, has earned a record profit of Tk 16 crore in fiscal 2009-10.

The company produced 7.24 crore litres of liquid milk from its local cooperatives during the period.

FDI makes a comeback

REJAUL KARIM BYRON

A positive trend has appeared in foreign direct investment in Bangladesh, which observers see as a result of gradual easing of global recession and improved investor confidence.

Bangladesh Bank data show a 22.62 percent rise in FDI in the second half of the last fiscal year.

During January-June, the net FDI inflow reached $439 million from $358 million in the same time a year ago (2008-09).

However, the first half of the last fiscal year (2009-10) witnessed a 66 percent drop in FDI.

Due to this negative growth, FDI fell around 34 percent during the entire fiscal year 2009-10.

On a better FDI flow, Executive Director of the Centre for Policy Dialogue Mustafizur Rahman said, "We still do not know how and where it increased, but if the trend continues in the current fiscal year it can be said that the increase is sustained."

A central bank high official pointed to the prevalence of FDI sluggishness in Bangladesh as elsewhere in the world because of recession.

Another Bangladesh Bank official said Bangladesh's overall investment suffered in 2007.

He also pointed out that the following year investments started picking up because a political government assumed power after the 2008 polls.

In the year, the recession worldwide showed signs that it was easing, the official said.

In FY 2009-10, the private sector credit rose to 24 percent from only 14 percent the previous year.

The central bank high official said FDI is also picking up gradually.

World Bank senior economist Zahid Hussain said the improvement in FDI flow during January-June may be reflecting improved investor confidence in Bangladesh.

Rising wages in China and India may also have induced some to shift investments to Bangladesh. "Yes, we've acute energy shortages, but it is not unique to Bangladesh."

An official of the Board of Investment (BoI) said FDI in Bangladesh is still low compared to neighbouring countries.