Star Business

DHAKA THURSDAY OCTOBER 21, 2010

Stocks

DGEN	0.60%	7,522.38
CSCX	0.62%	14,077.66

IDLC Index

IDLC 50	0.61%	7,376.61

Subject to Conditions contained in www.idlc.com

Asian Markets

MUMBAI	0.56%	19,872.15
TOKYO	1.65%	9,381.60
SINGAPORE	0.41%	3,179.15

Currencies

	Buy Tk	Sell Tk
USD	69.90	70.90
EUR	94.57	99.13
GBP	108.11	113.09
JPY	0.84	0.91

SOURCE: STANDARD CHARTERED BANK

Commodities

Gold	$1,343.00 (per ounce)
Oil	$80.43 (per barrel)

SOURCE: AFP (Midday Trade)

Hedging rules shift into focus

SAJJADUR RAHMAN

Bangladesh Bank's (BB) strict regulations on hedging of commodities have deprived local businessmen and consumers of taking advantage in the volatile global commodity market.

In the case of cotton, the price, which has increased to a historic high -- $1.43 per pound -- in recent days, has affected the local apparel manufactures badly. In many cases exporters are not taking orders sensing the uncertainty on the global cotton market.

Hedging that is about fixing future price, is very popular in today's business world. All the major commodities such as rice, oil, sugar, cotton and wheat are hedged on the global market. The buyers of these commodities minimise the risks of losses, as much as possible, by booking future deals.

Though almost all the countries in the world have allowed hedging, Bangladesh is a bit different in this case. The regulator, BB, has allowed conditional hedging of commodities just one and a half years ago. Businessmen who want to hedge have to take prior approval for each case from the central bank.

Businessmen and bankers said taking approval is a lengthy process and the future commodity markets can witness steep ups and downs within the time.

"BB should allow hedging of commodities without its approval. The regulator can only set a ceiling for hedging the quantity," said Monowarul Hoque, a textile miller who seeks to hedge cotton.

He predicts knitwear exporters will have to bear extra cost for a significant rise in cotton prices. Local spinners or textile millers import cotton for producing yarn, which is sold to local garment manufacturers.

According to textile millers, Bangladesh imports 50 lakh bales of cotton annually worth nearly $2 billion at $400 per bale. A consumer of cotton can save a huge amount of money by hedging, meaning that he will buy it when the market is downward. One US dollar reduction in per bale prices can save the country $5 million.

Cotton prices started rising in July on a post-recession rebound in demand. When floods in Pakistan and heavy rains in China wiped out parts of the major producers' harvests, futures pushed past the $1 a pound level, as traders feared a worldwide shortage.

The Chinese buying spree has recently caused for a further jump in the cotton price. It was traded at $1.43 per pound on Tuesday.

Cotton is a single case. There are lot more commodities, including edible oil, sugar, rice and wheat, that witness volatility on the local market and can be bought by hedging. Metal is also a popular item on the global hedge market. Standard Chartered Bank Bangladesh has recently agreed to hedge copper for EnergyPac, a local company.

"Hedging can be done in many areas from commodities to currencies and services. Even, we want to do hedging for freight (shipping) charges that fluctuate frequently," said Alamgir Morshed, head of treasury of Standard Chartered Bank. Also, the bank has recently done a hedge deal on cotton for Square Textile.

A treasury expert at HSBC said the approval system of BB should be flexible and simpler.

"Hedging is a customer's right. Almost all the countries are doing it actively," said Bashar M Tareq, head of treasury at HSBC.

"Yes, the approval process is a bit conservative," said Tariq I Islam, another treasury expert at HSBC. But he defended the central bank, saying that the regulator is extra cautious because of recession that has rattled the global financial sector.

But Alamgir Morshed of Standard Chartered Bank said the BB could issue guidelines, mentioning steps to be followed to hedge commodities.

BB Governor Atiur Rahman said the central bank is cautious because it fears that there will be drainage of foreign exchange.

"I will look into the issue so that Bangladesh benefits," Rahman told The Daily Star.

Hedging is a financial instrument that is grouped under the term derivatives. Options/futures (hedging) and swaps are among the most common.

The Bombay Cotton Trade Association started futures trading in 1875, and by the early 1900s India had one of the world's largest futures industries. Derivatives trading began first in 1865 when the Chicago Board of Trade listed the first "exchange traded" derivatives contract in the US.

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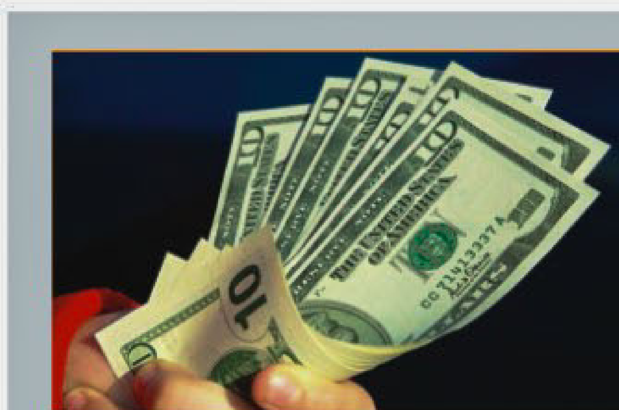
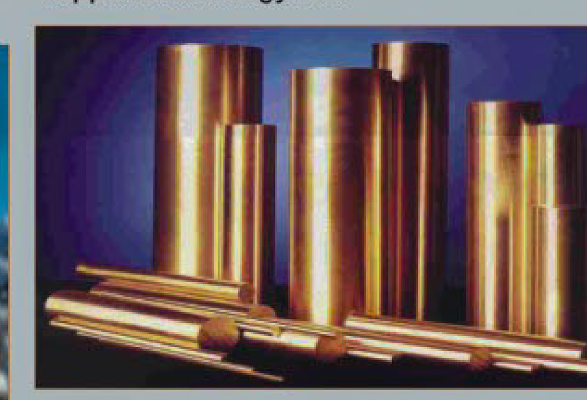
MAJOR DEALS



In 2009, HSBC transacted two US dollar-taka options for Viyellatex, one of the largest garment exporters, and Coats Bangladesh, a leading supplier of yarn and raw materials. In 2010, Standard Chartered Bank signed a similar deal with Bangladesh Edible Oil. Recently, Standard Chartered struck two deals on commodity hedging -- one with Square Textile on cotton and the other on copper with EnergyPac.



Hugo Boss, Adidas plan direct buying from Bangladesh

REFAYET ULLAH MIRDHA

German high-end brands Hugo Boss and Adidas will directly buy garments from Bangladesh for the first time, said the owner of a leading apparel company.

David Hasanat, chairman of Viyellatex Group, said his company intends to start producing goods under both the brands next year.

"We started imparting training to our workers to raise their skills, to cater to such prestigious brands," he said.

Hasanat said some directors and the head of purchase for Hugo Boss visited Viyellatex, prior to placing orders. "We will mainly supply T-shirts, polo shirts and basic shirts to the two brands."

Hasanat said Bangladesh would be able to sell garment products worth at least $100 million to the two brands within the next two years.

"Several mid-level brands will no longer question the image and performance of Bangladesh again, after the entry of such highly prestigious brands."

The retail price of a regular Hugo Boss shirt starts at $150 and a T-shirt at $100, where other brands retail for around $40-$50 a piece, he said.

Currently, Hugo Boss buys garment items from Thailand in the region.

Viyellatex Group supplies garment products to Wal-Mart, Puma, G-Star, Marks and Spencer, Esprit and s. Oliver, he said.

He said renowned brands are coming to Bangladesh because of its ability to supply quality garment items at cheaper prices than other competing countries. Orders are also shifting to Bangladesh from China because of the latter's high cost of production and a shortage of workers in the apparels industry, he added.

Hugo Boss is represented in the world of fashion by 'BOSS' and 'HUGO'. The Boss brand was first introduced as a classical men's business wear line in the 1970s, while Hugo that was launched in 1993 adds unconventional accents and uniquely different styles.

These fashion lines are aimed at various target groups, creating a world of extraordinary fashion diversity, at a constantly high level of quality.

The Boss Black, Boss Selection, Boss Orange and Boss Green lines, as well as the accompanying accessory collections, are all part of the core Boss brand.

In addition, other licensed products, such as fragrances, cosmetics, watches, and eyewear, complete the Hugo Boss product range.

Hugo Boss products can be purchased at 6,100 outlets in more than 110 countries. Up to the last fiscal year, the number of its own retail stores amounted to 364. The number of stores operated via franchisees amounts to approximately 1,050.

Established as a brand in 1948 in Germany, Adidas runs 22 stores in the US, and 398 stores in the rest of the world.

Several global retail brands have opened offices in Dhaka in recent times to directly source clothing items.

After China, the world's largest supplier of apparels, Bangladesh, emerges as a lucrative place for renowned retailers, like US giant Wal-Mart, JC Penny, Zara, Tesco, IKEA, Marks and Spencer, H&M, Uniqlo, Li & Fung and s. Oliver.

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IMF agrees to give Bangladesh $1b credit

STAR BUSINESS REPORT

The International Monetary Fund (IMF) has agreed in principle to lend Bangladesh $1 billion under its Extended Credit Facility (ECF) programme.

If finalised, it will be the fourth lending arrangement with the IMF after previous three in 1987-90, 1990-93 and 2003-07.

Bangladesh last received the IMF lending in 2007 under poverty reduction and growth facility (PRGF) programme. The IMF had wanted to extend the PRGF, but could not do so due to huge opposition from different sections, including the media.

"A big mission of IMF comprising at least 20 officials will arrive in Bangladesh by next week to work on it," Bangladesh Bank (BB) Governor Atiur Rahman told The Daily Star yesterday.

The mission will work here for two months to prepare a proposal in this regard, Rahman said.

Officials in the finance ministry and the BB confirmed that both sides agreed in principle about the loans during the recently concluded meetings of the World Bank and the IMF in the US.

The loans will be given to the central bank. Later, the government will have to sign a deal with the BB for utilisation of the fund.

Officials said there is a difference between the parties on the use of the funds.

IMF wants to lend the money for budgetary support, while the government wants to use it to support the balance of payments.

According to the IMF, the ECF provides financial assistance to countries with protracted balance of payments problems.

The ECF was created under the newly established Poverty Reduction and Growth Trust as part of a broader reform to make the Fund's financial support more flexible and better tailored to the diverse needs, including in times of crisis.

The ECF succeeds the PRGF as the Fund's main tool for providing medium-term support to low-income countries.

India's Micromax to hit market soon with IPO

AFP, *New Delhi*

India's biggest domestic mobile handset seller Micromax Informatics said Wednesday it aims to launch an initial public offer (IPO) once it gets regulatory approval.

"As soon as we get clearance from Sebi (the Security and Exchange Board of India), we are looking at hitting the market," Micromax business director Vikas Jain told reporters in New Delhi.

Micromax, which entered the mobile handset business just three years ago and is now selling 1.2 million phones a month, is expected to launch the IPO early in 2011. The company filed its prospectus late last month.

Jain declined to say how much Micromax, which makes its handsets through contract manufacturers in China, Taiwan and South Korea, plans to raise but reports earlier put the amount at around 150 million dollars.

Micromax heads a clutch of domestic firms, including Spice Mobiles, Karbonn Mobiles and Videocon Industries, which have made strong inroads into the 300 billion rupee (6.7-billion-dollar) handset market.

The handsets cater to local needs with features such as long battery life and powerful built-in flashlights in electricity-starved India and are being sold at aggressively low prices.

In a recent report, research firm IDC said domestic handset makers have boosted their market share to 33 percent from 0.9 percent two years ago.

Uttara Finance gets SEC nod to raise funds

STAR BUSINESS REPORT

The Securities and Exchange Commission yesterday gave a green light to Uttara Finance and Investments Ltd to raise Tk 39.60 crore by offering rights shares.

The approval came at a meeting of the stockmarket regulator, chaired by the commission's Chairman Ziaul Haque Khondker.

Uttara Finance will propose one rights share for an existing three at an offer price of Tk 30 each, including Tk 20 in premium, SEC's Executive Director Anwarul Kabir Bhuiyan told reporters after the meeting.

The financial institution will offer 1.32 crore ordinary shares in total to raise the fund in a bid to strengthen its capital base, which is now Tk 39.6 crore.

The company was listed on the stockmarket in 1997. On the Dhaka Stock Exchange yesterday, each Uttara Finance share traded between Tk 520 and Tk 537, before closing at Tk 528.9.

At yesterday's meeting, SEC decided to consider the stockbrokers' appeal for opening branch offices out of divisional towns.

Bhuiyan, however, said the consideration would be applicable only to those applications that were submitted to the exchanges authorities up to October 4, the day the SEC decided not to allow any brokerage branch out of divisional town.

As per an instruction of the SEC, the bourses were supposed to submit the applications by yesterday.

The market regulator also suspended subscription of unsubscribed rights shares of Islami Finance and Investment Ltd by the underwriter, until further order.

SEC took the initiative following allegations from investors that many shareholders did not receive offer documents to subscribe to rights shares after the record date.

"An investigation by the commission is going on, and SEC will decide on the issue after the probe," Bhuiyan said.

Earlier, Islamic Finance offered one rights share for an existing two at an issue price of Tk 150, including a premium of Tk 50 a share.

The record date for entitlement of the rights offer was from August 8 to 10.