Star Business

DHAKA TUESDAY NOVEMBER 16, 2010

Stocks

DGEN	▲ 1.163%	8,443.34
CSCX	▲ 1.78%	15,459.27

IDLC Index

IDLC 50	▲ 1.83%	8,701.35

Subject to Conditions contained in www.idlc.com

Asian Markets

MUMBAI	▲ 0.76%	20,309.69
TOKYO	▲ 1.06%	9,827.51
SINGAPORE	▼ 0.47%	3,236.80
SHANGHAI	▲ 0.97%	3,014.41

Currencies

	Buy Tk	Sell Tk
USD	69.80	70.80
EUR	93.70	98.60
GBP	110.67	115.62
JPY	0.83	0.89

SOURCE: STANDARD CHARTERED BANK

Commodities

Gold	▼	$1,366.00 (per ounce)
Oil	▲	$84.93 (per barrel)

SOURCE: AFP (Midday Trade)

Inflation hits rural areas deeper

REJAUL KARIM BYRON

Soaring food prices have pushed overall inflation on a point-to-point basis by 0.09 percentage point to 7.61 percent in September from a month ago.

Food inflation is higher in rural areas than in urban areas, according to data released by Bangladesh Bureau of Statistics (BBS) yesterday. Food inflation in rural areas reached near 11 percent, which is more difficult for the countryside population to cope with.

In a report, the World Bank (WB) said the rise in the global prices of staples could put further pressure on food prices in Bangladesh in the next few months.

According to BBS data, food inflation continually increased and stood at 9.72 percent in September, which was 9.64 percent in August. However, non-food inflation is declining and stood at 3.69 percent in September, which was 3.76 percent in the previous month.

Rural food inflation increased to 10.51 percent in September, which was 9.95 percent in August, while urban food inflation in September declined to 7.95 percent against 8.95 percent in August.

Zaid Bakht, a research director of Bangladesh Institute of Development Studies, said it is probably because of differences in the consumption basket. Rice is a major part of the food basket for the rural people, which is not the case for urbanites.

A senior official of the Planning Commission said commercial banks disbursed significant amounts of farm loans in rural areas in recent times. There might have an indirect impact of such a move on rural food prices, he said. "The central bank could conduct a study to find the real reasons for soaring food prices in rural areas."

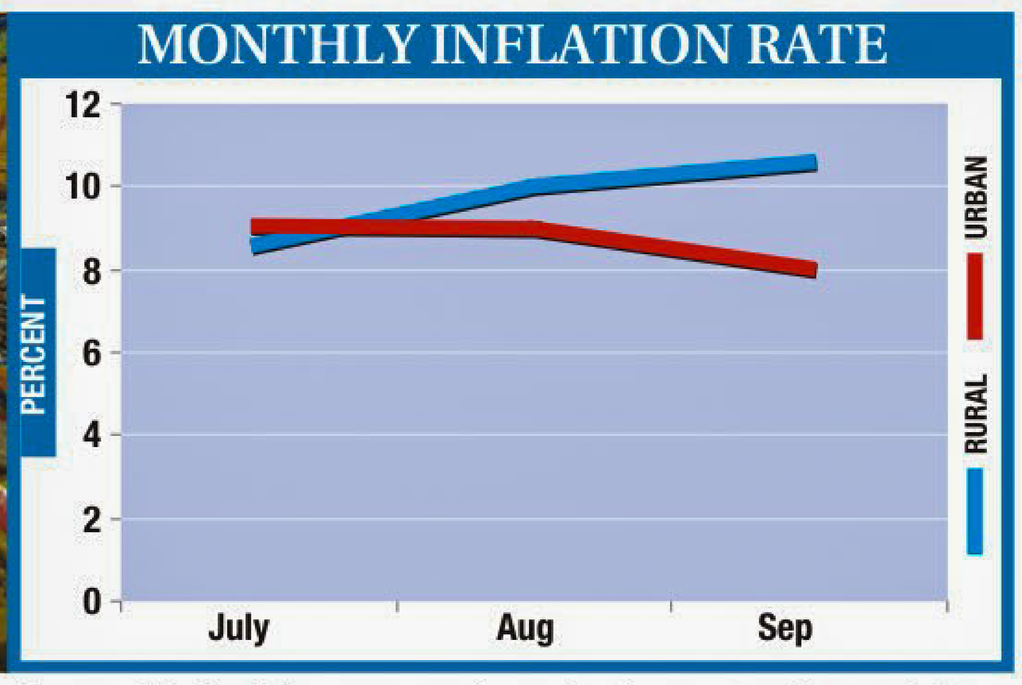
Recently, a WB report on the Bangladesh economy said prices in Bangladesh are affected by price developments on the international market, especially food prices in India.

India has been experiencing double-digit food inflation since June 2009, and that contributed to food inflation in Bangladesh. On the domestic front, aman production was 4.2 percent lower than targets.

A firm estimate for boro production is still not available although it might be 2.2 percent lower than last year, according to BBS estimates.

The WB report also said the government's policy response has so far included participation in food grain markets, expansion of operations of the existing safety net programmes and incentives for increasing rice production.

These measures, together with higher imports to build stocks for the food grain distribution system, could have fiscal implications beyond the amounts provided in the fiscal 2011 budget for public food distribution operations, especially if the situation deteriorates.



Food inflation in urban areas is declining, but the opposite is true for rural areas. This is all the more worrisome for the countryside population.

Cooking oil price soars

SOHEL PARVEZ

The edible oil market has become volatile amid surging prices of soybean and palm oil on the international market on concerns of tight supply against a rise in demand.

Since the beginning of the month, retail prices of unpacked soybean oil rose by Tk 7 or 7.69 percent to Tk 96-100 a kilogram in the city markets. Palm oil advanced by Tk 3 or 3.55 percent to Tk 85-90 per kg, according to data from Trading Corporation of Bangladesh.

On a month-to-month basis, the spike in the two varieties of edible oil is more than 8 percent and 4 percent.

The fresh hike in the prices of edible oil came at a time when domestic demand for cooking oil picks up ahead of Eid-ul-Azha, one of the biggest festivals.

"We're not increasing prices. Actually, international market prices are high," said Zahir Ahammed Ratan, managing director of Nurjahan Group, a major importer of edible oil.

Globally, soybean and palm oils have been rallying since the middle of this year on worries of output fall in major growing areas such as the USA against the backdrop of strong demand in China and higher production of biofuel.

Last week, soybean climbed to a 26-month high at Chicago Board of Trade after the USA, biggest grower and exporter, lowered its forecast on production for next year.

A drop in output in Malaysia, the second biggest producer, fuelled the palm oil prices to a 28-month high on speculation that global supply might lag behind demand that picks up before Christmas, New Year and the Chinese New Year.

The price of soybean to be supplied in January went up around $1,200 per tonne, while palm oil soared as much as 3,452 malaysian ringgit ($1,110) per tonne but tumbled later on concerns that China might raise policy interest rates to depress demand and slow imports.

Importers said soybean and palm oils however remained above $1,150 and $1,050 per tonne respectively. In July, prices of both the varieties were $200 down each tonne on an average.

Locally, traders responded to the soaring prices of both commodities on the international market and gradually raised prices. Bangladesh meets more than 80 percent of domestic demand through imports. The country consumes between 12 lakh-15 lakh tonnes of edible oil a year.

In the last four months, retail prices of unpacked soybean oil rose 25 percent to Tk 96-100 per kg in city markets. Unpacked palm oil added 22 percent to Tk 85-90 each kg, according to state-run trading agency.

The prices of packed soybean soil also edged up. Retailers now sell a 5-litre container as high as Tk 494, up from Tk 434 in the first week of July.

Shoeb Md Asaduzzaman, head of sales and marketing of Bangladesh Edible Oil Ltd, said the local market has turned volatile because of a hike in international market price.

Bangladesh Edible markets Rupchanda brand edible oil.

"We're very much worried. The situation doesn't look good," Asaduzzaman said.

"Prices of soybean have risen 15 percent on the international market in the last one month. Our cost of fund has increased as we have to spend more to book the same volume of oil."

sohel@thedailystar.net

STAR

Oil containers are pictured at a commodity shop at Karwan Bazar in Dhaka. Edible oil prices are on the rise, influenced by increasing soybean and palm oil prices on the international market.

Call money rate rises

STAR BUSINESS REPORT

A huge cash withdrawal pressure ahead of Eid fuelled the inter-bank call money rate to a three-year high yesterday, treasurers at different banks and non-banks said.

The rate reached as high as 22 percent, but most of the deals were traded between 16 percent and 20 percent, market players said.

"There was a significant pressure of cash withdrawal, may be for the prolonged holidays," said a treasury official of AB Bank.

Eid-ul-Fitr and Eid-ul-Azha are the two peak seasons for a rise in demand for money. Last year, the rate touched 12 percent. It was 35 percent in 2004 and 43 percent in 2005.

Bankers said long queues were seen at different banks yesterday because of the Sunday's dawn-to-dusk strike called by opposition BNP. Services of many banks were kept on even after the banking hours till 4pm yesterday.

Bangladesh Bank also pumped over Tk 1,000 crore into the market through repo to avoid any liquidity crunch. The BB sells money to the banks by a repurchase agreement, commonly known as repo, to help the market remain stable. The present repo rate is 5.5 percent.

According to the market players, most of the local banks, particularly private ones, faced a shortage of liquidity yesterday. Only the foreign banks and state-owned Sonali and Agrani banks did not feel the shortage of money, they said.

The operators said borrowing by non-bank financial institutions has also fuelled the demand for money and the price of borrowing as well.

Inflation eases in India

REUTERS, *New Delhi*

India's annual headline inflation eased slightly in October to its lowest in 10 months, slightly allowing the Reserve Bank to keep rates steady in coming months even though price rises remain above its comfort level.

India's wholesale prices rose 8.58 percent in October compared with 8.62 percent in September, data on Monday showed. The figure compared with a Reuters poll forecast for an 8.44 percent rise.

Food inflation slowed to 14.1 percent in October compared with 15.7 percent a month earlier as supplies improved after healthy monsoon rains, helping bring down overall inflation.

The data, coming on the heels of the slowest annual growth in industrial output in 16 months, lends support to those who advocate a pause in the Reserve Bank of India's (RBI) tightening, although others say further rate increases are needed.

Regulator clarifies microcredit rate

STAR BUSINESS REPORT

Microfinanciers will still enjoy a large profit although the government has put a cap on the interest rates in efforts to better regulate the sector, the regulator said yesterday.

The observation came at a meeting of Microcredit Regulatory Authority (MRA), the state-run regulator, with its Chairman Atiur Rahman in the chair.

The meeting was organised to give explanation about some areas of the recently circulated guidelines that took a number of decisions including on interest rates.

The MRA published the circular last week, setting the highest rate of interest at 27 percent, banning deductions at the time of issuing loans and making it mandatory to allow at least a 15-day grace period to repay the loans.

The circular puts a ban on deducting money from loans, at the time of issuance, in the name of savings, insurance, or any other categories.

Under the new directive, which comes into effect on July 1, 2011, the microlenders must pay at least 6 percent interest on mandatory weekly savings of borrowers, which must be announced in advance. The MRA also made it mandatory to allow at least 50 weeks of time for recovering the entire amount of general loans, which are issued for a period of one year.

MRA officials said there is a misunderstanding that microcredit operations could not be conducted by borrowing money from commercial banks at the current rates of interest.

The cost of fund is only 7 percent for microcredit sector, while it is 3-4 percent for the banking sector, they said.

Savings with the MFIs account for 30 percent of their total outstanding loans and they only pay a maximum of 5 percent of interest on the savings.

Besides, the MFIs are running with a huge surplus fund, which does not have actual cost. If bank loans are added with the money then the average cost of fund comes to 7 percent, which will give 20 percent margin (administration cost and profits) to them when 27 percent cap is implemented, the officials said.

Despite less surplus fund with the MFIs due to higher administrative or borrowing cost, they still run their business profitably, thanks to a 20 percent margin, they added.

The meeting also discussed the flat system in calculating the rate of interest and blamed it for creating confusions about the lending rates.

In the flat rate, the 15 percent interest rate becomes at least 30 percent, which is not clear to the borrowers, the officials said.

The MRA observation and explanation came after the microlenders claimed that the interest rate cap will hurt them.

Mosharraf Hossain, chairman of the Credit Development Forum, a network of 650 MFIs, said the local MFIs have high costs as many borrow from private banks at around 13 percent interest.

There are extra costs while operating in the remote, rural areas, he added.

"With 15 percent operating cost and 13 percent borrowing cost in most cases, it will be tough to run business at the cap," he said. "We also write off a huge amount of loans during natural disasters."

Around 1,200 microlenders -- only 540 registered with the MRA -- operate in Bangladesh, serving around 4 crore of the country's about 16 crore people.