



COMMODITIES		ASIAN MARKETS		CURRENCIES	
DGEN	CSCX	Gold	Oil	USD	EUR
2.36%	2.36%	\$1,496.00 (per ounce)	\$99.27 (per barrel)	73.25	102.17
5,612.51	10,092.51			GBP	JPY
				117.95	0.89
				BUY TK	74.25 107.87 123.65 0.98
				SELL TK	




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star BUSINESS

DHAKA FRIDAY MAY 13, 2011, e-mail:business@thedailystar.net

Margin loans become costlier

SAJJADUR RAHMAN

Stockmarket investors who do business on margin loans now have to pay more interest, following a rate hike by merchant banks.

Most of merchant banks have increased their margin loan interest rates by 1.5-2.0 percentage points recently. They attributed the hike to a sharp rise in their cost of funds.

“We are yet to pass on full costs to investors,” said Mafizuddin Sarker, managing director of LankaBangla Finance that owns LankaBangla Securities, one of the largest merchant banks in Bangladesh.

Sarker said they raised the interest rate by 1.5 percentage points to 16.5 percent, though their cost of fund went up by 2

percentage points.

Some other major merchant bankers who raised their rates include IDLC, Prime Bank Investment and Prime Finance. They increased their interest rates on margin loans by up to 2 percentage points to 17 percent.

A margin loan allows an investor to borrow money from the merchant banks to invest in shares. The margin loan gives investors an access to more money to invest than he/she may have. It is a leveraged product and means that an investor has the potential to reach his/her targets sooner. However, leverage can be a double-edged sword, so while one’s gains may be magnified, so are his/her losses.

Presently, a merchant bank is allowed to lend at 1:1.5 -- mean-

ing, that an investor is entitled to borrow Tk 150 against his investment of Tk 100. The Securities and Exchange Commission (SEC) regulates this ratio.

Fareast Stocks and Bonds Ltd, a subsidiary of Fareast Finance, raised the rate by 1.5 percentage points to 17 percent as well.

“We have no option but to raise the rate after the commercial banks increased their lending rates,” said Asad Khan, managing director of Fareast Finance.

Banks are the main source of funds for the finance companies and merchant banks. Recently, banks raised their lending rates by 2-4 percentage points after withdrawal of the lending cap by the central bank.

“A bank has demanded an interest rate of 17 percent for

loans and if we don’t charge 1.5-2.0 percentage points more than our borrowing costs, we can’t sustain,” said Khan.

IDLC, one of the largest merchant banks in the country, has also raised the rate -- by one percentage point to maximum of 15.75 percent that is to be effective on Sunday.

“Still, our rate is one of the lowest. We did not increase the rate to that extent, considering the pressure our clients are facing now,” said Rubayet-E Ferdous, assistant general manager of IDLC Finance.

According to SEC, 35 merchant banks operate here. Thousands of stock investors take margin loans from these banks.

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Market still waits for a breather

SARWAR A CHOWDHURY *and*
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The stockmarket is going through a crisis period with investors having almost zero confidence, no regulatory activities in sight ahead of the much-talked restructuring of the regulator, and the government’s negligence in taking a right decision.

The stockmarket did not see such a bad situation even in 1996 when the market bubbled first and then burst.

The share price index came down by almost 40 percent from its peak five months ago, while the singly-day turnover declined drastically to a more than two-year low.

The occasional gains only created hopes among the investors, but every time the following days’ losses broke the investors’ hope.

On one hand, the institutional investors remain almost inactive in the secondary market, and on the other hand, many retailers are trying to quit the market with losses.

If this trend continues for a long time, the worst period is coming in the history of Bangladesh’s stockmarket.

Although almost everyone predicted and expected a massive correction in share prices, when the market was rising abnormally, no one thought that the declining trend would continue for such a long time.

Market experts identified the government’s delay in implementing the recommendations by the stockmarket probe body as a major reason behind the current market situation.

They said, restructuring of the Securities and Exchange Commission (SEC) has become a most significant factor to bring back stability to the market.

Although Ibrahim Khaled-led probe body submitted the report on April 7, the government officially released it on April 30, and no major restructuring is seen, only except the appointment of a new member to the SEC.

After the resignation of two SEC members -- Md Anisuzzaman and Yasin Ali -- the existing SEC Chairman Ziaul Haque Khondker and newly appointed member Helal Uddin Nizami are in the commission.

But the partial restructuring of the SEC is affecting its policy making decisions, as these two persons will not be able to hold any commission meeting in absence of quorum in the commission.

“The government’s delay to take actions to establish the recommendations of the probe committee dented the investors’ confidence,” said Professor Salahuddin Ahmed Khan, who teaches finance at Dhaka University.

He said a lack of participation by institutional investors due to a credit crisis also pushed the market down.

Khan, also a former chief executive officer of DSE, said, “The government should take steps to implement the recommendations, including an overhaul of the SEC, in a bid to regain the investors’ confidence.”

Akter H Sannamat, a market analyst, said: “May be some big investors, whose names were in the probe report, are trying to pull down the market deliberately through creating a selling pressure by circular trade, resulting in a panicky situation among the retail investors.”

Sannamat, also a former managing director of Prime Finance and Investment, said, “The dilly-dally movement of the government in implementing the recommendations of the probe committee hampered the investors confidence.”

He said, due to a credit crunch the institutional investors are failing to buy shares. “The Bangladesh Bank should reduce the CRR (cash reserve requirement) and SLR (statutory liquidity ratio) to increase money flow in the market through the institutional investors,” he added.

Arif Khan, managing director and chief executive officer of Zenith Investments Ltd, said: “Credit shortage in the banking sector has left a negative impact on the market. The institutional investors are failing to make new investment in the market, while some have adopted a wait-and-see policy, as share prices are continuously falling.”

Investors’ participations are important to bring back normalcy to the market, he said, adding that retail investors also want the restructuring process to be complete quickly.

STAR BUSINESS REPORT

Bangladesh has ranked sixth among seven South and Southeast Asian countries in a survey on regulatory and policy environment in the telecoms sector, due to uncertainties over policies and laws and other recent developments.

Bangladesh trailed Pakistan, India, Thailand, the Philippines, Sri Lanka and fared better than Indonesia, according to the survey conducted by LIRNEasia.

Bangladesh scored 53.9 out of 105 while Pakistan scored 70, India 58.3, Thailand 56.7, the Philippines 55.5, Sri Lanka 55.2, and Indonesia 52.9.

Bangladesh’s performance was below average as its no sub-sector received a score higher than the midpoint of 3 on a scale of 5, said the Sri Lanka based-ICT policy and regulation think tank while releasing the survey results at a press conference at La Vinci Hotel in Dhaka yesterday.

Top officials in the country’s telecom sector were asked to evaluate the effectiveness of the regulatory and policy environment in the last one year in three telecom sub-sectors -- fixed, mobile and broadband under the survey, “Telecom Regulatory Environment (TRE)”.

In the survey conducted between February and March 2011, seven dimensions such as market entry, access to scarce resources, inter-connection, tariff regulation, anti-competitive practices, universal service obligation and quality of service were evaluated.

During the launch of the report, LIRNEasia’s Chief Operating Officer Helani Galpaya said the average TRE scores for the three sectors varied -- the fixed-line telephony scored the lowest overall score (2.3), while mobile telephony scored the highest (2.9), followed by broadband (2.5).

The survey said a nationwide decline in fixed-line use and the licence cancellation of five public switched telephone network (PSTN) operators on charges of running illegal VoIP operations could have contributed to



LIRNEasia's Chief Operating Officer Helani Galpaya speaks at a press conference in Dhaka yesterday.

low scores, on average, for the fixed-phone sector.

On the mobile side, the Bangladesh Telecommunication Regulatory Commission (BTRC)’s facilitation of competition between mobile market players, low-user tariffs (which are some of the lowest in the world), nationwide coverage and the ability to interconnect are some of the key reasons that helped the sub-sector score high.

According to the report, the average score for the mobile sector is still below the average threshold of 3. This could be due to the sense of uncertainty caused by the amended Telecommunication Act of 2010 and the inequity in the proposed 2G license renewal guidelines.

Chairman and Chief Executive Officer of LIRNEasia Rohan Samarajiva said the scores could change next year after completion of the 2G licencing process.

Faheem Hussain, assistant professor of Asian University for Women, also spoke.

RECOMMENDATIONS

LIRNEasia recommends improving the rank by deploying a market and investment-friendly licence renewal process, prompting tariff approval procedures, acting against anti-competitive practices, rethinking universal obligation fund and the social obligation fund under 2G licence renewal guidelines and streamlining pro-people provisions etc.

Stocks return from losses

STAR BUSINESS REPORT

Stocks took a break from the losing spell yesterday amid speculations over change in the leadership of the Securities and Exchange Commission.

The benchmark general index of Dhaka Stock Exchange (DGEN) gained 129 points, or 2.36 percent, to close at 5,612 points, while the Chittagong Stock Exchange rose 233 points, or 2.36 percent, to 10,092 points.

Bangladesh Fund hyped investors’ buying spree further, encouraging them to cash in on the low prices of shares, said an analyst.

Investors expected that the government will reform the SEC soon by staffing it with competent people, he adds.

Institutional investors failed to make new transactions due to a credit crunch in the banking sector, said a market operator.

The central bank should reduce the

cash reserve ratio (CRR) and statutory liquidity ratio (SLR) to increase the participation of institutional investors in the market, he adds.

Akter H Sannamat, a market analyst, said, “New investors went for buying shares on the day, while old investors were short of credit and became victims of trigger sales.”

“The market is in a stable situation when the turnover will increase,” he adds.

Turnover on the DSE stood at Tk 449 crore, up by Tk 142.87 crore on the previous day. Of the total 249 issues traded on the DSE, 288 advanced, 17 declined and four remained unchanged.

Beximco topped the turnover leaders with 23.64 lakh shares worth Tk 34.48 crore changing hands.

Bangladesh Finance and Investment was the biggest gainer of the day, posting a 9.90 percent rise in its share price, while Beximco was the worst loser, slumping by 31.12 percent.



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