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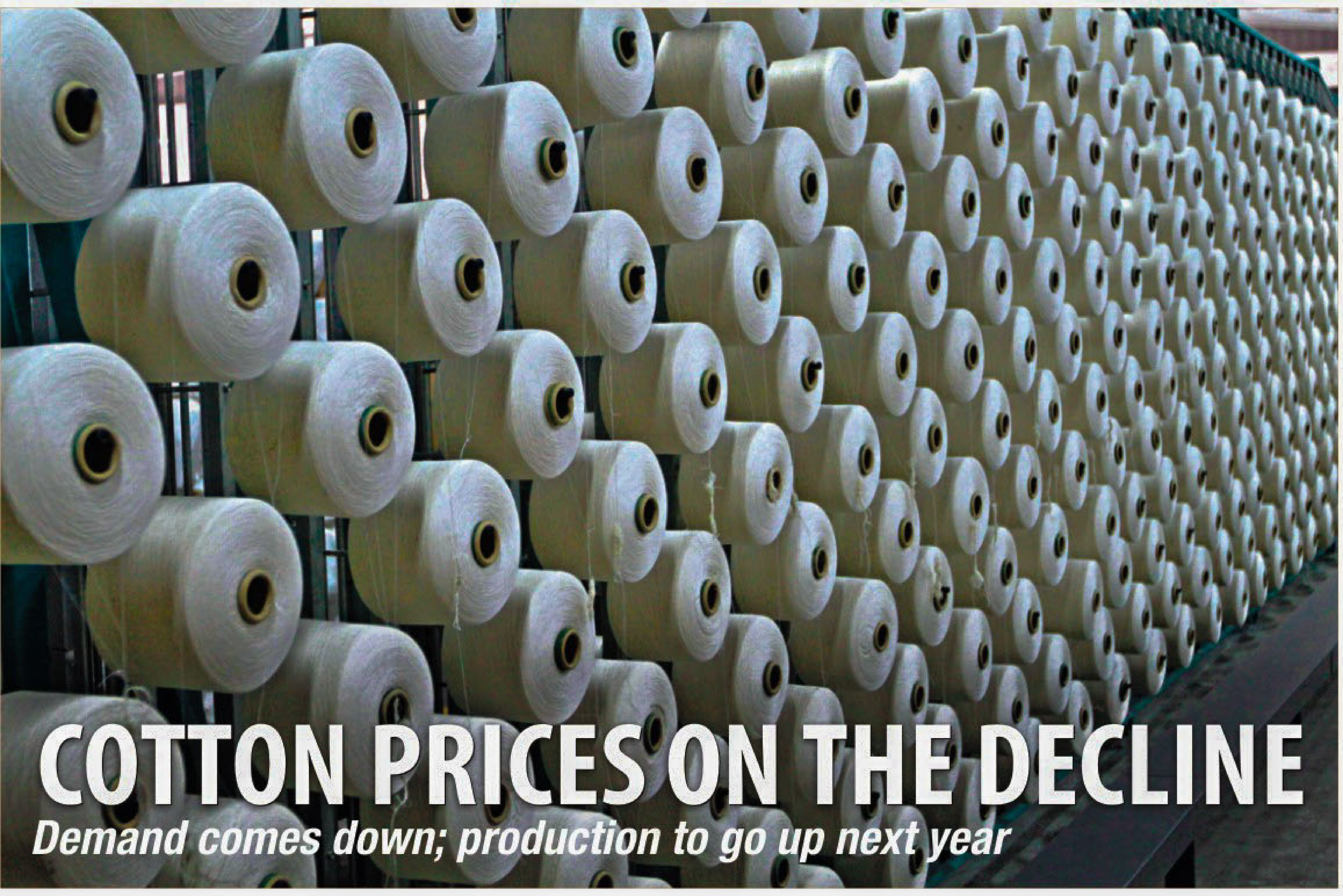

COTTON PRICES ON THE DECLINE

Demand comes down; production to go up next year

REFAYET ULLAH MIRDHA

Cotton prices started declining globally on the prospect of a higher yield next year, and a reduction in consumption by China, textile industry insiders said.

Cotton was traded between $1.44 and $1.48 per pound at the New York Futures on Friday, down from its previous rates at $1.52 and $1.54 per pound last week.

The prices hit a historic high in March -- $2.04 per pound on March 25 and $2.19 on March 7 this year.

But the market calmed down at end-March and early-April with a forecast of better output next year as cotton producing countries such as US, China, India, Pakistan and the Commonwealth of Independent States increased acreage for cotton cultivation this year.

The initial world cotton projections for 2011-12 show a sharp increase in production to a record 124.7 million bales, with India, China, and Pakistan accounting for 70 percent of the total output, said a report by the United States Department of Agriculture.

World trade is projected at 40 million bales, mainly reflecting higher import demand by China, the report said, adding that world ending stocks are projected to rise to nearly 48 million bales, a 13-percent increase from the beginning level.

"World consumption of cotton is reduced, due mainly to reductions for India and Pakistan," the report said. China's imports are lowered 1.5 million bales due to a recent fall-off in demand, which is partially offset by increased imports for Pakistan and Turkey. World ending stocks are raised nearly one million bales, the report added.

The cotton cultivation area is projected to rise by 7 percent in 2011-12 to 36 million hectares globally, the largest in 17 years, in response to record prices in 2010-11, said a report of the International Cotton Advisory Committee (ICAC).

Farmers are expected to expand cotton area in 2011-12 in all producing countries, the ICAC report said, adding that world cotton production is projected to increase by 9 percent to a record exceeding 27 million tonnes.

Cotton traders in Bangladesh said they reduced the import for higher prices of the item worldwide.

The higher prices of cotton have also trimmed the demand for yarn and fabrics as garment manufacturers say they can hardly make profit although the international buyers have raised the prices for apparel items to offset the rising prices of raw materials.

The cotton prices started to come down because of a decline in sales of clothing items and slow orders by international buyers, said an official of a textile firm.

"Buyers are now in a wait and see mood as the cotton prices started to ease," the official of Paramount Textile Ltd said, asking not to be named.

He said the scheduled order of April is yet to be placed due to the decline in the prices of cotton.

Sales of yarn and finished woven fabrics also marked a fall due to a cut in demand from the garment manufacturers, said Jahangir Alamin, president of Bangladesh Textile Mills Association (BTMA).

He attributed low sales of yarn and woven fabrics mainly to a rise in import of fabrics from China and sales of yarn by India at a dumping price in Bangladesh.

From January this year, garment manufacturers have been getting duty facility for EU markets even for imported fabrics. As a result, they feel encouraged to import the fabrics.

Alamin said another cause for stockpiling of yarn and fabrics is that the traders imported cotton at higher prices earlier, but they cannot sell those at lower prices now.

The import of fabrics increased by 88 percent in January-March period this year compared with the same period last year, he added. "The spinning sub-sector is now in a dire strait," he said.

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Govt moves to check Ramadan market

REJAUL KARIM BYRON

The government plans a market intervention through Trading Corporation of Bangladesh (TCB) to keep the prices of essential commodities such as sugar, lentil and edible oil within the reach of common people during the month of Ramadan.

The commerce ministry has also sought an exemption from mandatory compliance with public procurement rules for three years to speed up the process of market intervention.

Earlier, such exemption was given for one year which expires on May 25.

A commerce ministry proposal said, as the month of Ramadan falls in August, it has started preparations from now so that the TCB can effectively intervene in the market in time.

The proposal also said the TCB needs the exemption from procurement rules to be able to import or procure commodities such as edible oil, sugar, lentil, gram, onion, powder milk and dates from local market on an emergency basis.

On the eve of Ramadan, the fasting month of the Muslims, the TCB has already decided to import or locally buy 30,000 tonnes of sugar, 30,000 tonnes of soybean oil, 1,000 tonnes of gram, and 500 tonnes of dates, and build up a stock.

The state-run trading body said if it can buy the commodities and supply in the market timely, the prices would remain stable during Ramadan.

According to the commerce ministry proposal, the TCB has bought 10,135 tonnes of soybean oil, 27,785 tonnes of lentils, 2,000 tonnes of gram, and 20,000 tonnes of sugar at Tk 431 crore in the current fiscal year.

The items have been distributed through 2,245 dealers across the country.

A commerce ministry official said they marketed a big portion of these commodities during last Ramadan and could keep the prices in check.

The official said, following the government procurement rules is a lengthy process and this would delay and mess up the TCB move.

A price hike on international market, less domestic production compared to demand and businessmen's mentality to make more profit fuel the local market, the ministry said.

DSE halts trade of five companies

STAR BUSINESS REPORT

Dhaka Stock Exchange (DSE) has halted trading of five listed companies for a month due to an unusual price hike.

The companies are Alltex Industries Ltd, Dulamia Cotton Spinning Mills Ltd, Anwar Galvanising Ltd, Legacy Footwear and National Tea Company Ltd.

DSE suspended activities of the first four companies on April 18 and National Tea faced the halt on April 24, according to a posting in DSE website.

The DSE formed five committees to find out the reasons for the unusual price hike.

Alltex Industries traded at Tk 110 each share in the first week of March, but rose to Tk 360.25 on the last day of trade. The face value of the company, a 'Z' category share, is Tk 100.

Dulamia Cotton traded at Tk 160 in the first week of March, but the share prices rose to Tk 481 each on the last day of trade on the prime bourse. The face value of the 'Z' category company was Tk 100.

Share price of Anwar Galvanising was Tk 250 in the first week of March and the shares traded at Tk 440.50 each on the last day of trading on the bourse. It is also a 'Z' category company.

On March 17, National Tea's share price was Tk 5,400, but the shares traded at Tk 6,300 each on April 24. The Legacy Footwear share price was Tk 25 in the first week of March but the shares soared to Tk 50 on the last day of trading.

NOTICE

Star Business brings out four pages today instead of its regular eight, as the stockmarket was closed yesterday due to a public holiday on the occasion of

Market PE hits 1-yr low

GAZI TOWHID AHMED

Market PE (price-earnings) ratio has come down to one year low at 16, indicating that the stockmarket becomes less risky for investment.

The PE ratio came to this level due mainly to a two-month long debacle, which was unavoidable following unusual rise in share prices.

The PE ratio is an indicator for considering the extent of risks an investment might entail. Price earning means a valuation ratio of a company's current share price compared to its earnings per share.

The indicator is also important to better understand what happens in the market after a large gain or decline. It is also one of the best gauges to know how expensive or cheap the overall stockmarket is at a certain moment.

AB Mirza Azizul Islam, former adviser to a caretaker government, said: "It is high time for people to invest in high-profile companies as the current market PE is 16.01."

Islam, also former chairman of Securities and Exchange Commission, said: "Some of the sectors are still overpriced; such as 34 PE is too high for insurance and ceramic sectors though ceramics have an international market."

He also said PE ratio depends on growth of market and the index should be 6,000 to 6,500 according to the current market situation.

PE RATIOS OF MAJOR SECTORS

Banks	9.95
Financial institutions	20.43
Mutual funds	10.2
Engineering	35.41
Food and allied product	16.38
Fuel and power	16.76
Jute	37.14
Textile	25.97
Pharmaceuticals and chemicals	28.23
Paper and printing	86.8
Service and real estate	21.54
Cement	24.19
IT sector	47.77
Tannery	17.17
Ceramic	43
Insurance	34.6
Telecommunication	18.39
Travel and leisure	48.39
Miscellaneous	15.53

Professor Salahuddin Ahmed Khan, who teaches finance at Dhaka University, said, "The price-earning ratio depends on the company's future and recent performances, including potential growth, perceived risks, and risk due to high leverage."

Khan, also a former chief executive officer of Dhaka Stock Exchange, said, "The shares of the banking sector are under priced because its PE ratio is very low and the earnings of this sector will decline next year."

"The fuel and power sector has good growth potential as Bangladesh will develop its power sector within a couple of years; so the sector is lucrative for investors," said Khan, adding that most of the sectors are still overpriced due to a high PE ratio.

When markets lose their poise and equilibrium, for example, during a bubble, high PE ratios may also reflect over-optimism and over-pricing. Conversely, a lower PE ratio can reflect either poorer future opportunities or potentially a bargain if the market is over-pessimistic or if one believes the market is not taking into account potential restructuring.

Khan said the PE ratios of some high profile sectors are still lucrative for investment but the prices of some low-profile companies increased out of the blue, which may prove risky for small investors.

The highest market PE was 30.51 on December 5 last year, while it was 15.96 at the end of May, 2009.