Should equity investors be totally fed up?

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EXTREME volatility started in the stockmarket nearly two years ago, but the condition is yet to show any sign of improvement. The benchmark general index, DGEN, has been displaying whimsical movement in both directions without any respite rather roiling the confidence of investors down.

Everyday, we hear of the market having jumped "X" hundred points or plunged by "Y" hundred points. Like many hunker-down investors, Hasan is also digesting phenomenal heart churning upside down in the Dhaka market.

Hasan, not his real name, is a 45-year-old investor trading equities. His equity was almost wiped out for trading on margin loan when the DGEN plunged near the 3,600-mark in February 2012. While Hasan was utterly worried about his exposure in stocks in that time, DGEN again started showing a fat tail behaviour touching above 5,500 levels. Hasan affected by the hot-hand fallacy could not offload his shares in expectation of selling them when DGEN touches the 6,000 level.

At that time, Hasan felt relieved while his portfolio return was going up and he started fixing his fancy plans backed by the rising wealth effect. But like a bolt out of blue, DGEN started diving again and lost 1,500 points in successive sessions and now hovering around 4,300 points, which made Hasan worried about the future of his equity investment.

Like Hasan, many investors were also pondering selling everything to get out of the market. But most of the investors like Hasan could not make the perfect market timing, which is a very difficult task, at 5,500 index levels.

In this situation, Hasan was said to remain invested and to discern the point of inflection in economic activities which would be the discreet steps in 2012 and 2013 to spot the recovery. It is always advised that investors in equities should analyse economic factors at first in the way that they affect company earnings, and secondly, in the way that they affect interest rate and overall stockmarket liquidity.

So Hasan kept close eyes since the beginning of 2012 to see whether the inflation comes closer to the target level, whether there is a sign of melting monetary policy and easing of liquidity crisis resulting from low policy interest rates e.g. cutting repo and reverse repo, higher repo acceptance against demand and slashing CRR.

He also wanted to see whether yield spread steepens, whether the government becomes strict to its targeted bank borrowing to finance budget deficit, whether the European debt crisis and economic unrest and anaemic growth in American and China improve.

After nine months since February 2012, Hasan still remains puzzled despite some unfolding positive signs, like the fall of inflation to the single digit target level, fall of difference between the government's actual and targeted borrowing, strong and stable exchange rate with a foreign exchange reserve of historic $12.3 billion, 24.92 percent growth of remittance in the last four months, a positive export growth when most of the peer countries are in the red zone, and the regulator's utmost commitment to implement the proposed incentives to revitalise the stockmarket.

Hasan perceived that the central bank may go for relaxing the monetary policy tools after achieving single digit inflationary target (point-to-point basis) signalled in the HY2 MPS for FY 2012-13, but he can not understand why the banking regulator may not have the luxury to slash rates at least in the second half of 2012.

Hasan may get the answer from a crucial question: "Are our infrastructures or export sectors ready to absorb the monetary easing or would it lead to another bubble in assets or commodity prices?"

We can explain Hasan's current anxieties about the stockmarket from the spectrums of liquidity, corporate earning and sentiment. Though inflation has come down to the single digit target level and we expect it will hover around at the current level amid the on going monetary tightening, Bangladesh Bank is not expected to reduce policy interest rates to spur the economic activities immediately, as excess money supply can not be absorbed given the weak external demand in the international markets and local infrastructure bottlenecks.

Also rising commodity prices in the international market are big concerns. Therefore, liquidity squeezing is expected to prevail at least in the coming months and the situation is likely to prolong even in the first half of 2013 at bad case scenario.

BB will remain hawkish on monetary policy. Also non food inflation for fuel and energy price hike may dent the sliding trend of inflation for some time, but in the coming years this price adjustment will yield fruitful result and a more balanced fiscal regime.

In the bottom of the business cycle, performance of listed firms is not perceived to be rosy for down economic realities. Export-oriented and local manufacturing firms listed with the DSE have started feeling the stress in the bottom line amid sluggish activities and high interest rates in local economy, recessionary situation in Europe, slow growth in BRIC and other destinations and prolonged economic weakness in the United States.

Apart from declining commission income from trading and sliding return from the capital market activities, some regulatory changes, tight liquidity and rising non-performing loan have severely hammered the profitability of banks and financial institutions. Upswing of local and European economic activities are imperative to see the bottom line growth in those cyclical sectors.

STAR/FILE

Investors set bamboos on fire to protest a fall in stock prices in Dhaka which was a common scene during 2011 when the stockmarket went for a massive price correction.

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Greece raises 4.06b euros in bond sale

AFP, *Athens*

GREECE on Tuesday raised 4.062 billion euros ($5.16 billion) to avert a messy default this week.

The fresh funds plug a financing gap left by a stalled EU-IMF loan which risks triggering default on a short-term debt settlement on Friday.

The Tuesday sale raised 2.762.5 billion euros in one-month treasury bills at an interest rate of 3.95 percent and a further 1.3 billion euros in three-month bills at 4.2 percent.

In the last three-month auction in October, the agency had raised 1.625 billion euros at an interest rate of 4.24 percent, while there is no recent comparable one-month offer.

But the stakes are higher now.

Greece needed the money to repay five billion euros from a prior three-month debt issue that matures on Friday.

That treasury bill had been auctioned in August to enable the country to pay state salaries and pensions in the absence of a scheduled loan payment from the European Union and the International Monetary Fund.

Worth 31.2 billion euros overall, the loan payment was supposed to have been disbursed by July but was held back owing to reform delays and protracted political uncertainty after a four-month electoral campaign in Greece.

The release of these funds, which are part of Greece's second EU-IMF financial assistance package, is still pending.

Tuesday's sale is nearly a billion short of the required sum for Friday's treasury bill repayment.

But additional non-competitive bills for over 900 million euros are to be tabled by Thursday, the debt management agency said.

Greece also needs the EU-IMF payout to recapitalise its banks -- which took a major blow from a state debt rollover earlier this year -- and to settle outstanding debts to private suppliers that now exceed eight billion euros.

Prime Minister Antonis Samaras flew to Brussels on Tuesday for talks with President Jose Manuel Barroso and EU President Herman Van Rompuy.

"We did our part. Now we wait for Europe to make its own move," Samaras said in off-camera comments to journalists on Monday, dailies here reported.

Eurozone finance ministers will meet on November 20 to discuss whether Athens will at last be given the urgently needed funds.

The finance ministers on Monday recognised that Greece had made "significant progress" in implementing the budgetary measures required to qualify for the next tranche of bailout money.

But according to a draft report from the EU-IMF auditing mission in Athens, satisfying a Greek request to extend its fiscal adjustment by two years could cost nearly 33 billion euros more.

'World's workshop' China aims to reinvent itself

AFP, *Beijing*

CHINA'S Communist leaders are promising to revolutionise the world's second largest economy and move on from being the world's workshop, but economists say the monumental task faces major hurdles.

Outgoing President Hu Jintao said GDP would double in a decade and pledged a "transformation of the economic growth model" in his report to the nation at the five-yearly Communist Party congress under way in Beijing.

China's rulers must maintain growth in the economy to justify their claim to legitimacy -- and avoid the spectre of social unrest.

But while selling cheap manufactured goods to the West and spending billions on infrastructure has delivered an economic miracle in recent years, the model is seen as unsustainable in the longer term, and growth is already slowing.

"We should speed up the creation of a new growth model and ensure that development is based on improved quality and performance," Hu said, adding China would seek to become an innovative technology giant as low-cost manufacturing relocates elsewhere.

The country also needs to make domestic consumption a pillar of the economy, a joint report by the government and the World Bank said in February -- endorsed by Xi Jinping, who is expected to take over as party leader from Hu this week.

But the changes could have enormous human costs in terms of job losses, which in turn could fuel unrest -- anathema to the ruling party. And training unqualified workers to compete with Western economies is a gigantic task.

A few Chinese manufacturing sectors have been able to compete directly with Western firms, including those in communications and high-speed trains.

China is also said to be developing a domestic airliner that could challenge Boeing and Airbus for sales.

But for now the economic boom remains firmly dependent on a cheap workforce, an undervalued currency and artificially low interest rates, Michael Pettis, finance professor at Peking University, told AFP.

"To be profitable in China does not require technological innovation. What matters is access to cheap credit and government connections," Pettis said.

Labour-intensive industries, such as textiles and shoes, have already begun to leave for less-developed cheaper nations including Indonesia and Vietnam.

"China will remain a manufacturing power house but much of the lower end will be transferred to lower-wage countries in Asia, but also possibly to Latin America and Africa," said Jean-Pierre Lehmann, director of the Evian Group, a think tank.

China's new economic goals may mean fewer of the huge investment projects the government prioritised in recent years, such as airports, highways and high-speed trains.

AFP

A woman sits outside a workshop in China's financial metropolis of Shanghai on Monday.

Fixed-asset investment -- from infrastructure to housing -- accounted for more than half of gross domestic product last year, though it has been growing at a slower pace.

As China places less importance on exports, future growth will also be more dependent on household spending, which made up less than 40 percent of GDP in recent years.

Top economic planning official Zhang Ping said at the weekend that domestic consumption contributed more to GDP growth than investment in the first nine months of the year.

But consumption will have to grow faster to make up for any investment slowdown. And limited social safety nets in China mean households save around half their incomes in case of crises or to send their children to university -- a major brake on consumption spending.

Peking University's Pettis said: "I think we should expect a sharp slowdown in GDP growth over the next decade," as China tries to realign the economy.

With China a key driver of global growth that could have significant negative effects on the rest of the world.

Beijing was saying, "We no longer want to be the Christmas ornament capital of the world, we're happy for those low skill, low value-added, low wage jobs to go to other countries," said Andy Rothman, China economist for CLSA Asia-Pacific Markets in Shanghai.

"The biggest impact is going to be felt by people who have been exporting raw materials to China," he said, citing Australia, Brazil and Indonesia.

But there will be winners as well as losers, he added. "This is actually good for more developed economies like Germany or the United States who are shipping more complicated, advanced machineries to Chinese factories."

Reforms can be "fairly painful" in the early stages and can cause short-term unemployment "even if long-term gains are significant", said Ben Simpfendorfer, managing director of Hong Kong-based consultancy Silk Road Associates. But he added that imports from the rest of the world should increase.

If China can fulfil Hu's promises, about half of the population -- around 700 million people -- will join the middle class by 2020 with annual income between $7,000 and $23,000, the Boston Consulting Group said in a report.

On a purchasing power parity basis China is expected to overtake the United States as the world's biggest economy in 2016, the Organisation for Economic Cooperation and Development said Friday.

But even then per capita gross domestic product will still be only a quarter of the US.