Battered by currency swings, European firms unpick global production model

REUTERS, *London*

A dramatic fall in the euro has created an opportunity for European manufacturers to enjoy cheap production costs at the bases from which they can supply world markets.

But after months of sharp shifts in foreign currencies, many of these companies are simultaneously reworking strategy in the hope that by the time of the next sudden tilt they will be operating in more diverse local markets around the world.

Sweden's Volvo Cars is one such firm embracing regionalisation. Last month it announced plans to build a $500 million plant in the United States, looking past the dollar's current strength to build in a longer-term protection.

"We're eliminating short-term currency fluctuations, which are never good for long-term commitment to customers in different regions, and we're creating a natural hedge," explained Volvo Chief Executive Hakan Samuelsson.

"Natural hedges" occur when a business's structure protects it from exchange rate volatility, such as when suppliers, factories and customers operate in the same currency.

That kind of model is typical for makers of perishable food and drinks that need production bases close to their delivery addresses, but it's less common for manufacturers of more durable goods like automobiles, electronics or clothing that often prioritise cheap labour and economies of scale - at least until recently.

In recent months their model has been challenged by big moves in the euro and the dollar as the European Union and the United States' economic outlooks diverged sharply. Last October the U.S. Federal Reserve announced it would halt the massive bond-buying programme launched five years ago to prop up its battered financial system, because an economic recovery was on track. But in January the European Central Bank kicked off its own programme of so-called quantitative easing in an attempt to revitalise the zone's moribund economy.

As a result the dollar and euro currencies sharply diverged too, and in the last nine months the cost of hedging against future volatility between them has roughly tripled. While that means far more players in the $5 trillion a day market have been actively guarding against swings in currencies, it also shows it is three times more expensive to do so.

"When an exchange rate is particularly volatile it can become too expensive to hedge financially," said Brandon Leigh, chief financial officer of soap manufacturer PZ Cussons. Cussons' biggest market is Nigeria, where the naira has lost 18 percent of its value over the past nine months as a result of a plunge in crude oil prices that hammered Africa's biggest oil producer.

Thus, while "natural" hedging has long been popular in some areas of business, "clearly with more volatility in FX markets it makes even more sense now than ever," said Robert Waldschmidt, a consumer goods equity analyst at Liberum. British online fashion retailer Asos, which has been hurt by the strong pound, said this month it had decided to start sourcing garments for the euro zone in euros and those for the United States in dollars.

"Our ultimate aim here is to capture the maximum natural hedge available to the business," said Asos Chief Operating Officer Nick Beighton. "Our panacea would be to match currency receipts, currency outflows, hold product in that currency and pay in that currency." Sourcing locally has other benefits, especially in emerging markets like Africa, where using local suppliers can fuel economic development - and buying power - of the communities in which manufacturers operate.

Food and drink makers including Nestle, SABMiller and Unilever have all worked to develop local suppliers, which also helps to secure supply and make products more affordable.

Nestle Russia CEO Maurizio Patarnello cited local sourcing as part of the reason his business was only minimally impacted by last year's ban on imports of many Western goods in retaliation for sanctions over the crisis in Ukraine.

"Of course there are certain things that we will never be able to localise, like coffee or cocoa," Patarnello told reporters last month. "For the rest, there is a continuous effort to develop new suppliers."

Local sourcing may be driven by operational concerns but its additional advantage of helping firms to circumvent foreign exchange rates makes company treasuries "the happy beneficiaries from a risk management perspective," said SABMiller's head of risk and funding, Philip Learoyd.

He added that SABMiller, the world's second-largest brewer, would keep looking for opportunities to offset exposure to currency volatility. The company already also protects against swings in raw material costs with financial hedges and keeps its debt denominated in currencies broadly proportionate to operations to avoid swings between amounts received and owed.

Over at Dutch electronics firm Philips, emerging markets account for some 35 percent of revenue but only very little production.

As a result the company's profit margins were squeezed last year by adverse swings in various emerging market currencies, most notably the Russian ruble and the Argentinean peso. "A natural hedge is of course the holy grail because then you're less exposed," said Philips Chief Executive Frans van Houten.

REUTERS

A sign displaying currency exchange rates is pictured at a retail currency exchange location in New York City.

After a year at war, Ukraine at financial breaking point

AFP, *Paris*

Bruised and battered after a year of armed conflict, Ukraine has been crippled by a combination of monetary, budgetary, industrial, banking and energy crises that could make it dependent on outside help for decades.

The country has suffered a series of shocks that has obliterated its fragile economy.

Its vital heavy industry, in the east, has been completely hamstrung, with production plunging by a fifth -- not helped by a sharp decline in steel prices.

In addition, with foreign investors fleeing the uncertainty, the value of the local currency, the hryvnia, has fallen by around 50 percent since the beginning of the year.

"Like many emerging markets, this has a direct effect on households, businesses and public finances, because both private and public debt is denominated in foreign currency," said Julien Marcilly, chief economist at insurance firm Coface.

Gross domestic product contracted 6.8 percent last year, according to official statistics and the central bank is bracing for a decline of as much as 7.5 percent in 2015.

Ukraine is also suffering a debt crisis, with its proportion of public debt to gross domestic product (GDP) expected to spiral to 94 percent this year, according to the International Monetary Fund -- from a healthy 40 percent in 2013.

"There is a banking crisis, a monetary crisis and an economic crisis that translated into a strong contraction of GDP last year. This year, there will probably also be an energy crisis," said Francis Malige, Managing Director for Eastern Europe and the Caucasus at the European Bank for Reconstruction and Development.

The international community, desperate to avoid a collapse in the Ukrainian economy that could be a propaganda coup for Russia, has rushed to its aid.

In April 2014, the IMF sketched out a bailout plan worth some $17.5 billion to come in a series of tranches -- $5 billion of which has already been paid out.

This is part of a package of $40 billion pledged by the international community to help Ukraine back on its feet.

The European Union has offered Ukraine about 1.6 billion euros ($2 billion) in short-term assistance and put together a wider package worth about 11 billion euros.

Ukraine has encountered huge difficulties in borrowing on the open market, raising only small sums over short periods of time.

Possible lenders are scared off by the potential for default -- which the Moody's ratings agency says is near 100 percent.

However, others see it differently -- billionaire investor George Soros has said he is willing to plough one billion dollars into the country.

DTM

Kazi Wahidul Alam, chairman of the Dhaka Travel Mart 2015 organising committee, announces the launch of Monitor Dhaka Travel Mart 2015 on April 9. Akhtaruz Zaman Khan Kabir, chief executive of Bangladesh Tourism Board, was also present.

Malaysia: next healthcare stop for Bangladeshis

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The MHTC also expects that more than 10 lakh people across the world will visit Malaysia for medical tourism purpose this year. "But it's not about the number, it's about the quality of treatment -- and we don't compromise on quality." Nasir A Choudhury, chairman of GD Assist, said a lot of people go India, Thailand and Singapore for treatment. "But we don't have much experience of Malaysian healthcare."

Now, Green Delta Insurance has tied up with MHTC to promote Malaysian healthcare in Bangladesh, said Choudhury, also the founder managing director of Green Delta Insurance.

In November last year, GD Assist launched an insurance scheme, GD Health, to offer medical and health services in Malaysia. Policyholders can get healthcare and medical services at affordable costs in Malaysian hospitals that are linked with MHTC.

"We want to provide an integrated value-added service to our clients so that all Bangladeshi people can visit Malaysia with a package of medical tourism and not only with a package of holidays," said GD Assist Director Chowdhury.

Norlin Binti Othman, high commissioner of Malaysia in Dhaka, said the deal between the GD Assist and Malaysia Airlines is another example of bilateral cooperation to offer Bangladeshi people Malaysian healthcare services in a more organised and systematic manner.

DHAKA WASA

Taqsem A Khan, managing director of Dhaka Wasa, and Shamsul Huda Khan, managing director of National Bank, sign an agreement yesterday for online payment of water bills.

Modi says India to strike own path in climate battle

REUTERS, *New Delhi*

Indian Prime Minister Narendra Modi signalled on Monday he would not bow to foreign pressure to commit to cuts in carbon emissions, instead pledging to use more clean energy and traditional methods to lead the fight against climate change.

India, the world's No.3 emitter of greenhouse gases, has come under pressure to tackle its rapidly rising emissions since the United States and China committed last November to start cutting their own emissions after a "peak year".

United Nations climate talks will be held in Paris later this year to look at ways to limit a damaging rise in global temperatures. Getting India to agree to a strategy to lower its own emissions is vital if the talks are to be judged a success.

Stocks depressed by political fears

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IDLC Investments also said yesterday's session began positively, but succumbed to selling pressures in the later part of the day.

"This ultimately yielded another losing session, strengthening the downward trend," the merchant bank added.

The day's turnover slightly fell 2.1 percent to Tk 305.07 crore with transactions of 6.53 crore shares and mutual fund units. Losers outnumbered gainers 218 to 56, while 36 securities remained unchanged on the DSE floor.

All the major sectors were in the negative territory with textiles and fuel and power dropping 1.48 percent, followed by non-banking financial institutions declining 1.05 percent, pharma 0.99 percent and telecom 0.93 percent.

Bangladesh Lamps was the day's best performer, advancing by 10.78 percent, while Dula Mia Cotton was the worst loser, slumping by 8.97 percent. Chittagong stocks also declined yesterday with the bourse's benchmark index, CSCX, dropping 78.66 points to 8,177.58 points.

Losers beat gainers, as 179 scrips declined and 36 advanced, with 24 securities unchanged on the Chittagong Stock Exchange. The port city bourse traded 70.59 lakh shares and mutual fund units generating a turnover of Tk 28.96 crore.

India likely to extend another $1b loan

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The terms and conditions of the first LoC include a 1.75 percent interest per year and 0.5 percent commitment fees on funds not utilised after 12 months of the contract approval. The loan has to be repaid in 20 years with a grace period of five years. The ERD official expects the terms and conditions of the new LoC to be similar to the previous one.

Export growth brings sunshine

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But the retailers have been coming back with a handful of orders after the Accord and Alliance in September last year said more than 98 percent of the country's garment factories are safe, Islam said.

Both Accord and Alliance have completed inspections of more than 1,700 factories across the country and are now monitoring the implementation of the corrective action plans suggested by the inspection engineers.

STAR

Wan Mohd Ebrahem, general manager of Malaysia Airlines in Dhaka, and Farzana Chowdhury, director of GD Assist, a subsidiary of Green Delta Insurance, sign an agreement to extend discounts for Bangladeshi patients flying to Malaysia for treatment, at a programme yesterday. Story on B1

Noir opens second clothing store

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On their sales trend, they said it increased during Eid, and they expect a good response for upcoming Pahela Boishakh.

"Our sales also increased with the onset of winter as we have a good collection of winter clothes," said Rayeed, who graduated in business management from Pace University in New York.

"We have our own design studio for garment product development. Our team of experts develops designs as we know our customers' choices," said Adeeb, who graduated in fashion and design from National Institute of Fashion and Technology in New Delhi.

The brothers have plans to open Noir shops in Thailand and Malaysia, as they look to expand the brand beyond the national borders.

"We have not come out from our main businesses of garment and spinning. We have just opened another venture under the same Evince Group," Rayeed said. The fabrics used to make the garment items are from their own factories, he added. "We have a lot of scope for business in the domestic market, as people prefer branded goods."

Both the brothers have returned to the country upon graduation to join their family business that is owned by Anwarul-Alam Chowdhury Parvez, former president of Bangladesh Garment Manufacturers and Exporters Association.

BGMEA

Commerce Minister Tofail Ahmed poses with members of the BGMEA University of Fashion & Technology debate team, at ATN Studio in Dhaka recently. The debaters were crowned champions at a parliamentary debate competition. BGMEA President Atiqul Islam was also present.