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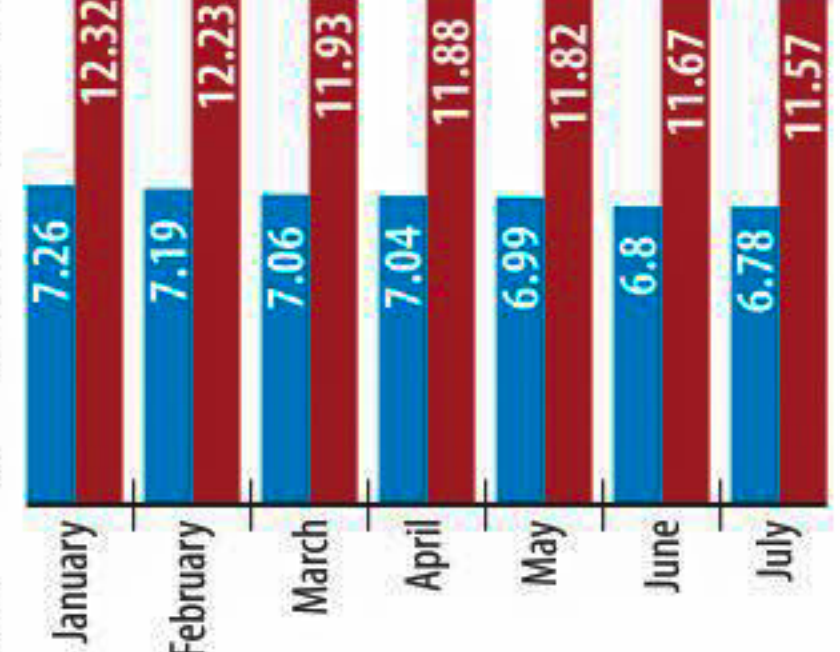
Banks cutting interest rates on poor demand for money

Businesses seeking loans cash in on the situation

STAR BUSINESS REPORT

Poor demand for money has been pushing banks to slash interest rates every month, Bangladesh Bank data shows. The sluggish demand is also reflected in the call money rate, at which short term funds are borrowed and lent in the money market. The scheduled banks' weighted average interest rates on loans dropped to 11.57 percent in July from 12.32 percent in January.

BANKS' WEIGHTED AVERAGE DEPOSIT AND LENDING RATES



When economic activities were coming back on track in the second half of last year, a new wave of turmoil emerged, eating up the first quarter of 2015.

"Genuine businessmen who want loans are cashing in on the market situation," a managing director of another bank said, wishing not to be named.

He said his bank had agreed to lend at 10.5 percent to a big corporate

house but another bank grabbed the customer offering only 10 percent.

There is a window open for banks to invest their money in government treasury bills and bonds that yield 8.4-10.5 percent interest. These rates are lower than in the market, but the banks are happy as investments of idle funds in government instruments bring them some returns, he said.

Low demand for funds is creating surplus liquidity in the market. For example, the banks' average loan-deposit ratio stood at 69 percent in August, meaning that Tk 16 remains unutilised for every Tk 100 deposit. BB rules allow a bank to lend Tk 85 off its Tk 100 deposit.

BB data shows weighted average rate in the call money market was only 5.47 percent on Wednesday and total turnover stood at Tk 5,584 crore, down from Tk 5,809 crore a week ago.

The call money rate, which hovers around the 8-10 percent mark, reached the highest of 180 percent in December 2010.

Sliding yarn prices worry spinners

REFAYET ULLAH MIRDHA

China's stockpiling of cotton coupled with a sudden hike in gas and power prices and the drop in value of yarn in the local market has put investors of the spinning sub-sector in a spot of anxiety.

At present, the widely-consumed 30-carded yarn is selling at \$2.60-\$2.65 per kilogram, down from \$3.60-\$3.65 per kg a year earlier.

For sustainability of yarn trade, a mill requires margins of at least a dollar. But, it has now dropped to below 50 cents.

As of August, China's cotton stock stood at 64.58 million bales (480 pounds make a bale), which is half the annual global production.

The stockpiling in China rose due to a drop in consumption owing to higher production costs and shortage of workers.

The fall in consumption in China, the largest cotton-using country in the world, will affect the Bangladesh spinning sector in two ways, according to industry insiders.

SPINNING SUB-SECTOR AT A GLANCE

- The number of spinning mills in Bangladesh is more than **400**
- Prices of widely-consumed yarn fell **28%** in the last one year
- Indian and Chinese yarn is dominating the local market
- Cotton is traded at **60-62** cents in the international market
- The stock of cotton in China reached **64.58m** bales in August
- Bangladesh imports **5m** bales of cotton a year at nearly **\$3b**

Firstly, the slide in consumption will lower the prices of raw cotton worldwide further, which will also narrow the profit margins in Bangladesh.

Secondly, other countries will break into the local yarn market as they will be able to supply the raw materials at cheaper rates.

Bangladeshi spinners cannot lower the yarn prices any further as they have to purchase cotton at higher prices than the market rate for not having hedging facility and warehousing system in the country.

Hedging is a risk management strategy used in limiting or offsetting probability of loss from fluctuations in the prices of commodities, currencies, or securities.

Cotton importers can hardly enjoy the benefits of lower prices in the world market in the absence of hedging facility and warehousing system, according to industry insiders.

Spinners who had bought cotton at higher prices have to sell yarn at low prices now as cotton prices have declined much since then, putting them in a tight corner.

Currently, cotton is trading at 60-62 cents in the international market, with expectations of further decline on account of the substantial old stock, especially in China. New crops too will become available from next month.

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Bids invited for Payra power plant

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A Bangladesh-China joint venture has invited bids for building the planned 1,320-megawatt coal-based power plant in Payra, Patuakhali.

The Bangladesh-China Power Company on Friday sought proposals from international bidders for engineering, procurement, construction and commissioning of two units of the thermal plant.

The company is a joint venture between state-run North-West Power Generation Company of Bangladesh, and China's National Machinery Import and Export Corporation.

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H&M lag in safety compliance: report

STAR BUSINESS REPORT

Swedish fashion retailer Hennes & Mauritz (H&M) has failed to ensure its apparel suppliers in Bangladesh make their factories safe as committed in the aftermath of the Rana Plaza disaster, an evaluation report said.

H&M failed to ensure worker safety even at its most valued supplier factories, yet continues to do business with all of them, said four international labour rights groups in the report.

The groups are Clean Clothes Campaign, International Labour Rights Forum, Maquila Solidarity Network, and Worker Rights Consortium.

The evaluation report highlights that the efforts to guarantee Bangladesh factory buildings are structurally sound and meet fire safety standards, but are lagging far behind schedule.

The report evaluates publicly available information about the level of progress H&M has achieved in addressing safety hazards in its factories in Bangladesh.

The data is derived from factory inspection reports and Corrective Action Plans (CAPs) publicly disclosed by the Accord on Fire and Building Safety in Bangladesh.

After the Rana Plaza building collapse killed more than 1,100 workers, H&M and roughly 200 other mostly European brands and retailers made binding commitments to improve safety conditions at the garment factories they source goods from.

"Based on the Accord's public disclosure of remediation progress, we must conclude that H&M has failed to honour those commitments," the report said.

The evaluation report focused on H&M suppliers for several reasons: the Swedish retailer is the largest apparel buyer in Bangladesh and its decisions and actions affect the greatest number of workers.

H&M is also highly influential in the industry, both with factories and with other brands. Through its leadership, H&M can help increase compliance with the terms of the Accord, according to the report.

H&M has 229 suppliers in Bangladesh. Of those, 56 are graded by H&M as Platinum or Gold, meaning that they are H&M's strategic partners and preferred suppliers—the factories with which H&M has the closest relations.

H&M's Platinum and Gold suppliers in Bangladesh make about 60 percent of the company's products sourced from here.

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Transit services not for free: Tofail

REJAUL KARIM BYRON, back from New Delhi

The road and water transit services to be taken by India, Nepal and Bhutan from Bangladesh under recent landmark agreements will not be free of charge, said Commerce Minister Tofail Ahmed.

"Nothing is free," he said, adding that the practices followed by other countries in fixing the fee structure under such agreements will be followed.

Ahmed's comments came in an interview with The Daily Star on the sidelines of the inaugural South Asia Economic Conclave, held in the Indian capital on September 28-30.

The Confederation of Indian Industries, a not-for-profit, non-government organisation, organised the three-day event with support from its government and the World Bank.

The objective of the event was to stimulate informed dialogue between the private sector and governments of



Tofail Ahmed

the eight South Asian nations to promote regional trade and investment.

Bangladesh and India signed a coastal shipping agreement during

Indian Prime Minister's visit to Dhaka in June. The agreement allows direct regular movement of ships between the two countries.

Also in June, Bangladesh, Bhutan, India and Nepal (BBIN) signed the motor vehicle agreement that allows seamless movement of people, cargo and personal vehicles across the four countries.

Once the agreement becomes operational, vehicles carrying cargo from Bangladesh will be able to use Indian territories to reach Nepal and Bhutan and vice versa.

Nepal and Bhutan, both landlocked countries, will be able to use the Mongla port as well to ship goods.

But to make the most of this connectivity agreement between the four countries, the infrastructure on the Indian side will have to be made fully operational, Ahmed said.

The roads on the Indian side are not developed much, he added.

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Oman Air to connect Dhaka

Oman Air, the national flag carrier of Oman, will initiate Muscat-Dhaka-Muscat flight from October 25 apart from its existing operation to Chittagong.

Initially, the airline will operate four flights a week on Sundays, Tuesdays, Thursdays and Fridays, an official of the carrier said yesterday.

The flight frequency will be increased to six a week, except for Saturdays, from December 1 this year.

An Airbus A-330-300 with 204 seats in economy class and 26 in business class would be used for the service, according to the statement. -- BSS

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