

# China tightens offshore yuan market to slow outflows, rates rise

REUTERS, Beijing/Shanghai

China has moved to restrict trade at offshore yuan clearing banks, sources told Reuters on Wednesday, stepping up capital controls even as Beijing positions its currency for inclusion in the International Monetary Fund's reserve basket.

The move suggests Chinese regulators still harbour concerns about depreciation pressure, which could put China's IMF bid at risk, even though capital outflows eased in October.

It marks the latest in a series of steps by the central bank to control the market after a shock devaluation of the yuan in August spurred three months of dramatic capital outflows.

Three sources with direct knowledge of the matter said offshore yuan clearing banks and related offshore participant banks had been instructed by the central bank to suspend trading in bond repos and yuan account financing.

"We received window guidance from the central bank on Friday," a trader at an offshore yuan clearing bank said. "We have already temporarily suspended trade in account financing and bond repurchases with onshore banks."

The problem is that different policy goals - the desire to get the yuan into the IMF and the

need to support flagging growth - appear to be working at cross purposes.

"I think this action runs contrary to recent forex market reforms, given that the central bank is trying to internationalize the yuan and boost demand for the currency," said a trader at a foreign commercial bank in Shanghai.

"This action may curb speculation in the currency, but it is a little bit confusing why the central bank would take this move now."

As the People's Bank of China (PBOC) lowers domestic interest rates to combat slowing growth, it diminishes the currency's relative attractiveness versus the dollar, especially as the Federal Reserve is expected to raise its rates soon.

As a result of the latest move, tightening liquidity has pushed the short-term HIBOR rate tracking offshore yuan liquidity in Hong Kong up by 36 basis points to around 4 percent.

While the offshore bond repo market is relatively small, the wider offshore yuan financing market - an umbrella term that describes a cluster of financing mechanisms facilitating cross-border movements of currency - is much larger.

Faxes and calls by Reuters to the PBOC requesting comment were not immediately answered.

In September, China's foreign currency regu-

lator started looking into corporate forex purchases. An official said foreign currency demand by some firms and individuals exceeded "the real and rational use" for the currency.

Since then it has also been accused of intervening in onshore and offshore markets, instructing state-owned banks to buy yuan to keep both the onshore yuan and offshore yuan stable at approximately the same level around 6.4 per dollar.

A strong yuan may help mute China's foreign critics, who often accuse Beijing of suppressing its exchange rate to support its exports, but some believe China will be unable or unwilling to hold the line, expecting the currency to depreciate further as soon as the IMF decision is announced at the end of November.

Chinese central bankers have struggled to put a floor under the exchange rate since the yuan's August devaluation, which shaved nearly 3 percent off the yuan's value versus the dollar.

Intervention to stave off panic forced the central bank to drain China's forex reserves at unprecedented rates, but the trend appeared to be halted in October, when the PBOC and commercial banks bought a net 12.9 billion yuan (\$2.02 billion) of foreign exchange.



Syed Rafiqul Haq, chief business officer of Mutual Trust Bank, exchanges documents with Syed Hasib M Rahman, managing partner of Bulls N Barrels, after signing an agreement. The bank's payroll and privilege customers as well as gold credit cardholders will get discounts at Bulls N Barrels in the capital.

## ILO to train 2,700 workers, managers from garment units

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"This training will help develop skills that will benefit the Bangladesh RMG sector and all who work in it."

In all, 28 master trainers, including seven management counsellors from BIM, who have been trained in effective workplace cooperation by ILO's International Training Centre, will carry out the training.

Five training modules developed by ITC and translated into Bangla will be used to support the sessions.

The training activities are being carried out with financial support from the governments of Norway and Denmark.

ILO recently signed an agreement with Sweden to implement a five-year project to promote social dialogue and harmonious industrial relations in Bangladesh's garment industry.

When it starts in early 2016, this new initiative will further strengthen effective workplace cooperation in some 500 additional apparel factories.



Syed Mahbubur Rahman, managing director of Dhaka Bank, poses while Khandaker Anwar Ehtesham, head of communications and branding of the bank, and Shabbir Hossain, chief executive of Music Super Star, exchange documents of an agreement for the ticketing rights of the third season of Bangladesh Premier League.



Abdus Salam, managing director of Brac Saajan Exchange, UK, and Mohammed Nurul Amin, managing director of Meghna Bank, exchange documents of an agreement at Meghna Bank's head office in Dhaka on Sunday to facilitate inward remittance by expatriate Bangladeshis.

## Monsanto weighing another Syngenta takeover offer

AFP, Zurich

Monsanto is weighing whether to launch another attempt to take over Swiss agrochemicals giant Syngenta, after the Swiss company snubbed an offer from a Chinese group, the Bloomberg financial news agency reported Wednesday.

## Chronic food insecurity still a major issue: study

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Both long- and short-term initiatives to increase employment diversity, and economically empower the vulnerable through better physical communication, education, dissemination of information through media campaigns on nutrition, health, and hygiene are imperative to tackling the issue, the report said. "These programmes need to be integrated with the local agricultural production and functional value chain."

## Form national strategy to serve the unbanked: Queen Maxima

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She said, only around 30 percent people have access to formal financial services, and hoped that in the next phase, Bangladesh will take appropriate measures to bring all the unbanked people under the formal financial network.

SIM registration, strong regulation and issuing national ID cards with biometric verification will make things easier and safer to provide financial services, she said.

In her capacity as the UN secretary-general's special advocate for inclusive finance for development, Queen Maxima came to Bangladesh on November 16 on a three-day visit upon invitation of the Bangladesh government.

UN Resident Coordinator Robert D Watkins was also present at the briefing.

Queen Maxima made a courtesy call on President Abdul Hamid, met Prime Minister Sheikh Hasina, Finance Minister AMA Muhith, Bangladesh Bank Governor Atiur Rahman and other senior officials of the government, development partners, members of the civil society and the private sector.

Rahman, who also attended the press meet, said the central bank will be moving ahead to prepare the first draft of the national strategy by January in consultation with all stakeholders.

The stakeholders include the Prime Minister's Office, the finance ministry and Bangladesh Telecommunication Regulatory Commission.

On the queen's meeting with the president, prime minister, finance minister and

others, Rahman said, "Everywhere there was a serious commitment about digital financial inclusion."

Maxima said governance is an important issue, not only for the public sector, but also for the private sector.

"Through financial inclusion, you will have a more transparent system. I would say financial inclusion makes corruption more difficult."

She also suggested the introduction of Bangla language in all cellphone operating systems, so that it makes things easier for people, and focusing more on providing financial services to women.

Digital financial inclusion will play a key role in reducing the cost of all types of financial services, she said.

Queen Maxima said mobile phone is one of the most promising tools to promote financial inclusion in Bangladesh.

She lauded Bangladesh's progress in financial inclusion and said the efforts need to be continued, as a lack of financial access indicates that there is no secure way for families to save money for school fees, health emergencies and other things.

Financial inclusion is not only growth but also pro-poor."

The BB governor said the cost of sending remittance is dropping significantly due to steps taken by the government.

Rahman said the transaction fee through bKash, a mobile financial service provider, will also come down once the national strategy is formulated and implemented.

## In Myanmar on cusp of change, former junta sees business as usual

REUTERS, Yangon

Aung San Suu Kyi's landslide election win might be bad news for Myanmar businessmen like construction magnate Khin Shwe, who lost his parliament seat and remains barred from doing business with US nationals due to his ties to the former junta. Or maybe not.

Sitting comfortably on a beige leather sofa in his plush Yangon office next to a large portrait of himself, Khin Shwe says he is in a pole position to team up with the global investors who will be lured by Suu Kyi's clean image and a renewed reform push.

"When the investments come in, there is no one else apart from us, the 'cronies', who will be able to work on the same level as the foreign investors," Khin Shwe told Reuters, in a rare interview with an international media organisation.

Myanmar's junta ceded power in 2011 to President Thein Sein's semi-civilian government, beginning a reform drive that delivered record foreign investment and improvements in key sectors of the economy.

Four years on, however, Myanmar's telecoms, tourism, construction and banking sectors are still largely in the hands of some 20 wealthy and well-connected families with ties to military-backed enterprises.

A new influx of investment could boost their coffers, making it harder for start-ups and nimble competitors to grow and compete and ensuring many of the old order maintain their sway over large sections of the economy even after their political representation in parliament was all but wiped out.

Khin Shwe, who lost a battle for re-election to

parliament on the ruling Union Solidarity and Development Party (USDP) ticket, is on a US blacklist due to his ties with Khin Nyunt, a once-feared former intelligence chief and prime minister.

But, after staking a part of his foreign policy legacy on supporting Myanmar's democratic transition, US President Barack Obama may now ease some of the remaining sanctions.

Sat behind a desk cluttered with golden statues and surrounded by certificates of charitable activities, Khin Shwe said he expected sanctions to be relaxed.

"If they keep the sanctions on the people, who will they form joint ventures with when they come in?" he said. "The investors can't come and negotiate with a street vendor over business. They have to remove us from the blacklist."

With Western investors mostly on the sidelines, companies from Asia have led the charge into Myanmar, boosting foreign direct investment to \$8 billion in fiscal 2014/15, more than five times the flows recorded just two years earlier.

That may now accelerate after the clear mandate for change delivered in the Nov. 8 election, the first free poll in a quarter of a century.

"Many investors slowed down investments before the election," said Thitipong Tangpoonthongvivat, CEO of Thai-based General Engineering Pcl, which is building a steel pipe factory in Myanmar with Milcon Steel to capitalise on expected demand for infrastructure projects.

"But after the election, there is more clarity about the political picture that reflects Myanmar is willing to open the country. We can see strong growth in GDP and trade numbers."

The handful of Western multinationals that have set up in Myanmar include PepsiCo Inc, Coca-Cola and GE, which are working with local

distribution partners. More may soon follow.

To be sure, many potential investors are uncertain about Suu Kyi's economic policies.

Thant Zin Tun, executive director of Carlsberg Myanmar and director of LOTTE MGS Beverage Co, producer of Pepsi in Myanmar, said there were also concerns about the lack of business experience in her team.

"She will work with her own organization, she will work with her own administration, she will work with the top management people," he said. "But I just want to know, how many does she have?"

Still, Sean Turnell, an expert on Myanmar's economy at Sydney's Macquarie University, thinks Suu Kyi's decisive win that allows her to govern without needing to build coalitions will have a "hugely" positive impact.

"This is someone who is very Western-minded, very much attached to the rule of law, sound institutions, property rights and all that and she's calling the shots now," said Turnell, who also informally advises Suu Kyi's National League for Democracy (NLD) on economic policy.

"This brings stability that would be favourable exactly for that kind of investor who stayed on the sidelines until now."

Khin Shwe's Zaykabar Ltd conglomerate reported about \$20 million in profits last year and opened a new office tower in Yangon about a month before the election.

Apart from owning a prime real estate portfolio, Zaykabar runs the upmarket Karawek Palace - a gold-painted barge that dominates a lake at the heart of Yangon and was the restaurant of choice for Myanmar's generals during the junta years.

## Observers appointed to ailing state banks

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As of June 30, Sonali's capital shortfall stood at Tk 2,678 crore, Rupali's Tk 554 crore and Janata's Tk 345 crore. Only Agrani had a capital surplus of Tk 52 crore.

The advance-to-deposit ratio (ADR), which compares all loans to all deposits, of Agrani, Janata, Rupali and Sonali banks, has gone down below 52 percent, which indicates that these banks will not be able to earn as much as they could.

In contrast, the average ADR of the 39 private commercial banks stood at over 76 percent on August 27. It is nearly 60 percent for nine foreign banks and over 80 percent for Islamic banks, BB data shows.

The financial health of state-owned banks is not satisfactory, said a BB official. In some cases, it is getting worse.

He also hinted that none of these banks

will get the permission to open new branches until the indicators improve.

Bad investments often erode these banks'

capital, which not only causes sufferings to the depositors but also hurts the government as it has to inject money to make up their capital shortfall.

Loan forgeries also take place in the state banks frequently. For example, Ruposhi Bangla Hotel branch of Sonali Bank had lent little-known Hallmark Group and five other companies Tk 3,547 crore between 2010 and 2012 on forged documents.

The amount, Hallmark Group alone took Tk 2,686.14 crore. Almost all these loans have become bad and Sonali is still bearing its brunt.

As the central bank of the country, the BB can appoint observers to any bank if it deems that the bank's board is failing to play its due role to protect the interests of depositors and shareholders.

At present, state-run BASIC, partially state-owned Bangladesh Commerce Bank and privately-owned ICB Islamic Bank, Islami Bank, Mercantile Bank and National Bank have BB-appointed observers in their respective boards.



Golam Hafiz Ahmed, managing director of NCC Bank, poses with the participants of a month-long foundation training course for the officers of the bank, at the bank's training institute on Tuesday.

## Cut interest rate for SME loans to 9pc: apex trade body

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Industries Minister Amir Hossain Amu expressed his hope that the central bank will take steps to bring down the interest rate for SMEs to 9 percent.

"We all know that high interest rate is the major barrier to growth and development of SMEs," he said, while requesting the BSCIC to cancel plots or lands where the entrepreneurs are yet to set up their industrial units and reassign them to eligible SMEs.

Bangladesh Bank Deputy Governor SK Sur Chowdhury said the interest rate is gradually decreasing.

"However, we are working on bringing it down to 9 percent for SMEs," he added.

Industries Secretary Mosharraf Hossain Bhuiyan, SME Foundation Chairman KM Habib Ullah, and BSCIC Chairman Ahmed Hossain Khan also spoke at the seminar.