

Death of two stock exchanges in Pakistan

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JANUARY 11, 2016 will remain an important date for business historians, for the unnatural death of Lahore and Islamabad stock exchanges in Pakistan. The country integrated all three of its bourses -- Karachi, Lahore and Islamabad -- on the day, in the 'second phase towards the implementation of the Corporatisation, Demutualisation and Integration Act 2012'.

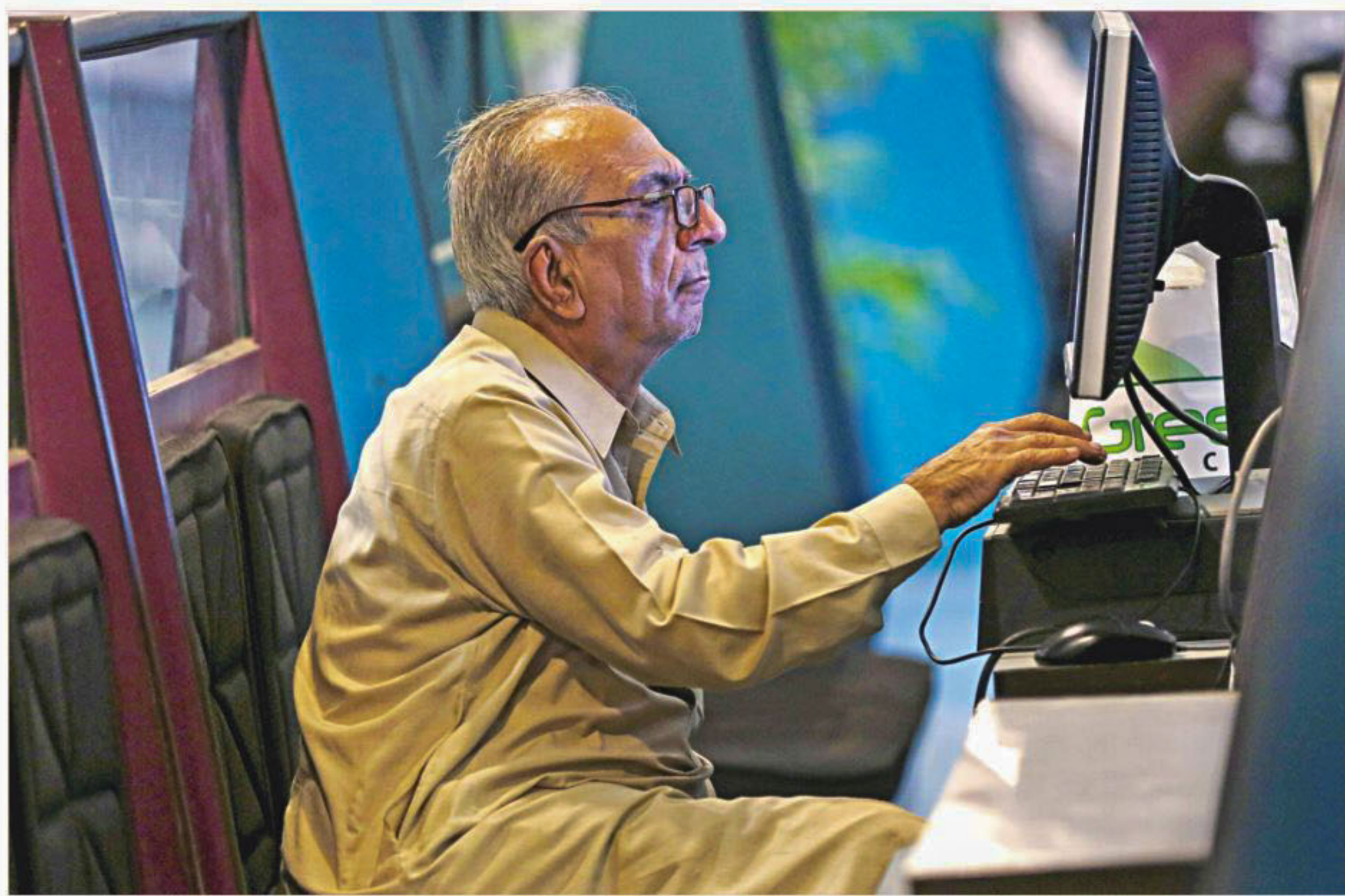
The Karachi Stock Exchange building has changed its signboard prominently: Pakistan Stock Exchange, and the new symbol of the benchmark indices will be PSX.

Pakistan has never been a role model for any country or economy. The country is known to be in a chaotic law and order situation, economic instability and a confused culture. This negative image is held both in the east and the west. It has also been relegated from the list of emerging markets despite being in the N-11 in 2005, and the government is overtly tackling the 4 Es: economy, extremism, energy and education.

Thinking of the economy, Pakistan has every reason to be desperate to redress the playing field for investors, as not only foreign financiers, but a vast number of Pakistani investors have been uncomfortable in investing in the country for fear of the situation around the 4 Es.

A plan to bring a change in the capital market had to be drastic in Pakistan, though the implementation process took more than a decade.

The slogan for "Oneness" had to be political, and the "Power of One" has apparently won at this stage. Certainly, the government led the



REUTERS

A broker monitors the share market prices on a computer during trading session at the Pakistan Stock Exchange in Karachi on January 11. Three stock exchanges of Islamabad, Lahore and Karachi were merged to become the PSE.

change showing a strong political will to bring in positive changes and give the world a signal that the corporate governance in Pakistan has leap-frogged.

And certainly it is not the Securities and Exchange Commission of Pakistan (SECP) alone, rather the Competition Commission of Pakistan (CCP) also played a crucial role.

According to the CCP, the integration of the bourses was to remedy

certain competition concerns, for which the CCP helped the SECP actively. The two commissions worked hard, really hard, as bitterness among the wealthy and powerful stockbroker community loomed.

Competition, after all, is good for the front runners, and the forerunners in capitalism are naturally wealthy and powerful. While Karachi, in general, minded two smaller exchanges as nought, Islamabad and Lahore feared the swallow of a big

fish.

SECP, after a long battle, decided to cancel the registration of two exchanges and offer trading rights for all of their brokers in a collective manner. Every stockbroker of Pakistan is thus therefore 'absorbed'.

"United we stand" is the endnote of many moral stories. In the case of the integration of Pakistan Stock Exchanges, the list of reasons of the unification is pretty long. In the opinion of the SECP, the integration

complies with the international and regional trend, and consolidation will bolster the financial health of the stock exchange. Investors' protection fund too will be enlarged, boosting their confidence.

Also, participation of many brokers in one single platform will enhance liquidity, which is a prime concern of the exchange and its regulator. More orders means more efficient price discovery, which is essential in the market mechanism. The move will also make surveillance and inspection less complicated for the regulator, increasing investor confidence both at home and abroad.

In the process of cancellation of registration of Lahore and Islamabad exchanges, the Karachi stock exchange has become the 'successor' company while the other two are 'transferor'. The integrated Pakistan Stock Exchange is now a public limited company, with 40 percent of its shares available for sale to strategic partners, and 20 percent are supposed to be offered to the public within one year. It will be a hectic race for the PSX.

The issue of international strategic partnership reveals another story. The Istanbul stock exchange has a clear eye on Pakistan, as it wants to own a part of one exchange among many, and integration of the bourses was one of their conditions as well.

It is apparently fashionable to say that whatever in the capital market is done is in the interest of the investors. The same has been said by the Pakistan finance minister. The government cannot help investors by increasing the index, but what it can do is to improve governance. And

the Pakistan government, therefore, has hit the right nail. Their regulators vowed that this time, after a few years of confusing corporatisation of all the three bourses, a new set of independent directors will be installed.

The SECP chair has explicitly stated that directors of the national bourse must be knowledgeably independent and in true sense working for the investors.

Working for investors is not an ear-soothing jingle. Without investors' confidence, bourses are nowhere, and instead of adding to the economic activities, bourses without good governance and confidence can only add to the chaos.

Good governance has been a question in Pakistan for many years, so this move is a good initiative. Pakistan categorically wants to upgrade its market to MSCI emerging market list, for which demonstrating the required good governance is essential.

What the new signboards at Islamabad and Lahore bourses show now is of stronger curiosity. Islamabad city sees a new company head office with the mark "ISE Tower REIT Management Company Ltd". It will provide services to Real Estate Investment Trusts.

Lahore Stock Exchange building has the headquarters for "LSE Financial Services Ltd". It will offer services as a non-bank finance company.

The writer is the managing director of Chittagong Stock Exchange. The article depicts the personal observations and opinions of the writer. It does not reflect any policy or comment of the organisation he is working for.

Benefits of cheap oil will come, but not soon

AFP, Washington

WITH petroleum investment and the manufacturing sector sagging and the stock market in free fall, many Americans are wondering when they will begin to see the benefits of cheap oil.

Crude oil prices have tumbled by 70 percent since mid-2014, dropping this year below \$30 a barrel, a price unimaginable as recently as 18 months ago, when they were at \$110 a barrel.

remain low.

"The magnitude and duration of the slump in oil prices has far exceeded what we originally expected, and the longer it persists, the harder it is to argue that decline will ever be a net positive for the US economy," he said.

"Lower prices should have boosted real economic growth in the US. Instead, the hit to domestic investment has been unrelenting, while households still haven't spent any of their savings."

There are, in any case, more winners than losers in the United States, according to Reza Varjavand, an economics professor at Saint Xavier University in Chicago.

"Transportation, airlines, consumers -- they all win. The losers are mostly overseas."

Varjavand noted that stock markets have suffered and "older people who have money in retirement accounts and pensions, they lose."

"But consumers generally win," he told AFP.



AFP

A boat is seen past an oil tanker docked next to an oil refinery on Bukom island off Singapore yesterday.

The technological breakthroughs of hydraulic fracturing -- or fracking -- have revolutionized the market for black gold, making the United States the world's leading petroleum exporter.

So why do things feel so bleak to many Americans? It may be just a question of timing, some economists say.

"On a net basis, the decline of oil prices is or will be positive for the US economy," said Angel Ubide, a senior fellow at the Peterson Institute for International Economics.

Because the negative impact is "faster and more concentrated in time," people are already feeling it, Ubide told AFP.

"If we look at it in two or three years' time, we'll be able to conclude that the decline in oil prices on net was positive. But we need some time for that."

Steve Murphy of Capital Economics sounded a note of caution, however, saying much will depend on how long oil prices

US financial authorities, starting with Fed chair Janet Yellen, insist that lower gasoline prices should free consumers' purchasing power. Premium gas at the pump is now below \$2 a gallon on average (0.48 euros a liter), a seven-year low.

And yet few signs of impact on consumer spending seem to have materialized, even if the American consumer remains the locomotive of today's modest levels of US growth. Retail sales rose only 2.1 percent in 2015, according to official figures published Friday, down from a yearly average of 5.1 percent from 2010 to 2014.

Murphy said Americans have saved \$115 billion thanks to cheap gas over the past 18 months, but rather than spending it, "Personal saving has increased by US\$120 billion, suggesting that households have saved every last dime from lower pump prices."

Ubide noted, however, that "once the level of savings is higher, at some point the consumer can use those savings to spend."

As for industry, the petroleum and manufacturing sectors are suffering. The extractive industries -- mining, coal and oil -- lost nearly 130,000 jobs last year, according to the Labor Department. The number of active wells operating in the United States fell by 68 percent during the year.

The finances of several US producer states are suffering to varying degrees. "Alaska, North Dakota, Louisiana, Oklahoma, Texas, West Virginia and Wyoming are all states that will experience some amount of economic or fiscal fallout as a result of sustained low oil prices," said a statement from the rating service Standard & Poor's.

Low energy prices will continue to affect the inflation rate, though Yellen has said for months that this will be a "transitory effect." The US central bank wants to see a steady of inflation around 2 percent. "Transitory can be a long time," Ubide said ironically, adding that the impact on inflation of cheaper and cheaper oil is bound, mathematically, to lessen.

China orders foreign banks to hold yuan

AFP, Shanghai

CHINA will require foreign financial institutions in the country to hold yuan in reserve, the central bank said Monday as it seeks to stabilise the currency, which has been hit by capital flight.

Until now, overseas banks in China have been set a reserve requirement ratio -- the amount of depositor funds they must keep aside -- of zero.

From next week they will be subject to similar rules as domestic lenders, the central People's Bank of China (PBoC) said in a statement, without specifying the percentage to be retained. Major Chinese banks currently have a ratio of 17.5 percent.

The PBoC said the move aimed to "prevent financial risk and protect financial stability", according to a statement on its website. It added the rules will "strengthen liquidity management".

The announcement came as the yuan weakens on worries over a slowdown in the world's second largest economy, which has caused capital flight and a widening gap in the offshore market, where investors are betting on further falls.

Offshore dealings in the yuan -- also known as the renminbi (RMB) -- are free from the strict capital controls that China imposes domestically, making it operate more like a true market.

"The central bank wants to maintain the stability of the yuan rate because the expectations of deprecia-



REUTERS/FILE

A watermelon vendor looks at yuan banknotes at a market in Changzhi, Shanxi province.

tion have been rising," Nomura International China economist Wendy Chen told AFP.

"The move will impact the liquidity of offshore renminbi, so it can narrow the price gap between the offshore and onshore rates and therefore lessening the room or chances for foreign institutions to short the yuan," she said, referring to a bet that the currency will move lower.

The yuan strengthened in offshore trading on Monday on the announcement, rising 0.41 percent to 6.5868 per US dollar in Hong Kong,

Bloomberg News reported.

The central bank on Monday fixed the yuan higher against the greenback at 6.5590. At midday, the yuan was quoted at 6.5780 in onshore trading, strengthening from Friday's level.

The central bank uses the reserve ratio to help adjust monetary policy, similar to raising or lowering interest rates.

The new rules will not apply to foreign central banks, international financial institutions and sovereign wealth funds, the PBoC statement said.

কানাডা'র বিখ্যাত FAS গ্রেডের রেড ওক এবং জার্মানি'র শ্রেষ্ঠ বিচ কাঠ এখন বাংলাদেশে

বাজারের সেরা বাণীটিক, টিগাপাটিক, জারুল, টিকচাষল, গর্জন, পামারি, শিলকড়ই সহ বিভিন্ন রকমের সাইজ কাঠ/লেগ বিক্রি করা হয়।

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