

China's surging steel, iron ore inventories at odds with price gains

REUTERS, Launceston, Australia

Something is not quite adding up in China's iron and steel markets, with the reasons for the current rally in prices for both commodities jarring uncomfortably with actual data.

Iron ore futures on the Dalian Commodity Exchange on Tuesday hit the highest since the contract was launched in 2013, reaching an intraday peak of 741.5 yuan (\$108) a tonne, ending 3.2 percent up on the day, taking the gain since the beginning of 2016 to 258 percent.

The simple explanation is that iron ore is merely tracking gains in steel rebar futures, the main Chinese benchmark traded on the Shanghai Futures Exchange.

Steel futures closed on Tuesday at 3,589 yuan a tonne, having earlier reached their highest level since February 2014. Their gain since the start of 2016 stands at a fraction over 100 percent.

The main reasons cited for the rally in steel are strong growth in demand because of Chinese infrastructure spending and fears over supply, given Beijing's plans to cut excess capacity and enforce stricter

pollution controls.

While it's fair to say demand for steel has been boosted by increased spending, and that steel capacity has been cut, there is little evidence that this is creating any shortage of the alloy.

Production is still strong, with China's crude steel output reaching 67.2 million tonnes in January, up 7.4 percent from the same month a year earlier, the World Steel Association said on Tuesday.

Production for 2016 was 808.4 million tonnes, up 1.2 percent on the prior year, confounding expectations at the start of last year that output would decline as the industry was forced to rationalise capacity.

Some 45 million tonnes of excess capacity was shut in 2016, part of a plan to shutter as much as 150 million tonnes by 2020.

But it's clear that shutting excess capacity has had zero impact on steel mills' ability to increase production.

In fact, it may have the opposite effect, as the capacity that has been closed was older, less efficient and generally loss-making, meaning the mills currently operating are more profitable and thus incentivised to boost output.

Central Pharma directors to sell their entire shares

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Its shares were traded at Tk 14.9 at the end of November last year, a price hike of over 119 percent in the last three months.

The DSE called for queries into the company for the unusual price hike on December 20 and February 16. In response, the company said there were no disclosures of price sensitive information. The company experienced a fall in

profit of about 32 percent to Tk 9.77 crore last year from Tk 14.34 crore the previous year, according to the company profile.

Central Pharmaceuticals was established by GETCO/Bangla CAT in the 1980s. Later, Metro Group purchased the company in 1993 and started operations in 1994.

Metro Group sold the company a few years later to Central Pharmaceuticals' existing Director Munsur Ahamed.



Moinuddin Mohammed Rahgir, chief financial officer of bKash Ltd, and Syed Rafiqul Haq, deputy managing director of Mutual Trust Bank, attend the signing of a deal at a ceremony at MTB Centre in Dhaka. The bank will provide bill collection and related services to bKash through customised deposit slips. Kamal Quadir, CEO of bKash, and Anis A Khan, managing director of the bank, were also present.

IDLC's net profits soar 22pc in 2016

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The nonperforming loans declined to 2.98 percent in 2016 from 3.06 percent a year earlier. During the course of the year, IDLC Group acquired 9,575 new customers to take its tally to more than 45,000.

Total customer loans grew 13 percent, or Tk 705 crore, to Tk 6,226 crore at the end of 2016, led by the SME division, whose portfolio expanded by over Tk 368 crore.

The corporate division's portfolio grew by Tk 278 crore to over Tk 1,340 crore. The consumer division witnessed a 4 percent growth. The strong performance has helped IDLC offer 30 percent cash dividend to its shareholders for 2016.

Earnings per share also rose to Tk 7.08 from Tk 5.81 the previous year. Customer assets increased 13 percent to Tk 6,226 crore, according to the company.

China state firm to buy Chevron's gas fields in Bangladesh

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The Bangladesh sources said they were not aware of Zhenhua Oil's competing interest in the Chevron fields.

Chevron, which is the largest foreign investor in Bangladesh's energy sector, operates the Bibiyana, Jalalabad and Moulvibazar gas fields and sells all the production to state oil company Petrobangla.

In 2015, its net daily production averaged 720 million cubic feet of natural gas, which is about one-third of the total production of Bangladesh. It also produced 3,000 barrels of natural gasoline.

NBR unit seeks to freeze accounts of Titas, Bakhrabad over arrears

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The two state agencies have been asked to paying the arrears as per law, but they responded saying they did not owe anything as they had paid the SD and VAT applicable at the production stage to Petrobangla, a government-owned oil and gas corporation.

However, the government is yet to get the amount paid, LTU officials said.

Contacted, a senior official of Titas Gas said solution to the matter should come from the high authority.

Titas pays to local gas fields for purchase of gas from them and to Petrobangla for purchase of gas from the international oil companies.

"This payment cost includes SD and VAT. Petrobangla is aware about the matter," the Titas official added.

Petrobangla Chairman Abul Mansur Md Faizullah could not be reached for comments.

The law has given commissioners the authority to take various steps to realise tax, said NBR Chairman Md Nojibur Rahman. "But we want to realise tax based on

discussion as this is a matter between two government divisions," he said, adding that the finance minister might sit with all of related ministries.

"The arrears are accumulating everyday, so it is win-win situation for all to pay all the dues."

"We will get closer to our annual tax collection target while the taxpayers will not have to pay interest on delayed payment of tax."

Rahman said there is no provision of interest waiver on arrears in the law.

"They will have to pay additional interest. The delay means further rise in dues. Our slogan here for all is pay tax and relax."

On the matter of freezing account, he said the NBR may have to go for it if the discussions fail to bring any solution. "That is the last step."

The NBR's arrears from the energy division already stand at Tk 55,000 crore, which is abysmally high, he said

"The NBR has given maximum tax benefits to the energy division. The division must reciprocate by paying all arrears," Rahman added.



Md Abdul Halim Chowdhury, managing director of Pubali Bank, and Swapan Kumar Roy, general manager of Bangladesh Bank, exchange the signed documents of a participatory deal for the "Urban building safety project" assisted by Japan International Co-operation Agency. Fazole Kabir, governor of Bangladesh Bank, was also present.

PUBALI BANK

Robi yet to comply with all merger conditions

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"They do not have the authority to deduct VAT from the dues," said Md Jahurul Haque, legal commissioner of the BTRC.

Though there is a case ongoing in the High Court about the issue of VAT, the operator cannot deduct VAT by itself from the principal amount, he said.

Another condition was that the merged entity will have to clear all dues of the regulator or the government or any other entities before declaring the merger. The BTRC has no knowledge of this being done by Robi, the letter said.

The High Court gave exclusive authority to the telecom regulator on some technical issues and without

complying with those the merger procedure will not be completed, said Khandaker Reza-E-Raquib, legal consultant of the BTRC.

Earlier on November 24, the BTRC's engineering and operation department wrote another letter to Robi in which the Order of Merger Licence issue was mentioned.

The letter said that both Robi and Airtel violated the Telecom Act and the government's International Long Distance Telecom Services Policy.

Both the operators have started bypassing the interconnection exchanges to send calls from 016 to 018 or 018 to 016, which they cannot do before the completion of the merger, ICX Association said in a letter to the BTRC.

The bypassing will bring about a loss in revenue to the tune of Tk 4 lakh every day to the government.

Another senior official of the BTRC said they want to help the newly merged entity, which has become the country's second largest operator, to bring real competition into the market.

"But Robi itself is creating lots of hurdles to helping them," he added.

In the merged entity, Axiata, the parent company of Robi, will hold a 68.7 percent stake, Bharti Airtel 25 percent and Axiata's old partner NTT Docomo 6.3 percent stake.

The merged entity now has 3.22 crore active customers; individually, Robi had 2.44 crore users and Airtel 77.25 lakh.

Switzerland's ABB hit by \$100m South Korean fraud

REUTERS, Zurich

Swiss engineering group ABB revealed the discovery of what it called a "sophisticated criminal scheme" in its South Korean subsidiary on Wednesday, which it expects will result in a \$100 million pre-tax charge.

ABB Chief Executive Ulrich Spiesshofer described the alleged fraud as "shocking news" which he said could dent the power equipment and industrial firm's reputation.

"The entire ABB group - all 132,000 of us - will have to live with the consequences," Spiesshofer told staff in a letter after the company said it had uncovered significant embezzlement and misappropriation of funds in its South Korean subsidiary.

ABB, which already faces an investigation into suspected bribery and corruption in Britain, has been under shareholder pressure due to a shrinking order book, although Spiesshofer won some breathing space when the firm posted the first uptick in new business in nearly two years in the fourth quarter of 2016.

Separately, ABB said it nominated Lars Forberg, managing director of Cevian Capital, for election to its board. A call by Cevian, ABB's second-largest shareholder, to spin off its power grids business, was rejected by ABB last year.

The Swiss company said the alleged theft was limited to South Korea, where it employs around 800 people and generated sales of \$525 million in 2015.

"The treasurer of the South Korean unit is suspected of forging documentation and colluding with third parties to steal from the company," ABB said.

The treasurer, named by a source in Korea as Oh Myeong-se, disappeared on Feb. 7 and ABB subsequently discovered significant financial irregularities.

"On February 9 we became aware of suspected financial irregularities in South Korea and we immediately launched an investigation," ABB spokesman Saswato Das said.

"Given the size of the scheme, the investigation may expand to third parties inside and outside of ABB in South Korea." The company's South Korean subsidiary declined to comment.

ABB estimated it would take a pre-tax charge of about \$100 million and may delay the publication of its 2016 annual report.

Italian banks struggle to break free from soured debt cycle

REUTERS, Milan

Italian banks are stuck in what stressed-debt experts call purgatory, still forced to pay a heavy price for their past sins despite loan data that suggests they are turning a corner.

The rate at which loans are souring hit an eight-year low last year, but banks still face some 8 billion euros (\$8.5 billion) a year in fresh writedowns, based on past rates at which already-soured loans have gone into outright default.

Italy has 130 billion euros in unlikely-to-pay loans, where borrowers are in trouble but remain in business. As borrowers become insolvent, their loans are added to an existing mountain of debt known aptly as "sofferenze" or "suffering."

Each time that happens, banks make heavy writedowns, wiping out profits, undermining their balance sheets and adding to the instability within the euro zone's fourth-largest banking industry, which now has 200 billion euros in sofferenze.

The only way to stop loans from ending up there is for banks to get borrowers back on track.

"Unlikely-to-pay loans are like purgatory: to avoid plunging into the hell of bad loans you need to wash off your sins," said Katia Mariotti, associate partner of consultancy PwC, which calculated in an unpublished study that some 26 billion euros in unlikely-to-pay (UTP) loans turned into sofferenze in 2015.

"UTP loans don't go back to performing on their own. They must be actively managed, otherwise a very large share of them is bound to turn into bad debts."

In the port city of Genoa, bankers have taken the hint.

Guido Bastianini, chief executive of Genoa-based lender Banca Carige, has set to work to recover UTP loans as part of his pledge to cut the bank's overall problem loans, which

make up a third of its loan book. "It's an absolutely exceptional and excessive number," he told analysts on Feb. 10.

One of Carige's unlikely-to-pay debts is a \$420 million loan to family-owned shipper Gruppo Messina, which used the money to renew its fleet and order eight of the world's largest container ships from South Korea's Daewoo Shipbuilding from 2009 to 2012.

The last of the bright-red vessels was delivered in 2015, in the middle of the shipping industry's worst slump on record as international trade slows and freight rates fall.

Messina is restructuring its debts and hopes the world's second-largest container line, Mediterranean Shipping Company, will become a shareholder. This is also Carige's best chance of getting its money back.

MSC said it and Messina were pursuing an agreement with the help of the bank. All three declined further comment.

When UTP loans cannot be nursed back to health they can be extinguished in two ways: sale or foreclosure.

If sold, the bank incurs a huge loss because the loans are currently valued well above their market price. For example, Italy's largest lender, UniCredit, is selling bad loans in the country's biggest such deal at just 13 cents to the euro.

That compares with an average net book value for UTP loans of around 72 cents to the euro -- and 41 cents to the euro for defaulted loans.

Foreclosure, or seizing collateral, is a long process that would "kill" the borrower and also not recover the entire loan.

The best cure normally entails both a debt and a corporate restructuring, a complex process that becomes a big challenge if the borrower is a small company, like most Italian firms, and its counterpart a loan official at a local bank branch.

Timely action is key. Prelios Credit Servicing CEO Riccardo Serrini, a stressed debt specialist, said most UTP loans were corporate with property pledged as collateral.

"As time passes things only get worse. Think of a half finished property development: it's not like Barolo (wine), ageing doesn't do it any good," Serrini said.

The PwC study, based on 2015 data, found that 56 percent of UTP loans at Italy's top 20 banks were still such after a year, while 22 percent became insolvent and 18 percent was either collected or returned to be performing.

The migration of UTP loans into sofferenze is the main driver of fresh loan writedowns, said Victor Massiah, chief executive of Italy's fifth-largest lender, UBI Banca.

UBI said its inflows of problematic loans were down 70 percent from a 2012 high,



The skyline of Porta Nuova's district is seen in Milan, northern Italy.

REUTERS/FILE