

Investors ponder further shocks after North Korea jolt

REUTERS, London

After this week's war of words between the United States and North Korea triggered the biggest fall in global stocks since the US presidential election, investors are wondering what other off-radar shocks may be waiting to rock world markets.

Although there is little sign so far that investors are protecting themselves against a major sell-off, some say the current environment masks latent risks.

"Every day, our risk models tell us to take more risk because of falling volatility but with markets being where they are, we have to be very careful in not following them blindly," said James Kwok, head of currency management at Amundi in London.

"So we try to project scenarios on what can go wrong and where are markets not looking."

Such has been the extraordinary period of stability in financial markets in recent years that world stocks have hit a series of record highs while gauges of broad market volatility have plunged to record lows.

That benign investment environment has been fostered by central banks which have pumped vast sums

of cash into economies since the global financial crisis that began a decade ago, lifting asset prices globally.

Flows into most asset classes have already overtaken peaks reached before the financial crisis.

For example, inflows into active and passive equity funds have nearly doubled to \$10.9 trillion at the end of June 2017 from a September 2007 peak, according to Thomson Reuters Lipper data. Inflows into bonds have meanwhile increased nearly threefold to \$4.1 trillion in that period.

Broad market gauges of risk, such as the CBOE Volatility Index, better known as the VIX, and its bond market counterpart, the Merrill Lynch Option volatility index remain pinned near record lows despite a spike this week.

But analysts say low market volatility masks the heavy weight of options written on these gauges by investment banks betting that the calm conditions will persist for a long time.

That has been accompanied by the growing popularity of inverse-volatility ETF products, which have doubled in value this year as market volatility has cratered.

Morgan Stanley strategists say the volume of bets on volatility remain-

ing low means even a small increase in price swings could force some of these leveraged bets to unwind, triggering shock waves in the financial system and sending stock markets tumbling.

Daily percentage changes are important in the volatility world because a lot of these exchange-listed products and notes are rebalanced daily based on these changes, so that any large change would automatically trigger selling pressure elsewhere.

"This is why lower volatility creates higher risk," said Christopher Metli, a Morgan Stanley quantitative derivatives strategist in a recent note.

He estimates that a 12 point rise in the VIX could send the S&P 500 index down by 3.5 percent. A move of that magnitude was last seen after Britain's shock Brexit vote in June 2016.

But a spike in volatility is not the only scenario worrying investors.

Other risks markets may be ignoring include the implications of a messy British exit from the European Union and the risks that the Qatar crisis could spiral out of control in the Middle East and hit oil prices. Even the prospect of a newcomer at top of the US Federal Reserve when Janet Yellen steps down in 2018 could prove unnerving.



Sohail RK Hussain, CEO of City Bank, poses with the officials of participating banks and institutions which have subscribed to City Bank's Tk 500 crore subordinated bonds, at its head office in Dhaka. Story on B1

Could Venezuela's debt crisis force regime change?

AFP, Caracas

Venezuela might look bad right now with protests, scarce food and fraught political tensions. But it could soon get a lot worse, according to analysts, because of a debt emergency raising the specter of default.

Such a scenario would cut the oil-rich but cash-starved country off from capital markets. Lenders could seize assets -- tankers, refineries, accounts -- belonging to state oil company PDVSA. The humanitarian crisis could deepen as already limited imported essentials dry up completely and desperate citizens leave. How close is Venezuela to defaulting on its debt, estimated at over \$100 billion?

President Nicolas Maduro's government has so far gone to extraordinary lengths to service it, prioritizing debt repayments over all else, including badly needed imports of food, medicine and other essentials.

But all-important oil production and revenues have been declining, and its currency reserves have shrunk to just \$10 billion. Most of that is in gold, locked away in Caracas as security for loans.

October and November will be a crunch period. That's when a hefty \$3.8 billion in bond payments need to be paid by Venezuela and PDVSA.

Those amortizations "are a challenge, but the government likely will pay," Andres Abadia, senior economist at Pantheon Macroeconomics looking

at Latin American issues, said in a July briefing note.

Nevertheless, he said, Venezuela was running out of cash and "we expect the situation in Venezuela will get much worse." "The likelihood is rising that a deterioration of the current recession/near-hyperinflation economic scenario, and the political crisis, will trigger regime change," he said.

The legal credibility of Maduro's regime in standing behind its IOUs has been put on the line by the election last month of a controversial new loyalist body, the Constituent Assembly, which has power over all branches of Venezuela's government.

The United States -- under whose laws Venezuela's debt contracts are written -- does not recognize the assembly. It calls it an "illegitimate" tool for Maduro's "dictatorship" and has imposed sanctions on the president and some of the assembly's members.

The assembly "aggravates the reputational risk that already exists on PDVSA and Venezuela bonds," said Juan Carlos Rodado, head of Latin America Research at the Natixis investment bank in New York.

He noted that the leader of Venezuela's opposition-controlled legislature has "warned a future government might not honor new debt issued later on."

Many analysts say Venezuela's only option is to renegotiate its debt repayments. But international rejection of the Constituent Assembly -- also by the

European Union -- may prove an obstacle.

"There is a growing consensus that Venezuela will not be able to persist for much longer with its policy of full external debt service," wrote Lee Buchheit of the Cleary Gottlieb Steen & Hamilton law office in New York and G. Mitu Gulati of the Law School at Duke University in a joint paper.

"This implies a debt restructuring of some kind." But holdout creditors would present "a serious, potentially a debilitating, legal risk," they said.

The biggest lenders to Venezuela have been China and Russia, which together have an estimated exposure of around \$50 billion.

China loaned around \$60 billion to Venezuela between 2007 and 2014, to be repaid in oil, which was sold for around \$100 a barrel at the time.

But with oil prices sinking below \$50 since 2015 and Venezuela struggling to provide the production needed, Beijing quietly shut off the credit.

It recouped some of what was lent, but is still owed "a great deal," said Francisco Monaldi, an energy policy expert at Rice University's Baker Institute in Texas and director of the Center for Energy and the Environment at the IESA business school in Caracas.

Venezuela "is sending 400 million barrels of oil a year to China to pay the debt -- and that is less than what it should be paying because the Chinese gave it a grace period due to the low oil prices," he told AFP.



MD Kamal Uddin, treasurer of Dhaka University, exchanges the signed documents of a deal on behalf of the Institute of Business Administration of the university with Bidyut Thakur, project director for business advisory services at Ernst and Young (EY), a London-based professional services firm, at the former's office in Dhaka on Thursday, to start an advanced certification for management professionals programme under the Leveraging ICT for Growth, Employment Governance Project of Bangladesh Computer Council. EY will provide managerial and technical training to 500 mid-level managers of IT and IT-enabled services firms.

India to import 25 tonnes of gold from South Korea duty-free

REUTERS, Panaji, India

Indian traders are likely to import 25 tonnes of gold from South Korea in July and August, taking advantage of a recent tax change that allows importers to ship in gold without paying a 10 percent customs duty, industry officials told Reuters.

The cheap imports are putting pressure on local refiners and banks who cannot match the steep discounts being offered on bullion sales from the duty-free gold from South Korea.

"Already 12 tonnes have been landed from South Korea since the implementation of GST. By the end of this month imports could be around 25 tonnes," James Jose, secretary of the Association of Gold Refiners and Mints told Reuters.

India, the world's second biggest gold consumer after China, imposes a 10 percent import duty on gold, but this does not apply to countries with which it has signed Free Trade Agreements (FTAs), like South Korea.

To avoid duty free imports from those countries, India previously imposed a 12.5 percent excise duty. However, this was scrapped along with other local taxes when a Goods and Services Tax (GST) was introduced from July 1.

"Those who are importing from South Korea are reaping windfall gains," said Rajesh Khosla, managing director of MMTC-PAMP India, the country's biggest refinery.

"They are saving the 10 percent import duty. So they can give a \$10 or \$15 discount. Refiners are operating with a 0.65 percent margin. We cannot compete with someone who is giving a 1 percent discount," Khosla said on the sidelines of the International Gold Convention in Panaji, capital of India's western resort state of Goa.

South Korea is favoured for importing gold over other countries that India has FTAs with because of its ability to deliver bullion in the form of coins or other articles, which do not attract the import duty.

Gold discounts in India widened earlier this month to \$11 an ounce, the highest in more than 10 months.

"The government is aware of the issue and we have asked industry associations to provide more data," said a government official, who declined to be named.

The government has asked traders who are importing gold under free trade agreements to fill in a questionnaire that asks them to specify whether the goods are manufactured in those countries, the official said.

Rising overseas trade brings joy for private ICDs

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Operators said the shipping lines, freight forwarders and the importers are the main clients of off-docks. Usually, the ICDs store empty containers of shipping lines after delivery of imported goods based on agreement with shipping lines.

The off-docks, on behalf of FFs, also pack export goods sent by manufacturers in containers and send those to the port for shipment, according to operators.

"We, the private ICDs, handle nearly 100 percent of the garment exports," said Mazumder of SAPL, which alone handles 21 percent of the containerised exports.

SAPL has been running almost in full capacity to facilitate exports, he said.

Despite the increased volume, there is no rush of new investors to grab a slice of the growing pie of container flow to the Chittagong port in the coming years to feed the rising demand for export-oriented industries and domestic market-focused businesses.

Container traffic at the Chittagong port is expected to increase to 27 lakh TEUs in 2020 and 54 lakh TEUs in 2040, according to a recent paper by Asif A Chowdhury, managing director of K Line Bangladesh Ltd.

"Huge investment is required to establish a yard to facilitate export and import containers. A lot of land is also required," said BICDA President Khan.

Mazumder said the rate of return is not very attractive to investors. BICDA Secretary Mohammad Ruhul Amin Sikder said the increasing volume of containers has ensured viability of off-docks.

But those who have been in the trade for quite a long time have hit break-even and are now starting to make profit. The prospect of making profit is low in the short term, he added.

Operators said private off-docks handle 37 import items and the scope for handling increased number of imported containers will raise the business viability.

A spike in rates for container handling and empty container storage will attract fresh investment for off-docks, they added.

AFM Abdullah Khan, commissioner of Customs House, Chittagong, said off-docks are working as an extension of the port.

He said the ICDs now handle import items that face zero to 5 percent duty.

To handle more import items, off-docks should set up scanners and increase their handling equipment, he said.

Asif A Chowdhury, also a director of the Bangladesh Freight Forwarders Association, said the volume of containers has exceeded the capacity of ICDs.

"We need more off-docks as the volume is rising," he said, adding that the Chittagong port can also build off-docks to facilitate faster shipment and trade.

PUM comes to the rescue of SMEs

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PUM advises on a wide range of areas, such as agriculture, textile, CSR, environmental issues, waste management, leather, tourism and hospitality, flower, fruits, green glass, chemicals and synthetic materials, health care, metal industries, trade, horticulture, energy and water management etc.

At present, PUM sends around 30 experts a year to Bangladesh, which, according to them, is a focused country for PUM's volunteers. "We have a target to send 100 missions per year in Bangladesh," said Hummel, adding that Bangladeshi SMEs face problems in ensuring food safety, safe work places and improving production.

Though PUM was established 35 years ago, it came to Bangladesh in the mid 1990s. It is now in 70 countries and carries out 2,000 projects each year on an average.

Hummel said PUM wants to reduce its services to 30 countries, down from 70, in a bid to be specific and target-oriented. Yet, Bangladesh will remain an important place for PUM's activities, he said.

An SME with at least 10 regular staff but not more than 400 staff can seek the expertise of PUM. Turnover of the beneficiary firm will not exceed \$10 million.

But the conditions can often be flexible, depending on the services an SME wants, said Asbeck. Roosmarie Ruigrok, a PUM expert, advised and coached eight SMEs in Bangladesh producing textiles locally in the slums.

According to PUM's annual report for 2016, Ruigrok's technical advice, for instance on how to sow more precisely, did not only have an impact on the appearance of the final product, it also saved materials and thus money.

She said that might not mean so much when you talk about one dress, but it does add up when you count the production of a month or even a year, she said.

In her interactions with the women, the PUM expert focused on what makes them unique.

"When they know how to profile themselves better, creating individual brands for instance, instead of nameless products, they can add value. Cutting out the middlemen in the chain of production, sometimes five or more persons, is also a quick win to generate more income," she said.

Shipment of vegetables falls for floods

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The central packaging house, which has been set up at the city's Shyampur area, has washing, sorting, grading, packaging and cooling facilities for fruit and vegetable exporters to ensure hygienic processing before shipment.

Bangladesh exports carrot, tomato, potato, eggplant, spinach, cauliflower, papaya, pumpkin, bottle gourd, cabbage, coriander leaf, ladies finger, cucumber, bitter melon, bean, jute leaf, drumstick, radish, dry fish, fish and meat.

The growers at the district level also hiked the vegetable prices by 40 percent due to floods, Mansur said.

Mansur said the ban on direct cargo flights from Dhaka to the EU has also hit exports.

City Bank issues Tk 500cr bonds

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The participating banks and institutions which have subscribed to the bonds are One Bank, Rupali Bank, Janata Bank, Sonali Bank, Pubali Bank, Mercantile Bank, Uttara Bank, Agrani Bank, Dhaka Bank, Standard Bank and Dhaka Stock Exchange.

In a ceremony organised at the bank's head office in Dhaka, Sohail R K Hussain, CEO of City Bank, has expressed sincere gratitude towards the subscribers and parties who were involved in the issuance process, according to the statement.

Banglalink's revenue hits eight-quarter low

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The operator's monthly earnings per customer increased by Tk 1 to Tk 127 in the April-June quarter, according to the report published last week.

In the quarter, the operator also saw a rise in the amount of data per user but it registered a decline in voice calling minutes, the report said. The operator's capital expenditures also declined 45 percent year-on-year to Tk 142 crore in the April-June period.



A five-member Bangladesh delegation led by Nasrul Hamid, state minister for power, meets with a seven-member Myanmar delegation led by U Win Khaing, minister for electricity and energy, in Naypyidaw in Myanmar yesterday. They discussed various issues relating to mutual interests, including electricity and energy.