

Steel sector still in a shakeout

Consumption nosedives amid pandemic; situation will improve hand in hand with economy, industry insiders say

JAGARAN CHAKMA

Steel manufacturers registered around 40 per cent less turnover last year compared to 2019 as they were forced to sell finished products at lower prices in the face of low consumption, according to industry insiders.

The millers even had to offer additional commission for the dealers in order to make sure that they had enough liquidity to survive the ongoing coronavirus pandemic.

During the pre-pandemic period, the production cost of 60 grade MS rod stood at about Tk 58,000 per tonne.

"But in the April-June quarter, the millers had to sell it at Tk 50,000 to Tk 52,000 per tonne due to low demand, which prevailed until September-October," said Md Shahidullah, secretary general of Bangladesh Steel Manufacturers Association.

The millers were compelled to sell their finished steel for lower than the production cost in order to ensure liquidity.

Meanwhile, previously imported stocks of raw materials were exhausted after demand picked up in July, when construction on all the government projects resumed, said Shahidullah, also managing director of Metrocem Steel.

Besides, the price of scrap steel and other raw materials used in the industry rose \$100 to \$120 per tonne in the international market due to a disruption in the global supply chain caused by Covid-19.

Millers now import scrap for about Tk 40,000 per tonne while it was Tk 30,000 during the pre-pandemic era, he added.

Manufacturers need to spend Tk 20,000 per tonne on an average to produce finished products, taking the production cost to Tk 60,000.

Against this backdrop, the manufacturers have no scope to make profit as they are dependent on imported raw materials.

The annual requirement of scrap steel is about 8 million tonnes, of which only 25 per cent is collected locally while the remaining 6 million tonnes is imported.

But despite the price increase, demand is yet to gain momentum, Shahidullah said.

Echoing the same, SM Khorshed Alam, president of the Bangladesh Association of Construction Industry (BACI), said the price of

THE INDUSTRY AT A GLANCE

- » Steel consumption in Bangladesh is worth Tk 55,000cr a year
- » Consumption fell 60pc in 2020
- » Millers were forced to sell steel below their production cost
- » As per estimates, they incurred losses of Tk 6,000cr last year
- » Some companies facing capital shortage
- » Millers trying to make up for the losses by reducing operating cost



MS rod increased 25 to 30 per cent in November-December last year.

"So, the government should include a provision to adjust the price with the current one in public procurement rules," he added.

Besides, the price could be reduced to a reasonable amount by adjusting tariff, value-added tax and advance income tax, according to the BACI chief.

Shahriar Jahan Rahat, deputy managing director of KSRM Group, said the steel industry had witnessed sharp growth amid fierce competition during the pre-pandemic period.

The heightened competition was a result of investment without market research and the installation of additional production capacity, which surpassed total consumption in the local market.

Manufacturers also sold their finished products at a great discount in order to make enough money to repay bank loans and keep their factories operational during the two-month "general holiday".

Between March 26 and May 30, the government imposed a complete lockdown of all economic activities, including its development projects, in a bid to curb the spread of Covid-19.

This led to unhealthy competition in the domestic market as everybody wanted to sell off their stocks, Rahat said.

Companies had to offer commissions of up to Tk 1,500 per tonne to their dealers while it was Tk 1,000 to Tk 1,200 per tonne during normal times, he added.

According to the deputy managing director, the industry will need at least three to four years to recover from the losses faced in 2020.

The KSRM plans to set up its own captive power plant to reduce energy and operational costs while also building efficiency within its existing manpower.

It will invest Tk 500 crore to set up the 56 megawatt power plant, Rahat said.

Small-scale steel mills suffered the most from the ongoing crisis due to a lack of orders and subsequent capital shortage.

Annual consumption rose 15 to 20 per cent per year before that. Rod consumption reached about 6 million tonnes in 2019 while the sector has an installed annual production capacity of about 110 million tonnes.

The steel industry in Bangladesh is worth Tk 55,000 crore.

There are about 40 active manufacturers with a combined capacity to produce nine million tonnes of steel a year. Of them, Abul Khair Steel, GPH Steel, BSRM and KSRM meet more than half of the annual demand of eight million tonnes.

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DSE app goes haywire amid investor influx

The bourse to put mobile trading on hold for some time

AHSAN HABIB

Stock investors faced problems executing trade through the Dhaka Stock Exchange (DSE) mobile app last week as the system was caving in to participation influxes.

The problem was turning acute in the first and last few minutes of the designated trading period, for which the bourse has decided to keep mobile trading on halt from 10am to 10:30am and 2pm to 2:30pm.

This will come into effect from tomorrow, according to the DSE.

The mobile trading system was designed to execute around 8 lakh trades in six hours but in the last few days it was more than double that, said a DSE official preferring anonymity.

For instance, in the first 50 minutes of one day, around one lakh trades were executed, overwhelming the system, he added.

The DSE launched the app on March 9, 2016 to bring ease to trading of stocks and give a boost to the market.

The app was developed by FlexTrade Systems. Apart from executing buy and sale orders, the app features real time display of market and trading statistics, company and portfolio status, company news and purchase and sale alerts.

"I have been facing problems in logging in to the app over the last few days and whenever I did manage to log in, I could not place orders," said stock investor Motahar Hossain Masum.

This is a huge problem in executing trade, he said.

"In the end, though I did manage to ask my stock brokerage house to execute my order, it was not in time for the price I expected," Masum added.

A number of brokerage firms confirmed that their investors faced the same problem and requested to solve it.

Brac EPL Stock Brokerage Manager Md Rasel acknowledged receiving phone calls from investors regarding such problems.

The problems in the DSE mobile app turned acute over the past three to four days. The DSE should fix the problems otherwise investors will lose heart, which may impact the market, Rasel added.

"We have already informed our vendor and we are working on it to bring infrastructural changes," said DSE Chief Technology Officer Md Ziaul Karim.

"We hope to solve the problem in three weeks," he said, adding that the problems were acute in the opening and closing minutes.

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GLOBAL BUSINESS

China to counter 'unjustified' foreign trade and business laws

REUTERS, Shanghai

China's Ministry of Commerce on Saturday published new rules for countering "unjustified" laws and restrictions imposed by foreign countries on Chinese companies and citizens, as economic relations between Beijing and Washington deteriorate.

The rules on "unjustified extra-territorial application of foreign legislation" were posted on department's website and established a "working mechanism" to assess the legal implications of such incidents.

According to the notice, a Chinese person or organisation that is restricted by foreign legislation from "engaging in normal economic, trade and related activity with a third State or its citizens," may report it to the commerce department within 30 days.

The commerce department will then assess a case for its potential violation of international law, impact on China's sovereignty



REUTERS/FILE

A 3D printed Tik Tok logo is placed on a keyboard in front of US flag in this illustration.

and national security, and impact on Chinese citizens. When a citizen or other organisation "suffers significant losses" from non-compliance with foreign legislation, "relevant government departments may provide necessary

support", the notice says.

The Chinese government might also enact "necessary countermeasures" in response. The new rules come amid an ongoing backlash against various Chinese companies from foreign governments,

especially the United States.

Last year Washington, citing national security concerns, imposed restrictions on Huawei Technologies Co Ltd, a telecom and consumer hardware giant, that deprive it of critical components and threaten to cripple its smartphone business.

Social media giants ByteDance has also been caught in Washington's crosshairs, when last autumn the Trump Administration attempted to force it to sell the US division of its popular app TikTok.

The New York Stock Exchange this week said it will delist three Chinese telecom companies following an order from US President Donald Trump in November barring US persons from investing in publicly traded companies Washington deems to be tied to the Chinese military.

The Trump administration is considering adding tech giants Alibaba and Tencent to a blacklist of firms allegedly owned or controlled by the Chinese military, two people familiar with the matter said.

IMF, citing increased credit exposure risks, raises reserve target

REUTERS, Washington

The Executive Board of the International Monetary Fund has agreed to raise the medium-term target for the fund's precautionary reserves given a sharp increase in financial risks since 2018, the IMF said on Friday.

The fund's 24 executive directors increased the target to Special Drawing Rights 25 billion, or around \$36 billion, from SDR 20 billion, or \$29 billion, after a regular biannual review conducted at the end of October, the IMF said in a statement.

SDRs are the IMF's own unit of currency.

The review, delayed by a few months to permit an assessment of the impact of the COVID-19 pandemic, showed a significant increase in the fund's credit exposure and related risk since the last review in 2018, compounded by the pandemic.

"Credit outstanding has nearly doubled, including a surge in emergency financing without conditionality, and commitments under precautionary arrangements are higher than at the last review," the IMF said in its statement.

It said credit had become more concentrated and scheduled repurchases were larger and more bunched. The current target for precautionary balances of SDR 20 billion was also likely to drop below the indicative range this fiscal year and next.

Given these developments, directors agreed to keep the minimum floor for precautionary balances - which include general and special reserves and a special contingent account - at SDR 15 billion and raise the medium-term target to SDR 25 billion, while continuing to monitor the situation carefully.

The IMF noted that some directors pushed for an even higher target, but did not identify them. It said they agreed to reassess the situation before the next regular review in 2022.

The directors agreed there was no current need to accelerate the pace of reserve accumulation, although a few directors urged consideration of options to do so.

The executive board noted that program design, conditionality, lending policies, and the fund's preferred creditor status also help limit the IMF's risk exposure.



REUTERS/FILE

The International Monetary Fund headquarters building is seen in Washington, US.

US stocks end at records as Biden eyes more stimulus

AFP, New York

Wall Street stock indices closed at records again Friday as anticipation of a new fiscal relief package offset poor December jobs figures.

The Dow Jones Industrial Average climbed 0.2 percent at 31,097.97, its third straight record.

The broad-based S&P 500 gained 0.6 per cent to 3,824.68, while the tech-rich Nasdaq Composite Index jumped 1.0 per cent to 13,201.98 -- all-time highs for both indices.

The United States lost 140,000 jobs in December, according to government data, as the worsening coronavirus pandemic undermined the economy's recovery and caused the first loss in employment since April.

But investors took heart as President-elect Joe Biden pledged a wide-ranging fiscal package to support the coronavirus-ravaged US economy. "We need more direct

relief flowing to families, small businesses, including finishing the job of getting people the \$2,000 in relief direct payment," Biden said at an event after naming new Cabinet

nominees.

US stocks have rallied this week in spite of chaos in Washington after supporters of outgoing President Donald Trump stormed

the nation's Capitol building in an unsuccessful effort to block Biden's election victory from being confirmed.

Fallout from those events continued to preoccupy lawmakers in Congress as Democrats vow to impeach Trump, but markets have been looking ahead to Biden's inauguration and expectations for more fiscal support.

Among individual companies, Boeing fell 1.3 percent after it agreed Thursday to pay \$2.5 billion in fines, settling a US criminal charge over claims the company defrauded federal regulators overseeing the 737 MAX, which was grounded worldwide following two deadly crashes.

Tesla continued its surge, vaulting 7.8 percent higher in an increase that lifted its market capitalization to around \$835 billion, above that of Facebook.



REUTERS/FILE

A Wall Street sign is seen outside the New York Stock exchange.

Tesla market value crosses \$800b for the first time

REUTERS

Shares of Tesla Inc jumped as much as 5.6 per cent on Friday, pushing the electric-car maker's market capitalization to more than \$800 billion for the first time ever and inching closer to the trillion dollar club.

Tesla's stratospheric rally has helped Chief Executive Officer Elon Musk surpass Amazon.com Inc's top boss Jeff Bezos to become the world's richest man, Bloomberg News reported on Thursday.

At today's session high, Musk's 21 per cent stake in the automaker as per Forbes contributes more than \$170 billion to his

net worth, dwarfing the combined market capitalization of General Motors, Ford Motor Co and Fiat Chrysler Automobiles, the three Detroit automakers.

In the previous session, Tesla's market value crossed \$774 billion, making it Wall Street's fifth most valuable company, just behind Google-parent Alphabet Inc and ahead of social media giant Facebook Inc.

The company's fortunes is an anomaly as the 17-year-old automaker has production that is just a fraction of large rivals by sales such as Toyota Motor, Volkswagen and General Motors.