BUSINESS

China's bond market becoming too big to ignore



REUTERS/FILE

internationalise its financial markets

and lure big-ticket overseas investors

as its once-mighty trade surpluses

dwindle. Europe's pension industry

second-largest after the United States.

Yet while foreigners own a third of the

U.S. Treasury market, they hold just

9.7per cent of China's sovereign debt,

according to government data. Western

pension funds make up a tiny cohort

of the foreign investors in yuan bond

Of the \$9.5 trillion of assets under

markets, but their presence is growing.

management from corporate and

public pension funds globally, 0.26per

cent was held in Chinese bonds as of

the third quarter of 2020, up from

0.04per cent in 2015, according to

data from institutional asset managers

shared with financial data provider

money has taken a whack of late as

tensions with the United States have

resulted in the ejection of several

Chinese companies from U.S. equity

indexes and curbs on U.S. government

pension funds investing in China.

There have also been defaults by state-

Investors also cite potential pitfalls

Beijing's drive to draw foreign

eVestment.

owned firms.

China's debt market is the world's

alone is worth \$4 trillion.

A customer counts Chinese Yuan banknotes as she purchases vegetables at a market in Beijing, China.

REUTERS, London

China's \$16 trillion bond market is the proverbial elephant in the investment room. But it's becoming too big to ignore, even for the most risk-averse Western investors.

A large, A+ rated sovereign market that pays 3per cent yields, with minimal volatility? It's looking increasingly alluring for European pension funds swimming in sub-zero bond yields as aging populations stretch their finances.

For some, the benefits are beginning to outweigh the political risks, and they are upping allocations to China, or considering doing so, according to Reuters' interviews with half a dozen firms that advise and manage money for pension funds.

"Not all our clients invest in China's bond market, but they are all looking into it," said Sandor Steverink, head of Treasuries at APG, which manages a third of the assets of the 1.5-trillioneuro (\$1.8 trillion) Dutch pension industry. Dutch 10-year bond yields are languishing at around -0.4per cent, spelling losses for any investor who holds them to maturity, a picture reflected across Europe.

Such fund interest is a boon for Beijing, which is seeking to

such as less market transparency and liquidity, with some Japanese investors protesting China's inclusion into FTSE Russell's World Government Bond Index.

In addition, some say the country still has further to go in opening up its markets and worry that while capital controls, which made repatriation of profits difficult, have been eased, they could also be tightened.

China's relatively successful handling of the CÓVID-19 crisis and brighter economic prospects has buoyed confidence, though.

APG runs around 100 million euros in a local Chinese bonds strategy it started just over a year ago. Steverink acknowledged that political risks gave clients "cold feet", but predicted that would change as more cash swept into the debt. "You have to explain if you invest in China. You don't need to explain if you don't invest. That's how it is for the time being," he said.

"In the decades to come, it will be the other way around.

Pension funds themselves are famously secretive about their investment allocation trends, and more than two dozen contacted by Reuters, mostly European, declined to comment on this. However, their money managers, and certain central banks that track investment flows, can provide a window.

China has only stepped up efforts to open up bond markets in the past decade, so foreign investment is starting from a low base. While an increase in broader investment interest is not a new phenomenon, pension funds - the biggest and most cautious players - are now beginning to go with the flow.

The investors interviewed by Reuters said 2020 had been a watershed year, with more developed world bond yields collapsing into negative territory on the back of massive monetary stimulus, combined with China relaxing restrictions on foreign investment.

Insight Investments is looking into setting up a Chinese bond fund on behalf of UK pension funds, Sabrina Jacobs, a fixed-income investment specialist at the \$1 trillion asset manager told Reuters.



Shamima Nasrin, chairman of Evaly, the owning company of food delivery platform efood, and Amit Dev Thapa, CEO of Transcom Foods, franchisee of Pizza Hut and KFC in Bangladesh, exchange documents after signing a deal in Dhaka yesterday. The customers of efood will be able to order food items of KFC and Pizza Hut.

Beximco to buy majority stake in Sanofi Bangladesh

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domestic companies. Its manufacturing capacity has not expanded for many years. Sanofi's share in the country's pharma market is less than 2 per cent.

The industries ministry holds 25.36 per cent stake in Sanofi Bangladesh, and Bangladesh Chemical Industries Corporations owns 19.96 per cent shares.

Sanofi has been operating in Bangladesh since 1958. It merged with various entities to form Sanofi-Aventis in 2004. In 2013, it was renamed Sanofi Bangladesh Ltd.

The company announced its intent to sell its stake in Sanofi Bangladesh in October 2019.

With more than 800 employees and approximately 100 branded generic products, Sanofi Bangladesh has a strong presence in cardiology, diabetes, oncology and dermatology segments.

Sanofi supplies its global brands of vaccines, insulins and chemotherapy drugs to Bangladesh through direct and to grow the business to provide

imports, which the group will continue more to distribute following the completion of the proposed transaction, said Beximco in its posting on the London Stock Exchange.

In the year that ended in December 2019, Sanofi Bangladesh generated Tk 387.95 crore in revenue. Its profit before tax was nearly Tk 50 crore. Sanofi had gross assets of nearly Tk 610 crore.

In a statement, Sanofi Bangladesh said, "The decision to sell its share in Bangladesh is as a result of Sanofi's global business strategy.

The statement said Beximco Pharma was selected as Sanofi Bangladesh's preferred bidder and had had the opportunity to complete its due diligence enquiries as part of the sale process.

"Across the world, Sanofi regularly assesses the best ways in which to serve our customers. Accordingly, we have carefully selected Beximco Pharma that will continue to build on Sanofi's legacy through investments

patients with increased access to Sanofi's products across Bangladesh," said Muin Uddin Mazumder, managing director of Sanofi Bangladesh.

In its postings on the LSE, Beximco said Sanofi Bangladesh is a strong strategic fit for Beximco Pharma, with the potential to generate opportunities for long-term value creation for both companies, providing a strong foundation for sustainable growth, as well as enhancing the company's corporate reputation within the global territories it operates.

"The proposed transaction would enhance and accelerate Beximco Pharma's strategy to consolidate its position as a leading pharmaceutical company in Bangladesh by expanding its core capabilities and product offering for the local market."

Sanofi's manufacturing facilities, which are spread over an area of 25 acres, are located near Beximco Pharma's manufacturing facility in Tongi.

BSRM Steel Mills to merge with parent company

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According to its financial statement, the company's longterm and short-term borrowing was Tk 2,615 crore on June 30 in 2019. Net asset value per share was Tk 34.57 on the day. Earnings per share of BSRM Ltd were Tk 7.88 in 2020. It was Tk 2.98 for BSRM Steel Mills.

If a merger brings down the cost of a company and increases profits, then it is good news for shareholders, said Md Moniruzzaman, managing director of IDLC Investments.

ECB sits tight as virus jitters grow AFP. Frankfurt

European Central Bank governors on Thursday held back from tweaking their pandemic stimulus for the eurozone, even as concerns about new virus variants and slow vaccination drives darken the economic outlook

Fix bottled soybean oil price at Tk 124 a litre FROM PAGE B1

Considering the purchasing power of the general public, the cell also wanted to see changes in the tariff setting system as well as exemption of advance VAT.

The recommendations are vital for the pandemic," said Biswajit Saha, the market as the prices of essential commodities, including edible oil and sugar, are determined based on the opinion of the Essential Commodity Price Monitoring Cell (ECPM) of the BTTC. In case of profits per litre, the oil companies are allowed to have a maximum margin of 2 per cent while the distributors Tk 4 and the retailers Tk 8.

retail price of a product.

"The price of edible oil in the global market is increasing almost every day, as big countries like China are stockpiling edible oil from the international market amid taken that day," he said.

director of City Group.

Minister Tipu Munshi told The Daily Star yesterday. "The meeting will take up the BTTC report as well as the suggestions of the authorities concerned. I hope a decision will be

According to the National Board of Revenue, there is a demand of about 17 lakh tonnes of edible oil in the country every year and imports meet 94 per cent of the demand.

The government's development projects have had a positive impact on the Tk 50,000-crore steel industry in Bangladesh, according to market players.

Per capita steel consumption in Bangladesh almost doubled in eight years to more than 45 kilogrammes in 2018. It is lower than the global average of 208 kg, according to the World Steel Association.

The figure stands at 65 kg in India, 400 kg in South Korea, and 1,000 kg in Japan.

Samsung to make another highend device in Bangladesh plant FROM PAGE B1

According to Uddin, Samsung accounts for 19 per cent to 21 per cent of smartphone sales in Bangladesh and Fair manufactures 99 per cent of Samsung smartphones in the country. According to Bangladesh Telecommunication Regulatory Commission, the current annual handset sales in the country amounted to Tk 10,000 crore.

Ten brands of handsets are now being manufactured in the country: Walton, Samsung, Symphony, Itel-Techno, 5 Star, Winstar, Vivo, Lava, DTC and Oppo.

Over 1.45 crore handsets were assembled in the country's 10 manufacturing plants in fiscal 2019-20, comprising Fair's 9.73 lakh, Edison's 14.20 lakh, Carlcare Technology bd's 42.81 lakh and Anira International's 10.78 lakh.

In that fiscal, local consumers bought 2.94 crore handsets, of which 77 per cent sets were 2G-enabled, 5 per cent 3G and 18 per cent 4G.

Locally assembled smartphones met 51 per cent of the country's demand for handsets in fiscal 2019-20, whereas imported ones the remaining 49 per cent.

Galaxy S21 Ultra 5G's screen size is 6.8" in the full rectangle and 6.6" accounting for the rounded corners. The actual viewable area is less due to the rounded corners and camera hole. It comes with a 40MP selfie camera, 12MP ultra-wide camera, 108mp wide-angle camera and two 10mp telephoto cameras.

Tea production falls in 2020 but overshoots target

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The production was not as expected even in September because of the unfavourable weather. It picked up in November after some rains in October and early November, he said. Timely distribution of fertilizer in the gardens at a subsidised rate, maintaining Covid-19 protocol strictly in the gardens and holding tea auctions help achieve the production target, Tea Board Chairman Md Jahirul Islam said in a press release.

Munir Ahmad, a deputy director of the board, said the bumper production in 2019 was exceptional as it resulted from years of expansion and replantation.

Because of the restriction on social gatherings amid the pandemic, particularly during the strict nationwide lockdown in April and May, annual consumption declined by 10 to 15 per cent.

Having already ramped up support in December, the 25-member governing council announced no changes to its ultra-loose monetary policy.

Attention now shifts to ECB chief Christine Lagarde's 1330 GMT press conference, where she will likely be grilled about how setbacks in the fight against the coronavirus, as well as a stronger euro, could impact growth forecasts for 2021

The ECB last year took unprecedented steps to cushion the economic impact of the Covid-19 crisis on the eurozone. Its biggest weapon is a pandemic emergency bond-buying scheme, known as PEPP, that was in December topped up by 500 billion euros to reach a total envelope of 1.85 trillion euros. The scheme was also extended to March 2022.

The cell sets the mill gate price, distributor price and maximum retail price of all kinds of soybean oil.

The ECPM takes into account several issues, including the international market prices, VAT and tax, refining cost, bottle price and profit of the company, before determining the

Beside, production of top oil exporting countries, including Brazil and Argentina, has declined because of the Covid-19 outbreak, he said.

The import price may increase further and this could impact Bangladesh's local market, Saha said.

"Over the last few months, we have been urging the government to withdraw the advance tax and reduce the VAT at the import stage to keep the oil market stable. But the government is yet to implement it."

Meanwhile, the commerce ministry has decided to sit next Sunday to fix the price of edible oil as part of efforts to keep the market stable, Commerce

About 16 lakh tonnes of crude soybean and crude palm oil were imported in the 2019-20 fiscal year.

Moreover, refined soybean and refined palm oil are also imported but the quantity is negligible.

Some 8.23 lakh tonnes of crude soybean and palm oil worth Tk 5,033 crore was bought in the first six months of fiscal 2020-21, down from 10.63 lakh tonnes worth Tk 5,432 crore in the same period the previous year, according to data from Chattogram Custom House.

BB in a quagmire as excess liquidity balloons

account.

still deflated

from lenders.

on a regular basis, they said.

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An asset bubble arises when the price of an asset, such as stocks, bonds, real estate, or commodities, rises at a rapid pace without the underlying fundamentals, such as equally fast-rising demand, to justify the price spike.

If the asset bubble starts to grow, the central bank should consider mopping up funds from the market.

The central bank recently thought of doing so but later backtracked from the stance, said a number of Bangladesh Bank officials, who are directly involved in monitoring the liquidity situation in the market.

If the central bank commenced withdrawing funds at this moment, it will beyond doubt give a bad signal to the market, they said.

The majority of clients are still shying away from availing loans, which means the excess fund was hardly playing any role in fuelling inflation.

Excess cash with the central bank also increased 323 per cent year-on-year to Tk 44,800 crore in December last year.

The excess cash is calculated on deducting the cash reserve ratio (CRR) of banks, which have to be eposited with the central bank. The CRR is the portion of

customer deposits that commercial banks must keep as a reserve with the central bank authority.

The government has so far rolled out 23 bailout packages

at different times since March last year to absorb the economic shocks arising from the pandemic. The total amount of financial surplus liquidity in the banking assistance now stands at Tk sector? 124,053 crore, 4.44 per cent of the country's GDP.

This has contributed to the growth of excess liquidity in the banking sector as well.

Banks are also cautious in sanctioning loans to borrowers given the business slowdowns, contributing a pile up of excess liquidity in their balance sheets. Lenders will prefer the central International Monetary Fund.

bank's tools such as Bangladesh Bank bill or reverse repo, which are usually used to mop up funds from market, in an aggressive manner if the surplus fund is to be withdrawn.

The tools used for mopping up funds are more secure for banks rather than through disbursement of loans to clients in times of crisis, said the central bankers.

Mansur echoed the same, saying that the time is yet to come to mop up funds. The central bank was now in a tight spot when it comes to tackling the excess liquidity, he said.

He warned that the excess liquidity would further widen until the economic recovery gains trend momentum.

the government "Although has claimed that the economy is recovering at a faster pace, the piling up of excess liquidity has given an indication that the recovery is not on track," he said.

But the major question is: the exchange rate of the local how will depositors' interests be currency. protected from the pressure of

The previous highest was recorded in 2013-14 when Bangladesh Bank bought \$5.15

The central bank has to billion from local banks. If the economic recovery does monitor the issue very cautiously such that the ongoing business not pick up at the optimum slowdown will not create another level from coming June, the financial crisis in the days ahead. government should think of doing The central bank may intervene something about the ongoing in the money market when the remittance inflow, said the three MDs wishing not to be named nominal interest rate on FDRs declines to 2 per cent, said given the sensitivity of the matter. Mansur, also a former official of Mansur said remittance has already helped the foreign The nominal interest rate is exchange reserve to surpass \$43 that before inflation is taken into billion, but it is time for the authority concerned to rethink

the issue

Besides, the central bank should start withdrawing funds "The remittance, which are from the market if non-food now being sent, is not actual inflation takes on an upward remittance. Rather, a large trend. The price of non-food is amount of remittance is flowing into the country in the form of Three bank managing directors, portfolio investment by expatriate however, opined that mopping Bangladeshis," he said. A portfolio up funds from the market was investment is ownership of a not the ultimate solution as the stock, bond, or other financial central bank was injecting money asset with the expectation that it will earn a return or grow in value by way of purchasing US dollars over time, or both.

In recent months, imports The majority of developed nations are in a deadlock of zero have declined while remittance continued to maintain an upward per cent interest rate due to the financial meltdown and it will This has forced the central bank take them a couple of years to get to purchase the dollar from banks back from the zero per cent rate.

"The expatriate Bangladeshis The central bank purchased are now getting a better interest greenback worth a record \$5.49 rate on the deposits kept in the billion in the first half of the local banks than from the lenders current fiscal year to keep stable in places they live in," Mansur

said Remittance hit an all-time high of \$21.74 billion last year, posting a magnificent year-on-year growth of 18.59 per cent.

The government may think of reducing the 2 per cent cash subsidy against funds remitted by expatriate Bangladeshis, if the excess liquidity cannot be managed in time, Mansur said.

Shah Md Ahsan Habib, professor at the Bangladesh Institute of Bank Management, said the central bank should not mop up the excess liquidity from the central bank until the economic recovery gains the fullfledged momentum.

"Both the government and the central bank should give their utmost importance to boost credit demand, which will reduce the pressure from the excess liquidity," he said.

The year-on-year credit growth stood at 8.21 per cent in November, down 8.61 per cent from that a month earlier.

The credit growth in November is the lowest since 2008 at least. Bangladesh Bank's data goes as far back as 2008.

Monzur Hossain, research director of the Bangladesh Institute of Development Studies, said the central bank should mop up the excess liquidity from banks right now in the interest of depositors.

He argues that the economy would face trouble if money does not circulate properly.