

Rising US bond yields pose new threat to sky-high stocks

REUTERS, New York

The US stock market has so far digested a surge in Treasury yields, but some investors are worried that a continued ascent could prove more problematic.

The yield on the benchmark 10-year Treasury note, which rises when bond prices fall, climbed to a one year high of 1.36 per cent this week, fueled by expectations that progress in the countrywide vaccination program and further fiscal stimulus would further spur economic growth.

So far, stocks have responded with little more than a wobble. But some investors worry that a continued rise in yields on Treasuries -- which are backed by the US government -- could dim the allure of comparatively riskier investments such as equities and weigh on the S&P 500 that has risen about 75 per cent since last March.

"When ... government bond yields rise, all asset prices should reprice lower -- that's the theory," said Eric Freedman, chief investment officer at SU Bank Wealth Management, adding that he does not believe yields have yet risen far enough to provide an alternative to stocks.

The rise in yields comes as the S&P 500 hovers near all-time highs at the end of a fourth-quarter earnings season that has seen companies overall report earnings 17.2 per cent above expectations, according to Refinitiv data. Earnings will continue to be in focus next week along with data tracking the economic recovery and developments with President Joe Biden's proposed \$1.9 trillion coronavirus relief package.

Despite solid corporate results, worried investors can point to any number of signs



A Wall Street sign outside the New York Stock Exchange in New York City.

REUTERS/FILE

-- including blistering rallies in Bitcoin and Tesla shares and the proliferation of special purpose acquisition companies (SPACs) -- that ultra-easy monetary policy and fiscal stimulus have fueled an excessive appetite for risk that could be curbed if yields start to rise.

The latest fund manager survey by BofA Global Research showed a record in the net percentage of investors taking higher-than-normal risk, cash allocations at their lowest level since March 2013 and allocations to stocks and commodities at their highest point in around a decade.

Citi strategists said in a report this week that a 10 per cent pullback "seems very

plausible," noting that "if rising bond yields drag down some mega-cap IT growth names... that will impact the broad index as a result of the over-representation of such stocks."

Analysts at Nomura, meanwhile, said earlier this week that a move above 1.5 per cent on the 10-year could spark an 8 per cent drop in stocks.

Low yields and interest rates support equities in several ways, such as reducing debt and borrowing costs, making stocks look relatively attractive to bonds and helping increase the value of companies' future cash flows.

At 22.2 times its forward price-to-

earnings ratio, the S&P 500's valuation is well above its long-term average of 15.3, according to Refinitiv Datastream, though several investors said stocks still look relatively inexpensive compared to bonds.

Plenty of investors are sanguine about the move, noting that yields appear to be rising due to expectations of an improving economy.

J. Bryant Evans, a portfolio manager at Cozad Asset Management, recently added bank and mortgage company stocks to a high dividend portfolio this week to take advantage of the improving economic outlook and rising rate environment.

More broadly, he was targeting a 3 per cent yield on the 10-year for when bonds might start competing more aggressively with stocks.

"For my clients, I would urge some balance and wait a little bit before moving to fixed income because I think interest rates are still extremely low historically speaking," Evans said.

Paul Nolte, portfolio manager at Kingsview Investment Management, is watching whether rising yields eventually come with a "change in tone at the Fed" that suggest the central bank will start tapering its bond purchases as it reins in its stimulus, which could shake the market. Still, he isn't pulling back on his equity exposure for now because of the recent rise in yields, convinced a strengthening economy will continue buoying stocks, particularly those that should shine in a recovery such as financials and other value shares.

The steeper yield curve, Nolte said, is "the bond market's way of telling everybody that the economy is recovering and getting healthy."

Britain's Cairn hopeful of solution in \$1.2b-plus Indian government tax tussle

REUTERS, New Delhi

Cairn Energy Plc said on Sunday it had discussed multiple proposals with Indian government officials in recent days in an attempt to find a "swift solution" to a long drawn-out tax dispute with the South Asian nation.

In December, an arbitration body awarded the British firm damages of \$1.2 billion plus interest and costs, after ruling India had breached its obligations to Cairn under the U.K.-India Bilateral Investment Treaty.

This month, Cairn filed a case in a US district court to enforce the arbitration award, taking an initial step in its efforts toward recovering dues. The US court this week issued electronic summons to the Indian government to file its response to the lawsuit within 60 days or face a judgment by default.

In a release on Sunday, Cairn said it had held "cordial and constructive discussions" with officials from the Indian finance ministry.

"We remain hopeful that an acceptable solution can be found, in order to avoid further prolonging and exacerbating this negative issue for all parties," the company said, adding it is also ready to take all necessary steps to protect the interests of its shareholders.

The Indian government welcomes Cairn's move to reach out for a resolution but plans to file an appeal against the arbitration award and contest its sovereign right to tax, said a government official in New Delhi, who asked not to be identified.

Cairn took the case to arbitration in 2015 to fight a demand from Indian authorities in 2014 for 102 billion rupees (\$1.4 billion) in taxes that India said it was owed on capital gains related to the 2007 listing of its local unit.

India lost another major international arbitration case last September against telecommunications giant Vodafone over a \$2 billion retrospective tax dispute.

Dhaka needs to pay \$460m to join New Development Bank

FROM PAGE B1

Established by the BRICS states (Brazil, Russia, India, China and South Africa), the NDB is headquartered in Shanghai, China.

The purpose of the bank is to mobilise resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries to complement the existing efforts of multilateral and regional financial institutions for global growth and development.

NDB management is undertaking the first round of membership expansion. The membership is open to all UN members.

The rationale for membership expansion of the NDB is to increase capital base, improve credit rating, and make it a truly global development financial institution.

The management has shortlisted 20 targeted countries for consideration for membership.

Current members of the new bank are Brazil, Russia, India, China and South Africa. Each of the current members is scheduled to nominate two countries into the bank, according to the Economic Times newspaper of India.

So far, the bank has approved more

than 50 projects involving over \$15 billion within BRICS countries.

Apart from the founding members, each emerging developing country's shareholding at the NDB will be determined by its economic size relative to the combined size of all emerging market and developing countries, the Indian high commission said.

In the case of Bangladesh, its initial voting power is likely to be higher than at the World Bank and close to the voting power at the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB), it said.

The expected financial commitment from new members would be relatively small in relation to direct lending and procurement benefits. Based on current authorised capital, each 1 per cent of shareholding at the NDB would correspond to \$1 billion of capital, of which \$200 million shall be contributed to the paid-up capital.

Countries may join as borrowing or non-borrowing members.

Bangladesh is a member of multilateral agencies and lenders such as the World Bank, the International Monetary Fund, the ADB, the Islamic Development Bank, and the AIIB.

High food prices weighing on the vulnerable: FAO

FROM PAGE B1

Medium grains rose 39 per cent year-on-year to Tk 50.81 each kg, data showed.

The UN agency said prices of mostly imported wheat flour decreased in the first part of 2020, reflecting adequate market supplies from the bumper output harvested in April and above-average imports.

Starting from August, prices have been generally increasing, supported by trends in the international markets. Overall, prices in January 2021 were slightly above their year-earlier levels, it said.

The FAO said losses in income and remittances caused by the Covid-19 pandemic and its containment measures led to an increase in poverty.

Citing an official estimate, the agency said 29.5 per cent of the total population was poor as of June 2020, up from 20.5 per cent in June 2019.

The FAO said Bangladesh hosts about 8,60,000 Rohingya refugees from Myanmar, most of whom were residing in the Cox's Bazar district.

The agency report published in November 2020 said living conditions of the refugees and host communities have deteriorated compared to that in the pre-Covid-19 pandemic period.

The assessment shows that the percentage of refugee households with a poor consumption score jumped to 15 per cent from 5 per cent in the pre-Covid-19 period, while for the host communities the score increased from 3 to 8 per cent, it added.

The FAO said output from two rice crops -- Boro and Aus -- had been good because of generally favourable weather conditions in 2020.

However, production of Aman crop, harvested by the end of last year, was estimated to be at its lowest level in three years, due to flash floods between July and August, said the UN organisation. Aman rice crop accounts for about 40 per cent of the annual output.

Overall, the 2020 aggregate paddy production is estimated to be at 5.48 crore tonnes, up marginally from 5.47 crore tonnes the previous year, said the FAO.

Citing planting of Boro rice crop, which accounts for 55 per cent of the annual output, the UN body said favourable weather conditions since the beginning of November 2020, strong domestic prices and ample supplies of irrigation water, above-average June to October monsoon rains and supports for planting activities benefitted crop germination.

The FAO said wheat crops were growing under favourable weather conditions. The area planted is estimated to be close to the five-year average, while the increased use of high-yielding seed varieties has given a boost to yield prospects, it said.

Rush for family savings tools

FROM PAGE B1

Repatriated savings from the returnee migrant workers may have been invested in these certificates, in addition to those remittances diverted from informal to formal channels, said Hussain.

As the sales of savings instruments soared, the government fixed the maximum limits for purchases under individual and joint names.

According to a notification of the Internal Resources Division, a person can't invest more than Tk 50 lakh in three savings instruments.

The three are the five-year Bangladesh savings certificate, the three-month profit-bearing savings certificate, and the family savings certificate.

Under joint names, the highest amount of investment in the three savings schemes can be Tk 1 crore, apparently an attempt at discouraging wealthy people from putting in too much money in savings instruments.

The interest rates on bank deposits have declined significantly. The resultant large difference has dulled the attractiveness of term deposits and increased that of national savings certificates.

The weighted average interest rate on bank deposits dropped to 4.54 per cent in December from 4.64 per cent a month ago, Bangladesh Bank data showed.

The current interest rate is lower than the inflation rate.

"Some investments may also have come from the whitening of undeclared money since the scope of using the untaxed money without asking any questions has been widened this year," said Hussain.

"As a result, there has been a significant rise in the disclosure of previously undeclared income," he said.

Some Tk 10,222 crore was whitened between July and December.

The opportunity to whiten the black money reduced the amount of money deposited in banks for the lower interest rates.

There has been a significant inflow of remittance. It was \$12.95 billion in the July-December period.

The sales of five-year savings certificates increased by 25.20 per cent to Tk 4,977 crore.

The interest rate of the instrument is 11.28 per cent. One can buy Tk 30 lakh-worth of the certificates and Tk 60 lakh-worth through joint accounts.

Anyone can buy the savings certificate, including those earning from businesses involving agriculture and fisheries, after obtaining permission from the tax commissioner.

The sale of postal savings certificates decreased by 24.93 per cent to Tk 8,802 crore between July and December because of a reduction in the purchase limit.

One person can buy Tk 10 lakh-worth of term postal savings certificates and Tk 20 lakh-worth through joint accounts.

Ahsan H Mansur, executive director of the Policy Research Institute, said people were not interested in depositing money in banks because of the lower interest rate.

For instance, banks previously used to pay 6 to 7 per cent interest. Now the rate has declined to 3 to 4 per cent.

Moreover, the government's capping of the purchase of the saving instruments did not work well, Mansur said.

Although the government set ceilings, there has been no compliance as it was possible to buy the certificates under the names of other family members such as wife and children, he said.

Currently, there is liquidity in the market. So, people are investing money in the savings instruments rather than depositing them in banks, said the former official of the International Monetary Fund.

"Such a situation is not helping the development of a bond market in Bangladesh. Most of the bonds have remained non-traded for years. As a result, such a move is not at all good for the economy."

Pandemic wreaks havoc on car sales

FROM PAGE B1

"Car importers passed a terrible year in 2020 due to the economic impact of Covid-19 even though sales were slightly improved," said Mohammed Shahidul Islam, secretary-general of the Bangladesh Reconditioned Vehicles Importers and Dealers Association (Barvida) and chairman of HNS Group.

Besides, since car prices increased in Japan at the same time, it will have an impact on the local market in the coming days.

"So, we will demand to the government to restructure the customs duty to help the business survive," Islam said, adding that the market is still unpredictable amid the current crisis.

Car sales came down to 1,033 units per month across the country in 2020 while it was around 1,398 per month the previous year, according to Abdul Haque, president of the Barvida.

"This means our sales volume fell by about 26 per cent compared to normal times," he said.

Customers avoided spending on costly items amid the ongoing economic uncertainty and cars were no exception.

Besides, the additional road tax also affected the market, Haque added.

According to the Barvida chief, importers are in deep trouble as sales have decreased drastically due to the faulty tax structure and reduction in depreciation rate.

Haque went on to say that the faulty duty structure for reconditioned cars has been set in a way that pushes the price for reconditioned cars above that of new ones.

He also alleged that the duty structure is creating disparities between reconditioned and brand-new car importers.

Car sales have come down to 41 units per day in 2020 while it was 56 units in 2019 and 61 units in 2018.

The government brought down the maximum depreciation on imported reconditioned vehicles from 45 per cent in fiscal 2015-16 to 35 per cent in 2018-19.

This increased the import duty and price of imported cars, Haque said, adding that there is no depreciation for one-year-old cars. As a result of the reduced depreciation rate, the price difference between reconditioned and brand-new cars is very insignificant.

"Under these circumstances, all importers and dealers face challenges to survive," Haque said.

Mannan Chowdhury Khasru, a former president of Barvida and owner of Nippon Autos Trading, said he had not witnessed such a loss throughout his four-decade-long career in the sector.

Khasru also believes that car sales came down to its lowest in the last seven years due to the Covid-19 fallout and additional road tax.

Besides, car prices in Japan increased as the Japanese currency gained strength against the US dollar.

"There is no scope to manipulate the price as customs charges import duty on the price of the yellow book," he said.

Khasru added that he already had to close two of his three showrooms in Dhaka due to continuous losses in 2020.

Govt-fixed soybean oil rates fall on deaf ears

FROM PAGE B1

"We have to buy the oil at Tk 114 to Tk 115 and the product is being sold in the retail market at Tk 117 to Tk 119 per litre," he said.

"It will not be possible to control the oil market by only fixing the price and not increasing the supply. In order to keep prices and supply normal, the government has to conduct monitoring everywhere from mill gates to retail markets," he added.

According to the Chattogram Custom House data, more than 9.18 lakh tonnes of edible oil, including crude soybean and refined palm oil, worth Tk 5,539 crore were

imported in the past seven months from July to January of the current fiscal 2020-21.

Some 13.13 lakh tonnes of edible oil worth Tk 6,386 crore was imported in the same period of FY 2019-20.

On Wednesday, the commerce ministry fixed the price of loose soybean oil at Tk 115 per litre at the consumers' level, Tk 110 per litre at the distributor level and Tk 107 per litre at the mill gate.

Bottled soybean oil has been fixed at Tk 135 per litre at the consumers' level, Tk 127 per litre at the distributor level and Tk 123 per litre at the mill gate.

Delta Life to appoint US actuary firm to assess health

FROM PAGE B1

The appointment came after special and investigative audits unearthed breaches of regulations by the insurer.

Earlier, Delta Life Insurance accused IDRA Chairman M Mosharraf Hossain of seeking Tk 50 lakh in bribes for giving approval to the reappointment of the company's chief executive officer and renewing the actuarial valuation basis.

The insurer complained against Hossain with the Anti-Corruption Commission (ACC) on December 7, 2020. On December 9, it sent another letter to the commission, alleging that he demanded the bribe.

Delta Life presented the recordings of phone calls and the audio clip to the commission in support of the allegation.

"As this is an unusual circumstance and we have obligations of running legal issues of the company as well as continuing core businesses, it takes time to appoint auditors," the administrator said.

"We formed a committee to unearth the truth of the allegations made by the company against the IDRA chairman," Mollah said.

In a letter to the ACC on February 17, Pallab Bhowmik, a joint executive vice president of the insurer, said he was forced by the former CEO of Delta Life to complain to the ACC.

He also sought withdrawal of the allegation.

"I know nothing about the audio clips," he said in the letter.

"We told the official to withdraw the allegation and he has already done it," Mollah told The Daily Star.

ACC Spokesperson Pranab Kumar Bhattacharjee confirmed that the commission received a bribery allegation from Delta Life. "The ACC is yet to decide whether it will investigate the issue," he said.

He was unaware of any letter sent by Delta Life seeking withdrawal of the complaint.

"The ACC will decide whether it will continue the process or halt it," Mollah said.

A former director of Delta Life Insurance, preferring anonymity, said that the audio clip proved many things.

Delta Life Insurance sent two audio clips to the ACC containing a conversation between an official of the company and the IDRA chairman.

Bhowmik filed the allegation in line with a decision of the audit committee of the board, so the official is not a big issue here.

"I hope the ACC will look into it," he added.

When an allegation is submitted, its cancellation is up to the commission, and it might not change even after a letter from an applicant, said a top official of the ACC.

Mollah said he wanted to portray a fair and accurate picture of the company through the auditors as ordered by the IDRA.

"We are now checking previous reports that were submitted by the auditors appointed by the IDRA," he said, adding that they are careful about keeping the business unscathed.

The IDRA ran a special audit through Howladar Yunus & Co in 2019 and then an investigative audit through Fames & R Chartered Accountants to verify allegations from shareholders and policyholders.

"On the basis of Delta's response to audit objections, we found that there were breaches of rules and regulations in at least 22 ways," the IDRA said in a show cause notice.

In some cases, the company's answers were not acceptable to the auditor. In cases where the company did acknowledge the breach of rules, there were no statements on when and how it will be corrected, the notice said.

Fames & R Chartered Accountants traced 25 specific areas through which the interests of policyholders were impacted. It recommended carrying out the further probe.

Meanwhile, the VAT Audit, Intelligence and Investigation Directorate filed a case against Delta Life, alleging that it had evaded Tk 35.18 crore in VAT.