

Fed shift causes rally in value stocks to wobble

REUTERS, New York
The Federal Reserve's hawkish shift is forcing investors to reevaluate the rally in so-called value stocks, which have taken a hit in recent days after ripping higher for most of the year. Shares of banks, energy firms and other companies that tend to be sensitive to the economy's fluctuations have tumbled following the Federal Reserve's meeting on Wednesday, when

central bank's shift was a "natural" response to economic growth and inflation moving quicker than expected, bolstering that view. "Value stocks had gotten ahead of themselves, particularly in energy and financials, and the folks that are caught offside are starting to unwind those trades," said Jamie Cox, managing partner at Harris Financial Group. The post-Fed meeting slide in value has been accompanied by a retreat in

breakthroughs in vaccines against Covid-19 bolstered the case for a powerful economic rebound in 2021. Value stocks have outperformed growth stocks by nearly 7 percentage points since the start of November 2020, bucking a trend that saw technology and other growth sectors regularly outshine value over the last decade. An unwinding of the heavy positioning in value shares could exacerbate the recent slide. Mutual funds are overweight value names to a larger degree than any time in the last eight years, according to a Goldman Sachs report published on June 9. Some big-name investors such as Cathie Wood, whose ARK Innovation ETF was the top-performing US equity fund last year, have suggested that growth stocks will resume their market outperformance as investors rotate away from value sectors such as energy that are up 38.5 per cent since the start of the year. Wood's flagship ETF is down 4.8 per cent year-to-date. Others, however, believe the recent wobble in value stocks is a pause, rather than a turning point. Cyclical companies remain the least over-valued in the US stock market, according to Jonathan Golub, chief US equity strategist at Credit Suisse. High sales-growth companies are trading at valuations nearly double their 10-year averages, while cyclical companies are trading at valuations approximately 40 per cent more than their historical levels, he wrote in a research note. The prospect of rising interest rates should also benefit higher quality value stock names that held up better in last year's downturn but have lagged during the recovery, said John Mowrey, chief investment officer at NFJ Investment Group. He has been increasing his positions in utility and consumer staples stocks that have underperformed value stocks as a whole, betting that they will increase their dividend payouts, which would make them more attractive even if Treasury yields eventually rise.



REUTERS/FILE

Shares of banks, energy firms and other companies that tend to be sensitive to the economy's fluctuations have tumbled following the Federal Reserve's meeting.

the central bank surprised investors by anticipating two quarter-percentage-point rate increases in 2023 amid a recent surge in inflation. The Russell 1000 Value Stock Index is down 4 per cent from its June peak, though still up 13.2 per cent this year. Its growth counterpart is up 9.1 per cent year-to-date. One factor driving the move is the idea that a Fed more strongly focused on preventing the economy from overheating may begin unwinding easy-money policies sooner than previously expected. On Friday, St. Louis Federal Reserve President James Bullard said the

some commodity prices, a surge in the dollar and a rally in US government bonds that dragged down yields on the benchmark US Treasury to around 1.44 per cent on Friday afternoon. Investors will be keeping a close eye on next week's economic data for clues on whether the recent surge in inflation -- which saw consumer prices accelerate at their fastest pace in 12 years last month -- will persist. New home sales and mortgage applications are due out June 23, while May consumer spending numbers are expected on June 25. Investors piled into value stocks in the latter half of 2020, as signs of



MIDLAND BANK

Shareholders and top officials of Midland Bank offered prayer on the occasion of its 8th anniversary at its Gulshan-2 office in Dhaka yesterday. Md Ahsan-uz Zaman, managing director and CEO, attended the ceremony. Sponsor Shareholder Kazi Zafarullah and directors Kazi Shahidullah and Ahsan Khan Chowdhury joined the event virtually.

Airlines, holiday companies ramp up pressure on Britain to ease travel rules

REUTERS, London
Britain's airlines and holiday companies are planning a "day of action" on Wednesday to ramp up pressure on the government to ease travel restrictions, with just weeks to go before the start of the peak summer season. Travel companies, whose finances have been stretched to breaking point during the pandemic, are desperate to avoid another summer lost to Covid-19. But with Britain's strict quarantine requirements still in place that now looks likely. As the clock ticks down to July, Europe's biggest airline Ryanair and Manchester Airports Group on Thursday launched legal action to try

to get the government to ease the rules before the industry's most profitable season starts. On Wednesday, June 23, pilots, cabin crew and travel agents will gather in Westminster, central London, and at airports across Britain to try to drum up support. Britain's aviation industry has been harder hit by the pandemic than its European peers, according to data published by pilots trade union BALPA on Sunday. That showed daily arrivals and departures into the United Kingdom were down 73 per cent on an average day earlier this month compared to before the pandemic, the biggest drop in Europe. Spain, Greece and France were down less than 60 per cent. UK airports were also badly

affected, with traffic in and out of London's second busiest airport Gatwick down 92 per cent, according to the data. Time is running out for the industry, said the union. "There is no time to hide behind task forces and reviews," said BALPA general secretary Brian Strutton. "BALPA is demanding that the UK Government gets its act together and opens the US routes and European holiday travel destinations that it has blocked with no published evidence at all." Over 45,000 jobs have already been lost in UK aviation, with estimates suggesting that 860,000 aviation, travel and tourism jobs are being sustained only by government furlough schemes.



NRBC BANK

NRBC Bank Chairman SM Parvez Tamal virtually inaugurated four sub-branches at Muktagacha in Mymensingh, Hossainpur in Kishoreganj, Rupnagar in Mirpur, Dhaka and Chhagalnaiya in Feni yesterday. Managing Director and CEO Golam Awlia and Deputy Managing Director and Chief Financial Officer Harunur Rashid attended the programme.



GREEN DELTA INSURANCE

Syed Moinuddin Ahmed, assistant managing director of Green Delta Insurance Company, handed over a fire claim cheque worth over Tk 23.64 crore to Salim Ahmed, administrative manager of Sarah Composite Mills, at the company's head office in Dhaka yesterday. Md Anisur Rahman, deputy managing director and head of claims, Syed Farhad Abbas, deputy managing director and head of reinsurance, and Syed Aliul Ahab, financial controller of the insurance company, were also present.

Porsche to set up joint venture with German battery maker

REUTERS, Frankfurt
Volkswagen's luxury sports car unit Porsche AG is setting up a joint venture with Customcells to produce high-performance batteries that will significantly reduce charging times, the company said on Sunday. The partnership with Customcells, a company in southern Germany specialising in lithium-ion cells, will aim to produce car batteries with higher energy density than prototypes used in Porsche's current electric cars, the company said in a statement. European carmakers are pushing to reduce their dependence on Asia for batteries as they roll out all-electric models to meet stricter emissions targets in the European Union. In addition to cutting charging time, improving energy density will mean reducing the amount of raw material needed in batteries to achieve the same range. It will also cut battery production costs, making electric cars more affordable.

Porsche said it will invest a high double-digit million-euro sum in the joint venture in which it will hold 80 per cent. The production facility aims to have a capacity of 100 kilowatt hours, which will translate into about enough batteries for 1,000 cars a year. Porsche Chief Executive Oliver Blume said in April the company wanted to speed up its e-mobility drive with plans for a German factory in Tuebingen to manufacture battery cells. At that time, he did not say if Porsche would seek a joint venture partner. Customcells is based in Tuebingen. Porsche's parent company Volkswagen has said it plans to build half a dozen battery cell plants across Europe and expand infrastructure for charging electric vehicles globally.



REUTERS/FILE

A Porsche Taycan electric vehicle is seen displayed during a media day for the Auto Shanghai show in Shanghai, China on April 20.

The rice economy

FROM PAGE B4
In 2021, the projection for production is more than 37 million tonnes. According to a report from the USDA, Bangladesh would produce 19 million tonnes in the ongoing Boro season, which accounts for 55 per cent of the country's total rice production. However, the agriculture ministry is hopeful of harvesting 20.5 million tonnes. In a nutshell, we have nearly a balanced demand and supply situation. Then why is the rice price at the consumer level constantly on the rise? The increased cost of production or inflation alone cannot justify the price hike. The average price of coarse rice is Tk 48-50 a kilogram, while the price of the fine rice hovers around Tk 62-65 per kg. This is the highest price since 2017. The price of coarse rice went up to Tk 50 a kg in 2008 as there was a production shortfall because of the cyclone Sidr, and the government could not fill up the deficit by importing on time due to the crisis in the global supply. In 2020, the average price of coarse rice was Tk 48 per kg, which was 20 per cent higher than that of 2019. Experts are pointing to two main reasons behind this abnormal price hike - shortages of rice in government storage and the tendency of storing more by different quarters in the backdrop of the coronavirus pandemic. A vested quarter hoarded more grains to fleece customers during the pandemic by creating an artificial crisis. According to the food ministry, the government's rice stock has fallen to a 13-

year low of 300,000 tonnes, whereas experts suggest keeping at least 1.25 million tonnes of grains in stock. The main reason for the stock being dried up was the government's failure to procure as per its targets last year because of a higher price in the market. Only 83,000 tonnes of rice were procured against a target of 800,000 tonnes in the last Aman season. When there is a price hike, the government normally launches programmes such as the open market sale (OMS), the Vulnerable Group Feeding (VGF) and the Food for Work to intervene in the local market to control food prices. To understand the price mechanism holistically, we need to consider the influences of middlemen. Before rice reaches a consumer from a farmer, it passes through four more stages: traders, millers, wholesalers, and retailers. In each stage, a markup is added, which eventually influences consumer price. In some cases, especially for the small and marginal farmers, there are more middlemen involved. The small and marginal farmers are in a hurry to sell their produces right after the harvest as they do not have storage capacity. Consequently, they are often forced to sell it at a lower price. According to a study of the International Food Policy Research Institute (IFPRI), 83 per cent of farmers belong to the group of marginal and small category which have land less than 1.5 acres. So, the government should buy paddy directly from the farmers, and it should buy

more. The total rice equivalent procurement in 2018-2019 was only 7.25 per cent of the total production, and the scenario was dismal in 2020. An IFPRI study suggests the government buy at least 19 per cent of paddy to ensure minimum price support. The government's storage facility is not adequate, and it is going to be 2.4 million tonnes. The country should have a capacity to store 5 million tonnes of rice to facilitate more procurement. If the government has enough stock, it can carry out programmes like OMS, VGF and Food for Work more, which eventually contribute to stabilising the price as and when necessary and help people in the low-income bracket. There must be transparent and real-time information about the stock, both at the public and private level so that, in the case of an emergency, import decision can be taken well in advance, or in the case of a surplus, authorities might think about exports or other programmes. Any unscrupulous attempt to manipulate the price should be dealt with strictly. Therefore, a vigilant approach to monitoring the market dynamics is required. Rice plays the most significant role in ensuring the food security of Bangladesh. Therefore, it should be taken care of with the utmost seriousness, appropriate policy, comprehensive plan, and intense focus so that the interests of the farmers and consumers are protected. The author is chairman and managing director of BASF Bangladesh Ltd. Views are personal.