Oil prices turn more volatile as investors exit market

REUTERS, *New York/London*

Traders and fund managers have left crude oil markets in recent months, dropping activity to a seven-year low amid the worst global energy crisis in decades as investors become unwilling to deal with persistently high volatility.

The exodus of participants, especially hedge funds and speculators, has made daily price swings far greater than in previous years, making it harder for companies to hedge against physical purchases of oil. The volatility has harmed companies that need energy market stability for their operations, which includes oil-and-gas companies, but also manufacturing and food-and-beverage industries.

The high volatility is delaying increased capital expenditures that would help supply keep pace with energy demand, said Arjun Murti, a veteran energy analyst

Brent crude futures are swinging sharply on a daily basis. Between Russia's invasion of Ukraine on February 24 through August 15, the daily range between Brent's session highs and lows averaged $5.64. For the same time period last year, the average was $1.99, a Reuters analysis of Refinitiv Eikon data showed.

The high volatility is delaying increased capital expenditures that would help supply keep pace with energy demand, said Arjun Murti, a veteran energy analyst. When volatility is high, oil companies have less confidence in price forecasts, he said.

"There will be concern that prices could fall back to lower levels that wouldn't justify new capex," Murti told Reuters.

Many different types of investors, including banks, funds and producers, have exited the market, participants said, as the market on some days surges on threats to supply, while on other days the cloudy economic outlook causes equally wild selloffs.

Overall open interest in the futures market has fallen nearly 20 per cent since the start of the Russia-Ukraine conflict,

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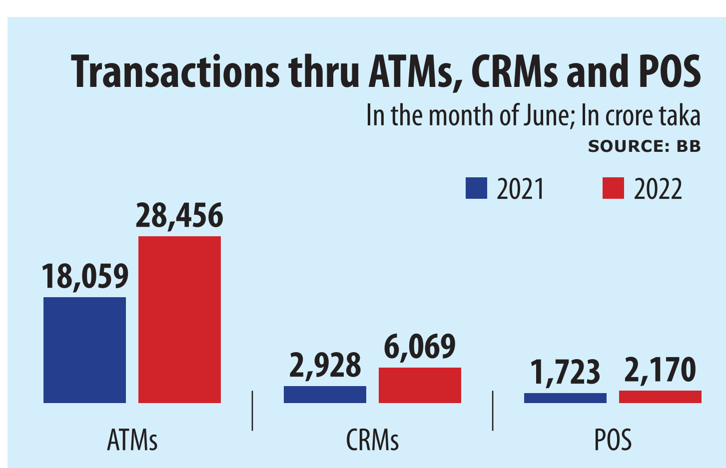
Amid the growing use of cash recycling machines, automated teller machines or ATMs, which permit fund withdrawals, are going to be obsolete gradually, bankers say.

PHOTO: STAR/FILE

Cash recycling machines gaining traction

Replacing ATMs, CDMs gradually

AKANDA MUHAMMAD JAHID



Cash recycling machines (CRMs), set up by banks in Bangladesh to help clients deposit, withdraw and transfer money instantly, almost doubled in the last financial year.

In 2021-22, banks installed 917 such machines, taking the total to 1,821, up nearly 99 per cent from a year ago, data from the Bangladesh Bank showed.

The new technology was introduced in Bangladesh in 2017.

Since then, banks have been increasingly installing CRMs as it offers a number of core banking services, cutting customers' reliance on branches and giving them more freedom to carry out financial transactions whenever they want since the machines operate round the clock.

A CRM can accept cash, count the notes, authenticate them, and credit the amount to accounts on a real-time basis, helping banks do away with the manual labour needed to provide the service.

It allows users to deposit and transfer funds to other accounts as well.

The rural parts of the country saw a huge increase in the number of CRM installed. Banks set up 159 CRMs outside big cities and towns in FY22, a 120 per cent year-on-year rise from the previous financial year's 133 units.

They installed 745 CRMs in urban centres, raising the total number to 1,529, an increase of almost 95 per cent from the previous year, according to the central bank data.

Transactions through CRMs rose to Tk 6,069 crore in June, more than doubling from Tk 2,928 crore in the same month last year.

"The number of CRMs is increasing rapidly as the machine has the facility of both real-time deposit and withdrawal," said Ziaul Karim, head of communications and external affairs at Eastern Bank Ltd.

CRMs cut the necessity for many customers to visit branches, have reduced the pressures on banks, and brought down the frequency of cash loading.

"Therefore, the operating cost is being rationalised. It is also the best source for an instant cash deposit in both cards and accounts," Karim said.

Currently, 16 banks are using CRMs across the country. EBL has set up five CRMs and another 50 will be installed in the next four months.

Amid the growing use of CRMs, cash deposit machines (CDMs), which only allow depositing cash, and automated teller machines (ATMs), which permit fund withdrawals, are going to be outdated gradually, bankers say.

There were 1,699 CDMs across the country at the end of FY22. It stood at 1,664 at the end of FY21, BB data showed.

No new CDM was set up in the rural areas since December when the number of such machines fell to 505.

The number of ATMs increased 6 per cent year-on-year to 13,036 as banks set up 699 new automated teller machines since June last year.

Users used ATMs to transact Tk 28,456 crore in June, a year-on-year increase of 58 per cent. It was Tk 18,059 crore in the same month in 2021.

Karim thinks since ATMs are being used for cash withdrawals only, CRMs will replace them in the next five to seven years.

The number of points of sale (POS) devices, which enable merchants to accept payments through cards, rose 23 per cent year-on-year to 101,341 in June, highlighting the shift to digital transactions. The devices installed hit the one-lakh mark in April.

Transactions through POS devices stood at Tk 2,170 crore in June, up 26 per cent from Tk 1,723 crore a year prior.

As banks are increasingly moving to digital means of providing services and customers are finding them convenient, the number of branches increased by only 2 per cent to 10,980 in the last fiscal year.

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Evaluating highest credit ratings during uncertainties

MD ABDUL WASI

Credit ratings highlight a borrower's creditworthiness, wherein a higher rating refers to the superior credit quality of an individual or entity and the notion that it deserves greater investor confidence.

Despite heightened macroeconomic volatilities, some listed financial firms in Bangladesh have recently received the highest AAA credit rating. In contrast, many advanced economies, including the US, still maintain AA or AAA credit ratings, depending on the rater. Therefore, on a relative scale, can we assert that these firms have similar or even better creditworthiness than the sovereigns with the strongest economies in the world?

While some might argue that there is no clear-cut answer to the question, it may be worthwhile for investors and policymakers to be cautious in any attempts to rely (or over-rely) on such rating assessments, especially as risks continue to rise.

Several plausible reasons support this careful approach.

Over the years, a large body of academic work has highlighted how overstated credit ratings can mislead investors and encourage them to commit more funds than is desirable.

For instance, the global financial crisis of 2008 is often considered a significant event that shows how the credit ratings of complex financial products were consistently misjudged, and in the post-crisis phase, resulting in increased risks for the general investors. Eventually, to safeguard these investments and curb the financial instability, significant government intervention in the form of an extensive bail-out occurred, prompting considerable increases in government spending.

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First, for the investors, the experience from the global financial crisis provides vital lessons. The main takeaway would be to make more prudent financial investment choices.

To further elaborate, a AAA credit rating can suggest that an entity has the lowest possible default probabilities and would be easily able to meet all the financial obligations. This inference can trigger a large inflow of funds (or deposits in the case of banks) or even raise the demand for an entity's stocks, increasing their prices. Thus, such increases in market activities backed by excellent credit ratings may make it harder for investors to easily detect firm-specific risks or anomalies that can initiate in unpredictable market conditions.

Suppose the firm-specific fundamentals do not remain significantly strong to justify the highest possible rating. In that case, a credit rating downgrade can quickly decline the value of the capital providers' investments. Therefore, in addition to making their own financial evaluations, it may be necessary for investors or savers to consider several credit rating assessments suggested by multiple credit rating agencies, local and international.

After reviewing these ratings, the investors can make informed decisions about putting additional funds into such entities.

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Germany's Russian gas crisis sparks coal rush

AFP, *Berlin*

"A rush like this in the summertime, it's unheard of -- everybody wants coal," says Frithjof Engelke, a supplier of the briquettes which have become a hot commodity in the German capital.

A looming shortage of Russian gas in the wake of the Ukraine war has reignited enthusiasm for this method of heating private homes despite its sooty residue and heavy carbon footprint.

Engelke, 46, head of the century-old Berlin business Hans Engelke Energie, says it's brought a bonanza for his family business: "My holidays will have to wait."

He and his team are frensiedly taking orders, organising deliveries by truck -- now booked out until October, and getting supplies ready for those who come directly to pick up coal from his warehouse.

On a hot summer's day, he weighs and bags loose coal amid the dust and din of his filling machine, then arranges the bags on pallets, awaiting customers. In Berlin, 5-6,000 homes still heat with coal -- only a fraction of the city's 1.9 million homes, say municipal authorities.

Engelke's customers are often elderly people, sometimes entirely dependent on coal and living in old dwellings that have never been renovated.

Others are lovers of the "cosy" heat emanating from often ornate old ceramic stoves.

But this year, new customers have arrived "en masse", says Engelke, whose medium-sized company has also diversified into wood pellets and fuel oil.

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A customer shops for produce at the Whitechapel market in east London. UK consumer price inflation jumped to 10.1 per cent in July, its highest since February 1982, up from an annual rate of 9.4 per cent in June, intensifying the squeeze on households, official figures showed yesterday.

PHOTO: AFP/FILE

UK inflation hits new 40-year high

AFP, *London*

British inflation surged to a new 40-year high in July on soaring food prices, official data showed Wednesday, adding to a cost-of-living crisis as the country faces the prospect of recession.

The Consumer Prices Index (CPI) accelerated to 10.1 per cent last month from 9.4 per cent in June -- itself a four-decade high -- the Office for National Statistics said.

The Bank of England warned earlier this month that UK inflation would climb to just above 13 per cent this year, which would be the highest level since 1980.

It also projected that the country would enter a recession near the end of the year that the BoE expects to last until late 2023.

Official data last week showed Britain's economy shrank in the second quarter.

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