US short-term financing rate spikes

REUTERS, New York

A measure of the cost of borrowing short-term funds backed by US Treasuries spiked this week to its highest since 2019, a move some market participants attributed to dealers closing their balance sheets for the year.

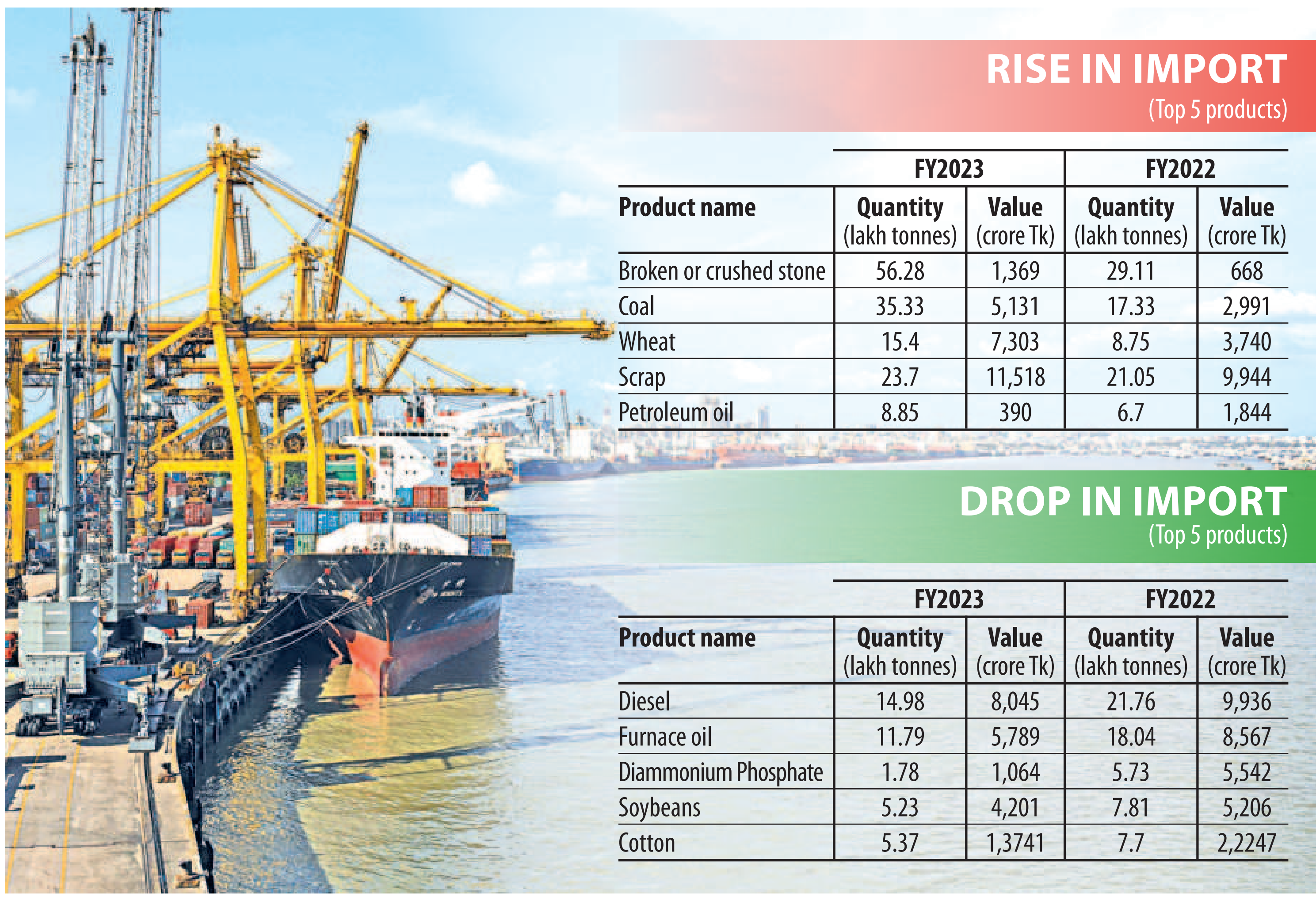
The DTCC GCF Treasury Repo Index , which tracks the average daily interest rate paid for the most-traded General Collateral Finance (GFC) Repo contracts for US Treasuries, jumped to 5.452 percent on Tuesday from 5.395 percent last week. That is the highest level since September 2019, when dwindling bank reserves sent the cost of overnight loans as high as 10 percent, forcing the Federal Reserve to intervene.

The spike resulted from dealers closing their books for the year, which meant borrowers had to pay more to fund their collateral, several market participants said.

"It looks like there was a need for cash which drove up the overnight fund rates," said Tom di Galoma, managing director and co-head of global rates trading at BTIG. "There is a lot volatility in overnight rates due to year-end."

A spike in the price for repurchase agreements, or repos, in which investors borrow against Treasury and other collateral, can be a sign that cash is getting scarce in a key funding market for Wall Street. A three-day jump in the Treasury GCF Repo Index from November 30 to December 4 raised concerns on whether cash levels were sufficiently healthy.

This week's GFC repo price increase is not worrying, said Steven Zeng, US rates strategist at Deutsche Bank. "The GCF market is dealer to dealer lending, so a much more limited amount of cash (is) being moved around, resulting in higher rates."



RISE IN IMPORT
(Top 5 products)

Product name	FY2023 Quantity (lakh tonnes)	FY2023 Value (crore Tk)	FY2022 Quantity (lakh tonnes)	FY2022 Value (crore Tk)
Broken or crushed stone	56.28	1,369	29.11	668
Coal	35.33	5,131	17.33	2,991
Wheat	15.4	7,303	8.75	3,740
Scrap	23.7	11,518	21.05	9,944
Petroleum oil	8.85	390	6.7	1,844

DROP IN IMPORT
(Top 5 products)

Product name	FY2023 Quantity (lakh tonnes)	FY2023 Value (crore Tk)	FY2022 Quantity (lakh tonnes)	FY2022 Value (crore Tk)
Diesel	14.98	8,045	21.76	9,936
Furnace oil	11.79	5,789	18.04	8,567
Diammonium Phosphate	1.78	1,064	5.73	5,542
Soybeans	5.23	4,201	7.81	5,206
Cotton	5.37	1,3741	7.7	2,2247

Import of 30 high-in-demand products down 26%

MOHAMMAD SUMAN

The import of 30 goods, which are in high demand in industry, farming and households, through Custom House, Chattogram has dropped in volume by 26 percent in the first five months of fiscal year 2023-24 compared to the same period of last year.

The items include diesel, octane, furnace oil, crude oil, cement clinker, stone, iron, steel tubes, diammonium phosphate, triple superphosphate, disodium sulphate, cotton, soya beans, dried peas, dried lentils, orange and dates.

According to data from Custom House, Chattogram and National Board of Revenue (NBR), some 1.20 crore tonnes of these items were imported in the July-November period of 2023-24.

In value, they amounted to Tk 48,819 crore.

In the same period of 2022-23, some 1.63 crore tonnes were imported, whose value was Tk 79,063 crore.

Customs data shows that it caused a drop in revenue generation to Tk 6,350 crore, around Tk 1,060 crore less than that last year.

The main reasons for the drop are an ongoing crisis of US dollars and a fall in domestic demand, said importers and customs officials.

The country's foreign exchange reserve crossed $48 billion in August of 2021, which was a record high. But reserves have continued to fall since due to higher outflow of foreign exchange compared to inflow.

Yesterday the reserves stood at $21.44 billion.

"Dollar crisis is the main reason for the import drop of these products," Moinul Islam, economist and former professor of the University of Chittagong, told The Daily Star.

The main reasons for the drop are an ongoing crisis of US dollars and a fall in domestic demand, said importers and customs officials

The fuel imports dropped mainly due to the decrease in raw material import alongside suspension of new factory construction, he said, pointing out that there would be no employment if there were no increase in industrial production.

Moreover, food and commodity import dropped as the US dollar turned costlier against the taka, said the economist, pointing out that these might have had a negative impact on the country's economy.

The interbank rate stood at Tk 110 per US dollar yesterday. It was around 108 at the end of June.

"The highest dollar spending was on importing fuel, fertilisers and consumer goods," said Mahbubul Alam, president of the Federation of Bangladesh Chambers of Commerce and Industry.

"However, there has been a negative impact on the country's imports due to it being difficult to open letters of credit amidst the dollar crisis," he said.

"New investment did not come about this time (apprehending instability) ...before the elections. Due to such reasons, import of raw materials by the industry has reduced," he added.

According to the customs and NBR data, around 14.97 lakh tonnes of diesel were imported this fiscal year whereas 21.76 lakh tonnes in the same period of the previous year.

Import of furnace oil came down to 11.79 lakh tonnes from 18.04 lakh tonnes while import of octane fell to 1.19 lakh tonnes from 1.59 lakh tonnes.

Similarly, around 5.73 lakh tonnes of diammonium phosphorus were imported last FY but in this FY it only 1.78 lakh tonnes.

A total of 64.4 lakh tonnes of cement clinker were imported in the last five months compared to 65.5 lakh tonne last year.

Also, businesses brought in 1.19 lakh tonnes of maize in this year, down from 4.11 lakh tonnes a year ago.

About 2.11 lakh tonnes of palm oil were imported in the last five months compared to 3 lakh tonnes in the previous year.

EU tech rules will create clicks, not competition

REUTERS, Brussels

European Union watchdogs are so frustrated with Big Tech dominance they have turned their traditional approach to regulation on its head. Rather than trying to prove that existing practices shortchange users, new digital rules require market-leading companies to simply open up their systems. But by focusing on competition among providers instead of whether consumers benefit, the EU's main result may just be more frustrating clicks.

Alphabet, Meta Platforms , Apple , Amazon.com , ByteDance and Microsoft are the first targets of the Digital Markets Act, a 2022 law that requires so-called gatekeeper services to open up their "walled gardens". The EU in September identified 22 products at the six companies, including Google Search, social networks like Facebook and TikTok, and browsers like Chrome and Safari.

The designations also include the Google Android, Windows PC and Apple iOS operating systems, and intermediaries like Amazon Marketplace. Designated firms have until March to show that they are doing the necessary work so that third-party developers have access to their platforms and so that consumers aren't shoehorned into too many defaults. ByteDance, Meta and Apple already have filed appeals.

But opening the door doesn't guarantee anyone will walk through it. If startups don't materialise, or if consumers are reluctant to switch away from familiar brands or pay new subscription fees, the EU will end up adding paperwork and annoying layers of "choice screens" rather than creating more competition.

ANALYSIS

Brussels' approach regulates access, not outcomes. In designing the new rules, the EU has fallen back on a definition of competition that focuses on the number of businesses rather than what might be best for customers. This framework would consider it a win if previously free services like Facebook and Instagram start charging fees, because then companies would no longer have free rein to scoop up and monopolise customer data.

But consumers may not place the same importance as regulators on breaking up the market, especially if it carries extra costs. Instead, they may resent creeping subscription charges that start out as optional but eventually become unavoidable for day-to-day use. And they may rue the time it takes to click through "choose your default" boxes rather than enjoying benefits of switching search engines or app stores.

It's certainly possible that more competition will drive costs down in certain areas. If, for example, search engines were to keep a smaller portion of advertising-driven online purchase revenues, retailers might lower their prices. Antitrust litigation in the US has shown that in 2021 Google paid $26 billion to Apple, Samsung and others to keep its search engine dominant on phones and web browsers – money that could change hands if customers were better able to pick their own defaults.

Forex reserves rise

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The target was missed by about $3 billion as the government had to dip into reserves to pay for essential imports of fuel, fertiliser and foodstuff.

This prompted the IMF to set a new NIR target for the country as the reserves have dropped at a faster-than-expected pace.

Earlier, it had fixed a minimum NIR of $26.81 billion for December this year. But on December 15, the goal was revised downwards to $17.78 billion, according to documents of the IMF.

Gross foreign reserves include gold, cash US dollars, bonds and treasury bills, reserve position in the IMF, and special drawing rights holdings.

On the other hand, the NIR is calculated as reserve assets minus predetermined net short-term foreign currency obligations scheduled to come due during the 12 months ahead.

According to Zahid Hussain, a former lead economist of the World Bank's Dhaka office, Bangladesh's short-term foreign currency obligations could amount to $4 billion.

So, if the sum is deducted from the GIR of $21.45 billion, the NIR would stand at $17.45 billion.

In October, the NIR amounted to $15.9 billion, according to a document of the IMF.

"The rise in the reserves does not mean the pressure on the forex reserves has become less severe. Rather, it has remained as tight as it used to be," Hussain said.

According to the economist, Bangladesh has kept spending $1 billion per month from the reserves in order to facilitate imports.

He expressed his doubts whether Bangladesh would be able to hold the reserves at the current level if remittance and exports, the key sources of foreign currencies, don't pick up sustainably.

The inflow of remittance increased 21 percent year-on-year to $1.93 billion in November as most banks are offering higher rates for the US dollar to boost foreign currency collection. The receipts were, however, down 2.42 percent from the $1.98 billion registered in October, data from the BB showed.

Export earnings declined for the second consecutive month in November amid the continued slowdown in readymade garment shipments. The shipment amounted to $4.78 billion last month, down 6.05 percent year-on-year.

The shipment dropped 13.64 percent in October.

The country will have to ensure a minimum reserve of $19.27 billion in March next year and $20.11 billion in June as per IMF conditions.

Dutch-Bangla Bank

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Securities and Exchange Commission, has already been cleared by the bank's board, the disclosure said.

Once issued, the bonds will mature in seven years, it added.

Shares of Dutch-Bangla Bank remained unchanged at Tk 59.10 yesterday.

Dutch-Bangla Bank has paid-up capital of Tk 747 crore while its net profit rose 3.5 percent to Tk 413 crore in the first nine months of 2023.

The bank's earnings per share stood at Tk 5.53 at the end of third quarter of the current year, according to its financial statements.

Tourism fared well in 2023

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Awal informed that their business did very poorly in November due to surging political tension that month but ultimately recovered in December, when the occupancy rate reached about 80-90 percent.

He said small hotels fared comparatively better than large ones as having less rooms available at cheaper rates means they got to enjoy around 100 percent occupancy.

Md Emran Hossain, manager of the Long Beach Hotel in Cox's Bazar, said it was a surprise that such a high number of guests were available even amid the political unrest.

However, he assumes the opening of the Dhaka to Cox's Bazar rail route played a part in boosting visits to the country's prime tourist destination.

But while the hotel managed to surpass its occupancy target for December, with about 80 percent of its rooms being booked, the overall turnout is actually less compared to previous years.

"We expect the number of guests will increase after the general election," he added.

Subrata Chakma, manager of the Khasrang Hill Resort in Sajek Valley of Rangamati, said the political tension and other factors had almost no effect on their occupancy rate in 2023.

According to him, Sajek is a major tourist spot that people visit year-round to enjoy fresh local fruits and cuisine alongside the region's natural beauty.

Additionally, a section of people remains unaffected by the current economic turbulence.

"So, their visits helped keep the business alive," he said while informing that there are more than 130 hotels and resorts across Sajek.

Santus Kumar Deb, chairman of the department of tourism and hospitality management at Dhaka University, said measures to provide proper security at tourist spots helped ensure an adequate turnout.

This is because people did not have to fear for their safety even amid the political unrest, he added.

And while pointing out that almost all schools and colleges in the country have shut down for winter break, Deb said the number of young tourists has increased substantially over the past decade.

"This is another reason why tourism is ongoing at full swing despite certain challenges," he added.

He also informed that the recent strikes and blockades are seldom seen on weekends, when most tourism activities take place.

So, people can travel freely, especially given their increased confidence thanks to the security measures provided by tourist police, which has helped keep the industry vibrant in the outgoing year.

Deb said the domestic tourism industry truly took off in 2015 but its growth was badly hampered by Covid-19 in 2020 and 2021.

Referring to his research on domestic tourism, the industry contributes around 3 percent of Bangladesh's gross domestic product with $13.8 billion in revenue.

Also, the industry has achieved average growth of 15 percent annually, excluding the pandemic period.

Badrul Islam Chowdhury, manager of the Jaintia Hill Resort in Sylhet, said they are witnessing a dull period amid the current peak season as the number of guests is very insignificant for now.

"Last weekend, only two rooms were booked out of the 226 rooms available," he added.

Chowdhury said he assumes tourists are not visiting Sylhet mainly due to political unrest and so, the situation will likely improve after the election. Jaflong is one of the most popular tourist spots in the country as people come to enjoy the beauty of local waterfalls in the rainy season, he added.

Motalebar Sharif, general secretary of the Kuakata Hotel Motel Owners Association, said the weather was tourist-friendly this year but the number of travellers decreased due to political unrest.

The tourism business collapsed at the beginning of the peak season this year due to the strikes and blockades called by BNP and other political parties, he alleged.

New worries as interest payment for debt doubles

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The government's total debt amounted to $166.65 billion in FY23. Of the volume, external debt stood at $74 billion, which is predominantly owed to multilateral and bilateral creditors, at $38.81 billion and $25.35 billion, respectively.

As a result, the risk of external debt distress and the overall risk of debt distress has remained low for Bangladesh, according to the latest IMF debt sustainably analysis report.

However, the persistently low revenue receipts have not only limited the government's ability to spend but are also posing a threat to the country's debt sustainability.

A spike in interest rates owing to the global monetary policy tightening and the sharp depreciation of the local currency have also deepened the risk, the IMF said.

Conflict among lighter vessel owners

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Contacted, BCVOA General Secretary Nurul Hoque said the High Court did not declare the WTC's operation illegal, but that the order was against a cargo transport policy of the shipping department.

He said IVOAC leaders were misinterpreting the ruling and allocating vessels by disobeying the decision taken at the meeting.

Denying any BCVOA involvement in obstructing IVOAC's cargo transport, Hoque said it was being done by individual vessel owners that have remained unpaid for a long time.

Bangladesh not using

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Of the shipments, the CBP released 339 and denied 571.

So far, there is no record of the CBP seizing any Bangladeshi consignment of apparel centring the UFLPA, said the BGMEA chief.

When local garment exporters import any raw material from China to make products meant for export, they advise their Chinese suppliers not to use any item made in the Xinjiang region to avoid violating the CBP rules, said Hassan.

Rather, the local garment exporters are relying more on US cotton, he said.

The withdrawal of the need for double fumigation of US cotton in the Bangladeshi ports has been helping a lot in using more American cotton in manufacturing of the export-oriented garment items here, he added.

The US is the single largest export destination for Bangladesh and the local exporters send garment items worth more than $10 billion to the American markets in a year.

"We have shown again through today's enforcement actions that the United States will not tolerate forced labor in the goods that come into this country," said the Under Secretary for Policy, Robert Silvers, who serves as Chair of the Forced Labor Enforcement Task Force.

"Companies must conduct due diligence and know their supply chains. The interagency Forced Labor Enforcement Task Force will continue to designate entities known to violate our laws, and U.S. Customs and Border Protection will continue its vigilant enforcement at our ports," Silvers said.

BB suspends Phoenix Finance MD

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comments despite repeated calls and messages.

A senior official of the central bank said the banking regulator has taken this initiative to bring discipline and ensure compliance to regulations in the financial sector.

The NBFI sector is facing a difficult situation due to a lot of loan irregularities and scams. After banks, it is now the NBFI sector that has logged a record volume of defaulted loans.

At the end of June, the sector's defaulted loans accounted for a staggering 27.65 percent of its total outstanding loans, according to the latest data published by the Bangladesh Bank.