Stocks fall sharply, led by Islami Bank

DSE's key index down 1.53%

STAR BUSINESS REPORT

Stock market indexes in Bangladesh fell sharply yesterday, primarily for Islami Bank Bangladesh, as investors were reluctant to pour fresh funds for the purchase of shares amidst price fluctuations.

The DSEX, the benchmark index of Dhaka Stock Exchange (DSE), cascaded by 83.8 points, or 1.53 percent, from that on the previous day before closing at 5,378.

Of the drop, Islami Bank Bangladesh accounted for around 44 points, as per LankaBangla Securities.

The price of Islami Bank Bangladesh shares has more than doubled in the last two months, prompting the Bangladesh Securities and Exchange Commission at the end of last month to direct the DSE to identify the cause.

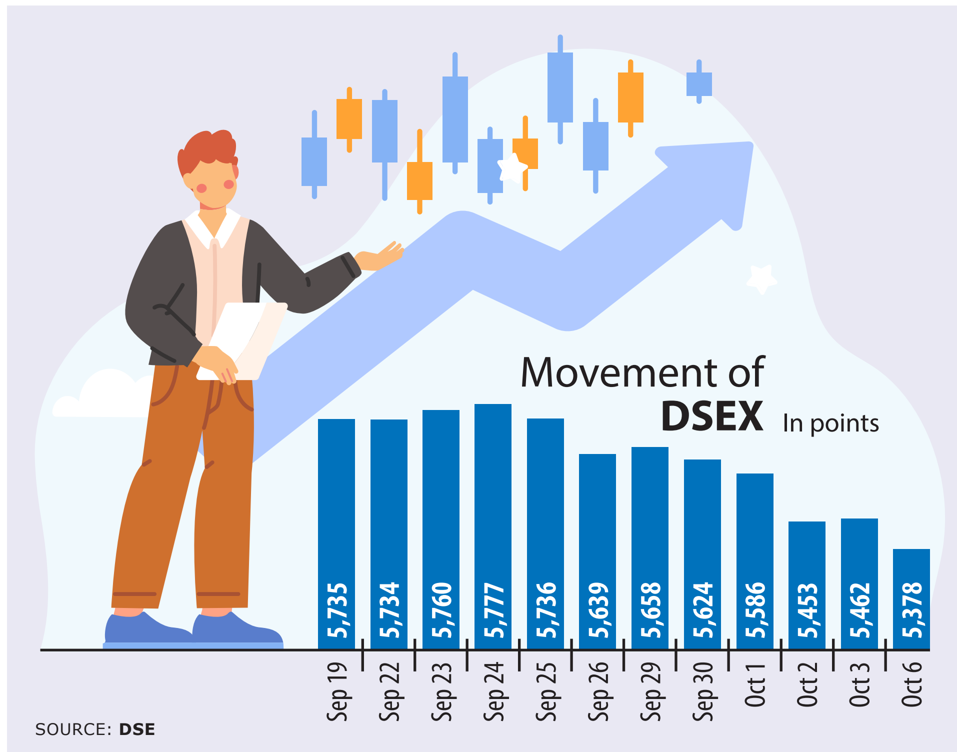
Since then, investors have gone on a selling spree of the shares. Islami Bank Bangladesh was the most traded share yesterday, with a turnover of Tk 25.6 crore.

It also shed the most, losing 9.92 percent.

The DSES, the index that represents Shariah-based companies, also went down by 30.41 points, or 2.49 percent, to 1,190.

Meanwhile, the DS30 index, which is comprised of blue-chip firms, dropped by 26.54 points, or 1.33 percent, to 1,964.

Of the drop in the key index of the DSE, Islami Bank Bangladesh accounted for around 44 points, as per LankaBangla Securities



Chittagong Stock Exchange witnessed a similar trend as the CASPI, the major index of the port city bourse, slipped by 104.52 points, or 0.68 percent, to settle at 15,167.

Of the issues that changed hands on the DSE trading floor, 180 advanced, 156 dropped and 56 did not see any price movement.

The day's turnover, which indicates the total value of shares changing hands, stood at Tk 368 crore, which was an increase of 16.68 percent.

Block trades, meaning high-volume transactions in securities that are privately negotiated and executed outside the open market, accounted for 2 percent of the total turnover.

The banking sector experienced the highest loss of 2.14 percent, followed by telecommunication (1.39 percent), engineering (0.89 percent), food and allied (0.73 percent), fuel and power (0.58 percent) and pharmaceuticals (0.37 percent).

Non-bank financial institutions (NBFIs) comprised the sole sector to post a gain of 0.22 percent.

As for individual companies, Fu-Wang Ceramic Industries and Fu Wang Food stood first and second on the gainers' chart, showcasing an identical gain of 9.87 percent each.

Rangpur Dairy & Food Products, Khulna Printing & Packaging, Deshbandhu Polymer, S Alam Cold Rolled Steels, Navana Pharmaceuticals, Western Marine Shipyard, Renwick Jajneswar & Co (Bd) and Advent Pharma posted gains as well.

Social Islami Bank, Khan Brothers PP Woven Bag Industries, National Tea Company, Islamic Finance & Investment, First Security Islami Bank, Aftab Automobiles, Takaful Islami Insurance, Orion Infusion, ADN Telecom, LafargeHolcim Bangladesh and Olympic Industries suffered losses.

Renata begins exporting two new medicines to the UK

STAR BUSINESS REPORT

Renata PLC, a leading pharmaceutical company in Bangladesh, has started exporting two new products to the UK, thereby expanding its product portfolio in the country, according to a company disclosure.

Posted on the Dhaka Stock Exchange (DSE) website, the disclosure informed that Renata shipped its first consignment of Sertraline 100 milligram (mg) and Propylthiouracil 50mg tablets to the UK yesterday.

The listed drug maker also said the two products manufactured at its facility in Gazipur will be marketed in the UK under its own brand.

Sertraline is the most commonly prescribed antidepressant in the UK market, with more than 23 million prescriptions dispensed in 2023.

It is used for certain conditions, including depression, anxiety, obsessive-compulsive disorder and post-traumatic stress disorder.

The second product, Propylthiouracil, is a key treatment for physical ailments such as hyperthyroidism, particularly in patients with Graves' disease.

The disclosure also said the addition of this product reinforces Renata's commitment to providing essential thyroid management solutions as a part of the company's chronic care portfolio in the UK.

Remedial measures to address malaise in financial sector

MASUD KHAN

The media has been abuzz with concerns about the rampant abuse of Bangladesh's financial sector for more than a decade. In response, the government has formed a banking commission to investigate these issues and recommend strategies for reform. Numerous individuals and forums have published articles and held workshops aimed at diagnosing the sector's problems. However, a recent paper by the CFA Society provides a more focused perspective, highlighting areas like Bangladesh Bank's role, banking governance, non-performing loans (NPL) management, strengthening the capital base, regulatory clarity, and reforming the business mindset of state-owned commercial banks.

With over 44 years of corporate experience, I firmly believe in the 80/20 Pareto Principle, where 20 percent of the problems account for 80 percent of the outcomes. In Bangladesh's financial sector, the core issue is Bangladesh Bank's failure to regulate effectively, driven by crony capitalism and personal gain. Though the country has comprehensive laws, their enforcement remains weak due to corruption. A clear analogy can be drawn with Bangladesh's traffic laws, which, despite being robust, are ignored because offenders rarely face consequences. Similarly, in the financial sector, regulations are either poorly enforced or manipulated by powerful business interests, resulting in multiple scandals.

One critical problem is the lack of accountability for wilful defaulters. The CFA Society has recommended publishing the names of these defaulters, but more stringent actions are needed. Many borrowers divert loans to personal luxuries -- buying luxury cars, properties or investing in the stock market -- instead of using them for their businesses. Banks should investigate these diversions and seize misused assets. Wilful defaulters should also face travel restrictions, prohibitions on staying in luxury hotels and limitations on credit card usage. Without these measures, defaulters will continue to abuse bank funds with impunity.

As a bank board member, I have witnessed systemic weaknesses first-hand. One troubling practice is "name lending," where loans are issued based on reputation rather than a thorough analysis of a borrower's business model. This results in banks paying insufficient attention to financial statements and audit reports. It is not uncommon in Bangladesh for companies to report profits despite incurring losses as banks are reluctant to lend to loss-making firms. This manipulation inflates financial ratios, such as the debt-to-equity ratio, enabling further lending. Simple financial indicators, like the cash conversion cycle, often go ignored, leading to account fabrication. Additionally, struggling banks continue to receive unqualified audit opinions, which hide deeper issues.

Another major issue is concentration risk, where banks rely too heavily on large depositors and borrowers. If a major depositor withdraws funds, the bank's advance-to-deposit ratio can be severely impacted. Furthermore, the current exposure cap of 15 percent for funded and 20 percent for non-funded loans to large borrowers increases risk in case of default.

Collateral management is another weak link. Senior officials often fail to physically inspect or adequately evaluate the collateral provided by borrowers. There have been cases where borrowers did not possess the land or property in question, or where collateral was significantly overvalued. Banks' legal departments and legal counsel should be held accountable for future discrepancies in collateral assessments.

While Bangladesh Bank conducts annual comprehensive audits, there have been reports of underreporting of provisions that the regulator has overlooked, raising suspicions of corruption or undue influence.

The new government has a unique opportunity to reform the financial sector, which is vital for Bangladesh's economic progress. Unless swift and decisive action is taken, these persistent problems will continue to undermine the country's economic potential. Reforming this "Augean stable" is crucial to ensuring a healthy, sustainable financial system.

The author is chairman of Unilever Consumer Care Ltd and chief adviser of the board at Crown Cement Group

Bangladesh Submarine Cables' profit drops 34%

STAR BUSINESS REPORT

Bangladesh Submarine Cables PLC (BSCPLC) reported a sharp decline in revenue and profit for the fiscal year (FY) ending on June 30, 2024.

The company's profit plunged 34 percent year-on-year to Tk 182.99 crore in FY24.

This sharp contraction caused the company's diluted earnings per share (EPS) to fall to Tk 9.02 this fiscal year from Tk 13.75 the previous year.

BSCPLC attributed the decline in EPS to rising operating and maintenance costs, along with increased provisions for bad debts.

The company's revenue fell 22 percent year-on-year to Tk 398.54 crore from Tk 515.49 crore.

The company attributed the drop to reduced earnings from international private leased circuit (IPLC) rent and IP Transit services, heightened market competition, and the prolonged disconnection of defaulted clients.

IPLC is a point-to-point private line used by an organisation to communicate between offices and used for internet access, data exchange, video conferencing and other forms of communication.

"Also, the unexpected cable cut in the SEA-ME-WE 5 submarine route near Indonesia severely impacted operations," said the company in its audited financial statements.

Despite the fall in earnings, BSCPLC announced a 40 percent cash dividend for its shareholders, the lowest since 2021.

Additionally, the company's net operating cash flow per share (NOCFPS) improved to Tk 17.63, up from Tk 14.68 the previous year, thanks to better revenue collection from clients.

Bangladesh Submarine Cables PLC (BSCPLC) operates under the Posts and Telecommunications Division and manages the country's submarine cables.

Formed in 2008 following the separation of SEA-ME-WE 4 from the defunct BTTB, BSCPLC was listed on the Dhaka and Chittagong stock exchanges in 2012. It offers IP transit services and holds Tk 1000 crore in authorised capital.

Shares of BSCPLC dropped 0.95 percent to Tk 135.9 as of 12:34 pm on the Dhaka Stock Exchange yesterday.

Dollar jumps to seven-week high

REUTERS, *New York*

The dollar jumped to a seven-week high on Friday and was on track to post its best week since September 2022 after a surprisingly strong jobs report for September led traders to cut bets that the Federal Reserve will make further 50-basis-point rate cuts.

The greenback was also set for its best weekly percentage performance against the Japanese yen since 2009 as traders adjusting for a less dovish Fed and a more dovish Bank of Japan sparked a rapid repricing in the currency pair.

US nonfarm payrolls increased by 254,000 jobs last month, beating the 140,000 new jobs that economists polled by Reuters had anticipated.

The unemployment rate also unexpectedly slipped, to 4.1 percent from 4.2 percent in August.

It is a "blockbuster payrolls report by any measure. I think a no-landing scenario for the US economy has suddenly become far more plausible," said Karl Schamotta, chief market strategist at Corpay in Toronto.

"The expectation now would be for a Federal Reserve that treads far more cautiously in easing policy," Schamotta said.

Improving economic data and more hawkish comments from Fed Chair Jerome Powell on Monday, when he pushed back against expectations of continuing hefty rate cuts, led traders to reduce bets on a 50-basis-point reduction at the Fed's next meeting, on Nov. 6-7.

Those odds were completely wiped out after Friday's data. Traders are now pricing in no chance of a 50-basis-point rate cut, down from around 31 percent earlier on Friday and 53 percent a week ago, the CME Group's FedWatch Tool shows. A 25-basis-point reduction is seen as almost certain, with traders also seeing a small chance that the Fed will leave rates unchanged.

US stocks closed solidly higher on Friday, as a stronger-than-expected jobs report reassured investors who had worried the economy may be slowing too rapidly.

Bank of America expects the Fed to cut rates by 25 basis points per meeting through March 2025, followed by reductions of 25 basis points each quarter until the end of 2025, BofA US economist Aditya Bhave said in a report on Friday.

"The data flow since the Fed's decision to cut by 50bp in September has been remarkably positive," he said, calling Friday's report "A-plus."

Chicago Fed President Austan Goolsbee called the data "superb" and said more labor market data along those lines would boost his confidence the economy is at full employment with low inflation.

The dollar index reached 102.69, the highest level since Aug. 16, and was on track for its best weekly percentage gain since September 2022. The euro slipped to $1.09515, the lowest since Aug. 15.

The dollar gained to 149.02 yen , the highest since Aug. 16.

Gold price slips

REUTERS

Gold prices slipped on Friday after a stronger-than-expected US jobs report poured cold water on expectations for an aggressive rate cut from the Federal Reserve next month, boosting the dollar.

Spot gold was down 0.2 percent at $2,649.69 per ounce by 01:57 p.m. EDT (1757 GMT), after touching a record high of $2,685.42 last week. US gold futures settled 0.4 percent lower at $2,667.80.

US job growth accelerated in September and the unemployment rate slipped to 4.1 percent, further easing pressure on the Fed to deliver another 50 basis point rate cut at its Nov. 6-7 policy meeting.

"Gold stumbles as a strong payrolls report seems likely to lock in 25 bps in November," said Tai Wong, a New York-based independent metals trader. "Revisions to last month were higher as well, which we haven't seen in many months, while the unemployment rate ticked lower even as participation stayed flat."

The dollar index jumped to a seven-week high after the data, making bullion more expensive for overseas buyers.

EV tariffs are only the first step in EU-China trade war

ANALYSIS

REUTERS, *London/Hong Kong*

The European Union has got its electric vehicle tariffs through. On Friday, member states voted for levies on battery cars imported from the Middle Kingdom. Given big EU hitters like Germany opposed the move, European Commission boss Ursula von der Leyen has avoided looking weak. But EV tariffs won't tackle China's growing clout in hybrid vehicles and critical batteries, or stop trade tensions spreading to other theatres.

After Friday's narrow vote, the European Commission is still talking with China to see if an alternative to tariffs is possible to address what it sees as the Middle Kingdom's "injurious" support of its auto sector. However, the bloc now looks likely to impose additional duties of up to 35 percent on imports from Chinese players including BYD and SAIC. That will reduce their ability to undercut European players like Volkswagen or Renault and incentivise them to build factories on the continent.

Electric vehicles of Chinese car manufacturer BYD leave the car carrier ship BYD Explorer No.1 at the port of Bremerhaven, Germany. PHOTO: AFP/FILE

Yet tariffs won't freeze China out. And they leave European incumbents exposed on other fronts, just as auto sales on the continent stutter.

One key separate pressure point will be hybrid vehicles, which use both gasoline and batteries and are not clobbered by the levies. Chinese players are already selling more of these cars, helped by their vast scale at home. Their timing is just right to ride a boom that has seen these models massively outsell battery electric vehicles.

Underpinning China's dominance in both pure electric and hybrid models, meanwhile, are batteries. These can make up some 40 percent of the value of a car. BYD and compatriots account for around two-thirds of global sales. Their scale and domestic subsidies mean cells made in China can be as much as a third cheaper than in Europe, says S&P Global. Although Brussels is encouraging local manufacturing, Chinese players increased exports to the EU to $23.4 billion last year, 10 times more than volumes five years earlier. The local supply chain risks becoming dependent on China, and less able to invest in new technologies.

Europe isn't sitting idle. The bloc, and member states, are backing homegrown players, and using legislation like the Net-Zero Industry Act and the Batteries Regulation to incentivise domestic production. But European would-be champions like Sweden's Northvolt are still struggling. Chinese players in contrast are growing and gaining greater support: Contemporary Amperex Technology's subsidies rose by 35 percent in the first half of the year. A slowdown in EV sales will make it hard for European players to catch up.

Jacking up tariffs on Chinese batteries from the current 1.3 percent or piling on duties for hybrids would be tricky, given Europe's deepening reliance on Middle Kingdom exports.