Tired of chaos, investors retreat from oil market at record pace

REUTERS, *London*

The extreme volatility of global oil prices has drained liquidity from the market this year at the fastest pace on record, as investors have become increasingly wary of committing cash to an asset that has become hostage to US President Donald Trump's daily social media posts on the Iran war.

Liquidity, or how well matched the number of buyers is to the number of sellers, is the product of a number of factors, including traded volume and open interest.

Open interest, or the number of Brent crude futures contracts that investors own, has fallen by nearly 17 percent this year, the fastest rate since at least 2009, according to LSEG data .

Trump's pattern of ratcheting up threats against Tehran, only to assert hours later that a peace deal is imminent, as well as the difficulty in tracking real-world oil fundamentals right now, has led to a degree of fatigue among investors, traders say.

"People are exhausted by this chaos. They want this to be over. You cannot trade futures without being constantly burned in an environment when the messaging changes every other hour," a senior executive from a major trading desk said. The executive asked not to be named due to the sensitivity of the matter.

PHOTO: AFP/FILE

Investors increasingly avoid assets vulnerable to Donald Trump's daily social media commentary on the war.

Oil prices fell nearly 3 percent to their lowest in nearly two months on Friday after Trump called off threatened new strikes on Iran on Thursday, saying a deal to end the war was close.

The front-month August Brent futures contract registered the lowest open interest since last July when it became the most actively traded at the start of this month, with 534,227 lots. Open interest peaks at the start of the month and gradually dwindles until expiry of the contract, at which point, it shifts to the next month in the chain.

When liquidity becomes thin, buyers and sellers must often accept far higher, or lower prices than they otherwise would, because of a dearth of willing counterparties, thereby creating larger price swings. This increases possible rewards, but also the risk of losses.

Former Goldman Sachs commodities chief Jeffrey Currie said this week the real reason the oil price had not returned meaningfully above $100 a barrel in the past few weeks was not a sign of supply - which has been severely constricted by the near-closure of the Strait of Hormuz - being plentiful, but rather of what he called "capital aversion".

"Policy uncertainty has made oil too volatile to hold," he said in a post on X on June 10.

"2026 year-to-date open interest decline is the worst on record. Unlike 2022, there's no rates shock or sanctions forcing the exit. This is capital aversion," Currie, who is a senior adviser to alternative asset manager Carlyle, said.

NBR to plug

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The measure could yield an additional Tk 7,000 crore from the sector alone, he said, with the system to be gradually extended to other products.

On digitalisation, the NBR has simplified and moved the VAT submission process online and digitised corporate tax filing.

"So we will track everybody easily — whether anyone is evading tax," the chairman said.

He added that by benchmarking against compliant taxpayers within each sector, the system will more readily flag those who are not.

For small and marginal VAT payers, the NBR is introducing a flat-rate VAT calibrated by area and business type, removing the need to maintain detailed accounts – a measure aimed at pulling informal traders into the net without burdening them with compliance costs.

Snehasish Barua, a partner at Snehasish Mahmud & Co, Chartered Accountants, welcomed the business-friendly measures in the budget but urged full implementation and further reductions in individual and corporate tax rates.

The proposed FY27 budget projects a total revenue collection of Tk 6.95 lakh crore, including the NBR's target. Historically, revenue mobilisation has been one of the country's weakest policy areas and Bangladesh's tax-GDP ratio remains among the lowest in Asia.

The event was also addressed by ERF President Doulot Akter Mala, NBR first secretaries Jafar Imam and Md Tarek Hasan, among others.

Appointment row leaves

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The bank has also failed to maintain the required cash reserve ratio (CRR) with the central bank and has faced difficulty paying depositors due to heavy withdrawal pressure since the start of the month.

According to internal data, Islami Bank's total deposits fell from Tk 1,84,382 crore on May 31 to Tk 1,80,141 crore on June 7. Facing the pressure, the lender sought Tk 10,000 crore in liquidity assistance from the Bangladesh Bank last week.

On June 12, the central bank Governor Mostaqur Rahman hinted at possible support for the bank at a post-budget press conference.

"The crisis at Islami Bank will be resolved soon. Depositors will not face difficulties in withdrawing their money. If necessary, emergency liquidity support will be provided," said the governor.

On Sunday, Islami Bank's management met the Bangladesh Bank governor to discuss the situation.

After the meeting, Md Altaf Hossain told journalists that discussions focused on business and liquidity management following the central bank's emergency support. He said the newly received funds would be used based on identified needs, including withdrawal patterns, sectoral requirements and projected liquidity needs in the coming days.

He added that Bangladesh Bank's expert team would review and verify the bank's data.

HOW INSTABILITY UNFOLDED

On May 24, just as the country was preparing for a week-long Eid holiday, the Bangladesh Bank appointed Md Khurshid Alam, a former deputy governor, as chairman of Islami Bank hours after the previous chairman resigned.

The appointment came as a surprise and triggered immediate concern among stakeholders.

After the Eid holidays, on June 1, a group under the banner of the Conscious Customers' Forum began protests outside the Islami Bank head office at Motijheel in Dhaka.

On the first working day after the holidays, hundreds gathered there demanding that the Bangladesh Bank cancel the appointment and reinstate former Islami Bank managing director Omar Faruk Khan.

Khurshid was among four senior Bangladesh Bank officials who resigned amid protests by central bank employees shortly after the fall of the Awami League government on August 5, 2024.

The Conscious Customers' Forum continued its demonstrations, calling for the resignation of the new chairman.

Jamaat-e-Islami's visible support for the protests, along with statements from senior leaders, suggested strong opposition to the appointment.

The government and opposition have also exchanged allegations over Islami Bank's role in recent years, including during the last general election.

The home minister told the House that the bank had favoured Jamaat, while Jamaat MPs rejected the claim and demanded the remarks be removed from the record.

The Islamist party is widely believed to have maintained close links with Islami Bank since its establishment in 1983.

At around 10pm yesterday, the central bank dissolved the board of directors of the bank, removing the chairman and all other directors. The central bank appointed its Executive Director Mohammad Zahir Hussain to assume the board's powers and responsibilities until further notice.

FINANCIAL HEALTH OF THE BANK

Islami Bank currently holds the largest volume of non-performing loans (NPLs) in the banking sector, amounting to Tk 95,629 crore, or 50.88 percent of its total loans.

The bank was taken over by controversial conglomerate S Alam Group in 2017. The group later channelled around 80 percent of the bank's loans to its own companies and affiliated firms, according to allegations widely documented in the banking sector.

After the fall of the Awami League government in a mass uprising, the bank was freed from the group's control and is now operating under a board of independent directors appointed under the Bangladesh Bank oversight.

"A large share of the defaulted loans is linked to the S Alam Group, and recovery remains minimal," the bank's Acting Managing Director Altaf said.

He added that the bank is trying to recover loans from other borrowers as well, but progress has been slow as even regular customers have become reluctant to repay.

Asset recovery

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decisive enforcement against wilful defaulters and transparent treatment of shareholdings acquired through irregular means.

"Depositors' confidence rests on accountability. Further, there should have been a dedicated budgetary allocation for establishing an Asset Management Company (AMC) to clean up the balance sheets of weak banks, reduce their non-performing loan burden and ease capital shortfall challenges across the sector," said BAB Chairman Abdul Hai Sarker.

The association of private commercial banks stressed the need to match ambition with discipline and accountability.

"This is a budget of ambition and direction -- one that rightly understands a simple truth: there can be no strong economy without strong banks, and no strong banks without trust," the association said.

It also welcomed risk-based supervision, the removal of undue influence, the development of bond markets, and the move towards a digital, cashless economy.

The proposed bank resolution framework should include clear safeguards to ensure that parties whose conduct contributed to the distress of financial institutions cannot re-enter the system, it added.

The association stressed that government borrowing from the private banking system should remain disciplined so that it does not crowd out private sector credit, on which investment, exports and employment depend.

"Private credit must be protected," the BAB chairman said.

The association called for fiscal policy to reinforce capital rebuilding and prevent its erosion, and said dividend taxation should not discourage institutional investment in the capital market.

Govt offers

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semiconductors, robotics, machine learning and big data analytics.

It also outlined initiatives to strengthen national capacity in space research, semiconductor technology, and earthquake and seismographic research.

The government pledged continued support for researchers through the Science and Technology Fellowship Trust, saying investment in research and innovation would be critical to developing new technologies and preparing young people for the demands of the Fourth Industrial Revolution.

Industry stakeholders welcomed the move, saying the incentives could help attract investment in chip design, testing and packaging services, areas where Bangladesh already has a modest presence.

MA Jabbar, president of the Bangladesh Semiconductor Industry Association (BSIA), welcomed the proposed incentives, saying the industry had long engaged with policymakers to secure support.

"We have 21 member companies already invested in the local semiconductor sector," he said. "We met officials from the National Board of Revenue and later the finance minister to explain the need for policy support."

According to Jabbar, the country has strong potential to develop a skilled semiconductor workforce, particularly in chip design and related services.

"So far, we have trained around 1,200 semiconductor engineers and expect to develop another 3,000 within the next two years," he said.

While the country has yet to enter semiconductor manufacturing, local firms have established a foothold in chip design, a key segment of the global semiconductor value chain.

"Our current focus is design. We are also working to establish testing laboratories to gradually move towards manufacturing," Jabbar said.

He noted that the expanding global semiconductor market presents opportunities for countries able to supply skilled talent and specialised services.

"If we are to capture a share of this market, policy support must continue. The incentives announced in the budget are a positive step," he said.

Jabbar added that sustained support could generate high-skilled jobs, boost exports and attract foreign investment. "There is considerable potential for foreign direct investment in this industry. But first, we must build the ecosystem and strengthen the sector domestically."

In a statement, BSIA welcomed the fiscal and policy support for the semiconductor sector, saying it formally recognises activities such as IC design, electronic design automation (EDA), outsourced semiconductor assembly and testing (OSAT), packaging and fabrication within customs, tariff and VAT frameworks.

The association said exemptions from customs duty, regulatory duty, supplementary duty, VAT and advance tax on eligible inputs would lower costs, help attract investment, create skilled jobs and strengthen the country's position in the global semiconductor and deep tech industries.

Syed Almas Kabir, president of the Bangladesh Association of Software and Information Services (BASIS), described the incentives as a strategic step towards high-value technology manufacturing.

"The incentives are timely and aligned with global industry trends. However, their success will depend not only on tax benefits but also on the ability to develop skilled talent, strengthen infrastructure and foster industry-academia collaboration," he said.

According to Kabir, the tax relief for chip design, testing and packaging aligns policy support with the growing engineering talent base. "The real impact will come when these measures are backed by investment in advanced laboratories, stronger university-industry partnerships and a dedicated VLSI talent pipeline," he added.

He said countries such as Vietnam and Malaysia built successful semiconductor industries by developing complete ecosystems rather than relying solely on incentives.

Kabir also highlighted the potential role of the Bangladeshi diaspora, many of whom work at leading global companies including TSMC, Intel, Qualcomm, NVIDIA, AMD and Synopsys. A structured programme to engage these professionals, he said, could significantly accelerate the country's semiconductor capabilities.