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The BICM Financial Market Review provides analytical insights about the performance of the financial market in Bangladesh on a monthly basis.

“

The major drawback of our country is public panic without appropriate economic information
Bangladesh, as a nation, is thriving under different world economic pressures and growing like an Asian Tiger

”



Economy of Bangladesh

Key indicators at a glance

Countries	Nominal GDP (as of Apr, '22) (USD in billion)	Real GDP Growth (as of Apr, '22) (yearly % Change)	Inflation Point to point (%) (as of Sep, '22)	Currency Appreciation/Depreciation against USD	Reserve (Billion US\$)	Currency Exchange Rates (per USD)
Bangladesh	396.543	6.415	9.10%	-1.04	36.470	102.64
Emerging Economies						
India	3,534.74	8.153	7.40%	-2.15	532.868	82.78
China	19,911.59	4.373	2.80%	-3.09	1194.71835	7.3
Developed Economies						
USA	25,346.81	3.708	8.20%	0	230	1.00
UK	3,376.00	3.749	10.10%	-6.57	171.5512	0.88

Appreciation/Depreciation of Currencies against USD

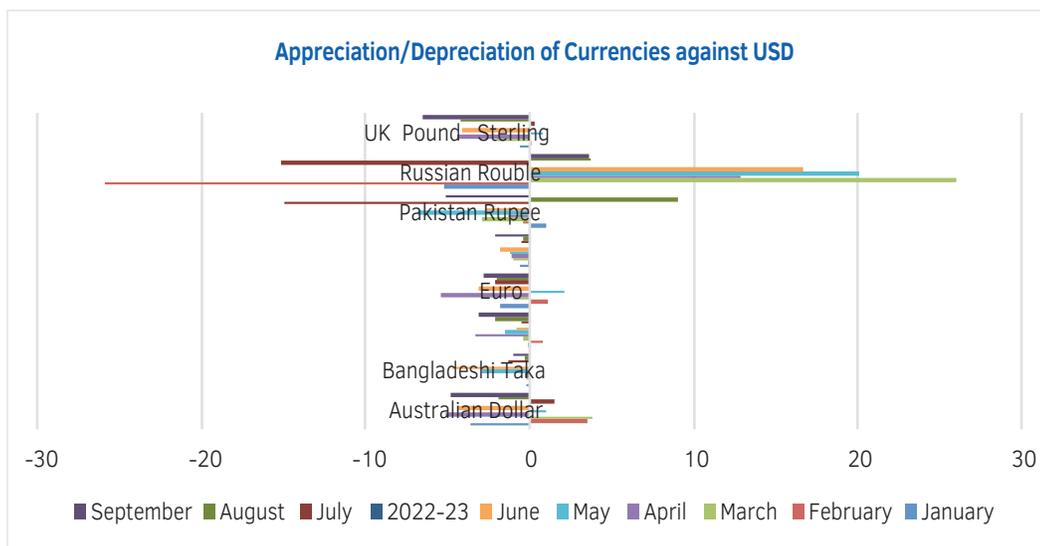


Figure 1: Appreciation or Depreciation of Different Currencies against USD

A visual tour of the key statistics

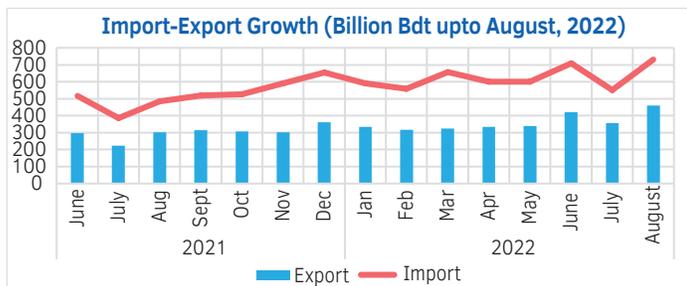


Figure 2: Import-Export Growth (Billion BDT up to August 2022)



Figure 3: Foreign Remittance of FY 2022-23 (Year over Year Growth)

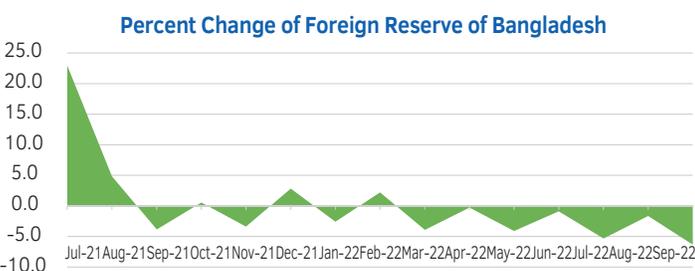


Figure 4: Percentage Change of Foreign Reserve

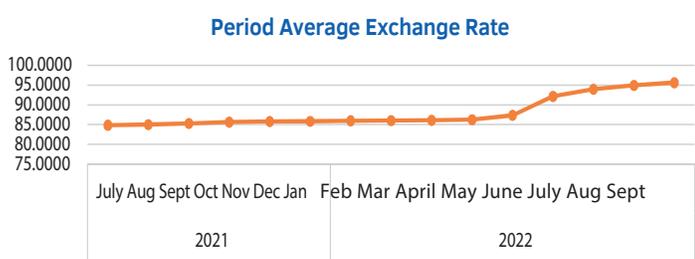


Figure 5: Period Average Exchange Rate

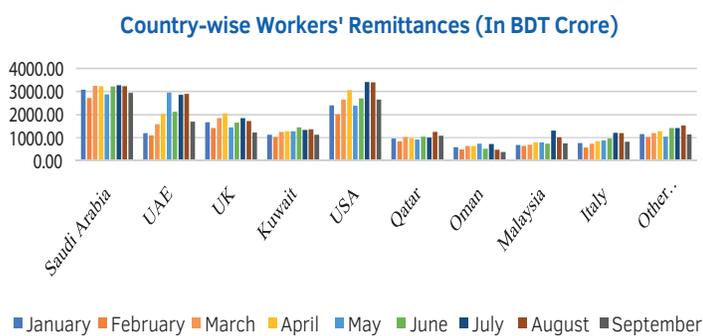


Figure 6: Country-wise Workers' Remittances (In BDT Crore)

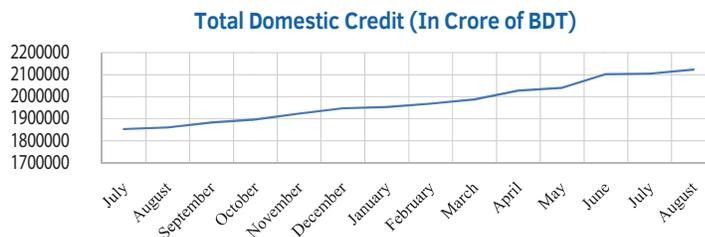


Figure 7: Total Domestic Credit (In Crore of BDT)

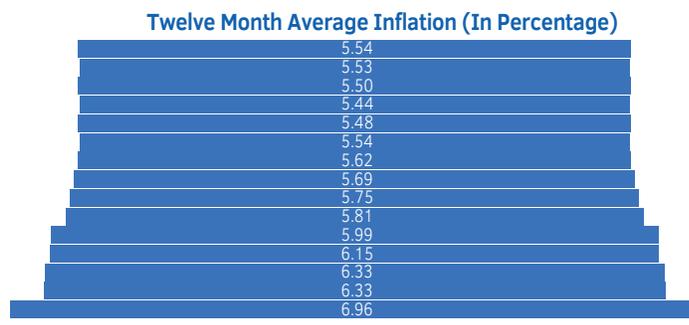


Figure 8: 12- Month Average Inflation (In Percentage)

Numbers to Note

1. Comparing to UK Pound Sterling, Russian Ruble, and Euro, BDT was quite resilient to the USD sensitivity to change.
2. Both exports and imports increased in August, 2022. But the export increased higher than import comparing to previous month.
3. Foreign remittance growth reduced by 10.8% in this September, 2022 comparing to a growth in August, 2022 that was 8%.
4. The reserve is now 36.47 billion USD that is 6.4% decrease than previous month.
5. The average monthly exchange rate is now 95.62 Taka per USD.
6. The Debt to GDP percentage in 2021 is 21.8% that was 19.5% in previous year.
7. The 12-month average inflation is 6.96%; it was 6.33% in the previous month.
8. Bangladesh gets her highest remittances from Saudi Arabia, the USA, and the UAE.

Economic Challenges Ahead

1. The Russia-Ukraine War can damage the peace of the world's economic stability to a much deeper level the impact of which will also affect the resilience of the economy.
2. The USD crisis in the global market may imbalance the Balance of Trade of Bangladesh.
3. As the oil price crisis is still persistent with a lower impact than the previous month that is yet to touch Bangladesh in this month.
4. The increase in the reserve shortage is also a bad indicator, and 2023 may be a big challenge for meeting the external debt.
5. The rising inflation and increasing cost of commodities may turn the switch of the economic depression in Bangladesh unless tackled properly.

An Inertia in Capital Market followed by Downward Movement



Capital Market

In October 2022, the market demonstrated a 0.19% decrease in the DSEX index compared to the previous month of September. The prices of the majority of issues were on the floor due to restrictions on check settlement against the B/O account.

DSE Market Indices

Index Name	2-Oct-22	31-Oct-22	Change	% Change
DSEX	6508.61	6496.39	-12.22	-0.19%
DSES	1423.55	1377.43	-46.12	-3.24%
DS30	2333.82	2226.71	-107.11	-4.59%
CDSET	1269.56	1223.83	-45.73	-3.60%
DSMEX	1650.04	1385.93	-264.11	-16.01%
Scripts Movement (Monthly Average)	Advance		Decline	Unchanged
	65		98	200

Figure 9: DSE Market Indices

	31 Oct 2022	29 Sep 2022	Change	% Change
Average Market Capital (TK Millic)	7,202,126.495	208,715.69	1,993,410.80	38.27%
Average Traded Value (TK Million)	10,545.86	16,895.35	-6,349.49	-37.58%
Average Number of Trades	180,151.10	244,091.24	-63,940.14	-26.20%
Average Trade Volume	160,546.45	293,472,158.86	-132,925,708.41	-45.29%

Figure 10: Market Aggregates

It is apparent from analyzing the capital market snapshot of October 2022 that the DSE market indices demonstrated a downward movement with a minor hike in the third week of the month. The prices of the majority of issues were unchanged due to the restriction on check settlement. Other indices have also decreased compared to those of September. During October, 65 issues were advanced, 98 issues were declined, and the remaining 200 issues were unchanged. The AD ratio compares the number of stocks that increased in value to the number of stocks that decreased in value. By shedding light on the AD ratio of this month, it is evident that the 19-trading day denoted a downtrend in the market.

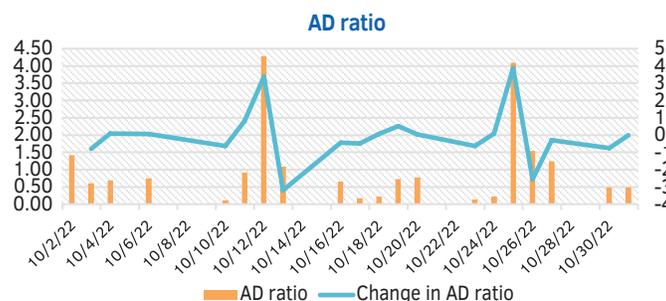


Figure 11: AD Ratio

The market lost points on the maximum trading days of the month. Investment in the market decreased due to the panic among investors about the recession. The country's higher inflation rate and decreasing foreign reserves exacerbated the panic. Investment in the market fell as a result of investors' aversion to investing in stocks for fear of having their money stuck for an extended period of time. Institutional and qualified investors limited their exposure, causing many stocks to trade at the floor price.

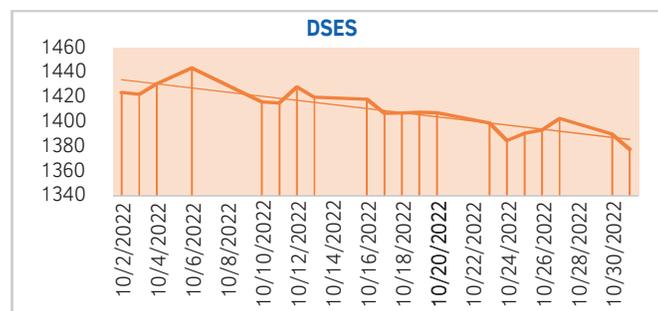


Figure 12: DSEX and DSES

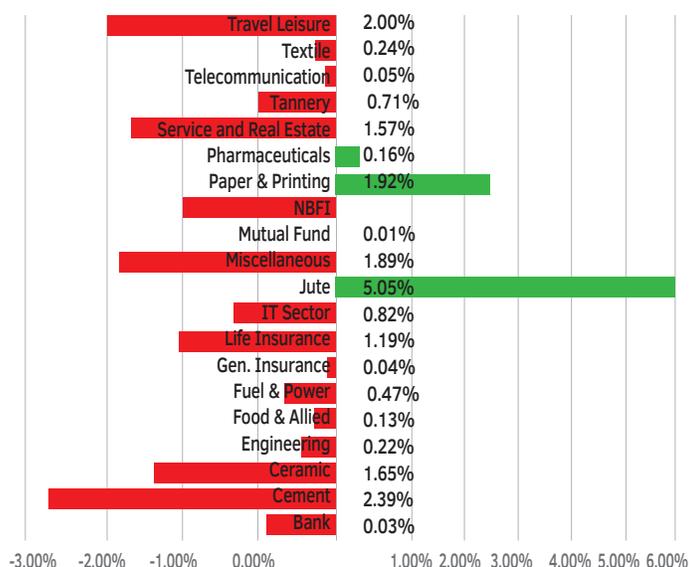


Figure 13: Sector Return

The decrease in the flows of foreign remittances, the widening trade deficit, along with the free fall in foreign exchange reserves to \$36 billion, have created a panic among investors to return to the capital market. Overall, 12 IPOs are in the pipeline to penetrate the market, while two of them have already secured approval from the BSEC. Islami Commercial Insurance Company Limited has already declared its subscription period, which will open on 20th November and close on 24th November.

Company Name	Asset Class	Listing Method	Subscription Open	Subscription Close	Offer Price
Islami Commercial Insurance Company Limited	Equity	Fixed Price	20 th November	24 th November	10
Midland Bank Limited	Equity	Fixed Price	----	----	10

Figure 14: Upcoming Approved IPO

Analyzing the returns of the world's major indices, it is apparent that India, Japan, and the UK gained positive returns in October, while the USA, China, and Bangladesh attained negative returns.

Performance comparison of World's Major Index

Country	Index Name	Return
China	Shanghai SE: All Share	-2.69%
India	NIFTY Ttotal Marke	5.37%
USA	S&P 500	-0.75%
Japan	Nikkei 50	4.66%
UK	FTSE 100	2.69%
Bangladesh	DSEX	-0.19%

Figure 15: World's Major Index Return

Country	Index Name	PE ratio
China	Shanghai SE: All Share	13.1
India	NIFTY Total Market	22.13
USA	DJIA	18.64
Japan	Nikkei 225	15
UK	FTSE	12.8
Bangladesh	DSEX	14.5

Figure 16: World's Index PE Ratio

The market PE ratio of the DSEX this month was 14.25. ORIONPHARMA was in the top position based on turnover; NAVANAPHARMA was the top gainer, whereas BDCOM was the top loser. Cumulatively, the average trade volume and the average trade value increased by 45% and 38%, respectively, along with a 38.27% increase in the average market capitalization compared to the previous month. A positive development this month for the capital market of Bangladesh is that FDI increased by 37% compared to the previous month.

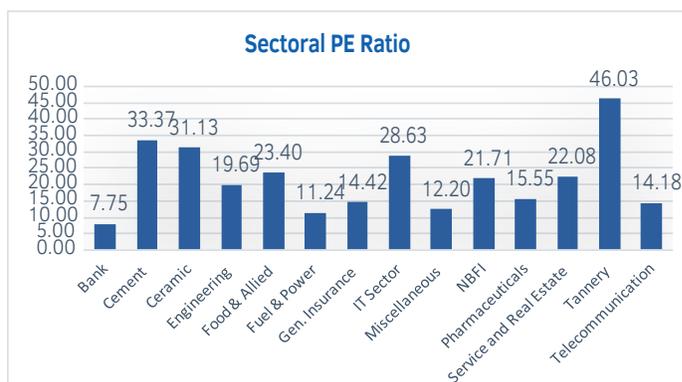


Figure 17: Sectoral PE Ratio

Turnover	Gainer		Loser		
	SI Stock	Turnover Total (%)	SI Stock	Return (%)	
1	ORIONPHARMA	1528.4 -12.60%	1 NAVANAPHAR	212.50%	
2	SONALIPAPR	1264.65 36.00%	2 ADNTEL	58.40%	
3	EHL	1240.22 37.80%	3 ORIONINFU	56.80%	
4	BEXIMCO	1219.39 -13.10%	4 SEAPEARL	54.99%	
5	JHRML	662.56 -27.06%	5 SINOBANGLA	44.37%	
			6	BDCOM	-40.95%
			7	BBS	-36.09%
			8	MALEKSPIN	-32.59%
			9	JHRML	-29.19%
			10	AZIZPIPES	-27.06%

Figure 18: Top Gainer and Loser

Though this month was not kind to investors, it can be said that the positive steps taken by Bangladesh's policymakers, as well as the increased participation of institutional investors, will usher in a new era for the country's capital market.

The adoption of digitalization in financial transactions is well reflected in the growth of internet banking users



Money market section comprises of two parts to make the readers comprehend regarding behaviors of key variables. The first section delves into the scenarios based on the most recent available data as well as the observations thereon. The second section, Key Takeaways, has been depicted to derive the possible explanations of the changes.

As of September 2022, total deposits had grown by about 7.74% YoY, with demand deposits increasing by 13.66% and time deposits by 6.98%. In terms of growth compared to the prior month, total deposits increased by 0.95%, with demand deposits and time deposits contributing, respectively, 1.09% and 0.93% [Table-01]. Advances and bills (Import and Inland bills) grew by 14.63% and 11.09% YoY, respectively. On the other hand, if we look at the monthly growth from September to August 2022, we see growth of 1.09% and -1.92%, respectively. Bank investments increased by 2.15% YoY. However, compared to earlier month, there was a growth decline of -1.28% [Table-01].

Table 1: Scheduled Bank Deposits and Credit

Items	Deposits held in DMBs (Tk in Million)			Percentage Changes	
	Sep, 2022	Aug, 2022	Sep, 2021	Sep 2022 over Aug 2022	Sep 2022 over Sep 2021
	Demand Deposits	1,777,983	1,758,888	1,564,273	1.09
Time Deposits	13,043,787	12,924,055	12,192,501	0.93	6.98
Total	14,821,770	14,682,943	13,756,774	0.95	7.74

Items	Bank Credit (Taka in Million)			Percentage Changes	
	Sep, 2022	Aug, 2022	Sep, 2021	Sep 2022 over Aug 2022	Sep 2022 over Sep 2021
	Advances	13,567,988	13,408,963	11,836,026	1.09
Bills (Import & Inlands Bills)	323,810	330,153	291,482	-1.92	11.09
Investments	3,451,332	3,495,914	3,378,553	-1.28	2.15
Total	17,343,130	17,235,030	15,506,061	0.63	11.85

Notes: 1. Deposits exclude Interbank Deposits and Government Deposits, 2. Advances include Loans & Advance, Money at Call, Balances & R. Repo with NBFIs & Accrued Interest, 3. Investments include Treasury Bills, Treasury Bonds, Share & Securities with accrued interest.

In October, interbank call money rates reached a high of 5.82%, with an average of 5.79% [Figure19]. The nominal loan rate and deposit rate have remained constant over time, averaging out to 7.13 percent and 4.0 percent, respectively [Figure20].

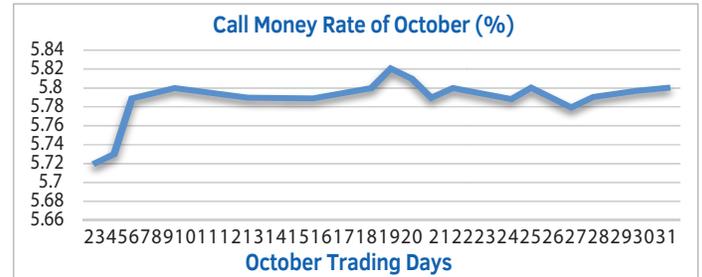


Figure 19: Call Money Rate

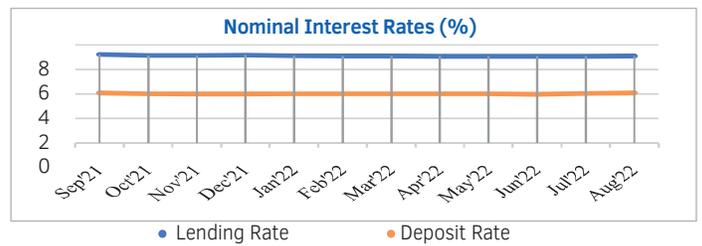


Figure 20: Nominal Interest Rates

From June 2022 to July 2022, the cost of funds for non-bank financial institutions dropped, reaching 6.58%. Similar to the interest-bearing funds and the low-cost specific purpose plan funds, the adjusted cost of funds also had a downward tendency and was 7.5% as of July 2022 [Figure 21]. Government net borrowing from the banking system totaled Tk 12,854.0 crore in July-August of FY23, which is 12.1 percent of the target set in the national budget [Figure 22].

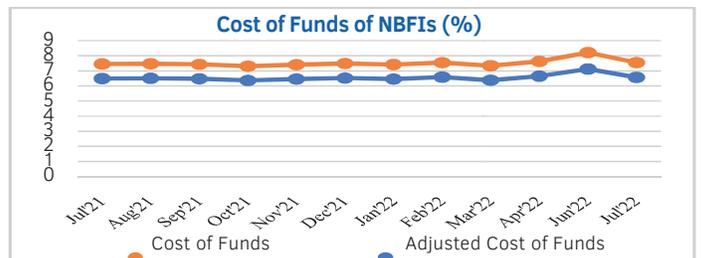


Figure 21: Cost of Funds of NBFIs

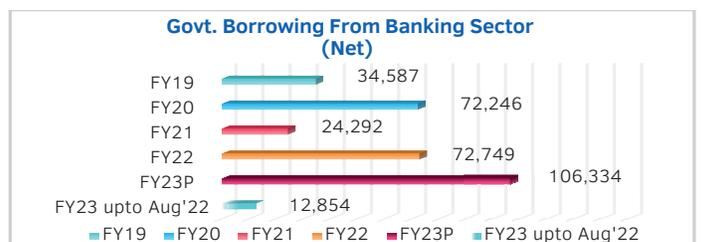


Figure 22: Govt. Borrowing from Banking Sector

Following a steady increase in the previous months, private sector credit growth slows to 13.93 percent from 14.07 percent [Figure 23]. The foreign currency reserve has been experiencing a persistent decline, with a value of 35.98 billion USD as of October 2022 [Figure 24].

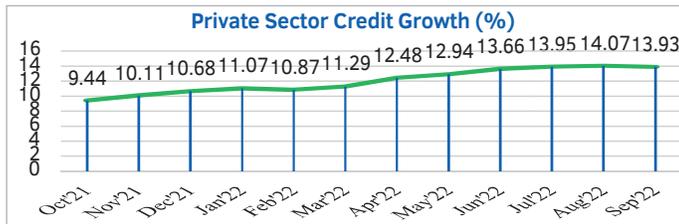


Figure 23: Private Sector Credit Growth (%)

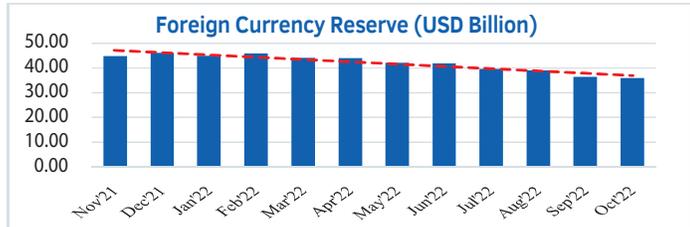


Figure 24: Private Sector Credit Growth and Foreign Currency Reserve

Both T-Bill and T-Bond yields have dramatically surged since last year. The yields on T-Bills for 91, 181, and 364 day have risen to 6.04%, 6.50%, and 6.83%, respectively, as of October 24, 2022 [Figure 25]. Following the same trend, the 2, 5, 10, 15 and 20 year T-Bonds' yields reached 7.45%, 7.72%, 8.10%, 8.50% and 8.60%, respectively [Figure 25].

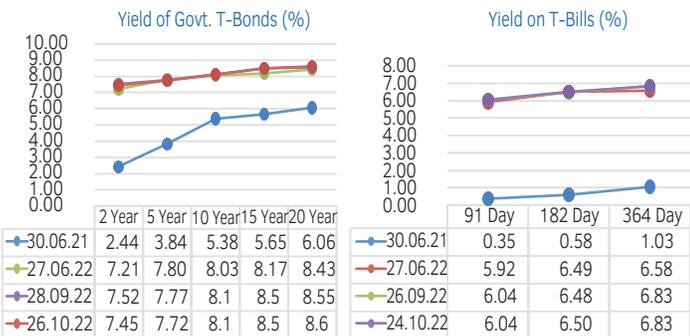


Figure 25: Yields on T-Bills and T-Bonds

Trends in Financial Inclusion and Digital Finance Statistics

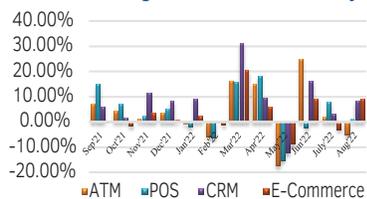
The adoption of digitalization in financial transactions is well reflected in the growth of internet banking users. The wind of digitalization in the financial arena has resulted in 57,16,524 internet banking users as of August 2022, representing a 42% YoY growth [Figure 26]. The category of Mobile Financial Service (MFS) demonstrates a strong participation of both males and females. As of August 2022, agents, males, females, and other segments make up 0.22, 57.50, 41.47, and 0.81 percentages, respectively, of all MFS customers [Figure 26].



Figure 26: No. of Internet Banking Customers and MFS Users

In recognizing the interaction with e-banking and e-commerce gateways, we plotted the month-wise growth of four gateways, namely Automated Teller Machine (ATM), Point of Sale (POS), Cash Recycling Machine (CRM), and E-Commerce, where on average they grew by 3.70, 3.78, 7.65, and 2.96 percentage points over the years [Figure 27]. We discovered that rural people outpaced urban people in every parameter when it came to availing agent banking services [Figure 27].

E-Banking and E-Commerce Gateways



Ratio of Agent Banking Statistics (Urban to Rural)

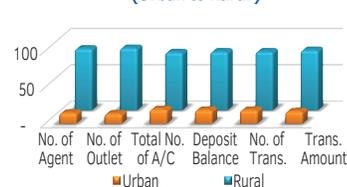


Figure 27: E-Banking and E-Commerce Gateways and Ratio of Agent Banking

Key Takeaways

- * Compared to last year, total deposits grew by 7.74%, while total credit outpaced it and grew by 11.85%. With inflation around 9.1% as of September, commodity prices compel the people to expend more than to save in banks. Therefore, people are preferring to keep cash at their hand to deposit it to the bank.
- * The call money rate has been in strong position, soaring above 5.70% in October. Excess liquidity in the banking sector fell to 1.74 lakh crore at the end of August. However, only nine banks possess the sixty-two percentage of excess liquidity, thus compelling the remaining cash-strapped banks to lend from call money market.
- * Due to the fixed band of interest rates, both the lending and deposit interest rates are in a stable position. However, a recent Bangladesh Bank study supports removing the interest-rate restrictions, at least in the medium- to long-term, to support the development of the nation's market-based financial sector.
- * Even though the cost of funds and adjusted cost of funds both modestly reduced in July, their respective yearly averages were still at 6.55% and 7.52%. NBFIs need to offer high rates while collecting deposits, thus raising their costs of funds. However, the recent soaring inflation along with the liquidity crisis compels them to raise interest rates on deposits.
- * Government net borrowing from the banking sector totaled Tk. 12,854.0 crore, compared to Tk. 1,574.1 crore (1.8 percent) during the same period in the prior fiscal year. Such borrowing to cover the budget deficit may be caused by both a significant decline in investment in savings certificates and lackluster revenue collection.
- * After six consecutive months, the country's private sector credit growth has slowed as banks are facing liquidity crisis. Moreover, the interest rate in the money market is quite high, so banks are now reluctant to borrow at high interest rates and lend it at a maximum of 9%.
- * Despite the various measures to curb imports, foreign exchange reserves fell to a 28-month low. High import payments resulting from an export-import imbalance and decreasing remittance inflow have created pressure on the greenback.
- * The instruments that the government employs to borrow money from the banking industry are T-bills and T-bonds. The yields on both rates have dramatically increased as compared to a year ago due to the government's borrowing from the banking industry.
- * As more people now prefer digital platforms for carrying out financial activities, the number of internet banking transactions increased to close to 60 lakh in August of this year compared to 20.28 lakh in the same month in 2020, according to data from the Bangladesh Bank. Banks are also encouraging customers to avail their services through the internet by offering various apps compatible with both personal computers and smartphones.
- * Mobile Financial Services (MFS) have eased the payment system and catered the financial services to every corner of the country. As part of this, male and female participated in greater numbers in availing their services.
- * Understanding the interaction of e-banking and e-commerce gateways gives us an indication of consumers' preferences. We observed positive growth in most of the months of the last year in every gateway. Hence, it can infer the wide and growing acceptability of the gateways.
- * By adopting a new banking model, agent banking has already gained popularity among rural people. Through agent banking, financial services, once believed impossible, can be transmitted to every corner of the country.

Source: Bangladesh Bank Website



Md. Adnan Ahmed

Bangladesh to Set up the Maiden Commodity Exchange

A mechanism to reduce the price gap between producers and buyers



Insights

With so many remarkable achievements to celebrate Bangladesh's Golden Jubilee, the commodity exchange is about to add new momentum to the country's capital market. We are at the outset of launching the country's first commodity exchange, being implemented by the Chittagong Stock Exchange (CSE).

A commodity exchange is a legal institution that establishes and upholds guidelines for trading standardized commodity contracts and associated investment products. Through a commodities exchange, traders hardly ever send any physical goods. Instead, they trade futures contracts, in which the farmers or producers sell a particular quantity of the commodity at a predetermined price, regardless of the price at which it is currently traded in the market, with a predetermined expiration date. The objective of exchange is to offer a centralized market where farmers or producers who produce may sell their products in advance at a predetermined price to those who want to use them for further production or consumption.

Evolution of Commodity Exchange and Futures Trading

The first known commodity futures trades, according to renowned commodities authority Bruce Babcock, took place in Japan in the 17th century, while there is some evidence that rice may have been exchanged in China as far ago as 6,000 years ago. However, the largest commodity exchange in the world is the Chicago Board of Trade, established in 1848. International Continental Exchange Group, London Metal Exchange, Tokyo Commodity Exchange, Australian Securities Exchange, Bursa Malaysia Derivative Exchange, Dalian Commodity Exchange, Shanghai Futures Exchange, and others are currently among the leading commodity exchanges. Hundreds of commodities, including light sweet crude oil, natural gas, heating oil, gasoline, electricity, gold, silver, aluminum, soya beans, wheat, corn, ethanol, rice, etc., are being traded in these exchanges. Among the South Asian countries, India established the commodity exchange - MCX - in 2003. Various products are traded on Indian commodities exchanges, such as cash crops, food grains, plantations, spices, oil seeds, and metals. Nepal established Mercantile Exchange Nepal in 2007, where it allows the trading of bullion, food grains, vegetables, spices, oil seeds, cash crops, and other goods, and Pakistan launched Pakistan Mercantile Exchange in 2005. Gold, cotton, yarn, sugar, rice, and wheat are all traded on the commodity exchange market in Pakistan.

1730	The Dojima Rice Exchange, which trades rice future, is the earliest known future exchange.
1848	The United States has the earliest official commodity trading exchange in the west, the Chicago Board of Trade (CBOT).
1870	Establishment of the New York Cotton Exchange (NYSE)
1877	The London Metals and Market Exchange becomes the first recognized commodities trading exchange in England.
1970	The Chicago Mercantile Exchange (CME) began providing foreign currency futures trading. Trading in a variety of financial futures, including U.S. T-Bonds and subsequently futures in stock market indices, was introduced by New York Mercantile Exchange (NYMEX)

Figure 28: Evolution of Commodity Exchange

Source: Author developed

Why Commodity Exchange is Essential for Bangladesh?

According to a study, Bangladesh's commodity market is worth more than \$144 billion. There are growing allegations that farmers do not get proper prices for their crops. Farmers' access to a fair price for their produce is hindered by middlemen and extortion during transport. Sometimes, potatoes, tomatoes, and other agricultural items are thrown away by farmers out of frustration due to the low prices offered by ineffective market procedures. For example, Boro farmers reported that they are selling their paddy for far less than the price they receive. Where their costs range between Tk 701 and Tk 900 for a maund of paddy, they are forced to sell it below Tk 600. Thus, as long as there is no extortion against farmers or producers, they will receive a fair price. The key benefit of the commodity exchange is that it increases producers' liquidity by enabling them to access funds without paying interest and by enabling farmers or producers to use futures contracting to lock in prices.

Furthermore, the country's apparel industry requires the import of a substantial volume of cotton from abroad. The price of raw materials fluctuates randomly, which ultimately affects the cost of production. The garment sector will benefit if companies that import cotton from other countries and export cotton domestically are brought into the commodities exchange market. They can lock in the price if they fear that it will rise in the future. In addition, investors can use the futures contracts to hedge their portfolio. There are numerous circumstances in which the price of commodities moves in the opposite direction of the stock price. As a result, the futures contract can serve as a hedge for the investor's portfolio.

Thus, through the exchange of commodity futures, producers can get an idea of the expected price of their produce. To sum up, commodity exchange can benefit us in the following ways:

- * Ensure a fair price for the farmers and producers for their products.
- * Farmers or producers can get an idea about the price of the product before production.
- * Producers or farmers can get liquidity ahead of the production and sale of their produce.
- * Reduce price increases at the consumer level by eliminating middlemen extortion.
- * Investors can earn profits by trading futures on the exchange.

How Commodity Futures Works?

A commodity futures exchange's appeal lies in the simplicity with which it links buyers and sellers. Any product, including agricultural goods, cattle, fish, forestry resources, minerals, and energy products, may be exchanged on a commodity exchange, according to the Securities and Exchange Ordinance of 1969. After entering the futures market, the farmer or producer is assured of the price of his products before actually starting production.

A wheat farmer, for example, can set a price for their product months before it is harvested. Farmers or producers will enter into a future contract through an exchange to sell their products at a predetermined price in the future to the buyer. After entering into a contract, the producers will harvest and sell those goods to that buyer on the given date at a predetermined price. No matter what the future spot price is, both parties are bound to settle the transactions at the agreed price. This means that all transactions will be conducted through the exchange's system, in this case, the CSE in Bangladesh.

A numerical example will help to understand: For example, five thousand bushels of soybeans make up a contract for soybean futures on the Chittagong Stock Exchange. A farmer would sell 100 soybean futures contracts if they anticipated producing 500,000 bushels of soybeans. Assume that a bushel of soybeans now costs Tk. 1000. Selling the futures contracts could help the farmer lock in the Tk. 1000 pricing if he knows he can make a profit at Tk. 800. The farmer would be able to reduce the chance that the price of soybeans would drop below Tk. 800 when they are ready to be sold. On the other hand, there is always a chance that soybean prices will rise significantly by the time of harvest. If the farmer sold the Tk. 1000 per bushel futures contracts, soybean prices could rise to Tk. 1600 per bushel, and he would lose out on the higher price.

However, the following vignette simplifies how the futures market works:

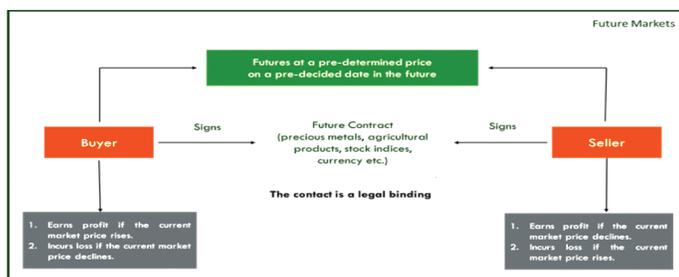


Figure 29: Mechanism of Commodity Futures Market

Source: Author developed

Development of Commodity Exchange in Bangladesh till Date

In an effort to close the gap between what consumers pay for commodities and what producers receive, the CSE intends to introduce the commodities exchange this year. The Chittagong Stock Exchange's existing shareholders will have shares in the commodity exchange, which will be a subsidiary of the bourse. However, the idea of a commodity exchange has been evolving since 2007, when the government initiated a move to establish a commodity exchange system. The initiative did not work out owing to some infrastructure challenges as well as a lack of interested users.

The initiative of establishing a commodity exchange regains its momentum once Bangladesh Securities of Exchange (BSEC) nodded the CSE back in October 2021. CSE signed a memorandum of understanding with Multi Commodity Exchange (MCX), India, to appoint the latter as its consultant. MCX will assist the bourse in developing rules and policies, identifying products, developing clearing, settlement, and surveillance procedures, and developing a five-year business plan. To create a technical ecosystem for intelligent quality control systems and smart storage facilities for the nation's first commodities exchange or futures market, the Chittagong Stock Exchange (CSE) is in talks with SGS Group, a Swiss inspection, verification, testing, and certification provider, as well as Nippon Express Bangladesh. The Central Counterparty Bangladesh Limited (CCBL) will start operating soon and make commodities exchange settlement easier. The draft rules for the commodity exchange has been submitted to the BSEC in October this year.

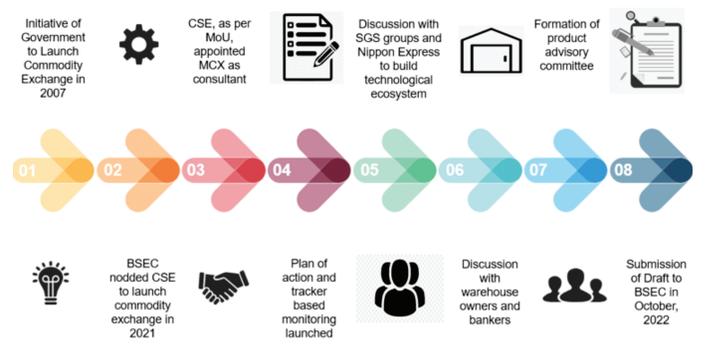


Figure 30: Current Status of Commodity Exchange in Bangladesh

Source: Author developed

Concluding Remarks

The establishment of a commodity exchange in Bangladesh will open up new opportunities for farmers and producers. The exchange will enable them to get a justified price, thus reducing the price mismatch between the producers and the buyers. It will encourage the producers to produce more as they are assured of fair prices. Besides, the exchange will act as an advance price signal for the stakeholders. Investors will also experience a new asset type, which will add variation to their portfolio bucket. Overall, this will benefit the country's economy.

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