FINANCIAL MARKET REVIEW

Nov' 2023

Endeavour Education Excellence

Contents

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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.

"Financial development and capital market stability are consequences of a stable and growing economy while a stable and growing economy is a consequence of a stable political condition both worldwide and nationwide where the money can flow without distractions. The better the political stability, the smoother the capital market functions"

Gourav Roy, Lecturer, BICM

Economy of Bangladesh

Key indicators at a glance

Countries	Nominal GDP (USD in billion)	Real GDP Growth (yearly % Change)	Inflation Point to point (as of Sep '23)	Currency Appreciation/Depreciation against USD	Reserve (Billion USD)	Currency Exchange Rates (per USD)
Bangladesh	426.85	6.03%	9.63%	-0.68%	21.05	110.23
Emerging Economies						
India	3,750.00	7.20%	5.02%	-0.77%	583.5	83.28
China	19,373.00	4.50%	0.00%	-0.13%	3115	7.32
Developed Economies						
USA	23,618.00	2.90%	3.70%	0%	241	1
UK	3,080.00	1.90%	6.70%	-4.42%	181.58	0.82

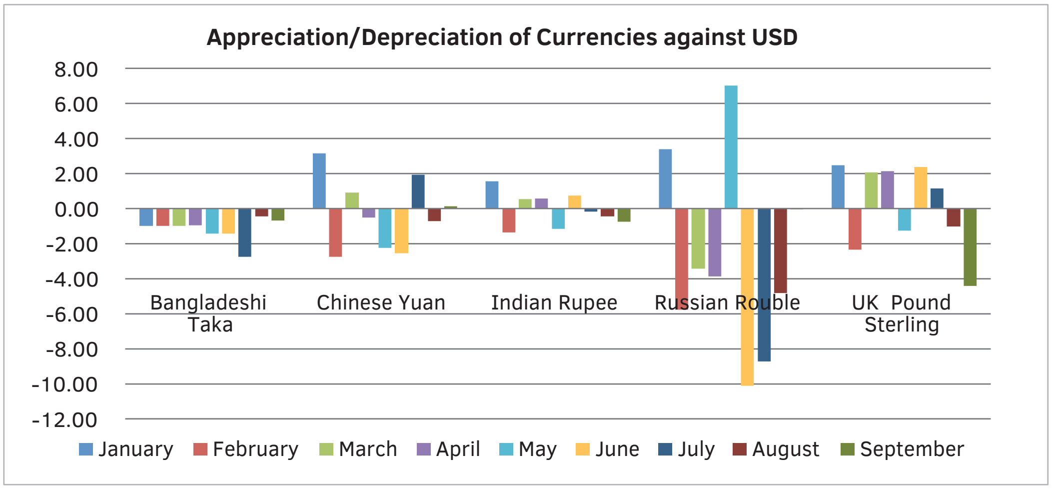


Figure 1: Appreciation or Depreciation of Different Currencies against USD (In Percentage)

A visual tour of the key statistics

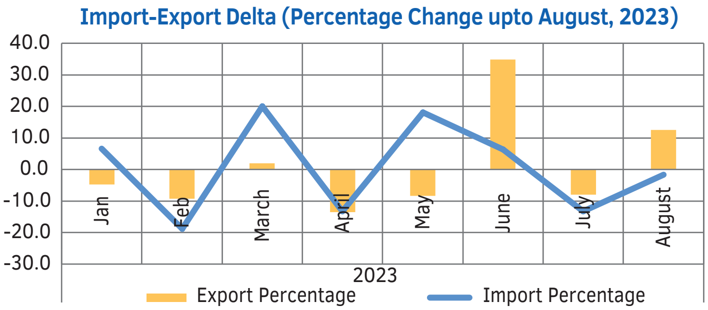


Figure 2: Import-Export Delta (Percentage Change up to August, 2023)

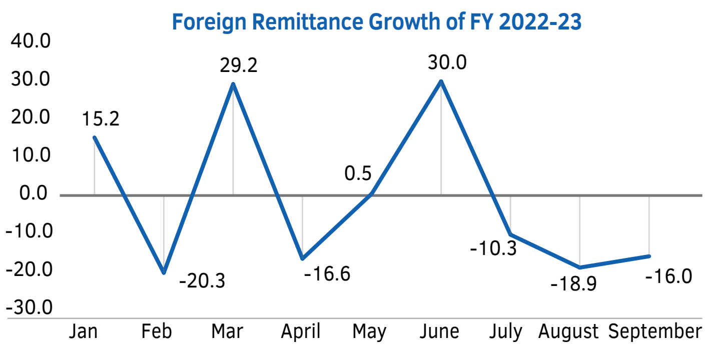


Figure 3: Foreign Remittance Growth of FY 2022-23 (In Percentage)

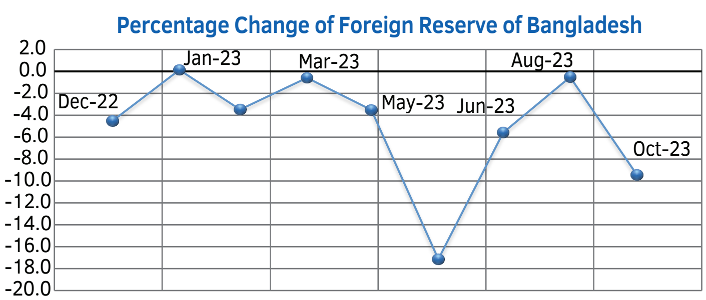


Figure 4: Percent Change of Foreign Reserve

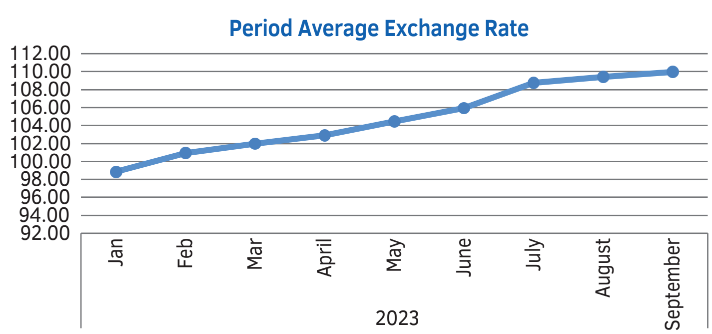


Figure 5: Period Average Exchange Rate of Bangladesh

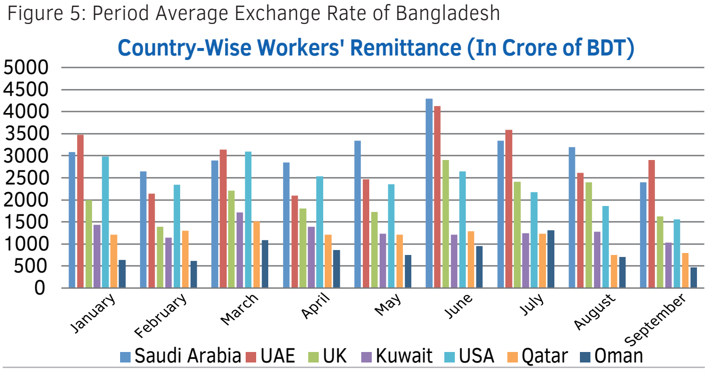


Figure 6: Country-wise Workers' Remittance

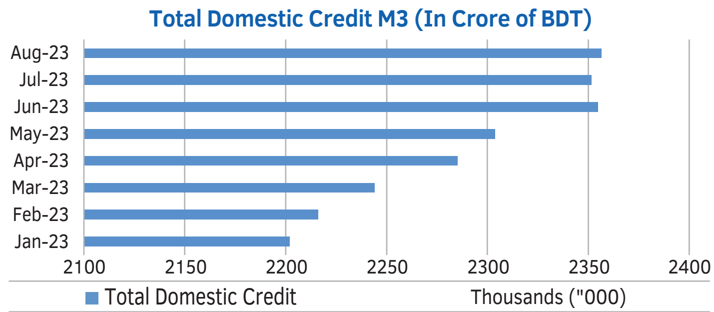


Figure 7: Total Domestic Credit

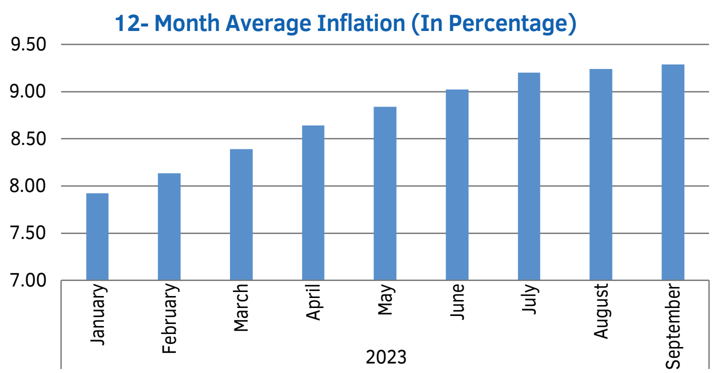


Figure 8: 12- Month Average Inflation (In Percentage)

Numbers to Note

1. BDT was found to be depreciating by 0.68% per USD while other big South Asian economies except China also had negative effect against USD in this month.
2. Export had 12% increase while import was found to have a decrease of 1.65% comparing to the previous month.
3. Foreign remittance growth decreased by 16% in September, 2023 which is a continuous negative economic event for the last few months.
4. The reserve is now 21 billion US Dollar that was 23 billion US Dollar in the last month.
5. The average monthly exchange rate is now 109.98 Taka per US Dollar that represents continuous depreciation over the last few months.
6. The Debt to GDP percentage in 2023 is 38% which was 37.5% in the previous year.
7. The 12-month average inflation is 9.29% that was 9.24% in the last month.

Economic Challenges Ahead

1. For the last few months, inability to control the price level of food due to uncontrolled business syndicates may hinder the economic development by creating panic in commons.
2. Forex reserve has dropped by 2 billion USD that has led the foreign payment schedules more tightened.
3. LC payments disruptions being caused by reserve depletion and exchange rate devaluation may trigger economic vulnerability to abysmal.
4. Political instability may lead the business syndicates to take advantage, and machination on price control may sustain in the food and utilities market.
5. The rising inflation is daunting the targeted GDP growth of FY 2023-24.
6. Remittance fall should be addressed accurately to supplement the current reserve properly.

[Data Source: Bangladesh Bank, IMF, WB & BBS]

Capital Market Oscillation ended up with Losing 19 Points in October

Capital Market

In October 2023, the market ascended a 0.22% increase in the DSEX index compared to the previous month of September. The prices of the majority of issues remained unchanged along with mercurial trend in major shares.

Analyzing the capital market snapshot of October 2023 it is evident that the DSE market indices demonstrated a flying trend in mid-October along with a slight fall during the last week of the month. The number of scripts with a precipitous price fall is higher than the number of scripts that have prices up compared to the previous month. Other indices have also increased compared to those of September except a negative return of 0.09% in high cap index. During October, on an average, only 65 issues advanced, 80 issues declined and the remaining 157 issues closed unchanged. The AD ratio compares the number of stocks that increased in value to the number of stocks that decreased in value. By looking at the AD ratio of this month, it is evident that the 22-trading day denoted a somewhat volatile trend in the market throughout the month along an increase in the second week and a stable trend during the rest of the month.

The month took off with a debilitating trend in the first week and then started recouping the rest of the month until the last week where it lost a few points. Investment in the market decreased as total traded value and average trade volume decreased by 27% and 20% over the month, though, surprisingly the average market capital increased 0.33% over the month. This month was quite chaotic for the country's capital market due to heightening inflation along with political tensions due to several political events across the country. Country's foreign exchange reserves (gross) declined to $20.96 billion and due to hundi and mismatch in rates of foreign currency in organized and local market, little remittance was flowing through the formal channel. Lots of factors contributed to lower investment in the market including higher inflationary pressure, channeling of money of investors to Universal Pension Schemes from the capital market, news of political obstructions. Moreover, increase in rates of bank loans to 10.7% with the central bank rising the policy rates was crunching down the economic activity as well. The order of Bangladesh Bank to disburse remittance among beneficiaries within two days of receiving it from the senders would work as a positive reinforcement hopefully. Overall 16 IPOs are in the pipeline waiting for the approval from the BSEC and 2 IPOs are conducting their roadshows to enter into the market. Analyzing the returns of the world's major indices it is apparent that major indexes of India, USA, Japan and UK all showed a negative return in October compared to that of Bangladesh. Among those, UK's FTSE 250 index had a negative return of more than 6% greater than any other countries in comparison. In terms of global commodity future markets, except cotton, soybean and crude oil every major commodity futures showed a positive trend. Natural gas gained a maximum value of 21.36% whereas soybean and crude oil prices decreased by more than 7% and 10% respectively in the month of September.

The market PE ratio of the Dhaka Stock Exchange Limited in October was 17.54 on an average. SEAPEARL was in the top position based on turnover; RNSPIN was the top gainer in terms of price with 237% increase over the month whereas MONNOAGML was the top loser. In terms of sector return, life insurance sector, service and real estate sector, jute sector, and travel sector performed well in this month. Aggregately, the average trade volume decreased by 31% whereas the average trade value decreased by 27% along with a 0.33% increase in the average market capitalization compared to the previous month. A piece of positive news this month for the economy of Bangladesh is that the opening of digital banks and taka pay card by the central bank will get a grip on the falling exchange value of our currency.

BSEC and BB already have taken several actions to improve the market performance. The World Investor Week 2023 was celebrated by BSEC, BICM, and BASM by enlightening the investors about the need for sustainable financing and investors' resilience. This kind of events will facilitate a vibrant capital market for the upcoming days.

DSE Market Indices

Index Name	1-Oct-23	31-Oct-23	Change	% Change
DSEX	6,264.90	6,278.66	13.76	0.22%
DSES	1,357.38	1,362.73	5.35	0.39%
DS30	2,135.69	2,133.87	-1.82	-0.09%
CDSET	1,208.31	1,214.63	6.32	0.52%
DSMEX	1,237.54	1,229.97	-7.57	-0.61%
Scripts Movement (Monthly Average)	Advance		Decline	Unchanged
	65		80	157

Table 1: DSE Market Indices

Market Aggregates

	31 Oct 2023	30 Sep 2023	Change	% Change
Average Market Capital (TK Million)	7,793,504.46	7,767,593.30	25,911.16	0.33%
Average Traded Value (TK Million)	4,576.70	6,281.31	-1,704.61	-27.14%
Average Number of Trades	118,104.27	147,016.33	-28,912.06	-19.67%
Average Trade Volume	83,410,456.59	120,769,103.06	-37,358,646.46	-30.93%

Table 2: Market Aggregates

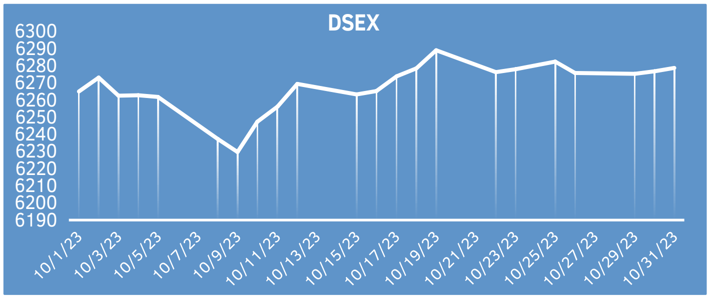


Figure 9: DSEX

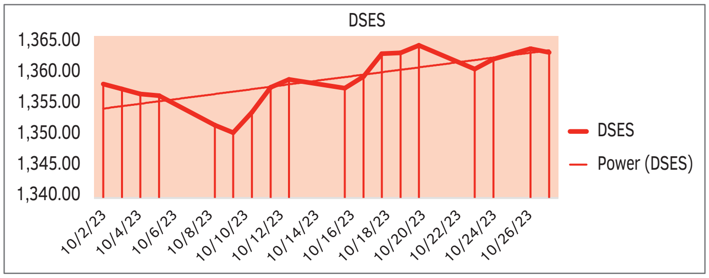


Figure 10: DSES

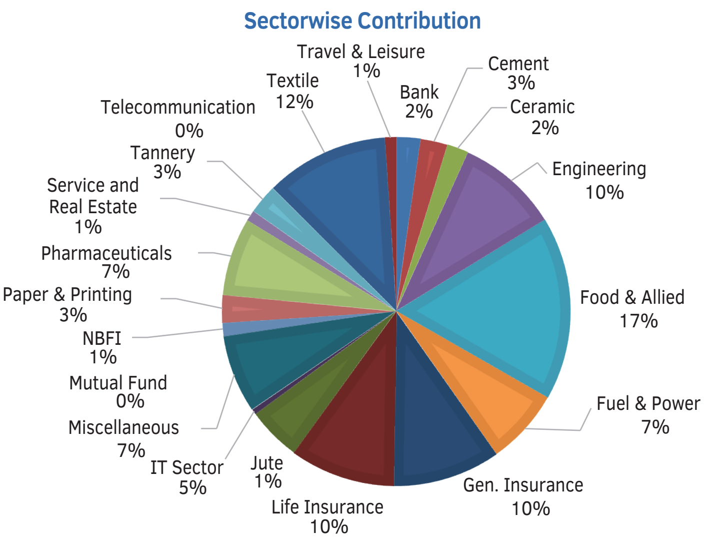


Figure11: Sectorwise Contribution

Turnover				Gainer			Loser		
Sl	Stock	Turnover	Total (%)	Sl	Stock	Return(%)	Sl	Stock	Return(%)
1	SEAPEARL	455.03	5.44%	1	RNSPIN	237.10%	1	MONNOAGML	-23.72%
2	FUWANGFOOD	394.36	9.71%	2	FARCHEM	166.04%	2	APEXFOODS	-21.94%
3	GEMINISEA	324.26	-8.07%	3	CAPITECGBF	89.09%	3	CRYSTALINS	-19.98%
4	EMERALDOIL	280.02	10.40%	4	LIBRAINFU	51.98%	4	AL-HAJTEX	-19.65%
5	LHBL	260.93	-1.13%	5	IMAMBUTTON	48.02%	5	REPUBLIC	-15.26%

Figure12: Top Gainer and Loser

Performance comparison of World's Major Index		
Country	Index Name	Return
India	BSESENSEX	-2.97%
USA	DOWJONES	-1.44%
Japan	Nikkei 225	-6.44%
UK	FTSE 250	-6.54%
Bangladesh	DSEX	0.22%

Figure13: Performance comparison of commodity futures

Performance comparison of commodity futures	
Commodity name	Return
SUGAR	2.26%
NATURAL GAS	21.36%
COTTON	- 6.28%
SOYBEAN	- 7.11%
GOLD	6.95%
CRUDEOIL	- 10.55%

Figure14: Performance comparison of commodity futures

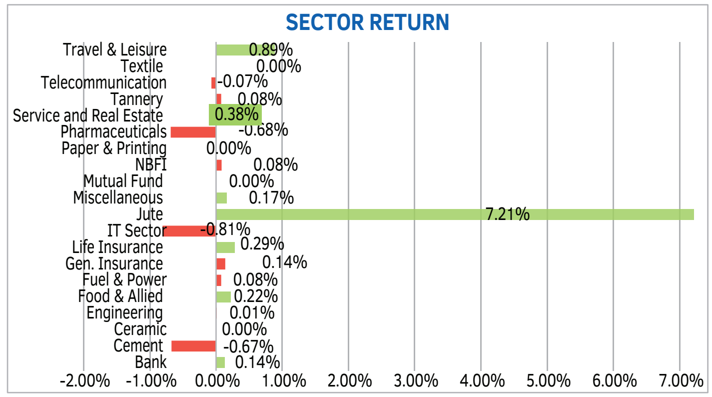


Figure15: Sector Return

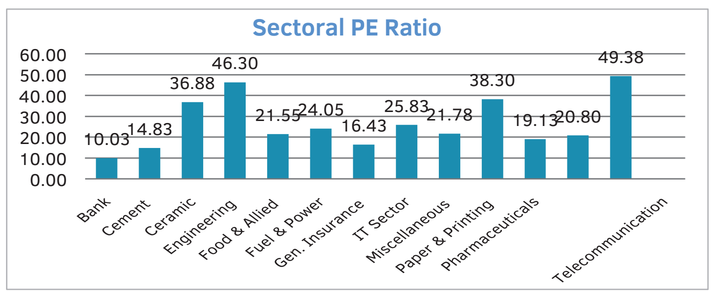


Figure16: Sectoral PE Ratio

Agent banking is witnessing a steady increase in both deposits and loan disbursements, indicating a successful distribution of financial resources to previously unbanked individuals.

Md. Adnan Ahmed, Lecturer, BICM

Money Market

Demand deposits and time deposits grew by 5.63 and 10.79 percent, respectively, as of August 2023. This resulted in an annualized total deposit growth of almost 10.17 percent.

The total quantity of bank credits has increased yearly by 9.4%. While bank advances and bills both saw increases of 10.31 and 7.19 percentage points annually, bank investments grew by 6.12 percent. [Table-01]

Scheduled Banks' Deposits and Credits

Deposits held in DMBs					(Taka in Millions)
Items	Aug'23	Jul'23	Aug'22	Percentage Changes	
				Aug'23 vs. Jul '23	Aug'23 vs. Aug'22
Demand Deposits	1,857,994	1,917,206	1,758,888	-3.09	5.63
Time Deposits	14,318,763	14,152,700	12,924,055	1.17	10.79
Total Deposits	16,176,757	16,069,906	14,682,943	0.66	10.17

Banks' Credit		(Taka in Millions)			
Items	Aug'23	Jul'23	Aug'22	Percentage Changes	
				Aug'23 vs Jul '23	Aug'23 vs Aug'22
Advances	14,791,814	14,669,353	13,408,963	0.83	10.31
Bills (Import & Inland)	353,875	379,182	330,153	-6.67	7.19
Investments	3,709,842	3,629,097	3,495,914	2.22	6.12
Total Credits	18,855,531	18,677,632	17,235,030	0.95	9.4

Table 01: Deposits held in DMBs and Bank Credit

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

Call money rate remained high in October, reaching its peak at 7.87 percentage during the last few working days of the month. [Figure-09]. The nominal interest rates on deposits and loans have gone up to 4.52 percent and 7.85 percent, respectively. [Figure-10]

Call Money Rate of Oct'23 (%)

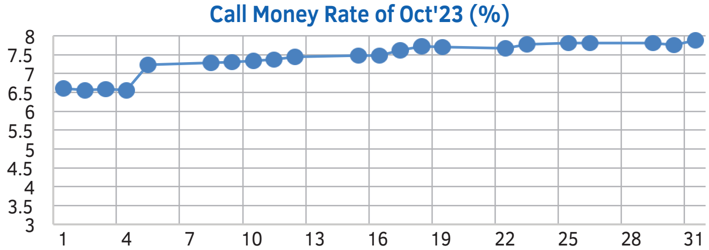


Figure 9: Call Money Rate of Oct'23

Nominal Interest Rates (%)

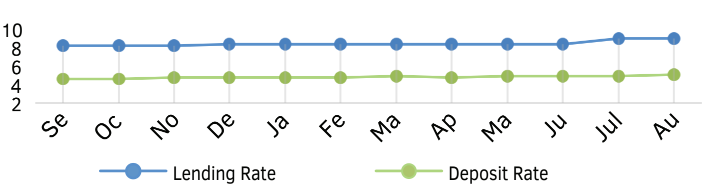


Figure 10: Nominal Interest Rates (%)

The cost of funds and the adjusted cost of funds, which came in at 7.09 and 8.11 percentage points, respectively, were steady when compared to the May high. [Figure-11]. Until September of this FY24, the government has paid the banking industry around 3,778 crores instead of borrowing. [Figure-12]

Cost of Funds of NBFIs (%)

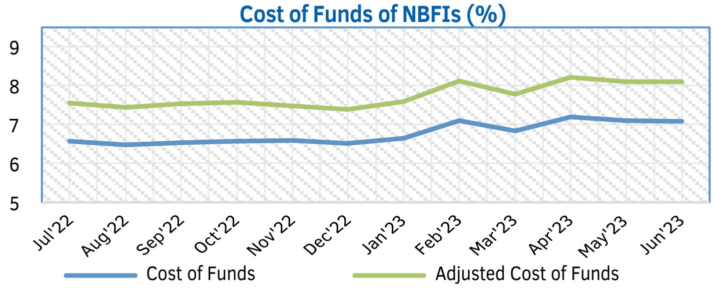


Figure 11: Cost of Funds of NBFIs

Govt. Borrowing from Banking Sector (In Crore)

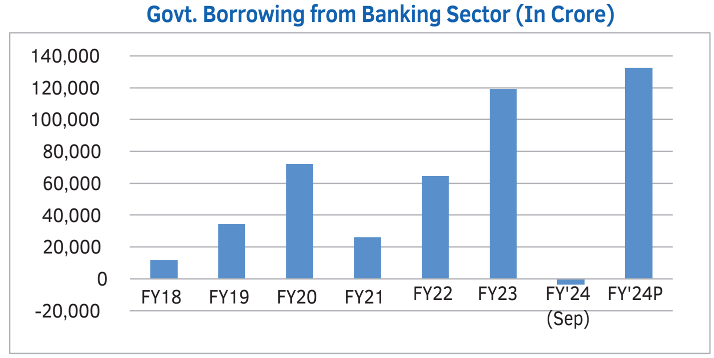


Figure 12: Govt. Borrowing

September saw a sharp decline in private sector credit growth, at 9.69%. [Figure-13]. Compared to previous month, yield on T-Bills rose to 9.8, 9.9 and 10 percentage for 91, 182 and 364 days respectively. The yields on the 2, 5, 10, 15 and 20 year T-Bonds hit 9.25, 10.09, 10.41, 10.55 and 10.55 percent respectively. [Figure-14].

Private Sector Credit Growth (%)

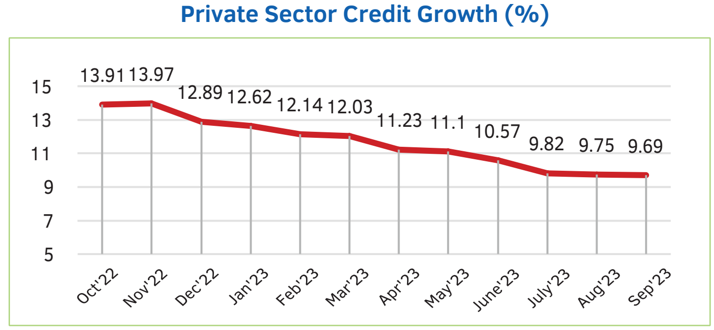


Figure 13: Private Sector Credit Growth

Yield Curve (%)

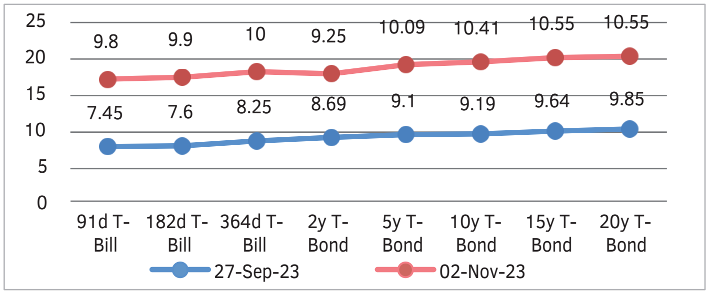


Figure 14: Yield Curve

Trends in Financial Inclusion and Digital Finance Statistics

As of August 2023, there were over 7.63 million users of internet banking, representing a YoY rise of almost 33.39 percent.. [Figure-15]. There were around 212.42 million MFS users as of August 2023, a YoY increase of 15.93%. [Figure-16].

Number of Internet Banking Users (in Million)

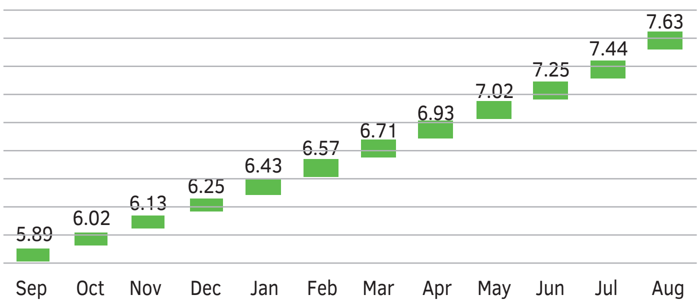


Figure 15: Number of Internet Banking Users

Number of MFS Account (In Million)

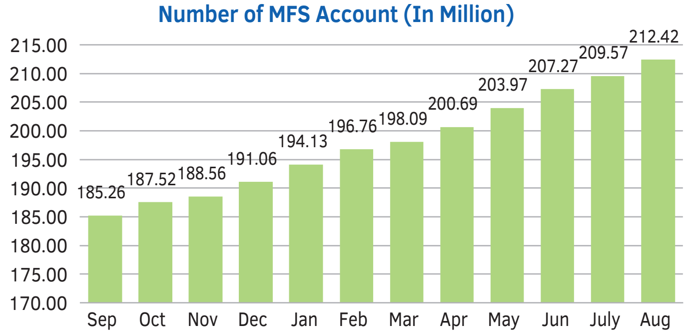


Figure 16: Number of MFS Accounts

The types of transactions conducted through agent banking such as deposit, loan disbursement grew yearly by 18.78 and 40.48 percentage respectively while utility bill payments and inward foreign remittance declined by 11.66 and 33.78 percentage respectively. [Figure-17]. From the statistics of the interaction with different gateways by internet banking users it is seen that the uses of POS, CRM and E-commerce grew annually by 22.08%, 86.44% and 42.22% respectively but the use of ATM decreased by 5.72%. [Figure-18]

Agent Banking Transactions Growth (YoY Growth Jul '23)

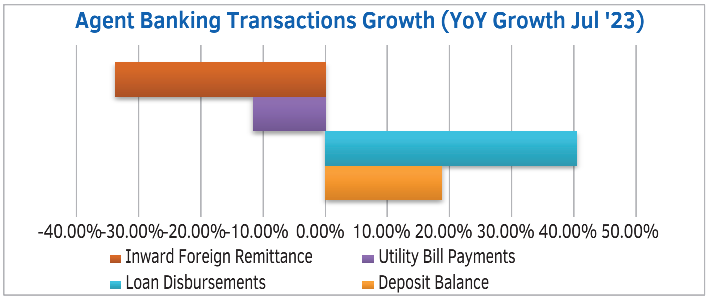


Figure 17: Types of Transactions through Agent Banking

Internet Banking Gateways' Growth (YoY, Till July'23)

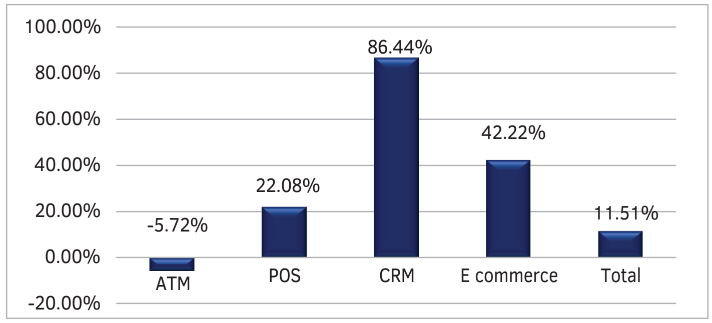


Figure 24: Transactions through Gateways

Key Takeaways

> Banks' deposits continue to rise. Because there are fewer appealing investment options available to individuals due to the nation's current economic crisis, many choose to park their fund in banks. In addition, some banks raised interest rates, which encouraged depositors to park their funds there. Lack of credit demand from private sector entails low credit growth which is below deposit growth.

> The increase in call money rates in October was a sign of the banking industry's constrained liquidity. The central bank's sales of dollars to banks are mostly to blame for the current low liquidity.

> Low interest-rate spread is a result of NBFIs' rising funding costs. Furthermore, declining deposits and an increase of non-performing loans do not bode well for the sector.

> In an effort to control inflation before the next general elections, the government is paying back more of the money that it is borrowing from the banking sector. However, excessive borrowing from scheduled banks may result in crowding-out effect, a situation when loanable funds become scarce for private sector.

> Since fewer import letter of credit are being opened, the private sector credit is still slowing down. Furthermore, this sluggish credit growth is a result of commercial entities' cautious behavior prior to elections.

> The Bangladesh Bank tightens the money supply in an effort to reduce inflation. It is taking action in the current fiscal year, such as cutting the amount of government debt and raising the lending and policy rates, to accomplish this goal.

> As more and more individuals, particularly the younger, tech-savvy generation, use the digital platform to perform financial transactions, the number of internet banking customers is growing quickly. The number will further increase as the country has stepped into digital banking arena.

> Bangladesh is getting closer to its aim of digital banking and cashless transactions because of the rise in mobile financial services (MFS).

> Agent banking is witnessing a steady increase in both deposits and loan disbursements, indicating a successful distribution of financial resources to previously unbanked individuals.

Source: Bangladesh Bank Website

POS: Point of Sale
ATM: Automated Teller Machine
MFS: Mobile Financial Service
NBFI: Non-Bank Financial Institution
CRM: Cash Recycling Machine
YoY: Year on Year

Shahbaj Talat

Adoption of ESG in Bangladesh's Capital Market

Promise of Multifaceted Benefits but Requires a Multi-Stakeholder Approach

Insights

Environment, Social, and Governance (ESG) investing, often known as sustainable investing, refers to investing in companies that incorporate ESG factors in their business operations and continuously work to improve their performance in these factors.

ESG investors take a holistic approach to invest. Hank Smith, the Head of Investment Strategy at The Haverford Trust Company, mentioned in an interview with Forbes, "At its core, ESG investing is about influencing positive changes in society by being a better investor."

ESG investing comes with better returns

Hank Smith's words may appear to be a whitewash. After all, aren't the best investors those who make great returns from their investments? And isn't it the duty of investee companies "to maximize shareholder value?"

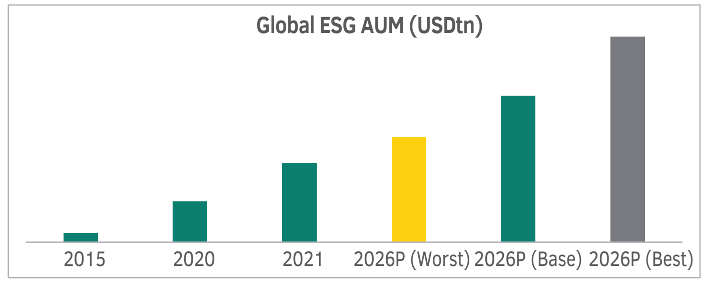
However, both companies and investors can benefit financially from ESG investing. A recent study by McKinsey on more than 2,000 globally publicly listed companies found that companies that achieve better growth and profitability than their peers while also improving ESG outgrow their peers and exceed them in shareholder returns by 7%.

But didn't ESG funds underperform last year, thus making the McKinsey study untrue? The answer is not, as in the first half of June 2023, sustainable funds returned to their long-run trend of outperforming traditional funds, giving a return of 6.9% compared with traditional funds offering 3.8%. This outperformance suggests a secular trend where ESG funds perform better than their traditional counterparts.

Investors, particularly the young, are joining the ESG movement

The global investment management industry has rightly noticed the better returns offered by ESG funds and is increasingly investing in funds with such mandates. Since the COVID-19 pandemic, the industry has emerged with a renewed purpose and prioritized ESG investments. As per a report by PwC, ESG funds witnessed a 42.7% CAGR in inflows in Assets under Management (AUM) from 2015 to 2022. The report also forecasted greater investment in ESG with the share of ESG investment as a share of total AUM rising from 14.4% in 2021 to more than 20.0% by 2026.

Even last year's underperformance did not deter the industry's purpose. AUM in sustainable funds increased from USD2.8 trillion in December 2022 to USD3.1 trillion in June 2023. And



given sustainable funds' returns in the first half of 2023, ESG investors were right in their conviction.

Leading the trend in ESG investing is the young demographic. A CFA Institute survey found that among young retail investors aged 25–34, 19% now use ESG strategies, whereas among those 65 and older, just 3% use ESG strategies. This is consistent with the fact that younger investors are the ones who will have to bear more of the cost of an unsustainable world.

The case for ESG investing in Bangladesh and role of financial market intermediaries: Beyond opportunity for attracting foreign investments, a necessity, and a scope of 10x returns

For Bangladesh, the case for greater ESG investing comes from the fact that better returns from ESG funds may lure investors, particularly foreigners, into the market. But it is also a case of necessity.

Bangladesh is highly vulnerable to climate change, and a recent report by Standard Chartered Bank indicates that Bangladesh could lose US$ 11.6 billion (around 2.5% of GDP) by 2030 due to climate change. For an economy poised to grow to US$1 trillion by the next decade, climate change can therefore be a great impediment to the desired growth target.

The same report suggested that by investing US$1.2 billion in climate adaptation by 2030, Bangladesh could prevent projected damages and lost GDP growth. Therefore, one dollar of investment can bring more than ten dollars of return! Hence, beyond necessity, ESG investing can provide Bangladesh the opportunity to earn 10 times return.

Moreover, the increasing emphasis on environmental sustainability and equitable economic development has garnered widespread attention for the notions of CSR

(Corporate Social Responsibility) and inclusive finance. In such a developing economy, it is therefore imperative for the business community, particularly the financial sector, as a key intermediary, to prioritize ESG management. Financial intermediaries occupy a distinct position within an economic system and play a pivotal role in shaping environmental risk management within the real economy and fostering sustainable growth.

In Bangladesh, efforts to promote ESG reporting have been spearheaded by the Bangladesh Bank, beginning with its 2008 circular on corporate social responsibility. This was followed by the introduction of green financing in 2011, emphasizing environmental responsibility. In 2022, a total of BDT 1,307.6 billion was disbursed as sustainable finance, of which BDT 122.3 billion (5% of the total loan disbursements in the country) was green finance. More recently, the Bangladesh Bank (BB) issued a 'Sustainable Finance Policy' in 2020 to incorporate ESG considerations in the portfolios of financial institutions.

The Bangladesh Securities and Exchange Commission (BSEC) also made notable contributions through its Corporate Governance Guidelines; mandating disclosures related to corporate governance for listed companies. However, these guidelines do not encompass broader ESG concerns such as environmental impact, social inclusion, discrimination, and bribery.

Capital market intermediaries can play a much greater role in fostering ESG in the investment landscape

Although the regulatory initiatives are a welcome step, much more actions need to be taken to mobilize US$ 1.2 billion, as aforementioned, by 2030. Moreover, other bodies need to step in to encourage companies to incorporate ESG factors into their operations. Here is where the capital market can step in.

Capital markets can gather funds from diverse investors, generate public interest, and encourage broader ESG adoption among corporations and policymakers. Recent examples, like Beximco Green-Sukuk Al Istisna (BDT 30 billion) and Runner Automobiles Sustainability Bond (BDT 2.7 billion), highlight the capital market's potential in advancing sustainable initiatives.

But to create a more sustainable and responsible investment landscape, a multi-stakeholder approach involving investors, companies, regulators, and intermediaries is required. Here are some ways the whole capital market in Bangladesh can get involved:

1. Development of ESG standards: Despite regulatory initiatives from BSEC, the level of ESG reporting in Bangladesh has been underwhelming, with research indicating that CSR reporting is often unreliable, subpar, and occasionally politically motivated. BSEC can therefore support the development and adoption of standardized ESG reporting frameworks (e.g., GRI, SASB, and TCFD) to facilitate comparisons among companies. In India, for instance, a required ESG report titled the Business Responsibility and Sustainability Report (BSRS) was mandated by the Securities and Exchange Board of India (SEBI) for the top 1000 corporations. Regulators in other countries like the UK, China, and Nigeria have adopted the SASB as the standard for ESG reporting.

2. Creation of ESG indices and ratings: The country's two exchanges can develop stock market indices to include ESG-focused indices (like the Shahriah index, such as DSES), which can drive institutional investors to consider ESG factors in their portfolios. The methodology of such indices should encourage companies to disclose ESG information. The exchanges can also support the development and availability of ESG ratings and research to help investors make informed decisions.

3. Formation of financial products encouraging ESG adoption: Regulators and capital market intermediaries can develop ESG-focused investment products such as ESG-themed mutual funds, exchange-traded funds (ETFs), and green bonds to provide investors with ESG-aligned options. Asset managers can incorporate ESG factors into the risk assessment models of their funds to highlight the potential financial risks associated with poor ESG performance.

4. Promote companies' adoption of ESG practices: Institutional investors can use their influence to advocate for ESG practices within the companies they invest in. In the US, such advocacy has been used by asset management companies such as BlackRock.

5. Raise awareness about ESG among general investors: Asset management companies can conduct awareness campaigns and educational programs to inform investors about the benefits of ESG investing and its impact on society and the environment. They should encourage investors to adopt a long-term perspective that considers the sustainability and resilience of companies over time.

These roles played by capital market bodies should not only benefit the investment landscape of Bangladesh but will also aid in fostering sustainable development in the country. Not only will there be companies with better corporate governance, but there will also be informed citizens and proactive policymakers. Hence, it can be said that ESG investing in Bangladesh can help achieve a lot of the country's development goals.

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