FINANCIAL MARKET REVIEW

February 2024

Endeavour Education Excellence

Contents

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

"The growing export, foreign exchange reserve, foreign exchange rate with respect to USD and remittance are harbingers to an emerging economy that is returning to its pace to align with impactful development plans of the new government."

— Gourav Roy, Lecturer, BICM

Economy of Bangladesh

Key indicators at a glance

Countries	GDP at Current Price (USD in Billion)	Real GDP Growth	Inflation Point to Point (As of Jan '24)	Currency Appreciation/Depreciation against USD	Reserve (USD in Billion)	Currency Exchange Rates (Per USD)
Bangladesh	426.85	6.03%	9.41%	0.45%	21.87	109.78
Emerging Economies						
India	3,750.00	7.20%	5.70%	0.17%	618.94	83.04
China	19,373.00	4.50%	-0.30%	0.27%	3,238.00	7.12
Developed Economies						
USA	23,618.00	2.90%	3.40%	0%	245.00	1
UK	3,080.00	1.90%	4.20%	0.28%	121.30	0.8

Appreciation/Depreciation of Currencies against USD

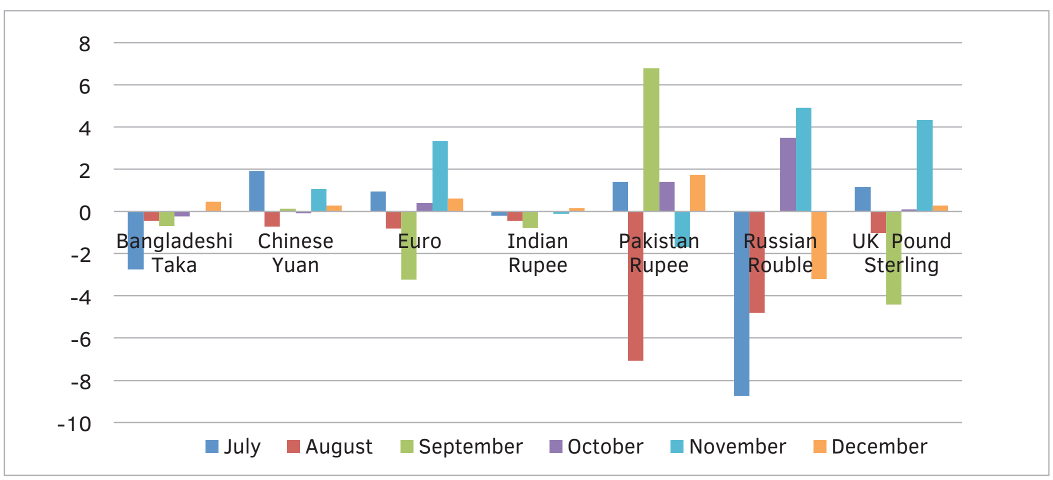


Figure 1: Appreciation or Depreciation of Different Currencies against USD (In Percentage)

A visual tour of the key statistics

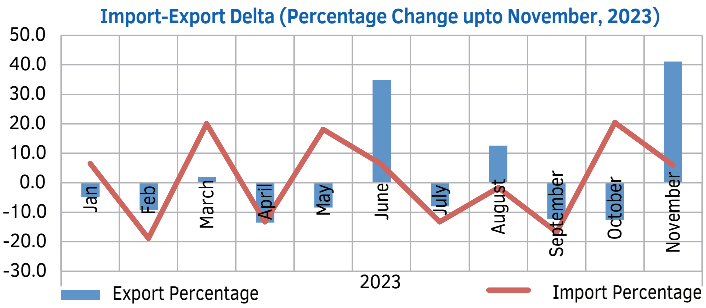


Figure 2:Import-Export Delta (Percentage Change up to November, 2023)

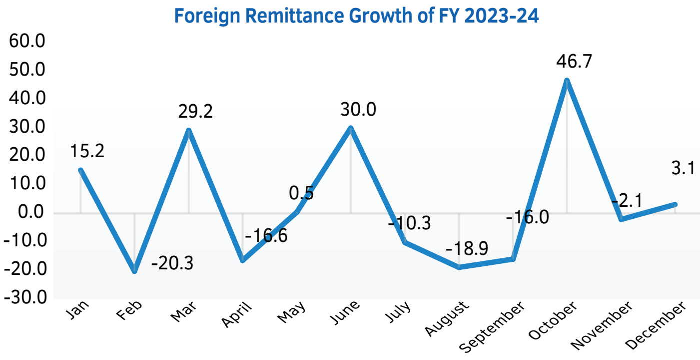


Figure 3: Foreign Remittance Growth of FY 2022-23 (In Percentage)

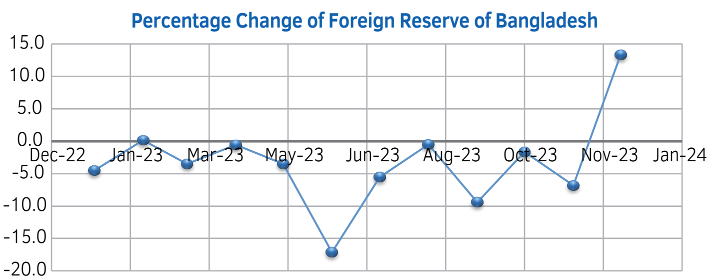


Figure 4: Percent Change of Foreign Reserve

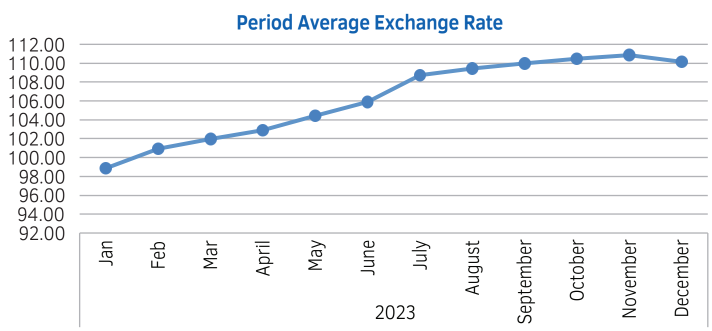


Figure 5: Period Average Exchange Rate of Bangladesh

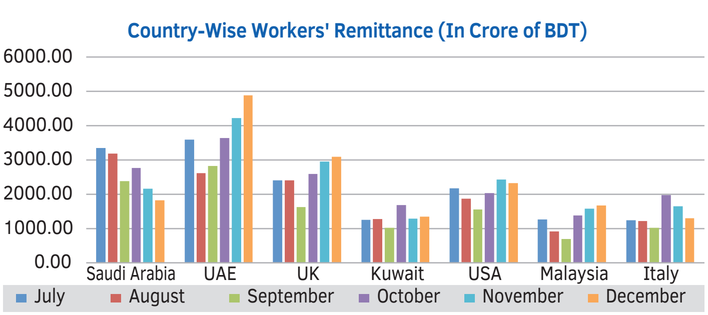


Figure 6: Country-wise Workers' Remittance

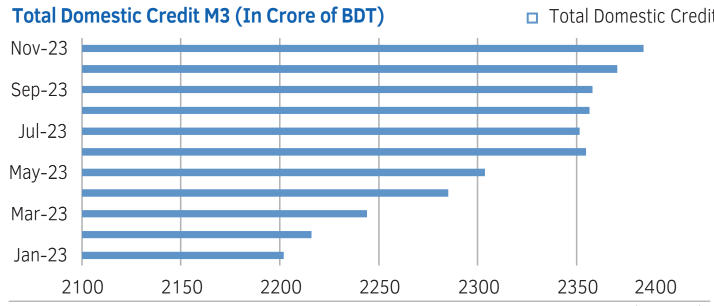


Figure 7: Total Domestic Credit

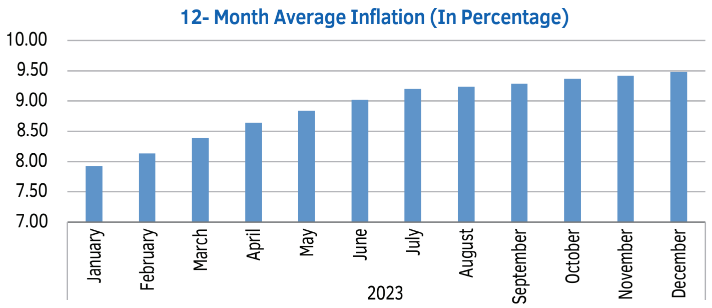


Figure 8: 12- Month Average Inflation (In Percentage)

Numbers to Note

1. BDT has appreciated with respect to USD which is a good sign for currency stability.
2. Export increased by 41% while import increased by 6% which represents a positive net export percentage gap.
3. After a small decrease of 2.1% in the last month's foreign remittance, this month experienced a 3.1% growth.
4. The reserve is now 21.87 Billon USD which was 19.3 Billion US Dollar in the last month.
5. The average monthly exchange rate is now 110.15 Taka per US Dollar that represents continuous depreciation over the last few months. However, this month's exchange rate has appreciated by 0.45% that represents a healing economic condition of Bangladesh.
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 9.48% which was 9.42% in the last month.

Economic Challenges Ahead

1. Bangladesh is focusing more on undertaking different infrastructural projects. Funding of these projects may add to the existing public debt burden.
2. The upcoming months may face foreign exchange reserve dilution due to payment of foreign loans and debt serving charges.
3. As per Dr. Fahmida Khatun, Executive Director of CPD, the implementation of Annual Development Program (ADP) was also not impressive in FY23. The expenditure on ADP as a percentage of GDP decreased from 4.7 percent to 4.3 percent. This decline can be attributed to lower implementation of ADP Remittance growth has to be consistently grown to support the reserve shortage and money supply requirements to meet the economic pressures.
4. The rising inflation and domestic credit per capita are daunting the economic growth and burdening the country with lack of purchasing power with additional loans.
5. Labor sector's violence in RMG may pose some threats on LDC status review criteria of Bangladesh.

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

January's Capital Market Index Resulted in an 89-Point Drop

Capital Market

In January 2023, the securities market experienced a considerable decline of 1.43% in the DSEX index when compared to the previous month. Despite this setback, the post-election trade, lifting of floor price rules, and resilient investor confidence have set the stage for a potential boost in the near future for the capital market.

Upon analyzing the stock market snapshot for January 2023, it is evident that the DSE market indices (DSEX & DSES) have demonstrated a negative change from the previous month. The number of scripts with a precipitous price fall is higher than the number of scripts that have prices up, when compared to the previous month. Additionally, other indices have also decreased when compared to December. During January, on average, only 106 issues advanced, 140 issues declined, and the remaining 118 issues closed unchanged. The AD ratio, which compares the number of stocks that increased in value to the number of stocks that decreased in value, revealed that the 22 trading days of January denoted a somewhat volatile trend in the market throughout the month. Before the election, the AD ratio showed a negative turn. However, after the election, the AD ratio showed a sharp decline in that week, but a stable trend for the rest of the month is also visible.

At the start of the month, the stock market showed a relatively stable trend, but things started to take a turn in the third week with a significant downturn. Despite this, the total traded value increased by 37.03%, with the average number of trades and trade volume also seeing an increase of 25.69% and 30.72%, respectively. However, the average market capitalization decreased by 0.18% in January. There were several factors contributing to the lower investment in the market, such as higher inflationary pressure, volatile exchange rate, higher cost of production, and news of political obstructions. This resulted in chaos for the country's capital market, with radical responses from the public due to the national elections. On a positive note, there was a withdrawal of inhibiting share price movement contributing to a renewed appetite for buying in the market following recent corrections. The initial resilience, fueled by optimistic value investors taking positions in some large-cap stocks post-floor, was later eroded by additional declining stocks in free trading. These declining stocks dragged indices and investors' capital balances lower. However, there is still a concern that the share prices of fundamentally weak companies on the stock exchange are rising without any justifiable reasons. Among these companies, a considerable number have either ceased operations, are operating partially, or are underperforming.

In terms of foreign exchange reserves, the country saw a decline to $20.03 billion from $21.86 billion in December, which can contribute to more tensions, as the net reserve target of $19.267 billion by next March set by the donor to receive the third tranche of the loan has become more challenging to meet. Additionally, the country's banking sector witnessed a sharp decline of $11.45 billion in short-term foreign loan inflows within the private sector. This led to the widening of the financial account deficit and an increased depletion of the foreign exchange reserve.

Moreover, The Bangladesh Bank raised the policy rate by 25 basis points to 8% from 7.75% as the central bank unveiled a new monetary policy for the second half (January-June) of FY24. It poses an uncertainty to the future interest rate structures. The call money rate has already increased by 11.25% which is an 11-year high. Overall, 13 IPOs are in the pipeline waiting for approval from the BSEC and Techno Drugs Ltd. is conducting its roadshows to penetrate the market while Web coats PLC has recently got its approval. Analyzing the returns of the world's major indices it is apparent that the major indexes of USA, and Japan showed a higher positive return in January compared to that of Bangladesh, the UK and India. Among those, Japan's NIKKEI 225 index had a positive return of more than 8% greater than any other country in comparison. However, the UK's FTSE 250 experienced a negative return of 1.68% in January compared to the previous month. In terms of global commodity future markets, except sugar, crude oil, and cotton every major commodity futures showed a negative trend. Natural gas lost a maximum value of 16.08% whereas gold and soybean prices decreased by more than 0.35% and 3.68% respectively in January.

On average, the market PE ratio of the Dhaka Stock Exchange Limited this month was 13.69. BDTHAI emerged as the top company with the highest turnover, while KPPL was the top gainer with a staggering 96% increase in price over the month. On the other hand, GPSFINANCE was the top loser. In terms of sector return, only travel and leisure, textile, miscellaneous, cement, and general insurance showed impressive performance this month. The Chairman of BSEC stated that the country's capital market scenario will experience a positive shift after the National Election since the political scenario has stabilized. It can be concluded that the country's capital market is expected to perform well in the coming days.

DSE Market Indices

Index Name	1-Jan-24	31-Jan-24	Change	% Change
DSEX	6,242.87	6,153.34	-89.53	-1.43%
DSES	1,361.24	1,351.96	-9.28	-0.68%
DS30	2,091.54	2,103.93	12.39	0.59%
CDSET	1,201.85	1,182.58	-19.27	-1.60%
DSMEX	1,257.85	1,277.06	19.21	1.53%
Scripts Movement (Monthly Average)	Advanced		Declined	Unchanged
	106		140	118

Table 1: DSE Market Indices

	31 Jan 2023	31 Dec 2023	Change	% Change
Average Market Capital (TK Million)	7,742,476.19	7,756,309.38	-13,833.19	-0.18%
Average Traded Value (TK Million)	7,157.83	5,223.63	1,934.20	37.03%
Average Number of Trades	188,438.82	149,927.23	38,511.59	25.69%
Average Trade Volume	218,445,286.45	167,106,376.86	51,338,909.59	30.72%

Table 2: Market Aggregates

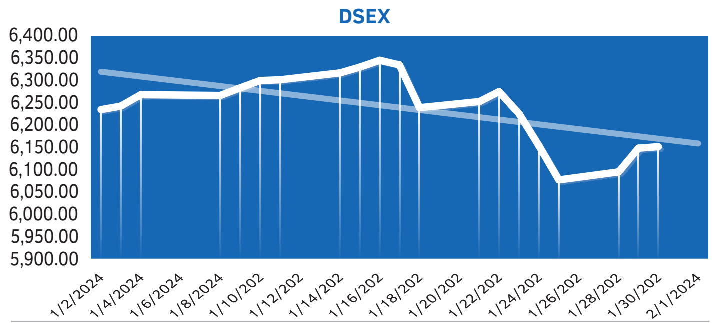


Figure 1: DSEX

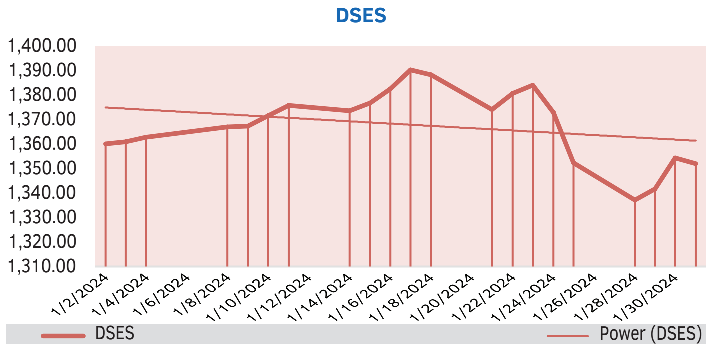


Figure 2: DSES

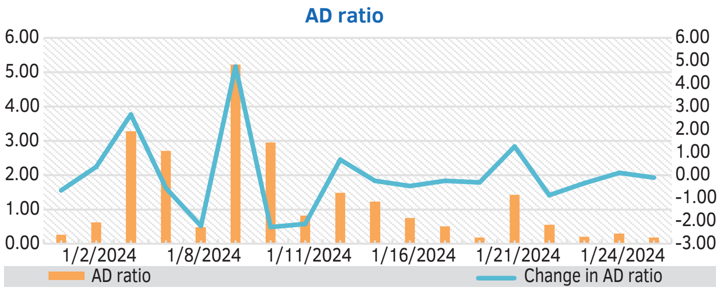


Figure 3: AD Ratio

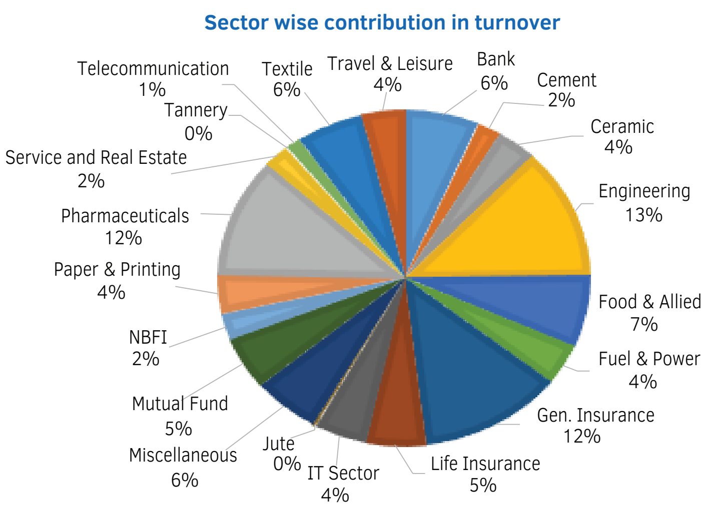


Figure 4: Sectorwise Contribution

Top Gainer and Loser

Turnover				Gainer			Loser		
Sl	Stock	Turnover	Total (%)	Sl	Stock	Return(%)	Sl	Stock	Return(%)
1	BDTHAI	566.54	22.93%	1	KPPL	95.83%	1	GSPFINANCE	-48.51%
2	ORIONINFU	548.75	63.09%	2	SICL	92.73%	2	IPDC	-43.23%
3	FUWANGFOOD	371.83	22.68%	3	KBPPWBIL	82.11%	3	BDFINANCE	-42.40%
4	SEAPEARL	361.74	-2.61%	4	INTECH	71.72%	4	MATINSPINN	-39.18%
5	KPPL	329.97	95.83%	5	AFTABAUTO	66.43%	5	MLDYEING	-37.10%

Table 3: Top Gainer and Loser

Performance comparison of World's Major Index

Country	Index Name	Return
India	BSESENSEX	-0.68%
USA	DOWJONES	2.45%
Japan	Nikkei 225	8.43%
UK	FTSE 250	-1.68%
Bangladesh	DSEX	-1.43%

Table 4: Performance comparison of World's Major Indices

Performance comparison of commodity futures

Commodity name	Return
SUGAR	17.31%
NATURAL GAS	-16.08%
COTTON	5.27%
SOYBEAN	-3.68%
GOLD	-0.35%
CRUDEOIL	6.46%

Table 5: Performance comparison of commodity futures

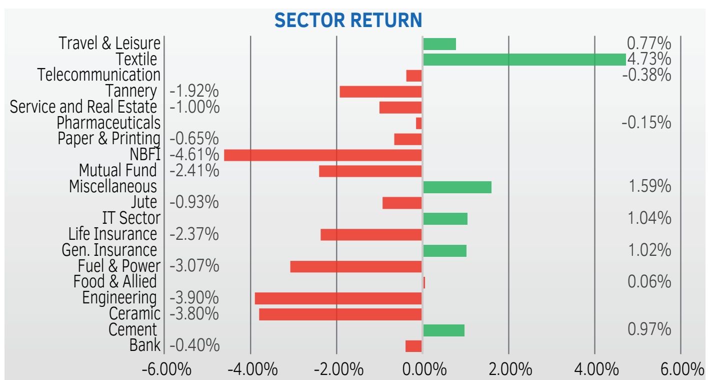


Figure 5: Sector Return

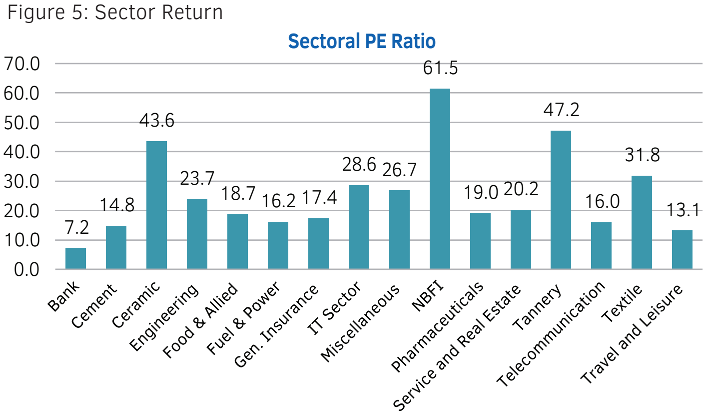


Figure6: Sectoral PE Ratio

> For the second half of this fiscal year the central bank continues to implement contractionary monetary policy in an effort to control the money supply

Md. Adnan Ahmed, Lecturer, BICM

Money Market

Maintaining contractionary monetary policy and adhering to the interest rate targeting framework, the central bank hopes to prevent the depletion of foreign exchange reserves, manage inflation, enhance the current account balance, lessen exchange rate volatility, and stabilize the financial sector through sound governance. In order to narrow the policy rate corridor from ±200 bps to ±150 bps, the central bank has decided to increase policy rates by 25 bps, from 7.75% to 8.00%. This will be accomplished by increasing the Standing Deposit Facility (SDF) or Reverse Repo rate by 75 bps to 6.50% and decreasing the Standing Lending Facility (SLF) or Special Repo rate by 25 bps to 9.50%. The following table demonstrates the key variables of recent monetary policy.

Monetary Policy Highlights for H2 FY24

Variable	Actual FY'23	Target H1'24	Actual H1'24	Target H2'24
Inflation	9.74%	6.00%	9.41%	7.50%
Broad Money Growth	10.50%	9.50%	8.80%	9.70%
Reserve Money Growth	10.50%	0.00%	-2.00%	-1.00%
Domestic Credit Growth	15.30%	15.90%	11.70%	13.90%
Private Credit Growth	10.60%	10.90%	10.20%	10.00%
Public Credit Growth	35.80%	37.90%	18.00%	27.80%
Policy Rate	8% [up by 25 bps]			
Standing Lending Facility	9.5% [down by 25 bps]			
Standing Deposit Facility	6.5% [up by 75 bps]			

Table 01: Monetary Policy Highlights for H2 FY24

Scheduled banks' deposits witnessed 10.33% YoY where demand deposits and time deposits contributed to 5.69% and 10.97% respectively. Banks' credits increased by 9.7% as of November 2023. The negative growth of Bills has been offset by advances and investments. [Table-02]

Scheduled Banks' Deposits and Credits

Items	Deposits held in DMBs			(Taka in Millions)	
				Percentage Changes	
	Nov'23	Oct'23	Nov'22	Nov'23 vs Oct '23	Nov'23 vs Nov'22
Demand Deposits	1,898,025	1,924,780	1,795,780	-1.39	5.69
Time Deposits	14,506,840	14,435,952	13,073,101	0.49	10.97
Total Deposits	16,404,865	16,360,732	14,868,881	0.27	10.33

Banks' Credit	(Taka in Millions)				
Items	Nov'23	Oct'23	Nov'22	Percentage Chang	
				Nov'23 vs Oct '23	Nov'23 vs Nov'22
Advances	15,363,960	15,202,401	13,857,094	1.06	10.87
Bills (Import & Inland)	282,252	268,177	325,573	5.25	-13.31
Investments	3,596,860	3,703,199	3,359,570	-2.87	7.06
Total Credits	19,243,072	19,173,777	17,542,237	0.36	9.7

Table 02: 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.

January 2024 sees the call money rate continuing to rise, peaking at 9.57 percent. [Figure-07]. Loan and deposit nominal interest rates have gone up to 7.89% and 4.55% respectively. [Figure-08]

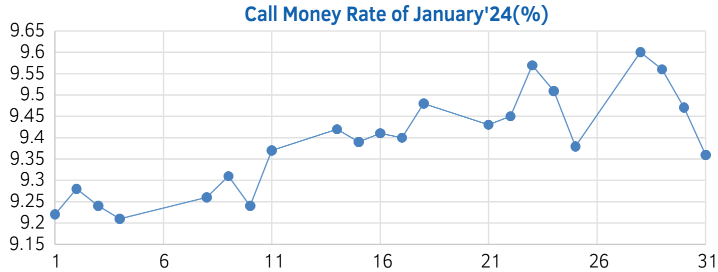


Figure 07: Call Money Rate of Jan'24

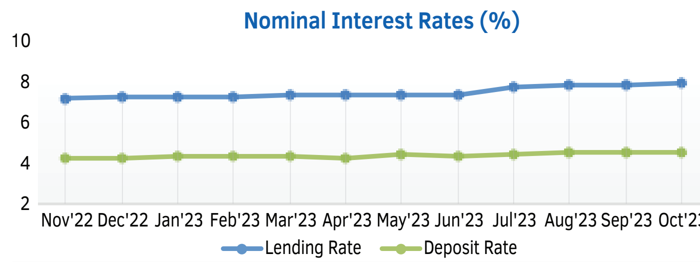


Figure 08: Nominal Interest Rates

Out of total domestic borrowing by Government, banking and non-banking sector have lent Tk. 3188.2 and Tk. 5947 crore respectively. [Figure-09] The yield of government securities soared up compared to December 2023. As of January, the 91day, 182day and 364day T-Bill rates were 11.35, 11.40 and 11.60 percentage respectively. The rates for 2,5,10,15 and 20year T-Bond were 11.6, 11.75, 11.90, 12 and 12.10 percentage respectively. [Figure-10]

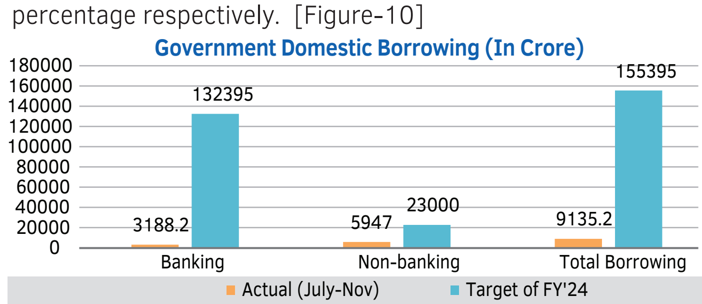


Figure 09: Government Domestic Borrowing

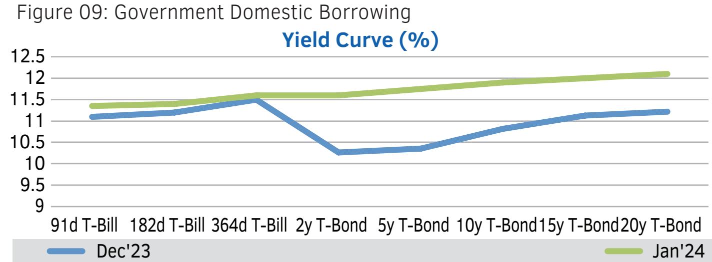


Figure 10: Yield Curve

Trends in Financial Inclusion and Digital Finance Statistics

As of November 2023, 8.17 million individuals utilized internet banking, representing a YoY rise of roughly 27.68 percent. [Figure-11] As of November 2023, there were around 220 million MFS account holders, representing a 15.19 percent YoY rise. [Figure-12]

Transactions through agent banking such as utility bill payments and inward foreign remittance have declined by 0.74 and 24.76 percentage respectively whereas deposit balance and loan disbursements have increased by 18.58 and 8.58 percentage respectively [Figure-13]. Transactions through POS, CRM, and e-commerce increased by 19.77%, 129.55% and 31.57% respectively whereas ATM's transaction declined by 11.27 percentage. [Figure-14]

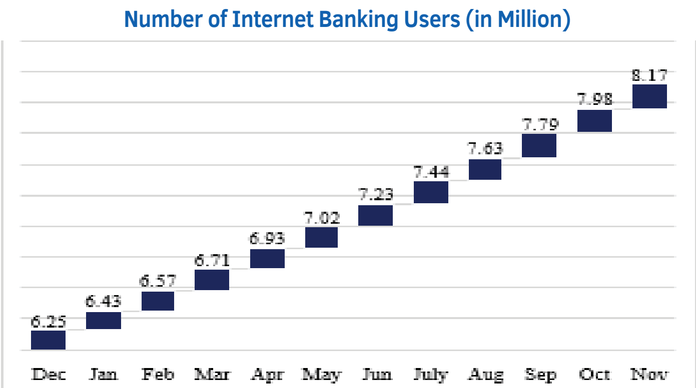


Figure 11: No. of Internet Banking Users (Million)

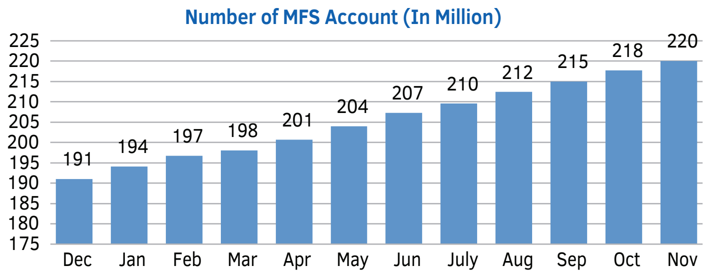


Figure 12: No. of MFS Accounts (Million)

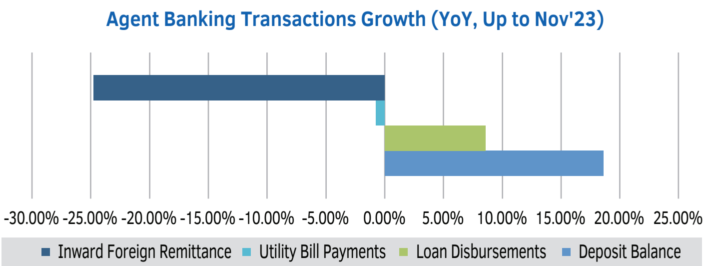


Figure 13: Agent Banking Transactions Growth YoY

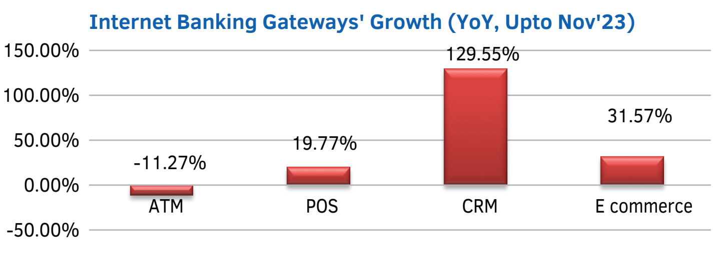


Figure 14: Transactions through Gateways

Key Takeaways

> Due to the current difficulties in the local macroeconomic environment as well as the global political and macroeconomic uncertainties, controlling inflation, maintaining exchange rate stability, and attaining planned GDP growth would be challenging. Interest rates are anticipated to rise in response to the policy rate's 25 basis point increase.

> Following the lucrative deposit rate offered by the most cash-strapped banks, the growth of deposit has fueled up. Restriction on opening of letter of credit has yielded negative growth in bills of the scheduled banks.

> The ongoing shortage of liquidity in the banking industry maintains the call money rate at its highest level in 11 years.

> Like previous fiscal year, the reliance on bank borrowing from government continues in this fiscal year. However, experts believe that much borrowing from scheduled banks may create crowding out effect on banking sector.

> Instead of lending to the private sector, banks are enticed to simply purchase government securities (G-Sec) due to their lucrative interest rates.

> Customers using online banking are increasing rapidly as more and more people, especially members of the younger, tech-savvy age, use the digital platform for financial transactions. The growth of MFS account holders is steadily increasing.

> As seen by the rise in deposits and loan disbursements, agent banking has been essential in converting savings into investments. However, the negative growth in inward foreign remittance calls for question regarding whether foreign remittances are coming through proper channel or not.

> The negative growth of ATM and strong positive growth of CRM delineates that customers are using CRM more than ATM as CRM offers both deposit and withdrawal facilities.

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

Asif Khan, CFA

Role of mutual fund selling agents

Insights

The Bangladesh mutual fund industry has a size of less than US$2bn. In contrast, the Indian mutual fund industry size is US$611.8bn and the number for Pakistan is US$5.6bn. If we adjust for GDP also, the size for Bangladesh (0.3% of GDP) is far lower than Pakistan (1.6%) and India (16.4%). What is most surprising is that the number of licensed asset management firms in Bangladesh (64) vastly outnumber India (44) and Pakistan (22).

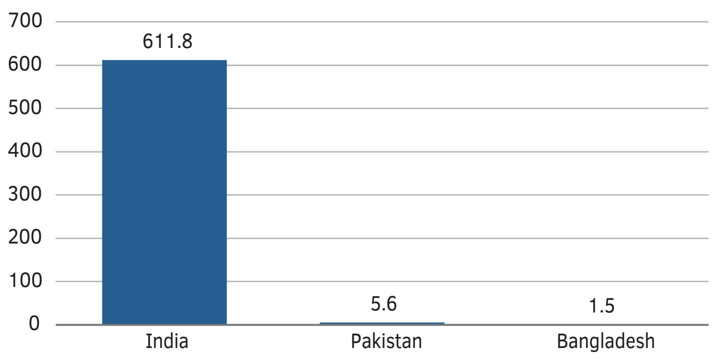


Figure 1: Mutual Fund AUM $bn

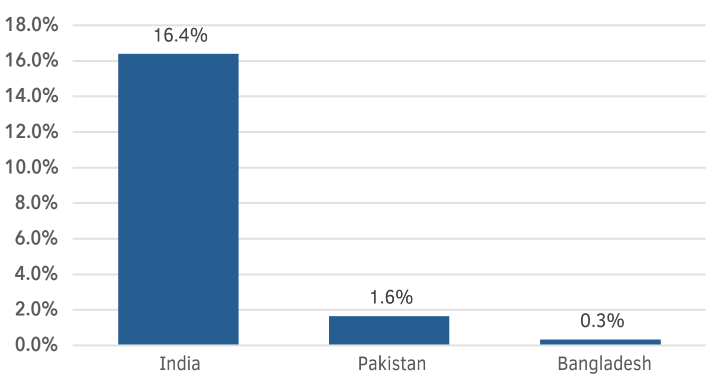


Figure 2: Mutual Fund AUM as % of GDP

What explains this massive gap in size? Like most things it is not one factor but a myriad of issues that explains why Bangladesh lags behind its neighbors. For one, there is a significant trust deficit. Cases of fraud are rampant in the country including in the mutual fund industry. Secondly, the process of buying and selling funds is fairly complicated for the layperson to understand. Thirdly, there is a severe lack of financial literacy. Fourthly, the asset management industry has failed to create an effective distribution system.

What can we learn from the Indian mutual fund industry?

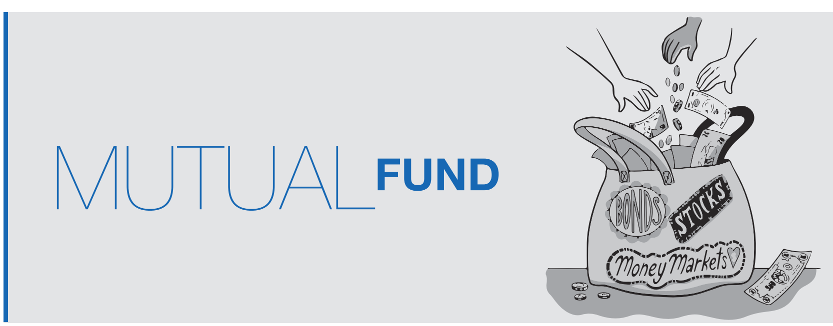
None of these problems are unsolvable. India, a country we have borders with, is an excellent case study on what works. Today, India has been able make mutual funds a place of trust for its massive domestic population. Investors from large to small are investing in various schemes providing valuable source of productive capital for the growth of the country.

The success of the Indian asset management industry can be traced back to talented fund managers and a pragmatic regulator. However, people often miss the role distributors have played in bringing the products to the masses.

In India, asset managers use 4 distribution channels to get new customers. The first is own sales team dedicated to the fund manager. The second is use of banks as distribution channels. The third is authorized selling agents or distributors. India has approximately 80,000-100,000 agents. The fourth and final segment include the online platforms such as Groww.

Two main role of mutual fund distributors

Distributors play two critical roles. One is bridging the gap between the asset manager and the investor. The easiest way to visualize this is to use the analogy of a 'mudir dokan' (mom and



pop shop). The mudir dokan essentially connects the FMCG companies with the ultimate customers. Imagine how difficult it would have been if the customer had to visit the FMCG company factory to get the products!

However, the distributors play a second and equally important role. That is educating investors about the various products, their pros and cons, and helping them choose the right one. In countries like Bangladesh, investors are still not very familiar with financial assets like Mutual Funds. Mutual funds come in all shapes and size with various different risk and return profiles. Hence, a good selling agent is almost like a financial advisor to the client.

Need for education and certification among selling agents

Whether the selling agent works for a commercial bank or as an independent distributor there is a major need for agents to go through a rigorous training program. In many parts of the world, the agents have to complete certifications like the Series 7 in the USA. Other countries like Canada and UK have their own versions of these exams.

In Bangladesh, the Bangladesh Institute of Capital Market has launched a similar course for people interested in becoming selling agents. The participants are trained by leading professionals working in the asset management industry followed by a practical attachment for a few days. This is a good start to developing the talent pool required to grow the distribution engine of mutual funds.

Conclusion

Any change requires both top-down and bottom-up effort. In the mutual fund industry of Bangladesh, top-down change will come from the regulator and to some extent, the asset managers themselves. The bottom-up change will have to be driven by the investors themselves. By building a literate investor base with the help of selling agents, we can push for the reforms needed to grow this industry.

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