

Monthly Macro Update

Price Level	Mar'18	Mar'19
P2P General Inflation	5.68%	5.55%
P2P Food Inflation	7.09%	5.72%
P2P Non-Food Inflation	3.52%	5.29%

Further aggravation of liquidity situation and increase in inflationary expectation are currently two of the major macro-economic concerns shaping the growth potential of Bangladesh. Import growth picked up after remaining subdued in first half of FY19, indicating that more pressure on current account balance during the second half would come.

Monetary Aggregates and Credit	Feb'18	Feb'19
Broad Money Growth	9.80%	10.40%
Domestic Credit Growth	14.20%	13.70%
Public Sector Credit Growth	-14.2%	24.8%
Private Sector Credit Growth	18.50%	12.50%

Private sector credit growth bottomed three years' low to 12.5% YoY in Feb'19, marked by high lending rate resulting from tight liquidity situation. Banks have been facing serious liquidity pressure which is evident in their high funding cost. Median fixed deposit rate increased 25bps in Mar'19 (stood at 7.6%) while some banks are offering more than 10.0%. National Savings Certificate (NSD) has not been enough to meet the incremental borrowing demand of government. Government borrowing from banks grew 24.8% YoY in Feb'19, which is making the liquidity situation tighter. Moreover, Bangladesh Bank (BB) is pulling liquidity from market through selling greenbacks (USD 1.22bn during Jul'18-Jan'19) to peg exchange rate. Although this impact was partially offset by government's borrowing from BB, on net basis, BDT worth ~48bn was pulled out from money circulation during Jul'18-Jan'19. We maintain our view that interest rates would increase further and private sector credit growth would remain below the target of 16.5% in H2CY19.

Interest Rates	Feb'18	Feb'19
Repo Rate	6.75%	6.00%
Reverse Repo Rate	4.75%	4.75%
Monthly Average Call Money Rate (Mar)	4.40%	4.54%
Weighted Average Deposit Rate	5.18%	5.34%
Weighted Average Lending Rate	9.55%	9.49%
Interest Rate Spread	4.41%	4.15%
Fixed Deposit Rate (Mar)	10.50%	7.60%

External Sector	Feb'18	Feb'19
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Export (USD mn)	3,072	3,383
<i>Growth (YoY)</i>	<i>12.69%</i>	<i>10.12%</i>
<i>Growth (MoM)</i>	<i>-9.88%</i>	<i>-8.10%</i>
Remittance (USD mn)	1,148	1,387
<i>Growth (YoY)</i>	<i>35.71%</i>	<i>20.80%</i>
<i>Growth (MoM)</i>	<i>-16.20%</i>	<i>22.10%</i>

Inflation had been increasing during last three months. P2P general inflation rose to 5.55% in Mar'19, driven mainly by food inflation ahead of Ramadan (in May). We expect that inflationary pressure may increase in coming months if the gas price is revised up.

Import (USD mn) (Jan)	5,255	6,121
<i>Growth (YoY)</i>	<i>22.32%</i>	<i>16.48%</i>
<i>Growth (MoM)</i>	<i>16.48%</i>	<i>31.83%</i>

Export growth slowed slightly in Feb'19 but remained fairly above the Jul'18-Feb'19 strategic target (7.8% above the target). Remittance from KSA and Kuwait grew 21.0% and 22.0% respectively whereas remittance from USA declined 8.0% during Jul'18-Feb'19. Import grew 7.4% YoY during Jul'18-Jan'19. Import growth of capital machineries and petroleum product witnessed 33.3% and 62.2% YoY growth respectively during Jul'18-Jan'19. The value of fresh LC opening during Jan'19 was highest in last 14 months, indicating that import may increase in coming months.

Foreign Exchange Reserve (USD bn) (Mar)	32.40	31.65
Exchange Rate (BDT) (Mar)	82.96	84.25

Balance of Payments	Jul'17-Feb'18	Jul'18-Feb'19
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Trade Balance (USD mn)	(11,732)	(10,695)
Current Account Balance (USD mn)	(6,318)	(4,270)
Balance of Payments (USD mn)	(978)	(499)

Capital Market Implication

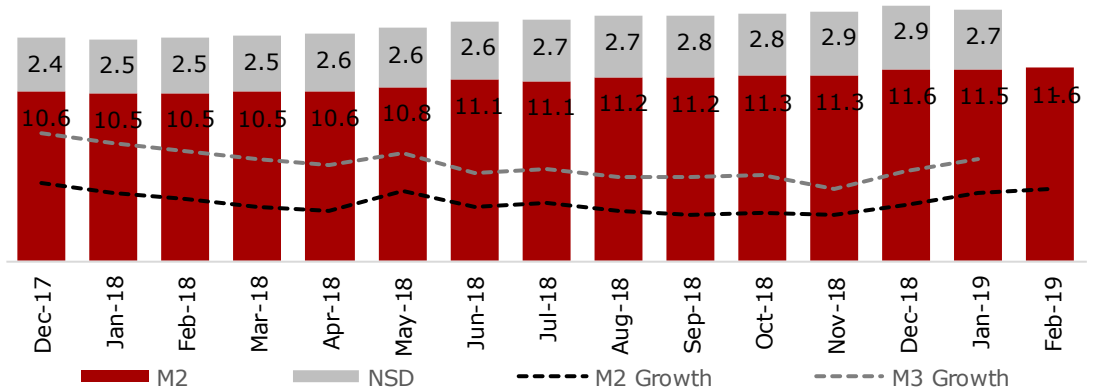
We observed an increase in median fixed deposit interest rate of 25 bps over the span of only one month (Feb'19 to Mar'19). Such increase in interest rate is diverting the fund from capital market to banking channels. On top of that, increasing interest rate is pulling the lending rate upwards. As such, bottom-line of highly levered companies would suffer. Although Federal Reserve has indicated no more rate hikes in 2019, foreign investors perceive that BDT would depreciate further. In fine, we believe that the downturn may extend for few more months.

Source: Bangladesh Bank & UCBCML Research

Analysts

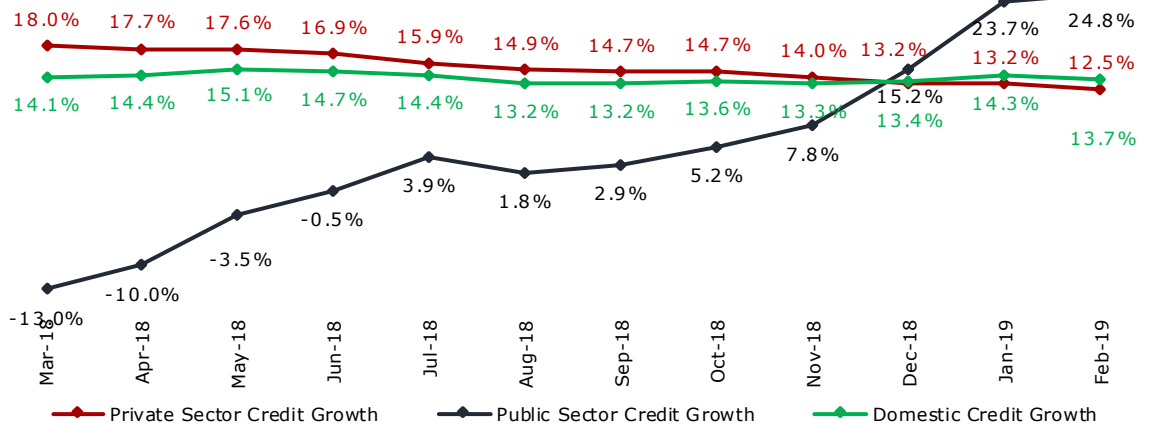
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Broad Money (M2 & M3) (BDT Tn), and their Respective Growth



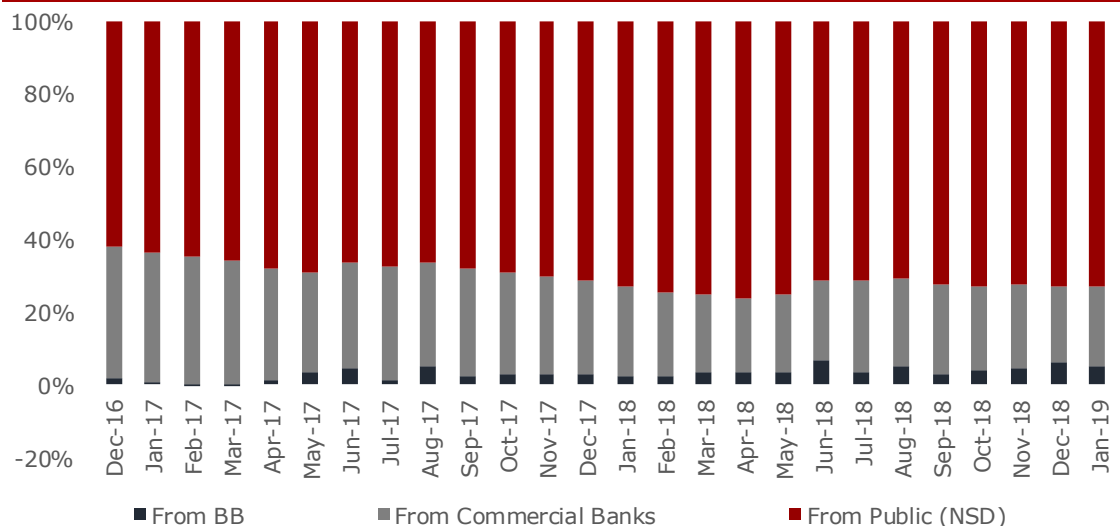
Source: Bangladesh Bank & UCBCML Research
*M3 data of Feb'19 is not available yet

Domestic, Private and Public Sector Credit Growth



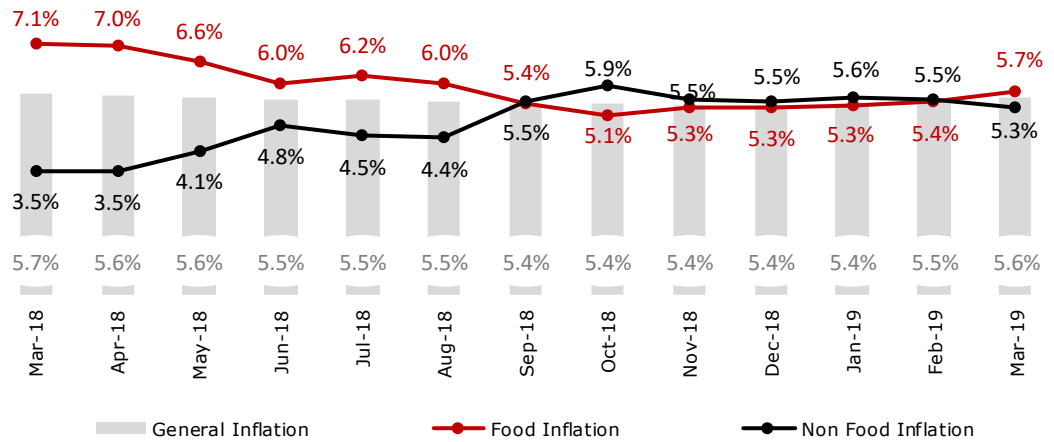
Source: Bangladesh Bank & UCBCML Research

Government's Borrowing From BB, Commercial Banks & Public (NSD)



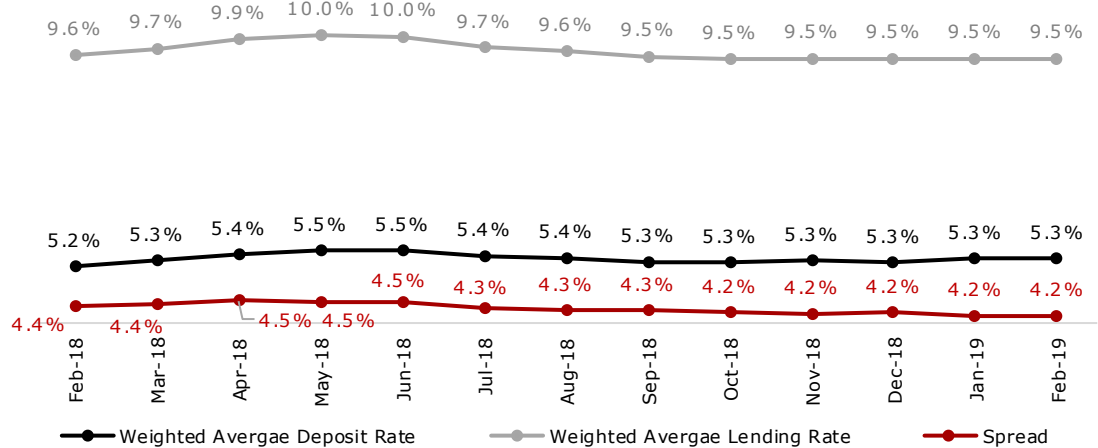
Source: Bangladesh Bank & UCBCML Research

General (P2P), Food (P2P) and Non-Food Inflation (P2P)



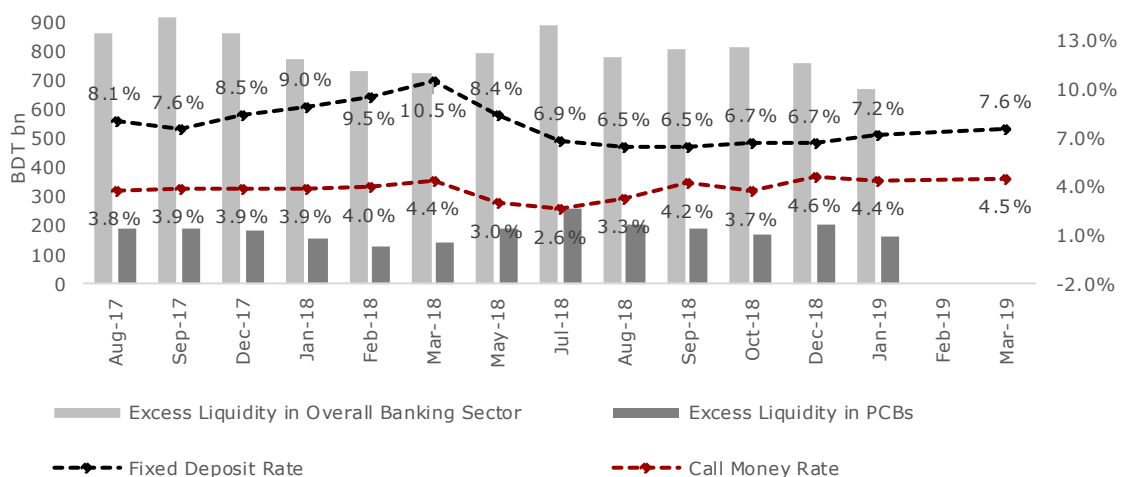
Source: Bangladesh Bank & UCBCML Research

Weighted Average Deposit Rate, Weighted Average Lending Rate & Spread



Source: Bangladesh Bank & UCBCML Research

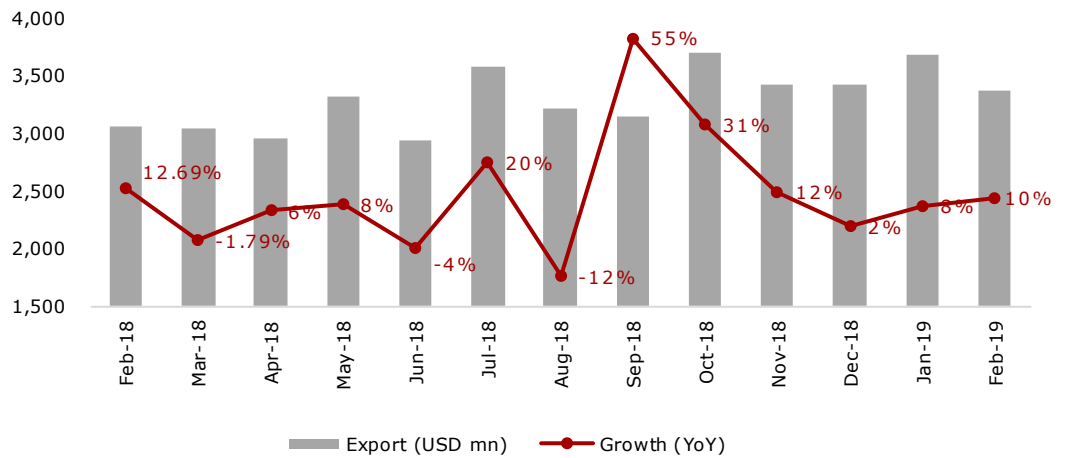
Excess Liquidity in Banks, Median Fixed Deposit Rate and Call Money Rate



Source: Bangladesh Bank & UCBCML Research

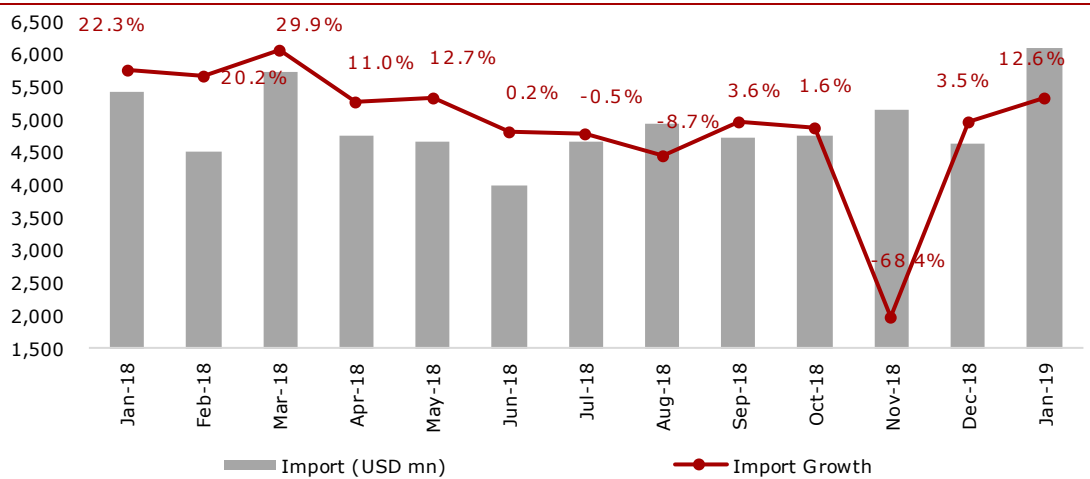
*Data of Feb'19 and Mar'19 Excess liquidity are not available yet

Export and Export Growth (YoY)



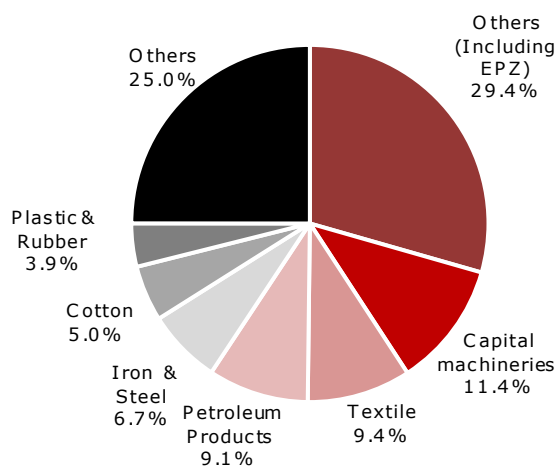
Source: Bangladesh Bank & UCBCML Research

Import and Import Growth (YoY)



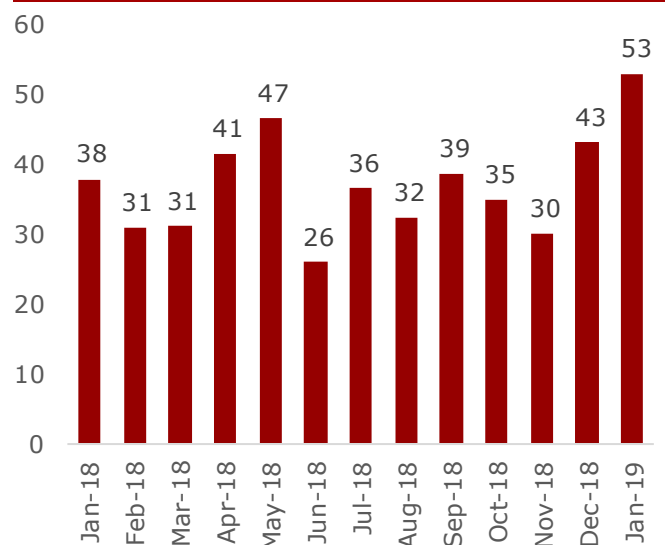
Source: Bangladesh Bank & UCBCML Research

Major Products of Import Basket



Source: Bangladesh Bank & UCBCML Research

Import of Capital Machineries (BDT bn)



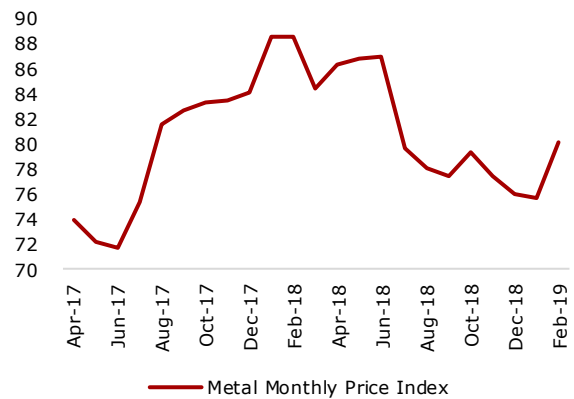
Source: Bangladesh Bank & UCBCML Research

Brent Crude Oil Price



Source: Bloomberg

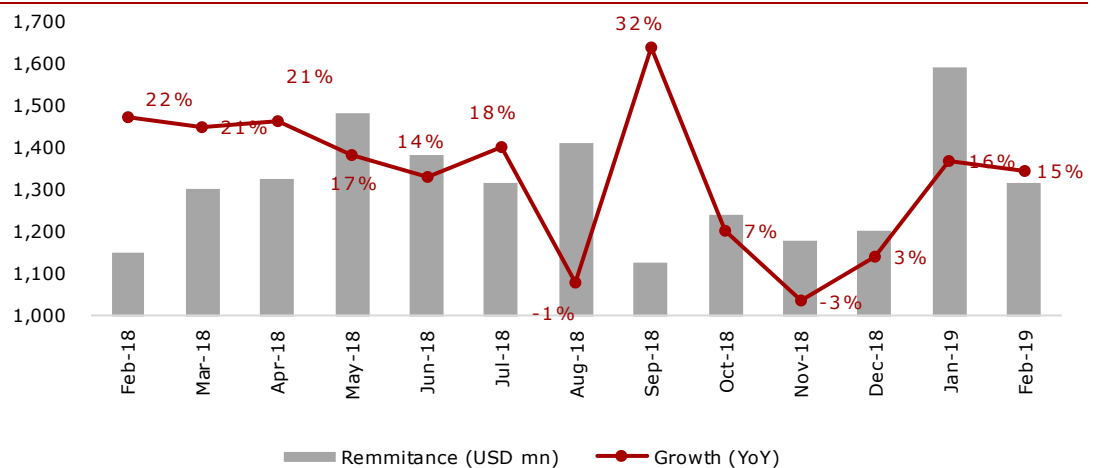
Monthly Metal Price Index*



Source: Index Mundi

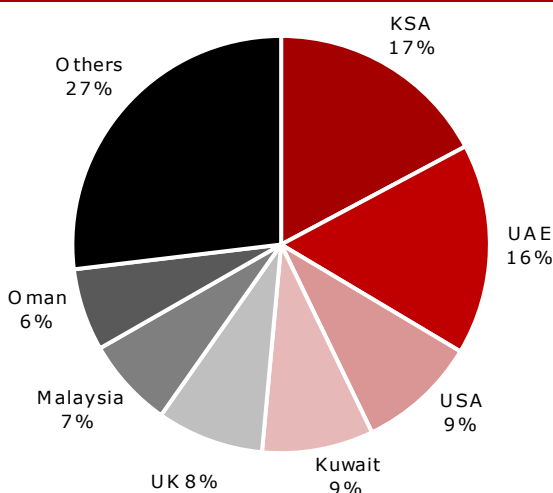
* Includes Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead & Uranium Price

Remittance and Remittance Growth (YoY)



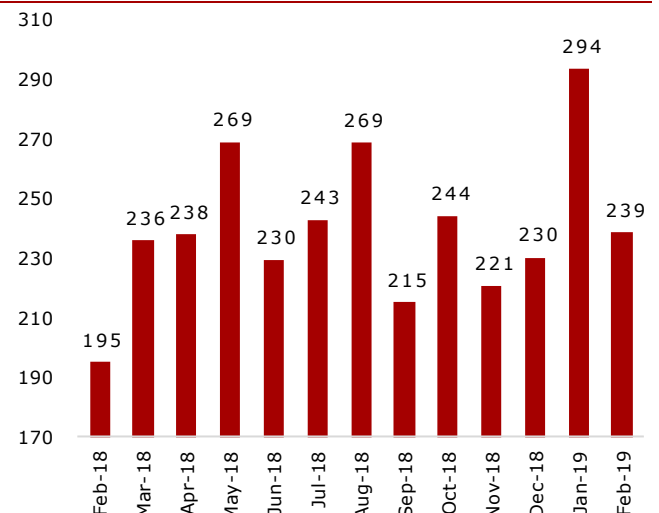
Source: Bangladesh Bank & UCBCML Research

Country wise Contribution of Remittance



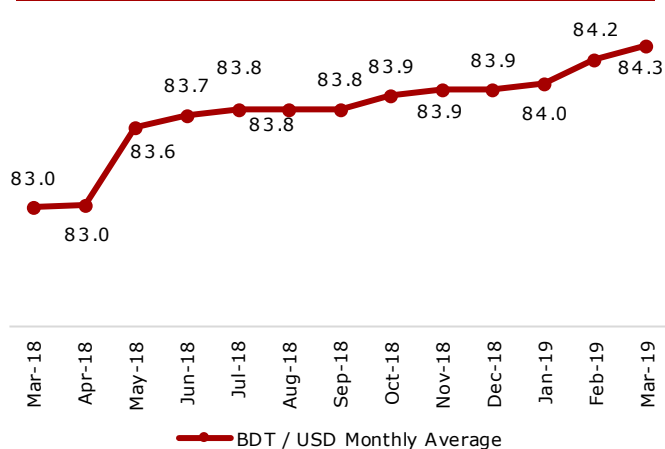
Source: Bangladesh Bank & UCBCML Research

Inward remittance from KSA USD mn



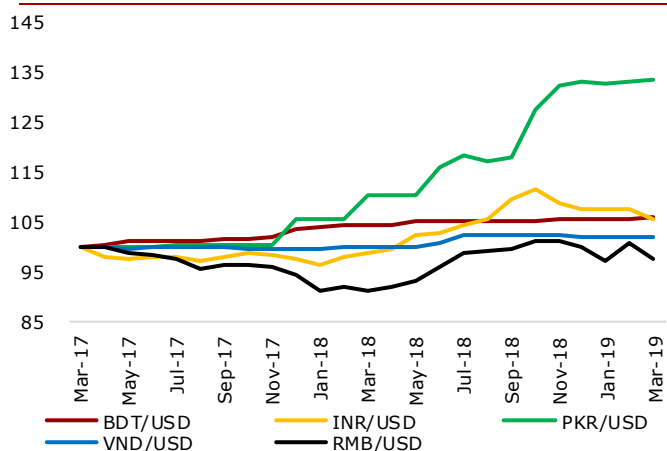
Source: Bangladesh Bank & UCBCML Research

Exchange Rate (BDT against USD)



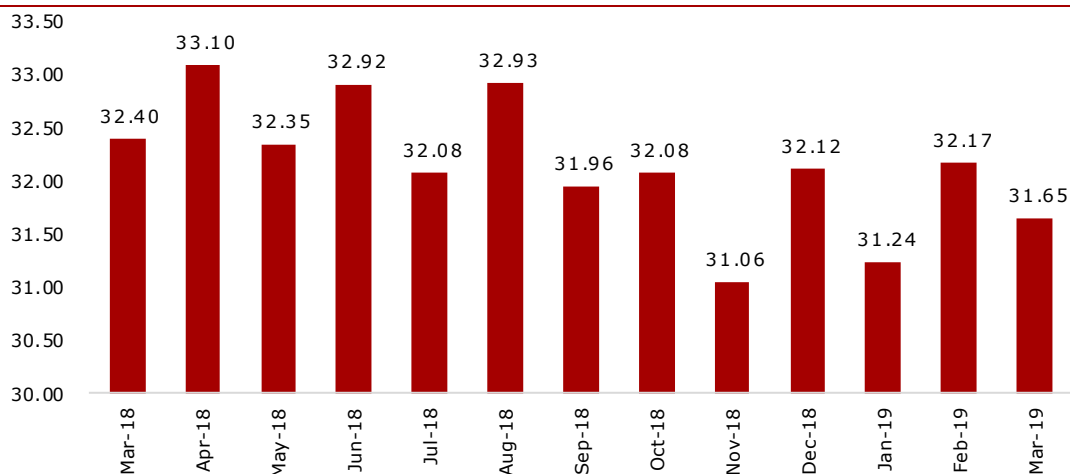
Source: Bangladesh Bank

Comparison among BDT and Peer Exporting Countries (India, Pakistan, Vietnam and China) in terms of Change in Currency



Source: Central Bank, Investing.com & UCBCML Research

Foreign Exchange Reserve (USD bn)



Source: Bangladesh Bank & UCBCML Research

Balance of Payments

Particulars (USD mn)	Jul'18-Feb'19	Jul'18-Jan'19	Jul'17-Feb'18
Trade balance	(10,695)	(9,684)	(11,732)
Services	(2,370)	(2,061)	(2,956)
Primary income	(1,922)	(1,596)	(1,323)
Secondary income	10,717	9,368	9,693
Current account balance	(4,270)	(3,973)	(6,318)
Capital account	156	156	165
Financial account	3,723	2,994	5,737
Errors and omissions	(108)	(152)	(562)
Overall Balance	(499)	(975)	(978)

Source: Bangladesh Bank & UCBCML Research

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Expected absolute returns are calculated as the percentage of difference between our target price and latest close price. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Please note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Recommendation Type	Holding period (if not otherwise mentioned)	Absolute Return Potential
Buy	12 Months	More than +15%
Neutral/ Hold	12 Months	Between +15 % and -5 %
Underweight	12 Months	Less than -5 %

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