

Monthly Macro Update

Price Level	Jun'18	Jun'19
P2P General Inflation	5.54%	5.63%
P2P Food Inflation	5.98%	5.40%
P2P Non-Food Inflation	4.78%	5.84%
Monetary Aggregates and Credit	Jun'18	Jun'19
Broad Money Growth (May'19)	10.20%	11.76%
Domestic Credit Growth	14.70%	12.17%
Public Sector Credit Growth	-0.45%	19.15%
Private Sector Credit Growth	16.94%	11.29%
Interest Rates	Jun'18	Jun'19
Repo Rate	6.00%	6.00%
Reverse Repo Rate	4.75%	4.75%
Monthly Average Call Money Rate	3.41%	4.56%
Weighted Average Deposit Rate (Apr'19)	5.43%	5.42%
Weighted Average Lending Rate (Apr'19)	9.89%	9.46%
Interest Rate Spread (Apr'19)	4.46%	4.04%
Fixed Deposit Rate	9.30%	8.85%
External Sector	Jun'18	Jun'19
Export (USD mn)	2,939	2,786
Growth (YoY)	-3.82%	-5.23%
Growth (MoM)	-11.53%	-26.94%
Remittance (USD mn)	1,382	1,368
Growth (YoY)	13.74%	-0.97%
Growth (MoM)	-6.83%	-21.73%
Import (USD mn) (Apr'19)	4,771	4,685
Growth (YoY)	11.01%	-1.80%
Growth (MoM)	-17.08%	-6.17%
Foreign Exchange Reserve (USD bn)	32.92	32.55
Exchange Rate (BDT)	83.70	84.50
Balance of Payments	Jul'17-May'18	Jul'18-May'19
Trade Balance (USD mn)	(17,156)	(14,658)
Current Account Balance (USD mn)	(8,609)	(5,175)
Balance of Payments (USD mn)	(970)	(682)

Source: Bangladesh Bank & UCBCML Research

Analysts

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Liquidity scenario eased but private sector credit growth failed to hit the target

Liquidity scenario slightly improved in Apr'19. Excess liquidity increased to BDT 667bn (37.1% surplus) in Apr'19 from BDT 642bn in Mar'19 (35.0% surplus). This improvement was partially attributable to narrow down of current account deficit during Jul'18-Apr'19. Government's hefty borrowing from banks led public sector credit to grow 19.15% YoY while private sector credit growth bottomed to six-year low of 11.29% YoY in Jun'19, which is well below the Bangladesh Bank's (BB) target of 16.50%. However, of late, recognizing the impact of crowding out of privates, government has been alternatively relying on BB for borrowing to ease the liquidity pressure of commercial banks. Inflation was unchanged in Jun'19 from last month. P2P general inflation was 5.63% in Jun'19 compared to 5.54% in Jun'18. However, we are concerned that government's such continuous borrowing from BB would instigate inflation in upcoming months.

Export surpassed yearly target

Export earnings of Bangladesh grew by 10.6% YoY to USD 40.5bn in FY19 riding on high volume of garment shipment. However, June recorded export receipts of USD 2.8bn, which is the lowest in last 21 months. Overall, export earnings is 3.9% higher than the annual target of USD 39bn in FY19. Earnings from garment export grew 11.5% YoY to USD 34.1bn as Bangladesh is getting more work orders resulting from the US-China trade war. However, signing of Free Trade Agreement (FTA) between Vietnam and European Union is a threat for RMG sector of Bangladesh. As a least-developed country, Bangladesh enjoys duty-free access to the EU, whereas Vietnam has to pay 12% duty. After the signing of FTA, Vietnam will enjoy the same privilege as Bangladesh. Vietnam is the sixth largest apparel exporter to EU holding 4.0% share whereas Bangladesh is ranked second with 19.0% share.

Trade deficit fell by 14.6% YoY in July - May due to slowdown in import growth

Slowdown of import and notable growth in export earnings helped Bangladesh to narrow down the trade deficit to USD 14.7bn in the first eleven months of FY19. The situation of current account balance also improved as the deficit dropped to USD 5.2bn from USD 8.6bn in the same period of last fiscal years. Merchants have maintained a 'go slow' policy of placing fresh import orders in the last quarter of FY19, keeping their eyes on the national budget. However, we anticipate import of iron & steel, coal and clinker will continue to rise to implement ongoing mega projects. Import of petroleum products will also scale up due to demand for fuel oil for recently commissioned power plants.

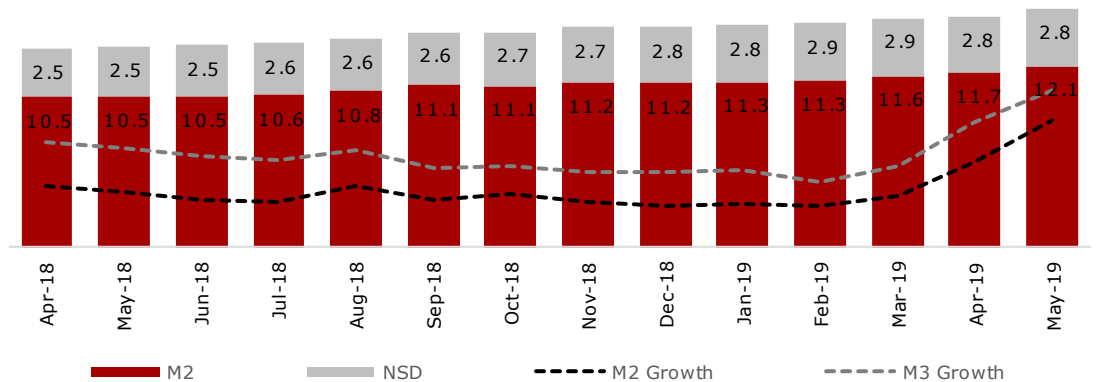
Remittance hit record high in FY19

Remittance hit a record high of USD 16.5bn in FY19, up 9.5% YoY. Strong monitoring by central bank to tackle 'hundi', appreciation of dollar against taka and collaborative remittance service provided by banks and mobile financial services (MFS) are the main reasons behind such jump. We view that upward trend of remittance would continue as government has announced 2% cash incentives for remitters in the budget to encourage expatriate to send more money through legal channel.

Capital Market Implication

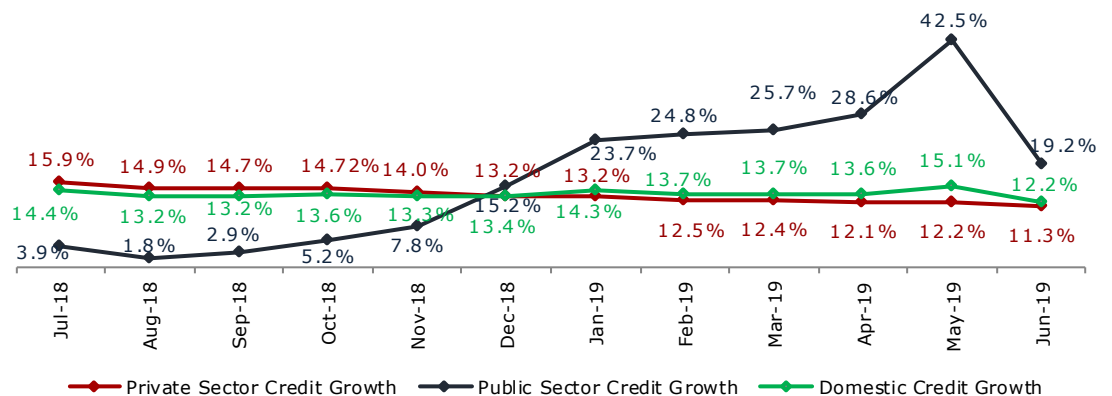
Pressure on interest rate has cooled down a little bit in recent months but declining growth in private sector credit, and dearth of liquidity would continue to affect capital market. Recently, BB has advised 19 banks to support the capital market as these banks have scope to invest up to BDT 20bn in the stock market. We might see short term capital infusion in the market as many scrips are currently trading at a cheap rate.

Broad money (M2 & M3) (BDT Tn) growth rate is the highest in last 12 months



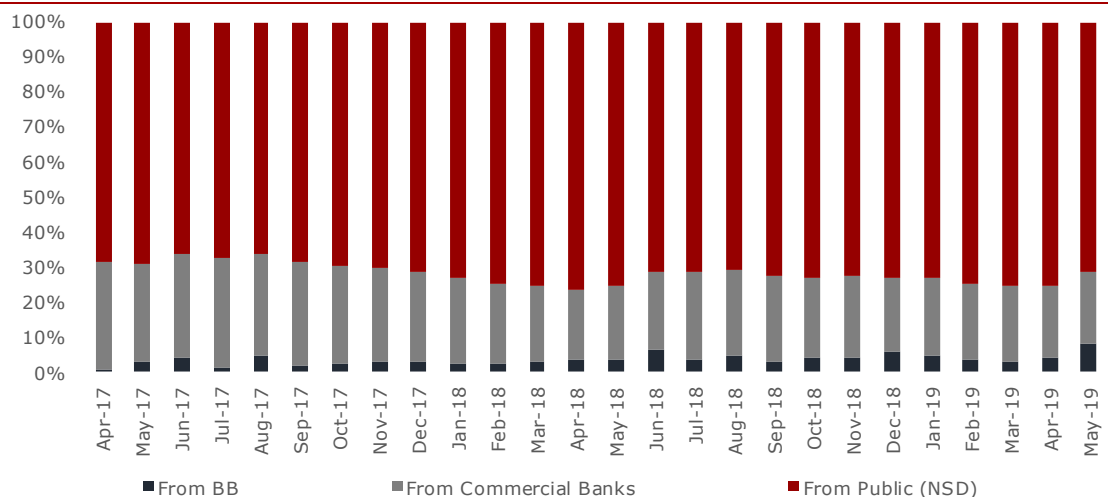
Source: Bangladesh Bank & UCBCML Research

Private sector credit growth fell to 11.3% - lowest in the last 6 years



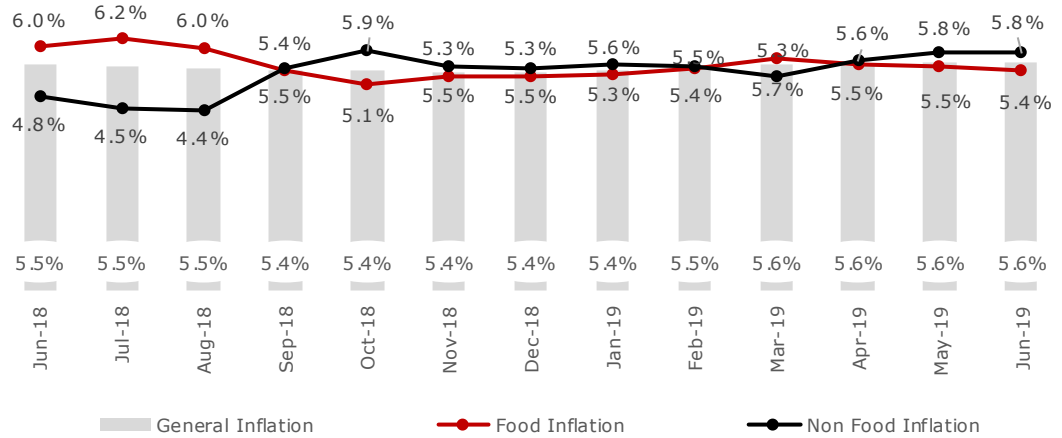
Source: Bangladesh Bank & UCBCML Research

Government's borrowing from BB has become double YoY in May'19 - indicates inflation is ahead



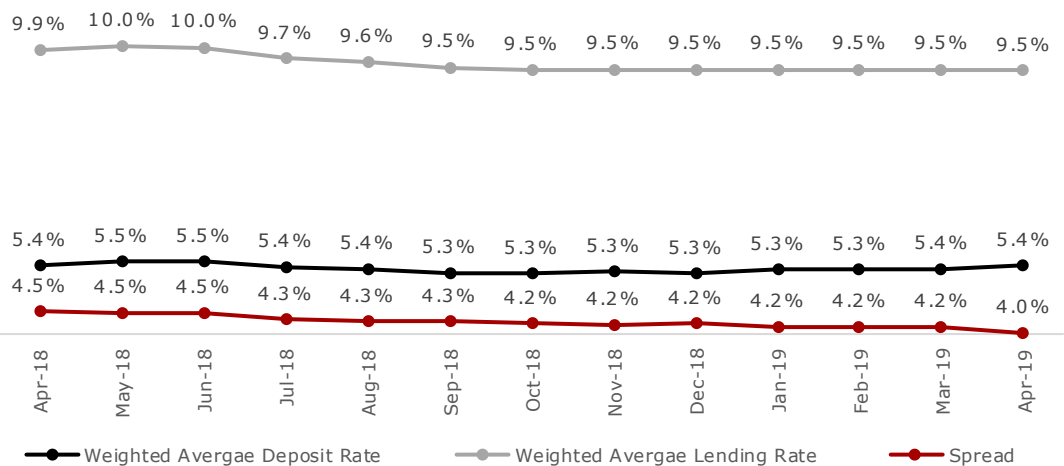
Source: Bangladesh Bank & UCBCML Research

P2P inflation remained stable



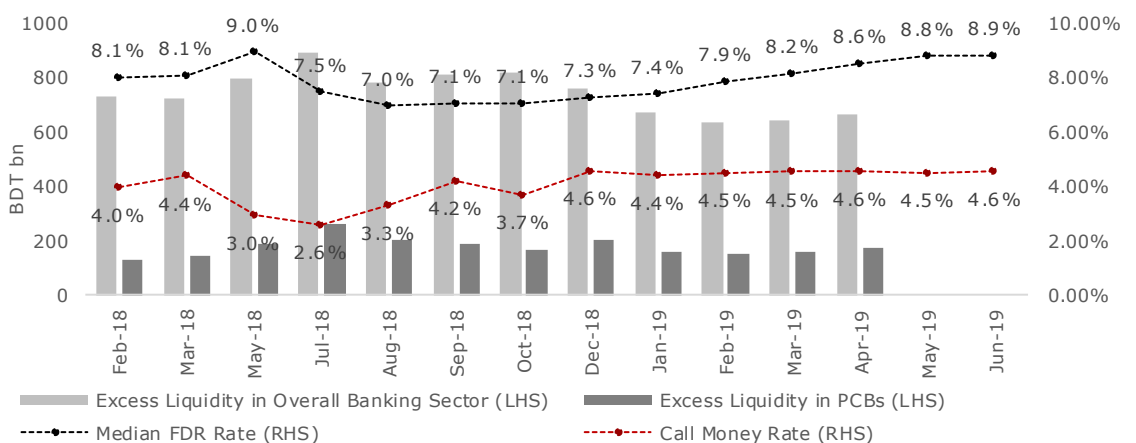
Source: Bangladesh Bank & UCBCML Research

Spread improved 20bps MoM in Apr'19



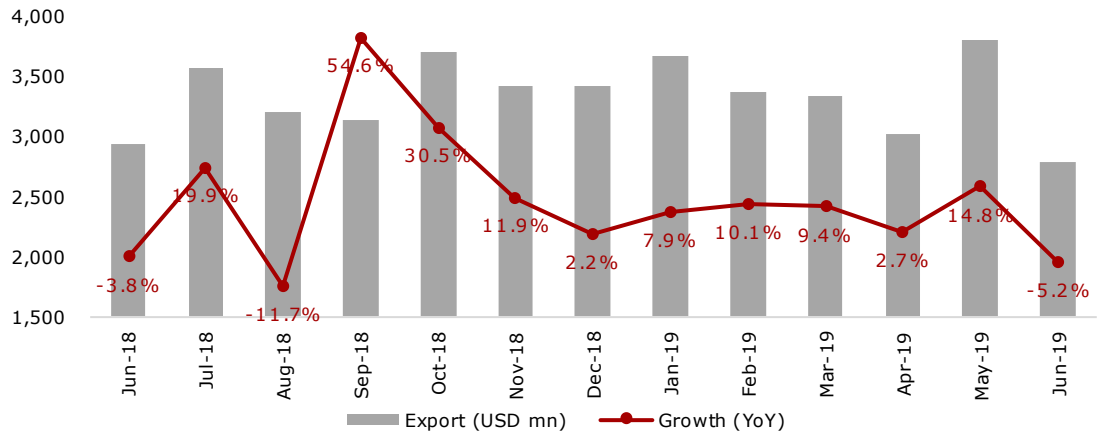
Source: Bangladesh Bank & UCBCML Research

Excess liquidity in banks improved, however, median FDR rate is still high



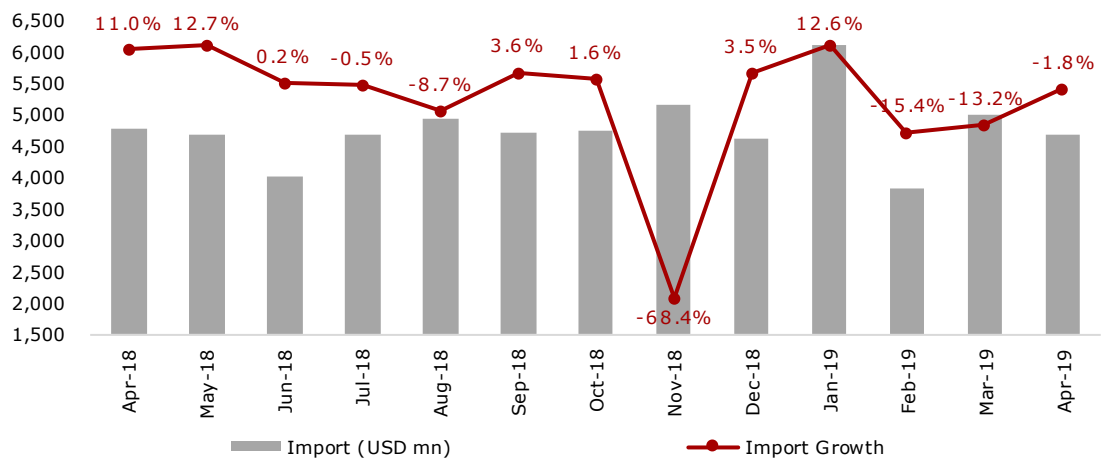
Source: Bangladesh Bank & UCBCML Research
 *Data of Apr'19 Excess liquidity are not available yet

Export surpassed yearly target of USD 39bn in FY19



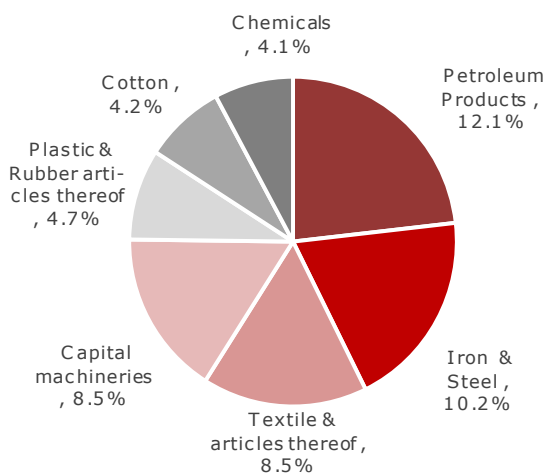
Source: Bangladesh Bank & UCBCML Research

Import growth slowdown as merchants adopted 'go slow' policy



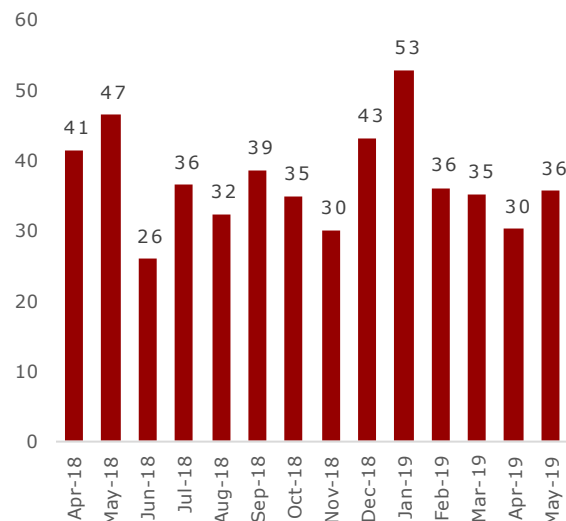
Source: Bangladesh Bank & UCBCML Research

Major Products of Import Basket (Feb'19)



Source: Bangladesh Bank & UCBCML Research

Import of Capital Machineries (BDT bn)



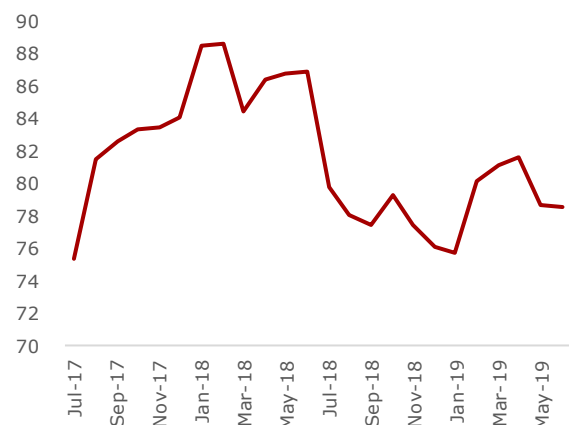
Source: Bangladesh Bank & UCBCML Research

Brent Crude Oil Price (USD per Barrel)



Source: Bloomberg

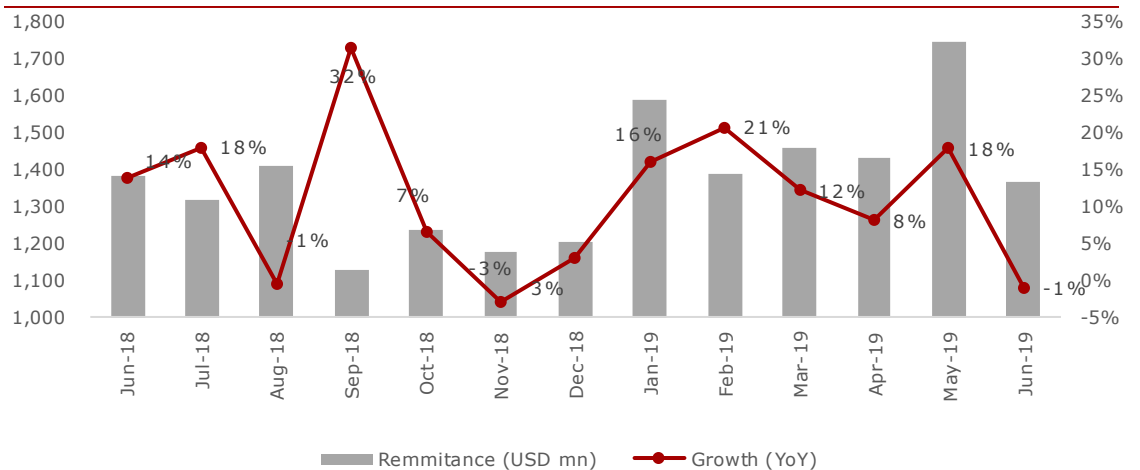
Monthly Metal Price Index*



Source: Index Mundi

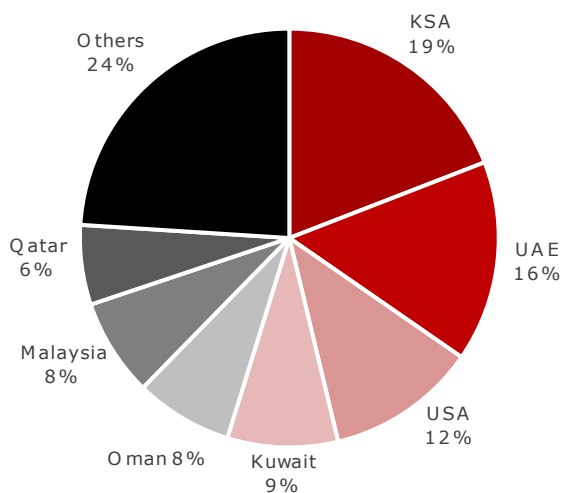
* Includes Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead & Uranium Price

Remittance hit a record high of USD 16.5bn in FY19



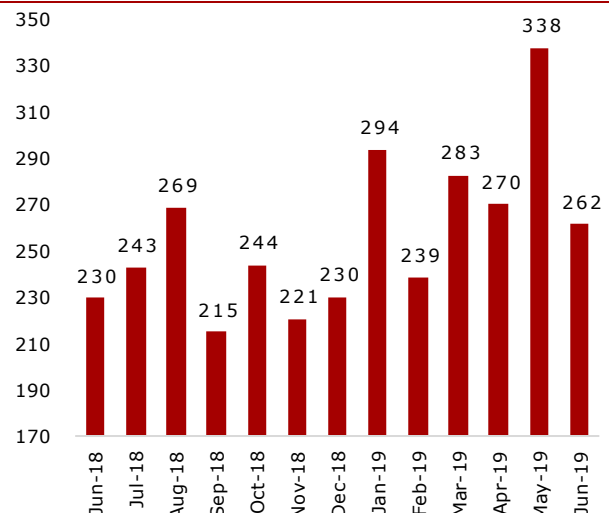
Source: Bangladesh Bank & UCBCML Research

Country wise Contribution of Remittance



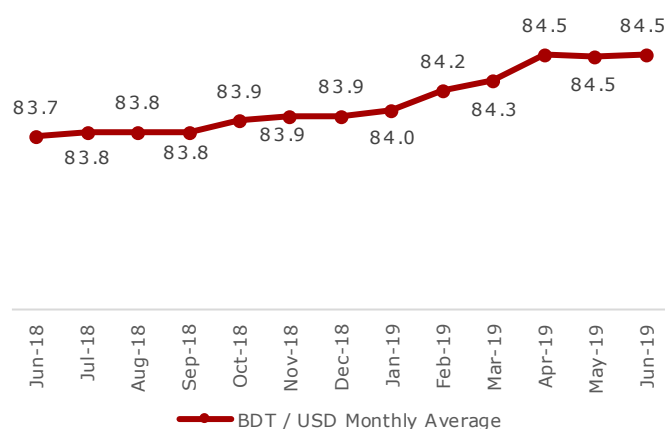
Source: Bangladesh Bank & UCBCML Research

Inward remittance from KSA USD mn



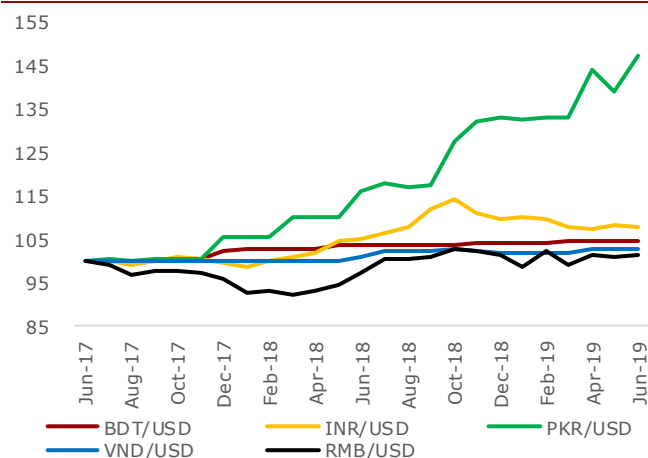
Source: Bangladesh Bank & UCBCML Research

Exchange Rate (BDT against USD) remained steady in the last three month



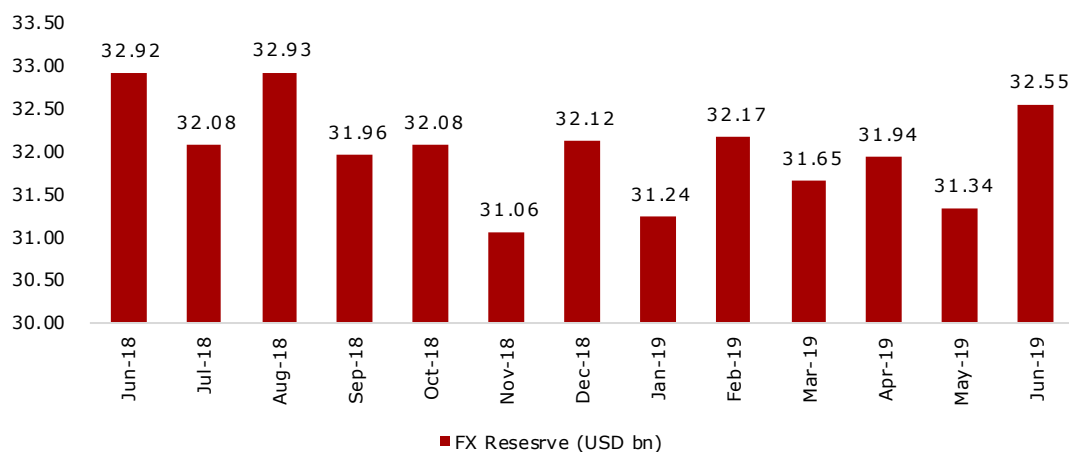
Source: Bangladesh Bank

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 has improved in June backed by strong inflows of remittance



Source: Bangladesh Bank & UCBCML Research

Balance of Payments

Particulars (USD mn)	Jul'18-May'19	Jul'18-Apr'19	Jul'17-May'18
Trade balance	(14,658)	(13,675)	(17,156)
Services	(3,239)	(2,960)	(3,164)
Primary income	(2,753)	(2,384)	(2,256)
Secondary income	15,475	13,664	13,967
Current account balance	(5,175)	(5,355)	(8,609)
Capital account	217	212	263
Financial account	4,847	5,110	7,953
Errors and omissions	(571)	(557)	(577)
Overall Balance	(682)	(590)	(970)

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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