

Monthly Macro Update

Price Level	Sep'18	Sep'19
P2P General Inflation	5.43%	5.54%
P2P Food Inflation	5.42%	5.30%
P2P Non-Food Inflation	5.45%	5.92%

Monetary Aggregates and Credit	Jul'18	Jul'19
Broad Money Growth	9.57%	11.16%
Domestic Credit Growth	14.35%	13.67%
Public Sector Credit Growth	3.86%	32.33%
Private Sector Credit Growth (Aug'19)	14.95%	10.68%

Interest Rates	Sep'18	Sep'19
Repo Rate	6.00%	6.00%
Reverse Repo Rate	4.75%	4.75%
Monthly Average Call Money Rate	4.24%	5.04%
Weighted Average Deposit Rate (Aug'19)	5.36%	5.60%
Weighted Average Lending Rate (Aug'19)	9.63%	9.60%
Interest Rate Spread (Aug'19)	4.27%	4.00%
Fixed Deposit Rate	7.10%	8.60%

External Sector	Sep'18	Sep'19
Export (USD mn)	3,146	2,910
Growth (YoY)	54.64%	-7.49%
Growth (MoM)	-2.11%	2.36%
Remittance (USD mn)	1,127	1,468
Growth (YoY)	31.57%	30.25%
Growth (MoM)	-20.10%	-0.97%
Import (USD mn) (Jul'19)	4,686	4,689
Growth (YoY)	-0.49%	0.05%
Growth (MoM)	16.68%	23.44%
Foreign Exchange Reserve (USD bn)	31.96	31.83
Exchange Rate (BDT)	83.75	84.50

Balance of Payments	Aug'18	Aug'19
Trade Balance (USD mn)	(2,107)	(1,975)
Current Account Balance (USD mn)	(60)	313
Balance of Payments (USD mn)	156	139

Liquidity scenario of banking sector has been improving but lending rate would remain high in short term

The weighted average interest rate spread in the country's banking sector came down to 4% in July 2019 amid a deposit rate rise triggered by liquidity crisis. Bangladesh Bank's instruction in January 2018 to cut down AD ratio to 83.5% impelled banks to go for deposit hunting. Meanwhile, the combination of policy pressure and cautious stance by banks amid rising NPL took toll on private sector. Private sector credit growth remained subdued since the introduction of this instruction.

BB restored AD ratio to previous level in September 2019 as apart from good ones most of the banks failed to comply with the instruction. The relaxation of regulation has given banks enough breathing space to cut down the deposit rate. On the other hand, forced by fall in national saving certificate (NSC) sale due to tightening of sales process, government has started relying heavily on bank funds to meet budgetary expenditure. Hence, we view that pressure on lending rate would persist in the short run as government's borrowing from banking sector is expected to continue.

Trade deficit narrowed down as import fell but declining export earnings is a major concern

Trade deficit of Bangladesh narrowed by 6.23% YoY to BDT 1,975mn in July-August of FY20. Export earnings dropped by ~3.0% to USD 9,643mn in July-September of FY20 from USD 9,941mn in the same period of FY19; earnings from readymade garments which constitute ~85% of Bangladesh's total export declined by 1.6% YoY to USD 8,058mn in 3Q'FY20. Consumption of readymade garments has been falling worldwide as US-China trade war, Brexit issue, contraction of the economies of Germany, Argentina and South Africa instilled recession fears in global consumers. Under such circumstances, government has decided to give 1.0% cash incentive to apparel export to traditional market (USA, Europe and Canada) effective on shipments from July 1 provided that they add at least 30% value and does not fall into four categories which are already enjoying cash incentives. Moreover, source tax on export proceeds for all sectors has been slashed down to 0.25% from existing 1.0%. These incentives will have positive impact on export in the short run.

Import growth was negative 2.3% YoY in July-August of FY20. In first half of FY19, import growth was abnormally high mainly due to the capital flight from the country through import over-invoicing — according to the economists. We view that import growth would remain subdued in the short run due to the base effect.

Strong remittance inflow resulted in positive current account balance

Current account balance was positive USD 313mn in July-August of FY20; during the same period last year, there was a deficit of USD 7mn. Remittance inflow increased 18.0% YoY in the first quarter of FY20. Apparently, 2% cash incentive offered by government in the budget has been encouraging expatriates to send money through legal channel.

We are expecting 3%-4% depreciation of BDT against USD within next 6 month

BDT has been stable against USD since the beginning of 2019. Since export took a beating in the first quarter of FY20, depreciation of BDT against USD is pivotal for Bangladesh to remain competitive in the business. Both foreign loan disbursement and external loan repayment has been increasing as implementation of mega projects are getting traction. Development partners disbursed USD 941mn in the first quarter of FY20, up 40.7% YoY. Government has also repaid USD 495mn of loans and interest during the same period. We view that pressure on foreign reserve would increase in the future.

Capital Market Implication

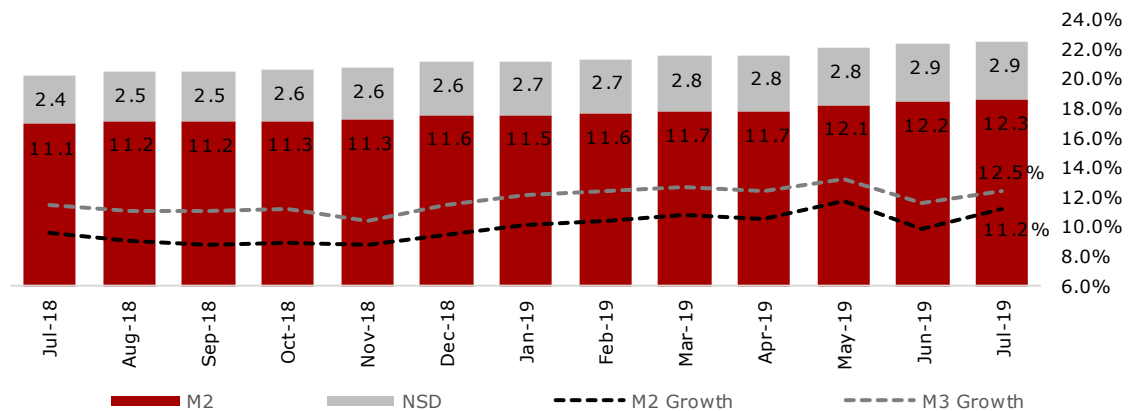
We view that market is trading at a very cheap level right now. However, high interest rate and recent anti-corruption drive might take toll in the short run. Even though liquidity scenario has been improving, capital market would have to wait to get the benefit of it. On the other hand, interest rate cut in developed economies might attract some foreign fund.

Source: Bangladesh Bank & UCBCML Research

Analysts

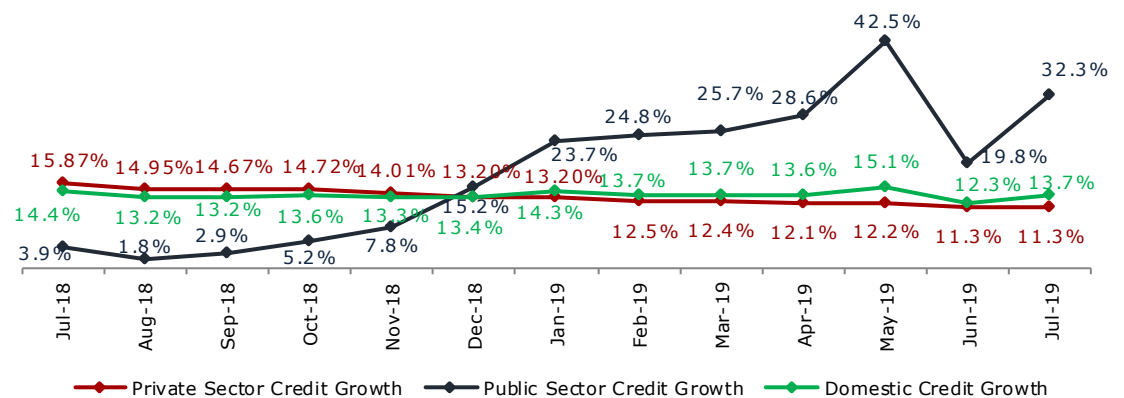
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Broad money (M2 & M3) (BDT Tn) growth rate increased in Jul'19 after falling in Jun'19



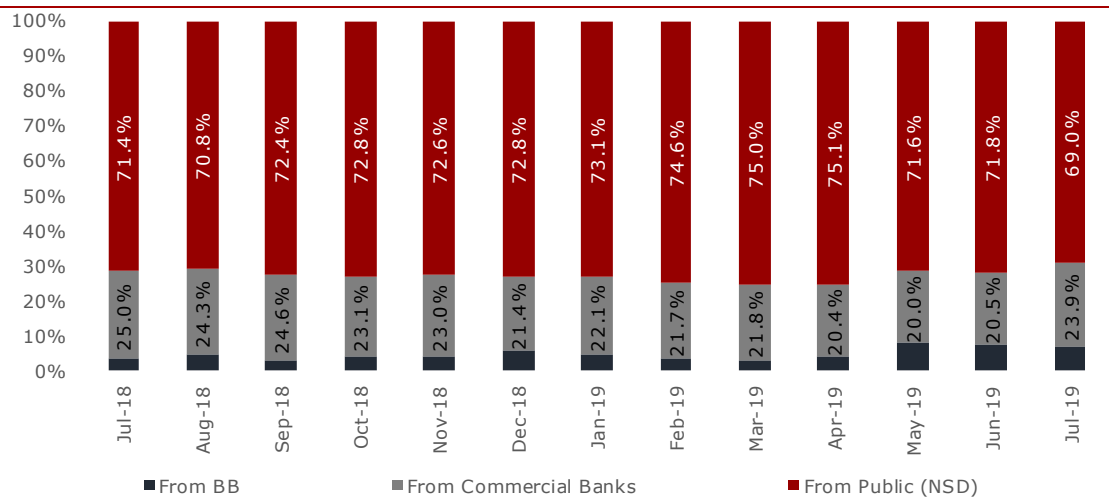
Source: Bangladesh Bank

Domestic credit growth increased in Jul'19 due to rise in public sector credit growth



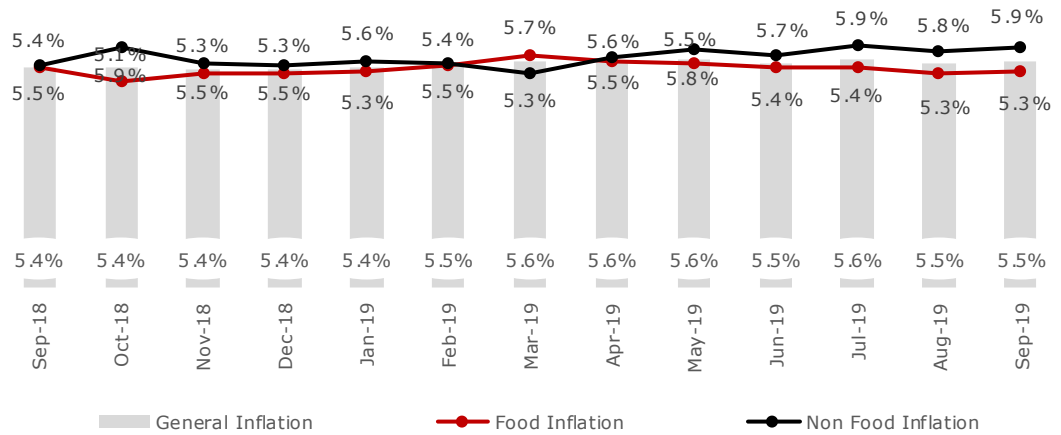
Source: Bangladesh Bank

Government borrowing from BB and commercial banks went up by 143.0% and 18.1% YoY respectively in Jul'19



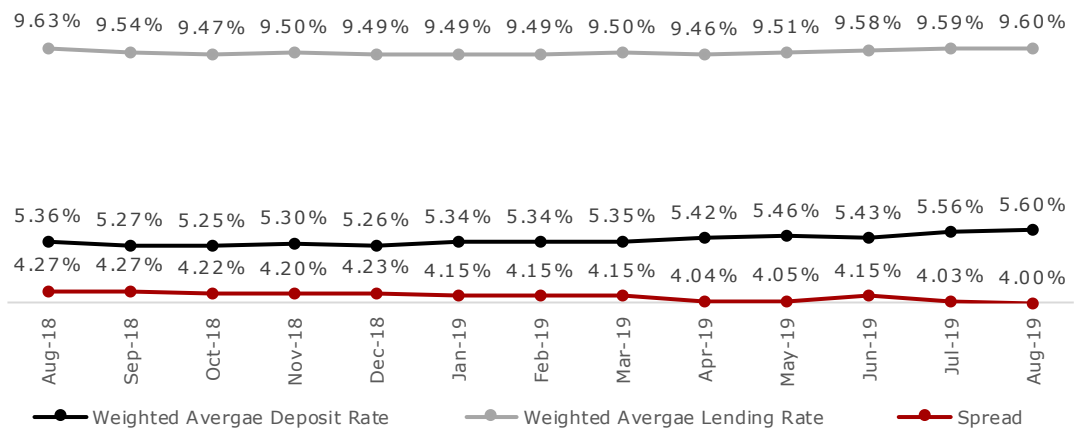
Source: Bangladesh Bank

P2P inflation increased due to rise in fuel price



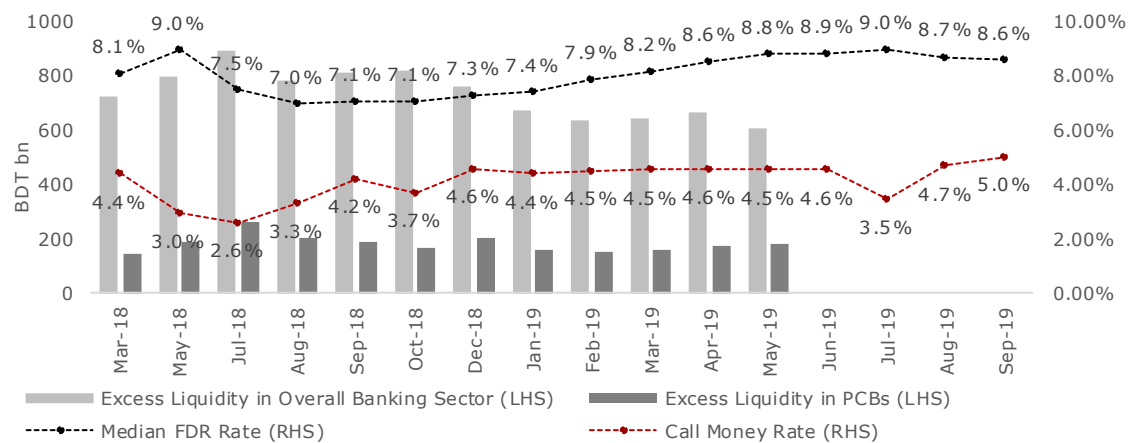
Source: Bangladesh Bank

Spread declined to 4.0% in Aug'19, lowest in the last 10 years



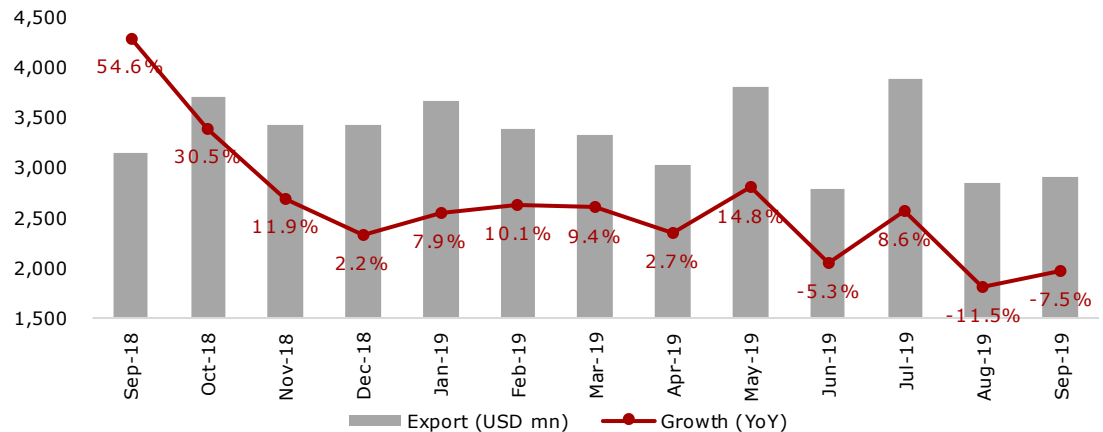
Source: Bangladesh Bank

Excess liquidity shrank while median FDR rate declined



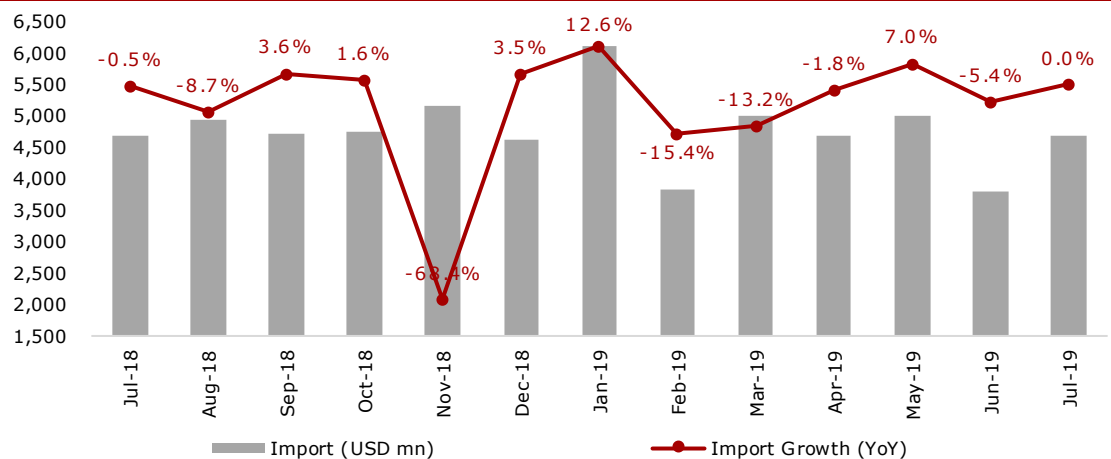
Source: Bangladesh Bank

Export growth was negative in the last two consecutive month



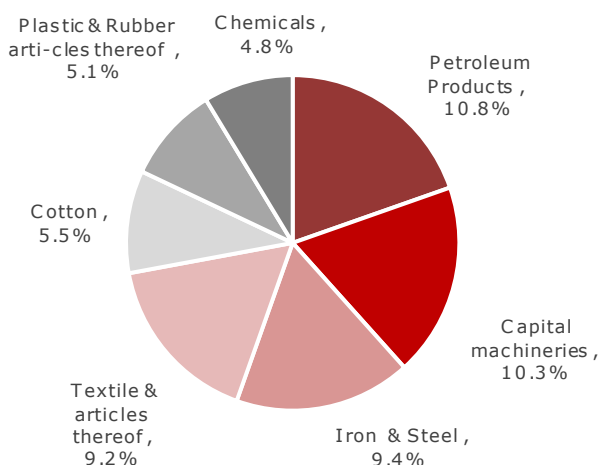
Source: Bangladesh Bank

Import posted de-growth as businesses adopted "go slow" policy amid liquidity shortage



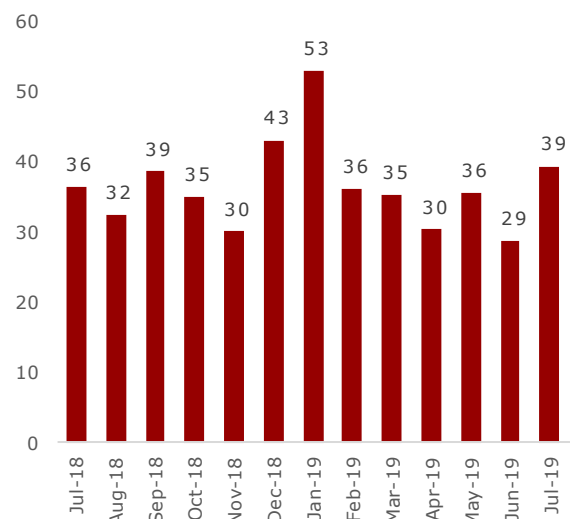
Source: Bangladesh Bank

Major Products of Import Basket (Jul'19)



Source: Bangladesh Bank

Import of Capital Machineries (BDT bn)



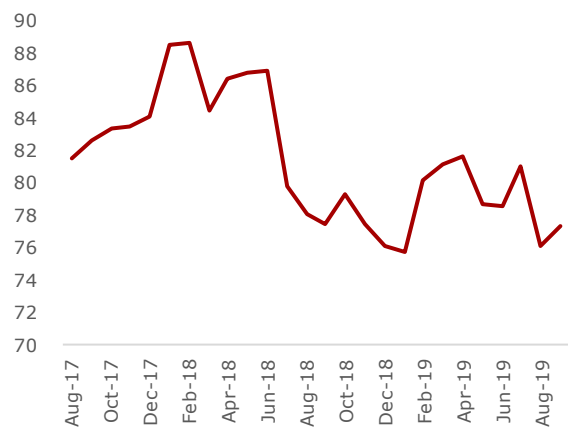
Source: Bangladesh Bank

Brent Crude Oil Price (USD per Barrel)



Source: Bloomberg

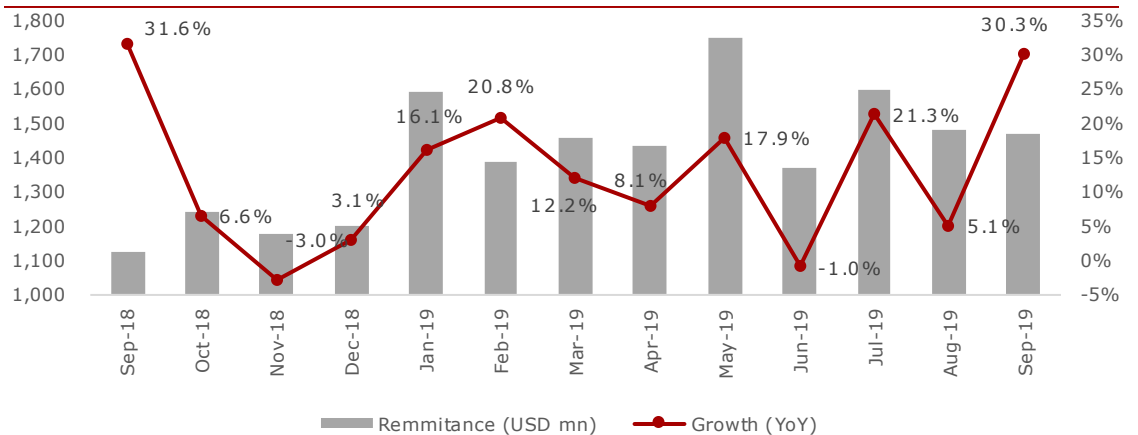
Monthly Metal Price Index*



Source: Index Mundi

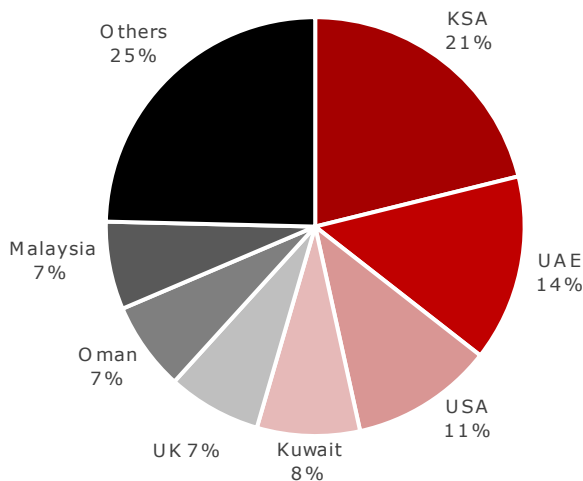
* Includes Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead & Uranium Price

Remittance posted 30.3% YoY growth in Sep'19 continuing the strong run



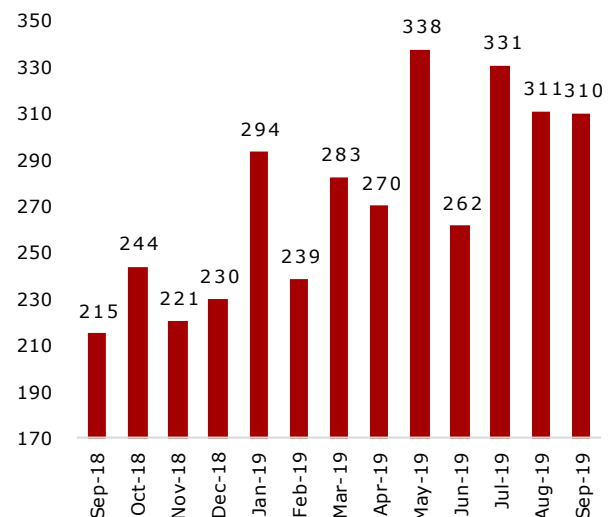
Source: Bangladesh Bank

Country wise Contribution of Remittance



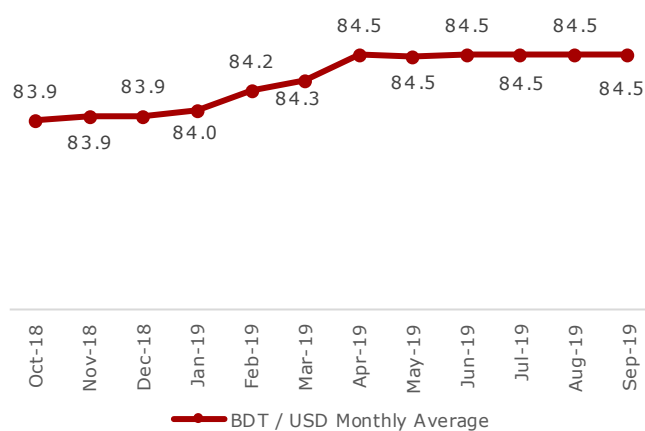
Source: Bangladesh Bank

Inward remittance from KSA (USD mn)



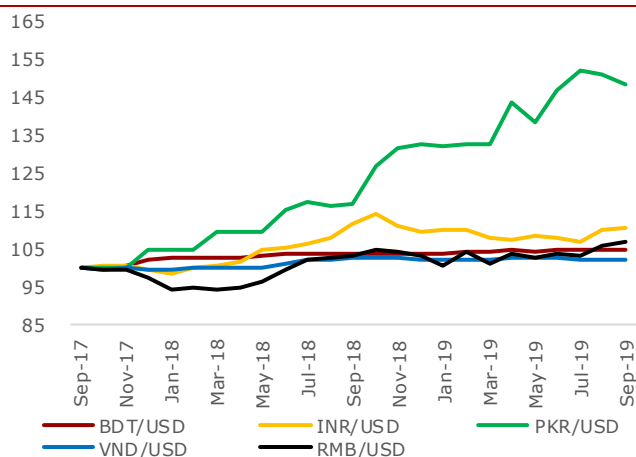
Source: Bangladesh Bank

Exchange Rate (BDT against USD) remained steady in the last four months



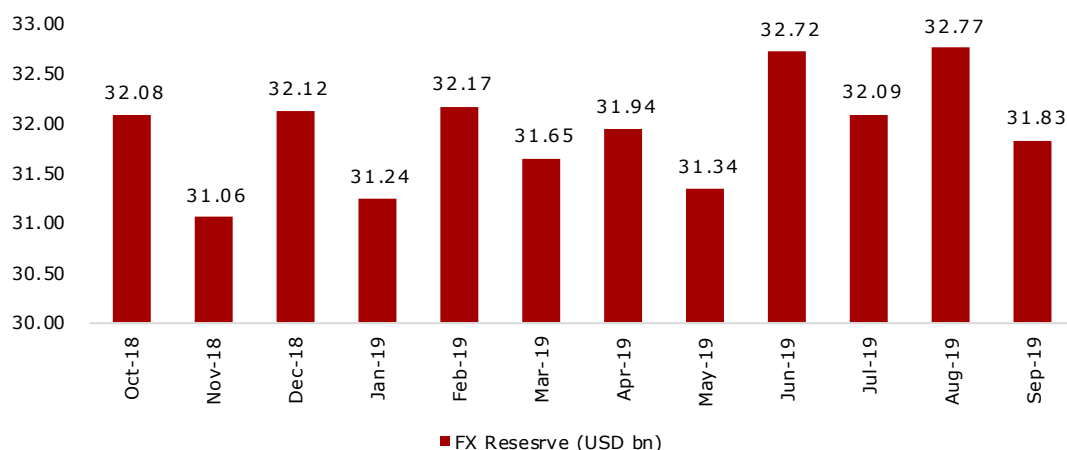
Source: Bangladesh Bank

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



Source: Central Bank, Investing.com

Foreign exchange reserve decreased slightly to USD 31.83bn in September



Source: Bangladesh Bank

Balance of Payments

Particulars (USD mn)	Jul'19-Aug'19	Jul'18-Jul'19	Jul'18-Aug'18
Trade balance	(1,975)	(1,027)	(2,107)
Services	(510)	(304)	(390)
Primary income	(323)	(161)	(333)
Secondary income	3,121	1,642	2,770
Current account balance	313	150	(60)
Capital account	4	3	3
Financial account	164	(325)	473
Errors and omissions	(342)	95	(260)
Overall Balance	139	(77)	156

Source: Bangladesh Bank

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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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