

Monthly Macro Update

Price Level	Aug'18	Aug'19
P2P General Inflation	5.48%	5.49%
P2P Food Inflation	5.97%	5.27%
P2P Non-Food Inflation	4.43%	5.82%

Monetary Aggregates and Credit	Aug'18	Aug'19
Broad Money Growth (Jun'19)	9.24%	9.88%
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	Aug'18	Aug'19
Repo Rate	6.00%	6.00%
Reverse Repo Rate	4.75%	4.75%
Monthly Average Call Money Rate	3.31%	4.56%
Weighted Average Deposit Rate (Jul'19)	5.40%	5.56%
Weighted Average Lending Rate (Jul'19)	9.71%	9.59%
Interest Rate Spread (Jul'19)	4.31%	4.03%
Fixed Deposit Rate	6.98%	8.73%

External Sector	Aug'18	Aug'19
Export (USD mn)	3,214	2,843
Growth (YoY)	-11.74%	-11.53%
Growth (MoM)	-10.27%	-26.91%
Remittance (USD mn)	1,411	1,483
Growth (YoY)	-0.53%	5.09%
Growth (MoM)	7.15%	-7.19%
Import (USD mn) (Jun'19)	4,017	3,798
Growth (YoY)	0.23%	-5.43%
Growth (MoM)	-14.12%	-24.11%
Foreign Exchange Reserve (USD bn)	32.93	32.77
Exchange Rate (BDT)	83.75	84.50

Balance of Payments	Jul'18	Jul'19
Trade Balance (USD mn)	(1,160)	(979)
Current Account Balance (USD mn)	(179)	240
Balance of Payments (USD mn)	(199)	124

Source: Bangladesh Bank & UCBCML Research

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Pressure on liquidity would ease following BB's policy stance and improving current account balance

Broad money growth remained at the low band of 9-10% as credit growth declined further outweighing the impact of improvement in net foreign asset. Substantial growth in export and remittance and de-growth in import helped current account deficit to shrink in the last few months. In Jul'19, current account surplus stood at USD 240mn compared to current account deficit of USD 179mn in Jul'18. Improvement in current account balance triggered positive impetus for broad money growth. However, sluggish trend in credit growth kept broad money growth below 10.0%. Domestic credit growth stood at 12.2% in Jun'19 compared to 14.7% in Jun'18. Private sector credit growth stood at 11.3% in Jun'19 compared to 16.9% in Jun'18. Excess liquidity has been shrinking which stood at BDT 605.5bn by end of May'19 down from BDT 667.6bn by end of Apr'19.

In this dire situation, Bangladesh Bank backtracked on setting the ceiling of ADR. Earlier, Bangladesh Bank set the deadline at 30 September 2019 for bringing down the ADR limit to 83.5% from 85.0% for conventional banks and to 89% from 90% for Shariah-based banks. However, Bangladesh Bank raised the ADR limit to previous rate of 85.0% for conventional banks and 90% for Shariah-based banks on 17 September 2019 with immediate effect given overall situation of banking sector that has been experiencing dearth in liquidity. We anticipate that conventional banks that were maintaining ADR below 85% and Shariah-based banks that were maintaining ADR below 90% would enjoy additional lending capacity due to this revised ADR limit. Credit growth, broad money growth and overall liquidity situation would improve gradually. Moreover, net sale of NSC was down by 61.6% YoY in Jun'19 which gives some indication of improvement in deposit mobilization going forward.

Increased Government borrowing would lead to some sort of crowding out effect

Government has increased their reliance on bank borrowing shifting from costlier source of NSC. Government borrowing from banks reached BDT 263bn during first two months of FY20 (Jul'19-Aug'19) which was BDT 269bn during the whole FY19. Government's increasing borrowing from banks, if continued, would trigger crowding out of private sector since Government's expenditure on projects (mostly mega infrastructures) would not yield any immediate return. Moreover, upward pressure on interest rate would continue due to rising demand for credit from Government.

Spike in oil price, if prolonged, would dent current account balance

Oil price in international market surged by 15.0% in a single day on the backdrop of drone attack on Saudi oil facilities which may cut 5% of global oil output for a brief period of time. Prolonged spike in oil price would raise import cost for Bangladesh which would hurt current account balance. However, in a recent development, Saudi Arabia made some progress in recovering from drone attack which led oil price to cool. We anticipate no major threat yet from the surge in oil price.

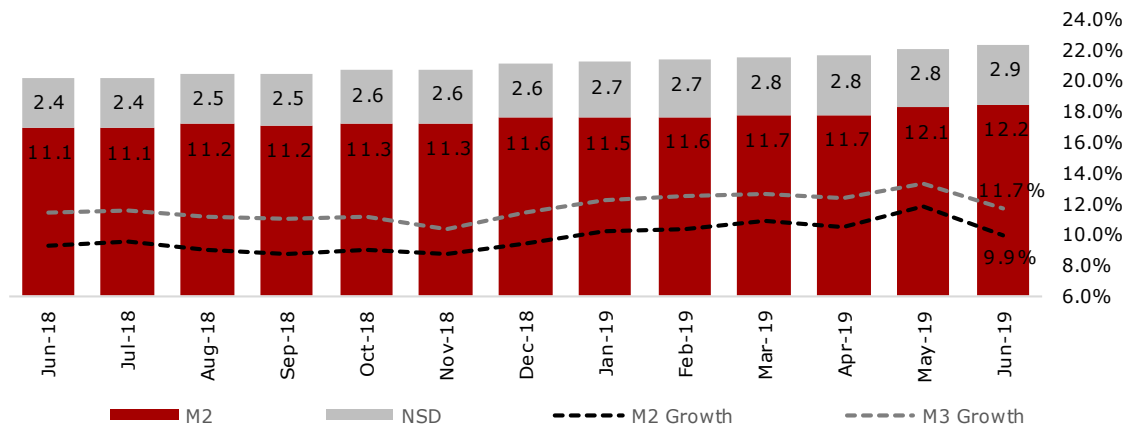
Inflation would remain in check considering slow growth in broad money and adequate stock of food grain

We anticipate that inflation would remain at a low ebb considering sluggish growth in broad money and no major cause of concern regarding volume of food and grain stock.

Capital Market Implication

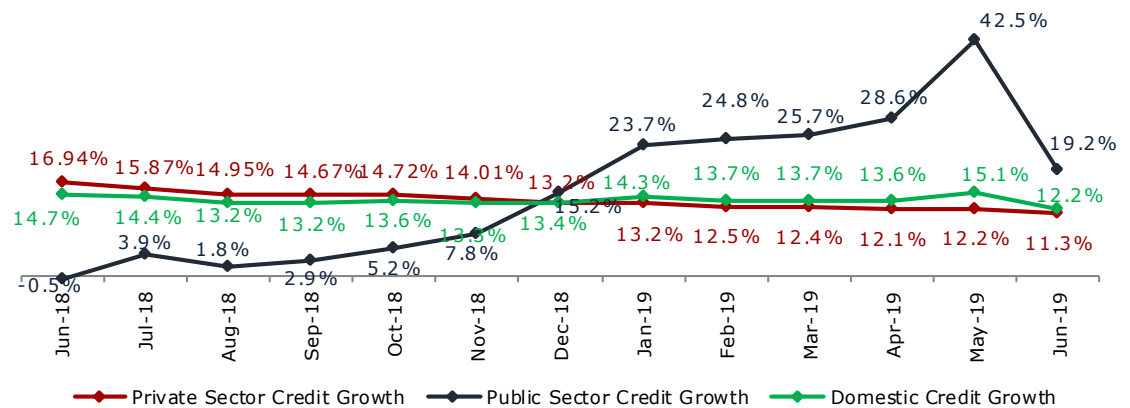
Bangladesh Bank's recent policy stance would ease some liquidity pressure that would have exacerbated running up to deadline of 30 September 2019. Moreover, we anticipate export growth to sustain its strong run as Bangladesh is capitalizing the benefit of US-China trade war by increasing the volume of export to USA. We anticipate the improvement in current account balance coupled with ease in liquidity due to BB's policy stance would provide positive stimulus for the capital market.

Broad money (M2 & M3) (BDT Tn) growth rate fell in Jun'19 as fall in credit growth outweighed the impact of increase in net foreign asset growth



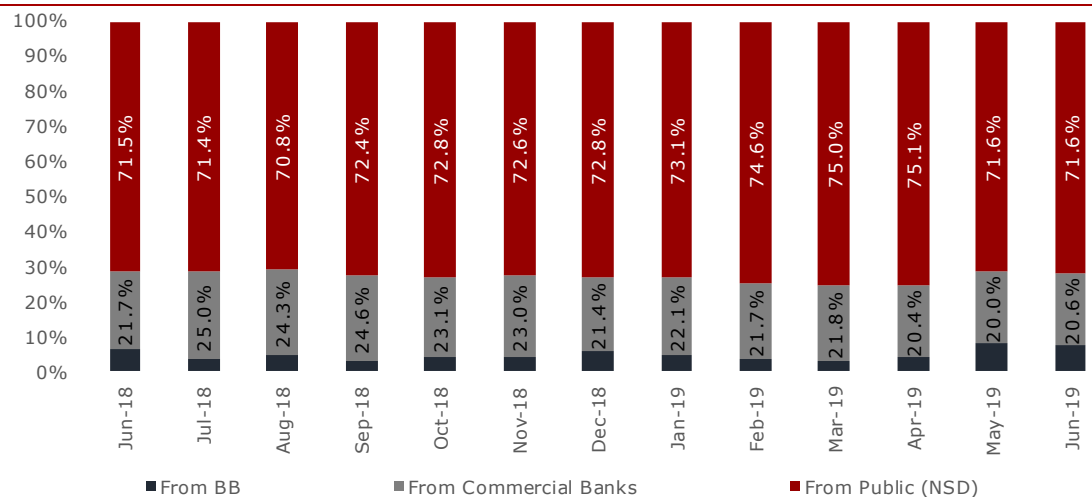
Source: Bangladesh Bank

Both public and private sector credit growth fell in Jun'19 as excess liquidity kept shrinking



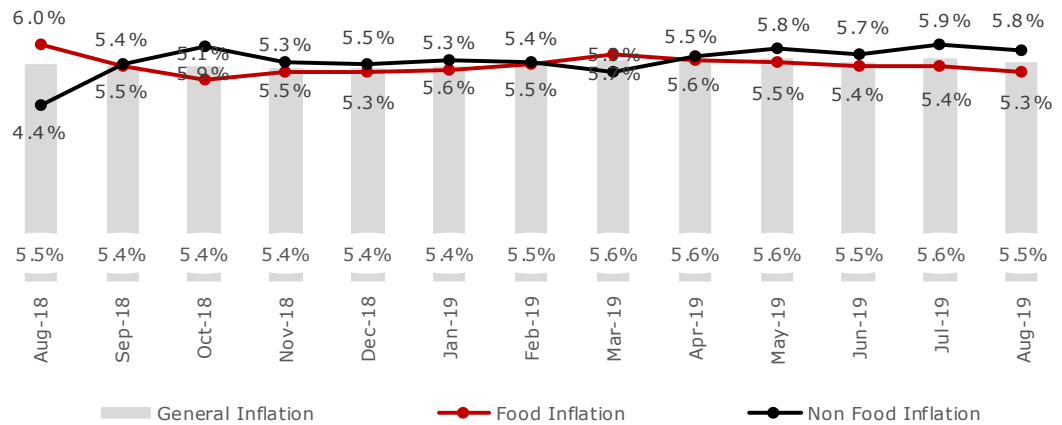
Source: Bangladesh Bank

Government borrowing from BB and commercial banks went up by 38.2% and 13.5% YoY respectively in Jun'19



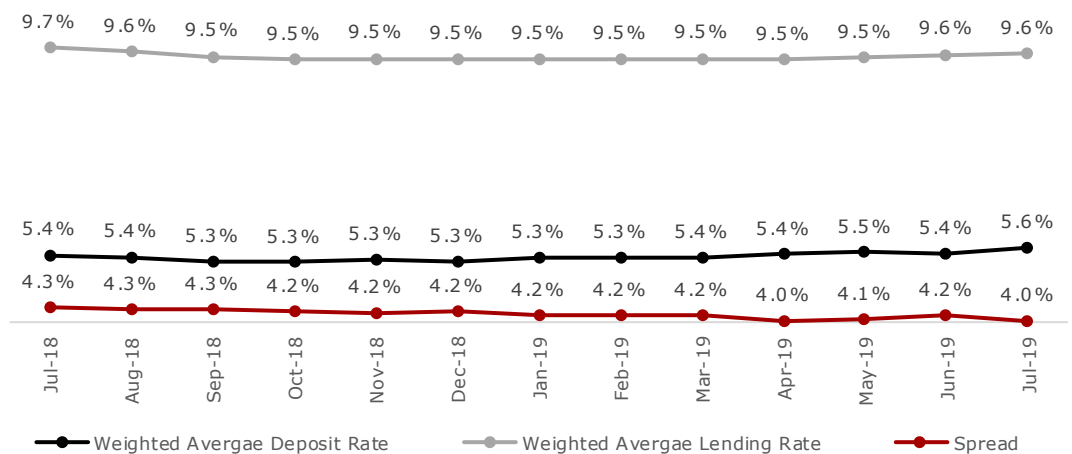
Source: Bangladesh Bank

P2P inflation went down following normalization in consumption level after Eid-ul-Azha



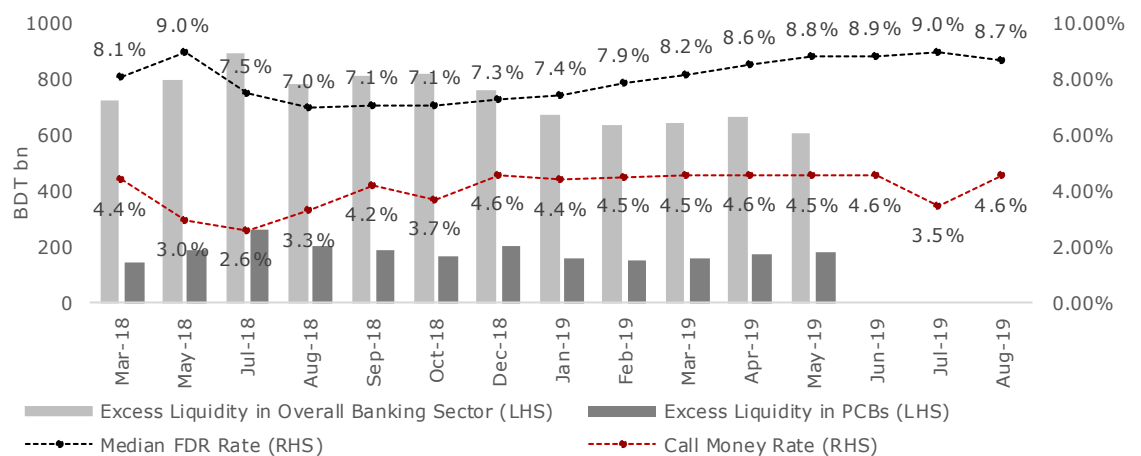
Source: Bangladesh Bank

Spread declined 20bps MoM in Jul'19 as no significant improvement in liquidity was observed



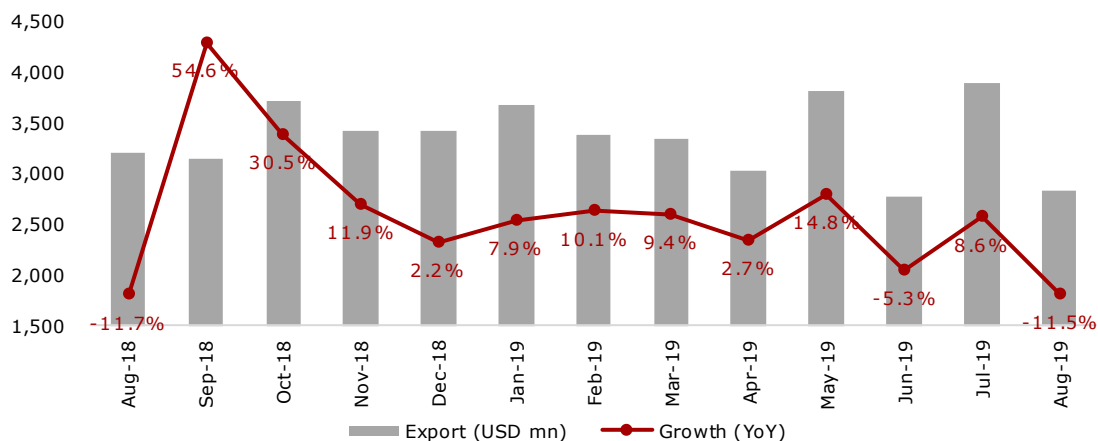
Source: Bangladesh Bank

Excess liquidity shrank while median FDR rate declined



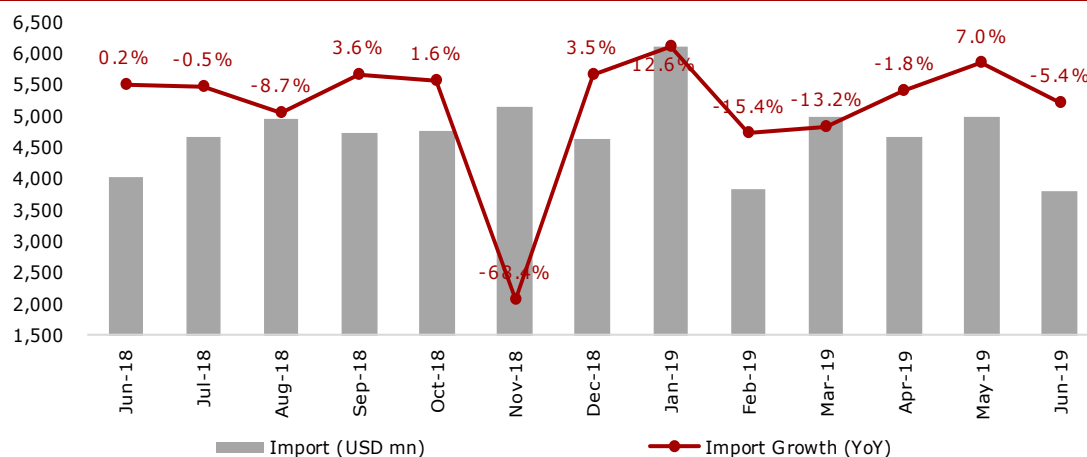
Source: Bangladesh Bank

Export tumbled in August'19 after registering growth in July'19 due to 7-days Eid vacation



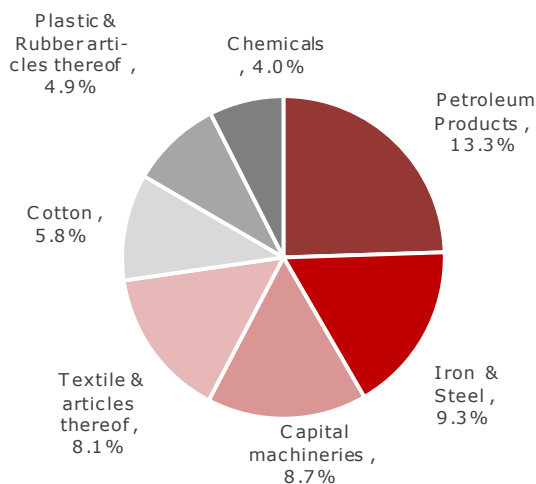
Source: Bangladesh Bank

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



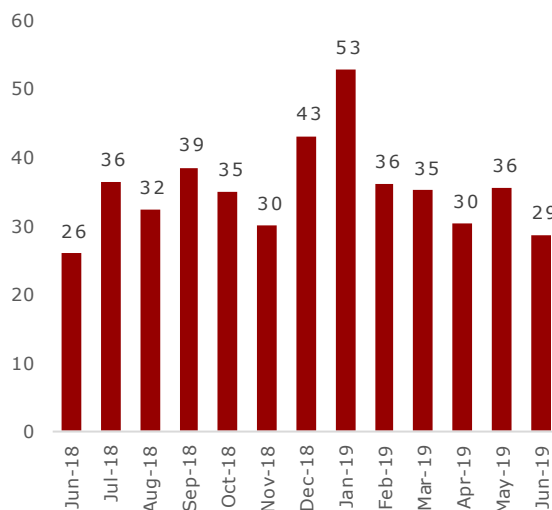
Source: Bangladesh Bank

Major Products of Import Basket (Jun'19)



Source: Bangladesh Bank

Import of Capital Machineries (BDT bn)



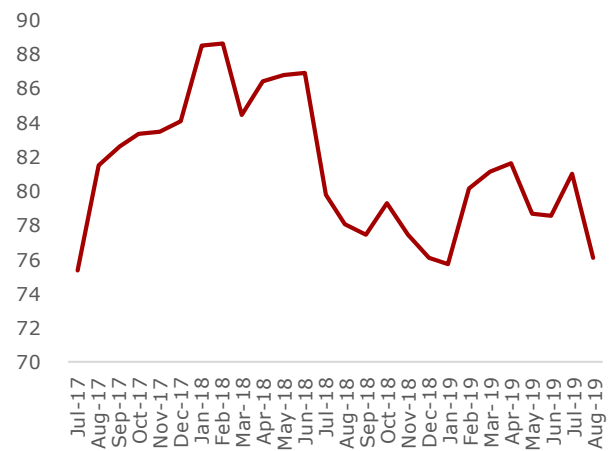
Source: Bangladesh Bank

Brent Crude Oil Price (USD per Barrel)



Source: Bloomberg

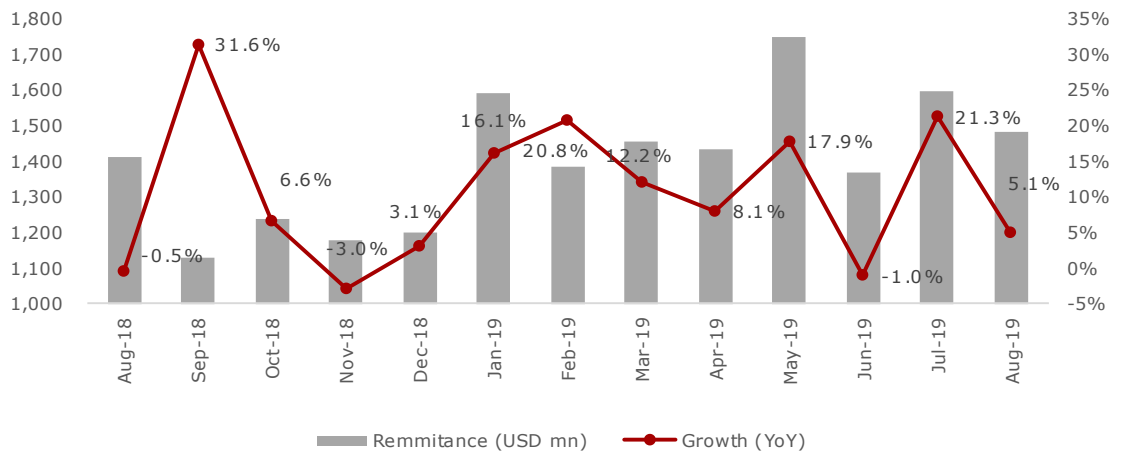
Monthly Metal Price Index*



Source: Index Mundi

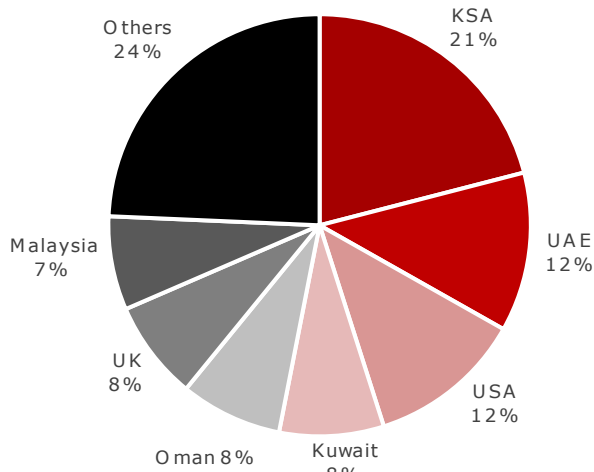
* Includes Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead & Uranium Price

Remittance posted 5.1% YoY growth in Aug'19 continuing the strong run



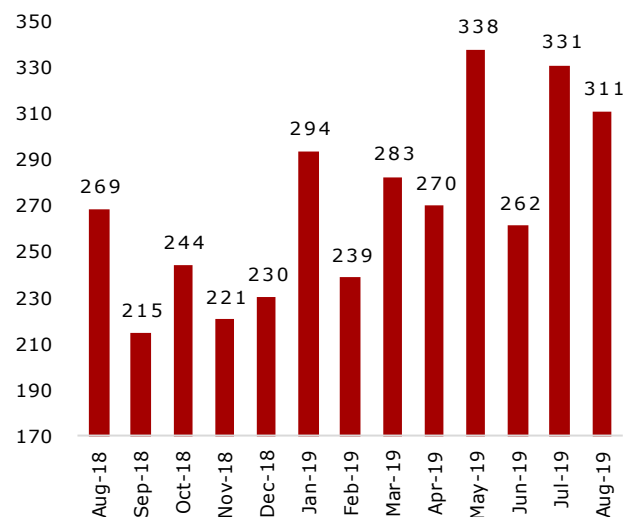
Source: Bangladesh Bank

Country wise Contribution of Remittance



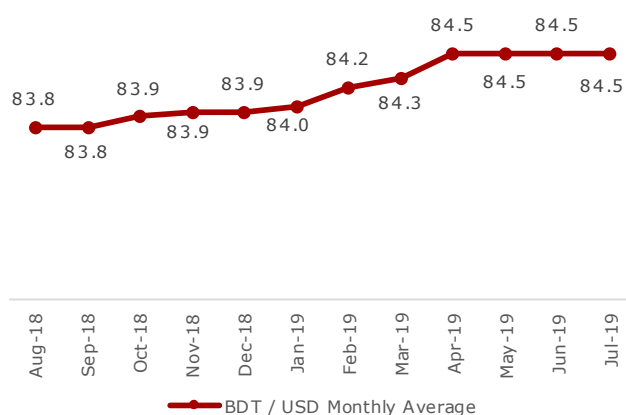
Source: Bangladesh Bank

Inward remittance from KSA (USD mn)



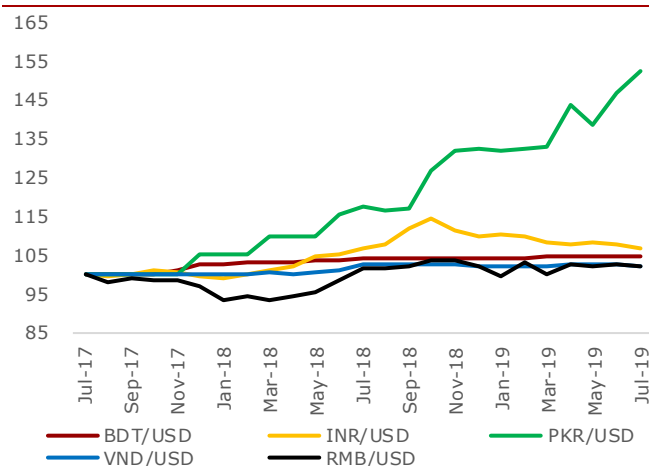
Source: Bangladesh Bank

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



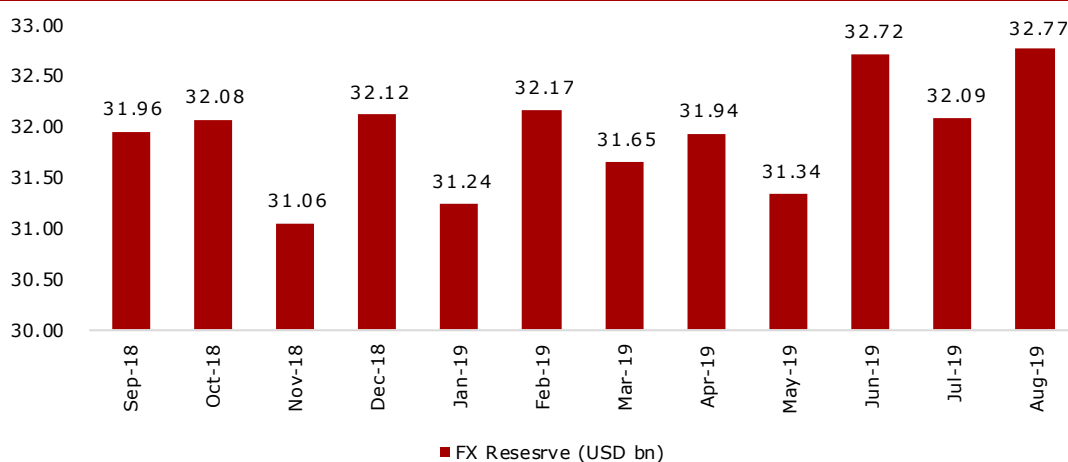
Source: Bangladesh Bank

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 has improved in June backed by strong inflows of remittance



Source: Bangladesh Bank

Balance of Payments

Particulars (USD mn)	Jul'19-Jul'19	Jul'18-Jun'19	Jul'18-Jul'18
Trade balance	(979)	(15,494)	(1,160)
Services	(247)	(3,715)	(195)
Primary income	(174)	(2,930)	(158)
Secondary income	1,640	16,885	1,334
Current account balance	240	(5,254)	(179)
Capital account	3	233	2
Financial account	(249)	5,628	140
Errors and omissions	130	(595)	(162)
Overall Balance	124	12	(199)

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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