

**KEY ECONOMIC INDICATORS**

Export earnings recorded a 14% gain in August due to the shipments that had accumulated from the previous month during the Eid festival holidays. However, even though garment exporters are now receiving higher volume of work orders, they continue to face cost pressures due to the hike in yarn price and freight charges as a result of sudden rise in demand as normalcy is being restored worldwide. Remittance inflow decreased by 19% YoY to USD 3.68 bn during the July-August period due to resurfacing of 'hundi' activities, fewer working days due to the lockdown and decline in manpower export amid the pandemic. Meanwhile, revenue collection grew by a marginal 4% YoY in July due to the slowdown in business amid the government-imposed lockdown during that month. Oil prices remained steady during the week due to the Fed's decision to delay tapering the stimulus but gains were limited by the disappointing US August jobs report.

	This Week	Last Week	Weekly Change	YTD Change
<b>Foreign Exchange Reserve (USD bn)</b>	48.09	48.03	0.12%	11.39%
<b>Call Money Rate (Weighted Average)</b>	1.89%	1.65%	24 bps	23 bps
<b>Exchange Rate (BDT-USD)</b>	85.20	85.20	0.00%	0.47%
<b>Oil Price (USD per barrel of WTI)</b>	69.29	68.74	0.80%	43.16%
		<b>FY 2020-21</b>	<b>FY 2019-20</b>	<b>% Change</b>
<b>Export (USD mn) (Jul-Jun)</b>		38,758	33,674	15.10%
<b>Remittances (USD mn) (Jul-Aug)</b>		24,778	18,205	36.10%
<b>Import (USD mn) (Jul-Jun)</b>		65,595	54,785	19.73%
<b>Current Account Balance (USD mn) (Jul-Jun)</b>		-3,808	-4,724	N/A
<b>Credit to the Private Sector (USD mn) (Jun)</b>		139,537	128,787	8.35%
<b>Point-to-point Inflation (July)</b>		5.36%	6.02%	66 bps
<b>Tax Revenue (NBR) (USD mn) (Jul-Jun)</b>		30,503	25,635	18.99%

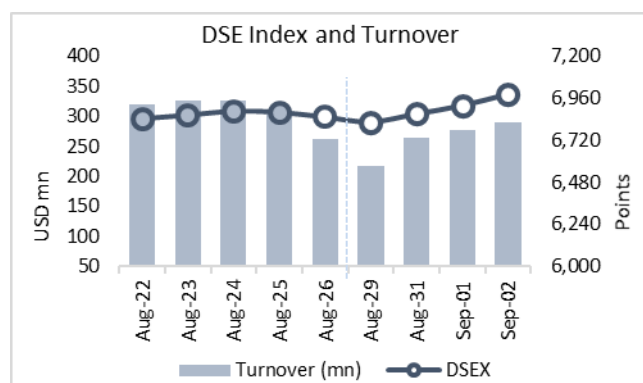
Source: Bangladesh Bank and Investing.com

**ECONOMIC RISKS**

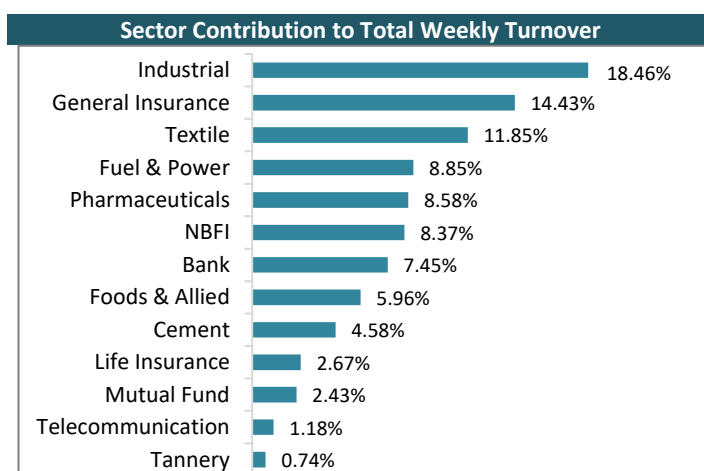
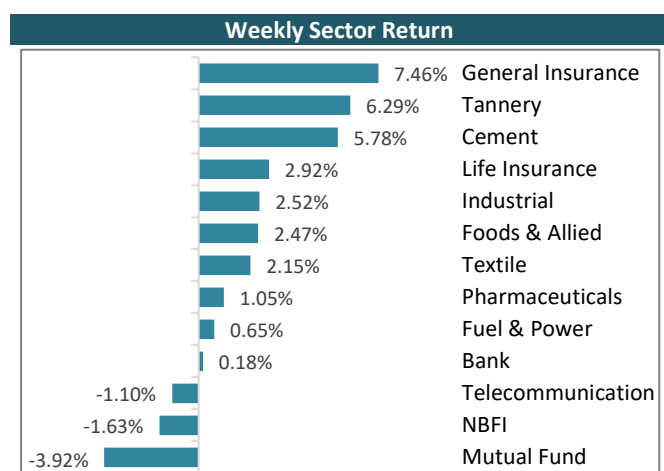
Risk factor	Risk Level	Impact
<b>Soaring default loan in financial sector</b>	High	The banking sector has been burdened with a high NPL ratio of 7.66% and a CAR of 11.63% that is the lowest in South Asia. Although banks are sitting with excess liquidity, their implementation of the stimulus package remains slow. The loan moratorium period ran between Jan-Dec 2020. Going forward, a sharp rise in default loans is being anticipated which is likely to undermine the sector further in the long term. The central bank has instructed banks to keep 1% extra provision against all loans that enjoyed deferral or time extension facilities. In addition, banks and NBFIs have been permitted to declare dividends depending on the strength of their capital base.
<b>Subdued tax revenue collection</b>	Medium	Tax collection registered a negative growth of -2.63% in FY20 for the first time since the country's independence due to the effects of the virus. However, revenue collection has increased by 18.99% in the Jul-Jun period of FY21 as businesses and economic activities are slowly reviving. But actual tax collection continues to remain below the target. According to ADB's forecast, Bangladesh may incur a tax revenue loss equivalent to 2% of GDP due to the pandemic.
<b>Remittance shock</b>	Medium	Inward remittances made an exceptional recovery in the Jul-Jun period amid the pandemic with a 36% jump YoY. This increase has defied World Bank's projection of a -22% decline for 2020. The reason behind this increase can be attributed to the usage of formal channels amid the pandemic, the attractive 2% cash incentive and near-zero interest rates abroad. The current level of remittance inflow may sustain due to these factors coupled with gradual manpower export, though the growth rate is unlikely to be as high as 2020.
<b>Demand contraction</b>	Medium	Economic activities have been gradually picking up on the backdrop of the pandemic as both businesses and individuals are learning to live with the virus. This has allowed demand in the economy to slowly recover. Consumer confidence is likely to strengthen as the percentage of vaccinated population continues to increase and economic activities rebound as lockdown restrictions have been relaxed.
<b>Export slump</b>	Medium	It has been projected that global merchandise trade might plummet by ~13% due to the pandemic. While reinstatement of cancelled orders was initially helping RMG exports recover, which was further fortified by mass vaccination at major export destinations, the resurgence of local delta variant virus cases is likely to delay recovery. Moreover, unless export diversification is implemented and global economic activities pick up, Bangladesh will continue to be subjected to the concentrated risks of the RMG sector (that accounts for ~80% of export earnings).
<b>Volatile capital market</b>	Low	The securities regulator has been engaged in taking various initiatives to reform the market. It has also taken up a strong stance against any non-compliance to rein in market manipulation. This has forged a positive sentiment in the market and pushed up market liquidity significantly in recent times. Going forward, the performance of the market will depend on whether the regulators continue to focus on taking steps that are in the best interest of investors and how the recent spike in virus cases play out.

**CAPITAL MARKET UPDATE**

The DSEX index gained 130 points (1.89%) during the week to reach a new high of 6,981 points, the highest level since the index's formation, as regulatory moves continued to boost investors' confidence. The central bank's recent decision to strictly inspect the banking sector's capital market exposure and diversion of stimulus funds to the capital market exerted selling pressure in the market, resulted in 27.7 points (-0.40%) decline in the first trading session of the week. However, the market rebounded from the second session, and remained in the green zone in the remaining trading sessions of the week. The week ended with the market reaching another record high market capitalization as enthusiastic investors were hopeful that the main index would soon cross the 7,000-points mark riding on regulatory moves. While the index rose significantly, average daily market turnover fell by 14.35% as investors remained conservative as the central bank tightened its regulation on banks' special funds for investment in the capital market by asking to send monthly reports instead of the previous quarterly as it found evidence of rule violations in the investments. During the week, BSEC revised the IPO rules by increasing the allotment quota for general investors to 70%, up from the previous 60%, to encourage higher participation of general investors in the capital market. The regulator also formed a committee to investigate the usual rise in prices of some small-cap junk stocks in recent times.



	Market Statistics			
	This Week	Last Week	Weekly Change	YTD Change
DSEX	6,981	6,851	1.89%	29.23%
DS30	2,497	2,453	1.77%	27.13%
Market Cap (\$ mn)	66,476	65,744	1.11%	25.76%
Total Turnover (\$ mn)	1,054	1,538	-31.48%	23.19%
Avg. Daily Turn. (\$ mn)	263	308	-14.35%	53.99%
S&P 500	4,535	4,509	0.58%	20.75%
DJIA	35,369	35,455	-0.24%	15.56%
FTSE 100	7,138	7,148	-0.14%	10.49%
NIKKEI 225	29,128	27,641	5.38%	6.14%


**NOTABLE QUARTERLY EARNINGS ANNOUNCEMENTS DURING THE WEEK**

BATASHOE's earnings per share improved from BDT (53.74) in Q2, 2020 to BDT 1.15 in Q2, 2021 as revenue increased by 426% in comparison with the same period of the previous year due to a boost in sales and stock clearance by offering a bulk discount to the customers. UNIONCAP's earnings increased by 79.53% in Q2, 2021 due to decrease in interest expense on deposits and borrowings, and salary expenses and increase in investment income and other operating income.

TICKER	COMPANY NAME	SECTOR	EPS 2021 (Apr-Jun)	EPS 2020 (Apr-Jun)	CHANGE
BATASHOE	Bata Shoe Company (Bangladesh) Limited	Tannery	1.15	-53.74	N/A
UNIONCAP	Union Capital Limited	NBFI	-0.26	-1.27	79.53%

Source: DSEX, Investing.com, LR Global Research

QUARTERLY EARNINGS UPDATE

During the Jan-Mar'21 quarter, the cement sector experienced the highest growth of 233.3%, based on the earnings disclosed so far, owing to a revival in demand in the sector. The industrial sector also experienced a significant growth of 207.4% due to growth in demand where BEXIMCO played a significant role. The tannery sector managed to make a turnaround this quarter as it was able to recover some losses after remaining in the negative growth territory in the prior quarters. However, the telecommunication sector suffered a loss due to a decline in total active subscriber during the lockdown. In the previous quarter (Oct-Dec'20), the industrial sector bounced back and recorded the second highest earnings growth after declining continuously for more than a year. The gradual revival of economic activities has had a large part to play in this as virus cases slowly subsided during that period. The NBFi sector recorded the second highest earnings growth during the quarter followed by bank, pharmaceuticals, and ceramic. Banks and NBFis continued its profit growth trend from the previous quarter. In the Jul-Sep'20 quarter, a good number of NBFis logged in higher earnings due to lower provisioning and reduced deposit rates, allowing the sector to register the highest growth in that quarter. Banks too experienced a significant boost in earnings due to similar reasons during that period. At this time, it is slightly concerning that the tannery sector is still continuing to post negative growth in earnings due to the discretionary nature of the products.

Sector	2019				2020				2021	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
Bank	13,988	21,244	13,891	22,880	18,311	13,382	20,078	19,241	19,627	23,251
Cement	872	958	582	250	814	194	944	1,558	2,712	1,316
Ceramic	230	59	261	287	167	-278	142	355	249	223
Food & Allied	2,428	1,817	3,474	3,619	3,200	2,638	4,255	1,283	2,907	1,683
Fuel & Power	9,076	11,399	10,862	8,961	7,336	5,705	9,939	9,512	9,489	-
Industrial	4,581	4,635	3,730	2,958	2,897	-562	3,441	5,779	7,269	1,034
NBFi	1,769	-562	-780	647	1,955	1,571	2,386	2,720	1,805	1,335
Pharmaceuticals	6,210	6,820	7,362	6,926	6,598	4,443	8,736	8,659	8,731	1,234
Telecommunication	8,926	9,553	7,269	8,766	10,694	7,265	8,898	10,330	8,912	8,507
Textile	1,482	-5,913	1,201	1,222	464	-3,853	472	884	541	-
Tannery	270	101	371	144	-27	-869	-455	-36	46	16

QoQ Growth (Sectorwise)	2019				2020				2021	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
Bank	20.2%	20.4%	-0.3%	-14.1%	30.9%	-37.0%	44.5%	-15.9%	7.2%	75.8%
Cement	-4.6%	-0.4%	93.8%	-72.4%	-6.7%	-79.8%	62.2%	523.3%	233.3%	-
Ceramic	-20.3%	-71.3%	-22.7%	-35.6%	-27.5%	-567.8%	-45.7%	23.7%	49.3%	218.2%
Food & Allied	-24.0%	-74.1%	75.2%	92.7%	31.8%	45.2%	22.5%	-64.5%	-9.2%	-45.8%
Fuel & Power	22.5%	9.4%	-1.1%	-7.3%	-19.2%	-50.0%	-8.5%	6.1%	29.4%	-
Industrial	-2.2%	-65.4%	-13.0%	-33.0%	-36.8%	-112.1%	-7.8%	95.4%	150.9%	-
NBFi	-22.3%	-130.7%	-149.9%	-85.4%	10.5%	379.4%	406.0%	320.2%	-5.7%	186.9%
Pharmaceuticals	7.9%	4.7%	10.7%	2.5%	6.2%	-34.8%	18.7%	25.0%	32.9%	6.9%
Telecommunication	39.6%	-11.6%	-18.3%	-3.3%	19.8%	-24.0%	22.4%	17.8%	-16.7%	17.1%
Textile	-11.4%	-462.0%	-41.4%	-26.7%	-68.7%	34.8%	-60.7%	-27.6%	14.1%	-
Tannery	-34.1%	-63.8%	-38.8%	-55.0%	-109.9%	-962.7%	-222.6%	-125.2%	273.6%	102.1%

Note: Sector represents more than 70% of the companies (according to large market capital),

Source: DSEX, LR Global Research

\* Jan-Mar'21 & Apr-Jun'21 earnings growth have been calculated based on the earnings of 219 and 51 companies, respectively, that have been declared so far out of the 260 tracked.

MAJOR EVENTS DURING THE WEEK

**COVID-19 positivity rate declines to 11.4% this week in Bangladesh: COVID-19 Update**

The weekly new COVID-19 cases decreased by 30.74% while the total tests conducted also decreased by 11.74% compared to the previous week. During the week, 22,437 new positive cases and 567 more deaths were reported in Bangladesh, taking the total number of cases to 1,512,026 as of 4th September, according to official tallies. The positivity rate dropped to 11.4%. During the week 7.5 mn doses of Sinopharm vaccines from China arrived in Bangladesh. In addition to this, Bangladesh received 1 mn more doses of the Pfizer and 0.63 mn doses of AstraZeneca vaccines under the WHO-backed Covax facility. The government also announced that they will inoculate 20 mn people in September. Globally, the total number of cases has crossed 219 mn and the death count has also crossed 4.55 mn.

**Central bank extends loan moratorium for NBFis till December**

The central bank has extended the repayment deadline for NBFi borrowers to December from the previous August deadline to facilitate economic recovery. NBFi borrowers will not be considered as defaulters if they pay 50% of their outstanding loan amount by December.

**Probe initiated against banks for high interest rate spread**

Bangladesh Bank has asked 10 banks to explain why their deposit and lending rate spread has exceeded the limit set by the regulator. As per central bank rules, banks are required to maintain a spread of at least 4 percentage points or lower. Previously the central bank has asked banks to set interest rate on fixed deposits above the inflation rate so that depositors do not receive negative returns.