

EDGE
RESEARCH & CONSULTING

BANGLADESH MONTHLY MACRO REPORT

For the month of January 2023

Executive Summary

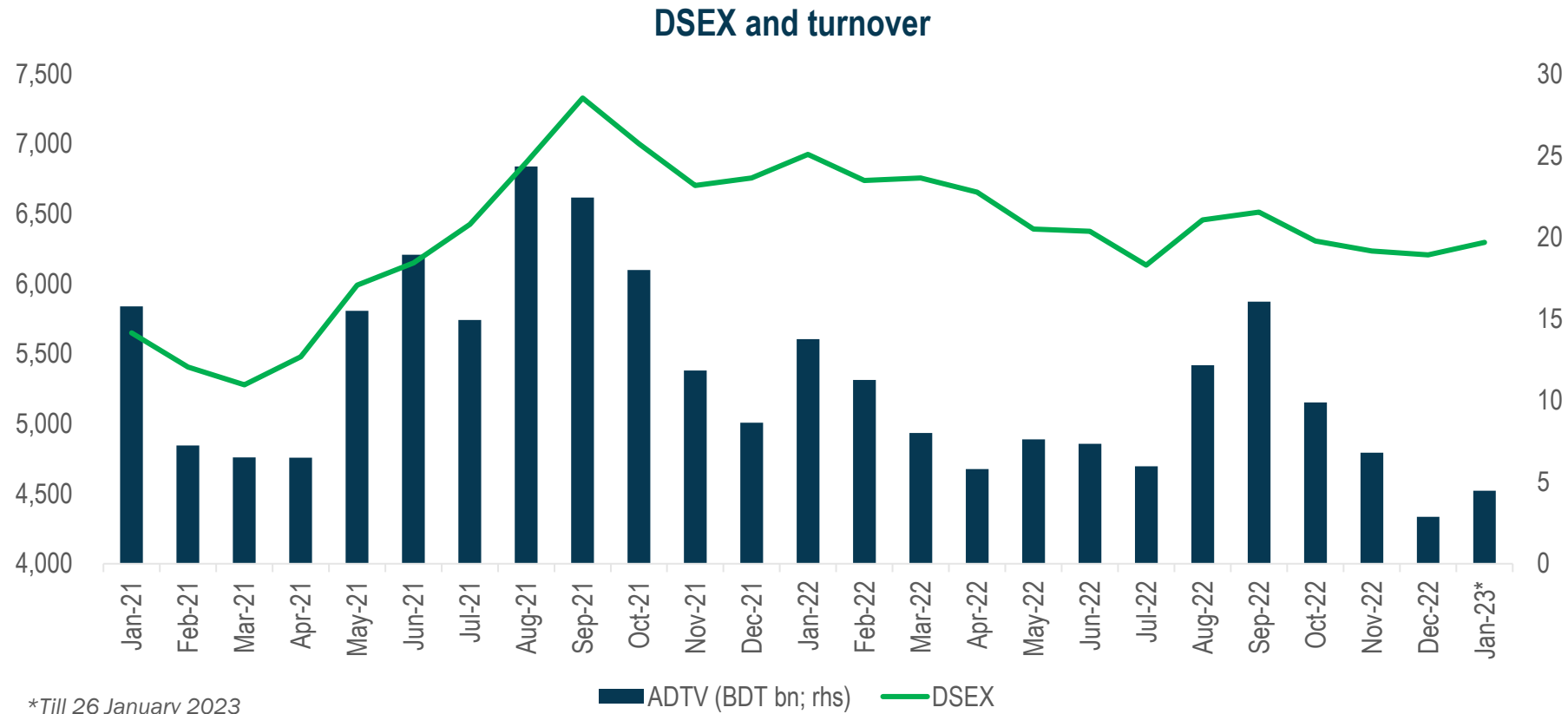
- **Kerb rate improves even though FX reserves falling:** While external side numbers are yet to show any meaningful improvement, kerb rates appear to be showing some strength (improved from 112.0 to 110.5), implying unofficial remittance flows have been particularly strong. This is despite 2022-23 being a pre-election year, which usually leads to higher than normal capital repatriation pressures. On the flipside, the “hundi” rate, which refers to the rate at which money can be transferred abroad has remained somewhat elevated. This is because LC opening challenges in the banking sector has pushed some importers to settle payments using the unofficial channel. *Despite pressures in the Balance of Payments, the informal external side (as measured by kerb rates) appear to have stabilized to a degree thanks to strong informal remittance flows.*
- **Treasury bill yields drop after MPS announcement:** One of the highlights of the recent Monetary Policy Statement (MPS) was a 25bps hike in the policy rate. Interestingly, the policy rate hike was followed by a yield drop in shorter dated bills. This is because there was an arbitrage opportunity of borrowing at policy rate and lending through bills. Subsequently, the yield curve slope has steepened slightly. 91D bills are now yielding 7.35% which is significantly lower than some of our South Asian peers like Pakistan and Sri Lanka. *While the hike in policy rate has led to a yield drop in shorter dated bills, we think this is unlikely to affect longer dated bonds.*
- **The IMF is set to finalize the deal later today,** in which case the first tranche is expected in February and following tranches are expected in 6 month intervals. For us, policy recommendations linked to the disbursements are more important than the monetary amount involved (~US4.5bn). *Unfortunately, a clear timeline of policy changes has not been outlined in any of the publicly available documents we have seen; however, a free float exchange rate appears to be high on the agenda.*

MONTHLY ECONOMIC UPDATES

Key charts summarizing monthly developments in selected (i) high frequency economic activity indicators, (ii) external and (iii) monetary side

Monthly economic updates

Economic activity indicators

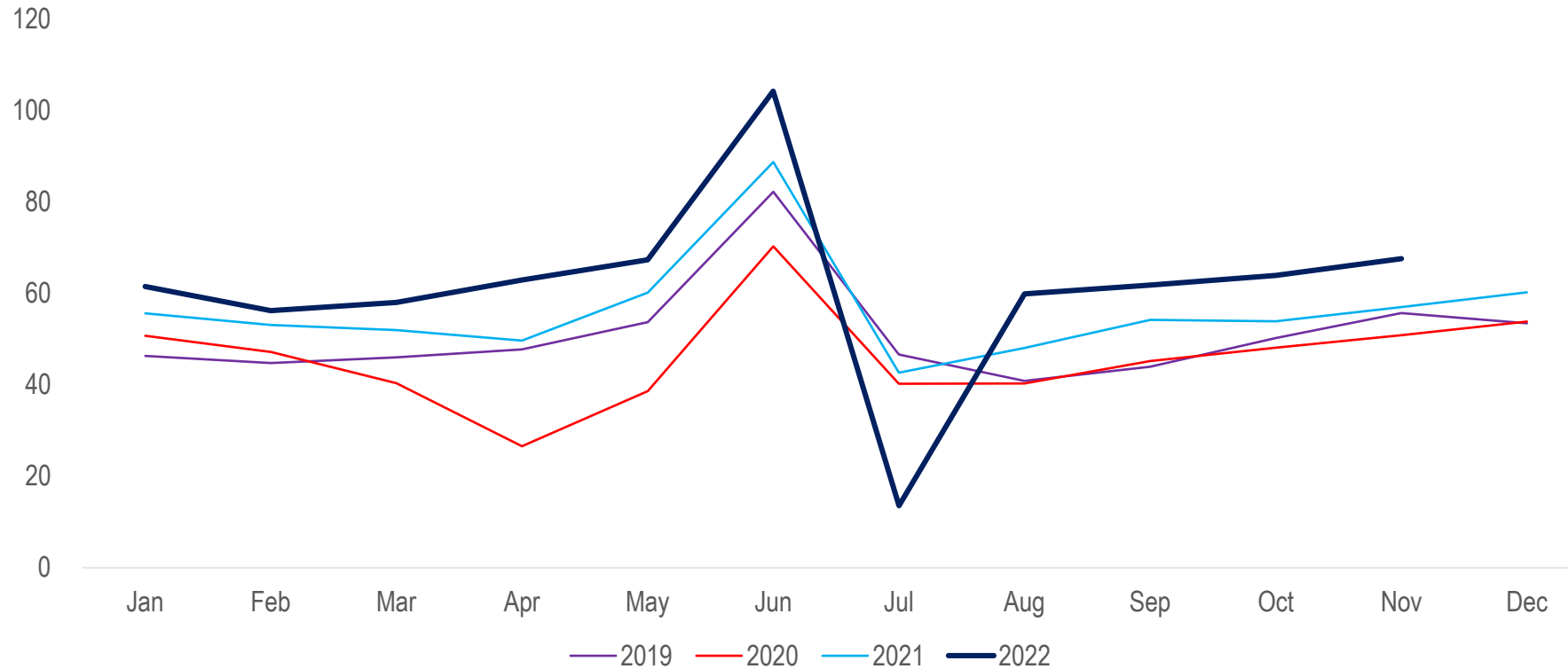


- The market has shown some fight in January, with the DSEX gaining 1.4% YTD and ADTV also improving materially MoM. With macro headwinds still looming, it is possible latest market positivity stems from news flow surrounding the IMF loan (and related policy implications).

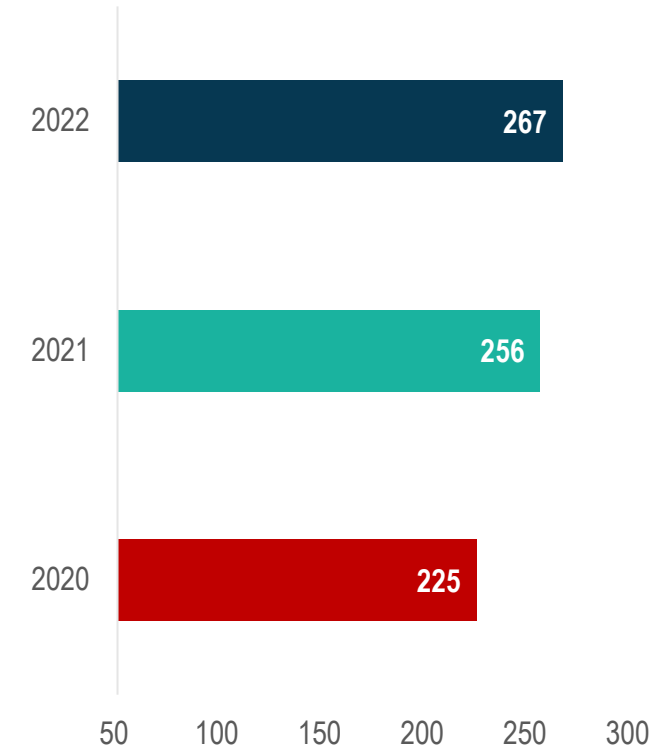
Monthly economic updates

Economic activity indicators

Domestic VAT collection (BDTbn)



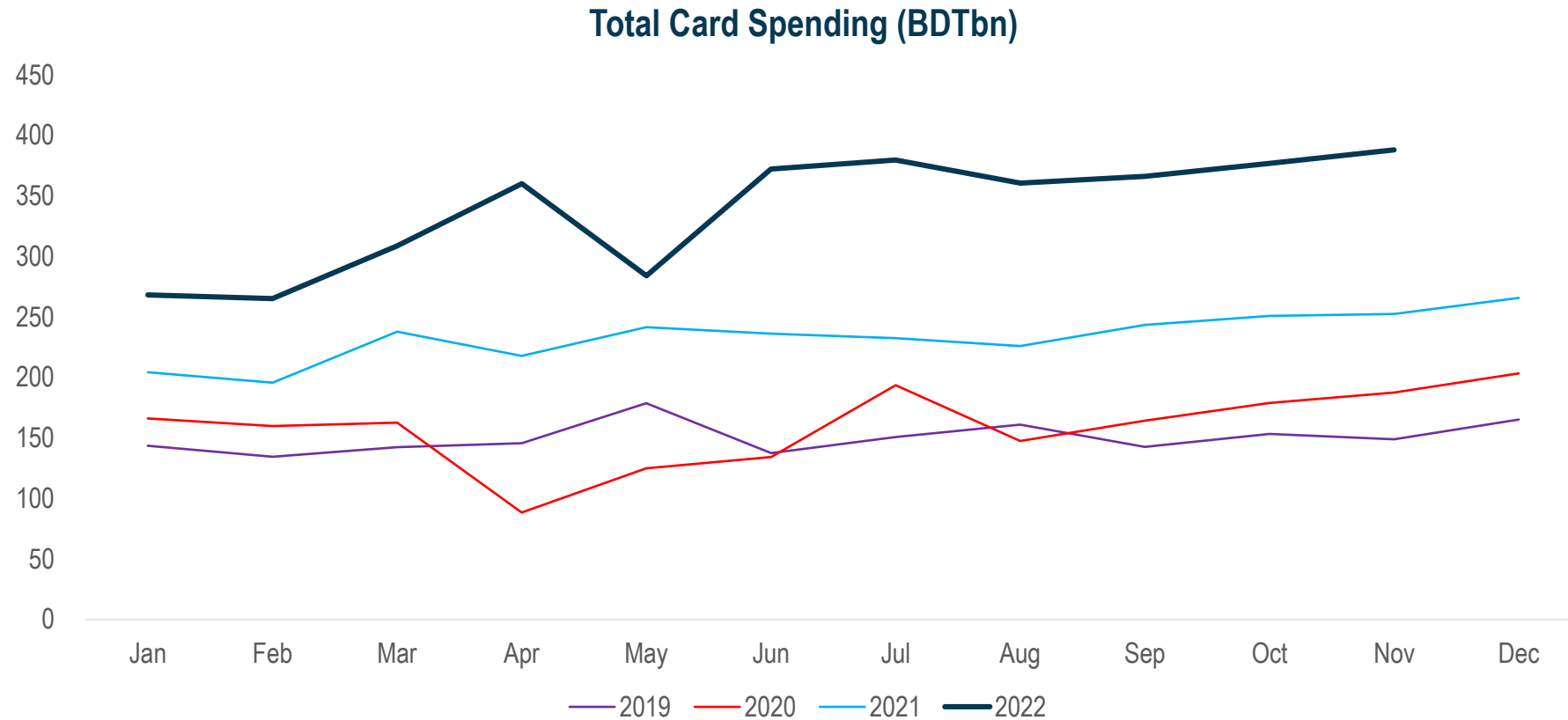
July-Nov Collection (BDT bn)



- We look at domestic VAT collection as a proxy of consumer spending in the economy.
- July-November collections stood roughly flat YoY. The caveat surrounding nominal growth remains-- nominal figures may not be a true reflection of underlying real activity. Given macro stresses and inflationary pressures, real spending activity (particularly in the discretionary space) is likely to weaken in 2023.

Monthly economic updates

Economic activity indicators

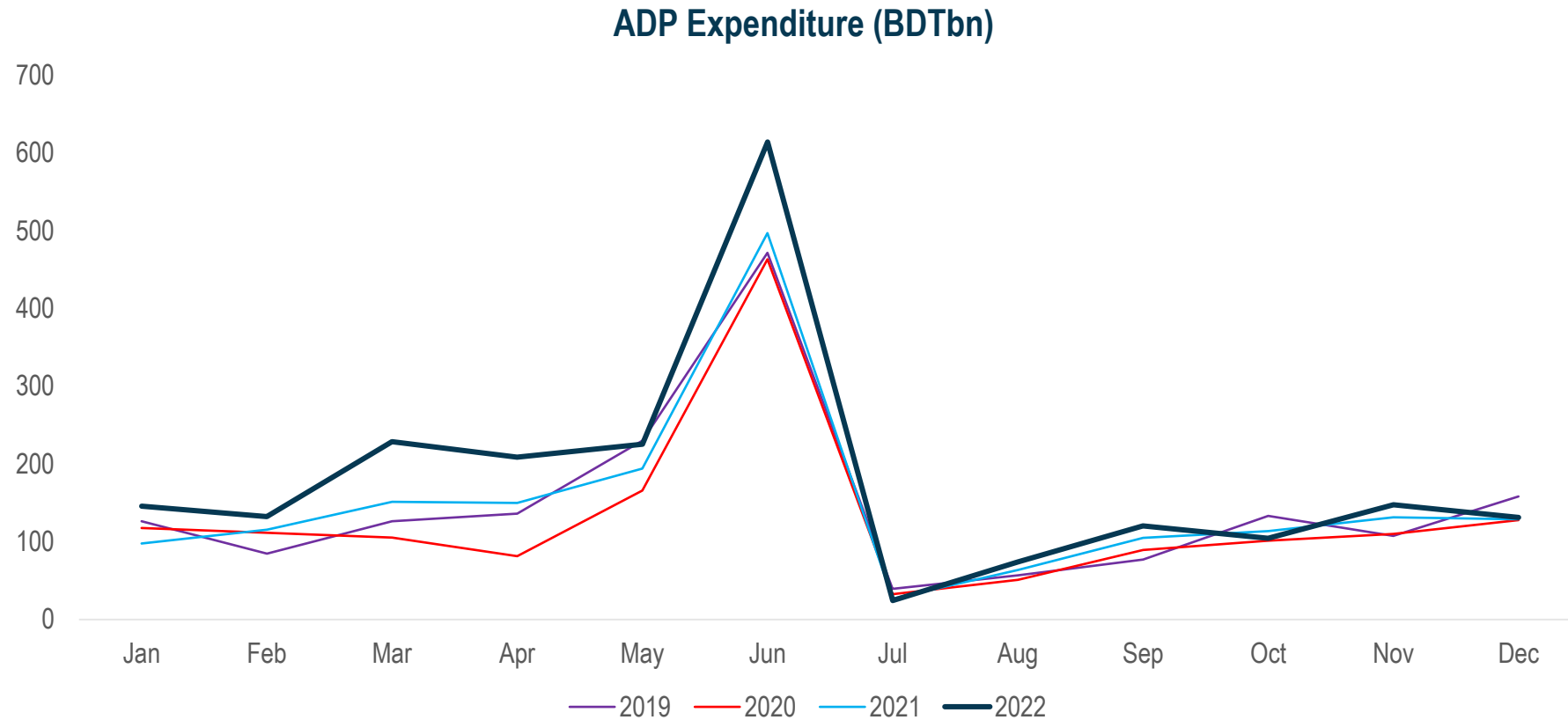


**Total Card Spending includes transactions carried out via both Debit and Credit cards*

- We view card expenditure as a gauge of consumer spending in the economy.
- We mentioned in the last publication that card spend has been flattish since August and this trend persisted in November as well.

Monthly economic updates

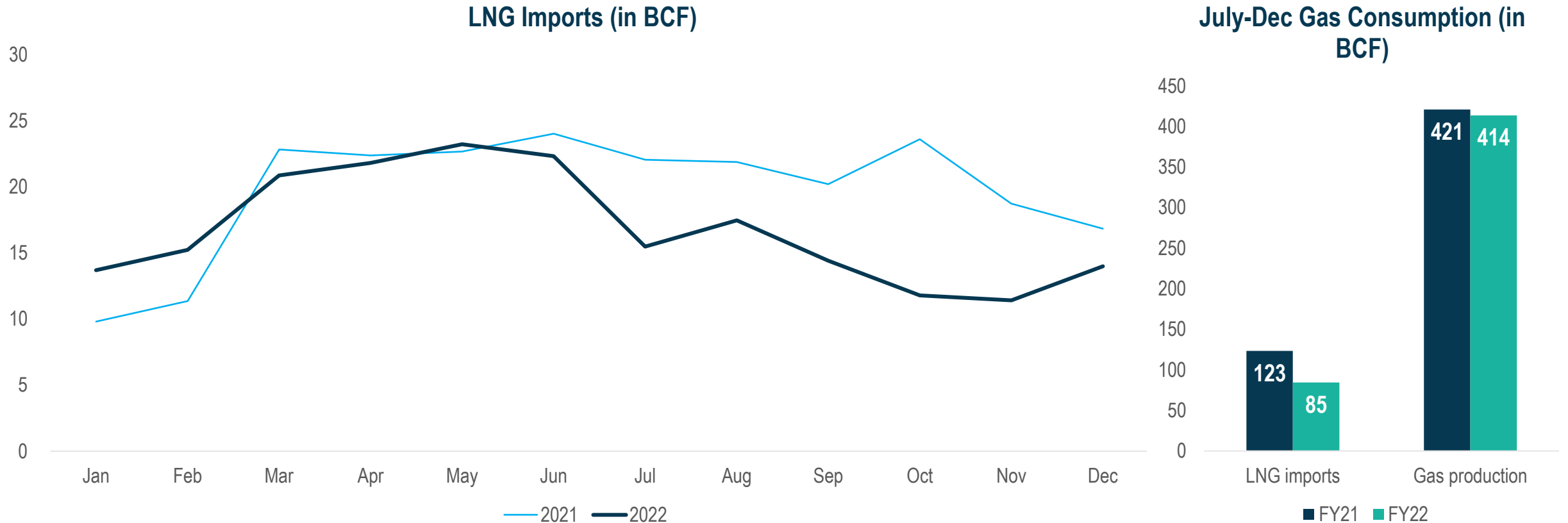
Economic activity indicators



- ADP expenditure is an indicator of government-led economic activity.
- Outlay rose 6% YoY during July-Dec 2022, but implementation rate stood at a six-year low of 23.53%.

Monthly economic updates

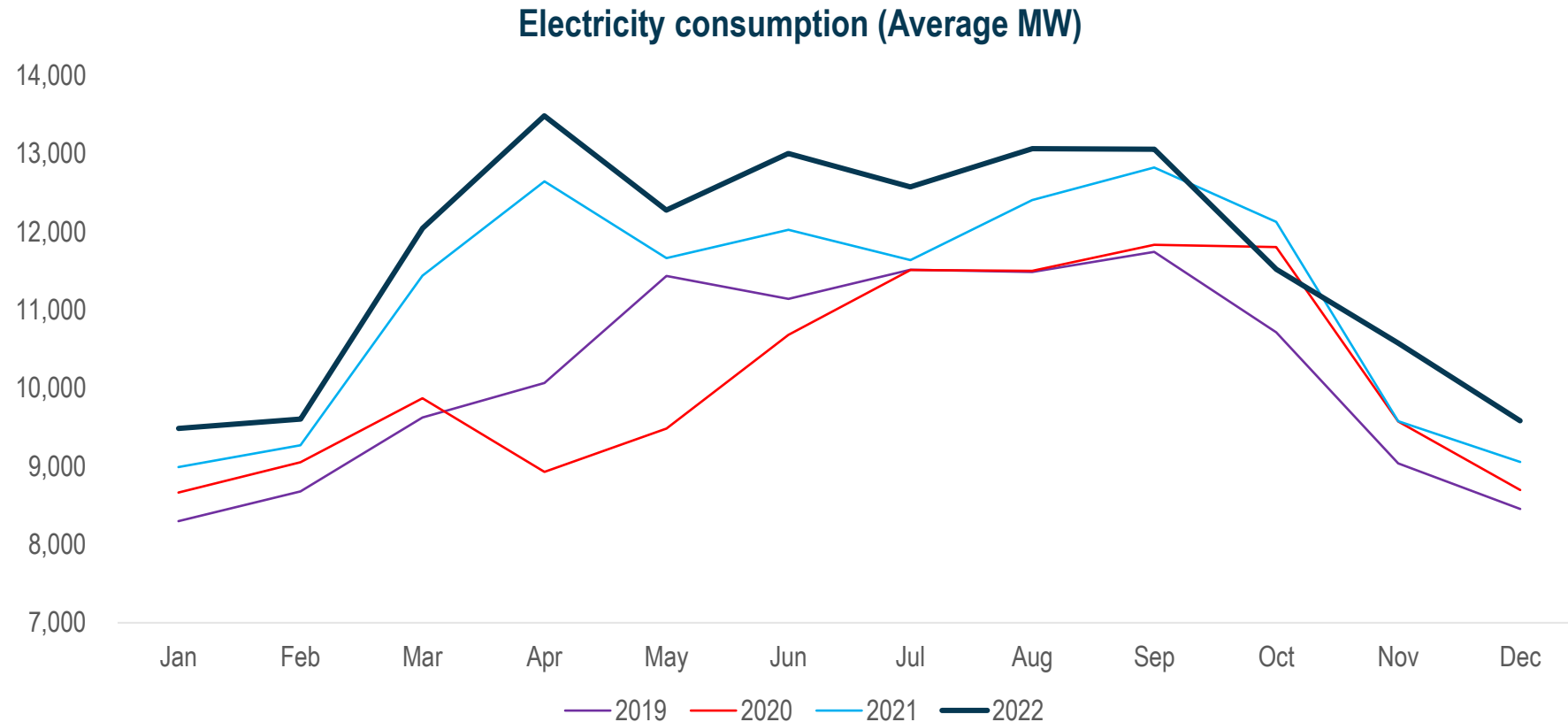
Economic activity indicators



- Due to Bangladesh's reliance on natural gas for both power generation and industrial processes, we view gas consumption as a barometer for broader economic activity.
- Bangladesh's present demand for gas exceeds domestic supply, which leads to a situation where domestic production is typically maxed out and LNG imports (partially) plug in the supply-demand mismatch. Hence, we are focusing on monthly LNG imports to detect changes in underlying activity. The chart above shows that imports have recently picked up following a slump in mid-2022 (was driven by skyrocketing LNG prices in the wake of Russia-Ukraine conflict). We expect the monthly uptrend to continue in the near term; higher spot purchases could add ~USD300-400mn to import bills.

Monthly economic updates

Economic activity indicators

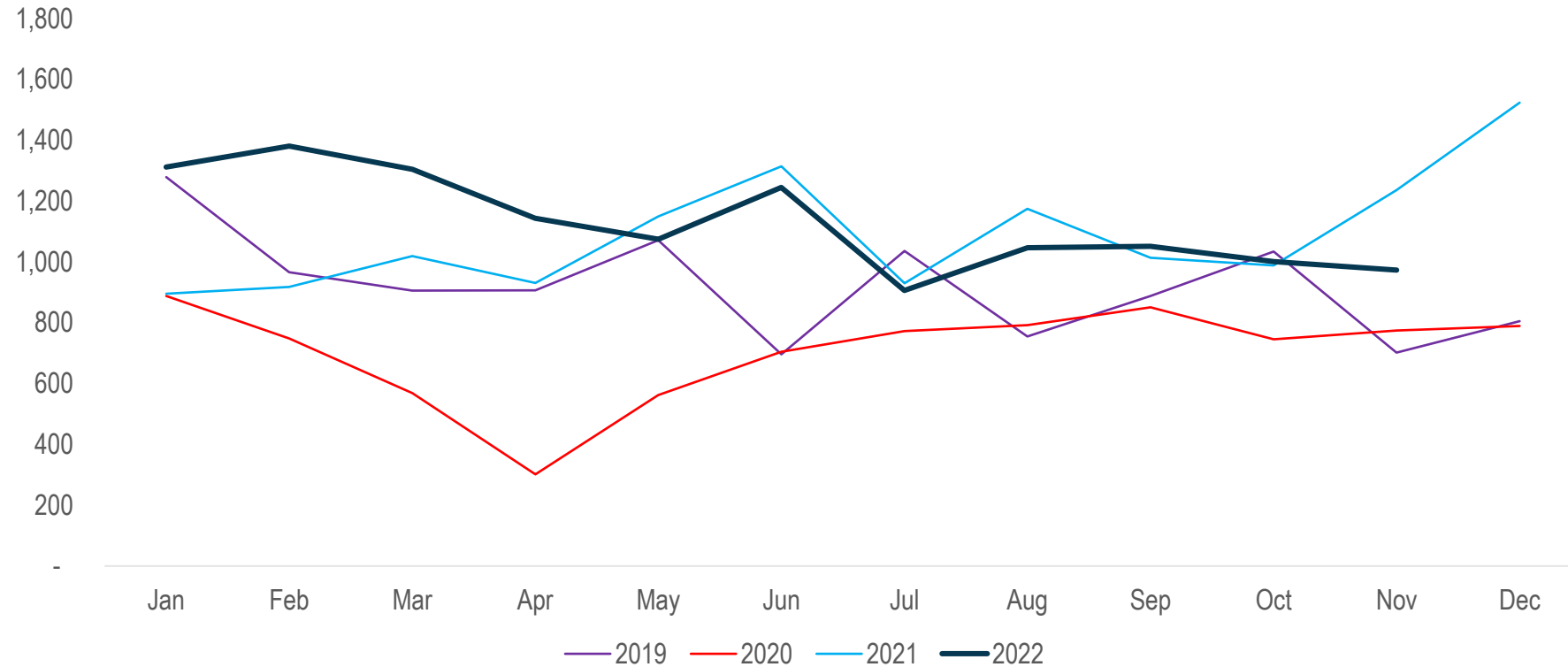


- We look at electricity consumption as a proxy for industrial activity, as electricity consumption is positively correlated with factors such as industrial production.
- As mentioned in the previous slide, LNG imports have picked up, leading to higher electricity generation (YoY) and industrial activity.

Monthly economic updates

Economic activity indicators

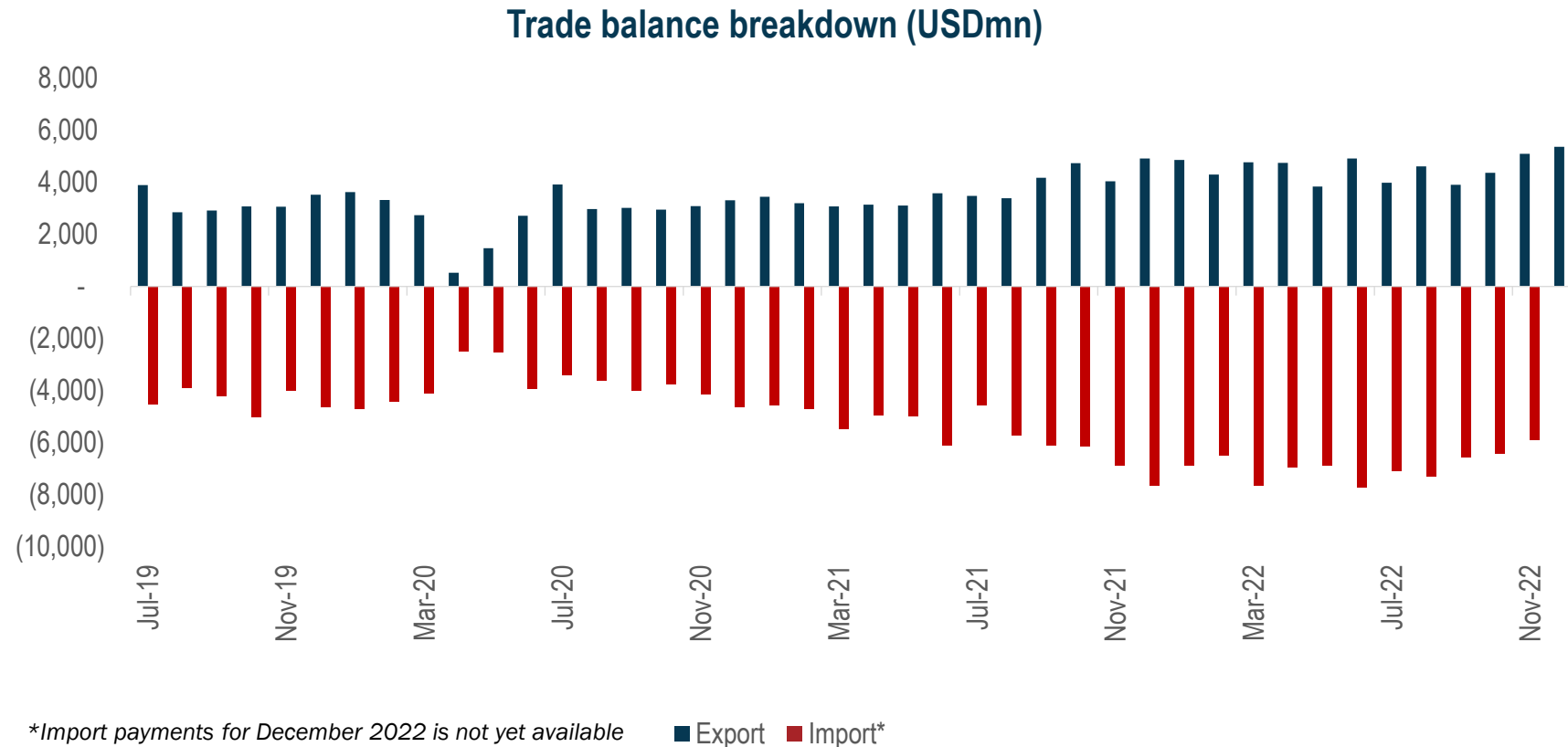
Capital machinery import (USDmn)



- We view capital machinery import as a proxy for corporate Capex.
- In-line with our expectations, capital machinery imports are gradually dipping (MoM) the back of currency pressures and economic (both domestic and global) uncertainties.

Monthly economic updates

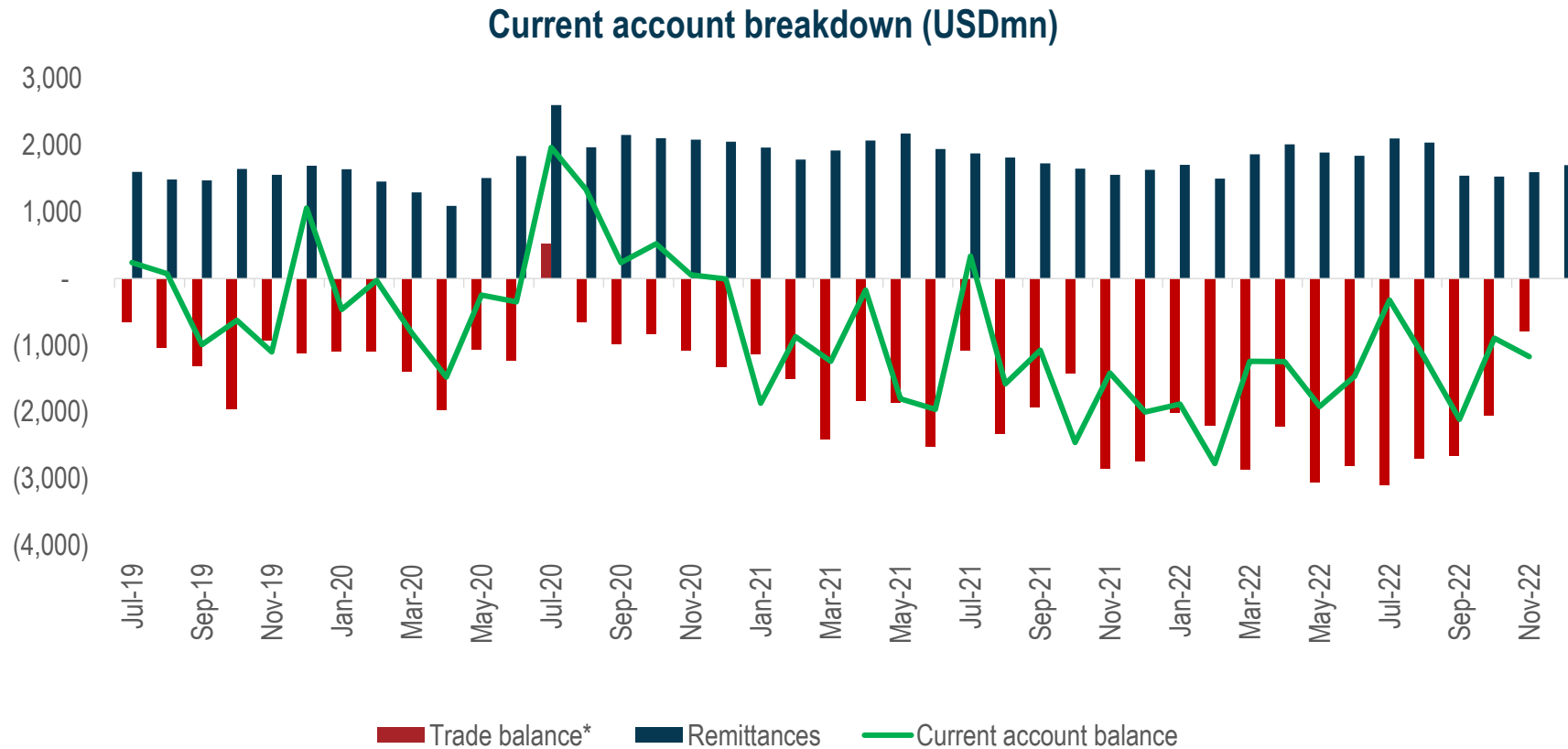
External side



- December's export tally of ~USD5.4bn reflects another record high (topping November's total; +5% MoM and 9% YoY). Concerns regarding sustainability and exporters' discretion in timing of repatriation remain, and industry personnel have opined that momentum is likely to ebb going forward. A key driver on the RMG side has been capture of China's share of US imports.
- Import payments are on a downward trend overall and LC openings during July-Dec are down ~23% YoY; monthly openings averaged ~USD5bn during Oct-Dec 2022 compared to ~USD8bn in the first half of the (calendar) year. A caveat is that the government is gearing up for higher imports of energy and Ramadan essentials in the coming months, which implies that the present downward trend may be short lived.

Monthly economic updates

External side

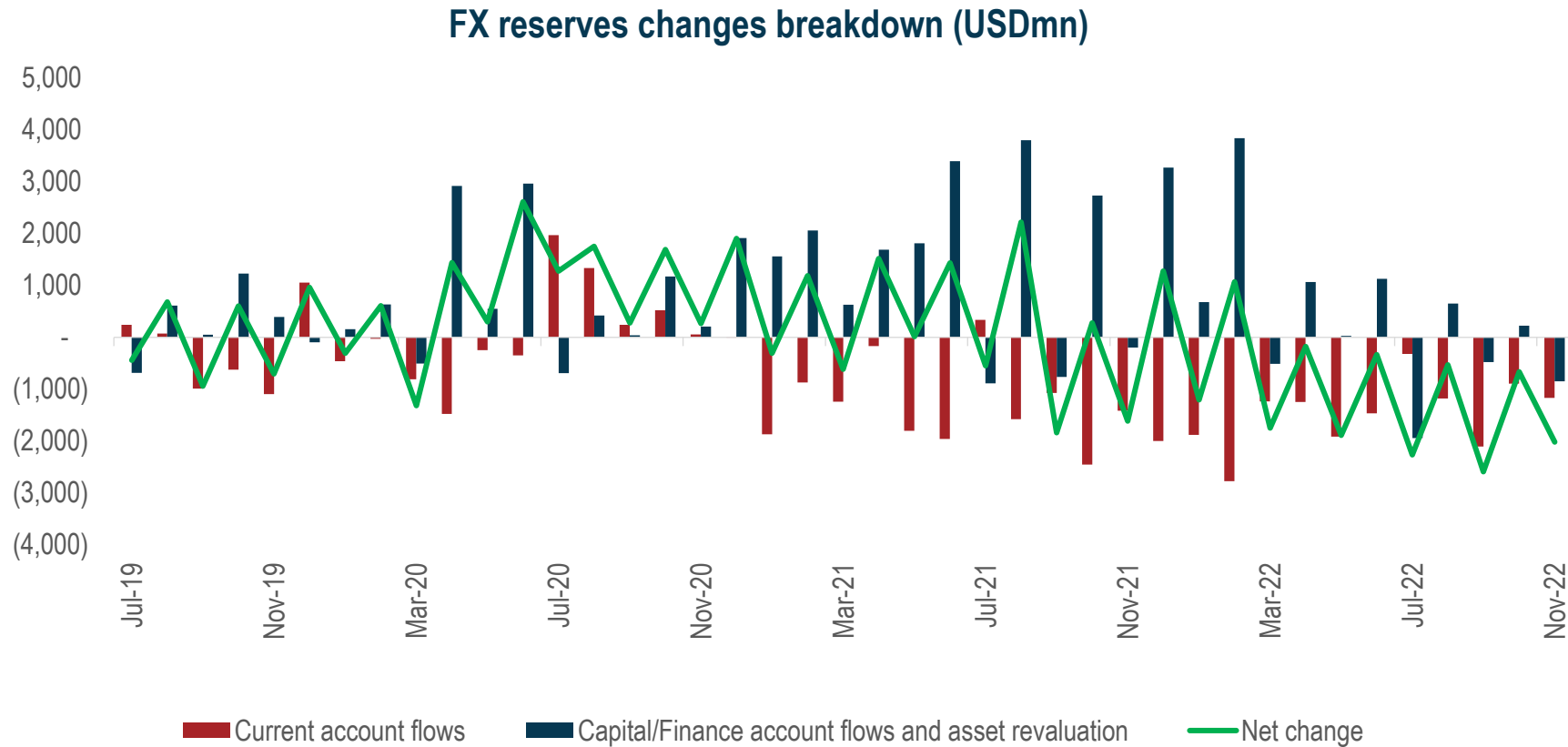


*Trade balance data is not available beyond November 2022

- Remittance inflows gained 7% MoM and 4% YoY in December. With Ramadan and Eid-ul-Fitr nearing (inflows typically pick up in the months leading to it), the key question is how the spread between official and kerb market exchange rates evolves-- the greater the disconnect, the higher the risk for leakage to unofficial channels. Inflows during 1-20 Jan 2023 totaled USD1.3bn.
- Current account deficit stood at ~USD5.7bn (~3% of GDP annualized) during July-November 2022.

Monthly economic updates

External side

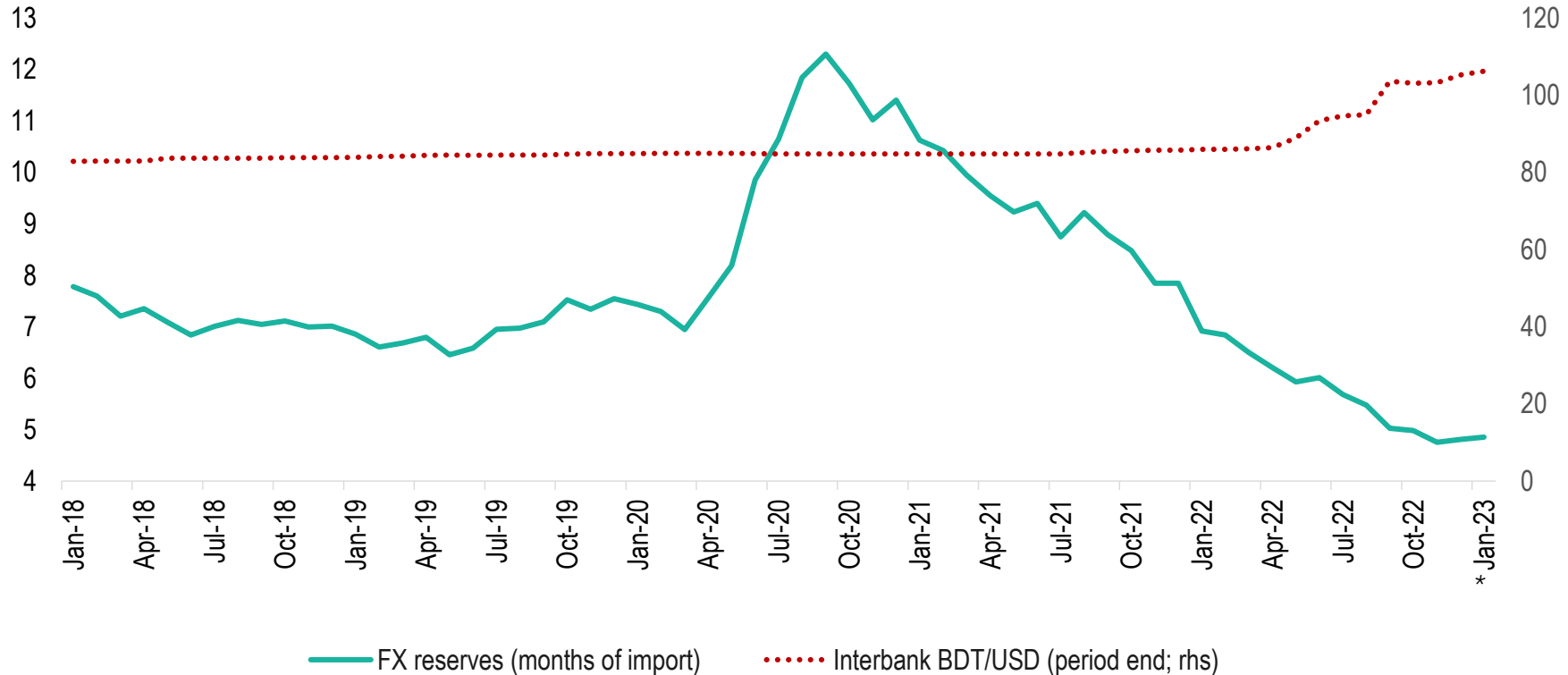


- FX reserves totaled USD32.3bn on 25 January 2023, as ACU payments and dollar sales by the central bank continue to diminish reserves. An IMF board meeting is scheduled for today and on the agenda is approval of the USD4.5bn loan to Bangladesh. Recent increase in energy prices implies that the government is leaning towards IMF conditionalities and if the loan is approved in tomorrow's meeting, the first tranche of USD447mn is expected in February. The remaining amount will be disbursed in six tranches along six-month intervals, subject to compliance assessments by IMF.

Monthly economic updates

External side

FX reserves and exchange rate



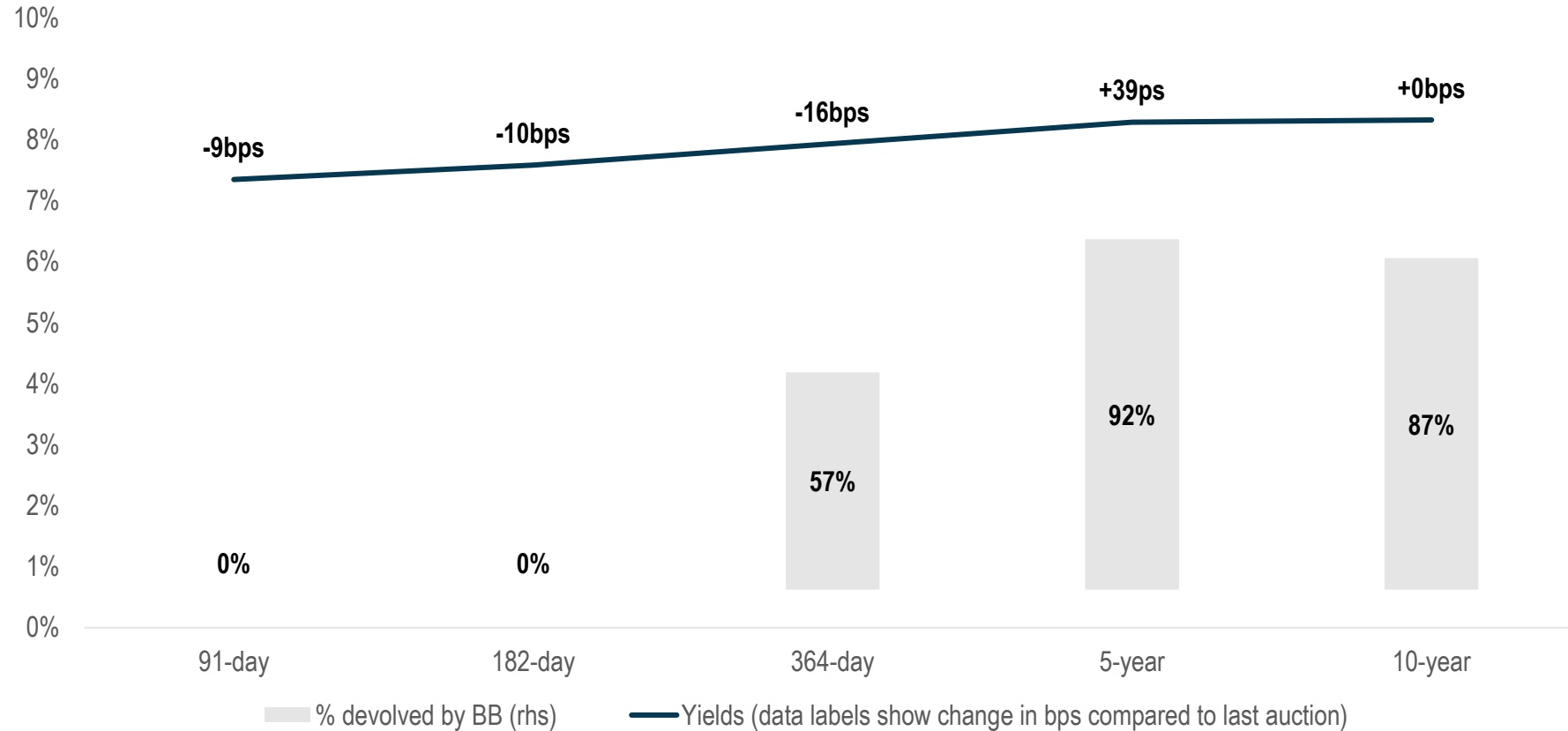
*January numbers are as of 25 January 2023

**Months of import is computed based on trailing 5 months of import data

- The dynamic has not shifted materially in this space, with the official exchange rate creeping up but still being below kerb market rates (of ~BDT110-111/USD).

Monthly economic updates

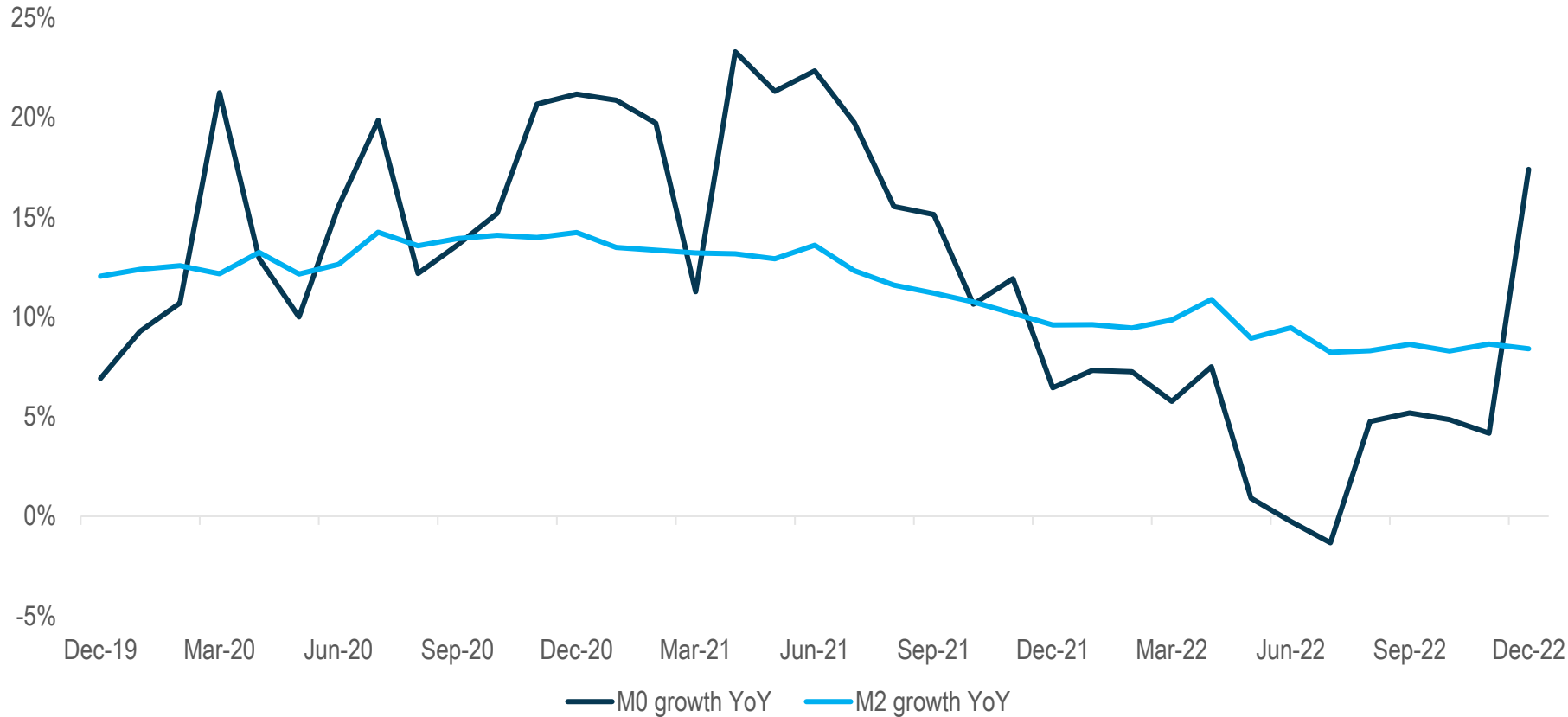
Monetary



- Following blanket upticks across tenors in December, yields on shorter maturities stabilized a bit in recent auctions. It appears that an attractive spread opened up between Bangladesh Bank's repo rate and 91-day yield, which pushed up demand for these bills. Latest auctions saw a slight dip in short-term rates without any intervention from the central bank. For longer maturities, rates still appear to be managed by the central bank through debt monetization; demand for longer tenors are naturally low due to uncertainties surrounding the lending rate cap.

Monthly economic updates

Monetary



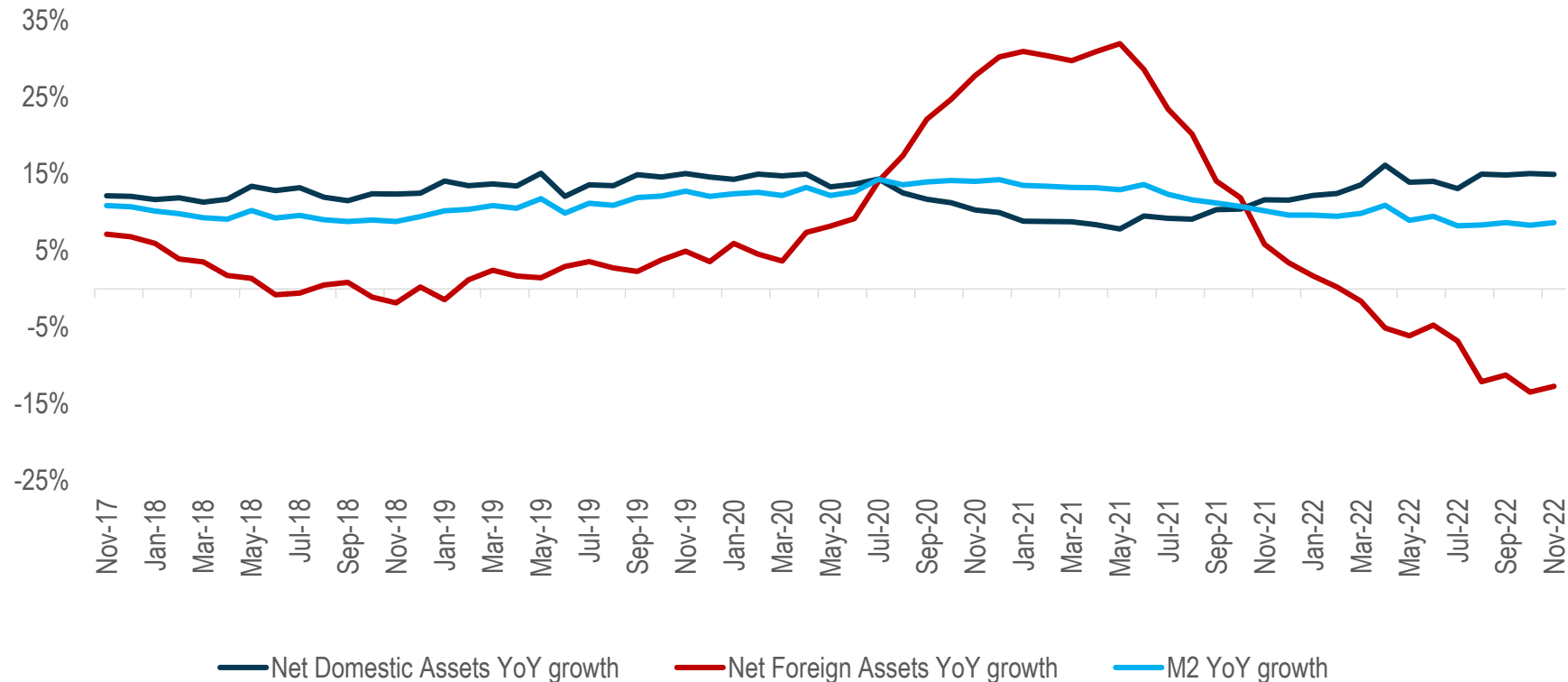
	Call money rate
Dec-20	1.79%
Jun-21	2.25%
Dec-21	2.66%
Jun-22	4.88%
Dec-22	5.80%
Jan-23	7.00%

- Banking sector fragilities (particularly in Islamic banks) and liquidity problems have dominated newsflow in recent weeks, and consequent deposit withdrawal pressures led to the central bank offering emergency support to ailing banks. These banks obtained funds through an emergency repo window from the central bank, which is akin to money printing and the resulting M0 growth is evident in the chart above. Historically, jumps in M0 usually reversed in due time instead of swelling M2; this time around, duration and extent of deposit withdrawals are likely to determine how and when normalization happens. Regarding liquidity, pressures are reflected in the rise in call money rate.

Monthly economic updates

Monetary

M2 growth breakdown

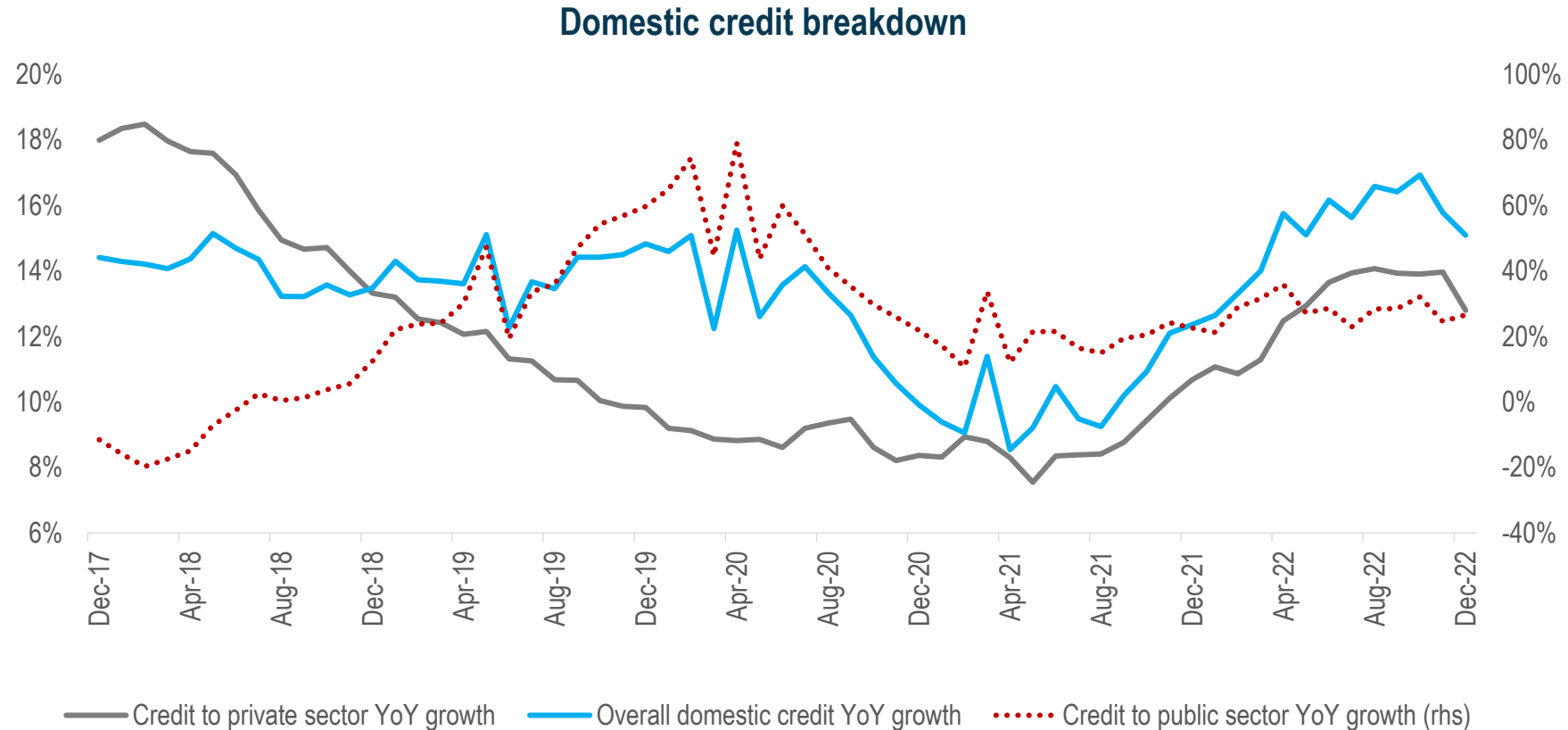


*Split between Net Domestic Asset and Net Foreign Assets is roughly 70:30 respectively

- The theme in this space is largely unchanged. High import payments drove domestic asset growth till November but we expect this to weaken (at least in the short term) in-line with the recent drop in LC openings. Foreign asset growth has been sinking due to dollar sales by the central bank—Bangladesh Bank sold USD7.8bn in the first half of the ongoing fiscal year compared to USD7.6bn sold in the entirety of the previous fiscal year. Given prevailing macro headwinds and political uncertainties, dollar sales by Bangladesh Bank are likely to continue. Financial inflows may offer some relief, starting with the prospective loan from IMF.

Monthly economic updates

Monetary



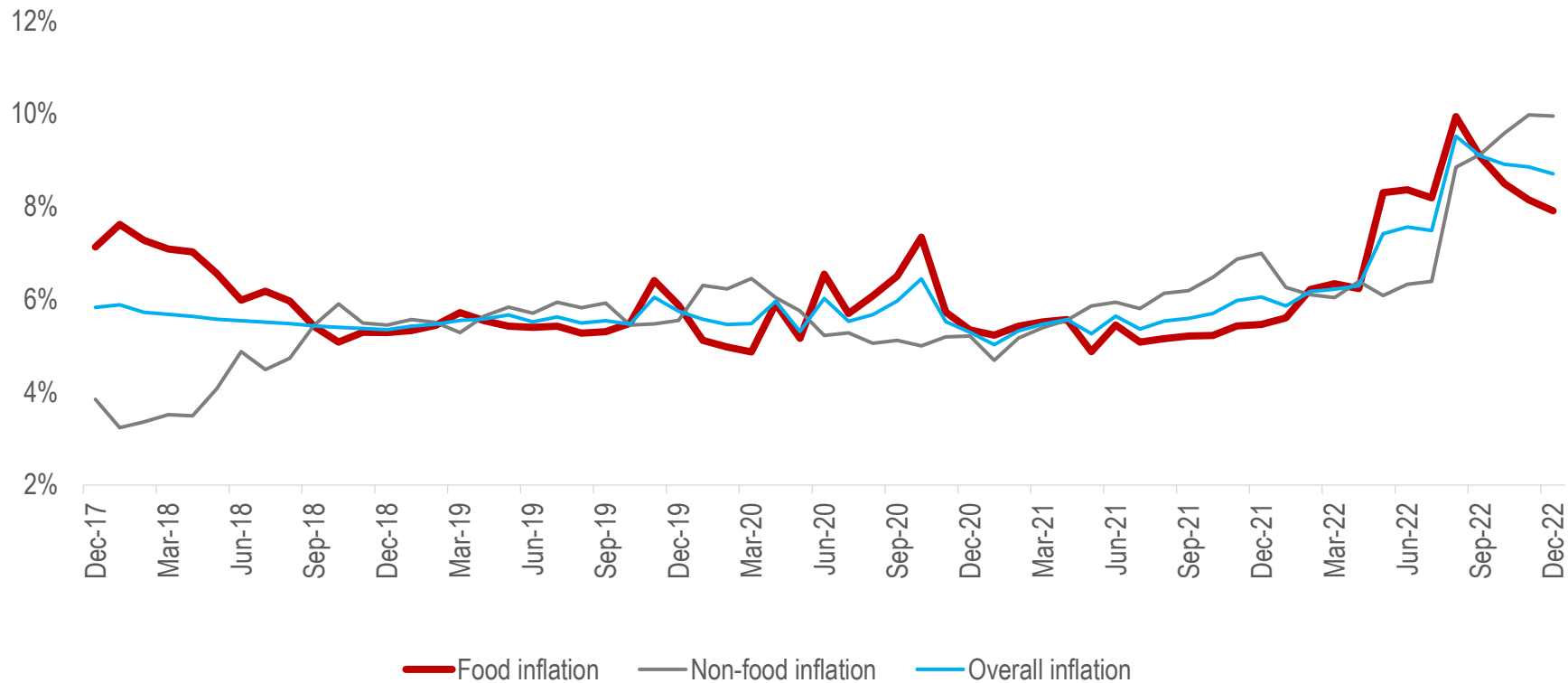
*Split between private sector credit and public sector credit is roughly 85:15 respectively

- Overall credit growth eased in December 2022 on the back of a drop in private credit growth (12.8% in December compared to ~14% in November). We expected private credit growth to taper November onwards (in tandem with lower import payments) and that appears to be transpiring. On the public borrowing side, momentum did not wane and debt monetization by the central bank continues to be a keynote.

Monthly economic updates

Monetary

Inflation breakdown (YoY)



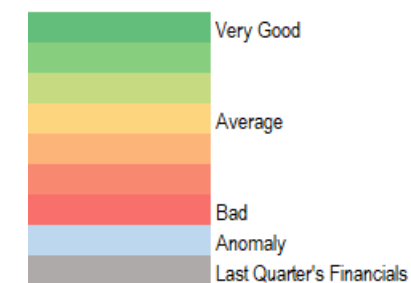
- We use food inflation as our primary indicator of inflation as we think monetary policy decisions are being taken based on that. In our view, nonfood inflation acts more like a “plug--in” variable.
- Reported inflation dipped again in December, by 15bps MoM to 8.71%. Food component dropped from 8.14% to 7.91% while non-food inflation fell marginally (from 9.98% to 9.96%). With energy and electricity prices poised for more regular upticks, and food prices set for Ramadan-related hikes, it is likely that inflationary pressures will stay in the near term.

LISTED COMPANIES' INFORMATION

Key revenue and margin information on select group of listed companies

Quarterly earnings snap

	Share Return	Revenue Growth (July - Sept 2022)		Gross Profit Margin		
	YTD	YoY	QoQ	July-Sept 2022	YoY change (ppts)	QoQ change (ppts)
DSEX	1.3%					
Telecom*						
Grameenphone	0.0%	6.7%	2.0%	60.5%	0.4%	-0.2%
ROBI	0.0%	5.9%	4.8%	43.9%	2.6%	4.6%
Pharma						
Square Pharma	0.0%	26.5%	35.6%	44.0%	-7.1%	-5.8%
Beximco Pharma	0.3%	15.6%	12.0%	45.2%	-2.9%	4.1%
Renata Limited	0.0%	8.1%	5.5%	47.2%	-0.6%	2.1%
ACMElabs	0.0%	10.9%	6.4%	39.7%	0.3%	0.7%
Consumer Goods						
Olympic	8.0%	38.4%	25.5%	24.2%	-2.0%	5.4%
Marico	0.0%	8.5%	1.4%	51.8%	-2.7%	-0.4%
BAT Bangladesh	0.0%	38.2%	-7.0%	40.5%	-15.5%	-16.7%
Golden Harvest	0.0%	51.7%	6.9%	33.7%	-11.0%	9.3%
Unilever Consumer Care	0.0%	-4.8%	18.7%	46.5%	-0.9%	-7.9%
Reckitt Benckiser	0.0%	-3.4%	1.6%	40.3%	-14.0%	-3.7%
Singer	0.0%	12.8%	-3.4%	20.2%	-4.4%	-1.3%
Walton	0.0%	-14.1%	-47.3%	31.8%	1.0%	-4.0%
Construction and Material						
Berger	0.6%	20.8%	-19.9%	27.0%	-4.9%	-4.6%
LHBL	0.0%	24.2%	14.0%	40.2%	4.4%	4.9%
Heidelberg Cement	0.0%	14.1%	-10.1%	1.5%	-4.6%	-4.7%
M.I. Cement	0.0%	20.2%	-9.5%	8.8%	-2.3%	2.5%
BSRMSteel	0.0%	27.6%	15.5%	8.1%	-6.0%	-4.7%
GPH Ispat	0.0%	24.5%	-19.2%	10.9%	-2.5%	-3.7%
Automobiles						
IFADAutos	0.0%	35.9%	-14.2%	18.5%	0.1%	2.9%
Runner	0.0%	-0.8%	-19.9%	28.2%	0.9%	-20.7%
	Price Returns	Operating Profit Growth (July - Sept 2022)		Operating Profit/Total Assets		
	YTD	YoY	QoQ	July-Sept 2022	YoY change (ppts)	QoQ change (ppts)
Financial						
BRAC Bank	0.0%	24.0%	8.4%	6.5%	-0.3%	0.2%
City Bank	0.0%	6.9%	-5.2%	4.9%	-0.6%	-0.5%
Eastern Bank	0.0%	-1.6%	2.7%	4.3%	-0.8%	-0.1%
Prime Bank	0.0%	13.6%	-12.3%	3.8%	-0.1%	-0.7%
United Commercial Bank	0.0%	14.7%	-4.5%	4.7%	0.0%	-0.4%
Bank Asia	0.0%	12.0%	-7.5%	1.0%	0.0%	-0.1%
Dhaka Bank	0.0%	38.4%	7.3%	1.1%	0.2%	0.1%
Delta BRAC Housing	0.0%	-19.2%	6.0%	3.4%	-0.7%	0.2%
IDLC Finance	0.0%	-13.1%	-10.4%	4.5%	-0.8%	-0.4%



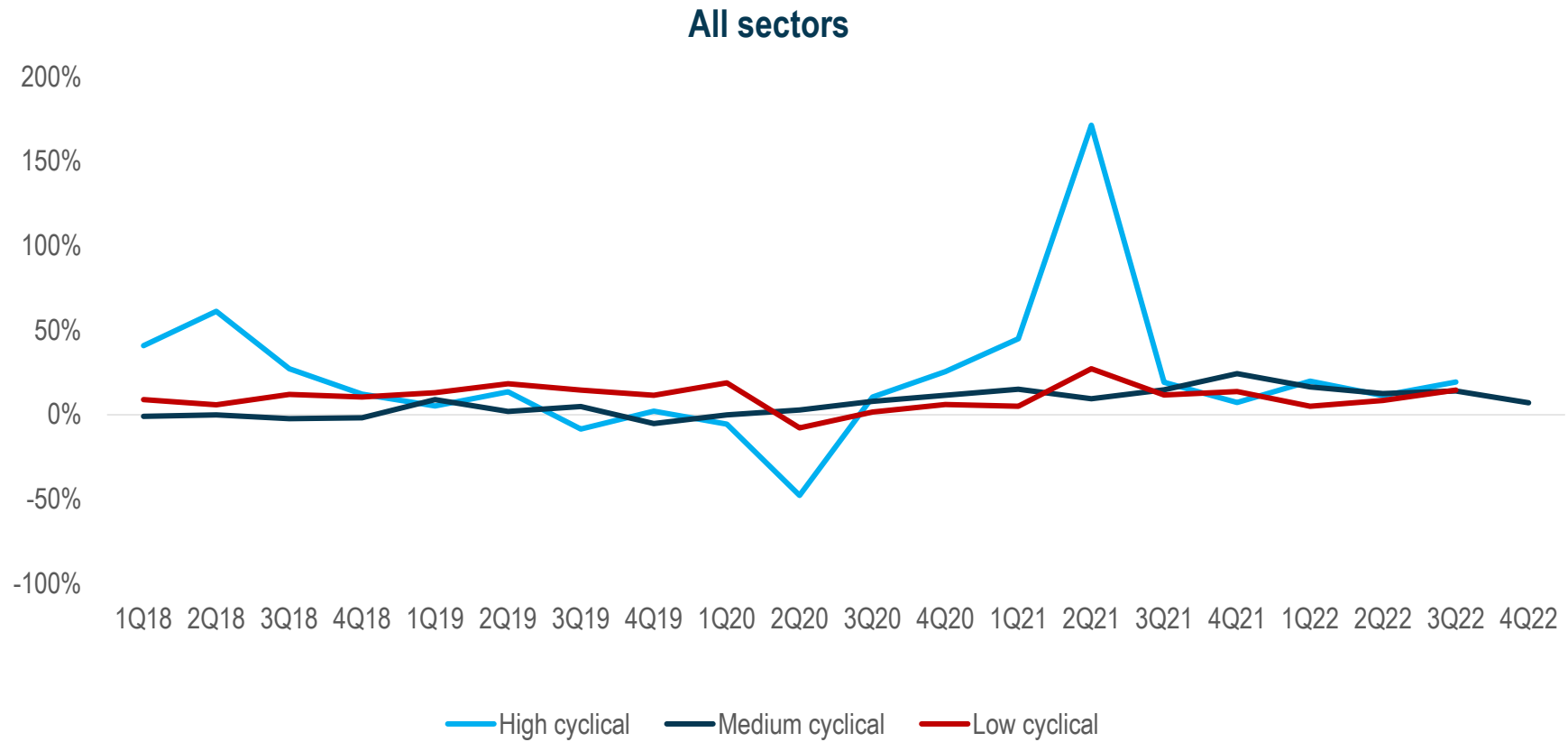
*For telecom sector, EBITDA margin has been used instead of gross profit margin
 **Cells colored blue are anomalies and have been removed from color coding

QUARTERLY REVENUE INDICATORS

Equally weighted YoY revenue growth of various sectors, broken down in terms of cyclicalities. Data predominantly taken from publicly listed companies.

Quarterly revenue indicators

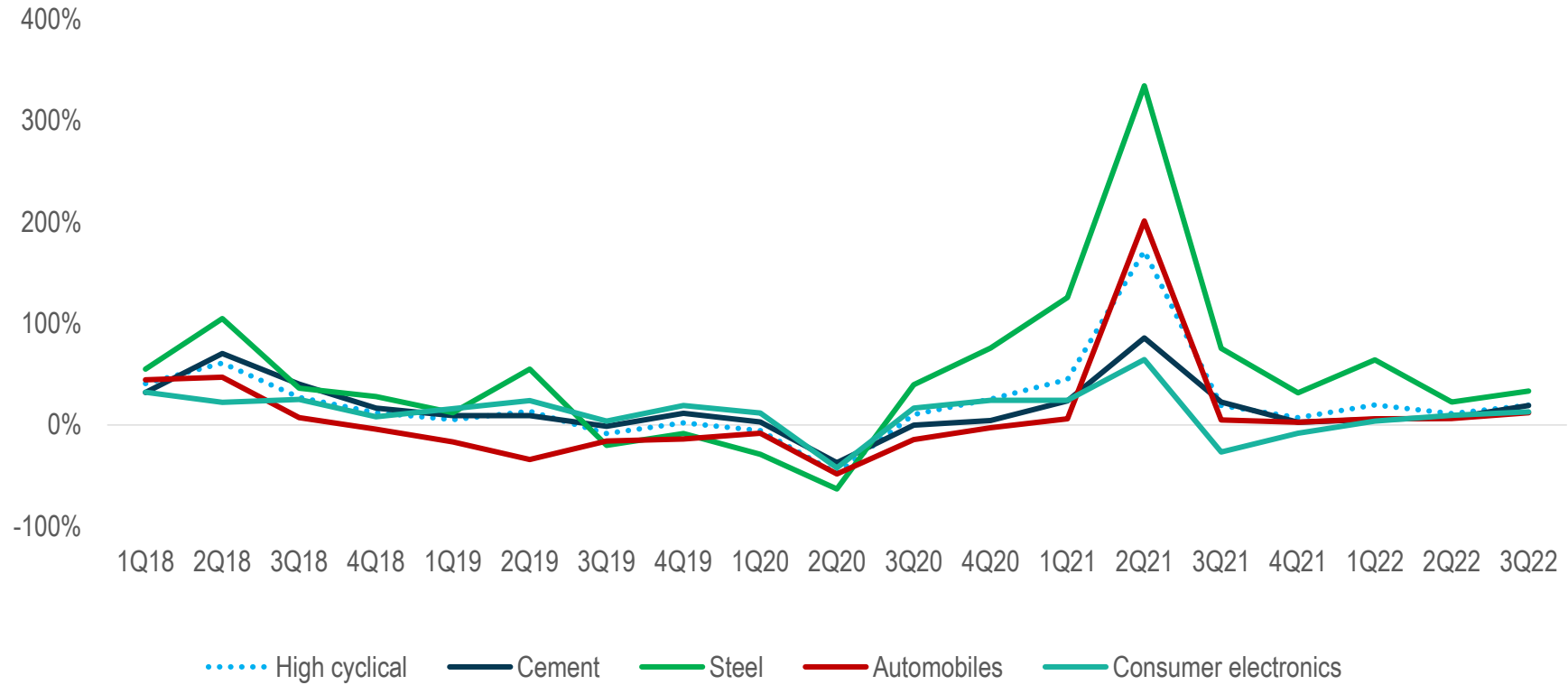
YoY growth



Quarterly revenue indicators

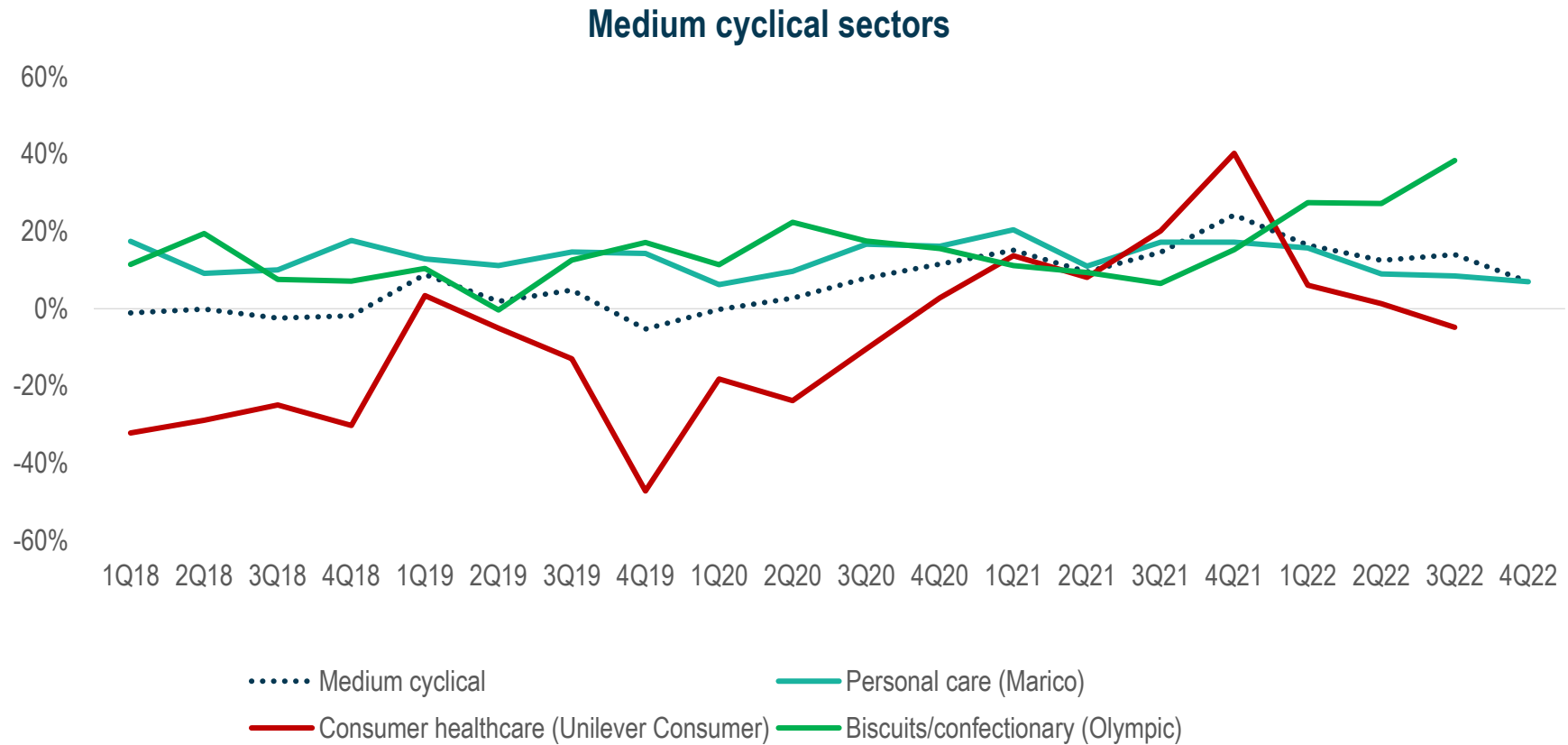
YoY growth

High cyclical sectors



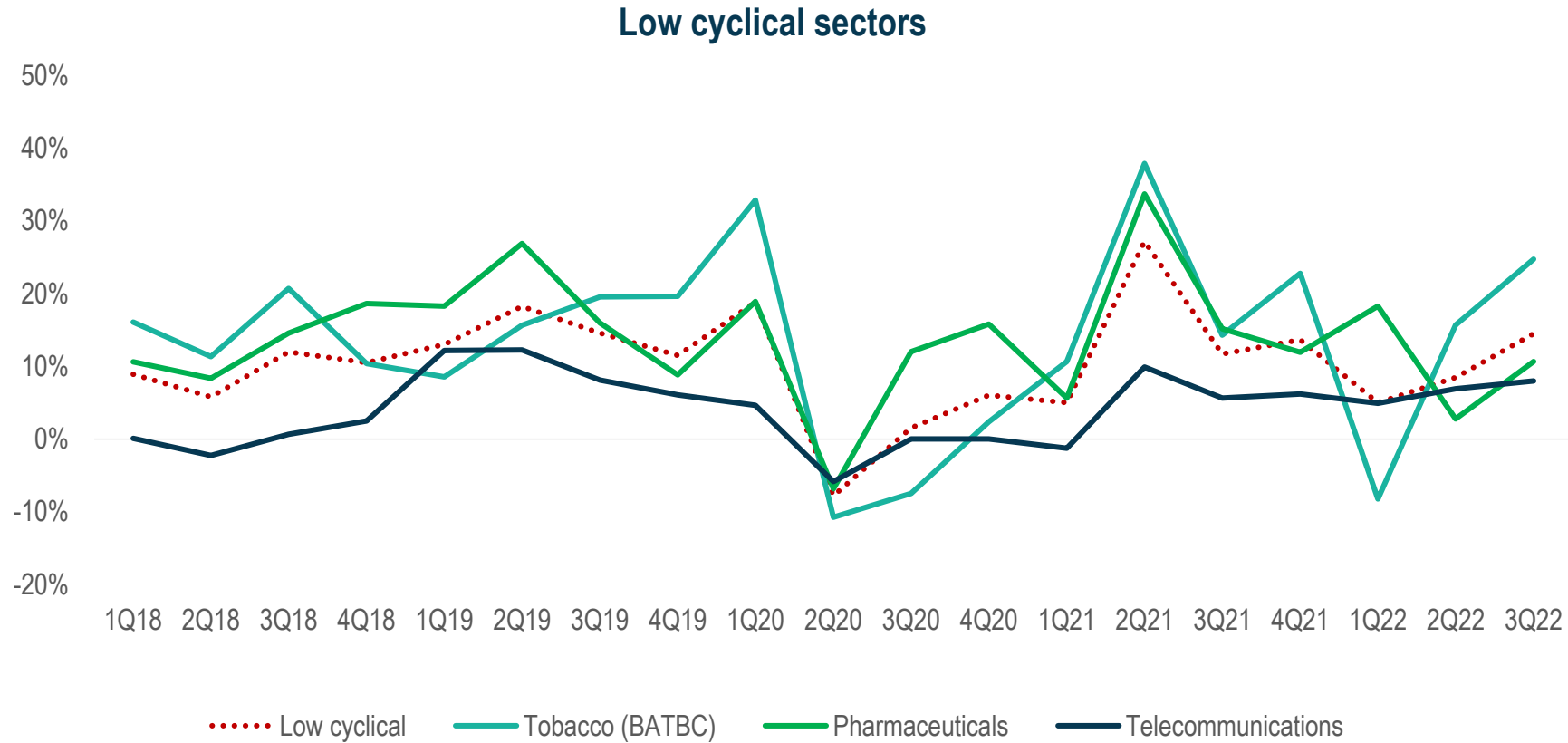
Quarterly revenue indicators

YoY growth



Quarterly revenue indicators

YoY growth



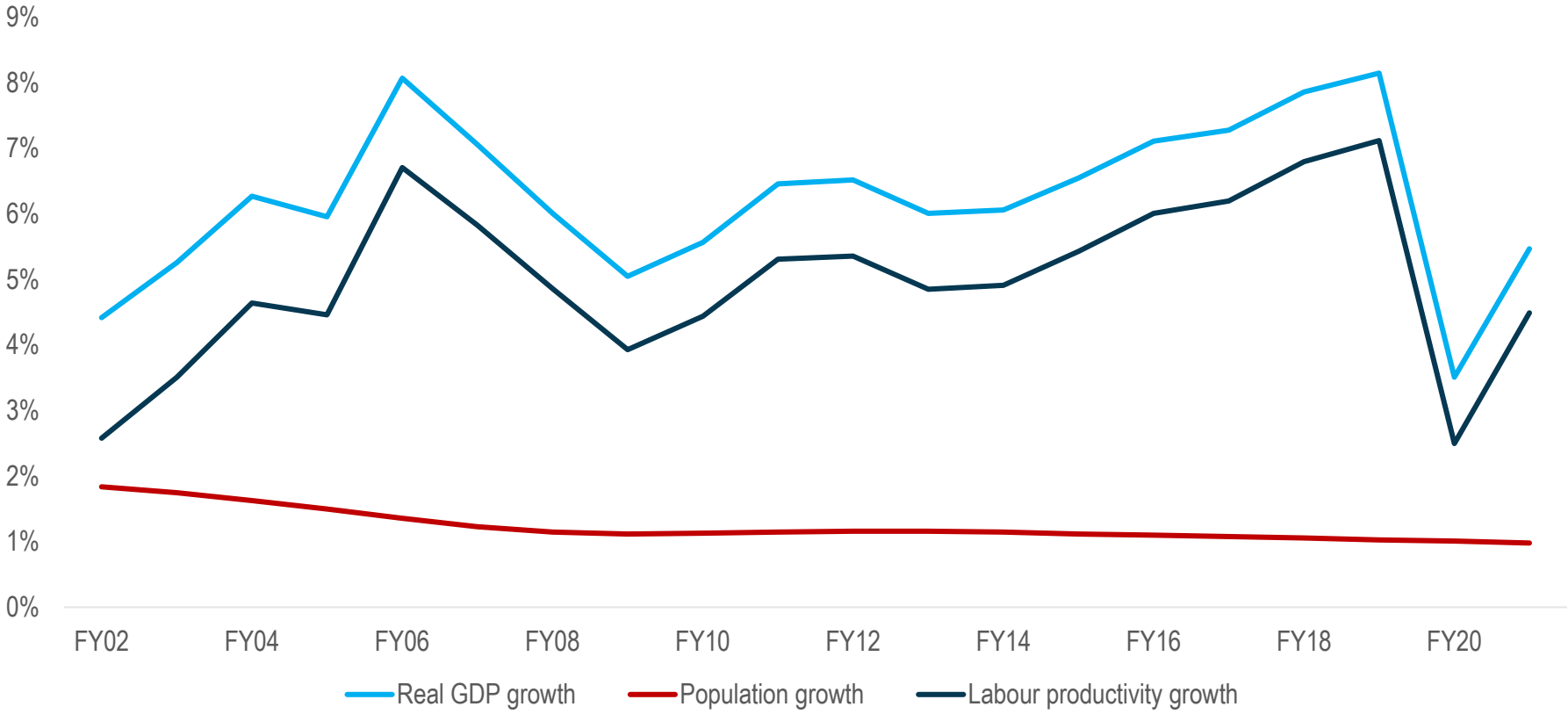
Appendix

Historical macroeconomic data such as GDP growth, GDP composition, fiscal/external position, import/export, etc. Data is updated annually.

Appendix

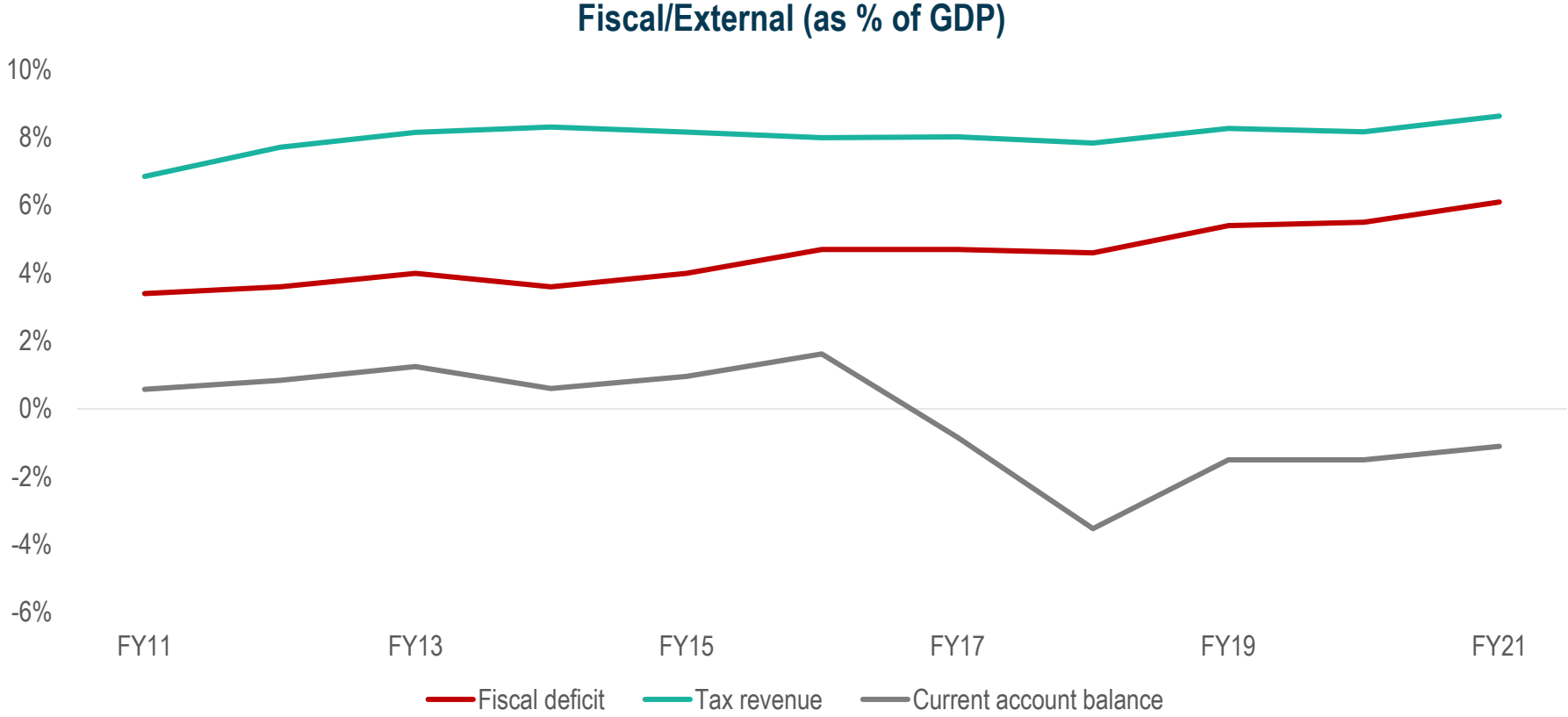
Annual macroeconomic data

GDP growth breakdown



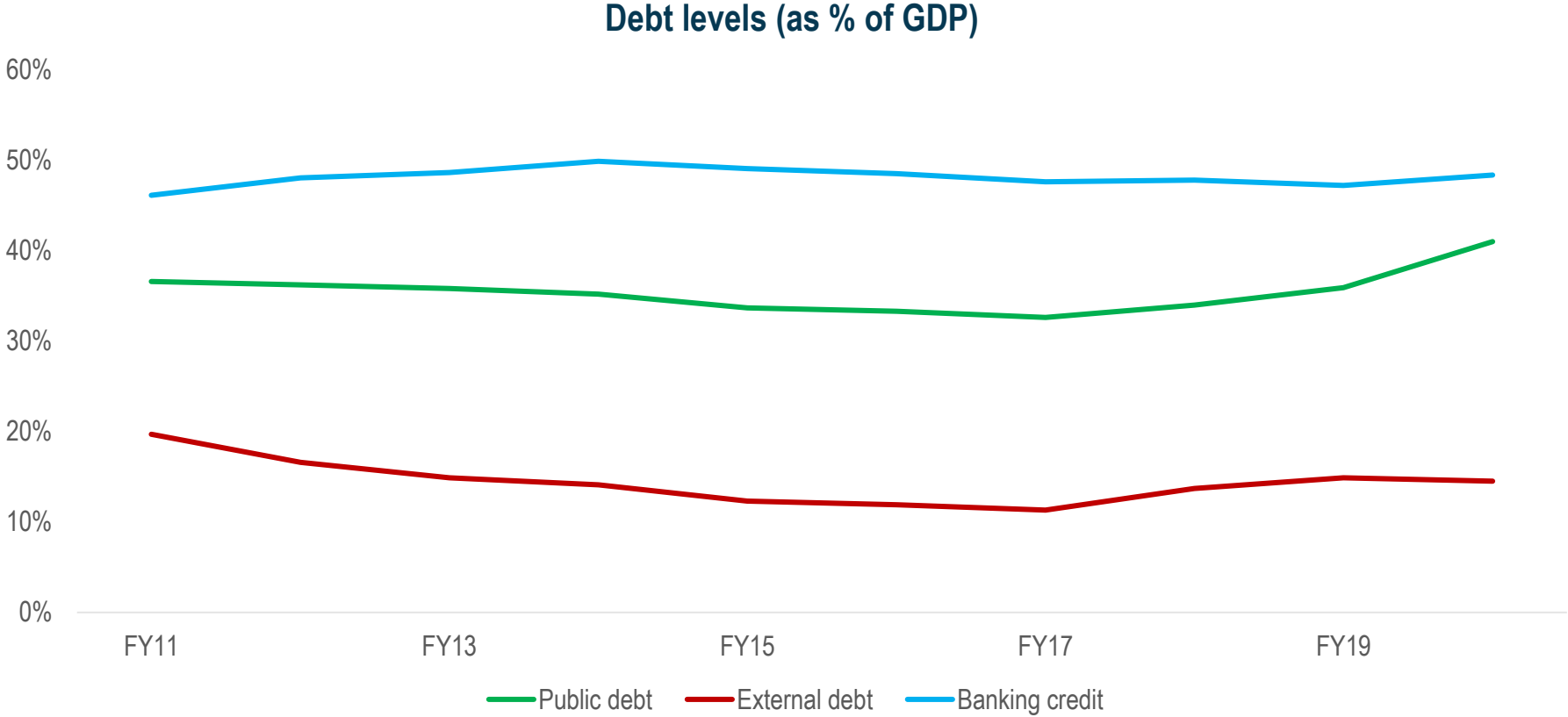
Appendix

Annual macroeconomic data



Appendix

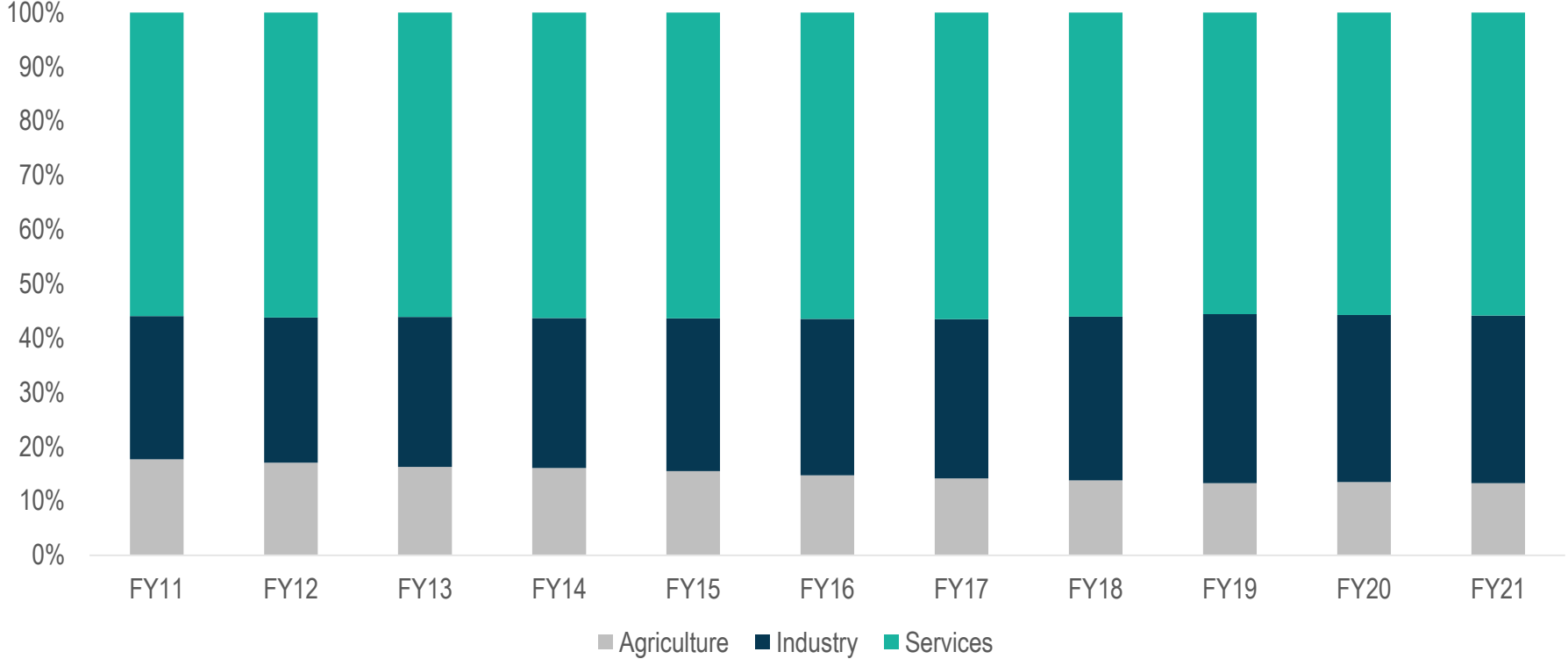
Annual macroeconomic data



Appendix

Annual macroeconomic data

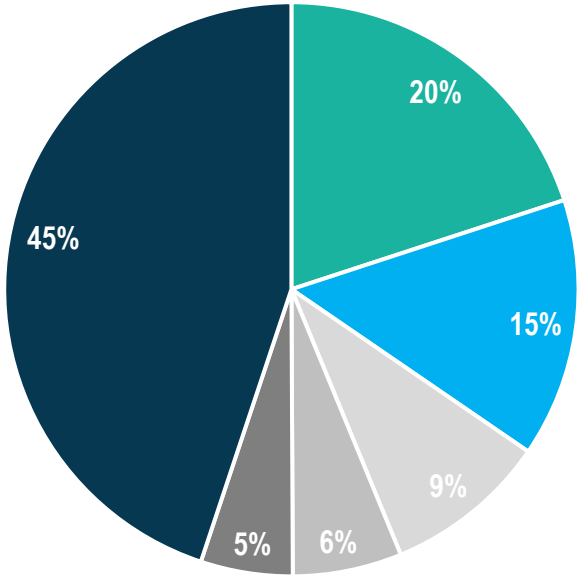
GDP composition



Appendix

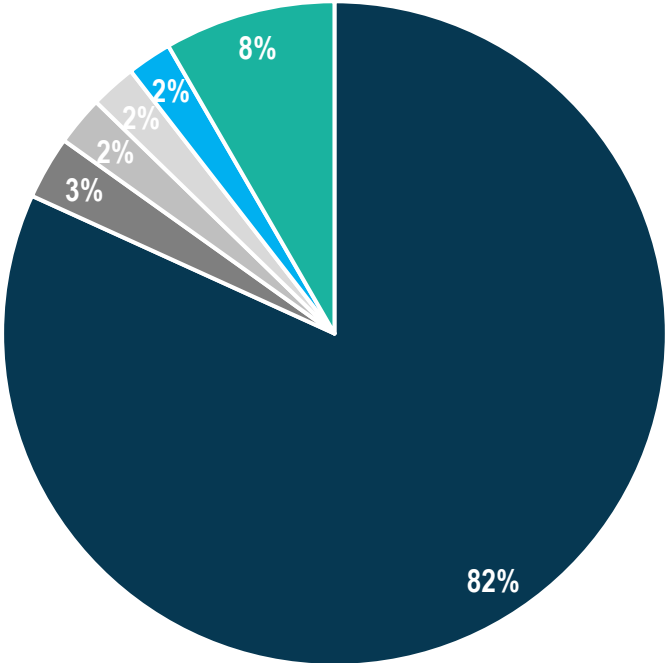
Annual macroeconomic data

Export destinations (FY22)



■ United States ■ Germany ■ Great Britain ■ Spain ■ France ■ Others

Export Products (FY22)

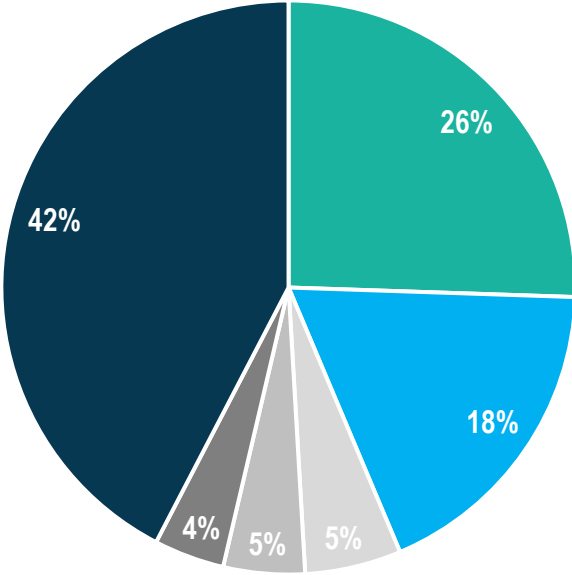


■ RMG ■ Home textiles ■ Leather ■ Agricultural ■ Jute ■ Others

Appendix

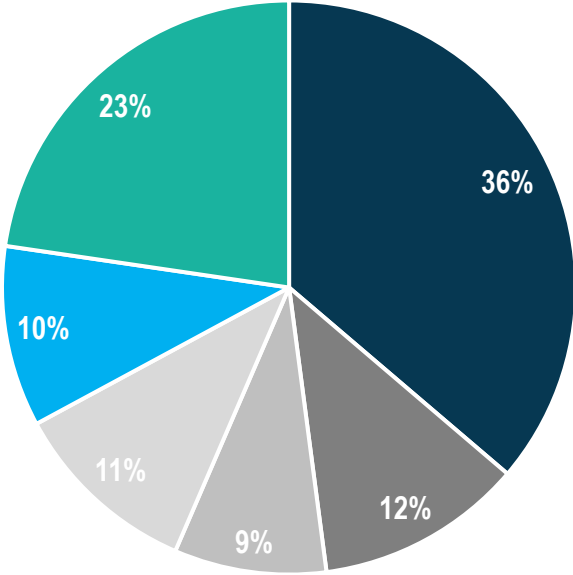
Annual macroeconomic data

Import destinations (FY22)



■ China ■ India ■ Singapore ■ Malaysia ■ Indonesia ■ Others

Import products (FY22)



■ Ind. raw materials ■ Machinery ■ Intermediate goods ■ Consumer goods ■ POL ■ Others

Important Disclosures

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