

Macroeconomic Overview

Despite limited exposure to the global economy, Bangladesh still might be adversely affected in the coming months due to issues like trade wars, Brexit, & tension in the Middle East. Moreover, Bangladesh might face inflationary pressure from the global economy due to worldwide disruption in production & supply chain. Because of Covid, Businesses also incurring freight costs as high as 1.8x than previous years. This pressure might get worse with Biden's \$1.9 trillion stimulus package & news of higher tax impose in the west.

Excess Liquidity continues to bulk up in the economy

Excess liquidity had hit BDT 2.04 trillion in January on the back of GoB's inadequate borrowing from the Banking sector (79.40% YoY decrease in 7 months) & BB's policy of lowering repo & CRR (4.75%, & 4% respectively). Although it reduced to BDT 2 trillion in February with a slight increase in private sector credit growth, the economy is still facing the challenge to contain this high inflation because of swollen Broad money (14.8 trillion BDT in Feb), & upcoming stimulus packages. Additionally, with Eid festivals coming, P2P inflation might reach as high as 7% in the upcoming months.

Devaluation of BDT might be coming up

A huge increase in Remittance flow (35% YoY increase) on the back of cash incentive & disruption of the hundi path has contributed to the ever-growing Forex reserve of \$44 billion (with \$1.41 billion of ACU payments outstanding). Although this fanatic growth might not sustain in the long term since according to BMET overseas employment of Bangladeshi workers has taken a hit during the pandemic & is on a declining trajectory. Exchange rate of the dollar has been stable around BDT 84.8 with BB's watchful intervention & greenback purchase to stabilize the exchange rate & a call-money rate (below 2% level). But with higher interest rates upcoming in the US to mitigate the excess liquidity & inflationary pressure, Dollar might get appreciated resulting in devaluation of Taka.

Trade deficit further widens

Current account has witnessed a positive Balance of \$4.32 billion on the back of remittance & higher inflow of medium & long-term loans, grants despite the declining trend in FDI & widening trade deficit (\$6.5 billion). This Trade deficit has widened amid a rising import payment pressure (MoM 24.15% growth in Jan) mostly from the pent-up raw material & Capex demand of the readymade garments sector. However, export did not increase comparatively (MoM 3.83% growth in Jan) due to sluggish international demand.

Deteriorating NPL situation

There's also a big exposure building up in the economy with its banking sector, which was already tattered with NPL situation. It might deteriorate further with the presence of adverse selection & moral hazard while disbursing stimulus package & extending the moratorium period to June (December 2022 in case of demand loans). This will suddenly reveal a massive void in the economy during the post-Covid phase. There's been a preference among the banks to lend large borrowers instead of SMEs, thus walking towards a K-shaped recovery. However, there's a chance of interest rate going up next year with the lifting of single-digit rate to sweep off this liquidity glut from the economy.

Adverse Impact of Lockdown

With the second wave of pandemic already creeping our shores, the recovery seems further away. The question remains when things will go normal. Meanwhile, due to the lockdown, economic activities will continue to face uncertainty in achieving GoB desired V-shaped recovery. GoB has already revised the GDP growth target to 7.4% from 8.2% while actual growth might be lower than that. There is still hope for excess liquidity to be mitigated with the economy picking up & private sector credit growth increase. GoB has already set a target of 14.8% growth in the Private sector Credit with its pent-up Capex demand. Like the US, wider budget deficit & rising external debt obligation to be met by a wide array of tax imposition on consumer goods which in turn will be borne by general people again resulting in inflationary pressure.

Capital Market Overview

Underperforming Q1

Capital Market started the year with a big jump by reaching 5,600 points after 21 months. The quarter started with a DSE index of 5618.96 points & ended with 5,278.16, thus occurring a quarterly decrease of 6%. Beginning ADTV for the quarter was BDT 19.28 billion & ended with BDT 5.6 billion. Major market movers have seen a somewhat decrease during the period; GP (8.3% ↓), SQURPHARMA (17.3% ↓), BRACBANK (11.9% ↓), SUMITPOWER (4.1% ↑), ROBI (35.5% ↑), WALTONHIL (1.2% ↑), BATBC (27% ↑), OLYMPIC (14.9% ↓), BXPARMA (11.5% ↓), BEXIMCO (17.7% ↑), RENATA (2.9% ↑), UPGDCL (3.5% ↓), BERGERPBL (20.4% ↑), MARICO (4.3% ↓).

Over purchase of NSC continues

It seemed like the market had recovered & was on its way to 6000 points. Single-digit interest rate, negative real return from bank deposit, excess liquidity, GoB's quick measure to avail vaccines, all created a positive outlook in investors' minds. But news of 2nd wave upcoming & investors' uncertainty about the market resulted in tunneling of excess funds towards NSC (58% increase in purchase YoY) & Real-Estate. Moreover, foreign investors' (constitutes 15.90% of the free float) continuous selling in the market amid the volatility has resulted in another source of a hiccup for the market.

Disappointing IPO return

On the positive side, BDT 200 crore from special fund formed by each bank yet to fully enter the market, which might provide good support in the upcoming days. A few IPOs entered the market during the quarter; Taufika Foods & Agro Industries Limited, Desh General Insurance, NRBC Bank Limited & Index Agro Industries Limited have already come to the secondary market. Additionally, a new bidding method has been introduced to the Eligible Investors (EI) by the BSEC to set the maximum cut-off price for an IPO share to eliminate overbidding by the EIs.

Lifting Floor Price for 66 listed companies

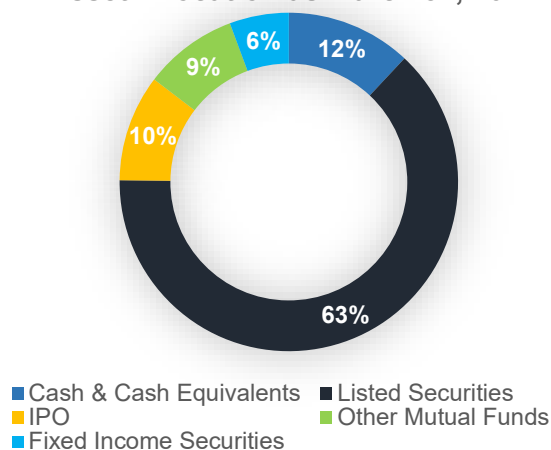
At the end of the quarter, BSEC also decided to lift the floor price for 66 companies as those companies' trading was ongoing at the floor price for a long time. That impacted negatively in the bourse. Some level of stir up will still happen due to this lockdown but fundamentally good companies are expected to absorb this shock & show signs of profitability & good return in the long run.

Performance of Ekush First Unit Fund (EFUF)

In our relentless effort to serve our investors, we focus on the companies that are fundamentally good & worth holding for the long term. Several shares have done significantly well for the last two decades, like BATBC, OLYMPIC, MARICO, BERGERPBL, RENATA, SQURPHARMA, RECKITBEN, etc.

Even during such tough times, in our endeavor to provide the best possible risk-adjusted return, we put greater consideration on the companies with good governance, efficient management & competitive edge in their relevant industries. With this particular notion in mind, we have allocated 63% of our portfolio

Asset Allocation as March 31, 2021



towards the equity market keeping the fundamentally good stocks with outperforming capacity in the long term.

10% of our allocation was also behind 2 IPO shares. This quarter's biggest IPO offering was Baraka Patenga Power Limited & we have been able to secure our bid in it with an amount of BDT. 22,496,000 with a cut-off price of BDT 32.00. Another one was Index Agro Industries Limited which was yet to come at that time.

With our view to further tap into the superior IPO return, we have also invested in other funds, preferably with good fund managers & small in size, allocating 9% of the portfolio.

And lastly, to better balance the risk for our investors, we have also invested BDT 1.5 Crore in FDR with Delta BRAC Housing, one of the best NBFIs of the country with an AAA credit rating, which comprises 6% of the portfolio investment. We had hold cash & cash equivalent which was 12% of the portfolio at the time in the intuition of future market fall to purchase shares at favorable prices.

We are always observing the market situation & looking for attractive opportunities in this current period of uncertainty. We strongly believe that such time provides a good buy opportunity to hold fundamentally good shares at a favorable price, which will provide maximum return for the fund in the long run.

Thank you for choosing Ekush & keeping your faith in us. Stay Safe & blessed. Thank you.