

MACROECONOMIC OUTLOOK

BB attempts to rein speculative activities in the economy

Throughout the pandemic, BB's unceasing expansionary policy to revive the economy has resulted in the highest ever excess liquidity & indomitable inflationary pressure. The economy witnessed excess liquidity of BDT 2.32 trillion at the end of FY2021, 66% more than the last year. With lower credit growth in the Pvt. sector, a portion of this excess money supply channelized in unproductive & speculative activities, making the policy less prolific. With concern to detain the situation, BB has already started to auction BB Bills, T-bills & bonds to rein in this excess money supply & tighten supervision over the banks.

Money supply remains stable from last quarter

Broad money supply (M2) has been stable to BDT 15.8 trillion as of August (YoY growth 11.6%) despite BB's actions like issuing BB Bill, bonds, dollars purchase & a slight increase in private sector credit growth. Although private sector credit growth (8.38% in August) has been on the increase for the consecutive 2 months, this is far from the target rate of 14.8%. The biggest challenge for the regulators is to channel this money towards more productive sectors rather than in Real-Estate, Capital Market or National Savings Certificate (NSC).

Inflationary pressure making everyday lives more difficult

With excessive price hikes in essential products, the lives of low & middle-income people are being severely disrupted. P2P Food inflation has jumped from 5.08% to 5.16% in August while Non-food inflation from 5.8% to 6.13%. Overall inflation has again increased to 5.54% making the 12 months moving average inflation at 5.53%. The Target inflation rate has been set at 5.3% but this high inflation is fuelling severe income inequality that is existent in the economy (Gini coefficient of 0.52), ultimately making the low-income group suffer more.

The spurt of remittance continues to mount hefty forex reserve

Forex reserve has recently decreased to \$46 billion in September from \$48 billion a month before. Although remittance is currently on a slightly declining trend from April, the amount is still impressive. In September \$1.7 billion foreign remittance has entered the economy comparing \$1.8 billion in August.

Interest rate spread remains constant

Meanwhile, interest rate spread has declined with fixation of deposit rate to match inflation to save the depositors from their money erosion. Last quarter int. rate spread ended with 3.20%, while this quarter the rate has been flat 3.19% in July & August. Both weighted average deposit & lending rate has

declined by 0.06% resulting in this consistent rate (Deposit rate 4.11% to 4.05% & Lending rate 7.30% to 7.24%). Like the previous quarter, the call money rate has been hovering around 2% this quarter as well. Hitting the lowest at 1.61% during August, the rate has gradually increased to 2.11% by the end of September.

The surge in both export & import indicates the economic revival

Both export & import have witnessed a commendable increase this quarter compared to the last year. With reopening of the West & actualization of pent up export demand, the country's export has seen a sustainable rise since June this year. Export performance from July-September is \$11 billion, which is 11.37% higher than the last year & 5.7% higher than the target. Meanwhile, with \$10.9 billion of imports between July & August, import has seen a staggering YoY growth of 46%. With mass vaccination & the economy reviving to its normalcy, business people are not shying away from incurring Capex, which is an indicator that private sector credit might increase in near future. Moreover, with a sudden surge in imports, the expected devaluation of BDT has occurred in this quarter with the dollar exchange rate hitting BDT 85.5 per dollar from BDT 84.80.

ADB lowers its projection for GDP growth

Meanwhile, ADB has revised its projection for the GDP growth rate for FY2022 to 6.8% from 7.2%. Although, World Bank has been more conservative with its growth expectation of 5.1%. In another news, the Bangladesh Bureau of Statistics published the actual GDP growth rate for the FY2020 to be 3.51% instead of 5.2% as claimed by the Government. On a broader picture, it seems apparent that the projected growth rate might not be achieved in FY2021 & FY2022.

Deteriorating NPL situation exposing the weakness of the economy

Another major concern of the economy is the continuous build-up of NPL, especially due to the moral hazard of the borrowers. As of June, the existing classified loan has amounted to BDT 992 billion increasing by 12% since January, which is 8.42% of the overall outstanding loan.

The interest rate for NSC was reduced

Another major decision by the government in this quarter is to reduce the rate of National Savings Certificate across all types. 1-2% rate decrease has been imposed on individual NSC more than BDT 15 Lac. With more investment options, this rate might go down gradually into the future since having a dual risk free rate in the economy is an indicator of inefficiency & this instrument was originally issued to benefit the retired personnel & savers.

CAPITAL MARKET OVERVIEW

Market surpasses 7000 ballpark

Last quarter's continuation of the bullish market continued this quarter as well. This quarter started with a DSE index of 6220 points & ended the quarter with a staggering 7329 points (up by 18%). Daily ADTV (Average Daily Trade Volume) was BDT 15.5 billion at the beginning & consistently Daily Trade Volume was above BDT 20 billion.

DSE opens its SME board & disbands the OTC platform

SME Board was initially open at the CSE Borough, but DSE opened its SME Board at the end of this quarter. Meanwhile, 21 of 61 companies from the OTC platform are to be moved to the SME market. 8 of them are already in operation, need further capital & 13 of them currently are not in operation but have their business revival plan approved by the SEC. Every 21 companies would be eligible to raise capital through QIO (Qualified Investors Offer). Another platform ATB (Alternative Trading Board) is also to open according to the SEC decision. 19 OTC companies are to be moved there to offer liquidity to the investors. Open-end mutual funds are also expected to be traded on this board. The other 21 companies from OTC are to be demised & owners have to buy back the public portion of the company shares due to not having any favourable outlook, according to the SEC.

Capital market Outlook

There are certain sector bubbles particularly in small-cap which are not sustainable as those valuations reached fundamentally high. The valuation in large-cap is still lucrative, meaning the overall market might not be too high for the long term. We expect the money will flow to the large-cap stocks as time passes & correction in the small-cap will eventually occur.

The primary concern for Central Bank is to contain inflation as commodity price is increasing substantially all over the world. They are also concerned for real sectors & create employment opportunities. Liquidity will squeeze if Central Bank has to reign inflation. If private sector credit growth picks up & eats money supply substantially then liquidity will also dry. However, all the moves will depend on how the central bank balances the situation. So equity movement will be path-dependent.

To depict more on the industry level, the pharmaceutical industry is to provide a commendable upside with the industry gaining 26% YoY growth during the latter half of FY21. Banks' fundamental does not look much lucrative now with the increased cost of fund & treasury income is expected to fall due to interest rate hike. But the telecommunication industry has a positive outlook with the economy reviving & people conducting more economic calls & widespread data usage. With the increase in infrastructure investment cement & engineering companies with good fundamental has a good chance of providing a sustainable return. Most Mutual Funds are currently trading below their NAV & they provided good

dividends last year. Taking an entry on mutual funds with good portfolio at this low price & holding them might prove to be a better investment than other instruments.

PERFORMANCE OF EKUSH MANAGED FUNDS

EKUSH FIRST UNIT FUND: Long-Term & Well Diversified

EKUSH FIRST UNIT FUND commenced on March 18, 2020, & has provided a staggering return of 59% by the end of the quarter from its inception, including an 8% cash dividend. **Within 3 quarters, the Earning per unit (EPU) is BDT 3.04. NAV on Sep 30 is BDT 15.03.** Moreover, you would be happy to know that we expect to declare more than **BDT 2.01 as a dividend** from the fund's realized income in 3 quarters. Here is a small overview of the portfolio according to different asset classes:

Asset Class: Equity

We selected equities with good fundamentals & reasonable valuation. Our allocation is highest in the equity (58%) representing our somewhat defensive approach for the market.

Here are our top 5 stocks with their portfolio weight:

Stocks	Percentage
GP	10.69%
BATBC	9.87%
MARICO	9.46%
SQURPHARMA	8.95%
RENATA	8.86%

The portfolio is well-diversified among 14 stocks. 2 of them is from the IPO quota.

Asset class: Fixed Income Securities

We invested in Ashuganj Power Station Company Limited bond (0.41%). We expect that in the current macroeconomic scenario of the country, a lower return of FIS will not fulfil the appetite of our investors & a higher return can be generated from the equity market itself. However, our expectation is interest rate will increase & we will find income opportunities if such opportunities seem suitable.

Asset class: Cash & Cash Equivalents

We have held 28% of our portfolio as cash so that we can be on the favourable side in case the market corrects.

EKUSH GROWTH FUND

You would be happy to know that, Bangladesh Securities & Exchange Commission (BSEC) has provided the approval of Ekush's second fund: EKUSH GROWTH FUND. We have already signed our Trust deed on 07 October 2021. Sandhani Life insurance Company Ltd is to be our Trustee, Brac Bank Limited as our Custodian & Midland bank Limited is to be the designated bank for the Fund.

We wish to commence our second fund's journey very soon. We wholeheartedly welcome your support & investment in our next endeavour.

Thank you for keeping your faith in Ekush. Please visit our website to know more details: <https://ekushwml.com/> & email us at info@ekushwml.com if you have any queries.

Stay Safe & Thank you