

Taking stock

MAMUN RASHID

WHATEVER the positive vibe going around after the new interim government took over, 2007 continues to prove to be an unpredictable year for Bangladesh and the recent performance of the country's stock market mirrors that unpredictability.

Over the last ten to twelve business days, the daily traded volumes on the country's bourses have not only surpassed their 1996 highs but making news every day by beating the prior day's record volume currently averaging between \$12-\$15 MM and reaching as high as \$25 MM per day versus last year's average of approximately \$5 MM everyday.

As stakeholders watch this interesting phenomenon of the trading volumes in the market reach dizzying levels, here are some points to ponder:

Investor sentiments: Judging by the comparatively modest gains of the overall market capitalization of around 8% in 2007 YTD and a healthy but balanced visible primary issuance pipeline for the year compared to the surge of almost 300% in trading volume, the investor community seems to have developed a 50:50 split regarding the future direction of the market. There is a distinct divergence in investor expectations of the future with as many sellers as there are buyers with opposing expectations thus keeping prices at existing levels.

What then is driving this trading frenzy among investors? Who are the net buyers and who are the net sellers? Are they different investor types? If political stability and positive economic outlook are truly the main drivers, why isn't it being reflected in the market capitalization going up concurrently? Do investors gain in the short run when there is higher market liquidity?

Role of the market intermediaries: The market intermediaries make money when the investors sell and they make money when the investors buy. Higher trading volume translates into higher brokerage economics. In

a traditionally retail driven market with minimal disciplined institutional research, what role are the financial intermediaries playing in promoting this sudden liquidity in the market? As the biggest gainers from the recent market activities, how unbiased are they from promoting market manipulation?

Surveillance: The stock market surveillance mechanics of 2006 has no resemblance to that of 1996. There are strict rules and guidelines and trading circuit breakers and international surveillance teams and the whole nine yards to protect investor rights and ensure fair play. The current phenomenon requires careful monitoring of investor motivation, monitoring of the role of the intermediaries in being able to effectively facilitate trade and most importantly monitoring of the financial and operational readiness of all the stakeholders should this trading volume surge be followed by a surge in the overall market capitalization. As market liquidity swells and tests news levels, can the regulatory mechanics keep up?

What's going on around the Region? Trading volume and liquidity continue to experience unusual highs across the region in all Asian markets on optimism of exceptional corporate earnings. Global equity markets recorded new multi-year highs in 2006 after a brief summer lull, with the Asia Pacific regional markets leading the pack. On

average, Asian markets were up 32% during the year. China H-shares and Red Chips, Indonesia and India outperformed the region with large market capitalized names in the energy, FIG and consumer sectors contributing the most to the performance during the year. Some of the key market drivers for the Asian markets include:

Liquidity conditions: Liquidity tightened during the summer of 2006 but had regained momentum toward the end of the year and continue to do so.

Foreign fund inflows:

(\$ In Bn)	Market Cap	Liquidity	Liquidity As % of Mkt Cap
China A and B	1,227	16.5	1.34%
Hong Kong	1,054	7.4	0.70%
India (NIFTY)	852	3.4	0.40%
Korea (KOSPI)	706	3.0	0.42%
Taiwan (TWSE)	588	2.8	0.47%
Singapore (STI)	257	1.3	0.49%
Malaysia (KLIC)	178	0.6	0.35%
Thailand (SET)	133	0.4	0.26%
Indonesia (JCI)	126	0.3	0.21%
Philippines (PCOMP)	52	0.1	0.17%
Pakistan (KSE)	48	0.5	1.05%
Vietnam	13	0.1	0.42%
Sri Lanka (CSE)	8	0.004	0.05%
Bangladesh (DSE)	5	0.005	0.10%

Source: Bloomberg.

Overwhelming response for Asian equity from global funds underscored demand in the region. In 2006, net inflow into Asian dedicated equity funds was at a record of US\$16.8 Bn.

Citigroup research expects the strong inflows to continue into the early part of 2007 after which, investors will be more selective.

Equity supply-demand: Heavy primary issuance supply of \$80 +Bn from Asia Pacific region ex-Japan specifically from China and the financial institutions sector were well absorbed in 2006 with strong sustained aftermarket performance. 2007 is expected to see regional Asia Pacific primary issuance of an equal amount.

On the other hand, Bangladesh equities ended the year down

strong macro micro fundamentals.

Are Bangladeshi equities with a growing liquidity to market capitalization ratio now ranging around 0.3-0.5% from last year's 0.1% now playing long overdue catch-up with the rest of the region or this the current buoyancy a temporary market anomaly/blip?

Next steps for Bangladesh

What could help sustain the current positive investor sentiment and translate the increased liquidity to actual increase in overall market capitalization in the country's bourses? The timing may be right for Bangladesh to come out of the vicious Catch 22 situation of lack of issuers due to lack of investors and lack of investors due to lack of issuers.

Without seeming to know it all and without a crystal ball to predict next steps, we outline below some suggestions for the stakeholders to help carry on the current momentum and create a sustainable public equity market and attract investors and corporate issuers alike to play:

Issuers
Incentivize good issuers with proper financial and corporate governance disclosure and transparency to access capital markets as a viable and sustainable source of capital.

Continuity in incentives from listed status: Provide comfort that existing tax incentives for issuers will not be subject to change with a



Source: Citigroup Research

change of guard at the government offices.

IPO proceed maximization: Introduce book-building as soon as viable to allow play of demand and supply in the market to determine issue price and allow for issuers to maximize proceeds.

Incentivize government SOEs to access capital markets: The subcontinent has recently seen a proliferation of state owned entities privatizing via sale of shares to international equity investor which serves as a sizeable and attractive investment proposition to draw foreign equity capital inflow into the country.

Institutional investor participation: Facilitate participation from responsible institutional investors to own substantial shares in companies through the use of pre-IPO placements thus also ensuring responsible aftermarket trading.

Regulatory support: Ensure on-going regulatory support for listed issuers without undue penalty/scrutiny.

Investors
Incentivize responsible long-term institutional investors to play in the local capital markets to add market depth and discipline. Liquidity is not a problem in this current global equity market.

Ensure strong investment opportunity pipeline: Attract domestic and foreign investors to the capital markets via development of healthy pipe-

line of primary issuances and strong aftermarket support. Foreign investors seek sizeable investment opportunities upward of \$5 MM or so in one order size to make their involvement cost effective and would shy away from the local markets if the right opportunities didn't present themselves regularly in sizeable amounts.

Active marketing to right investor community: Actively market Bangladesh equities, the country's private sector growth potential and the change in regulatory environment post 1996 among responsible long-term foreign institutional investors and NRBs through use of international conferences, road shows and other formal marketing efforts. Strong opportunity for Bangladesh to leverage bullish sentiment among regional investors to attract foreign capital inflow. The \$30 MM of recent inflow serves as good indication of the excess capital globally seeking good returns. If the Bangladesh of 1996 could have attracted \$100 MM of equity and if Vietnam has excess of 15 country funds, then tremendous potential for massive capital inflow into the country's bourses with the right marketing efforts. In addition, active marketing and promotion of Bangladesh as a frontier economy (Vietnam, Zimbabwe) versus an emerging economy (India, Korea, China) could further

facilitate additional attention and capital allocation from the Frontier Funds.

Benchmarking: Facilitate valuation of the investment opportunities through creation of benchmarks at the country level. A sovereign rating of the country from the internationally accepted rating agencies would enable institutional investors to effectively evaluate sovereign risk and make investment decisions.

Reliable regulatory environment: Build investor friendly regulatory framework to ensure fair market plays and discipline in trading. Create precedence of fair support from regulators in an investor dispute.

Protect retail investors: Protect the interests and capital of the retail investor base through regulatory supervision and formalized investor education on investment risks.

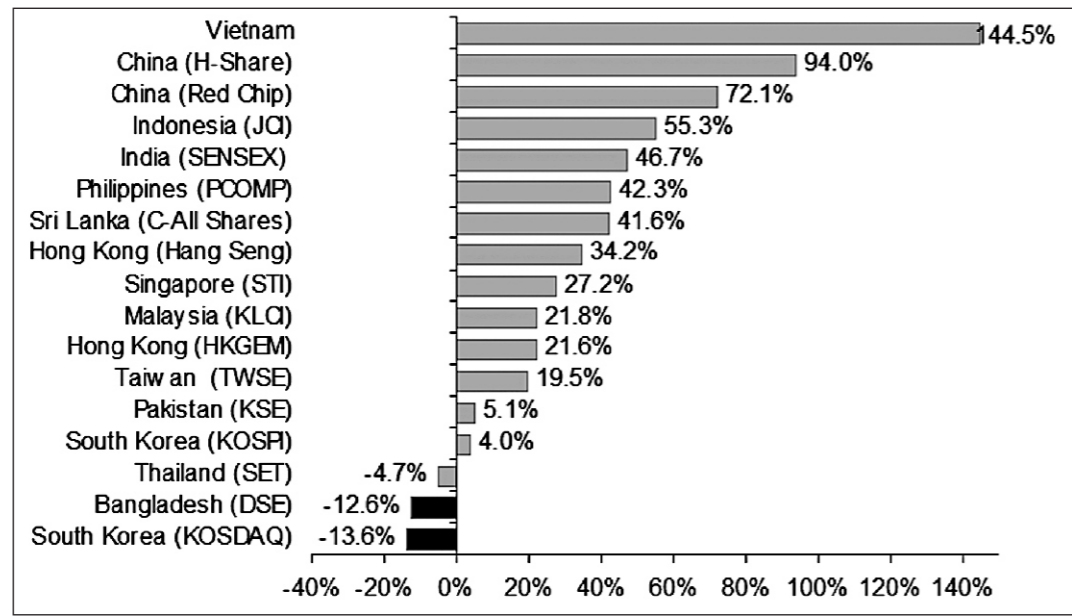
Intermediaries
Incentivize responsible long-term local and foreign intermediaries to participate in the markets as advisors of investors and issuers.

Proper economic incentive: Allow fee structure (IPO, brokerage) to be negotiated between the institutional stakeholders without excessive regulatory restrictions such that there is proper economic incentive for professionals to enter and play in capital markets.

Fiduciary responsibility: Create environment of fiduciary responsibility for all intermediaries to minimize market manipulation.

Whatever said and done, Bangladesh remains to be a potential country with possible future. Provided we are aware of our destination model and work towards paving the way for growth for all of us, with ultimate transparency, proper knowledge and commitment to the future of the nation.

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Daylight Savings Time for power conservation

DST allows more effective use of natural sunlight resource in summer time. Since there is less darkness in the "waking day," there is less use of electric lights. Theoretically, the amount of residential electricity needed in evening hours is dependent both on when the sun sets and when people go to bed. Because people tend to observe the same bedtime year-round, by artificially moving sunset one hour later, the amount of energy used is theoretically reduced.

ASIF SALEH

AS the caretaker government is implementing a yearlong comprehensive plan for the power crisis, as part of this plan, I would like to propose the introduction of Daylight Savings Time. Those who have been in USA or UK during April or October, know how the clock springs backward or forward based on the season.

What is Daylight Savings Time?

Daylight saving time (DST), also known as summer time, is a conventional local time adopted by many countries of the world on a seasonal basis. DST is typically observed by adjusting the official local time forward, by one hour, for the spring, summer, and early autumn periods. Then at the beginning of winter the clock springs back to go to the real time.

The idea is simple. During summer time, we have early sunrise. However, most of this sunlight is wasted as people don't start the day till 7/8 A.M.

By moving the clock forward one hour through out the whole country, the sunrise is "delayed" by an hour and so is the sunset. So, sunset does not happen until 8/9 PM at the least depending on the region.

Benefits

Energy use and the demand for electricity for lighting our homes is directly connected to when we go to bed and when we get up. Bedtime for most of us is late evening through the year. When we go to bed, we turn off the lights and TV. A good percentage of energy consumed by lighting and appliances occurs in the evening when families are home. By moving the clock ahead one hour, we can cut the amount of electricity we consume each day.

DST allows more effective use of natural sunlight resource in summer time. Since there is less darkness in the "waking day," there is less use of electric lights. Theoretically, the amount of residential electricity needed in evening hours is dependent both on when the sun sets and when people go to bed. Because people tend to

observe the same bedtime year-round, by artificially moving sunset one hour later, the amount of energy used is theoretically reduced. A 1975 US Department of Transportation study showed that DST would theoretically reduce the country's electricity usage by 1% from March to April, if implemented during these months. These numbers have been supported in Mexico, which began implementing daylight saving time in 1996. Evaluations show national savings of 0.7% of national electric consumption (1.3 billion kWh (TWh)) and reduction of peak load by 500 MW.

The other benefit of DST is that because of increase of daylight, there are increased outdoor and economic activities. Most people plan outdoor activities during sunlight hours. For a country like Bangladesh, this would mean staying out till late in the day. Shopping centers being open late without turning on their costly lights. Similarly crime rate would be reduced if the nighttime does not happen until 8.30 pm.

Other examples

There are worldwide examples of countries adopting the DST in emergency situation. In 1973 during an oil crisis in the USA, the DST ran for an extended period of time saving 1000 barrel of oil a day. This notion is not necessarily a Western concept only. In times of war countries like Iran, Sri Lanka, India adopted to DST. USA is also expanding the DST period by 4 weeks starting this year.

Challenges

The key challenge of implementing DST this year is technical adaptation. All software and computer have to adopt to the time change twice a year. However that should not be a big problem as most computers already account for Day light savings time. Businesses and systems will have to adjust. Similarly, another issue will be publicizing and educating the people about the time change. Changing the time in one's clock by an hour will be a new concept for many.

In conclusion, I must say that this is no slam-dunk solution to our power problem. But this one of many proposals to save every little KW of power during the upcoming summer. I would hope the CTG government would at least start this from this year on a trial basis.

Toward a healthier democratic practice, and thereafter

In the ultimate analysis the stability of democracy rests on the majority of the country's people perceiving the socio-economic system of the nation as fair. Needless to say this is not true of Bangladesh, with economic inequalities skyrocketing and social power structure terribly oppressive. Unless these basic sources of discontent of the underprivileged in the country can be decisively addressed, any benefit from improvement in the institutional quality of democratic governance will be temporary.

MD ANISUR RAHMAN

CAN I make a few suggestions toward trying to improve the quality of democracy in our country as far as this objective of the nation goes?

1. It is important that democracy does not degenerate into family rule over the nation. For this, if possible some check to "inheriting" party leadership by one's spouse or son/daughter at the demise or "retirement" of an incumbent leader seem to be desirable.

2. Parliamentarians should be able to publicly discuss and debate questions of social and development policy which they will be overseeing as members of the parliament. So should aspirants for cabinet positions once elected in the parliament. Toward helping candidates for the parliament train themselves in this direction, first, all candidates may be required to join in public debates in their own constituencies on such questions. Secondly, leading members of parties should be required to appear in national television debates on such questions, directly themselves and not by proxy by some other

party member.

3. There is obviously a great lack of understanding and orientation in parliamentary procedures and practice among most of our politicians who have so far followed the culture of confrontational and unruly discourse in the parliament rather than healthy debate and joint exploration with members of rival parties on relevant national issues. Perhaps, like the Civil Service Training Academy and training programmes in the armed forces as well (both of which this writer himself, like many other academicians and specialists, has had the honour to address), a Training Academy for Parliamentarians should be set up where parliamentarians will come to acquaint themselves with healthy and constructive parliamentary procedures and also be exposed to lectures and discussions on important national policy questions.

4. Some thought may also be given to reducing the term of a government to four instead of five years, which seems rather too long for the nation to suffer under negative leadership if it is ill-fated to

have one.

5. And, finally, the student wings of political parties must have a holiday. In the place of this corrupted institution, may I propose a healthier alternative? We elders have so far badly damaged the future of our children by controlling all national policy decisions which affect the nation's future. In modern culture of family governance children are also given a say in running family affairs. Why not carry this principle at the state level as well? May I propose something like a National Parliament of Students for representatives of the nation's senior students -- high school upwards -- to meet once every year to debate on national policy questions that affect the future of the nation and to give their recommendations to the government? This body may also be empowered to ask cabinet ministers to appear before it for discussion and debates on questions affecting the nation's future. This practice will also train our student leaders systematically and purposefully in national affairs and contribute to preparing them to take over future

leadership of the country. While all the above suggestions are made toward a healthier democracy for the nation, I should add that in the ultimate analysis the stability of democracy rests on the majority of the country's people perceiving the socio-economic system of the nation as fair.

Needless to say this is not true of Bangladesh, with economic inequalities skyrocketing and social power structure terribly oppressive. Unless these basic sources of discontent of the underprivileged in the country can be decisively addressed, any benefit from improvement in the institutional quality of democratic governance will be temporary.

In fact, political democracy without "economic democracy" is more a good meal for the so-called "shushil shamaj" than for the underprivileged people acutely struggling for their daily bread with visible demonstration of metropolitan life styles and also, for many of them, to preserve their very dignity as human beings.

Apart from the humanitarian aspect of this question, sooner or later this glaring inequality and oppressive living conditions of the underprivileged will show again in the rise of crimes and violence, and also fatalism that invites religious fundamentalism. Then again there will be need for another army intervention, and so on, and the cycle is likely to go on and on.

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