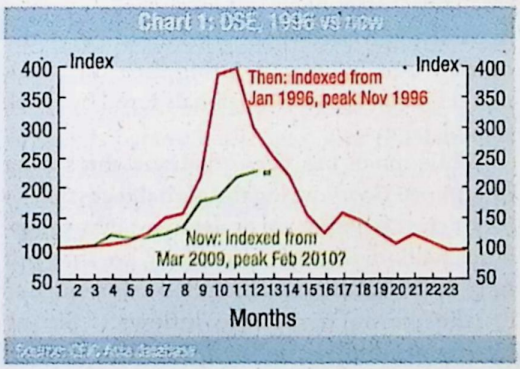
AFTER bringing uncomfortable memories of 1996 to many minds over the last few months, the bull run in Dhaka Stock Exchange (DSE) seems to be in abeyance, at least for now. At the time of writing, DSE had fallen by about 1 per cent since the end of February.

While there have been reports of angry reactions of retail investors expecting sharp price rises, a modest price correction is a preferable outcome than continuing froth in the market eventually ending in a more severe bust.

Of course, such a bust is still very much possible. We are by no means out of the woods yet. But with luck, we will have avoided a collapse. Either way, focus should now turn to factors that fuel these episodes, and what, if any, can policy do to avoid them.

How does the recent stock market boom compare with that of 1996?

Chart 1 explores this. In this chart, the horizontal axis shows number of months



since the beginning of the bull run, while the vertical axis shows the DSE indexed to that beginning. Back then, DSE started rising from January 1996. In November 1996 (that is, 11th month of the run), DSE peaked at 395 per cent of its January value. Now, the market is indexed to March 2009, when the global asset markets reached the post global financial crisis trough. Since then, DSE had risen by nearly 125 per cent by February 2010 (that is, the 12th month of the bull run).

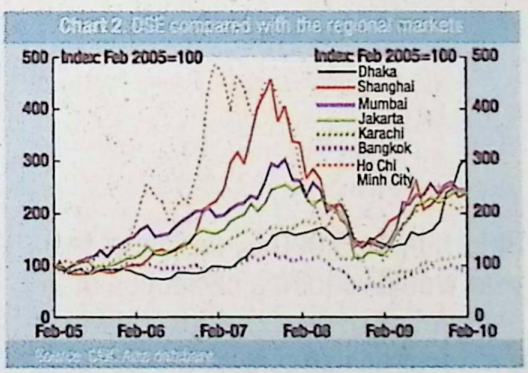
Chart 2 compares DSE with other regional markets. While DSE's performance was relatively modest compared to those of our neighbours for much of the past half decade, DSE far outpaced other regional markets in the closing months of 2009.

Both these charts show that while the recent bull run may have had the hallmark of bubble in its acceleration, the price rises have not been as stratospheric as those witnessed in 1996, or what Ho Chi Minh City experienced in 2006 or Shanghai went through in 2007.

There are two reasons why Bangladeshi stocks might be attractive for global investors seeking emerging market bargains. First, with only a small proportion of stocks held by foreigners, Bangladesh remains a hidden opportunity for international investors. And second, Bangladesh weathered the global financial crisis relatively well, with respectable growth expected in the next half decade (Chart 3).

Regional growth outlook has been revised upward since then, but detailed country forecasts won't be available until later in April.

Industry level price-earning ratios can provide further insight. All else equal, a high price-earning ratio means the stock has a high growth potential. But if price-earning ratio rises very quickly in the absence of any new



information, then that might point to a bubble. Four industries -- cement, information technology, services and real estate, and textiles -- have seen price-earning ratio sky-rocket during the bull run.

There are anecdotes of an emerging housing boom that might be driving the real estate stocks. A housing boom, along with the expectation of an infrastructure boom in the coming period, may be driving the cement stocks. Over the past decade, per capita cement consumption has trebled, further buoying the sector's medium-term outlook. One can argue that various "Digital Bangladesh" initiatives may well have been boosting IT stocks. And textiles may have benefitted from the resilience shown by the export sector.

But these positive outlooks notwithstand-