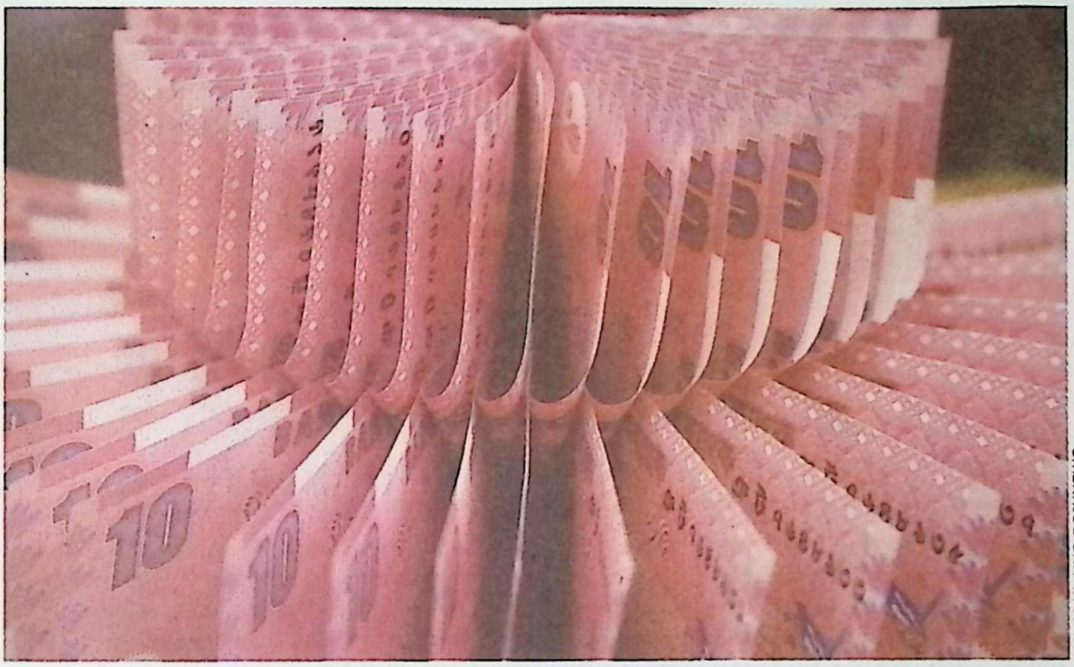


AMDADUL HUQ DRIKNEWS

a bit tempered by some regulatory measures in recent weeks. Record high levels of market turnover and new records of the DSE general index week after week are certainly pointing to market exuberance. Only time can tell whether the exuberant market conditions are/were irrational or not. The DSE index grew by 98 per cent during this period from 2,941 in August 2009 to more than 5,800 in February 2010. Even after correcting for the error in the index, which was made by the DSE at the time Grameen Phone IPO was launched due to its inappropriate/ incorrect reflection on the index at its launching date, the increase was in excess of 4,700 or 60 per cent (Figure 1). It is certainly difficult to rationalise this surge, coming on the back of a steady increase in the index since April 2004, in terms of economic fundamentals.

Reflecting the increase in the price index, market capitalisation (total market value) of all companies listed in the DSE increased to Tk 2,366 billion (equivalent to $34.2 billion) at its recent peak in February, compared with Tk. 1,307 billion ($18.9 billion) in August 2009. To put this increase in market capitalisation in proper perspective, DSE market capitalisation was only Tk 97 billion ($1.7 billion) in December 2003, immediately before the beginning of the current bull-run (Figure 2).

Stock market activity in terms of turnover, which measures the total amount of sales of all stocks during a day, also recorded a remarkable upward trend. The daily average turnover increased from only Tk. 140 million in December 2003 to Tk. 12 billion in January 2010 and further to Tk 13.2 billion in February (Figure 3): A 100-fold (10,000%) increase in a six-year period! The surge is certainly impressive, but also a matter of concern.

The increase in market turnover happened in an environment where supply of stocks, as reflected through the number of listed companies, remained almost unchanged except for the launching of the Grameen Phone IPO in November 2009. The pressures in stock prices and the rapid increase in turnover are obviously coming from the demand side. An army of new retail investors armed with fresh funds, is primarily responsible for this price pressure and market turnover.

The number of new Beneficiary Owners' (BO) accounts increased by 115,000 in January from 58,000 in December 2009. In February, the number of new BO accounts increased further by 180,000. To put the increase in proper perspective, during the 1996 episode, the total number of small/retail investors was reported to be 25,000, one-seventh of the additions to BO accounts in the month of February!

New investors have been pouring in huge amounts of money into the stock market through these BO accounts. About 10,000 new investors, bringing on average Tk 100,000 (an assumption) would add Tk 10,000,000 into the market every day when the market is open. Foreign investors on the other hand, are rapidly withdrawing from the capital market in order to realise their capital gains, as happened during the 1996 episode (Table 2). Domestic institutional investors like mutual funds are also reported to be following their foreign