

STOCKS		COMMODITIES		ASIAN MARKETS			CURRENCIES			
DGEN	CSCX	Gold	Oil	TOKYO	SINGAPORE	SHANGHAI	USD	EUR	GBP	JPY
6.72%	6.11%	\$1,368.50	\$88.22	Flat	0.17%	0.15%	BUY TK 70.05	90.26	106.69	0.82
7,654.40	14,034.21	(per ounce)	(per barrel)	10,303.83	3,153.01	2,893.74	SELL TK 71.05	95.95	112.61	0.87

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Star BUSINESS

DHAKA MONDAY DECEMBER 20, 2010, e-mail: business@thedailystar.net

Market: before it fell

SARWAR A CHOWDHURY

The Dhaka Stock Exchange yesterday suffered its steepest fall, setting off protests on the Motijheel Street. The benchmark DSE general index lost 551 points or 6.72 percent by the close of trade as panic gripped investors following last week's policy rate hike by the central bank and a series of recent volatile market swings. The Daily Star tracks the latest developments.

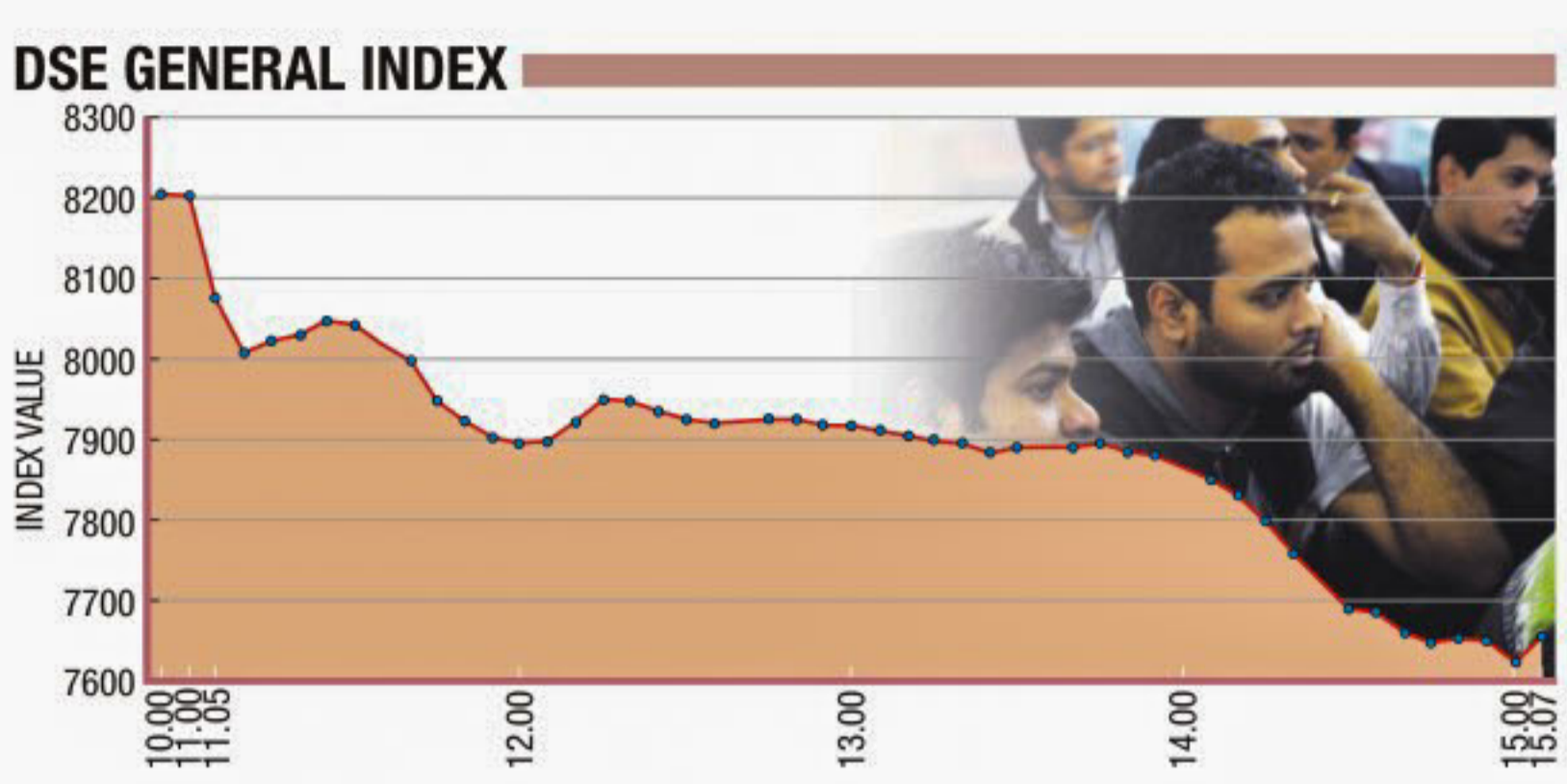
"A market is the combined behaviour of thousands of people responding to information, misinformation and whim." It's a famous quote on financial behaviour that is, to some extent, appropriate to describe the current trend of Bangladesh stockmarket.

The index's free fall from the opening bell angered the investors and the regulator subsequently withdrew and postponed some of its new directives.

But nothing could dissuade the scared investors to offload their shares. Although a big correction in share prices was widely predicted in the last one year, investors never expect and experience such an abrupt correction.

What caused such a fall? No single reason can be cited. It's a mix of several factors -- the regulator's market controlling measures, the central bank's steps on liquidity in the banking system, and the International Monetary Fund's warnings and prescriptions on the commercial banks' exposure to the stockmarket.

The Securities and Exchange Commission (SEC) came up with directives one after another, failing



to cool down the market through controlling the liquidity flow.

On November 21, the SEC reduced the ratio for share credit to 1:0.5 from 1:1. Earlier in August, it instructed the lenders to follow a net asset value (NAV)-based calculation for loan disbursement as well as maintenance.

The NAV-based calculation forced a merchant banker or a stockbroker to provide loan on the basis of value of a stock as determined by adding the market value to NAV and dividing the sum by two.

The NAV-based counting was suspended until further order by the regulator yesterday. It also increased the margin loan ratio to 1:1.5, from 1:1 set on December 13.

The SEC on November 25 asked the stockbrokers to double their deposit against any additional trade exposure to the capital market, to tighten the liquidity flow, and directed them to adjust the additional trade exposure by January 2.

It was also withdrawn yesterday. On December 6, the commission issued a directive on executing buy orders only after encashment of an investor's cheque.

The next day another directive squeezed "netting facilities" and stopped the investors from buying new shares with funds from another share sale that was ordered but not finalised.

The directives of December 6 and 7 were however withdrawn by the regulator on December 8 following a dramatic fall of 547 points.

The central bank recently increased the Cash Reserve Ratio for the banks to 6 percent to contain inflation.

Another previous central bank directive asked the financial institutions that are considered as institutional investor to adjust their stock investment exposure by December.

From January, no institution will be allowed to invest more than 10 percent of its total liabilities in the stockmarket, and the exposure will be counted based on market price, instead of cost price.

The IMF prescription to the Bangladesh Bank to seriously address the commercial banks' overexposure to the stockmarket also fuelled the unprecedented fall.

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Banks count costly money

Call money rate shoots up to 175pc again

SAJJADUR RAHMAN

The call money market keeps overheating like what the stockmarket was a week ago.

The interest rate at which banks lend money to one another shot up as high as 175 percent yesterday. The rate was the same at 175 percent on Wednesday, the previous trading day. Costlier money also contributed to a squeezed stockmarket yesterday.

This volatility in the money market and the central bank's continued restriction on repo have put pressure on the commercial banks' lending rates, many of which are capped by the central bank.

However, a senior central bank official blamed the commercial banks for the present volatility and the crisis in the money market.

"Lending rate is under pressure. We are suffering," said Anis A Khan, managing director of Mutual Trust Bank that borrowed money from the market at over 100 percent yesterday to maintain the increased cash reserve requirement (CRR).

CRR is a central bank regulation

that sets the minimum reserves each commercial bank must hold to customer deposits and notes.

Pubali Bank, which was always a lender in the call money market, also borrowed Tk 100 crore at over 100 percent interest rate.

"We won't be able to do business under the situation. The impact of the present volatile market must pass on the consumers," said Helal Ahmed Chowdhury, managing director of Pubali Bank.

Bangladesh Bank's restriction on repo is fuelling the money market, according to top bankers.

The banks are getting around one-fourth of their demand for money by repo, they said.

"BB should have shown persuasive attitude towards the repo," said a chief executive officer of a private bank, asking not to be named. He said they are suffering for other banks that invested heavily in the stockmarket.

A fund manager of a private bank said he got 27 percent money by repo against his demand. He preferred no ceiling on it.

But the central bank believes it is doing everything for the sake of the market, including curbing inflationary pressure and stopping the flow of banks' money to the capital market.

"Managing monetary policy is more important than managing call money," said Mizanur Rahman Zodder, general manager of BB. He blamed the private banks for the crisis.

"We have been asking the banks for the last three months not to go to the stockmarket beyond the ceiling. But banks did not pay any heed."

According to BB, around 10 banks have invested as high as 75 percent of their deposit in the stockmarket against a cap of 10 percent.

The central bank official, however, said the BB sold Tk 1,000 crore more by repo yesterday than the last working day of the past week.

The central bank increased the CRR to 6 percent last Wednesday in a bid to tighten the liquidity flow to the volatile capital market. In May, the central bank hiked the CRR to 5.5 percent from 5 percent.

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