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TAKING STOCK

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Investors demonstrate on the streets on Monday in front of the Dhaka Stock Exchange in Motijheel to protest against the continuous price falls over the last one and a half months.

PALASH KHAN

Old ghost haunts stocks

Stockmarket tanks as optimism fades

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THE blazing sun on a Tuesday morning turned the capital city hot, but failed to deter investors from taking to the streets. Paying no attention to the scorching heat, some 200 investors took their places in front of the premier bourse half an hour before the start of regular share trade.

Under the 'Capital Market Investors Unity Council' platform, the investors staged a sit-in as announced earlier, to protest the continuous fall in share prices that left many of them penniless. The council leaders also threatened to boycott stock trade until the government takes fruitful measures to improve the market situation.

The sit-in is part of an ongoing protest against the continuous price falls over the last one and a half months. During this period, the market lost over 650 points, and in the last nine months, the Dhaka Stock Exchange lost 25 percent, making the bourse the worst performer in Asia.

Turnover also declined drastically during the period. From around Tk 2,000 crore one and a half months ago, turnover came down to a level of Tk 350 crore -- registering a drop of over 80 percent.

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The first and foremost reason behind the drop was the loss of confidence by the investors, triggered by the finance minister's interference for the index hike. In an attempt to recover from the January-February price debacle, the market rose to 6,710 points on July 24.

Even with this positive momentum in place, the finance minister entered the scene and expressed dissatisfaction over the consecutive hikes in the market. His comment -- "Some old players were sitting idle and now they are investing money in the market to raise the prices with an ill motive" -- made investors wary and led them to consecutively book gains through share sale.

From then on, optimism started fading from the market, key indices haemorrhaged and an omen of bearish trend set in. Negative growth in earnings of some major sectors frustrated investors.

Secondly, the regulator's pre-announced agenda to file cases against some individual investors allegedly involved in stockmarket manipulation kept investors in serious anxiety and contributed to the sell pressures and index fall.

Two cases were however filed by SEC on August 21 against five investors as recommended by a government probe body on the share market scam in January-February. The regulator was instructed to do so by the finance ministry after the probe committee's recommendation.

Thirdly, there was a dearth of liquidity due to a high demand for money ahead of the Eid-ul-Fitr festivities, the largest shopping season for Muslims. The institutional investors were almost inactive in the market, while retail investors remained on the sidelines because of continuous volatility.

In the past, investor participation used to improve on the eve of the Eid festivities and after. Both institutional and individual investors acted differently this year for those fear factors.

Investors who have been waiting to participate become apathetic to fresh exposure to the secondary market.

In an effort to break the stalemate, Securities and Exchange Commission (SEC) came up with plans to sweeten market activities before Eid. On August 23, SEC decided in principle to set a uniform face value of equity shares and mutual fund units at Tk 10.

It also marked December 1 as the day to start trading all equity shares and mutual fund units with the common face value of Tk 10.

After the stimulus, the market gained for two consecutive sessions, but the share denomination move was largely outshined by the cautionary stance of the investors, following the central bank's monetary policy.

Meantime, the fund crisis is deepened more caused by several factors, such as single party exposure to investment and shorter periods of time to adjust to the overexposure; inactiveness of institutional investors; the low entry of fresh investors; and a tendency to quit by many retail investors.

The much debated investment exposure by financial institutions, the overexposure adjustment timeframe and the single party credit exposure repel institutional investors from making fresh investment in the market. Furthermore, they are selling shares at every opportunity they get during occasional gains in the market to adjust their overexposure.

A financial institution is not allowed to invest over 10 percent of its total deposit in the stockmarket, while it cannot give loans worth more than 15 percent of the invested amount to a single party, including its subsidiary. They will have to adjust the overexposure within December this year as well.

Analysts see the current volatility as caused by a combination of these factors, scaring investors away from the market. This in turn is further pushing prices down.

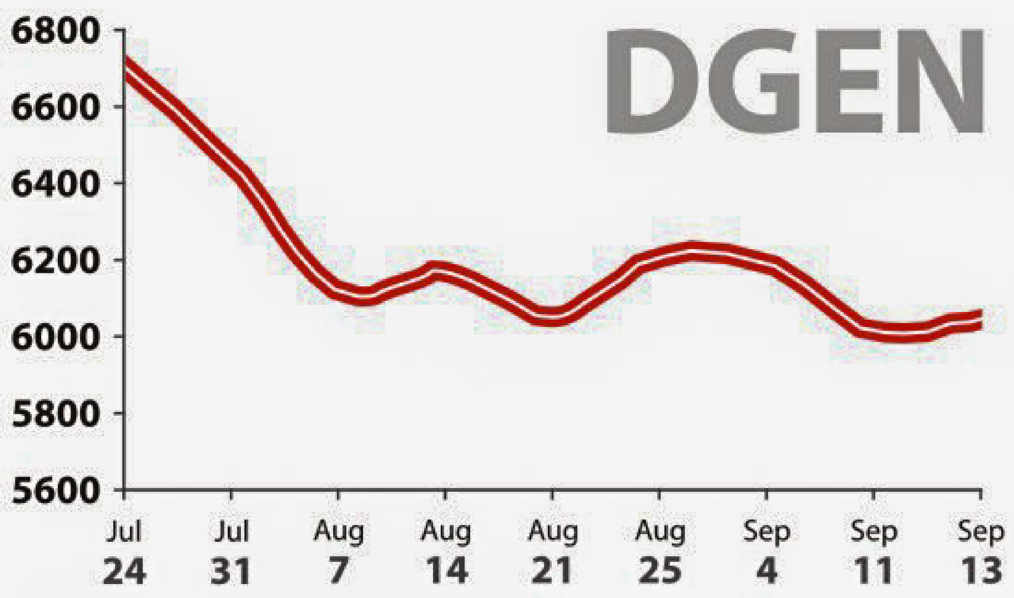
Several steps taken by the stockmarket regulator and the central bank has created a credit crunch, denting investors' confidence and pulling down the market, said Prof Mahmood Osman Imam, who teaches finance at Dhaka University.

He however said various domestic factors such as soaring inflation and high interest rates for borrowing money also dampened investors' confidence.

Bangladesh Bank (BB) has increased the policy rates for the fifth time in the last 13 months as non-food inflation soared in the last few months. The central bank recently raised the repurchase rate (the rate at which it lends to commercial banks) to 7.25 percent from 6.75 percent. The reverse repurchase rate was increased to 5.25 percent from 4.75 percent.

Faruq Ahmad Siddiqi, a former SEC chairman, analysed the current market differently though. Whatever the reasons behind the current market situation, he said there is no 'confidence' at the moment.

"It appears that most investors are in losses and generally, investors do not sell shares at a loss. On the other hand, prospective buyers may not be fully confident that this is the right time for investment, as they may speculate further falls in share prices ahead," he said.



Referring to yesterday's rise in share prices that were backed by regulatory measures, Siddiqi said such gains are temporary. "It's not sustainable in the long run. The market should be allowed to run on its own," he added.

SEC and Bangladesh Merchant Banker's Association (BMBA) said at a press conference that the central bank will increase the adjustment period of single-party exposure limit from December 31, in bids to increase credit inflow into the market.

Speculating on such positive measures, the market rose 2.26 percent to 6,055. But turnover still remained low at Tk 360 crore.

The former SEC chief also acknowledged that the stockmarket is now facing a liquidity crisis, which is a major reason for the current downward trend.

"The government talks several times about the Bangladesh Fund as a tool of supporting the market financially, but no mentionable progress has been seen so far," he added.

Mohammad A Hafiz, a merchant banker and president of BMBA, said most merchant banks are failing to provide credit to stock investors due to the so-called single-party exposure limit set by the central bank.

"We are facing a credit crisis. We don't have our own funds, as we are subsidiary companies," he said at a press conference on Monday.

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