

UPDATES ON STOCK MARKET, BANGLADESH

The Journal is running a series of **updates on Stock Market, Bangladesh** and this section has been led and updated by Syed Abdulla Al Mamun, Ph.D., ACMA. He is currently working with School of Business Studies, Southeast University as Associate Professor.

Does the Stock Market suffer from Prolonged Political Crisis?

Scholars have already admitted the role of political crisis in capital market performance. Prior empirical research, in addition, indicated that the impact of political risks on capital market growth and performance is more severe on small size market or emerging market than bigger or developed one. Bangladesh with one of the smallest stock markets in South Asia has recently experienced a prolonged political unrest. This paper, therefore, aims to investigate the movement of two stock markets namely Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) during the acute political crisis in the first quarter of 2015.

The stock markets appeared to be largely reacted during the first quarter of the current year to the political violence, along with the uncertainty in solving the political crisis. During 2014, the DSEX increased by 578.81 points or 13.5%, climbing from 4286.15 in January to 4864.96 in December. However, in the first quarter of the 2015, the benchmark DSEX tumbled almost 432 points or 8.75%, while it gained almost 192 points or 5% during the same quarter of 2014.

Similar trend can be observed for the blue-chip index of DSE namely DSE30 which raised by 115 points or almost 8% in the first quarter of 2014, but dropped by around 126 points or 7% during same period of 2015. Along with the declining trend of DSE indices, increasing selling pressure magnified the trade volume over the first quarter of 2015 which indicates the lack of investors' confidence on market as well.

In spite of the bearish trend of the market, five new IPOs started trading in DSE with total IPO size Tk. 3,137.50 million during the first quarter of the year 2015, which is higher than IPO size Tk.595 for three new IPOs in the same quarter of the previous year.

The CSE indices had experienced similar trend like DSEs during the aforesaid political crisis period. The CSE30, composition of blue-chip stocks, dropped by approximately 794 points or 6.5% from January to March in 2015. However, there was a bullish trend of CSE30 throughout the year 2014 with the growth of 1166.43 points or almost 11%, and most importantly, the CSE30 gained 742.16 points or 6.8% during the same quarter of 2014. Therefore, the downward trend of CSE30 during the first quarter of 2015 compare to upward trend of the same quarter of previous year clearly indicates the role of political unrest in the stock market.

Though the selective categories Index of CSE, CSCX, had gained 635 points or 7.54% in the first quarter of 2014 with the year around gaining trend, it was closed at 8434.33 points at the end of the first quarter in 2015, decreased by almost 731 points or 8% during the quarter. In addition, the benchmark index of CSE, CASPI, dropped from 15142.69 in beginning of January 2015 to 13864.01 in end of March, or lost almost 1279 points or 8.4%. Indeed, this is the highest losing by any index in DSE and CSE during the first quarter of 2015 suffered from uncertain political unrest.

Though the bearish trend of the CSE continued during the first quarter in 2015, trading of four new IPOs started with total IPO size Tk. 3,121.22 million which is higher than the IPO size Tk.520 for three new IPOs of the same quarter of previous year.

Overall, both the stock markets DSE and CSE had experienced bearish trend over the first quarter in 2015 due to the uncertainty raised from severe political unrest. The bearish trend of the stock markets indicates the lack of investors' confident on stock market during the political crisis period, which, in turn, created huge selling pressure and demotivated investors to invest further on stock market. In brief, this downward trend of the stock market suggested the impact of political crisis on stock market movement in Bangladesh which is consist with the opinion of market expert and different prior empirical research results as well.

Sources of Information:

1. Dhaka Stock Exchange (DSE) market data archive
2. Chittagong Stock Exchange (CSE) market data archive