

## **The DSEX Paradox: Remittances, Rates, and the Ghost of Elections Past**

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### **Overview**

The Dhaka Stock Exchange is often described as cynical. Markets are sometimes presented as detached from fundamentals, less a reflection of the economy and more a closed space controlled by a few powerful actors. That description contains some truth. And yet, it flattens what is actually a more ordered process.

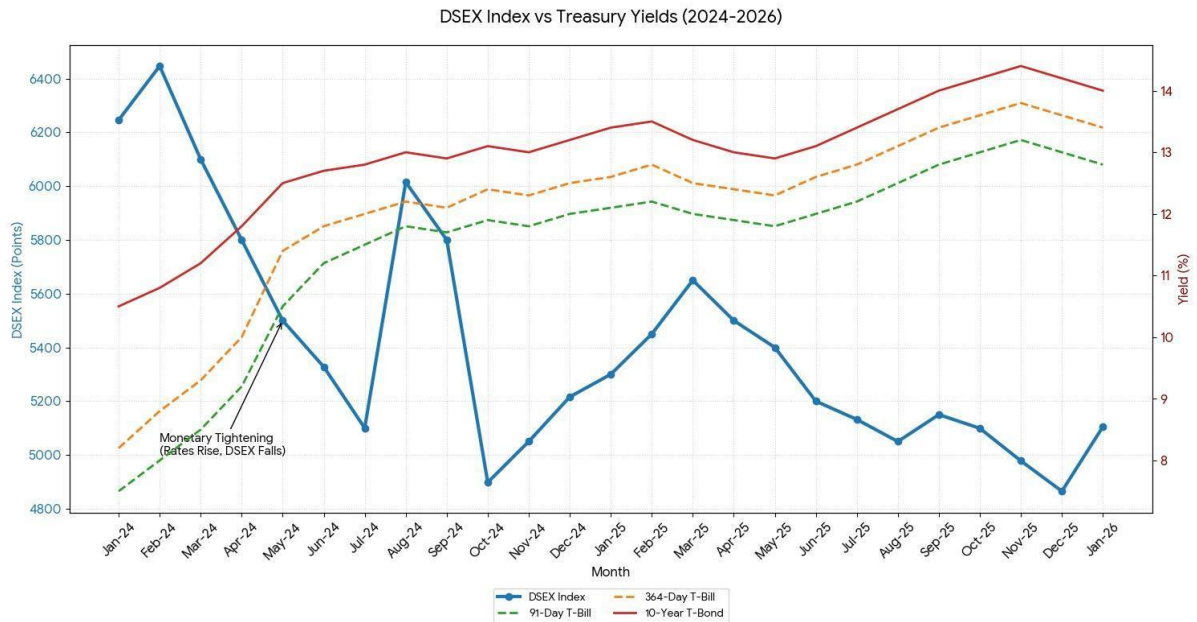
On a longer time scale, say, thirty years of market behavior, some regularities begin to emerge. DSEX movements have not been arbitrary. They have followed changes in liquidity conditions, policy stance, and political cycles. The market is not perfectly rational in the textbook sense, nor chaotic. It works within constraints where liquidity expansions and contractions - often driven by policy decisions and political moments - continue to shape outcomes.

### **The Gravity of the Yield Curve**

The DSE has operated for much of the last two years under a tightening monetary regime meant to rein in inflation. The inverse relationship of treasury yields to equity prices is a textbook concept but has been experienced in the local market in very concrete terms. Yields on 91-day and 364-day Treasury bills remained in the 13 percent range Thursday, keeping the DSEX under pressure. This pull was not enough to offset retail participation at its peaks.

And that reflects what is essentially the underlying gravity of the financial system. The basic calculations change when government securities start promising 12 to 13 percent returns. Exposure to equity volatility, sector-specific risks in banking, and disclosure issues in mid-cap stocks become harder to justify. This period saw the index struggle to stay above 6,000 not because confidence in listed firms collapsed but because the yield differential narrowed to the point where equities offered little additional compensation. What followed was less a panic-driven exit but a rational shift of capital to lower-risk instruments.

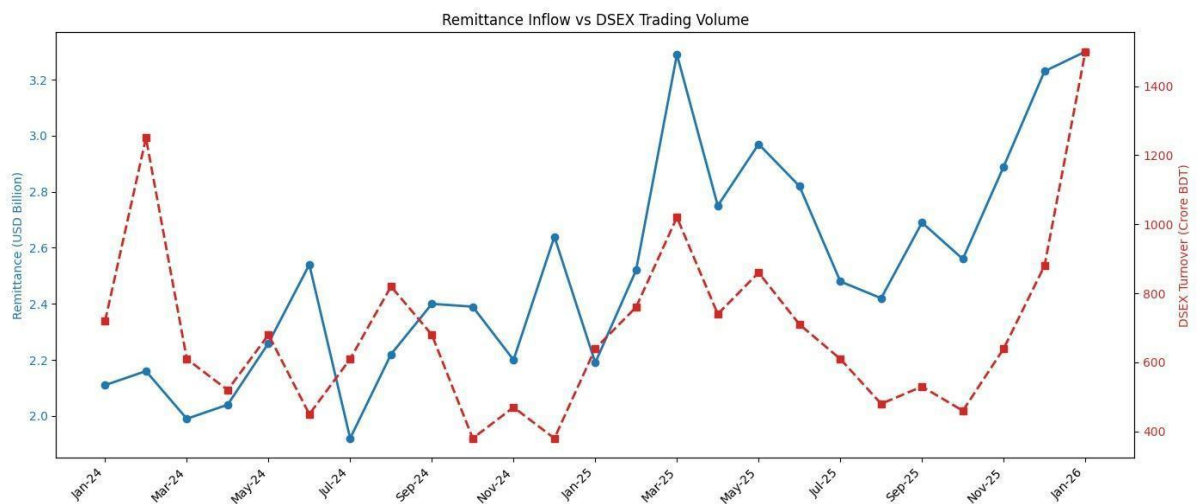
**Figure 1: The Yield Squeeze.** A comparative analysis showing the inverse correlation between rising Treasury yields and the DSEX Index 2024-2026



### The Remittance Umbilical Cord

Though interest rates have dominated the market, remittance inflows have been a sort of intermittent beating heart for the market. You can see a correlation between the dollars our migrant workers are sending home and the turnover on the trading floor. Just look at the record 3.28 billion dollars we saw in early 2025 as an example. This temporarily spiked DSEX turnover but was a breath of fresh air for the brokerage houses.

**Figure 2: Recent Remittance Flows and Market Activity**



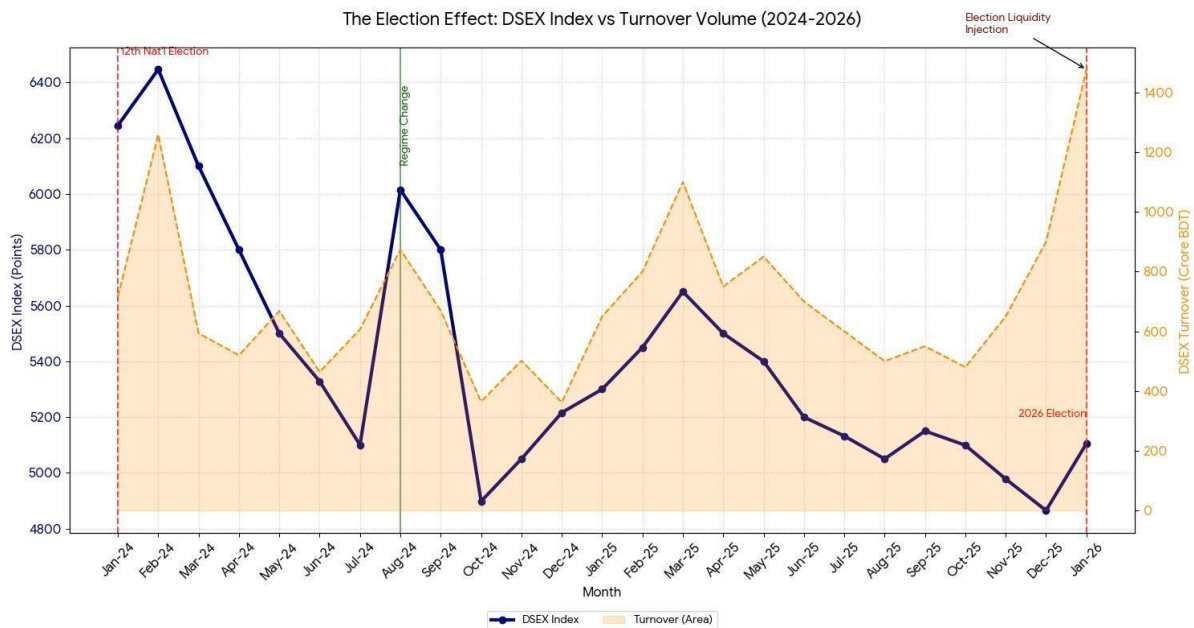
The idea is that these inflows trickle down into the capital market and ease wider liquidity constraints within our domestic banks. If there is some breathing room in the banking sector, the stock market usually finds its lungs shortly after that. These remittances provide a buffer and prevent a total collapse of trading volume when institutional buyers are mostly dragged along by high interest rates. This foreign currency is our lifeline through the toughest months of domestic policy.

### The Seasonal Euphoria of the Election Cycle

The most striking effect in recent data is the election-related effect. If we view earlier cycles reveals that market activity is shaped by corporate performance as much as the political calendar in Bangladesh. Such influences are sometimes not directly exerted, but appear repeatedly.

During the last half of 2025, increased liquidity within the banking system coincided with increased DSEX turnover. The timing can not be ignored. Such election-linked inflows of funds tend to produce a brief spur of optimism in the market that contrasts somewhat with the high-interest-rate conditions that otherwise persist.

**Figure 3: Volume vs. Value.** The "Election Effect" visualized



### The BDT 18 Trillion Elephant in the Room

As we move into early 2026, the conversation is shifting from a lack of money to a surplus of it, at least within the vaults of our commercial banks. According to Bangladesh Bank Governor Ahsan Mansur, surplus liquidity is estimated at close to BDT 3 lakh crore. This is apparently a large pot of money with limited immediate use.

Politicians hope that banks will expand private sector lending. Actually, credit demand remains weak and banks remain cautious. In such cases excess liquidity sits idle. It usually hits this point when the stock market catches its breath. Earlier cycles, like those around 2010 and the post-pandemic period of 2021, follow this pattern. Once yields soften and banks have cash on hand, liquidity moves into the capital market. The DSEX has typically absorbed some of that excess as Treasury yields begin to fall from recent highs. This is something that has happened repeatedly during past market rallies and not just once.

## **A Time for Cautious Optimism?**

It is easy to look at these charts and picture the past two years as volatility and stagnation. In some ways that description is correct. Market movement was uneven, confidence fragile and momentum difficult to sustain. Yet stopping there leaves something more structural going on in the background.

What we see instead is a system of adjustment. More stringent monetary conditions and the return of positive real interest rates have as expected weighed on equity prices. But they have also removed distortions that had guided markets for years. The floor prices and subsidized credit no longer provide that support. Good or bad the DSEX is being pushed back towards fundamentals.

With liquidity this shift is more apparent. About BDT 3.06 lakh crore is stuffed in the system. That excess liquidity is hard to absorb with traditional lending alone if borrowing appetite is weak and banks cautious. Such conditions rarely last. This capital looks for other means of escape as inflation pressures ease and policy becomes more neutral. The move from T-Bills to equities is rarely incremental. It's usually due to a change in relative returns rather than sentiment.

Current valuations fill in another layer of this picture. A few fundamentally strong firms across sectors are trading at levels that appear disconnected from longer-term earnings potential. Sometimes prices have drifted well below underlying value. This does not signal a speculative cycle ahead. If anything, it signals a shrinking pool of opportunities for patient investors to weigh risk and return.

A broad rally is unlikely. More selective reallocation seems plausible. Capital parked in the banking system will likely first move to banks and large corporates that have been resilient during the high-interest-rate period. Liquidity is not questionable. Nor is the historical trend for rotation once conditions are right. The uncertainty lies in timing. Interest-rate pressure must ease before fundamentals can get back to matter again - and that process is not predictable. Ove