

UNCORRELATIONS IN THE VALUE STOCK EXCHANGE IN BUCHAREST

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ABSTRACT: In the following lines, we aim at studying the function of reflecting the economic and currency conjuncture at a certain point and from a certain perspective and uncorrelations in the value stock exchange in Bucharest.

Keywords: the stock exchange, index, market

JEL Codes: G10, G15

The Political Economy Dictionary¹, on page 79, shows that ‘the stock exchange represents an organized and specialized public market, where buying and selling operations are done in large quantities of goods that are more or less homogeneous...’

In 1995, by the CNVM no. 20/21.04.1995 decision, the value stock exchange is established in Romania and in Regulation no. 1/1998 of organization and functioning of the Bucharest stock exchange it was stipulated that:

- ‘The activity of the stock exchange takes place according to the Law no.52/1994, with the purpose of organizing a well built market in order to negotiate the allowed building values and ensure the public, through the activity of the authorized intermediaries, of some proper systems, mechanisms and procedures in order to continuously perform transactions with building values adequately’.

Most specialists think that the value stock exchange has the following functions:

- The function of concentrating the demand and the offer of securities;
- Functions of performing transactions with securities;
- The function of systematic registration of their exchange rates;
- The function of reflecting the economic and currency conjuncture at a certain point and from a certain perspective.

In the following lines, we aim at studying the function of reflecting the economic and currency conjuncture at a certain point and from a certain perspective.

A first BVB correlation should start from the natural connection between the evolution of the main indexes on the international markets and the indexes of the BVB market.

¹ The Political Economy Dictionary, coord. Niță Dobrotă, The Economic Publishing House, Bucharest, 1999, p.78-81.

The Dow Jones Industrial Average Stock Index
The graph is as it follows:

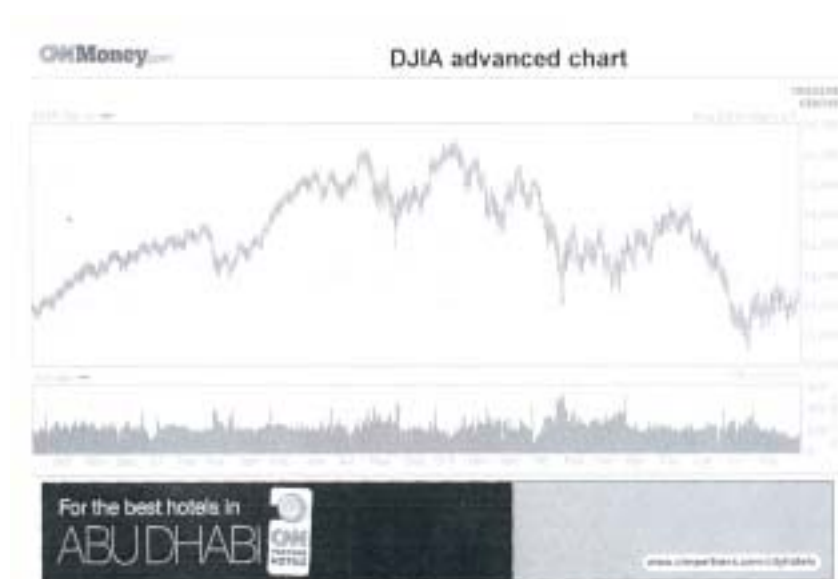


Fig. no. 1. - The evolution of the main stock exchange indexes on the international markets between October 2006 and August 2008

From the data of the graph we can notice that the Dow Jones index in the analyzed period (October 2006-August 2008) registered maximum values of 14200 points in October 2007 and 10700 points in July 2008, decreasing almost 25%, and in August 2008 it registered values of 12000 points, thus decreasing with 15.5%. The graphic representation of the S & P 500 index is:

The S & P 500 Index



Fig. no. 2 - Index

The points registered by this index varied from 1580 points in October 2007 to 1200 points in July 2008, thus decreasing with 24%, at present (August 2008) it has values of 1320 (decreasing with 16.5%). The evolution of this index is as it follows:

The Nasdaq Index



Fig. no. 3 - Index

The variation of this index was of 690 points (decreasing with 24.3%), 2850 points in October 2007, 2160 points in July 2008.

We also present the correlation between the Dow Jones index and the price of gold.



Fig. no. 4. - The DAX Index (Germany)

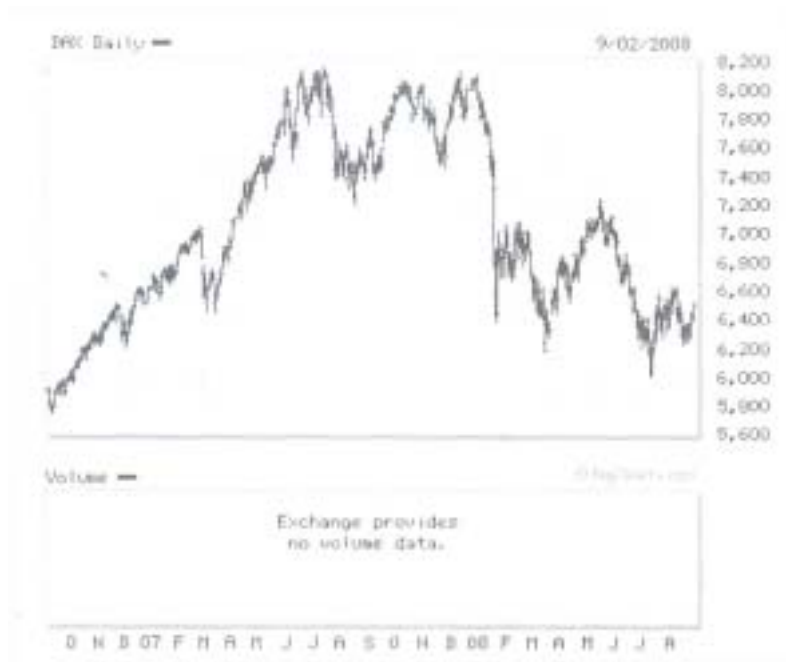


Fig. no. 5

Its variation was between 8190 points in July 2007 and 6000 points in July 2008, thus decreasing with 28.2%. In August 2008 it registered 6600 points, thus decreasing with 19.5%.

The FTSE Index (Great Britain)

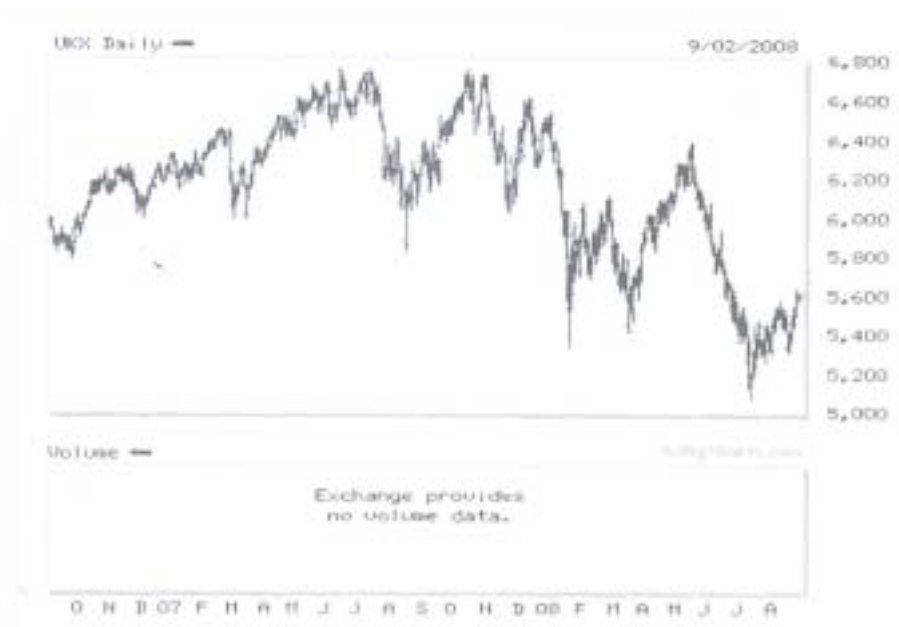


Fig. no. 6

This index varies between 6700 points in July 2007 and 5100 points in July 2008, registering a decrease of 24%. At present, August 2008 has values of 5600 points (with a decrease of 16.5%).

The CAC Index (France)



Fig. no.7

This index registers values between 6190 points in July 2007 and 4000 points in July 2008, thus a decrease of 35.4%. In August 2008 it registers values of 4600 points, thus decreasing with 25.7%.

The HONG KONG Index

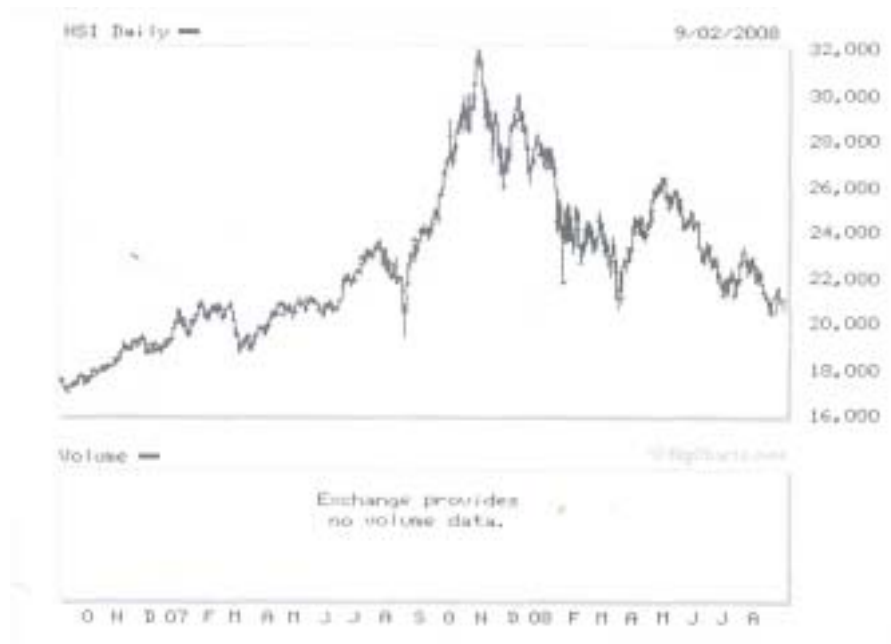


Fig. no. 8

The maximum value was of 32000 points in September 2007 and the minimum of 19200 in August 2007, the decrease being of 40%. At present, (August 2008) the registered values are of

21900 points, the decrease being of 31.6%. The correlation between the Dow Jones index and the oil price is:



Fig. no. 9 *The evolution of the oil price*

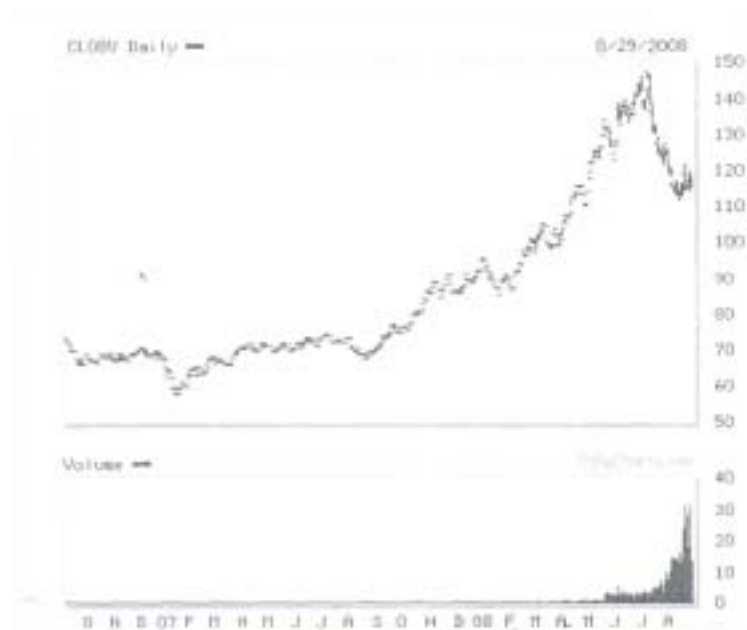


Fig. no. 10

The variation of the oil price is presented in the figure above. It increased from 60\$/barrel in February 2007 up to almost 150\$/barrel in June 2008, increasing 2.5 times. At present, (August 2008) it varies under 115\$/barrel with decreasing tendencies. From the data mentioned above what results is that the stock exchange indexes on the main markets significantly decreased with 24%-25%, the indexes on the American market with 28.8%, the DAX, FTSE indexes with 24%, CAC with 35.4%, Hong Kong with 40%.

We mention that in August the tendency of recovering the losses from the previous months was maintained, continuing to decrease in September 2008. The main causes that determined the decrease of the stock exchange indexes on foreign markets are:

- The mortgage loan crisis in the U.S.A.;

- The increase of the oil price;
- The danger of bankruptcy of some banks in the U.S.A.;
- The forecast of the beginning of bankruptcy in insurance companies;
- The wars in Iraq and Afghanistan;
- The increase of the unemployment rate in the U.S.A.

The main BVB indexes are as it follows:

Table no. 1

The evolution of the main stock exchange indexes on the Romanian market

Indexes	THE DATE				
	30.06.2007	31.12.2007	30.06.2008	31.07.2008	31.08.2008
BET	9665.61	9825.38	6502.65	5948.77	5420.87
BET C	6559.52	6665.47	4637.50	4385.25	4080.00
BET FI	87432.87	78669.68	46270.19	34582.00	32942.6
ROTX	21742.01	21705.00	14843.22	13983.65	12927.58

Compared to 30.06.2007 from the above data, what results is that the stock exchange indexes in 31.08.2008 decreased as follows: BET (44,8%), BETC (38,8%%), BETFI (58,1%) and ROTX (40,4%). From the percentage above what results is that the highest decrease registered in the analyzed period was that of the BETFI index, of 58.1%, and the other indexes had a decrease of about 40%.

The stock exchange indexes on the RASDAQ market registered the following values:

Table no. 2

The stock exchange indexes on the RASDAQ market

Indexes	30.06.2007	31.12.2007	30.06.2008	31.07.2008	31.08.2008
RASDAQ - C	5052.21	4628.55	4259.68	4142.63	4011.33
RAQ I	4876.50	4496.91	3756.25	4199.02	3865.67
RAQ II	10074.43	8201.16	6726.54	6980.64	6799.19

Compared to the values registered on 30.06.2007, the decreasing values registered on 31.08.2008 were of 20.6% for RASDAQ C, 20.8% for RAQ I and 32.3% for RAO II, values that are lower than the ones on the BVB.

Table no. 3

The evolution of the first stock exchange indexes

Indicator	June 2007	December 2007	June 2008	July 2008	August 2008
The total transactional value (stocks, obligations)	1359.26 mil. RON	1270.03 mil RON	658.95 mil RON	624.78 mil RON	458.94 mil. RON
	564.35 mil USD	524.72 mil USD	281.09 mil USD	275.47 mil USD	195.17 mil USD
	420.99 mil EUR	360.75 mil EUR	180.38 mil EUR	174.48 mil EUR	130.15 mil EUR
The number of transactional titles	927.48 mil	649.11 mil	1282223.13 mil	1113143.68 mil	1220589185 mil
The number of transactions	124389	105011	108166	121913	86752

Stock exchange capitalization	87980.02 mil RON	85962.39 mil RON	110449 mil RON	109204.0 mil RON	103462.18 mil RON
	37847.38 mil USD	35326.04 mil USD	47884.18 mil USD	48226.47 mil USD	43159.60 mil USD
	28072.76 mil EUR	24600.75 mil EUR	30280.92 mil EUR	38878.25 mil EUR	29284.51 mil EUR

From the data in the table above what results is that the total transactional value was 51.5% lower in June 2008 than in June 2007, 54% lower in July 2008 than in June 2007 and 66.6% lower in August 2008 than in June 2007. Consequently, from the data mentioned above what results is a first uncorrelation in BVB, namely the decrease of the stock exchange indexes much faster than the decrease for international stock exchange.

The main causes that determined this decrease, sometimes dramatic for BVB, were mainly as it follows:

- The massive withdrawal of the foreign investors;
- The permanent political fights phenomenon;
- The international political and economic conjuncture;
- The lack of support of the government, BNR, political people, etc. responsible factors for the economic stability phenomenon in Romania during the decrease of the stock exchange indexes in BVB;
- The shares buyback phenomenon decreased in BVB; we mention that only a few societies chose this form of protecting their own share rates (Armax, Medias, Bank Transilvania).

In order to illustrate the influence of the foreign investors in BVB, we mention that in June 2008, the non-residents invested in the Romanian capital market only 101.15 million lei (27.67 million EUR), five times lower than in May 2008, when the foreign investors placed in the stock exchange 509.04 million lei (139.1 million EUR), and in the first six months of the year, the nonresidents bought securities from the stock exchange of 1471.85 million lei and sold securities of 1499.68 million lei². The second uncorrelation that we notice is the gap between the economic growth in Romania, foreseen for 2008 to reach 8-8.5% and 8.8%³ for the first semester and the unprecedented decrease of the stock exchange indexes on BVB; the Romanian Stock exchange was not reflected in this matter, the high increase in economy being influenced more by the external factors. From the data we have what results is that the main stock exchange indexes in our country registered depreciations of over 36%⁴ until 12.08.2008 up to the levels registered three years ago.

The third uncorrelation that we notice both on the main market and on the secondary one is the large gap between the high economic results in some cases of the listed commercial societies and the evolution of the rates of stocks in the analyzed period (the end of August 2008).

The profit of the non-financial companies in the 1st semester 2008 increased with 60%⁵.

Thus, we mention a few societies: Bank Transilvania, Petrom, Turism Felix S.A.: Oradea, Turbomecanica Bucharest, Albalact Alba Iulia, Armex Gaz Medias, Zentiva Bucharest.

Thus, the 'Zentiva' Bucharest securities (the SCD symbol) decreased with 52.69% in the analyzed period of this year, even if it got a net profit of 22.02 million lei during the first six months of 2008, 72.72% higher than the one afferent to the first semester in 2007.

The Tourism Felix S.A. Băile Felix titles also decreased from 12000 lei (stock in 10.08.2007 to 6000 lei/stock in July 2008, even if the exploitation incomes increased with 135 for this company in the first semester of 2008.

² Ana Săbiescu, Investitorii străini nu se înghesuie pe Bursă, the Bursa journal issue 171 (3784) 02.09.2008, p.3.

³ Andreea Arăboae, Inflația și deficitul de cont curent, efectuate de creșterea economică, Bursa, issue 168 (3781), 28.08.2008, p.1.

⁴ Ana Săbiescu, Indicii bursieri au ajuns la valorile de acum trei ani, Bursa issue 167 (3780), 27.08.2008.

⁵ BVB press conference of 04.09.2008 on The Money Channel

There are also a lot of societies, very few though, such as 'Socep' Constanța, where the quotation has increased with almost 45% since the beginning of the year, connected to 61% increase of the business figure for the first six months in 2008, and 'Argus' Constanța titles were appreciated with 55% connected with a part of the net profit of over 23% in the first semester in 2008.

The developed countries are looking for measures this year in order to counteract the world financial crisis. We mention in this case the decision of the United States of America Congress for slowing down the building crisis of starting a fund of 300 billion dollars for helping the owners affected by the mortgage crisis. At the same time, the law also stipulates financial support for the credit companies Fannie Mae and Freddie Mac, which have or guarantee almost half of the USA mortgage around 12000 billion dollars⁶. In Romania, the interest on monetary politics could get to 10.5% by the end of the year, according to the specialists, the interest that competes with the 'gain' achieved because of the Stock exchange.

Regarding the perspective of 2008, we mention that on 16.09.2008 in Romania, the BET index decreased with 7.1%, having 4480.68 points, the BET-FI index decreasing with no more than 8.98%, having 27481.61 points, decrease due to the bankruptcy of the 'Lehman Brothers' American Bank and to the lack of cash at American International Group Inc. (AIG) Insurance Company. In order to normalize the stock exchange indexes, the governments in the developed countries had massive liquidity infusions; we mention that FED credited the AIG insurance company with 85.0 billion \$.

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⁶ <http://www.gandul.info/economia.09.02.2008>