



Mr. Ajmera's column as on 21st September, 2013

"RBI more worried about inflation; markets fairly valued"...

During the week, Sensex gained 531 points or 2.7 percent to close at 20263.71, and the Nifty rose 161.5 points or 2.8 percent to 6012.10. Domestic bourses gained momentum towards the end of Wednesday's session and continued till Thursday on Fed move, but the Friday's charge was with bear due to 'surprise' move of repo rate hike by RBI. First event, the Federal Reserve said it would continue its monthly USD 85 billion bond buying programme, citing insufficient evidence of improvement in economic data to warrant a reduction in monetary stimulus. This move pushed Sensex 840 points higher in two days (Wednesday and Thursday). During the week, BSE FMCG Index gained 5 percent followed by Metal, Auto, Power and Oil & Gas with more than 2 percent gains. BPCL, Grasim Industries, Maruti Suzuki, Asian Paints, GAIL, Reliance Infrastructure, JSPL, ACC, UltraTech Cement and ITC were major gainers, rallying between 7-12 percent. However, Ranbaxy Labs tanked more than 25 percent on USFDA woes. BHEL, DLF, Hero MotoCorp and Sesa Goa lost 3-4 percent. Among midcaps, Hanung Toys, Ajanta Pharma and Shriram City gained the most with 20-26 percent gains whereas Gitanjali Gems, MTNL, Uflex, Educomp and Opto Circuits lost 14-17 percent. Meanwhile, the rupee closed at 62.25 against the dollar on Friday, up 124 paise during the week.

Reserve Bank of India (RBI) governor Raghuram Rajan in his policy-making debut on Friday came out as a hawk on the side of inflation in the same mould as his predecessor D Subbarao, belying hopes that he might be inclined to push growth at the risk of inflation. According to Rajan, the hike in the repo rate should not be interpreted to mean that growth has taken back seat and is not a priority. Inflation and growth are both priorities for RBI. The 0.25 percentage point increase in the repo rate will not have any significant impact on growth rates, he said, adding: "Containing inflation, along with various other measures, will support economic growth." The Fed decision to defer tapering its monetary stimulus

provided India with a window to set its house in order, he said. "Let us remember that the postponement of tapering is only that, a postponement. We must use this time to create a bullet proof national balance sheet and growth agenda, which creates confidence in citizens and investors alike. Domestically, home, auto and other loans are set to become costlier as the Reserve Bank of India (RBI) Friday unexpectedly hiked its key policy interest rate by 0.25 percent, saying inflation remains worrisome.

Fitch said prospects of a swift economic turnaround have been further dented by a 20 percent fall in the domestic currency since the end of May due to increased concerns over the country's large current account deficit. Fitch Ratings cut India's growth forecast for the current financial year to 4.8 percent, saying weak demand is a large drag on the economy. The new estimate compares with projections of 5.7 percent made in June and 7 percent in September, underlining the "severity of the growth shock," the rating agency said in its 'Global Economic Outlook' report released on Thursday. India's economy expanded at a 4.4 per cent pace in the April-June quarter compared with 4.8 per cent in January-March. "Demand is weak, both externally and domestically, which is a large drag on the economy," the agency said Fitch also cut India's growth rate projection for FY'15 to 5.8 percent from the June forecast of 6.5 per cent. In September 2012, the company had projected a growth of 7.5 percent for FY'15. Last week, the Prime Minister's Economic Advisory Council had revised its growth forecast for the current financial year to 5.3 percent from 6.4 percent projected earlier. The rating agency said the weaker exchange rate, coupled with high international crude oil prices, would raise the cost of the government's fuel subsidy programme. "This is likely to force the government to cut other budget expenditure if it is to meet its FY'14 fiscal deficit target of 4.8 per cent of GDP. "Rising imported inflation pressures coupled with continued pressure on the exchange rate will limit the Reserve Bank of India's ability to cut policy rates further,"

Globally, US stocks fell on Friday as investors puzzled over the Federal Reserve's decision to maintain its stimulus measures as they heard opposing viewpoints from top Fed officials. Despite lower closes in the past two sessions, the major stock indexes ended higher for the week. The Dow rose 0.6 percent, the S&P gained 1.3 percent and the Nasdaq advanced 1.4 percent. On Wednesday, the Fed surprised economists and investors with its decision to delay scaling back its stimulus. The Dow Jones industrial average fell 185.46 points or 1.19 percent, to 15,451.09, the S&P 500 lost 12.42 points or 0.72 percent, to 1,709.92 and the Nasdaq Composite dropped 14.656 points or 0.39 percent, to 3,774.728. Declining stocks outnumbered advancing ones on the NYSE by 2,172 to 836, while on the Nasdaq, decliners beat advancers 1,364 to 1,191. Gold prices and stocks on major markets gave back some gains on Friday, after soaring earlier this week in the wake of the Federal Reserve's unexpected decision to maintain its monetary stimulus. The Fed's move had spurred benchmark U.S. stock indexes to all-time highs on Wednesday, as well as driving up the price of gold and lowering bond yields, but doubts about the direction of U.S. monetary policy remain. St. Louis Federal Reserve Bank President James Bullard said in an interview on Bloomberg TV on Friday that a start to winding down the stimulus program was possible in October, depending on upcoming economic data. Gold prices fell 2.3 percent on Friday, giving back about half of the week's gains, while bonds and currencies were little changed.

Indian rupee fell 0.7 percent to 62.23 to the U.S. dollar while Indian shares fell almost 2.0 percent. The benchmark 10-year U.S. Treasury note was up 7/32, with the yield at 2.7246 percent. Benchmark 10-year German government bonds were also stable at 1.901 percent after yields sank to a one-month low of 1.812 percent on Thursday.

In the commodities market, Brent crude oil rose 0.1 percent to US\$108.91 per barrel after a steep drop in

the previous session. That drop came on increased Libyan production and signs of a thawing of diplomatic relations between Iran and the West. U.S. crude fell 0.9 percent on Friday.

At this juncton, we believe markets offer good profit booking opportunity in earlier recommended stocks.

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CA. Ashok Ajmera
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Key statistics

NSE Nifty Gainers

Company	CMP	Change %
Grasim Ind.	2,837	13.3
BPCL	344	13.2
Asian Paints	491	11.9
Reliance Infra.	418	11.8
Maruti Suzuki	1,465	10.9
GAIL India	342	10.6
Jindal Steel	263	10.2
ACC	1,121	9.1
Axis Bank	1,110	8.8
M&M	881	8.3

NSE Nifty Losers

Company	CMP	Change %
Ranbaxy Labs	333	(27)
Sesa Goa	178	(2.8)
Infosys	2,990	(2.5)
Cipla	430	(2.0)
HDFC	804	(1.3)
Hero Motocorp	1,985	(1.3)
HCL Tech	1,061	(1.2)
Tata Steel	300	(0.9)
TCS	1,952	(0.8)
Cairn India	319	(0.1)

Source: NSE, Ajcon Research

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