Mr. Ashok Ajmera, CMD

Mr. Ajmera's column as on Aug 03, 2015

All eyes on RBI's monetary policy; markets remained flat amid mixed cues..

The Indian equity markets closed flat during the weekly trade ended July 31, as investors were awaiting clarity on the number of regulatory issues and international outcome. The foreign institutional investors (FIIs) have been the net sellers of the Indian stocks to the tune of Rs. 2188.05 crore as on July 29, 2015 and the domestic investors bought Indian shares worth a net of Rs1220.50 crore as on July 28, 2015.

However, the volatile week closed without a bang as investors were pacified by various government clarifications and reform plans.

The barometer index of the Indian equity markets, the 30-scrip sensitive index (Sensex) of the S&P Bombay Stock Exchange (BSE) gained marginally by 2.25 points during the week under review.

The index closed at 28,114.56 points in the week under review from the previous closing of 28,112.31 points on July 24.

The flattish movement came a week after the barometer index fell by 351 points or 1.23 percent to 28,112.31 points during the week ended July 24.

Initially investors were wary about the US Fed's decision on interest rates and the future and options expiry (F&O). However, both the events came in line and better-than-expected for the markets. The US Fed'S decision to keep the rate intact and not giving out any hawkish commentary buoyed Indian markets. The the FOMC (Federal Open Market Committee) did recognise the growth in US jobs and house sales.

According to us, other factors like the proposal to regulate foreign funds, worries over retrospective taxes and a crash in Chinese markets further fuelled investor anxiety.

The barometer index lost over 650 points on Monday and Tuesday last week. The main reason for the fall emanated from the recommendations made by the Special Investigation Team (SIT) appointed by the Supreme Court on black money.

The SIT had recommended that the participatory note, or P-Note, route of overseas funds investing in Indian stocks be stringently regulated.

However, the markets stabilised after both the government and the regulator SEBI (Securities and Exchange Board of India) clarified that the SIT did not recommend a ban on P-Notes.

The government's clarification on the recommendations made by the Justice A.P. Shah committee on minimum alternate tax (MAT) and the P-Notes calmed investors' anxiety.

Healthy roll-over from expiry of July derivative contracts and announcement of Rs.70,000 crore in PSBs (public sector banks) in the next four years boosted markets in the later stages of the week. The news of capital infusion in the banking sector by the government lifted the banking index which drove prices. The mild up-tick in the roll-over of F&O positions after expiry showed that investors were gaining confidence.

Key developments

Manufacturing activities rose to a six-month high in July as orders from both domestic and overseas markets shot up, showed widely-tracked Nikkei purchasing managers' index (PMI) on Monday. But even then firms reduced jobs, though moderately. PMI increased to 52.7 points in July, from 51.3 in the previous month. It was highest since January's 52.9 points. A reading above 50 shows expansion and the one below means contraction. The data which came a day before the RBI monetary review also showed that while input inflation rose marginally, output inflation remained stagnant.

Both the output and new orders led to the rise. Markit Economics, which compiles PMI, said output continued to grow in July, with increases seen across sectors. Moreover, the overall rate of expansion was solid and faster than in June. Underpinning the rise in production levels was a sharper increase in new business inflows. In fact, growth of new orders gathered pace across the three broad areas of the manufacturing economy.

The PMI survey covers 300 companies. The index takes into account, output, orders, employment, stocks of items purchased, suppliers' delivery times. Anecdotal evidence highlighted stronger demand from both domestic and foreign clients.

Growth of new export business accelerated in July and was the most pronounced in five months. Panellists reported having been able to secure new contracts in tandem with successful price negotiations with clients.

But the data on exports doesn't seem to be in sync with official figures. Merchandise exports declined for the seventh consecutive month in June.

Despite the uptick in growth, manufacturers continued to cut workforce numbers in July. Nonetheless, the rate of job shedding was only marginal as around 96% of panellists reported no change in employment from the levels recorded in the prior month.

Although the latest data suggests that the manufacturing upturn gained traction, worries regarding the labour market persist. Continued job shedding highlights the concern felt by businesses towards the outlook, with firms failing to increase workforce numbers to any great extent since early 2014.

PMI manufacturing												
July,14	Aug,14	Sept,14	Oct,14	Nov,14	Dec, 14	Jan,15	Feb,15	Mar,15	Apr,15	May,15	Jun,15	Jul,15
53	52.4	51	51.6	53.3	54.5	52,9	51.2	52.1	51.3	52.6	51.3	52.7
Note: Reading above 50 points is expansion and the one below 50 is contraction.												
Source: Markit Economics												

Ajcon's view

The markets are optimistic of a rate cut given the fact that there has been only a slight up-tick in inflation and the monsoon has performed better-than-expected.India Inc. is demanding a rate cut as it believes that this may be the last time in this calendar year for RBI to ease lending before inflation spirals up again and the US Fed decides on its own rates in September.

On the political front, developments during the ongoing monsoon session of Parliament will be closely watched. The Union Cabinet on 29 July 2015, reportedly approved amendments to the Goods and Services Tax (GST) bill to compensate states for revenue loss for five years on introduction of the uniform nationwide indirect tax regime, as has been suggested by Rajya Sabha Select Committee. The monsoon session of Parliament concludes on 13 August 2015.

We recommend accumulation in fundamentally strong midcap stocks available at attractive valuations in PSU Banking & Financial Services, Infrastructure, Real Estate, Engineering, Automobiles, Capital Goods, Packaging, Logistics and Pharma.

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