



Mr. Ajmera's column as on 14th December, 2013

"All eyes on RBI Policy and Fed Meeting which would determine market trend ahead"...

In the week to December 13 benchmark share indices recorded their highest fall since the first week of November, on persistent selling in last four trading days of the week, amid worries of a rate hike by the central bank and fears of US Federal Reserve winding down its monetary stimulus measures. Rising inflation level in November and weak industrial output in October weighed on market sentiment.

During the week, Sensex ended down 281 points or 1.3% at 20,716 and Nifty ended down 91 points or 1.5% to 6,168. Index of Industrial Production (IIP), industrial growth in October 2013 reported contraction of 1.8% as compared to growth of 2.0% in the previous month and 8.4% in October 2012. The industrial production for October 2013 surprised negatively by coming in lower than market expectations of a 1.2% decline.

Mainly driven by high vegetable prices (food prices soared by an annual 14.72 per cent), the retail inflation rate accelerated to an all-time high of 11.24 per cent in November (from 10.17 per cent the previous month), making the Reserve Bank of India's mission to cool prices without hobbling chances of a rebound more difficult. The BSE Capital Goods and Power indices ended over 4% down while Consumer Durables and rate sensitive sectors such as Bankex, Auto and Realty indices ended down 2-3% each.

Selling pressure in shares of capital goods was seen on higher-than-expected contraction in industrial output during October. Bharat Heavy Electricals was the top Sensex loser during the week down 9.6% while engineering major L&T ended down 4.3%. In the power sector NTPC ended down 7.6% after the Central Electricity Regulatory Commission (CERC) came out with a new set of draft regulations that plans to fix tariffs for the power sector for the next five years. Investors sold the stock in large numbers as it became clear that the draft regulations are negative for NTPC. Bank shares led the fall among rate sensitive shares on worries that the RBI would once again hike key policy rates in the midst of rising

inflation levels. SBI lost 6.4% and ICICI Bank ended 5% lower. Tata Motors ended down 5.3% after its UK subsidiary Jaguar Land Rover (JLR) expanded its capex guidance for the fiscal year ending March 2015 which is likely to strain the company's cash flows in near term. Jindal Steel ended down 8.4% after the stock will be replaced by Axis Bank in the Sensex from December 23. However, IT majors were among the top gainers during the amid a weakening rupee. Wipro, Infosys and TCS ended up 0.2-5% each. ONGC ended down 4.8% after a division Bench of the Gujarat High Court had directed ONGC to pay differences in royalty on crude oil within two months and henceforth, pay royalty to the Gujarat government at the market rate.

According to the Oil Field Act, oil producers have to pay 20 per cent royalty on the crude oil and natural gas they extract from on-land blocks to state governments.

Other shares which made headlines during the week include Torrent Pharma after the company said it entered into a definitive agreement to acquire the branded domestic formulation business of Elder Pharmaceuticals for a consideration of Rs. 2,004 crore on slump sale basis.

Strides Arcolab was in action after the board announced a special dividend of Rs 500 per share following its sale of Ajila Specialities Division to Mylan. The company has informed the Bombay Stock Exchange that the record date for payment of the special dividend is December 20, 2013.

The Week Ahead

Apart from policy reviews from the central banks of India and the US investors will be keenly watching corporate advance tax payments and inflation based on the wholesale price index.

The inflation data based on wholesale price index for November is scheduled for release on Monday, 16 December 2013.

The two-day meet of the US Federal Reserve Bank begins on Tuesday, 17 December 2013 while Reserve Bank of India will announce its Mid-quarter monetary policy review for 2013-14 on Wednesday, 18 December 2013.

In a bullish signal, the S&P 500 closed on Friday right above 1,775 - considered a technical support level. At less than 2 percent below its record closing high, the S&P 500's pullback for the week shows no signs of investor panic, traders said. Investors have been trying to gauge the timing of an expected winding down of the US central bank's bond-buying stimulus, with many market participants expecting the Fed to announce a tapering in March. Stronger economic data of late, however, has led some to shorten that timeline to as soon as the end of next week's two-day meeting. Markets are likely to retreat in case the US Fed signals winding down its monetary stimulus measures. Further, a hike in key policy rates would also weigh on investor sentiment.

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