



Mr. Ajmera's column as on June 14, 2014

Bull run hits a road block amidst tensions in Iraq..

The Bull Run on D-Street hit a road block this week with the Nifty posting its biggest single day fall in nearly four and a half months. The risk aversion was triggered on account of escalating violence in Iraq as crude oil scaled to nine month high threatening to derail the improvement in subsidy bill and trade deficit. Brent crude gained over US\$113 a barrel, up US\$4 this week, on concerns that an insurgency in Iraq may trigger civil war and eventually hit oil exports.

Brent crude edged further above USD 113 a barrel on Friday, up about USD 4 since the start of the week, on concerns that an insurgency in Iraq could trigger civil war

On the week, the rupee slipped 1 percent, falling for the third straight week, which is also its biggest weekly fall since the week to Jan. 24. The evolving geo-political situation will be the key for the rupee's direction in the near term, though the central bank is expected to intervene to prevent any excessive volatility in the local currency.

Also, monsoon rains were 48% below average levels in the week to June 11, data from the weather office showed, reflecting the late onset of the annual rains over the Kerala coast.

For the week, the benchmark Sensex-30 slipped 0.66% to 25,228 and the Nifty closed below the 7,550 down 0.54% at 7,542.

The broader markets faced a steeper correction as the midcap index slumped nearly 2% and the smallcap index gave off a little over a percent.

Defensives were back in focus during the week with IT and Health Care being the preferred picks. The respective indices added 4-6%. Auto names too witnessed a rally post the encouraging sales numbers posted for the month of May.

The drubbing was maximum in some of the pockets which were the outperformers in the Hope rally. Realty, PSU, Oil & Gas, Metal, Power and banking index were the major draggers, with cuts of 3-6% seen on indices.

Consumer Durables and FMCG indices too were down a percent each.

IT majors TCS, Infosys and Wipro were among the top gainers over the last five trading sessions with gains between 4-6%. Infosys surged on heavy volumes as the company announced the selection of Dr. Vishal Sikka as the Chief Executive Officer and Managing Director of the company.

From the health care space, Dr Reddys, Cipla and Sun Pharma added 4-5%.

HDFC twins which added upto 4.5%, were the only scrips to end the week in green from the financial space among Sensex-30.

Auto majors, Maruti Suzuki and Bajaj Auto advanced 0.4% and 6% respectively.

Oil and Gas majors Reliance Industries and ONGC dropped 3.4% and 9% on rising violence in Iraq and were the major index draggers.

BHEL, Axis Bank, NTPC, Tata Power, Bharti Airtel, Tata Steel and Sesa Sterlite down 5.5-9.5% were some of the other major losers.

Macro Resurgence

After falling for two months, industrial production grew at a 13-month-high rate of 3.4 % in April, driven mainly by electricity generation and manufacturing. The numbers, if sustained, could push up economic growth, stuck below five percent for two years now.

Exports grew by a six-month high of 12.40% at US\$27.9 billion in May this year against US\$24.91 billion in the same a year ago. The outbound shipment was driven by 28.7% increase in petroleum products and 22.09% in engineering goods, showed official figures released today.

Imports, on the other hand, contracted 11.41% at US\$39.23 billion in May against US\$44.28 a year ago. This was partly reflective of 72% decline in gold imports. As such, trade deficit declined by 42.01% at US\$11.23 billion in May against US\$19.37 billion in the same month of 2013-14.

Global markets

Street is worried about the impact a protracted period of high commodity prices could have on economic growth, especially with indexes near record levels.

President Barack Obama said on Friday he needs several days to determine how the United States will help Iraq deal with a militant insurgency, but he ruled out sending US troops

back into combat and said any intervention would be contingent on Iraqi leaders becoming more involved.

The [Dow Jones](#) industrial average rose 41.55 points or 0.25 percent, to 16,775.74, the S&P 500 gained 6.05 points or 0.31 percent, to 1,936.16, and the [Nasdaq](#) Composite added 13.02 points or 0.3 percent, to 4,310.65.

For the week, the Dow was down 0.9 percent, the S&P fell 0.7 percent and the Nasdaq was down 0.25 percent.

The week's decline was the first after three weeks of consecutive gains on the S&P 500. For the year, the broad market index is up about 4.8 percent. In macroeconomic news, US consumer sentiment unexpectedly fell in June as views by consumers with the lowest incomes soured, according to the preliminary June read from the Thomson Reuters/University of Michigan's index.

Ajcon's view

Any dips from current levels can be an opportunity for taking fresh positions on the long side. However, as a word of caution, the upside may be limited from hereon as expectations on the reform front would have been considerably factored in by the recent runaway spike in stock prices. The risk reward ratio is skewed in favour of risk for short term investors. For medium to long term, we recommend fundamentally good midcap stocks in infrastructure, construction, engineering, chemicals and capital goods sector. Some of the PSU midcap banks still look good.

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