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Mr. Ajmera's column as on 17th December, 2016

Biggest weekly fall witnessed in a month; Fed hike and demonetization affects sentiments..

Domestic bourses performance

The market posted its biggest weekly fall in a month in a US Federal Reserve's policy-focused week that saw Fed hiking interest rates by 25 basis points (bps) and back home foreign investors selling equities worth over Rs 1,350 crore through the week.

During the week ended December 16, the S&P BSE Sensex lost 258 points, or 1%, to settle at 26489.56, while the broader Nifty50 slipped 122 points, or 1.5%, to close at 8139.45.

Broader market underperformed the headline indices. BSE Midcap index declined 2.38% and BSE Smallcap was down 1.67%.

Meanwhile, foreign investors sold over Rs 1280 crore worth of equities in four days to Thursday, data available with National Securities Depository suggested. On Friday, they sold equities worth Rs 90 crore, provisional data available with the BSE showed.

Key developments during the week

WPI inflation fell to 5 month low

The wholesale price index (WPI)-based inflation fell to a five-month low of 3.15% in November from 3.39% in the previous month, while the Consumer Price Index (CPI)-based inflation fell to 3.63% in November — a record low in the new series — from 4.2% in October as the rate of rise in food prices were dampened by the cash crunch following the demonetisation of high-value currency notes from November 8 onwards.



Fed hikes rates for first time in a year

In a unanimous decision, the Federal Open Market Committee (FOMC) raised the target federal funds rate by 25 basis points to between 0.50% and 0.75% and signalled a faster pace of increases in 2017 and 2018, heightening fears that higher interest rates in US would trigger foreign investment outflows from emerging markets including India towards the US.

Sectors and stocks

Among stocks, Bharti Airtel plunged 6.36% for the week. Coal India plummeted 6.18%, ICICI Bank and Hero MotoCorp tanked 4.75% and 4.67% respectively. Asian Paints and ITC slumped 4.33% and 3.92%, respectively.

Gainers included TCS (4.03%), Axis Bank (3.61%), Reliance Industries (3.03%) and Tata Motors (1.82%).

Global markets

US stocks fell on Friday, weighed by a more than 4 percent drop in Oracle shares, while recently battered stocks in the real estate and utilities sectors posted the largest gains.

Investors were anxious and turned to defensive sectors in stocks as well as US Treasuries after a report that a Chinese Navy warship seized a US underwater drone on Thursday in international waters in the South China Sea.

The Dow Jones industrial average fell 8.83 points, or 0.04 percent, to 19,843.41, the S&P 500 lost 3.96 points, or 0.18 percent, to 2,258.07 and the Nasdaq Composite dropped 19.69 points, or 0.36 percent, to 5,437.16.

The Dow rose for its sixth consecutive week but the S&P 500 and Nasdaq posted slight weekly declines. Utilities and real estate were the best-performing sectors on the S&P, in a rotation out of recent winning sectors. US stocks have been on a tear since the Nov. 8 presidential election, with the S&P rising 5.5 percent on bets that President-elect Donald Trump's expected deregulation and infrastructure spending will boost the economy. However, there are some concerns that the rally may have little support as policy will take time to be implemented and likely will change as it makes its way through Congress. Advancing issues outnumbered declining ones on the NYSE by a 1.27-to-1 ratio; on Nasdaq, a 1.18-to-1 ratio favored decliners. The S&P 500 posted 22 new 52-week highs and one new low; the Nasdaq Composite recorded 172 new highs and 41 new lows.

Ajcon's view

We do not expect major movement in markets due to upcoming holiday season as FII participation is minimal. The next week will start with yearly deposit growth data along with foreign reserves data, followed by bank loan growth. Globally, the data like US existing home sales and crude oil inventories will remain in focus. It is advisable to remain stock specific and look for value bargains after recent hammering in domestic bourses due to demonetization and US Fed hike.

CA Ashok Ajmera

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