Mr. Ajmera's column as on May 17, 2014

History rewritten in Indian politics, sunshine to continue in Indian stock markets..

History was re-written in India as the country found its strongest leader since Indira Gandhi and gave its most decisisive mandate since the one given to Rajiv Gandhi post his mother's assasination. The markets simultaneously carved a history of their own, with the Sensex and Nifty crossing the 25,000 and 7,400 levels respectively as the elections gave the BJP its highest mandate ever and sunk the Congress to its lowest in post-independent India. The Sensex finally ended the week at 24,121, stronger by 1,127 points or 4.9% and the Nifty ended at 7,203, up 344 points. The midcap index ended at 7765, higher by 309 points or 4.1% and the smallcap index ended at 7785, up 292 points or 3.8%. All the sectoral indices ended the week in the green. The high-weightage banking index jumped by 1273 points or 8% at 16994. The high-beta realty index shut shop at 1605, up 185 points or 13%.

The benchmark indices began the week with a bang on speculation the BJP-led NDA will form the next government and Narendra Modi will be at the helm post May 16. The momentum continued on the next day as exit polls signaled precisely such as outcome. There was an interlude for the next two sessions as the market participants awaited the outcome on D-Day. The barometer index scaled a record high of 25,375 on Friday as it became clear that the Modi tsunami had swept away the Congress, but gave way to caution–The Sensex closed the D-Day at 24,121, up 216 points after hitting a record high of 25,375 during the course of the day and the Nifty settled at 7,203, up 79 points after making a new peak of 7563.

Meanwhile, the rating agency Fitch said BJP-led National Democratic Alliance (NDA) which got strong mandate to form government at centre must take steps for fiscal consolidation, create low inflation climate and push for structural reforms. These steps are necessary to create conducive atmosphere for pick-up in investment and get back India's economic growth on higher sustainable path, Fitch said.

On the economic front, the WPI inflation eased to 5.2% in April from 5.7% in March, providing relief to a new government amid other deteriorating macroeconomic numbers such as retail inflation and industrial output.

Global equity markets turned higher in a late-day rebound on Friday after being down most of the session on concerns about economic growth, while government debt prices fell on surprisingly strong US housing data. The Dow industrials ended the week down and the S&P 500 ended a tad lower, after both hit record highs earlier in the week. A monthly gauge of US consumer sentiment fell in May as a gloomy view on income growth clouded an otherwise positive economic outlook, the Thomson

Reuters/University of Michigan survey showed. But the Commerce Department said US housing starts jumped in April and building permits hit their highest in nearly six years, offering hope the troubled American housing market could be stabilizing. The data provided fodder for those who expect the economy to struggle in the second half of the year, while the housing report bolstered those who see stronger growth ahead. Weighing on that tug-of-war were expectations of a market correction. MSCI's all-country world index was up 0.1 percent but still off a high set on Thursday. The pan-European FTSEurofirst 300 index closed up 0.3 percent. The Dow Jones industrial average rose 44.5 points, or 0.27 percent, to end at 16,491.31. The S&P 500 gained 7.01 points, or 0.37 percent, to 1,877.86 and the Nasdaq Composite added 21.296 points, or 0.52 percent, to 4,090.588. For the week, the Dow fell 0.56 percent, the S&P 500 fell 0.03 percent and the Nasdaq rose 0.46 percent.

US Treasuries prices fell after the housing data pointed to a strengthening economy, pulling yields on benchmark 10-year notes up from six-month lows. They fell 5/32 in price to yield 2.5213 percent. The dollar held steady against major currencies as US yields stabilized. The dollar traded at 101.52 yen, down 0.04 percent, and rose against the euro, up 0.1 percent at USD 1.3695. Brent crude oil rose above USD 109 a barrel after a recovery in Libyan oil supply proved short-lived and tension simmered over Ukraine. Brent crude rose 66 cents to settle at USD 109.75 a barrel. US crude climbed 52 cents to settle at USD 102.02.

Ajcon's Outlook

Modi is perceived as being more business-friendly and decisive by the business community. As chief minister for the fast-growing state of Gujarat, Modi has built a reputation for getting things done. While campaigning for the Lok Sabha elections, Modi pledged to reinvigorate the country's manufacturing sector, create more jobs and overhaul the country's inadequate infrastructure. Investors are hoping that the BJP-led government will be better at getting things done and more business-friendly than the Congress-party-led coalition government which was in power during the past ten years.

Investors are expecting measures for revival of the economy, business-friendly policies and good governance from the new government that comes to power after the elections. Investors expect policy measures from the new government to put India on a high-growth path on a sustainable basis.

Some amount of caution was evident on Friday as share prices slid sharply from the day's highs, despite the election results being much better than the best case scenario. There seems to be little doubt about Modi's track record as an administrator or his intent. Yet, Modi and team have a challenging task at hand, given the weak macro-economic fundamentals. As many industry captains themselves are aware, many of the problems, especially those in the coal, power, energy and mining sectors, will some time in fixing. Much as most stock market investors would like to think, it is not merely about clearing a few files with the stroke of a pen. The market's reaction to the poll results was quite mature, and the intra-day correction means some of the excess leveraged positions would have been unwound. Still, the market is likely to trend higher for some more time before investors get their first taste of reality, most likely around Budget.

There is likely to be some amount of remorse buying, especially from global investors who have missed out on the rally. To that extent, a steep correction near term looks unlikely. Some experts feel retail investors too will come rushing in. Should markets stabilize, there is reason to believe that flows into mutual funds will improve. If nothing, the continuous redemptions seen over the last few years could reduce considerably. Investors dumped defensives like IT, pharma and FMCG, and continued to pile on to cyclicals, betting on a faster-than-expected recovery in the capex cycle. The general thinking is that a rush of foreign capital flows because of the NDA win will strengthen the rupee and hurt the profitability of exporters in general. But it seems unlikely that the RBI will allow rupee to appreciate much—57 to 58 is what many think will be a tolerable level for the RBI. Also, the central bank may use the opportunity to build up its dollar reserves, thereby causing the rupee to soften.

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