



**Mr. Ashok Ajmera, CMD & CEO**

**Mr. Ajmera's column as on 19th November, 2016**

**Domestic bourses tank on near term growth concerns due to demonetization; opportunity to pick up structurally strong companies..**

#### **Domestic bourses performance**

The equity benchmarks settled the holiday-truncated week ended November 18 near six-month lows discussion on impact on demonetisation on consumption, washout of initial session of winter session of Parliament and the US Fed Chair Janet Yellen's comment on interest rate hike influencing the market sentiment through the week.

During the week, the S&P BSE Sensex shed 668 points, or over 2%, to settle at 26,150 on Friday. The broader Nifty50 dropped 222 points, or nearly 3%, to close the week at 8,074. Midcap and smallcap crashed. The BSE Midcap index lost 3%, while the BSE Smallcap index dipped 5% during the truncated week.

#### **Demonetisation woes intensify**

The worries about the impact of demonetization on the near term growth of the economy and consequently on the stock market continued to plague the market. However, we believe that this make the economy structurally very strong and the long-term gains will even out the short-term pains.

Softening food prices helped ease retail as well as wholesale inflation in October, raising hopes that RBI may go in for another rate cut in its monetary policy review next month.

Retail or CPI inflation dipped to 14 month low of 4.20% in October, while the one based on wholesale prices or WPI fell for the second consecutive month to 3.39% in October.



## Global Markets

US stocks ended lower on Friday, with healthcare stocks leading the declines, as investors cashed in on a post-election rally and waited for clarity on the next administration's policies. Wall Street equities took a breather after rising dramatically since Donald Trump's surprise victory in the presidential election last week. While the three major indexes closed higher for the second week in a row, the rally lost some steam in the week as investors awaited more information to support their bets that Trump could succeed in passing proposals to lift infrastructure spending and reduce taxes. The Dow Jones industrial average fell 35.89 points, or 0.19 percent, to 18,867.93 while the S&P 500 dropped 5.22 points, or 0.24 percent, to 2,181.9. The Nasdaq Composite slipped 12.46 points, or 0.23 percent, to 5,321.51 after hitting a record of 5346.8.

## Fed rate hike

Market ended the week decoding Yellen's statement who said a rate hike in US may ensue 'relatively soon'.

Further, the strong US jobs data released Thursday strengthened the case for raising interest rates.

In a testimony to US Congress, Yellen in a statement said: "At our meeting earlier this month, the committee judged that the case for an increase in the target range had continued to strengthen and that such an increase could well become appropriate relatively soon if incoming data provide some further evidence of continued progress toward the Committee's objectives."

The comment has raised chances of rate hike in December policy review.

## Gold

With international gold price falling to the lowest since late May, gold price in India was on Friday quoted in discount of \$5-\$10 per ounce from the premium seen in the past few days.

After demonitisation, around \$1 billion worth gold was imported in just one week on high demand, and the flow of import continued. However, jewellers were not seeing demand and several traders have stopped giving import orders.

In Mumbai, LBMA-certified imported gold was selling at \$5 an ounce discount, while gold refined by Indian companies not having LBMA certification was selling at \$10 discount.

Import orders were getting cancelled since Thursday following scrutiny and notices by the income tax department. Raids and surveys further continued on smaller jewellers in Delhi and other areas. As a result, gold demand fell suddenly. The cash crunch has made people postpone jewellery buying and even for marriages, said a jeweller.

Standard gold price in Mumbai on Friday fell 1.5% to close at Rs 29,160 a 10 g and silver fell 2.19% to close at Rs 41,765 a kilo. Both precious metals were trading at four-and-half-month lows.



In the international market, gold price hit its lowest since late May as the dollar surged to a near 14-year peak on expectations for a US rate hike next month and higher fiscal spending from US President-elect Donald Trump.

**Week ahead and Ajcon's view:**

The benchmark indices are expected to remain volatile ahead of expiry of November series futures and options expiry on Thursday.

A total of 50-odd companies will declare their quarterly results during the trading week. The list included Larsen & Toubro, National Aluminium Company, BEML, Bata India Aditya Birla Fashion and Retail, among others.

At present, corporate profit to GDP is 4 percent, inflation is 4 percent, investment to GDP is 29 percent, savings is 33 percent. We believe as savings and savings rate go up, investment to GDP is going to go up, inflation is low, consumer demand is also reviving. Hence we are bullish on the markets from a long term perspective. At current levels, markets will test investor's patience and conviction.

At current valuations, we advise investors to remain stock specific and use the buy – on – dips strategy to make most of the current situation. At current levels, we believe value is available in both midcaps and smallcaps. Intermediate corrections are part of any bull market and investors should not be scared of investing when the markets drift lower.

**CA Ashok Ajmera**



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