



Mr. Ajmera's column as on 21st December, 2013

"Markets would turn volatile ahead of F&O expiry and festive season"...

The stock markets surged on Friday, primarily due to continued foreign institutional purchases, alleviating fears that inflows would dry up after the US Federal Reserve's stimulus rollback announcement on Wednesday. Foreign investors' strong buying this year, totalling more than US\$ 18 billion in net investments, has been a key to the stock market's performance and was behind the indexes' surge to record highs on December 9. Shares of software exporters led the Dalal Street rebound, after Thursday's decline, as the Fed move boosted expectations of a sharper recovery in the US. The sentiment also received a boost with Accenture's announcement it expected its consulting business to see a turnaround this financial year. Reliance Industries also aided the surge in the indices, after the government on Thursday allowed the company to charge higher gas prices from April. The BSE Sensex rose 371.1 points or 1.8 per cent to close at 21,079.7. NSE's Nifty gained 111.3 points or 1.8 per cent to close at 6,277.9.

The rupee snapped its three-session losing spree on Friday. The domestic currency closed at 62.04 to the dollar on Friday, after opening weak at 62.41 a dollar, against the previous close of 62.12. NSE's information technology index rose 1.7 per cent, with Infosys gaining 1.1 per cent and Wipro surging 3.6 per cent. Reliance Industries closed at Rs. 893.6, after gaining 4.6 per cent over the previous close.

Foreign institutional investors (FIIs) net bought shares worth Rs. 990 crore on Friday, according to provisional data, after pouring in about Rs. 2,200 crore the previous day.

Investors were relieved that FII inflows have not slowed despite the Fed's tapering of the bond buying programme.

Globally, the Dow Jones industrial average rose 42.06 points, or 0.26 percent, to end at 16,221.14. The Standard & Poor's 500 Index gained 8.71 points, or 0.48 percent, to finish at 1,818.31. The Nasdaq Composite Index climbed 46.61 points, or 1.15 percent, to close at 4,104.74. Both the Dow and the S&P 500 finished Friday's session at record closing highs. This marked the Dow's third record closing high in a row. Earlier in Friday's session, the Dow set an all-time intraday high at 16,287.84. For the week, the Dow rose 3 percent, its best week since September, and the S&P 500 gained 2.4 percent, its best week since July. The Nasdaq advanced 2.6 percent. Indexes pared their gains going into the close because of

"quadruple witching," which marked the quarterly expiration and settlement of December contracts for stock options, stock index options, stock index futures and single stock futures. In addition, most US index funds adjusted their portfolios as a result of quarterly rebalancing by index providers. Massive volatility affected a number of notable names, including FedEx Corp and Electronics Arts Corp, in the final minutes of trading.

US economy grew 2.8% in Q3CY13 (2.5% in Q2). The 16-day shutdown may reduce Q4 GDP by 0.3%. US GDP growth is expected to accelerate from 1.7% in CY13E to 2.6% in CY14E. The two factors Fed is monitoring for any QE Tapering are Unemployment (6.5%) and inflation (2%). Unemployment rate has come down to 7.3% whereas Inflation was 1% in Oct'13. UK CPI declined to 2.2% YoY (2.7% in Sep) bringing it closer to BoE's target of 2%. BOE kept its benchmark rate at 0.5% & held its target for bond purchases at GBP 375 bn. U.K. services growth index unexpectedly rose to 62.5 (60.3 in Sep), highest since May'97. European Commission forecast the U.K. economy to grow at 2.2% next year, twice that of Euro zone.

ECB cut its interest rate to a record low of 0.25% as inflation dropped to the lowest in 4 years to 0.7% in Oct'13. ECB kept its deposit rate at zero & trimmed the marginal lending rate to 0.75%.

Index on Euro-area manufacturing industry rose to 51.5 in Nov (51.3 in Oct) while Services-output Index unexpectedly fell to 50.9 in Nov from 51.6 in Oct.

Germany's manufacturing index rose to a 29-mth high of 52.5 & the services index rose to 9-mth high at 54.5. Its business confidence also surged to highest since Apr'12 to 109.3 in Nov'13.

Japan's GDP rose 1.9% in Q3CY13 (3.8% in Q2). BoJ could postpone the time-frame for achieving its 2% inflation target as it has refrained from enlarging its asset-purchase program.

In an ambitious plan, China has promised to relax its farmers' land rights, loosen the one-child policy and encourage private investment in state businesses.

The Week Ahead

We warn against reading too much into the market strength seen on Friday, as the rally was also aided by short-covering. Volatility was expected to heighten in the week ahead, with the December futures and options series set to expire on Thursday.

But NSE's Volatility Index (VIX), a key sentiment indicator, pointed to smoother sailing in the near term. It slipped 3.4 per cent to 16 on Friday against the previous day's close. The drop in this gauge, which measures the market's expectations of near-term risks based on options prices, showed traders expect fewer risks in the market.

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