Mr. Ashok Ajmera, CMD

Mr. Ajmera's column as on December 27, 2014

Markets end in red amidst strong global cues; FIIs remain net sellers…

Benchmark indices ended marginally in the red amid volatile trading in a truncated week on capital outflows and caution due to monthly expiry of derivative contracts. Global cues were stronger though, particularly good economic data in the US.

In the week ending December 26, the 30-share Sensex lost 0.47 per cent or 130.06 points at 27,242, while the 50-share Nifty ended down 0.29 per cent or 24.50 points at 8,221.

In the broader market, the BSE Midcap Index performed better than the front-liners with a gain of 0.74 per cent while the BSE Smallcap Index's loss of 0.29 per cent was lower than the fall in Sensex.

Foreign investors were net sellers in equities to the tune of Rs 3,548.47 crore during the week, as per provisional stock exchange data.

Key events

Traders ended the December derivatives series on a cautious note rolling over fewer positions in the Nifty futures segment. The Nifty futures contracts saw a rollover of only 66 per cent, compared to a three-month average of around 70 per cent. The rollover indicates that trades have turned risk-averse amid selling by overseas investors.

The winter session of the Parliament ended on Tuesday while on Friday, the Government promulgated an ordinance to raise FDI limit in the insurance sector from present 26 per cent to 49 per cent and re-promulgated the coal block ordinance to facilitate the e-auctioning of coal blocks after failing to get the related bills passed during the winter session due to repeated disruptions in the Rajya Sabha.

On the political front, we believe that BJP's strong maiden performance in Jammu and Kashmir assembly elections along with the simple majority it attained in Jharkhand with its ally will strengthen the Central Government allowing smoother rollout and execution of reforms.

Among global cues, in the third quarter the US economy grew at its fastest pace in eleven years leading to speculation that the proposed rate hike by the Federal Reserve will arrive sooner than later and a strengthening US dollar will put a squeeze on capital inflows to emerging economies.

Ajcon Global's view

While foreign investors maintained faith in the structural strength of the Indian economy through the cyclical downturn, it is good to see domestic investors' coming back to equity markets. We believe markets are likely to consolidate their gains in the near term. We have a long way to go as India is still in an early stage of a structural long-term bull market.

The Government has introduced symbolic initiatives such as Clean India and Make in India, which set the path of improving India's ranking on parameters such as the Human Conditions Index and ease of doing business. There would be focus on priorities such as general hygiene, higher literacy, skill development, financial inclusion, e-governance driving efficiency and compliance and infrastructure improvement, while steadily introducing structural reforms such as a national Goods and Services Tax and changes in land and labour laws. There is a clear thought to leverage the full potential of India's demographic dividend by improving the social infrastructure, skilling young people and creating jobs that would lead to higher disposable income and spending. Setting the stage for a larger and longer virtuous economic cycle.

Multiple steps, such as diesel deregulation, decision on gas prices, minor labour reforms, business-friendly compliance practices, and initialising a transparent and fair policy for coal mine auctions have been well navigated. Construction sector foreign domestic investment norms have also changed favourably, with focus on affordable housing. These initiatives would gain momentum in the backdrop of recent political gains. Softening of global commodities has reduced fiscal pressure, while improving the odds for a policy rate cut earlier than anticipated.

We must reckon that the world isn't in great shape. Geo-political risks abound, with West Asia and Russia-Ukraine still vulnerable. Sustained low crude oil prices could potentially invite geopolitical risks not envisaged now. The eurozone, Japan, China and several other emerging economies are struggling to keep the growth momentum on. However, it also shows the underlying fragilities in a large part of the developed world. Global markets could witness higher volatility in 2015.

Corporate profit growth is likely to be around 16-17 per cent annually for five years, while a valuation of around 16 times is in line with historical averages. We expect revival in the investment cycle, driven by infrastructure spending, followed by private capex at a later stage. We remain positive on the backdrop of a better outlook on economic variables, earnings outlook and continued liquidity flows. While keeping an eye on macro developments and identifying emerging themes and shifts, our greater focus remains on bottom up stock picking.

Week Ahead

From Thursday, auto companies will start releasing their monthly sales volume data for the month of December 2014.

On Friday and Saturday, Prime Minister Narendra Modi will interact with bankers during two day Bankers Retreat called 'Gyan Sangam' in Pune to flesh out a blueprint for banking sector reforms.

For the month of December 2014 India's HSBC Manufacturing PMI compiled by Markit Economics will be released on Friday along with the HSBC PMI of Eurozone, US and France. On Wednesday, Markit will release China HSBC PMI.

Most global markets will remain closed on Thursday for New Year.

Disclaimer

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