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Mr. Ajmera's column as on 4th March, 2017

Positive GDP data uplifts market sentiments; all eyes on GST council meet and state elections results..

A surprisingly positive gross domestic product (GDP) growth data and globally US President Donald Trump's non-combative speech to Congress may have taken the market to two-year high on the fourth trading day, the benchmark indices snapped five-week long gaining spree to end in red terrain as investors preferred to book profits ahead of the US Federal Reserve's policy meeting on March 14-15 and back home state election results due on March 11.

During the week ended March 3, the S&P BSE Sensex fell 0.2% or 60 points to settle at 28832, while the Nifty50 lost 0.5% or 42 points to close the week at 8897.

On Thursday, the 30-share Sensex had reclaimed its crucial 29,000 mark, hitting its two-year high of 29133 points, while 50-share Nifty also rose as much as 8,989 in intraday trade before profit-booking pushed the both indices lower.

Midcap stocks underperformed the frontline indices. The BSE Midcap index slipped 0.9%, while the BSE Smallcap index lost just 0.2% for the week.



GDP data – better than market and economist expectations

To the surprise of economists and market participants, the Central Statistic Office (CSO) on Tuesday showed that GDP expanded by 7% in the third quarter, belying all fears of the demonetisation derailing economic activity. The pace of the growth, however, slowed from 7.4% logged in the September quarter, but CSO retained its first advance growth estimate for the entire financial year 2016-17 at 7.1%.

Meanwhile, Nikkei India Manufacturing Purchasing Managers' Index (PMI) inched up to 50.7 in February from 50.4 in January, while Nikkei India Services PMI stood at 50.3 in February, up from 48.7 registered in January.

Sectors and stocks

Sectorally, BSE PSU index (down 2.6%) shed the most, followed by BSE Power (down 2%), BSE Bankex (down 2%) and BSE Oil & Gas (down 1.8%). BSE Auto and BSE FMCG slipped 0.9% and 0.6%, respectively.

Among gainers, BSE Metal advanced 2%, while BSE IT and BSE Realty were up 1% each. BSE Teck and BSE Consumer Durables gained 0.6% and 0.3%, respectively.

Among Sensex stocks, NTPC, Power Grid Corp and ICICI Bank plunged 6%, 4% and 3%, respectively, while Bharti Airtel and Axis Bank lost 3% each. Maruti Suzuki and Coal India dipped 2% each.

Gainers included Reliance Industries, Hero MotoCorp and Infosys, which rallied 6%, 3% and 2%, respectively. Hindustan Unilever and Tata Steel also gained 2% each.

Buzz in SME IPOs

Small and medium enterprises (SMEs) are increasingly looking at equity as an option for funding growth. Industry players say initiatives taken by the government and exchanges have made the equity fund-raising route more accessible for the country's burgeoning SME sector, which is largely dependent on bank funding.

In the first two months of 2017, there have been 10 initial public offerings (IPOs) worth Rs 135 crore on the SME platforms of the National Stock Exchange (NSE) and BSE. In comparison, there has been only one IPO on the main board, while no primary capital raising. The pace of new listings is likely to accelerate with more than 50 companies lining up before the exchanges with their fund-raising plans. About 36 SMEs have approached BSE SME, while about 15 are eyeing listing on NSE Emerge, the SME platform of the country's biggest exchange.

BSE SME has given the go-ahead to 28 companies, while eight have filed their offer documents and are awaiting approvals. Some of these companies are Trine Entertainment, Monarch Apparels, Shareway Securities, Octaware Technologies and Perry Impex.

Meanwhile, NSE Emerge granted approval to four companies, which are Aakash Infrastructure, Sanginita Chemicals, Shree Ram Switchgear and RKEC Projects. Focus



Lighting and Fixtures, Bohra Industries, Euro India Fresh Foods and Jalan Transolutions have filed their draft prospectus.

The companies eyeing to list are from sectors like apparels, chemicals, fertilisers, pharmaceuticals, realty, infrastructure and capital goods. Most of the companies are from Gujarat followed by Rajasthan and Maharashtra.

Investment bankers say encouraging participation in some of the recent IPOs bode well for new listings. Some of the SME IPOs this year saw record subscriptions.

Global Education's Rs 10-crore IPO was subscribed 82 times, generating demand worth around Rs 840 crore. Krishna Phoschem's Rs 20-crore IPO too saw a subscription of 33 times.

Exchange officials say SME-focused funds set up by the central and state governments are helping start-up listings. The government of Maharashtra and the Small Industries Development Bank of India (Sidbi) has jointly set up one such fund, which has invested in four SME IPOs on the NSE's Emerge platform. A similar fund is also set up by the West Bengal government.

Both the NSE and BSE are talking to several state governments to help with SME IPOs. The framework for a separate SME platform was approved by the Securities and Exchange Board of India (Sebi) in 2012. The disclosure and regulatory requirements for the platform were less stringent than those relating to listing on the main board. Since 2012, around 165 companies have listed on BSE SME and another 60 on NSE Emerge. Some of these companies have migrated to the main platform of the BSE and NSE.

Bond markets

Bond market yields dived on Thursday and Friday as traders scrambled to cover their short positions.

According to traders, investors pushed up yields sharply after the central bank kept policy rates unchanged on February 8. Yields moved up from 6.4 per cent to 6.95 per cent in less than a month. Much of the movement had happened because primary dealers and foreign banks had shorted their positions, expecting yields to rise further. As yields rise, prices of bonds fall. The expectation was that, by Thursday and Friday, they would be buying up the bonds from the market to cover the position. Public sector banks, sensing huge shorting, refused to sell bonds in the secondary market.

What accentuated the shortage of bond supply was that the government has exhausted its borrowing limit and will no longer supply fresh papers in the market.

Panicked bond traders therefore started offering hefty price for the same bonds to the public sector banks, pulling down bond yields by 20 basis points in two-three days. The 10-year bond yield closed at 6.77 per cent on Friday even as many illiquid bonds exchanged hands in the past two days.



Global Markets

The US Federal Reserve looks set to hike interest rates in its next policy meeting on March 14-15 as leading policymakers including Chair Janet Yellen indicating the global economy seemed to have turned a corner, clearing the way for a rate hike “fairly soon”.

Yellen, in a speech on Friday signaled the Fed is set to raise interest rates this month if employment and other economic data hold up. She also said rates are likely to rise faster this year.

Traders now have priced in about an 85% chance of a hike during the March 14-15 policy-setting meeting, according to Thomson Reuters data. Those chances stood at roughly 30% at the start of the week.

Ajcon’s view

Investors will closely watch assembly election results in five states, which are crucial for ruling party BJP, especially after demonetisation.

The week will start with investors reacting on Yellen’s fresh comments on rate hike in US. The ambiguity over state election verdict, however, may keep the market sideways. The outcome of the two-day GST Council meet, which begins on Saturday, will also be watched out for. Investors are concerned the Council may fix the peak GST rate at 40% instead of 28% agreed before.

Q3FY17 earnings season has been a mixed bag so far. We believe that street participants are keenly waiting Q4FY17 earnings (wherein the actual impact of demonetisation might be seen).

We believe domestic bourses will take cues from the following events in March 2017..

March 9 & 10: EU Summit

Markets will also watch out for the EU summit, to be held on March 9 and 10, where British PM Theresa May could trigger Britain’s exit from the European Union (EU). Though, Brexit Minister David Davis said that the government is aiming for March-end.

According to reports, the British government is still waiting for the upper house of parliament, where debate on the draft law is due next week, to pass the bill giving Prime Minister Theresa May the authority to trigger the exit from EU. The lower house of parliament did that on February 9.

The timetable is for a final vote in the House of Lords is on March 7 and the UK budget will be out March 8.



March 11: Assembly election results

Back home, elections results for the 5 states – Punjab, Goa, Manipur, Uttarakhand and Uttar Pradesh will be one of the most eyed event for the markets in the coming month.

Even though election results of the other four states are also due on March 11, the outcome of UP will be crucial as it will be a test of the BJP's popularity on the ground, especially after the demonetisation move.

We believe that the outcome may not affect the market largely but if BJP ends up winning more than 150 seats, it would be a sentimental positive for the markets. We believe that volatility may be sparked only if the seat share difference between the BJP and the party or alliance that secures the most seats is significantly large.

March 15-16: US Fed meet

Investors will also focus on the US Fed meet, to be held on March 15-16, as Janet Yellen has signalled an aggressive rate hike path in calendar year 2017 (CY17).

US Fed chair Janet Yellen, in her previous speech, hinted that the US central bank could consider raising short-term interest rates at its next policy meeting in March besides remaining positive on the road ahead for the economy in her testimony to Congress.

“If job gains and rising inflation continue as the Fed expects, an increase in the benchmark federal-funds rate likely would be appropriate “at our upcoming meetings,” Yellen said at her semi-annual monetary policy report to the Senate Banking Committee.

Central bank officials last lifted the fed-funds rate in December to a range between 0.50% and 0.75%. They held the rate steady at their January 31-February 1 meeting. Yellen will also speak on Friday, March 3 on the economy to the Executives Club of Chicago.

All though March: Key economic data

March will also see a list of economic data which may impact global markets. US will release revised figures on fourth-quarter economic growth while Japan and eurozone will also announce their Q4 GDP numbers. European Central Bank (ECB) and Bank of England (BoE), too, will review their interest rates on March 9 and 16, respectively. Back home, January's industrial production and manufacturing output will be announced on March 10 while CPI and WPI on March 13-14.

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