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Mr. Ajmera's column as on 7th January, 2017

Midcap and Smallcaps buzz in first week of CY17; all eyes on Q3FY17 earnings season and Union Budget 2017-18..

Domestic bourses performance

The market managed to finish the first week of calendar year 2017 marginally higher thanks to the continuous jaunty buying by domestic institutional investors (DIIs) even as an inconclusive Goods and Services Tax (GST) meet, hawkish minutes of meeting from the US Federal Reserve, fall in manufacturing activity in December and H1B visa woes kept the momentum shaky through the week.

During the week ended January 06, the S&P BSE Sensex added 0.5% or 133 points to settle at 26759, while Nifty50 gained 0.7% or 58 points to close the week at 8244.

Midcap and Smallcap stocks jumped. The BSE Midcap index rose 2.4%, while the BSE Smallcap index surged 3.2%.

Key developments during the week

- 1) Manufacturing activities contracted for the first time in a year, as PMI slipped to 49.6 points in December, down from 52.3 in November. This also marked the biggest month-on-month decline in the index in eight years or since November 2008 when the global economy had slipped into a severe downturn after the Lehman collapse.
- 2) An impasse over the division of administrative turf between the Centre and states, higher compensation due to demonetisation and definition of coastal states persisted at GST Council meet, indicating that a roll-out of the new indirect tax regime is difficult not only from April 1, but also from July 1, 2017. The next meeting will now be held on January 16.



- 3) Shares of information technology (IT) companies came under pressure this week after two US Congressmen reintroduced a bill to curb the use of H-1B visas, on which the Indian IT sector is particularly dependent.
- 4) Minutes from the Fed's December meeting showed policymakers were unsure about the potential impact of President-elect Donald Trump's policies on the economy. They noted upside risk to growth forecasts and suggested aggressive path of rate increase if inflationary pressures rise.

Sectors and Stocks

The week saw BSE Realty index gaining 7.2%, followed by the BSE Consumer Durables (5.8%), the BSE Metal index (5.2%), the BSE Auto index (3.7%), the BSE Oil & Gas index (3.4%), the BSE Capital Goods (3%) and the BSE PSU index (2.8%).

The BSE IT and the BSE Teck, on the other hand, were the only two sectoral losers and shed 2.9% and 1.8%, respectively.

Among individual stocks, Tata Steel, Adani Ports and ONGC surged 7.3%, 6.4% and 5.7%, respectively for the week. Tata Motors gained 5.6%, Maruti Suzuki advanced 5.4%, while Bharti Airtel added 4.7%.

Losers included Infosys (9.4%), TCS (9.2%), HDFC (3.2%), and SBI (1.5%). HDFC Bank and Wipro shed 0.9% each.

Ajcon's view

The earnings season for the third quarter will start from next week with companies such as 8kMiles, IndusInd Bank, BajajCorp, Infosys and MCX kicking off the inninigs. Investors will react to Central Statistics Office's projection of Gross domestic product (GDP) growth data released yesterday, which pegged economic growth at an optimistic 7.1% in 2016-17, lower than 7.6% in the previous financial year. Strong US nonfarm payroll data, out yesterday, will also be a key market trigger. Investors will also await industrial production, manufacturing output and inflation data scheduled to be released on Thursday.

We expect 2017 to be better than 2016. However, we believe there would be pressure in earnings in first two quarters of CY17 especially in auto, auto ancillary, real estate, cement, jewellery, consumer durables sector but expect to pickup rapidly in H2CY17. The next trigger for the bourses would be the Union Budget 2017-18 on Feb. 01, 2017 and upcoming third-quarter corporate earnings. We expect some relief for corporates in the form of some tax rate cuts, and expect push for housing, infrastructure and railway sector in the forthcoming budget. We can expect a recovery in banking space and growth figures should reflect improvement in the quarters going ahead.

It is advisable to remain stock specific and look for value bargains after recent hammering in domestic bourses due to demonetization and US Fed hike.

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