



Mr. Ajmera's column as on 8th February, 2014

Broader markets outperform; Nifty remains volatile..

The broader markets outperformed the benchmark share indices in the week to February 7 as investors turned their focus to mid-cap and small-cap shares available at attractive valuations. However, the benchmark share indices ended lower as foreign institutional investors booked profits in blue chip shares while concerns over downward revision in the GDP estimates for 2013-14 also weighed on investor sentiment.

Markets witnessed huge volatility during the week under review hitting four-month lows only to rebound in the latter half of the trading week as foreign institutional investors turned buyers. The India VIX, a volatility index based on the NIFTY Index Option prices, breached 20 during the week under review.

In the week to February 7, the 30-share Sensex ended down 137 points or 0.7% at 20,377 and the 50-share Nifty closed 26 points or 0.4% lower at 6,063. FIIs were net sellers in equities to the tune of Rs 1,666 crore during the week.

In the broader markets, the BSE Mid-cap index ended up 0.5% at 6,337 and the BSE Small-cap index ended up 1% at 6,329.

In January, India's manufacturing sector expanded the most this financial year, while inflation, particularly on the raw material front, rose, according to the widely-tracked HSBC Purchasing Managers' Index (PMI). The PMI for January rose to 51.4 points from 50.7 in December. While a reading of above 50 shows expansion, one below 50 indicates contraction.

State-owned BHEL was the top Sensex loser down 10% after it reported a sharp 41% year-on-year (yoy) decline in net profit at Rs 695 crore for the third quarter ended December 31, 2013 (Q3) due to lower realization. L&T ended down 0.4%.

IT majors ended lower after lower-than-expected revenue growth guidance for 2014 by the US-headquartered Cognizant which follows the same offshore delivery model like Indian IT services companies. Infosys, TCS and Wipro ended down 2-4% each.

In the oil and gas space, Reliance Industries and ONGC extended losses to end down 2% each.

However, auto shares which had weakened last week amid slowdown in January sales growth rebounded after they launched new vehicles at the Auto Expo 2014 in Delhi. Tata Motors, Mahindra & Mahindra, Maruti Suzuki, Hero MotoCorp and Bajaj Auto ended up 0.6-3% each.

Coal India was the top Sensex gainer to end nearly 9% up after the stock rebounded from the recent correction post the payment of huge dividend of Rs 29/share.

India's GDP growth rate estimated at 4.9 percent..

India's economic growth rate in the current financial year has been estimated at 4.9 per cent, a faster pace than in the previous year, mainly on an improved performance in the agriculture and allied sectors. "The growth in GDP during 2013-14 is estimated at 4.9 per cent as compared to the growth rate of 4.5 per cent in 2012-13," according to advanced estimates released by the Central Statistics Office (CSO). The CSO had lowered growth for 2012-13 to 4.5 per cent in its revised estimates from an earlier provisional forecast of 5 per cent. For 2013-14, the CSO has projected a growth rate of 4.6 per cent in agriculture and allied sectors, up from 1.4 per cent a year earlier. Manufacturing, however, is expected to register a contraction of 0.2 per cent in this financial year compared with growth of 1.1 per cent in the previous year. The latest estimate of 4.9 per cent for 2013-14 implies that the pace of economic expansion improved in the second half, given that GDP grew 4.6 per cent in the April-September period. According to the advance estimates, the services sector, including finance, insurance, real estate and business services sectors, is likely to grow 11.2 per cent this year compared with 10.9 per cent in 2012-13.

Mining and quarrying is likely to contract 1.9 per cent, compared with a 2.2 per cent decline in production a year ago. Growth in construction is likely to improve to 1.7 per cent from 1.1 per cent in 2012-13. According to the CSO's advance estimates, growth in electricity, gas and water production is likely to improve to 6 per cent in 2013-14 from 2.3 per cent in 2012-13. The trade, hotel, transport and communication sectors are projected to grow by 3.5 per cent, as against 5.1 per cent in the previous financial year. Community social and personal services growth would be better at 7.4 per cent, compared with 5.3 per cent previously. The CSO releases advance GDP estimates before the end of the financial year to enable the government to formulate various estimates for inclusion in the Budget.

Per capita income in real terms (at 2004-05 prices) during 2013-14 is likely to attain a level of Rs 39,961 as compared to the first revised estimate for the year 2012-13 of Rs 38,856. The growth rate in per capita income is estimated at 2.8 per cent as against the previous year's estimate of 2.1 per cent, CSO said. Per capita income at current prices during 2013-14 is estimated to be Rs 74,920 compared with Rs 67,839 during 2012-13, a rise of 10.4 per cent. Gross Fixed Capital Formation (GFCF), an indicator of investment, is forecast at Rs 32.2 lakh crore at current prices as against Rs 30.7 lakh crore in 2012-13. At constant (2004-05) prices, GFCF is estimated at Rs 20.1 lakh crore in 2013-14 as against Rs 20.0 lakh crore. In terms of GDP at market prices, the rates of GFCF at current and constant (2004-05) prices during 2013-14 are estimated at 28.5 per cent and 32.5 per cent, respectively, as against the corresponding rates of 30.4 per cent and 33.9 per cent, respectively in 2012-13.

Global markets

US stocks jumped on Friday, giving the S&P 500 its first weekly gain in four as the impact of a weak reading on the labor market was dulled by harsh weather conditions and traders focused on expectations of further economic strength. Nonfarm payrolls added 113,000 jobs in January - well shy of the forecast for 185,000. December payrolls were revised upward by only 1,000 to 75,000.

The US unemployment rate in January hit a five-year low of 6.6 percent; slightly above the 6.5 percent level that Fed officials have said would prompt them to consider raising benchmark interest rates from

near zero. The rapid drop in US unemployment will make re-crafting the Federal Reserve's easy-money promise a top priority for new Chair Janet Yellen, who will probably avoid tying policy to specific targets in the labor market. Strong job gains in construction hinted that cold weather was probably not a major factor in January job creation. Traders appeared to expect that the January numbers will be revised upward next month. The data also showed job gains in manufacturing.

The S&P 500 closed above its 14-day moving average, a level it hadn't traded above since January 23. The 2.6 percent gain for the past two sessions marked the S&P 500's best two-day performance in four months. The Dow Jones industrial average shot up 165.55 points or 1.06 percent, to end at 15,794.08. The S&P 500 gained 23.59 points or 1.33 percent, to close at 1,797.02. The Nasdaq Composite added 68.739 points or 1.69 percent, to finish at 4,125.861. For the week, the Dow rose 0.6 percent, the S&P 500 gained 0.8 percent and the Nasdaq advanced 0.5 percent. The S&P 500 fell as much as 6 percent this week from a record closing high set on January 15. Before Friday's gains, the benchmark index was facing its fourth weekly decline in a row - a losing streak not seen since July and August in 2011.

Thomson Reuters data showed that of the 343 companies in the S&P 500 that had reported earnings through Friday morning, 67.9 percent have topped Wall Street's expectations, slightly above the 67 percent beat rate for the past four quarters and ahead of the 63 percent rate since 1994.

WEEK AHEAD

Markets will react to the government's downward revision of GDP growth estimates to 4.5% from 5% earlier.

Third quarter earnings of major companies such as Tata Motors, Hindalco, Tata Steel, Dr Reddy's Labs, SBI, Coal India, Cipla, Sun Pharma and ONGC will be in focus.

On Wednesday, February 12, the government will release inflation based on the consumer price index for January and the industrial production for December.

Further, the government will also release inflation based on the wholesale price index on Friday, February 14.

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