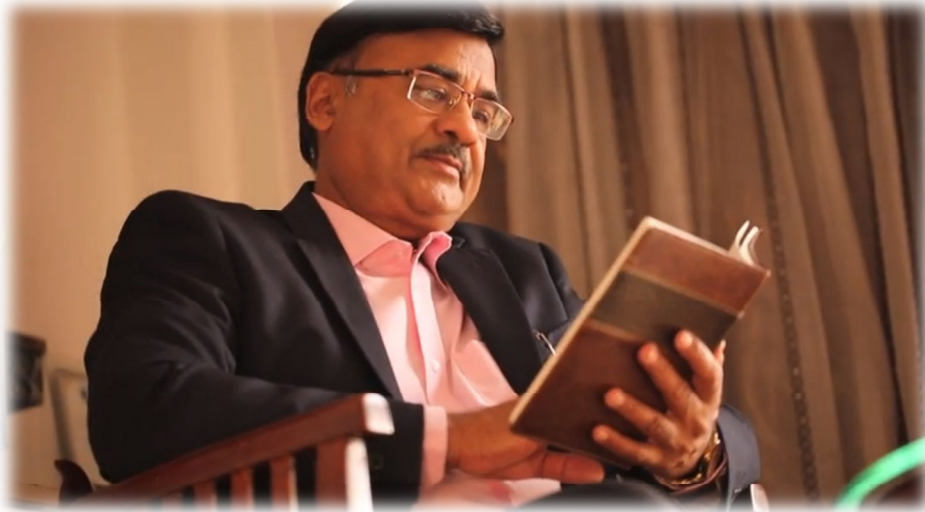




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**Dr. Ashok Ajmera (FCA), CMD & CEO**

[Dr. Ajmera's column as on December 15, 2018](#)

### **Benchmark indices rally after state election results, all eyes now on US Fed meet..**

On a weekly basis, Sensex gained 0.81 per cent while NSE's Nifty added 1 per cent. The last week witnessed lot of action on the political front and change in RBI chief. BJP was voted out of states in Chhattisgarh, Rajasthan and Madhya Pradesh (a tight battle witnessed with Congress managed to win with support of allies). However, in Mizoram – MNF outperformed both Congress and BJP. Telangana too was dominated by TRS. To our surprise, domestic bourses have not been affected much after the assembly election results. On the other hand, new RBI chief – Shaktikanda Das was appointed. Strong IIP and better WPI and CPI lent some support to the market. India's WPI inflation, which is calculated on wholesale prices, fell to 4.64 percent in November 2018, from 5.28 percent in October on lower power and fuel inflation and food deflation. However, November WPI core inflation was at 4.8 percent against 5.1 percent, MoM. On a weekly basis, the rupee depreciated 1.53 percent (Rs 1.09) against the dollar as it ended at 71.89 on December 14 against December 07, closing of 70.80 against the dollar.

Reserve Bank of India (RBI) Governor Shaktikanta Das chaired his first board meeting on Friday, discussing issues ranging from governance at the central bank to liquidity in the financial system. The board did not arrive at any decision but held extensive discussions on the governance structure in the RBI and the liquidity situation of non-banking financial companies (NBFCs) – two key areas of concern flagged by the finance ministry recently, sources said. "Good meeting of the RBI central board. Wide-ranging issues discussed," Das tweeted. On the governance framework, the board decided it would require further examination, according to the RBI's statement. According to media reports, there was no discussion on the prompt corrective action (PCA) framework, which the government had



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asked the RBI to consider revising and bring some public sector banks (PSBs) out of it. The Board for Financial Supervision, led by the RBI governor, is expected to review the PCA framework in its next meeting. At present, 11 PSBs and one private bank are under the PCA framework and the government feels that it is affecting the credit flow. Two presentations were made by Economic Affairs Secretary Subhash Chandra Garg — one on the government's proposal for governance reforms in the RBI and the other on the banking system, throwing light upon banks' financials, credit flow and non-performing assets (NPAs). Financial Services Secretary Rajiv Kumar did not attend the meeting. "Both the government and the central bank will reconcile their notes (on the RBI's governance) and come back to the board in the next meeting. There was no commitment, though, from the new governor on whether governance reforms in the RBI were needed or not," the person cited above said. The RBI issued a statement after the four-hour meeting. "The board reviewed, inter alia, the current economic situation, global and domestic challenges, matters relating to liquidity and credit delivery to the economy, and issues related to currency management and financial literacy," it said. The next central board meeting is likely to be held before the upcoming Budget in February 2019.

### **Sectors and stocks**

The Supreme Court on Friday refused to order a probe into India's purchase of French warplanes, blunting the opposition Congress party's allegation that Dassault Aviation SA was forced to pick an Ambani firm as a local partner. Little over an hour later, the Indian government told the court it would approve Reliance Communications Ltd.'s airwaves sale in two days, a deal that Ambani's indebted operator badly needs to stave off bankruptcy. The two developments sent shares of Reliance Naval and Engineering Ltd. and Reliance Communications soaring, boosting the market capitalization of five large listed Ambani firms by \$68 million on the day. This is a relief for investors who had seen these stocks lose \$4 billion this year through Thursday as the group was dogged by insolvency lawsuits, hurdles to asset sales and allegations of government nepotism. Reliance Naval closed 15.7 per cent higher in Mumbai trading on Friday, while Reliance Communications climbed as much as 7.1 per cent before closing 2.3 per cent higher. Anil Ambani, younger brother to Asia's richest person Mukesh Ambani, welcomed the court verdict on the Dassault controversy. It established "the complete falsity of the wild, baseless and politically-motivated allegations leveled against Reliance Group and me personally," he said in an emailed statement.

On Friday, Shares of telecom services provider such as Bharti Airtel and Vodafone Idea have rallied by up to 6% on BSE in an otherwise subdued market after Telecom Disputes Settlement and Appellate Tribunal (TDSAT) quashes Trai's predatory pricing rule. Bharti Airtel has rallied 10% to Rs 333, while Vodafone Idea climbed 8% to Rs 37.60 on BSE in the intra-day trade. "Telecom Disputes Settlement and Appellate Tribunal (TDSAT) on Thursday set aside sector regulator Trai's rule on predatory pricing for lack of transparency in the guidelines over determining market share and rates of services," the PTI report suggested. The move comes as a major relief to Bharti Airtel, Vodafone and Idea Cellular (Now Vodafone-Idea Ltd) which had in March challenged the amendment made by Trai in the Telecommunication Tariff order, added report.



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## **Crude oil**

Oil prices slipped on Friday after China reported slower economic growth, pointing to lower fuel demand in the world's biggest oil importer, although market sentiment was supported by supply cuts agreed last week by major crude producers.

Benchmark Brent crude was down 30 cents at US\$61.15 per barrel by 1100 GMT, on course for a decline this week of around 1 percent. U.S. light crude was 25 cents lower at US\$52.33.

China, the world's No.2 economy, on Friday reported some of its slowest growth in retail sales and industrial output in years, highlighting the risks of the country's trade dispute with the United States. Chinese oil refinery throughput in November fell from October, suggesting an easing in oil demand, though runs were 2.9 percent above levels a year earlier.

Concerned by mounting oversupply, the Organization of the Petroleum Exporting Countries and other oil producers including Russia agreed last week to reduce output by 1.2 million barrels per day (bpd), or more than 1 percent of global demand.

## **Global markets**

Stocks worldwide tumbled on Friday after weak economic data from China and Europe fanned concerns of a global economic slowdown and left investors fretting over the wider impact of a still-unresolved Sino-US trade dispute. The MSCI All-Country World Index, which tracks stocks across 47 countries, was down half a per cent. MSCI's broadest index of Asia-Pacific shares outside Japan fell 1.5 percent. Japan's Nikkei, also dragged down by the country's weak tankan sentiment index, dropped 2.0 per cent.

US equity benchmarks failed to recover from the strong sell-off that was seen at the start of December. Additionally, the yield on US 10-year continued to build on slower growth pricing for 2019 at play. However, the dollar continued to stay strong as the euro failed to recover on the back of a dovish ECB and increasing geopolitics uncertainties in Europe. EMs took cognizance of this risk-off tone and MSCI EM equity & forex closed almost flat for the week.

FIIIs paused in their buying across key EMs. Outflows in the vicinity of US\$100 million were seen from Malaysia, South Korea, and Thailand. Taiwan and Indian saw outflows of almost US\$500 million each.

## **Ajcon's view**

With the state election results being out, the market would track global cues. We believe Q2FY19 earnings season has been mixed bag but Q3FY19 could be much better. Event-wise, the upcoming FOMC meeting on December 20 has become the most important meeting in a long while. Domestically, with CPI inflation hitting 17th month low, the new RBI Governor, may take interest in cutting interest rates to boost market sentiments. We do expect volatility the central government may resort to populist measures to gain back popularity



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amongst the rural community which will affect PSU banks asset quality. In addition, the farm loan waivers promised before the elections by the new state government in Madhya Pradesh & Rajasthan would also affect PSU banks. With crucial assembly elections (which were considered as semi finals to Lok Sabha elections in May 2019) results out, the question now comes to our mind as to which party manages to win the central elections. It would be difficult for both major parties BJP and Congress to get majority. Street participants would not prefer a coalition government as decision making and execution becomes difficult in coalition regime for obvious reasons.

The strategy at present should be to invest in phased manner only on companies which are not connected to any political party and have a robust business model backed by quality management especially on the corporate governance front. We would suggest investors to have a look at Pharma MNCs and Private Insurance Companies at the current moment.

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