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**Mr. Ashok Ajmera, CMD & CEO**

**Mr. Ajmera's column as on August 17, 2015**

**Devaluation of the Chinese yuan, stalled reforms process add pressure to domestic bourses..**

Devaluation of the Chinese yuan and the Indian rupee, as also the stalled reforms process, dampened investor sentiments in the equity markets during the weekly trade ended Aug 14.

The barometer 30-scrip sensitive index (Sensex) of the S&P Bombay Stock Exchange (BSE) fell by 169.08 points or 0.59 percent during the weekly trade, ending at 28,067.31 points from the previous close of 28,236.39 points on Aug 7.

The yuan's surprise devaluation also stroked fears of competitive devaluation across Asia, especially before the (US) Fed's monetary policy decision due in September. The yuan has fallen by 4.6 percent since last Tuesday, its biggest devaluation since 1994. The devaluation, intended to boost exports, has made investment in China cheaper, thereby leading foreign funds away from India. This also impacted the rupee, which on Thursday fell to its lowest level against the US dollar in 24 months at Rs.65.23.

The logjam in parliament and the yuan's devaluation led the markets to lose a total of 724 points during the first three trading days of the week.

However, investors were seen hopeful of a rate-cut based on healthy macro-economic data points including Consumer Price Index (CPI), Index of Industrial Production (IIP) and Wholesale Price Index (WPI).

The macro-economic data points showed a fall in India's annual retail inflation rate to 3.78 percent in July, the annual wholesale inflation fell to (-)4.05 percent, however there was a rise in the factory output to 3.8 percent in June.



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The WPI coupled with consumer price index (CPI) have pointed at a gradual reining in of prices.

The RBI has set a target for CPI inflation at 6 percent by January 2016.

On the bright side of the volatile weekly trade was the possibility that the government might extend the "Monsoon Session" or call for a "Special Session" of parliament to pass the GST bill kept investors optimistic about the future of the key economic legislation.

The signals that are coming - like an extension of the monsoon session or a proposed special session to get the GST bill passed -- are very encouraging. The India growth story is based on the ability of the government to bring in reforms. Lately, investors have been reluctant to chase higher prices given the possibility that the reform process might be stalled due to the government's inability to conduct business in parliament.

### **Ajcon's view**

Shares of public sector oil marketing companies (PSU OMCs) will be in focus as they undertake a review of fuel prices during the middle of the month. The review takes place during the middle of the month and on the last day of the month based on the average imported oil price in the preceding fortnight.

Among global events, on Wednesday, 19 August 2015, the US Federal Reserve releases minutes from its July 28-29 meeting that may shed light on the debate policy makers are having over the timing of the first increase in the nation's benchmark interest rate since 2006.

All eyes will be on Greece ahead of debt repayment deadline of 20 August 2015. The country must make a 3.2 billion-euro (\$3.6 billion) payment to the European Central Bank by 20 August 2015. Greece's creditors are seeking to reach an agreement on an aid program in time for the country to make the payment.

We recommend accumulation in fundamentally strong midcap stocks available at attractive valuations in PSU Banking & Financial Services, Infrastructure, Real Estate, Engineering, Automobiles, Capital Goods, Packaging, Logistics and Pharma. The investors should be cautious in picking those midcap stocks which have already run up to more than 50 to 100 percent in the last six months.



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