



Mr. Ajmera's column as on 1st February, 2014

Rate hike by RBI surprised investors; global markets remain under pressure..

Domestic shares have tumbled, marking a sharp turnaround since the BSE Sensex posted a record closing high on January 23, on the back of a rout in emerging markets and the Reserve Bank of India's unexpected hike in interest rates on Tuesday. Sensex edged higher on Friday, snapping a five-day losing streak as blue chips such as ICICI Bank rebounded. Yet, indexes still suffered their worst monthly performance since the rupee slumped to a record low last August. The falls since last week have sent the NSE down 3.4 per cent for January, its worst monthly performance since August, when domestic markets had cratered. The index hit its lowest intra-day level since November on Thursday. Foreign institutional investors have sold heavily since last week, cutting their net inflows into domestic shares so far this month to only US\$85.4 million. The Nifty rose 0.26 per cent, or 15.80 points, to end at 6,089.50, but fell 2.83 per cent for the week. The benchmark BSE Sensex rose 0.08 per cent, or 15.60 points, to end at 20,513.85, but fell 2.9 per cent for the week. For the month, the index fell 3.1 per cent.

India revised down its economic growth for the fiscal year 2012-13 to 4.5 percent from 5 percent earlier, the government data showed on Friday, on lower than provisionally estimated output in farm and manufacturing sectors. The latest numbers are the first revised gross domestic product (GDP) estimates for the last fiscal year. The data also showed lower than estimated growth numbers for exports, capital investment and consumption sectors, suggesting deeper underlying weaknesses in Asia's third-largest economy, which grew at more than 9 percent before the 2008 global financial crisis. The GDP growth for 2011-12 fiscal year was, however, upwardly revised to 6.7 percent from 6.2 percent, but that of the 2010-11 year was revised down to 8.9 percent from 9.3 percent, the data from the Ministry of Statistics showed. The government and the central bank have often blamed sharp data revisions for creating problems for policy formulations.

Globally, a selloff in emerging markets sent a cold chill down Wall Street, triggering a slide on Friday and making January its worst month since May 2012 after one of its best years in more than a decade. For January, the Dow tumbled 5.3 percent and the S&P 500 slid 3.6 percent - their worst monthly percentage declines since May 2012. The January loss followed the S&P 500's gain of 30 percent in 2013 - its best year since 1997. It also marked the first time that the S&P 500 ended January with a loss since 2010, when the benchmark index started the year with a drop of 3.7 percent. In Friday's session, energy and consumer

discretionary shares had the biggest declines of the day after some disappointing earnings. The S&P energy index ended the day down 1.5 percent, while the consumer discretionary index fell 1.3 percent. Chevron Corp and Amazon.com were among the biggest drags. Trading was volatile during the session, with the Nasdaq briefly edging into positive territory and the CBOE Volatility Index - also known as the fear index - briefly turning negative. But selling accelerated, heading into the close. The VIX shot up 6.5 percent to end Friday's session at 18.41. For January, the VIX jumped 34 percent, its biggest monthly gain since May 2012. The fear index hasn't traded above 19 since October.

Global equity markets have been rattled by the outlook for emerging markets, including slower growth in China, while the Federal Reserve's decision this week to keep withdrawing its monetary stimulus added to worries. The Dow Jones industrial average fell 149.76 points or 0.94 percent, to end at 15,698.85. The S&P 500 lost 11.60 points or 0.65 percent, to finish at 1,782.59. The Nasdaq Composite dropped 19.25 points or 0.47 percent, to close at 4,103.88. For January, the Nasdaq ended down 1.7 percent, its worst monthly percentage loss since October 2012. The blue-chip Dow underperformed the small-cap Russell 2000 index, which fell 2.8 percent in January, its worst month since August. For the week, the Dow fell 1.1 percent, the S&P 500 dipped 0.4 percent and the Nasdaq slipped 0.6 percent. A selloff in emerging market currencies spurred some central banks to raise interest rates or intervene in markets to limit the swings, but investors worry it may not be enough to reverse the trend. The Fed's removal of stimulus added to the concerns because the extra liquidity has helped many of those markets.

Going ahead, Sensex is expected to take cues from overseas investor flows and the rupee after a US Federal Reserve taper-induced emerging market rout led the indexes to mark their lowest levels since November on Thursday. Foreign institutional investors bought Indian shares worth a net USD 85.4 million in January, the smallest amount since they sold USD 902.5 million in August, when the rupee was hitting record lows against the dollar, exchange and regulatory data as of Thursday shows. Domestic shares have tumbled, marking a sharp turnaround since the BSE Sensex posted a record closing high on January 23, on the back of a rout in emerging markets and the Reserve Bank of India's unexpected hike in interest rates on Tuesday. Advance GDP forecast for the current fiscal year will be watched with the government expecting 5 percent growth while private economists expect the numbers to come in below that. The next week would also mark the final leg of large cap earnings. Anil Ambani group stocks including Reliance Capital would be on watch ahead of earnings in second half of the week. Ambuja Cements and ACC results would be keenly watched on Thursday.

KEY EVENTS/FACTORS TO WATCH

Monday: Earnings of Lupin, India mobile spectrum sale begins, January Manufacturing PMI

Tuesday: Jubilant Foodworks, Bharat Forge results

Wednesday: Ranbaxy Laboratories, Power Grid Corporation of India results; Services PMI

Thursday: Reliance Infrastructure, Ambuja Cements, ACC earnings

Friday: Tata Power, Reliance Capital, Reliance Communications earnings; Government to release advance GDP data for current fiscal year

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