Mr. Ashok Ajmera, CMD & CEO

Mr. Ajmera's column as on 1st October, 2016

Indian markets fairly valued; Indo-Pak tension would provide buying opportunity...

Domestic bourses performance

Benchmark indices ended in red during the week. Nifty and Sensex were down by 2.50% and 2.80% respectively. In terms of sectors Media and IT were the winners of the week. Construction, Engineering and FMCG sectors were the notable losers.

Key developments

Fiscal Deficit

India's fiscal deficit during the five months to August was Rs4.08 trillion ($61.3 billion) or 76.4% of the budgeted target for the fiscal year ending in March 2017, government data showed on Friday. The deficit is usually higher in initial months as major revenues, including income tax and dividends from state companies, are mostly received towards the end of a financial year. The fiscal deficit was 66.5% of the full-year target during the same period a year ago. Net tax receipts in the first five months of 2016/17 fiscal year were Rs2.8 trillion. Finance minister Arun Jaitley, who faces the challenge of providing more funds for capital infusion in state banks, aims to cut down the deficit to 3.5% of GDP from 3.9% in the previous year

Fuel prices hiked

Petrol price was on Friday hiked by 36 paise per liter, the third increase in two months, but that of diesel was cut by 7 paise per litre in line with global trend. Petrol will cost Rs64.57 per litre in Delhi from midnight as against Rs64.21 currently. Diesel will cost Rs52.52 per litre compared to Rs52.59 at present. This is the third increase in the petrol rate in two months, while in the case of diesel it is the second price cut this month. Indian Oil Corp. Ltd (IOC) in a statement said petrol price is being hiked by 28 paise per litre (excluding state levies) and diesel rate is being cut by 6 paise (excluding state levies). After including valueadded tax (VAT) of 27% on petrol, the effective hike in petrol price in Delhi came to 36 paise per litre. In the case of diesel, the reduction came to 7 paise per litre after including VAT of 17.42%. Petrol price was last hiked by 58 paise, excluding state levies, on 16 September. After including state VAT, the hike came to 78 paise per litre in Delhi. The rate of diesel then was cut by 31 paise, excluding state levies (and 35 paise after including VAT in Delhi). "The current level of international product prices of petrol and diesel and rupee-US dollar exchange rate warrant increase in selling price of petrol and decrease in selling price of diesel, the impact of which is being passed on to the consumers with this price revision," IOC said in a statement. It said the movement of prices in the international oil market and rupee-dolalr exchange rate shall continue to be monitored closely and developing trends of the market will be reflected in future price changes.

Monetary policy
Stage is set for a six- member panel taking over job of setting interest rate after the government notified the new Monetary Policy Committee that will hold its first review on Tuesday. "Monetary Policy Committee (MPC) constitution under the Reserve Bank of India Act, 1934, notified," the finance ministry said. The MPC, in which three members are from the RBI and three others from the government, will target to keep inflation at 4 percent with an upper and lower tolerance level of 2 percent. The government, last week, had named three academics to join RBI Governor Urjit Patel, his deputy in charge of monetary policy R Gandhi and central bank executive director Michael Patra on the MPC.

Rising sugar prices
Rising sugar prices is one of the factors driving food inflation, worrying the government about its fallout as the festival season will see buying increase. State elections in early 2017 are another concern, as higher sugar prices make for bad press. However, some good news is coming its way. Sugar industry association Indian Sugar Mills Association (ISMA) has put out its revised sugar output estimate, based on a newer set of satellite images. It has raised its sugar output estimate by 100,000 tonnes to 23.37 million tonnes, compared to its earlier estimate made in July. While that's not a huge increase, it does provide comfort that output will not be lesser than earlier expected. However, these numbers are still subject to variation, depending on actual cane output, the sugar yield and timely crushing. ISMA says there will be enough carry over stocks for the next season, and that imports are not needed.

Week ahead and Ajcon's view:

After a knee-jerk reaction to the surgical strike by India across the Line of Control (LoC) that saw the S&P BSE Sensex tumble over 500 points in intra-day deals on Thursday, the markets remained on the edge on Friday. The S&P BSE Sensex and the Nifty 50 indices lost ground after opening on a flat note.

Analysts expect markets to remain choppy as investors adopt a **wait-and-watch mode over the next few sessions** till there is more clarity on the geopolitical situation.

Besides the second quarter results of India Inc, here are 5 key factors that will determine the market direction over the next couple of months.

Clarity on the geopolitical situation: Markets are likely to remain on the edge over the next few sessions as investors await more clarity on the surging tension between Indo-Pak relations. We continue to believe that the fundamentals continue to remain strong from a long-term perspective, the sudden development has cast a shadow on the diplomatic relations between the two countries in the near-term. Markets do not like uncertainty and will react sharply to any negative news flow.

RBI Monetary Policy review: The Reserve Bank of India (RBI) will review the Monetary Policy next week – the first under the new governor, Urjit Patel. The central bank might cut rates by at least 25 basis points (bps) in its December review, since, by then, a clearer picture would emerge on the inflation as well as the economic growth trends. A surprise cut next week, however, could boost market sentiment.

US Presidential Election: Markets are keenly observing the developments regarding the US Presidential election, which we believe have the potential to impact market sentiment.

Rate hike by the US Fed: The US Federal Reserve (US Fed) kept rates steady in its recent policy review in September. However, we believe that the US central bank is preparing the markets for a hike in its December policy review, which could see a knee-jerk reaction from the emerging markets and impact flows in the short-term.

Oil Prices: For the first time since 2008, **Organisation of Petroleum Exporting Countries (OPEC)**, agreed to limit production by 700,000 barrels per day (bpd) to between 32.5 million and 33 million barrels of oil per day.
We advise investors to remain stock specific and use the buy – on – dips strategy to make most of this bull market. At current levels, valuations of both midcaps and large caps look expensive. We do not rule out a bull market but intermediate corrections are part of any bull market and investors should not be scared of investing when the markets drift lower. The domestic economy grew at its slowest pace in five quarters in the April – June period falling below expectations but it still grew 7 percent which is still fastest in the world.

CA Ashok Ajmera

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