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Mr. Ashok Ajmera, CMD

Mr. Ajmera's column as on June 20, 2015

Reliance Industries leads market rally; monsoon performance so far above expectations..

The benchmark indices staged a spectacular rally after three successive weeks of losses owing to the encouraging macro-economic data back home, progress of monsoons, dovish stance by the Fed Reserve and strengthening rupee.

The markets posted their highest weekly gain in the span of five months helped by a stupendous rally in the shares of India's second-largest company by market value, Reliance Industries, which jumped 12 per cent on continued optimism about the company's plans to start 4G phone services in December.

In the week to June 19, the Sensex regained its important 27,000 mark and ended at 27,316, stronger by 891 points or 3.4 percent and the Nifty reclaimed its crucial 8,000 mark and settled with gains of 242 points or 3 percent at 8,225. However, the broader markets underperformed the Sensex, BSE Midcap index ended at 10,487, higher by 365 points or 3.4 percent and the BSE Smallcap index ended at 10,943, up 369 points or 3.5 percent.

Update on monsoon

According to the India Meteorological Department, the monsoon is likely to remain strong through the month of June promising widespread rain across central and south India. The cumulative rainfall during this year's monsoon season was 11 percent above the Long Period Average (LPA) until 17 June 2015. The news of below average monsoon, below expectation corporate earnings have been factored by the market. Fears of monsoon performance were overdone as it was too early to worry. We also ignored the fact that India quite rarely had two consecutive failed monsoon in the past two decades.



Key events

There was a lot of cheer on the macro-economic front. India's industrial production accelerated by 4.1 percent in April against a growth of 2.8 percent a year ago on the back of 5.1 percent growth in manufacturing and 11.1 percent expansion in capital goods.

The wholesale price index (WPI) contracted to 2.36 percent in May versus -2.65 percent in the previous month on the back of dropping oil and manufacturing goods prices. However, Inflation based on consumer price index (CPI) edged up slightly to 5.01 percent in May from 4.87 percent in April due to untimely rains in February and March.

Trade deficit for the month of May contracted to \$10.4 billion as against \$11 billion in April largely due to falling gold imports. However, the total trade deficit expanded to \$21.39 billion during the months of April-May as against \$21.32 billion year-on-year.

The rupee ended at a one-month high of 63.56 against the US dollar tracking gains in the stock market.

Key stocks

On the sectoral front, 11 out of 12 sectoral indices ended with gains with BSE Oil & Gas index leading the rally up 5 percent.

Monsoon dependent sectors including Auto and FMCG gained across the bourses on the back of above-normal rains. Among the auto stocks, Maruti Suzuki, M&M, Tata Motors, Bajaj Auto and Hero Motocorp climbed between 2-10 percent. In the FMCG space, ITC and HUL gained 3 percent and 5 percent each.

Shares of oil marketing companies (OMCs) gained after these companies announced Rs 0.64 a litre increase in petrol prices and Rs 1.35 per litre cut in diesel prices to align the domestic rates with global price benchmarks. HPCL and IOC surged 6 percent and 9 percent.

Shares of capital goods companies gained on encouraging April IIP data. Larsen and Toubro (L&T), Siemens, Alstom T&D, BHEL ended up between 3-6 percent.

In the metal pack, Vedanta shed 5 percent on reports that LIC which holds 9.06% stake in Cairn India, is seeking a better offer, including higher dividend on the redeemable preference shares that the metal producer plans to offer Cairn shareholders as part of its planned merger. Cairn India ended with marginal losses.

Tata Steel rose 2.37 percent on reports stating that the trade unions representing workers of Tata Steel in the UK have decided to suspend its 22 June 2015 strike action after the steel major approached the Advisory, Conciliation and Arbitration Service (ACAS) to resolve the pension dispute in an independent manner.



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Global Markets

On the global front, the US Federal Reserve kept the benchmark federal funds rate unchanged at zero during their regular policy meeting and indicated that rate hikes would be gradual. Tracking it, all Asian equities barring Chinese market ended with gains. China's benchmark index Shanghai Composite cracked 13 percent as the tight market liquidity caused by new share listings triggered a heavy sell-off across the counters.

Ajcon's view

The progress of monsoon, development in Greece, the movement of rupee against the dollar and crude oil price movement will also dictate the trend on the bourses in the coming week. Being an expiry week, volatility is expected. However, if 8,150 holds on closing basis for Nifty (spot), we believe the trend would continue to remain positive. The rally can further extend towards 8,350-8,400, but with higher degree of volatility

Shares of pharmaceutical firm Lupin will replace shares of Tata Power Company in the BSE Sensex with effect from Monday, June 22, 2015.

Investors will keenly watch out for the expiry of May derivative contracts due on Thursday, June 25.

An initial public offering (IPO) of Gujarat-based Manpasand Beverages will begin on Wednesday, June 24, 2015.



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