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Mr. Ajmera's column as on May 30, 2015

Markets will take cue from RBI's monetary policy and monsoon..

The benchmark indices hit a roadblock, after five successive weeks of gains, due to muted corporate earnings, growing prospects that Fed Reserve may raise interest rates, lingering Greece fiscal woes and weakening rupee. The impending monetary policy meeting on June 2 also weighed on the minds of market participants.

The BSE Sensex gyrated in a range of around 550 points before ending at 27,828, lower by 129 points or 0.4% and the Nifty settled at 8,433, down 25 points or 0.3%. The May series derivatives expiry on Thursday was a major cause of the volatility as traders rolled over their positions in the F&O segment.

The broader markets, however, outperformed the benchmark indices. The BSE Mid-Cap index rose 96 points or 0.9% to close at 10,716 and the BSE Small-Cap index rose 72 points or 0.6% to settle at 11,280.

Key developments

The gross domestic product (GDP) grew at 7.3% in 2014-15, slightly less than the advance estimate of 7.4%.

The central government reined in its fiscal deficit for 2014-15 at four per cent of GDP, against the 4.1% pegged in the Budget Estimate (BE) and its Revised Estimate (RE).

Reserve Bank of India (RBI) Governor Dr Raghuram Rajan said that while the country's macro-economic parameters have improved, growth was still slow in picking up. Chief



Economic Advisor Arvind Subramanian said that government expects inflation to remain under control. And finance Minister Arun Jaitley was quoted as saying that India has to bring the tax rate to the global levels.

Private weather forecaster Skymet has said that conditions are favourable for the onset of Southwest Monsoon in India. It expects the monsoon to hit Kerala around 30 May. The progress of monsoon over Peninsular India is expected to be delayed by a week, according to Skymet.

In other developments, the government named former finance secretary and economist Vijay Kelkar to head a panel to review the PPP policy and suggest a better risk-sharing mechanism between private developers and the government.

Meanwhile, the Modi-led NDA government completed one year in office on May 26, 2015.

Sectors and Stocks

The rate-sensitive sectors ended mixed ahead of the monetary policy. The banking index gained 1.5%, while the auto and realty indices ended lower by 0.5% and 1.5% respectively.

Banking stocks saw buying interest ahead of the policy meet, with Axis Bank, HDFC Bank and ICICI Bank gaining 1-3% each; SBI, however, ended in the red. On the other hand, the auto index was dragged down by Tata Motors; the auto major nosedived by 6.4% post its Q4 numbers. Hero MotoCorp, Maruti Suzuki and M&M, however, ended in the green. In the realty space, DLF, Indiabulls Real Estate and NBCC shed 1-4% each.

Metal and IT stocks also had a rough ride. In the metal space, Jindal Steel, Vedanta, Tata Steel, Hindalco and Hindustan Zinc lost 5-13% each. In the IT space, Tech Mahindra lost a whopping 16% post its Q4 numbers, while Infosys and TCS lost about 1% each.

Among individual stocks, Tata Motors was the top Sensex loser last week. The auto major declined by 6.40% to Rs 481.60 after the company reported lower-than-expected consolidated net profit at Rs 1,717 crore for the fourth quarter ended March 31, 2015 (Q4) on account of below-par operating performance at Jaguar Land Rover (JLR) and mark-to-market (MTM) loss provisioning at JLR.

On the other hand, Bharti Airtel rose 7.66% to Rs 425 to top the gainer's charts on the BSE on the news that British telecom giant Vodafone Group Plc sold its 4.2% stake in Bharti Airtel for \$200 million.

In the midcap space, the mid-cap banking stocks were on buyer's radar in tandem with their largecap counterparts. Allahabad Bank, Union Bank, IndusInd Bank and Oriental Bank gained between 3% and 8% each.



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In the smallcap universe, Novartis, Advanta, Ajanta Pharma, BEML, JK Cement and Thomas Cook surged 5-10% each.

Outlook

All eyes are glued on Governor Raghuram Rajan as he gears up to review the monetary policy on June 2. The markets expect the RBI to cut key rates on the back of benign inflation and weak industrial growth data.

The Nifty has been moving in a range of around 500 points, between 8,000 and 8,500, in the past few weeks and is currently trading at the higher end of the range. A rate cut on June 2 is likely to push the Nifty past its crucial resistance level of 8,500, while a status quo on their part of Rajan could drag the Nifty closer to its crucial support level of 8,250.

The monsoons would also be an important factor. If the Skymet's prediction of a normal monsoon comes true, this should aid the sentiment on Dalal Street.



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