Mr. Ashok Ajmera, CMD & CEO

Mr. Ajmera's column as on August 31, 2015

Domestic bourses remain vulnerable; global concerns still remain..

Domestic equity markets extended their losses for the third consecutive week as the key benchmark indices plunged over 3.5 per cent for the week ended August 28. During the week, the BSE Sensex and NSE Nifty lost 973.69 points and 298 points at 26,392.38 and 8,001.95 respectively.

Among the sectoral indices on the Bombay Stock Exchange (BSE), the BSE Capital Goods index slid the most — 6.09 per cent at 16,326.03, it was followed by the BSE Bankex (down 4.76 per cent), BSE Healthcare index (down 4.31 per cent), BSE Auto index (down 4.21 per cent) and BSE Power index (down 4.03 per cent). On the other hand, BSE Metal index ended flat at 7,401.72.

In the 30-share Sensex, Maruti Suzuki, Larsen and Toubro and Gail (India) slid 7.90 per cent, 7.08 per cent and 7.07 per cent, respectively, during the week. Coal India (up 2.49 per cent), Tata Motors (up 2.30 per cent) and Vedanta (up 1.69 per cent) were the only gainers during the week gone by.

Markets across the globe fell like crumbling house of cards scaring bulls worldwide. The trigger of yuan devaluation sent emerging market currencies into tailspin including rupee leading to outflow of funds from India and other emerging markets. FIIs have sold stocks worth 2 billion dollars since the beginning of the month.

In the BSE 100 index, Cipla, ABB India, HDFC Bank, Ashok Leyland, Eicher Motors, Zee Entertainment and IndusInd Bank hit their new 52-low during the week.

IOC follow-on public offer (FPO) for Rs 9,500 crore was 80 per cent subscribed by LIC highlighting the fact that government will have to re-work its divestment strategy for future course of action. IPO of Power Mach listed below the issue price signaling that the secondary market is still not ready to absorb IPO's in large numbers.

On August 24, the BSE Sensex witnessed its largest one day fall in absolute terms with the BSE Sensex falling 1,624.51 points, or 5.94 per cent at 25,741.56.

Global Markets

Asian peers, Nikkei, Hang Seng and Shanghai fell 4.43 per cent, 2.54 per cent and 12 per cent during August 21 and August 27.

Global financial markets looked set for another rough week on Monday (31st August, 2015), with stocks and commodities falling ahead of data that could give clues on when the US will raise interest rates and surveys which are likely to point to further weakness in China.

Confusion over policy direction in the world's two largest economies sent global markets into turmoil early last week, with the wildest price swings in years pushing investors to the exits.

European shares looked set to follow Asian shares and US stock futures lower on Monday, with Germany's share index expected to open down 1.35% and France's CAC 40 likely to fall 1.39%, according to IG. The UK market is closed for a public holiday.

US stock futures slid 1%, suggesting weakness on Wall Street later in the session.

This is a market that is walking on glass; China seems to be the central theme feeding into a lot of these things but today the focus is very much on US interest rates again. MSCI's broadest index of Asia-Pacific shares outside Japan shed more than 1% and is set to fall 10% this month, its worst monthly drop since May 2012.

Selling intensified as China markets extended losses. Shanghai stocks, the epicentre of this month's whip-saw action, were down more than 3% at one point. They have plunged more than 40% since mid-June.

A Reuters poll showed China's official factory sector activity likely fell to a 3-year low in August. Other surveys on Chinese factory and service sector activity will also be released on Tuesday.

Traders are also on edge ahead of US business surveys, factory orders, trade data and Friday's nonfarm payrolls this week, after comments by a top Federal Reserve official suggested that a September rate rise was more likely than some investors expected.

Fed Vice Chairman Stanley Fischer, speaking at the central bank' conference in Wyoming, said recent volatility in global markets could ease and possibly pave the way for a rate hike.

Prospects of higher interest rates and returns in the United States combined with China's slowdown have diminished the appeal of emerging markets as investors have dumped riskier assets.

Investors sold $5.9 billion of emerging market assets between Aug. 20-26, a sharp increase from $1.5 billion the week earlier.

Credit markets, often a harbinger of things to come for equities, spelt further pain in store for emerging markets.

An index for Asian high-yield credit has fallen sharply this month compared to a relatively steady performance in the investment grade index, according to Thomson Reuters data.

The dollar eased 0.6% to 121.03 yen after rising to the week's high of 121.76 on Friday following the Fed officials' comments that kept prospects of a September hike alive.

The euro was up 0.6% at $1.12550 after touching an eight-day low of $1.1156 on Friday.

The market will watch the European Central Bank's policy meeting on Thursday to see if it will be inclined to ease monetary policy further in the wake of the recent global market mayhem, though no imminent change is expected.

US crude oil prices dipped as their biggest two-day surge in quarter of a century ran its course. US crude was down 1.3% at $44.62 a barrel after jumping more than 6% on Friday on frenetic short-covering fuelled by violence in Yemen, a storm in the Gulf of Mexico and refinery outages.

The contract was still down nearly 5% on the month, when it hit a 6-1/2-year low last week in the wake of China-led global growth fears.

Gold struggled to recover from last week's losses, even in the face of a softer dollar. Spot gold was flat at $1,133.98 an ounce, after dropping more than 2% last week in its steepest decline in five weeks. For the month, the metal was up 3.5%.

Ajcon's view

Unlike other emerging markets, India stands out as relatively less vulnerable to a slowdown in China, as it is not part of the Asian supply chain yet; it is a domestic demand-driven economy and a net commodity importer. We believe India is "among the least vulnerable", as an impact on the country's growth will be minimal and lower commodity prices will positively impact current account deficit and inflation.

We recommend accumulation in fundamentally strong midcap stocks available at attractive valuations in 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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