



Mr. Ajmera's column as on 4th January, 2014

"Sluggish growth and rising fiscal deficit put markets under pressure" ...

Markets ended nearly 2% lower in the week to January 3 amid concerns over sluggish growth and rising fiscal deficit. In the week to January 3, Sensex ended down 1.6 per cent or 342 points at 20,851 while Nifty ended down 1.6 per cent or 103 points at 6,211. Core eight infrastructure industries registered a muted growth at just 1.7 per cent in November 2013 compared with 5.8 per cent in November 2012. In October 2013, production of these core industries fell 0.6 per cent. India's manufacturing sector ended 2013 on a pessimistic note as growth fell in December against the previous month, according to the widely-tracked HSBC Purchasing Managers' Index (PMI). The PMI was down at 50.7 points in December 2013 from 51.3 in the previous month. However, PMI average for the manufacturing sector stood at 50.5 points in the third (Oct-Dec) quarter, slightly higher than 49.4 in the previous quarter ended September 2013. The fiscal deficit for the first eight months (April-November) stood at Rs. 5.1 lakh crore or nearly 94% of the Budget estimates for 2013-14 clearly showing fiscal strain in the economy.

The BSE Capital Goods index was the top loser among the sectoral indices during the week under review down nearly 5% followed by Power, Oil and Gas, Bankex, Auto and Metals.

Capital goods shares witnessed pressure amid subdued manufacturing growth. Among the engineering majors BHEL ended down 4.1% while Larsen & Toubro closed 6.1% lower. Among other shares in the sector, Siemens eased 5.2% while Crompton Greaves and ABB India ended down 2.9-3.8 per cent each.

Power shares witnessed profit taking after the Aam Aadmi Party which offered to sharply reduce the power costs to consumers in Delhi has requested that the books of power distribution companies be audited by the Comptroller and Auditor General. Tata Power dropped 6.2% and Reliance Infrastructure eased 4%. Among other companies in the sector, NTPC ended down 3.9% and PTC India dropped sharply by 8.1%.

Bank shares witnessed profit taking after a RBI's Financial Stability Report release said that the risks to the banking sector have increased during the past half-year. As per the report banking stability measures, based on co-movements in banks equity prices, also indicate that the distress dependencies within the banking system have risen during this period. ICICI Bank, SBI, Axis Bank, Canara Bank and HDFC Bank ended down 0.9-3.9 per cent each.

Auto shares remained volatile during the week witnessing a mixed trend tracking their December sales figures.

Maruti Suzuki registered 4.4% drop in total sales at 90,924 units during December 2013 as against 95,145 units in December 2012. The stock closed 1.3% higher.

Mahindra & Mahindra also registered sales of 39,611 units in December 2013 compared with 45,297 units in the same month last year. The stock ended down 6.7%.

Hero MotoCorp ended up 0.5%. The company registered its highest-ever sales for any calendar year. Sales during calendar year 2013 (Jan-Dec) stood at 6.18 million units compared with 6.12 million units sold in calendar year 2012. However, sales in December 2013 were marginally lower at 524,990 units compared with 541,615 units in December 2012. Bajaj Auto slipped 1.9%.

Metal shares remained subdued during the week under review on concerns that sluggish manufacturing growth in China would lead to lower exports. China is the world's largest consumer of copper and aluminium. Hindalco, Tata Steel, Sesa Sterlite, Jindal Steel ended down 1-3% each.

IT shares bucked the weak trend during the week on improving business environment overseas. TCS gained 2.9% while Wipro and Infosys ended with marginal gains.

Globally, according to the official Purchasing Managers' Index released by the National Bureau of Statistics, China's manufacturing growth fell to a four-month low to 51 in December.

Week Ahead

The key trigger for the markets in the week ahead will be the third quarter earnings. IT major Infosys will release its numbers on Friday, January 10.

Investment trends by foreign institutional investors will be on investors radar. Last week, despite the market volatility, FIIs have remained net buyers in equities.

The performance of India's services sector will be release by Markit Economics on Monday, January 6.

Further, the government will release November 2013 industrial production data. It may be recalled that industrial production in October 2013 slipped to 1.8% because of slowdown in manufacturing and mining sectors.

Meanwhile, the US Federal Reserve Bank will also release the minutes of the recently held meeting on December 17-18 in which it had decided to gradually start unwinding its monetary stimulus measures.

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