Market Commentary, September 23rd, 2011

The Fed spoke and the markets choked! This week saw a global equity market rout as investors digested a very gloomy economic outlook from the US Fed and sustained inaction from major governments. The Nifty retreated 216 points on the week to close down 4.3% at 4868, after trading in a range of 7%. This seemed tame compared to the US (-7.1%), the UK (-6.4%) and Germany (-8.1%), even after these markets saw a snap-back of around half a percent on Friday! Nifty breadth was negative, with only eight stocks in the black and volatility spiked sharply up: the India VIX traded up 10 points to 38, before subsiding slightly to 35 at the close. Average daily trading volumes contracted again, to $2.6bn, as FIIs were net sellers of $183mil to domestic institutions and retail. Nifty index futures closed at a slight discount to cash for the short contract out to a 70 basis point premium on the three-month contract.

Corporate news of interest was in short supply as we approach quarter-end, except for the disclosure that advance profits tax payments are 13% higher at $14.1bn for the period about to end, suggesting a slight slowdown in earnings for the quarter. Reliance Industries is reviewing data on its controversial KG-D6 field with BP to develop plans to increase production again. The company has submitted a proposal to the DGH to drill eleven new wells across the field and is awaiting a response. Meanwhile, it is also considering jointly bidding with BP for new exploration acreage overseas. Specifically, Canadian shale-gas deposits may be a target now. The FPO of ONGC has been postponed due to market conditions but the appetite may not have been helped by rumours that the government may be about to increase the company's share of the fuel-subsidy burden.

TCS has been awarded a long-term contract by Deutsche Bank to provide software solutions for its capital markets business. BHEL is to get orders worth $50mil from Indian Railways. Larsen & Toubro announced an order worth $150mil for a gas treatment plant as part of the development of the Lekhwair field in Oman.

The tail of the monsoon continues to wag, with rainfall again above the LPA: the cumulative rainfall for this year is now 4% above the LPA. Reservoir levels are now at 87% of capacity, about 15% above the same time last year. Sugar production is expected to reach 24.6million tones, enough to raise expectations for export restriction to be lifted. Already the ban on non-basmati rice exports is to be eased. Food inflation dropped to 8.8% in the latest weekly figures but some commodity prices are still a bit sticky. The recent sell-offs in global commodity markets are yet to be reflected. WPI inflation is expected to remain in the 9-10% range until December, when base effects and cooler commodity markets should see it decline steadily by the end of FY12.

The Competition Authority is tom proceed against a number of top cement companies for abuse of market dominance and cartelization. This announcement may have had a bearing on a decision by Holcim of Switzerland against proceeding with a merger of its two Indian businesses: ACC and Ambuja Cements. The government has approved 12 FDI applications worth a total of $500mil. It has also approved and investment fo $800mil over four years to increase capacity at Paradip Port from 76mtpa to 133mtpa.

Here's a conspiracy theory to close, as good as anything heard on the street this week. The RBI is keen to maintain a hawkish stance on policy rates to reinforce its anti-inflation credentials. At the same time, it is concerned about curtailing growth, so it is keen to stimulate private investment through credit expansion. Now, the automatic approval limit for external commercial borrowings by Indian companies was increased last week by 50%, allowing them to borrow (even to repay domestic rupee debt) in currencies including Renminbi, at lower interest costs. The Rupee has depreciated by 10% over the past month to a level where medium term appreciation potential might be 15 to 20%, reducing the eventual repayment cost. A coincidental benefit on the capital account is that the proceeds add to external reserves, increasing the RBI's ability to fight off any risk of a reserve crisis such as in 1991.

It's just a theory.

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