Market commentary, July 12th, 2013

The liquidity-hogs of the major financial markets spent another week showing off their addiction to quantitative easing, this time pushing equity markets up as Ben Bernanke tried again to clarify Fed policy on exiting QE. It seems quite clear: when unemployment reaches 6.4% and growth is sustained, exceptional monetary stimulus will end. Meanwhile, unemployment is going the wrong way, the elements of growth are variable at best and, significantly, inflation is headed south. What's the problem? On the back of this week's gyrations, liquidity flowed into equities again, driving markets up and in India, the Nifty added 2.4% to close 141 points up at 6009, after trading in a range of 4%. After a brief interlude, FIIs were back on the buy-side, picking up a net $113mil as domestic institutions sold a net $38mil. This calendar year, FII net purchases are still almost $9bn. Average daily trading volumes continue to be muted, however: this week's $1.8bn was 25% below the rolling twelve-month average. Volatility stayed at the upper end of recent numbers with the India VIX trading either side of last week's close before ending unchanged at 19. Market breadth was good with advances outnumbering declines by better than two to one. Concentration (reflecting the recovery in FII flows) was once again evident: five stocks, representing 26% of Nifty market cap contributed 78% of the points' gain for the week. Index futures closed at a premium of 1% to cash, anticipating continued strength next week.

Responding to the recent Rupee depreciation, even as it maintains its policy of non-intervention, the RBI did impose restrictions on banks' proprietary currency trading in the futures and options markets. SEBI weighed in as well, increasing the margin requirement for dollar-rupee forwards to 100%; the regulator also set new limits for open interest. Further, the RBI told oil marketing companies to purchase dollars for oil purchases directly from the central bank. It appears that following the recent depreciation, the government is contemplating the issue of foreign currency denominated sovereign bonds for the first time to underpin the reserves. The shipping ministry plans to deregulate port tariffs as an incentive to stimulate investment: such a move has had a dramatic effect on development of ports in other countries. Having failed to stimulate investment in multi-brand retail after nine months, the industry department is making moves to sweeten the FDI policy further. Meanwhile, policy clarification in the pharmaceutical sector appears to have worked: the Foreign Investment Promotion Board has cleared seven new proposals in the sector. It has held back one proposal which would involve ownership of critical domestic cancer drug production. Direct Benefit Transfer (DBT) for the LPG subsidy now has one million participants in 18 districts, who claimed $7mil in June. This has had the effect of reducing LPG demand by 3% on an annualised basis. The Uniform ID (Aadhar) programme now has 367million participants and is adding 15 to 20 million a month.

Gold imports in June plunged by 80% after the RBI moved to curtail buying. Net imports were 32 tonnes, down from 162 tonnes in May; the June number was only 36% below the year earlier figure. This should be reflected in the first quarter current account deficit, though it may be offset a bit by the effect of depreciation on the cost of energy imports. In a slow start to the year, gross direct tax collections grew by only 11.5% in the first quarter; the annual budget target is 18%.

Following clarification on pricing policy from the government, Reliance Industries and Essar will add about 6.5mmscm per day of coal-bed methane production over the next two years. This should add 1.5GW to power generation capacity. Reliance will not really see the benefits of the new pricing policy until Q2FY17 when new wells and satellite fields off the east coast start to produce. A proposal from the oil ministry to restrict the application of the price increase to Reliance production was rejected by the finance ministry. Ultratech Cement will invest $500mil in a new plant in Tamil Nadu, for which public hearings on environmental clearances and development plans were held in May. The development will include 5.5mtpa of productive capacity, a 75MW captive power plant and 15MW of waste heat recovery. Bajaj Auto has launched another new bike in its "Discover" range, a fast growing "executive" product line. Negotiations to resolve the strike at its Chakan plant made no progress.

During Friday trading, Infosys announced first quarter results with a positive surprise. Revenues jumped by 17.2% on an annualized basis and profits by 3.7%, both ahead of street estimates. More optimistically, returning Chairman Murthy's first announcement included a return to promising guidance. The market responded by driving the stock-price up by more than 10%. The optimism has boosted market sentiment for other results, especially from the private sector banks and the pharmaceutical sector where we are well represented.