



US EFFECT

Analysts expecting another sharp drop in markets today

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MUMBAI

Taking a cue from the continued decline in US equities, the Indian equity market could witness another sharp decline on Monday, say analysts. The weakness could persist for the next two to three trading sessions, they add. The Dow Jones Industrial Average dipped 208 points, or 1.54%, to end at 13,265.47 on Friday.

Indices across the world had plunged on Friday after US markets crashed on Thursday. The Sensex—the benchmark index of the Bombay Stock Exchange (BSE)—shed 3.4% to close at 15,234.57 as foreign institutional investors (FIIs), the single most influential force in the markets, started selling.

FIIs were net sellers of equities worth Rs1,475 crore on Friday, while domestic institutional investors took this opportunity to buy shares (they were net buyers of equities worth Rs727 crore).

This was a sharp reversal of the trend witnessed so far this month. Until 26 July, the FIIs

had made net investments of about \$10 billion (Rs40,500 crore), while domestic institutions were net sellers of more than \$2 billion worth of equities. Foreign portfolio fund managers, analysts say, are trying to cut short their exposure to riskier assets such as emerging markets equities.

Ketan Karani, head of research at Kotak Securities Ltd, says FII inflows could moderate in the next few weeks. "The ripple effect of problems in US financial markets will continue in our market. The liquidity in our market will dry up if the money flow from US investors slows down," he adds.

But Lalit Thakkar, head of research at Angel Broking Ltd, says the correction period in the market will not last long. "There is no doubt that all the Asian markets will open weak on Monday morning. However, the fall will not be as steep as witnessed on Friday's trade," Thakkar adds. "FIIs currently own about 20% of the Indian equity market. India is still one of the strongest markets in terms of corporate earnings growth. It is very unlikely that



Looking pensive: Investors standing outside the Bombay Stock Exchange react as the benchmark index shed 3.4% on Friday. Indices across the world fell after US markets declined the previous day.

this negative sentiment among FIIs will continue for long."

Trading volumes on Friday's session were very high, say technical analysts, pointing out that this signals an immediate risk. "When the market falls sharply on heavy volumes, it indicates severe weakness," says Vinit Birla, a technical analyst at Mumbai-based Pranav Securities. Short positions built up by speculators will add to the downward trend.

"There is strong short build-up in many blue-chip counters and heavily on the index. This indicates fresh losses on Monday. The weakness will continue for three to four trading sessions. We see 14,700 as the downside for the Sensex. At that level, the index could start

a positive rally to recover lost ground. In the case of Nifty, 4,310 is the downside," he said.

Another Mumbai-based technical analyst who did not wish to be identified says a recovery rally could start in Asian markets after a few trading sessions. However, he expects plenty of volatility in the market. "I would advise taking a neutral position in a market such as this. The Nifty futures are trading at about 40 to 45 points discount. There is huge short build-up on the index. The Nifty could get support at 4,380 levels. If the Nifty breaks below 4,320, it could create panic leading to margin calls. This could accentuate the sell-off," he adds.