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In The News

STOCKMARKETS

Where Is The Rally Headed?

While financial institutions drive up the market, the retail player is not convinced

THE QUESTION ON EVERYONE'S MIND IS WHETHER the recent stockmarket rally in India — in March and early April — is sustainable or not. Domestic retail investors have not participated in this rally.

They continue to be wary. It is the third attempt by the market indices to climb up from the depths they fell into in a short span of six months from May to October last year. The 50-stock S&P CNX Nifty that fell from 5228 on 2 May 2008 to 2524 on 27 October 2008 has since then tried to crawl back to 3000-3100 levels twice —in December 2008 and January this year. But in March it rose sharply from 2573 to 3108 in just 12 trading sessions.

A combination of factors is driving the renewed volatility. "Markets have moved up in the past one month on the back of encouraging developments in the global economy," says Dipen Shah, vice president-private client group research at Kotak Securities. "India also has seen some green shoots in the form of revival in demand for autos, cement and steel."

Market analysts point to not too negative fundamental economic factors. "India had suffered from the impact of the peak oil prices in June-July last year, but that has since come down sharply," says Sankaran Naren, chief investment officer-equity at ICICI Prudential Asset Management Company. "Robust agri-cultural commodities prices and the Sixth Pay Commission hike have helped provide a good basis for consumer spending."

Improved global and local liquidity is also driving up emerging markets' indices. Earlier this was absent. "FIIs (foreign institutional investors) were heavy sellers in the first two months of 2009 because of the liquidity issues in their parent countries and also the slowdown in the Indian economy," says Shah. According to Emerging Portfolio Fund Research, fresh funds have flowed into most of the global emerging market funds that it tracks and the collective corpus of these funds have been the highest in the past four months.

A good part of this new collection would have made its way into Indian equities, some of them through equity derivatives exposure, through FII investments (see 'Institutional Impact'). Domestic mutual funds have also become net buyers in March along with FIIs. Insurance companies were buying, too, in March. "Renewed premiums in March towards the equity-linked insurance policies of various insurance companies have helped the equity markets," says Naren.

Going forward, however, no one is fully confident of the sustainability of the market rally. "For the markets to sustain and move above the current levels, the quarterly results have to surprise on the positive side and the management comments have to be positive as far as FY10 visibility is concerned," says Kotak's Shah. "The markets are not fully convinced on this aspect, we believe."

A report by India Infoline Research analysing a universe of 128 large-cap and mid-cap stocks estimates a decline in year-on-year profits by 4 per cent, first in the current bear cycle. In a macro report on the Indian market dated 3 April 2009, a Macquarie Research analyst highlighted the worsening fiscal deficit of the central government: "...India stands out within the Asian region, as one where the fiscal deficit (as percentage of GDP) and public debt/GDP were already high — and have worsened in response to the current global crisis — thus limiting the scope of further reliance on fiscal policy."

The forthcoming general elections are also playing on every equity investor's mind. The biggest factor, however, would be the sustain-ability of foreign investors' appetite for global equity markets' funds. If the liquidity stays high, the market can keep crawling up. Else, it is back to rock bottom.

Rajesh Gajra

INSTITUTIONAL IMPACT

Heavy buying by foreign institutional investors and domestic mutual funds is driving up the stockmarkets

	FIIs-Index Futures*	FIIs-Stock Futures*	FIIs-Cash Market**	MFs-Cash Market**	S&P CNX Nifty low-high
April 2009 (till 6)	810	23	399	16***	3060-3256
March 2009	2775	-312	530	1477	2573-3108
February 2009	-1696	466	-2436	-1495	2733-2948
January 2009	-585	1872	-4245	-864	2678-3121
December 2008	2088	44	1750	340	2656-3077
November 2008	2542	132	-2598	-372	2553-3148
October 2008	1338	3269	-15347	1431	2524-3950

All figures are net investments (purchases - sales) and in Rs crore; *Predominantly on NSE; ** Custodians' reportage to Sebi on trades on NSE, BSE, etc. *** Till 1 April only; MFs are domestic mutual funds
Source: BW research