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Overdose leaves markets reeling

Markets Bureau
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After tracking weak global cues, Indian bourses slumped on Tuesday after an overdose of RBI's harsh liquidity prescription. Both rate hikes were way above market expectations. Worries of slowing GDP growth and an erosion in corporate profits led to a major sell-off, dealers said.

The 30-share Sensex of the Bombay Stock Exchange (BSE) pared 557.57 points, or 3.89%, to close the day at 13,791.54 points. The wider S&P CNX Nifty of the National Stock Exchange (NSE) closed the day at 4,189.85 points, posting a loss of 142.25 points, or 3.28%.

Though visible across the board, the sell-off particularly impacted banking stocks. The three Sensex constituents from the banking space—ICICI Bank, HDFC Bank and SBI—together command 15% weight in the benchmark index and contributed 83 points to its day's

losses of 557.57 points. Hitesh Agarwal, head of research, Angel Broking, said: "The measures taken by the RBI were stronger than expected and came as a surprise. RBI has not only reiterated its concern over sustained high inflation and its control as top priority, but also maintained a firm hawkish stance. With capital becoming dearer, we expect the impact of this to be visible not only in rate-sensitive sectors like banking, realty and auto, but also on corporate profitability as a whole, as most companies and sectors have

already embarked on huge capacity expansion plans."

Narayan SA, MD, Kotak Securities, said, "The rate hike is definitely more than what the markets had estimated. The focus is clearly to get double-digit inflation under control. The mantra is to control inflation over growth by controlling demand and credit. If we are able to achieve RBI's target of 7% inflation by the end of the fiscal and 8% GDP growth, it will be commendable."

Banking, auto and realty bore the brunt as investors dumped stocks after the monetary measures were announced. The BSE Bankex closed the day down 8.31%, while the BSE Realty and Auto lost 5.54% and 4.04%, respectively.

US stocks had tumbled on Monday on worries about the economy and the troubled financial sector. Reacting to the overnight fall in the Dow Jones Industrial Average by more than 2%, all the other key Asian markets opened on a negative note before finally closing lower in the 1-2% range.

