



## Market Commentary, January 29<sup>th</sup> 2010

The stupidity from last week spilled over into this week when a US newspaper got hold of a story that the Chinese central bank had instructed banks to stop lending out of fear of the economy overheating and stoking an asset bubble. Anticipating that this would force the RBI to tighten policy sharply, Goldman Sachs predicted interest rate increases with absolute certainty and Indian markets hit the skids after the Republic Day holiday. In the event, the RBI demonstrated its usual deft hand by simply draining excess liquidity a bit more aggressively while emphasizing a policy shift from “managing crisis” to “managing recovery”. The Nifty stabilized on Friday but still gave up 154 points on the week to close 3.1% down at 4882, after trading in a range of 5.7%. FIIs preferred to follow the GS banner, turning net sellers of \$1.3bn of cash equity as daily turnover slipped to an average of \$5.1bn; this saw the reversal of all net buying by FIIs for the year so far! Domestic institutions were net buyers of \$1bn, while retail mopped up the rest. Volatility increased slightly, as the Indian VIX traded up from 25 to 29 before closing at 26, for an increase of one point. Market breadth was sharply negative, with declines exceeding advances by 6 to 1. In the end, the index futures all closed close to cash.

Quarterly results continue to roll in, with more evidence of revenue growth in addition to further margin improvements. Cairn, on the back of rising production from its Mangala field, reported profits 23% up; Jain Irrigation reported just a 3.4% improvement: it would have been much better but for the adoption of a quarterly tax accrual. Jindal Steel and Power also saw revenue growth dropping to the bottom line with an 8% profits boost. Bigger growth came from Marico, with 24% profits growth and TISCO, with 155% growth, driven by steel demand for car production. Aban Offshore disappointed, with a 65% drop but the stock recovered when it became clear that the drop was due to a depreciation adjustment because a re-fitted rig had capitalized costs charged off when it was chartered out.

In the news this week, State Bank is seeking acquisitions in South East Asia, Indonesia in particular and may raise additional capital of \$2 to 5bn in the next fiscal year. Presumably with the same intent, Bharti may list one of its transmission tower subsidiaries next year. Larsen & Toubro will form a joint venture with a Malaysian petroleum company for drilling rig construction and laying pipelines. Meanwhile, its joint venture with SCOMI announced that the first phase of the Mumbai Monorail will be completed by the end of December. NTPC, with a follow-on offering of 10% of its shares pending, will sell 15% of incremental capacity through electricity exchanges, boosting margins in the process. The company has invited tenders for eleven 660MW supercritical generation units. BHEL has won an order for a 1.6GW supercritical power plant in Madhya Pradesh.

The RBI monetary policy review was the major economic news of the week and the governor’s statement is worth re-visiting. Emphasis on growth is the keynote: current inflationary pressure is from the supply side, mostly food but if it increases the risk of transmitting higher input and wage costs into product prices action will be taken. In the meantime, weak credit growth and the need to encourage private investment and consumer spending are the main concerns. Policy will be directed to maintaining an interest rate environment consistent with price and financial stability while supporting growth. The RBI revised its current year GDP growth target to 7.5% (it tends to be fairly accurate); it has reduced its targets for loan and money supply growth, while increasing its year-end inflation target to 8.5%. It expects inflation to ameliorate in the first quarter of FY11.

Domestic crude oil production increased by 1.1% to 2.9mil tonnes in December. Core infrastructure sector growth was 6% in December, compared with 0.7% the previous year. Moody’s has upgraded its Indian credit outlook to stable from negative. Telecom companies will be allowed to pay the premium for 3G spectrum in Rupees and re-finance with external commercial borrowings, if they choose. A temporary 2% subsidy on export credit advances will be extended from March to December. The government has sanctioned four shipping sector PPPs worth \$1bn and four port development projects worth a total of \$1.8bn. The total telephone subscriber base is 565 millions, with additions of 19.1mil in December, the highest monthly total ever.

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