to the extent by which the Pakistan rupee has been appreciated in relation to the £ and the Indian rupee,—her exports are likely to suffer.

Hence inspired reports from Karachi that Pakistan's jute and cotton prices will have to be brought down to enable the world markets to buy these commodities from Pakistan.

If prices of Pakistan's two leading commodities, namely cotton and raw jute, are not suitably lowered, it will be a question of only a few months within which Pakistan will be compelled to toe the line of those who have already devalued their currencies.

* * *

The Bombay forward market opened for new crop contracts on Saturday last. It had, unfortunately, to remain closed for three days from Monday onwards on account of the devaluation move. For the same reason, Jarilla is creeping towards the ceiling. The Jarillay February 1950 contract was being quoted unofficially at around Rs. 612 on Wednesday.

The Stock Exchange

Devaluation And The Stock Market

Thursday, Morning

WHILE devaluation of currencies was not altogether unexpected, nevertheless, the event has apparently stunned the world. In any case, the momentous changes in the international monetary sphere found the stock exchanges unprepared. There has been a mad scramble for gold mining shares, which is reminiscent of the Californian gold rush of the 1850s. Prices of gold shares in London, Johannesburg and Sydney stock markets soared 50 to 120 per cent overnight. There has also been a buying spree in planatation and some mining shares.

In India also the initial recation to devaluation was bullish and prices were marked up by about 5 per cent overnight. Tata Steel Deferred—the Bombay market's barometer—was bid up from Rs. 1,430 to 1,510. Similarly, in Calcutta, Indian Irons were marked up from Rs. 29 to Rs. 31.

On second thought, however, bullish enthusiasm waned, and prices have been marked down again to a considerable extent though they are still moderately above the pre-devaluation levels. Partly this has been due to the possible adverse repercussions of Pakistan's decision not to fall in line with the sterling area and to retain the exchange value of her currency at the same unchanged rate.

That devaluation of the pound sterling and along with it, that of the Indian rupee in terms of the dollar and of other hard currency areas (which now includes Pakistan also) has had no spectacular effect on local stock markets is mainly due to the fact that unlike in U. K. and other industrialised countries of Europe, India's export and import trade forms only a small percentage of her total production. Of this again, import and export to hard currency areas amounted only 30 per cent and with the inclusion of Pakistan (because of its decision not to devalue her currency), will now form about 40 per cent.

Amongst the various implications of the devaluation of the rupee marketwise, the most important are: higher cost of capital equipment and industrial raw materials imported from hard currency areas in cases where alternative sources of supply are not available; 'possible inflationery pressure due to likely rise in the cost of living which might lead to demand for higher wages; depreciation of sterling balances in terms of dollars and gold and fillip to our export trade to the dollar area and particularly to countries which were traditionally buying from such areas but have now devalued their currencies. In view of the numerous imponderables involved any conclusive judgment must be reserved till such time as a clearer picture emerges regarding the probable trends of prices in various countries. It would be worthwhile however, to attempt an analysis of the possible repercussions of devaluation on industries likely to be directly affected.

Our traditional exports to the dollar areas consist of cotton, jute, tea, textiles, mica, manganese, shellac, hides and skin, and oilseeds. Marketwise, the most important shares that are likely to be affected, are jute, cotton, cotton textiles, manganese and tea.

In regard to jute it has to be stressed that we depend mainly on Pakistan for imports of raw jute. Pakistan's refusal to devalue its currency will increase the cost of raw material. To what extent costs will go up will depend on the resistance that the growers of raw jute in Pakistan are able to put up against a downward pressure. Since raw jute accounts for roughly 60 per cent of the cost of jute manufactures, our cost of production of manufactured goods may rise anything from 15 to 25 per cent.

Against this, however, it would be possible to export the jute manufactures to hard currency areas at about 30 per cent below the former prices. The actual amount of benefit accruing to the jute industry will thus depend directly on the probable trend of prices of raw jute in Eastern Pakistan.

The outlook for the Cotton Textile Industry is, however, expected to improve on account of devaluation, inspite of the higher-price that Indian mills may have to pay for Pakistan Cotton.

Indian textiles will now be more competative and enjoy a distinct price advantage over the Japanese goods, particularly in the Far East markets, like the Dutch East Indies, which imported as much as 180 million yards of cloth from Japan last year. It is also likely that Indian textiles may find an outlet even in the hard currency area, which was so far a close preserve of U.S.A. and Brazil. In assessing the outlook for textiles, due account, however, must be taken of the probable increase in the cost of production on account of the prospective rise in prices of imported cotton. Foreign cotton accounts for about 20 per cent of the total mill-consumption of cotton in India. Again unlike the jute industry, raw cotton accounts for only 35 to 40 per cent of the total cost of production. In view of the fact that two-thirds of our total imports of foreign cotton came from the sterling area countries like Egypt, Sudan and East Africa, there may not be much difficulty in obtaining larger supplies from these sources, should Pakistan cotton become prohibitive on account of appreciation of Pakistan currency in terms of the Indian rupee. Hence, the added cost on account of any increase in the price of imported raw cotton, is not likely to exceed 5 per cent in the total cost of production, even in the case of cloth exclusively manufactured out of imported cotton. Against this India will be in a position to sell her manufactured goods in the hard currency area at about 30 per cent below pre-devaluation prices. It may be noted that our exports to the hard currency areas (including Pakistan), last year, amounted to about 40 per cent of the total exports of cotton piece-goods.

All said and done, as already stated, the extent to which devaluation can stimulate exports and check imports, will depend on the probable trend of prices in India and foreign countries. It is idle to expect currency and exchange manipulation to solve economic ills which arise out of disparities in costs and prices in various countries. Let it be remembered that there is no short cut to prosperity which can be achieved only through more and more efficient production.

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Trading during the week was restricted to two days only namely, September 14 and 15, the market being closed during the rest of the week in accordance with the Government's notification following the announcement

STOCK EXCHANGE TRENDS

(In Rupees and Annas)

	Last Week	This Week				1949	
	Closing 14-9-49	Opening 15-9-49	High	Low	Closing 16-9-49	High	Low
Steels							
Bengal Steel ..	20 8	20 10	21 13	20 8	21 13	22 9	14 11
Indian Iron ..	26 9	26 9	28 4	26 9	28 4	29 4	18 4
Tata Steel Defd. ..	1377 8	1382 8	1430	1371 4	1430	1677 8	1091 4
Tata Steel Ordy. ..	280	281 8	291	280 8	291	313	230 8
Textiles							
Bombay Dyeing ..	1062 8	1062 8	1063 12	1037 8	1050	1102 8	902 8
Central India ..	207 8	209	213	207 8	213	254	191 8
Finlay ..	254 8	257	257	255 8	256	288	224
Gokak ..	252	252	253 8	250 8	253 8	295	223
India United Ordy. ..	10 9	10-8-6	10 15	10-8-6	10 15	12 2	9 10
Kohinoor ..	276	277	282	275	282	306	229 8
Simplex ..	182	182 8	183 8	181	183 8	191	140
Swadeshi ..	244	244 8	246	240	246	305 8	248 c.r.
Banks							
Central Bank ..	77 8	77 12	78	77 8	78	90	72 8
Imperial F. P. ..	1765	1767 8	1772 8	1767 8	1772 8	1905	1727 8
India ..	174	173	173 4	173	173 4	200	172
United Com. ..	47 4	47 4	47 4	46 12	47	62 8	38
Insurance & Electric							
New India ..	52	50 8	51 8	50 8	51 8	64 8	48 8
Andhra Valley ..	1410	—	1400	1400	1400	1440	1357 8
Tata Hydro ..	152 8	152 8	153 8	152 8	153 8	157	140
Tata Power ..	1510	1510	1512 8	1507 8	1510	1540	1405
Miscellaneous							
Alcock ..	256 4	258 8	260	258 8	260	292	206 8
A. C. C. Old ..	140 8	141	142	140 12	142	158 8	127
Belapur ..	182	182 8	184	180	184	243	154 4
Bombay Burmah Ord.	306 14	310	322 8	310	322 8	327	241 4
Premier Construction	93	93	96	93	95 12	144 8	68 8
Scindia ..	14 2	14 2	14-7-6	13 14	14 6	21	11 9
Wimco ..	187 8	187 8	197 8	187 8	195	282 8	150 x,r,

c.r.=cum rights x.r.=ex rights

of devaluation. During these two sessions, however, the market displayed considerable activity. Substantial bear covering and speculative support, induced mainly by expectations of devaluation, pushed up leading equities to close around the highest levels for the week, with prices showing handsome gains over the previous week's closing. Tata Deferreds were marked up from Rs. 1,375 to Rs. 1,430, Ordinaries from Rs. 280 to Rs. 291, Indian Irons from Rs. 26-9 to Rs. 28-4 and Kohinoors from Rs. 276 to Rs. 282.

Equities recorded further advance on the announcement of devaluation, with Tata Deferred spurting to Rs. 1,510. The smart initial rise was attributed to the general feeling that a lower dollar parity for the rupee would stimulate exports and discourage imports, and thus secure substantial support for the Indian industry.

On second thoughts, however, Dalai Street inclined to the view that while advantages from devaluation would be practically confined to the shares of the companies deriving a large part of their income from exports to the dollar area, industry would be adversely affected by the rise in the cost of capital equipment. Despite the Food Ministry's disclaimer, it was also suspected that increase in the cost of food imports would put additional strain on the Government's resources. In consequence, equity values tended to drift lower.

Pakistan's decision not to devalue its currency had an unsettling effect on the general market sentiment, particularly in view of its possible adverse repercussions on the Indian jute industry. The undertone of the market, however, as indicated hy unofficial quotations of Tata Deferreds and Indian Irons, appeared to be fully steady,

Money Market

Pakistan's Decision Upsets

BECAUSE of the closure of banks, impacts of devaluation of the rupee on the money market have yet to be fully reflected. Some disturbance in the money market is not unexpected. But it is not likely to spring from devaluation but from Pakistan's decision not to devalue her currency. In the absence of exchange regulation—and in view of the growing doubt whether Pakistan will be able to maintain the rate—there might have been a flow of funds from Pakistan to India.

Pakistan's decision may involve more stringent control on currency and exchange transfers between India and that country. That apart, no permanent effect on the Indian money market structure is expected to result from Pakistan's decision to maintain the dollar value of her currency at her old, appreciated level.

More interesting are the possible experiences of devaluation on the money market of India, as well as of Britain and the sterling area as a whole. Of the various comments and criticisms hitherto expressed, one is that devaluation will lead to a closer link between money rates in America and in the non-dollar world.

That interest rates in the non-dollar world should tend to conform to, or be influenced by, those prevailing in America, is an agreeable viewpoint. This has nothing to do with this week's devaluation of the major currencies of the world. But, it is arguable that, as America is now the world's largest creditor and as New York is the financial nerve-centre of the world, the non-dollar area's money and interest rates should closely follow the pattern prevalent in the United States.

There is only one snag in such arguments. What ought to happen does not necessarily happen. For instance, shorf-term money rates in New York has, in recent months, shown a tendency to harden. But, experience in Britain and in India shows that short-term money rates can remain cheap despite the hardening tendency in New York.

On the other hand, long-term interest rates in America are lower than those obtaining in Britain or in India. In both the latter countries, the gilt-edged market has developed a downward trend. In Britain, this is partly due to flight of funds off the pound, and, in part, due to distrust of the Labour Government's economic policy. In India, too, capital is hostile towards the Government's economic and financial policy.

Apart from wider consideration of policy, the above should dispel the impression sought to be created by interested parties that devaluation of currencies in relation to the dollar should have a hardening effect on interest rates as money is dearer in the United States. Statistics do not bear out any such assumption.

In so far as there has been a flight of funds off the pound, devaluation may, in fact, lead to a rise in security prices in Britain by reversing the flow of money. So far as India is concerned, devaluation may not, as it happened in similar circumstances in and after 1931, lead to cheaper money; but there is no reason to apprehend dearer money as a