Money Market

Why This Renewed Hesitancy ?

THERE MAY be some justification for the downward trend in equities as a sequel to Sir Stafford Cripps's announcement that the volume of sterling releases will be reduced in future. For, it is arguable that India may jnot be able to continue the current rate of investment in capital goods with reduced volume of Sterling resources made available to her. And, it can be further argued that industrial efficiency and profits might decline because of the retarded pace of modernisation of plant and machinery.

Expected cut in prices of steels and textiles is another argument for bearing equities. All these influences have been in operation throughout the week; as a result, equity values are well below recent levels. But, why this renewed hesitancy on the gilt-edged market? Because some operations are.trying to sell the Labour Government down Throgmorton Street, is there any reason why Indian security prices also should be hammered down?

On the contrary, recent developments are in favour of the gilt-qjlged market. Reports emanating from New Delhi indicate that the Government are contemplating a cut in capital budget; that, they are seriously considering the question of introducing a compulsory savings scheme. Whether or not the capital budget should be cut, is not beyond controversy. A compulsory savings scheme for civil servants and Government employees is certainly needed, if civil expenditure is not to be cut down, though it may be unwise to introduce such a scheme to net in lower income groups in the absence of reduction in the controlled prices of essential goods.

These questions apart, there can be no doubt that the contemplated cut in the capital budget as .well as a renewed savings drive should have a sustaining effect on money rates. Reduced loan programme of the Government is expected to lead to a starvation of the gilt-edged market, thereby helping the maintenance of prices of securities.

Even on the worst assumption of a scaling down of sterling balances, there is no reason to expect a pronounced slump in the gilt-edged market. Apart from the psychological impact of such an event, it is not likely to lead to any lowering of money supplies within the country, though it will cause some violent book adjustments in the accounts of the Reserve Bank. Today, the Reserve Bank is a department of the Government; as such it would be easier for the Bank to adjust accounts in the worst event of a scaling down of sterling balances.

This is not to suggest that if sterling balances were scaled down there would be no effect on the money market. However, statements made by the British Prime Minister and the Chancellor of the Exchequer indicate that such apprehensions are unwarranted. This as well as possible repercussions of lower releases of sterling seem to be appreciated by institutional investors in India, as is apparent from the relative steadiness in Indian gilt-edged prices. Sir Stafford Cripps's statement that the British Government are not in favour of higher interest rates, though they are determined to check inflationary tendencies, seems to have a reassuring effect; this should remove fears, prevalent in financial circles, that in the event of a rise in interest rates in Britain, it may not be possible for the Government of India to maintain money rates at current levels.

While -Sir Stafford Cripps's statement has adversely affected both the equity and the gilt-edged market, it has indirectly had bullish repercussions on the bullion market. Support for bullion is partly due to fears that, in the event of a scaling down of sterling balances, the Indian currency and financial structure will have to be watered down. This, coupled with revived rumours that, if the Government's offer to tax-dodgers does not evoke good response, the Reserve Bank's scrutiny of banking practices and of private deposit accounts might be made more strict, seems to have led to an increase in the hoarding demand for bullion.

Besides, the Reserve Bank's policy relating to sales of gold has encouraged the market impression that the authorities are not interested in depressing bullion prices but in effecting open market sales of gold and silver in such a manner as to enlarge the sale proceeds as well as to withdraw as much of black market money as possible At the moment, the market is anxiously awaiting the Reserve Bank's announcement about the daily quota of sales for the month of November. In the absence of an increase in the daily quota of sales, bullion prices are likely to remain steady, while any reduction in the quota may easily lead to a spurt in the prices of gold and'silver.'