The Stock Exchange

Big Deal in Textiles

Thursday, Morning.

THE busy season is in full swing. Money rates have moved up. Most banks have raised their rates of interest on lending even those on overdrafts against Government securities. There has been a corresponding decline in their cash balances with the Reserve Bank. In December the withdrawals from the Reserve Bank amounted to about Rs. 40 crores, almost the whole of which has passed on to trade.

There is nothing unusual in these developments at this time of the year. What complicates the situation is the persistently declining trend in gilt-edged securities, which was noticeable even in the slack season which continues though there has been no excessive selling. The lack of faith in the present rate of interest is obvious, of course, but there may be more in the market behaviour than meets the eye.

The Reserve Bank has let down the market, notwithstanding the limited support lent to the 3 per cent. Conversion loan at Rs. 93. This support level suggests an effective yield of 3.23 per cent.; so, does it not indicate that the Government has modified its ideas on monetary policy and now thinks of 3¼ per cent.? But the effectiveness of even this rate cannot be taken for granted and can only be known from the response to a call for subscriptions to a new loan. The Finance Minister who had been in Bombay last week spent most of his time in discussions with the Reserve Bank. While speculation would be futile, the borrowing programme of the Government during the next budget year may have figured in the discussions.

Economy in Expenditure

Having tamely admitted that the scope for economies in Government expenditure was limited, an economy of the order of Rs. 6 to 7 crores is now promised by the Finance Minister. This is only a target. Its achievement may Rave to be awaited till the next budget year ends. Budget proposals have been upset time and again by developments almost entirely unforeseen. There are some indications, however, on what line the Government of India are thinking. Food subsidies, however, are hot stuff and proposals to cut them may have to be dropped like hot brick. The savings resulting therefrom can be considerable. But the resulting privations to the public may not be easy for the Government to explain away.

Indeed, the earlier attempt of the Food Minister to introduce a large measure of food decontrol did indicate a growing desire on the part of the Government to get rid of some of their responsibilities with an eye to economies. The proposal, however, had to be dropped in deference to the State food ministers who put their feet down and would not budge. In the end it was Mr. Munshi who had to recede.

Decontrol of Cement

The decision to decontrol cement, a major commodity, however, gives an indication which way the wind is blowing. Here was a case of an industry which has been progressing satisfactorily. Decontrol, it is often claimed, is not necessary where the production trend is upwards. Of course, it is also argued that where the production is falling under control, decontrol can be depended upon to reverse the trend.

The point here is however nol exactly whether the Government of India has plumped for decontrol in a large way. It is indeed difficult to believe that the decision to decontrol cement was a major policy decision in respect of controls in general. It is possible the decision was taken for no other reason than that of economy. The surprising ihing is that in an industry where the production trend was definitely upwards there was hardly any agitation for decontrol. The decision to decontrol cement came as a surprise to the biggest producers of the commodity, notwithstanding the fact that cement was quite high on the list of commodities control on which was to be removed.

This leads to one conclusion which seems reasonable. This is supported by the behaviour of the stock exchanges in the shares of leading 'cement companies. There was hardly any rise in the quotations for these scrips. But it is known that there are considerable differences in the costs of production of the different units in the industry. Price fixing therefore presented difficulties and met with protest from the units with higher costs. As it was ACCs were gettfng only Rs. 82-8 per ton as against Rs. 90 allowed to the three new units. Has the Government then decided to take the easier course of decontrol rather than face the music of vociferous protests in respect of price fixation?

With only a score of production units in the cement industry, and one single composite group responsible for 60 to 70 per cent, of the total output, the administrative expenses in maintaining control could not have been heavy nor the task of distribution to consumers by the issue of permits unusually difficult. Differences in the costs of production could certainly be accommodated.

Slackening of Demand ?

It should not be forgotten, howevt.T, that the demand for cement is dependent on the tempo of building activity which in turn is affected by various other factors including finance. Other raw materials have become scarce. There have been representations from sections of the cement industry that the building activity on Government account should not be reduced. Fears of surplus production appear to be in the offing. Was control on cement, then, acting as a measure of protection? Mr. Mahatab did say that South Indian factories could not depend on the benefits of control anv more.

A Protective Price For Rubber?

The control price of rubber (it is a protected price) has now become a hindrance though when it was fixed it was meant to be protective. That price, it has turned oil, has been giving pro Action to the manufacturing industry instead.

The planters' case has been most skilfully argued ,and has been heard. In this the Government has shown evidence of real wisdom. But on only one end of the problem. It is surprising indeed that inspite of New Delhi's obsession with the price situation, nothing is known whatever of possible action by the Government in respect of prices of rubber goods which are marketed at prices far higher than even those of American products! Surety, let us hope, the Tariff Board which has been asked to go into the matter of rubber price has also been asked to probe into the prices of rubber goods.

Sticky Element in Prices

There is something sticky about the argument that there has been an inflationary rise in the prices of raw materials while in most cases consumer goods prices have stayed put. There are ever so many commodities imported or produced in the country which have gone up in price. The consumer knows it to his cost. Food prices have gone up. But so have many other prices. One wonders if all the price increases have been faithfully reflected in the official index of prices. It is time some one responsible for the indices started thinking.

What About Cost of Cloth?

That lead to the problem of cloth prices. The industry is worried. The announcement of higher cloth prices, to compensate the rise \n the cost of raw cotton, has not been forthcoming. One wonders if there is trouble brewing between the Textile Commissioner and the mill owners. Or is it that both are playing with it? It appeared that the Government was definitely committed to an increase with effect from January 1. Mills are withholding production from January waiting for new prices to be stamped. It is time someone came out with an explanation; were or were not the, mills assured that the promised increase in prices would take effect from January 1? No one knows what is the extent of price increase which the Government is willing to allow and whether it will be satisfactory to the mills.

Block Transfer in Mill Shares

It is perhaps not surprising, therefore, that there has been persistent selling in textile shares. The really sensational development in the textile section, however, is the transfer of a block of 15,000 ordinary shares of Century Mills outside the market for a price of Rs. 270, when these shares were quoting only nominally around Rs. 275. The distribution of purchase orders to various brokers at once galvanised activity in these shares and 'prices leaped up. Operators had only been waiting to get the shares of this Company which is known to be managed as well as any other first class mill. With a high level of dividends, it was impossible for the shares of the Company to be quoted at levels which could give higher yields than on the shares of other textile mills •at their current market prices. And so it happened, goes the story, that when more shares of the Century mills came into the market, the prices went up. Addition to the floating stocks of these shares, it is argued, would help to expand speculative activity in them. If this was the only purpose, it still remains a mystery why at all anyone who had a large block of the shares should part with it for a price considerably below what the market could offer. The intimate relations of the two parties to the deal perhaps offers a better explanation for the episode.

Move For Margin in Bullion

Some of the worst features of commodity speculation are being repeated right before our eyes. Bullion has been sparing, the inducement being that overseas free markets in gold have recorded considerable advance. The Bullion Association has received a requisition from some of the Directors for the imposition of the margin system. As could only be expected, at their first meeting which took place this week, the Board could not arrive at a decision.

Things are no different in the castor seeds futures market. Trading in castor seeds May delivery contract has been permitted only since the turn of the New Year, Prices have shot up. One fails to see the logic behind the futures market when scarcity of supplies is a patent factor known to everybody. If overseas demand is effective at any price, surely the Government must be able to do something about satisfying it without upsetting the internal price levels. Atleast one Chamber of Commerce, the Maharashtra Chamber of Commerce, has risen to the occasion. It has telegraphed the Government of India to issue a ban on export of castor seeds and castor oil forthwith or at least to curtail these exports drastically.

Cotton Market

Bulk Buying Rebuffed in Madhya Pradesh

Thursday, Morning.

CONTROL measures recently taken by the Textile Commissioner in appointing his own nominees in the Districts of Buldana, Akola and Arnraoti in Madhya Pradesh and sealing off these areas for movement of cotton has aroused strong opposition both from growers and traders. The situation has deteriorated so far as to lead to conjectures whether the Textile Commissioner will withdraw the measures already taken. This action was presumably taken because cotton prices in these areas had pierced the ceiling levels. The contention of the trade is that prices had generally remained within the prescribed limit and if any circumvention of the control order had taken place, it was entirely due to the manipulation of *benami* purchases made by the mills. The trade was inclined to the view that majority of the transactions which had hitherto taken place had been within the prescribed limits and any mill, whether situated in Madhya Pradesh or outside has been able to get cotton just for the asking. It is only those mills who have no ready cash to buy cotton and who want to help their *benami* purchasers, either related to or in league with them, who may have abetted some cotton merchants to enter into contracts on fantastic terms. Such mills may have experienced difficulties,

At the conference of merchants and farmers held at Amraoti strong protests were raised against the Textile Commissioner's action. One of the members pointed out that the question of sealing of! the area had not been referred to the Regional Committee and their views had not been sought. In other words, the people who had been appointed by the Central Board for the specific purpose of advising the Board on the local situation had been altogether ignored. The cotton merchants were surprised that even the views of the State Government who arc endeavouring to co-operate in the implementation of cotton control consistently with their obligation to safeguard the interest of local cotton trade and the cotton growers were being ignored.

Neither the Madhya Pradesh Government nor the Regional Committees had been consulted by the Textile Commissioner even as a matter of bare courtesy while choosing his nominees. The representatives of the trade and the growers were of the opinion that such action was hasty, unwarranted and inconsistent with the facts of the situation. It had been taken to punish those who had offended the least, if at all any offence could be proved. The right course, therefore, would have been to suspend the licenses of the offenders and freezing of such