Around the Markets

Dalal Street Resumes Primary Downtrend

THE Stock Exchange is not interested in the past or even in the present. It is constantly looking ahead. This is because it is the stock market where the best informed minds of business and finance commercialise on their knowledge of impending changes in the economy long bet ore such facts become generally known.

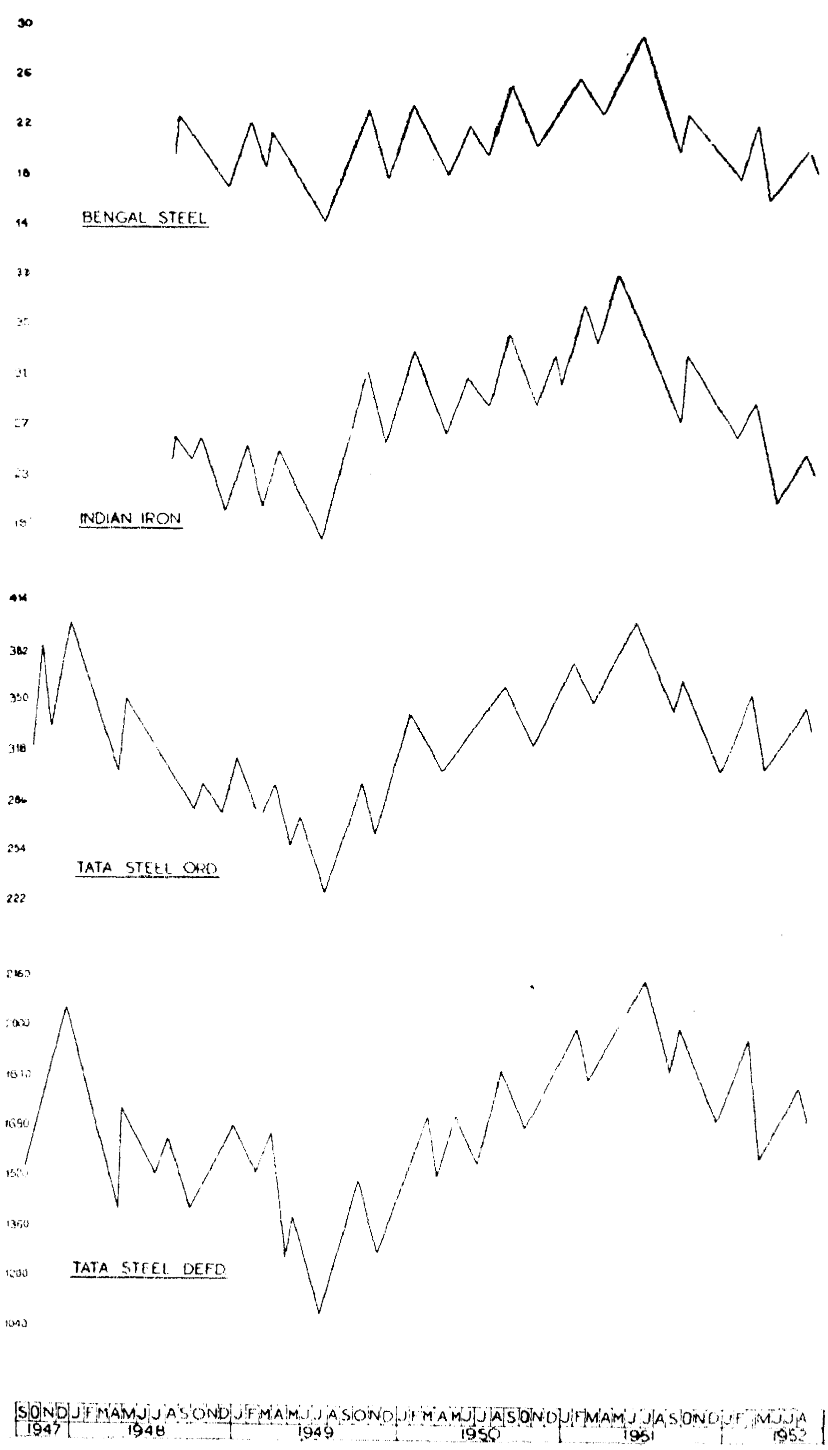
Developments since the middle of the last year amply support the above view. The two-year old bull market ended in July 1951 amidst convincingly bullish news. It was only alter the reversal of the primary trend had been well-established that economic observers began to show awareness of the possible implications of the peace move in Korea. Dalal Street paused for an intermediate correction in December and resumed the primary downtrend in the last week of February.. Prices declined so rapidly that within barely a fortnight the market found itself faced with a payments crisis.

Few people had taken the verdict of the Stock Exchange seriously, Many critics thought speculators had gambled heavily on Korean peace prospects and had exaggerated its 'implications. Economists who should have known things better said the Stock Exchange had been unduly alarmed by the rising trend in interest rates both in India and abroad. The Government thought its disinflationary policy was at last making its influence felt on commodities.

What happened in March is now common knowledge. The sudden break in bullion and commodities led to an unprecedented payments crisis in almost all the forward markets in the country. Trading had to be suspended for many weeks.

The March slump had a lesson for all. It exposed the weakness of even the most well organised markets, and had a sobering effect on speculators, Most forward markets resumed trading with margin system and interim clearings depending on fluctuations, Belatedly the Government realised the change in the overseas demand for Indian goods. The trade asked for numerous export aids. The Government responded. Duties were cut and exports liberalised.

Once again the Stock Exchange showed the way. Industrial shares began to improve when the trade was still talking slump. Commodities soon followed. Export aids and relaxation of internal controls imparted a steadier tendency and com modifies made a bold bid for recovery. Sentiment was helped by the



Price Movements in Steel shares

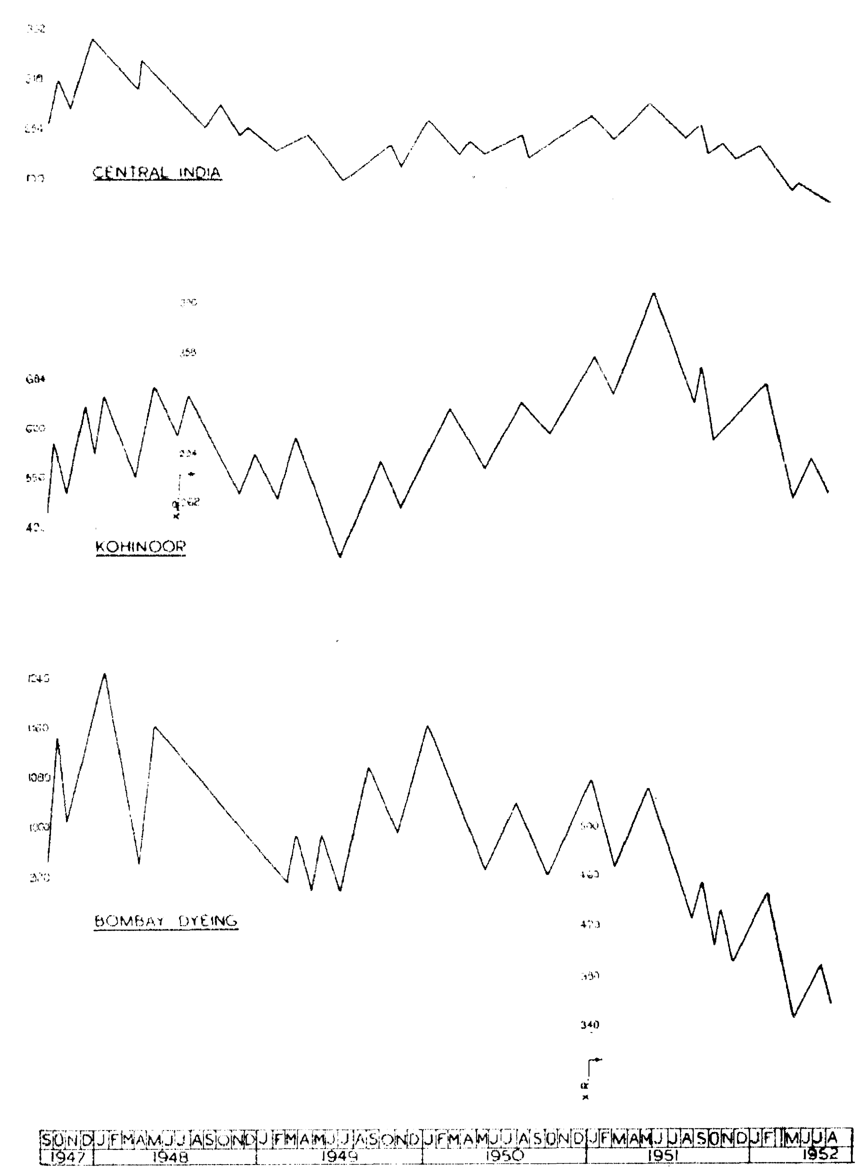
continued uncertainty about the Korean situation and developments in the Middle East and in Europe.

Commodities have nude an all-round impressive recovery from the March low levels. The pace of use, however, has slowed down appreciably in recent weeks and many commoditic: ate .showing increasing consumer resistance. The outlook generally is viewed with caution. Lick of confidence in higher prices and fear of a renewed recession have scared hoarders. Bulls are no more inclined to be aggressive. It is generally thought, that deterioration in the international. political situation alone can lead to a sustained rise in commodities.

Korea peace continues to hang fire. Situation in the Middle East and in Europe remains; anxious. Wall Street is remarkably firm. Both the Industrial and Rail averages established new post-war peaks in the week to August 1 at 279.80 and 103.81 respectively. In June 1951 these averages were down to 242.6 and 72.30 respectively. Maybe the rising trend reflects Wall Street's confidence in the Republican victory in the Presidential election.

The prolonged steel strike which has cost labour and capital untold millions of dollars, has virtually eliminated, through involuntary shut downs, the inventory problem. Steel inventories which some manufacturers worked two years or more to build have been wiped out. Defence spending continues high. Agricultural prosperity has been assured by the President signing into law the bill requiring that support: prices of basic farm products be continued at the high level of 90 per cent, of parity throughout 1955 and 1054 crop years.

Developments in America seem reassuring for commodities, hi... Dalai Street apparently is diffident about their outlook. After nearly three months' of intermediate correct ion in which industrial shares retraced between 30 per cent and 60 per cent of the preceding decline Dalai Street has again resumed the major downward phase. Cotton Mill shares gave the signal towards the end of July when several shares broke their well-tested support levels on a good volume.



Behaviour of Leading Cotton Mill Shares

Steel shares which had held comparatively steady on prospects of early development loans on favourable terms also succumbed to selling pressure on August 7 and S. The immediate cause for the sharp break in Tata Steels was the disappointment with the company's annual report. With increased output, more despatches and a rise of nearly Rs crores in sales revenue due to higher retention prices net profit showed only a small increase of Rs 3 lakhs. This belied genera! expectation about a substantial rise in profits following the declaration of higher dividends which involved an additional payment of Rs 21 lakhs to the shareholders.

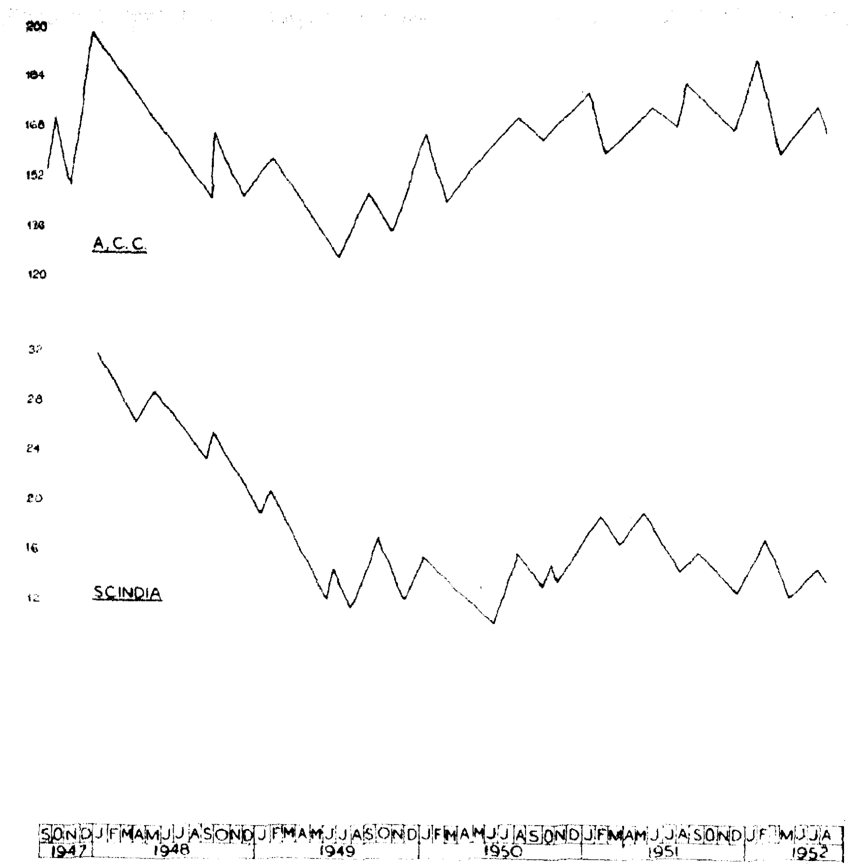
Gross profits of the company contain a non-recurring item of Rs 123.61 lakhs received as an increase in retention prices in the previous two years. This will be off-set only partly by sales of scrap this year. Many people believe that the lata Iron and Steel Company has reached maturity, and that production cannot be increased without a disproportionate rise in the unit cost. Average output of finished steel per employee increased from 19.6 tons to 20.6 tons, while the average labour cost in 1951 rose from Rs 94.47 to Rs 107.24. The pace of rise in output has declined appreciably in recent years.

Rationalisation may reduce unit cost, but it is doubted whether this can be achieved because labour at Jamshedpur is well-organised. Rehabilitation of the existing plant and machinery and renewals alone can put new life into the company. Tin's requires huge capital. It is difficult to raise money from the public because of the peculiar capital structure of the company. A developmerit loan from the World Bank is almost taken for granted, but the delay in the announcement has caused anxiety about terms and conditions.

Production trend of cotton textiles is encouraging. Relaxation of distribution control and liberalisation of exports and restoration of power cut arc welcome developments. The industry no longer -complains of accumulation of stocks with mills. There has been a considerable improvement in domestic off-take and in overseas inquiry for Indian cloth in recent mouths. In the circumstances downward trend in textile shares might seem rather intriguing. Rut Dalai Street is convinced that textile prosperity in the last two years was based essentially on export boon, which is now well over. Competition is bound to grow.

The Gift-edged market continues depressed rejecting anxiety about the rising trend in interest rates in foreign countries. Convinced ot the pool chances of success the Central Government has almost decided not to test its credit by issuing a new-loan. The success of the tour per cent 1064 loans issued by the tour State Governments has not aroused any enthusiasm. The four loans aggregated only Rs 12.5 crores. The terms and conditions compared favourably with the existing loans. Even so despite powerful canvassing lists had to be kept open for more than n day. While it will be some time before these loans come on the market, nominal quotations show a discount varying between four and eight annas. His apparent that political and not economic considerations bad weighed with the lenders.

The market is intrigued by the widening spread between the yield on different loans. The three per cent 1070-75 loan for instance yields 3.93 per cent at the present quotation of Rs 86. The Conversion Loan 1986 continues at Rs 80 due to official support, yielding only 3.75 per cent. This discrepancy cannot last indefinitely. The sooner the Government realises inconsistency in its policy the better. The Gilt edged market in India has been virtually dead for long. Many people think that resumption of forward dealings may enliven the market. An active market may help raising of new loans.



Fluctuations in Miscellaneous Section—Associated Cements and Scindia Steam

STOCK EXCHANGE TRENDS—BOMBAY

	1951 High	1951 Low	1952 High	1952 Low	Percentage retracement of the decline from 1951 high levels, in the corrective phase Dec-Feb. 1952	Percentage retracement of the decline from 1952 high levels, in the corrective phase April-July
Bengal Steel	29-10	19	22- 7	16-12	36.8	70
Indian Iron	39- 8	27- 8½	29- 6½	21- 7	21.5	46
Tata Steel Dcfd.	2167- 8	1717- 8	1976- 4	1592- 8	42.2	81
Tata Steel Ordy.	404	308	358- 8	310	46.9	60
Bombay Dyeing	1073-12 C.R.	405 X.R.	405	348-12	37.9	42
Central India	288	218- 8	235- 8	160 -8	24.3	14
Kohinoor	398- 8	304	339- 8	266- 8	37	35
Svadeshi	339	247	296	240	44.2	41
A.C.C.	183	160- 4	190- 8	160	130.4	53
Belapur	298	249	268	203	38.8	26
Bombay Burmah Old	608-12	441- 4	553- 2	382- 8	67.5	17
Scindia	19- 4½	12-15½	17- 1	12- 7	65.3	48.5
Premier Construction	129- 8	84	107	74-12	62.2	27.5

C.R. — Cum Rights; X.R. — ex-rights.