Stock Exchange

A Year of Crisis

By " Trend Theorist "

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NINETEEN hundred and fifty two will be long remembered for the unprecedented crisis in March which caused the suspension of forward trading in almost all the important markets in the country. A few big speculators who had overtraded recklessly chose to default when their losses proved heavy. Instead of enforcing discipline and making traders observe the sanctity of contract, the governing bodies of various associations resorted to compulsory squaring-up of business at arbitrary rates. The members were prevailed upon to pay what was legally due from them, and even so, dues had to be settled on the basis of four to eight annas in the rupee. The payments crisis led to a crisis of confidence.

CRISIS STARTS WITH BULLION

The Bombay bullion market which should have been expected TO Fa re better in view of the Government representation on the Board of Directors fared the worst. Indeed the March crisis may be said to have started with the break in bullion. And the chief cause was the large-scale repudiation of option business. Traders who had accepted heavy " Mandi " options refused to honour their commitments when the market turned against them, on the pretext that option business was illegal! The Government conducted an inquiry into the matter. Brokers admitted many irregularities in their books of accounts. The Government protested, but stopped at that. The culprits were allowed to escape' with impunity.

BEAR TREND HIGH LIGHTED

Although it was the March slump which hoisted the red signal, drawing attention to the basic change in business outlook, the stage had been set for it in the previous year. The Stock Exchange had made up its mind about the change in the major trend the day the United Nations and the Communist armies decided to negotiate for a peaceful settlement of the Korean issue in June, 1951. But few had taken this verdict seriously. It was only after the bear market had been confirmed, with most shares establishing lower tops and lower bottoms, that economic observers began to appreciate the possible implications of the peace move in Korea-

Slackening of stock-piling and rearmament alone could have produced a big shake-out in commodities. But the decline was accentuated by the dear money policy adopted by most of the countries more or less at the same time to check inflation. The process of transition from a sellers' to a buyers' market had begun in 1951 What happened in 1952 was only a continuation of the established trend.

Markets in India generally seemed fairly steady in January and February. They were trying to regain stability after the shake-out following the rise in the Hank Rate in November and the declared withdrawal of support to Government securities by the Reserve Bank. Sentiment was aided by the improved production trend, the grant of $50 million by the United Stales for development projects with bright prospects for further assistance from the World Bank, and general optimism about the success of the Congress in the General Elections.

PAYMENTS CRISIS

Recovery continued up to the last week of February when prices look such a sudden downward plunge that within barely a fortnight the principal organised markets were faced with a serious payments crisis. Trading had to be suspended for many weeks. Budgetary policy, heavy trade deficit and credit restrictions aggravated seasonal stringency and accelerated the downward trend in commodities. The bull appeared to have turned a bear. But all this might not have produced a crisis, if gamblers had not chosen to default. For more than anything else, the March slump was due to a payments deadlock. The following table across shows the decline in prices in the March slump.

The March crisis had a lesson for all. It exposed the weakness of even the best organised markets and had a sobering effect on speculators. Most forward markets resumed trading with margin system and interim clearings, depending upon fluctuations. Belatedly the Government also realised that there had *occurred* a basic change in the foreign demand for Indian goods. The trade asked for numerous export aids and the Government quickly responded. Duties were cut, exports liberalised and internal controls on commodities relaxed progressively.

DECLINE OVERDONE

The decline had been overdone. Technical considerations warranted a sizable recovery. The Stock Exchange gave the lead. Equity prices began to rise amidst talks of slump. Commodities soon followed and they made a bold bid for recovery from the March low levels. The uptrend was quite pronounced up to July when the pace of rise slowed appreciably Although prices had staged quite an impressive recovery the volume of business never showed any marked improvement. Outside interest continued negligible and in the absence of public participation professional operators found little enthusiasm to trade in a big way.

Apart from technical considerations sentiment was helped by several favourable influences. The May Budget did not contain any new tax proposal. Restriction on the export of coarse and medium cloth was removed. The announcement of a higher dividend by the Tata Steel Company and continued optimism about development loans to steel producers and a rise in retention prices were the other bull factors.

Equity movements during August

		February High	March-April Low
		Rs a	Rs
Gold	..	105-7	76
Silver	..	194-7	139

Index of variable dividend securities (Base 1938 = 100)

All-India	..	122.7	110.4
Bombay	..	135.8	122.6
Calcutta	..	108.1	98.5
Madras	..	154	142.5
Textiles (All-India)	..	166.4	148
Steels	..	156.4	119.8
Jutes	..	95.6	79.9
Banks	..	112.1	105.4
Insurances	..	106.9	103.1

and September were rather erratic, but the major bear influences began to reassert themselves. Industrial shares fell under the lead of Cotton Mill shares which were down to record low levels for many years. The All-India index for textile shares declined to 134.4 against the 1949 bear market low of 147.6. Steel shares were also affected although hopes *of* a rise in retention prices and promises of development loans checked the decline. The renewed slump in textiles, despite the rising trend in cloth production and various export aids, was due to increasing consumer resistance at home and rising competition in foreign markets particularly from Japan.

BREAK AND SUBSEQUENT RECOVERY IN WALL STREET

Sharp break in Wall Street in September attracted considerable world attention. Many people read in it: the indications of a business slump. The Dow Jones Industrial and Railroad averages which had been pushed to 280 and 104 in August, declined to 268 and 97 respectively, in September. After rallying to around 272 and 102 they were down again to 262 and 98 respectively, in October. A decline of another two points would have convinced the Dow-theorists about the reversal of the primary up-trend. But the Railroad average stubbornly refused to confirm the resumption of the major down-trend. The Dow theory stood the test admirably. Wall Street's behaviour reflected its firm belief in a Republican victory and the market staged a spectacular 1 recovery after the return of the Republicans to power. The Industrial and Railroad averages advanced to around 399and 119 respectively, record high levels for more than twenty-two years. reflecting confidence in sustained business prosperity under the new regime,

BEHAVIOUR INDECISIVE

The behaviour *of* the Indian stock markets during October, November and December was indecisive. Cotton mill shares staged a partial rally induced mainly by technical factors. Steel shares were mostly a " trading market ", with sentiment influenced by speculation about the ratio at which Tata Steel Deferred might be converted into Ordinary shares and prospects for the Indian Iron and Steel Company, after its amalgamation with the Steel Corporation of Bengal. Reaction to the IISCO-SCOB *merger* was mixed. Increased benefits from expansion and development were generally admitted. But with little chance of dividend being more than one rupee on the new shares, neither the investor nor the speculator could be expected to take a bullish view. Fear of the possible sale of 11 lakh shares of SCOB now held by a holding company to raise capital also introduces an element of uncertainty about the outlook for Indian Irons.

AS FLAT AS A PANCAKE

While speculative business in industrials declined further and most stock-brokers found it almost impossible to meet expenses and were forced to reduce their staff, the gilt-edged market was as flat as a pancake. The process of readjustment after the half per cent rise in the Bank Rate to three and a half per cent had nearly been completed in the previous year. And gilt-edged stocks fluctuated within a narrow range throughout the year, with the underlying trend quietly steady,

NO CENTRAL LOANS

With no loan falling due for repayment and convinced of poor public response, the Central Government did not venture to test its credit by raising a new loan. Total borrowing by the four State Governments of Bombay, Madras, IJttar Pradesh and West Bengal amounted to only Rs 12.50 crores. All the loans carried an interest of four per cent and were repayable in 1964. The issue prices, however, were different. The terms and conditions of the loans compared favourably with the existing loans. Even so moral suasion was thought necessary to attract subscriptions.

Assured of official support to the 3 per cent Conversion Loan 1986 and monetary stringency eased by the issue of usuance bills, the gilt-edged market showed a fairly steady tendency up to March when sentiment was again adversely affected by speculation about a further rise in the Bank Rate in India after the one and a half *per* cent increase in Britain's Bank Rate. But the market steadied again soon. The Bombay index number for Government and semi-Government securities which stood at 91.1 in April improved to 92.2 in June.

The index declined again in September to 90.9 due to the renewed weakness in British funds, rumours of a Central Government medium-dated loan at 4 per cent, the issue of State loans and lack of investment inquiry. But with selling seldom heavy, the gilt-edged market steadied again and the recovery was assisted by a scarcity of floating stocks. The Bombay index rallied to 91.8. The gilt-edged market has been virtually dead for a long time. Many people think that resumption of forward dealings may increase activity. Among other things, an active' market is essential for any large-scale borrowing.

INVESTMENT OUTLOOK UNCERTAIN

The investment outlook is uncertain. There are no indications of the end of the bear market which started about the middle of 1951. The trend of industrial production being encouraging, the bulls, however, may argue that the Five-Year Plan, with its provision for increased industrial output and its possible inflationary effects from deficit financing, offers enough chances for a price rise. Fears of nationalisation, moreover, have been allayed, assuring fine prospects for investors. Fear of a further rise in the Bank Rate seems exaggerated. Because of the higher cost of repaying the huge outstanding debts this year and the increased cost of borrowing under the Plan, it is unlikely that the Government will step up the Bank Rate any further. The continued uncertainty about Korea and the boom on Wall Street are the other bull factors.

But capital formation through the accumulation of large profits in the hands of private agencies is inconsistent with the Plan's objectives. The effort to plough-back additional incomes into the system by way of investment for rapid increase in output will lead to more intensive search for new taxation. And the planners mean to explore the scope for more direct and indirect taxes. Prospects of state trading at the wholesale level in respect of certain commodities to prevent flow of capital into distributive trades cannot also be ignored.

Fiscal and political tendencies the world over, aimed at reducing inequalities in wealth, have affected the pattern of savings and the flow of funds seeking speculative employment. The abolition of Zamindari and the States' merger have already hit Stock Exchange activity. The Five-Year, Plan is likely to prove another big damper. The existing Stock Exchange mechanism is not suitable for attracting small savings. Brokers will have to work hard to sell investments.

DOWN TREND IN BULLION

The trend of bullion prices in India last year was quite interesting. The March slump brought down silver to below world parity—an unprecedented phenomenon— and made gold smuggling unattractive. There had been sufficient indications in the previous two years that bullion prices had passed their peak. The rise in bullion during war was due to political uncertainty. The further rise in the post-war years was attributed mainly to the pressure of black money seeking investment in bullion in order to escape income-tax. While gold had reached the record high of Rs 121 per tola in 1949, silver rose to Rs 207-4 in 1951.

Hoarded gold began to come Out when black market earnings waned along with business recession and progressive de-control. With most income-tax cases settled, there was little incentive to hold gold any longer. Persistent arrivals of " kutcha " metals from the up-country, however, probably indicated distress selling. Seasonal demand failed to exert any influence last year and the trend generally remained downwards. After declining to Rs 79 and Rs 139 in March, gold and silver, spot delivery, improved gradually to around Rs 96 and Rs 175 in May. They slumped again in November to Rs 76-8 and Rs 140 respectively, but rallied in December to around Rs 84 and Rs 153, With scarcely any incentive to hold or hoard, a major and sustained recovery seems unlikely, unless the international political situation deteriorates.

But a bottom is assured for gold in India by the international free market prices, which cannot go much below their present level, since the latter will effectively stop any supply coming in, because any-further fall in them will remove the margin necessary to induce smuggling. Without fresh arrivals from this source, shortage of stocks will prevent a fall.

Reinsurance Corporation in Pakistan

The Pakistan Insurance Corporation Act came into force from this month by which all insurers operating in Pakistan are obliged to re-insun' with the Pakistan Insurance Corporation, set up under the Act. ten per cent of all the sums assured on all policies issued by them in Pakistan.

The Corporation has a capital of Rs (P) one crore divided into 20,000 shares of Rs (P) 500 each. The Government of Pakistan subscribes for 10,200 shares and the remaining 9,800 shares are open for public subscription. Only 20 per cent of the authorised capital has been called up. The remainder will be called up for subscription from time to time with the approval of the Government.

The ratio of Government subscription, *viz,* 51 per cent, will be maintained even if it is decided to increase the capital. In case public subscription does not amount to the extent to which it is allowed to participate, within six months of the opening of subscription, it will be made good by an increase in Government, participation.

The general direction and administration of the Corporation is entrusted to a. ten-man Board of Directors and a Managing Director. The Managing Director and six of the Board of Directors are appointed by the Government. The remaining four will be elected.

STOCK EXCHANGE MONTHLY

	1952							
	Jan.	Feb.	March	April	May	June	July	August
IRON & STEELS								
Tata Deferred								
High ..	1927- 8	1976- 4	1875- 0	1632- 8	1766- 4	1765- 0	1827- 8	1807- 8
Low ..	1752- 8	1840- 0	1620- 0	1592- 8	1622- 8	1705- 0	1722- 8	1670- 0
Tata Ordinary								
High ..	345-12	358- 8	341- 8	317- 0	334-12	337-12	349- 4	353- 8
Low ..	317- 0	335- 0	314- 0	310- 0	314- 0	329- 0	333- 0	328- 8
Bengal Steel								
High ..	21-14	22- 7	20-13	17- 4	19- 0	19-10	20- 9	20- 9
Low ..	18- 4	20- 5	16-10	16-11	17- 3	18- 9	18- 3	18-11
Indian Iron								
High ..	29- 5½	29- 6½	27- 3	22- 0	24- 0	24- 8	25- 4½	27- 7
Low ..	26-11	26-13	21- 8	21- 8	21- 7	23- 3½	22-10	23-10
COTTON MILLS								
Bombay Dyeing								
High ..	440- 0	450- 0	418-12	382- 8	390- 0	383-12	392- 8	376-14
Low ..	416- 4	403-12	375- 0	370- 0	348-12	365- 0	368- 2	360- 0
Central India								
High ..	235- 0	232- 8	211- 8	182- 0	203- 8	185- 0	181- 8	168- 8
Low ..	225- 0	209- 0	180- 0	178- 0	177- 0	180- 0	161- 0	160- 8
Century								
High ..	323- 8	324- 0	308- 8	264- 0	267- 8	251- 0	269- 8	263- 0
Low ..	308- 0	303- 0	259- 0	250- 0	218- 0	235- 0	244- 0	247- 8
Kohinoor								
High ..	338-12	339- 8	312- 0	290- 0	311- 0	292- 0	291- 4	290- 0
Low ..	323- 0	306- 0	282- 0	281- 0	266- 8	277- 0	269- 0	270- 8
Svadeshi								
High ..	289- 8	296- 0	281- 0	249- 8	260- 8	263- 0	264- 0	256- 0
Low ..	258- 0	279- 0	247- 0	242- 8	240- 0	251- 8	246- 4	243- 8
MISCELLANEOUS								
Associated Cement								
High ..	190- 8	181- 8	174- 8	165- 8	172- 8	171- 4	175-12	173- 0
Low ..	178- 4	172-12	164- 8	160- 0	165-12	169- 8	169-12	167- 4
Belapur								
High ..	268- 0	267- 8	249- 0	225- 0	225- 0	217- 0	222- 0	215- 0
Low ..	255- 0	247- 8	222- 0	208- 8	206- 0	209- 0	209- 8	203- 0
Bombay Burmah Old								
High ..	540- 0	553-12	487- 8	432- 8	448-12	427- 8	426-14	407- 8
Low ..	516- 4	481- 4	422- 8	422- 8	396- 4	406- 4	395- 0	378- 2
Premier Construction								
High ..	104- 8	107- 0	103-12	83- 0	88- 0	84- 4	84- 0	78- 8
Low ..	88- 0	97- 4	84- 0	78- 0	79- 0	79-12	77- 4	74- 0
Scindia								
High ..	13-13	17- 1	15-10½	13- 7	13-15	13-14	14-11½	14- 6
Low ..	11-13	15- 5	13- 6	13- 0	12- 7	13- 2	13- 5	13-11

† ex-rights.

§ Before the issue of bonus share at one to four.

TRENDS—BOMBAY
HIGH AND LOW

1952 September	1952 October	1952 November	1952 December	1952	1951	1950	1949	1948
1752- 8	1711- 4	1695- 0	1728-12	1976- 4	2167- 8	1928-12	1677- 8	1975- 0
1647- 8	1615- 0	1625- 0	1632- 8	1592- 8	1717- 8	1535- 0	1091- 4	1430- 0
341- 8	315- 0	305- 0	310- 0	358- 8	404- 0	369- 0	327- 8	387- 8
304- 0	294- 0	291- 8	296- 8	291- 8	308- 0	309- 0	230- 8	281- 0
21- 4	21-11	21- 8	20- 6	22- 7	29-10	25-11	23-10	33- 0
19- 5	19- 6	20- 4	18- 6	16-10	19- 0	18- 6	14-11	17- 6
28- 2½	28- 7	27- 7	25- 3½	29- 6	39- 8	34-12	31-14	40- 0
24- 8	24- 2	24- 2½	23- 2½	21- 7	27- 8½	26-13	18- 4	28- 8
377- 8	353-12	351-14	362- 8	450- 0	1073-12*	1167- 8	1102- 8	1257- 8
345- 0	331- 4	331- 4	341- 4	331- 4	405- 0†	920- 0	902- 8	945- 0
171- 0	148- 8	153- 0	148- 0	235- 8	288- 0	271- 0	264- 0	375- 0
134- 8	123- 0	138- 0	140- 0	123- 0	218- 8	220- 0	191- 8	250- 0
261- 0	238- 8	239- 0	254- 0	324- 0	386- 0	281- 0	266- 4	575- 0
232- 0	226- 8	228- 8	234- 8	218- 0	299- 0	229- 6	200- 0	240- 0
292- 0	272- 0	262- 8	265- 8	339- 8	398- 8	351- 8	307- 0	677- 0
262- 0	259- 0	252- 0	255- 0	252- 0	304- 0	285- 0	229-12	270- 0
258-12	237- 8	239- 4	244- 0	296- 0	339- 0	322- 8	305- 8	683‡
233- 0	225- 8	225- 0	232- 8	225- 0	247- 0	242- 8	240- 0	277- 8
179- 8	182- 8	182- 0	180- 0	190- 8	183- 0	178-12	158- 8	193- 0
173- 8	174- 0	173- 4	175- 4	160- 0	160- 4	145- 4	127- 0	147- 0
219- 0	223- 8	221- 8	229- 8	268- 8	298- 0	294- 0	243- 0	369§
201- 0	195- 0	209- 0	207- 0	195- 0	249- 0	217- 0	154- 8	234- 0
415- 0	394- 6	392- 8	403- 2	553- 2	608-12	535- 0	375- 0	522- 8
370- 0	367- 8	380- 0	384- 6	367- 8	441- 4	350- 0	241- 4	321- 4
78- 8	78- 0	85- 0	87-12	107- 0	129- 8	122- 8	144- 0	252- 0
71- 0	69- 0	74- 0	80- 8	69- 0	84- 0	81- 4	68- 8	136- 8
14- 8	14- 8	15- 1	15- 0	17- 1	19- 4½	17- 0	21- 0	36- 4
13-11½	13-10	13-13½	14- 9½	12- 7	12-15½	10- 4½	11- 8	19- 6

cum-rights.

‡ Before the issue of bonus share at one for two.