Stock Exchange

Dalal Street —A Bull Market

Dharm Prakash

The outlook for equities is viewed *with optimism, but few people* believe that stock-broking *will* ever become a prosperous *vocation, if* present fiscal and political trends continue.

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NINETEEN HUNDRED AND FIFTY THREE was a year of increasing freedom for the commodity markets. The slowing down of stock-piling due to casing of the world political tension made relaxation of controls on commodities possible. Buyers' markets emerged in nearly all the commodities and competition increased. The slump in the price of gold in the world " free " markets to the official price of $35 an ounce suggested mainly the return of normal conditions. Inflation was no longer considered a serious threat and there was a positive shift in the emphasis from dear money to cheaper credit to stimulate economic activity to meet rising competition. Since recently considerable thought has been given to the possible implications of a recession in American business activity and huge sales of Russian gold.

Dalai Street's recent remarkable buoyancy is in pleasant contrast to the generally depressed conditions prevailing a year ago. Few people have any doubts now about the primary up-trend. Confidence is slowly returning. Although activity continues predominantly professional there has been considerable broadening of interest. Equity prices recorded all-round fair gains last year. The upward trend is expected to gather momentum in the present year.

Doubts about the 1951-52 bear market persisted until the Budget. The publication to the Five-Year Plan had led to fears of increased taxation. Capital formation through accumulation of large profits in the hands of private agencies was considered inconsistent with the Plan's objectives. It was generally thought that the effort to plough back additional incomes into the system by way of investment for rapid increase in income would lead to more intensive search for new taxation.

But these fears were soon belied when the Finance Minister announceed some token tax concessions. Sentiment changed quickly. Stock Exchange operators began to emphasise the bullish implications of development expenditure under the National Plan. The bears decided to cover their positions and to go " long ". Equity prices continued to rise until about the end of March. Sentiment was helped by fear of renewed war in Korea following deneutralisation of Formosa.

Technical considerations induced a reactionary tendency. Fear of estate duty dampened bullish enthusiasm. The proposal to disallow off-setting of speculation losses against genuine trading profits caused considerable uneasiness and evoked strong protests which bore some fruit. After a size able technical set-back equity prices recovered, but declined again. Fluctuations between April and September were very erratic reflecting baffling economic situation in the country.

Unemployment was rising despite the upward trend in industrial production. Prices of manufactured goods fell, while prices of raw mate rials continued high. Situation was complicated by developments in world commodity markets. The slump in Wall Street began to cast its shadow. The emergence of huge grain surpluses in America attracted world-wide attention. Export industries complained of rising competition and reduced foreign demand. The textile industry appeared to be facing a crisis due to accumulation of huge stocks. It was at this time that the Stock Exchange was discounting a very important bear factor, the" Estate 'Duty.

It was the dread of rising unemployment that drew Government attention towards finding methods to help private enterprise. This led to the appointment of Shroff Committee to examine the question of increased finance to the private see tor. The Government also decided to step up expenditure in the National Plan by another Hs 17:; crores. The cloth market responded quickly to certain reliefs to encourage domestic and overseas off take. The proposal to form a council for promoting cloth exports was greatly welcomed.

Confidence began gradually to revive after September. Equity prices staged an impressive recovery by the middle of December. The remarkable change in sentiment was attributable to several favourable influences. The end of the Burnpur strike and the marked rise in Indian Iron's output, the boom in Tea shares following the spurt in tea prices enlivened trading on the Calcutta Stock Exchange. Dalai Street was encouraged by the rising demand for cloth, particularly coarse and medium. Sentiment was greatly influenced by the issue of bonus shares by several companies due to growing labour demand to share profits and reserves.

Anxiety about Indo-Pakistani relations following reports about American military aid to Pakistan produced a modest reaction, but the market soon resumed the primary uptrend after the first week of January. Dalai Street is indeed in a buoyant mood. Inflationary psychology has seized the market. This is evident from the unusual interest shown by the traders in the Reserve Bank weekly returns for note circulation figures. With prospects of borrowing and increased taxation limited, a large dose of inflation is considered unavoidable.

There is a growing belief that the Government attitude towards private enterprise is more encouraging than ever before. Any major relief may he unlikely until the Taxation Inquiry Commission has completed its report, but additional tax load on industry is generally ruled out. Production trends continue encouraging. Reduction in the Bank Rate has become almost an article of faith with many important speculators.

The outlook for equities is encouraging. Technical analysis are con vinced that Dalai Street is a bull market, reflecting faith in India's economic development under the National Plan. The market is in no mood to give any serious thought to talks about a possible recession in American business activity which can have far-reaching effects on the economics of various countries.

Despite the all-round sizable improvement in equity prices, activity last year continued essentially professional. The outlook for equities


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is viewed with optimism, but few people believe that stock-broking will ever become a prosperous vocation if present fiscal and political trends continue. The decline in the volume of security business differs radically from the frequently recurrent phases of inactivity. It is impossible to foresee any sweeping retreat from the general principles of a social policy which precludes the possibility of building up private fortunes.

The transfer of the power to save from the few to the multitudes has led to a decline in the size of the average investor. This means more small savings in directions which bring virtually no stock exchange business at all, more through institutional investors which are largely interested in gilt-edged, and a progressive substitution of small direct investors for the substantial private investors whose investments and dealings constitute the average brokers most remunerative type of business. With the change in the concept of economic prosperity industrial expansion is not likely to be accompanied by profit inflation. The existing political and fiscal tendencies are not favourable to the accumulation of large private fortunes. Savings in coming years following any possible relief in income-tax and economic development under the National Plan are likely to be institutionalised.

Interference With By-Laws Scares Bullion Traders

SHEIKH MEMON STREET had a rather uneasy time last year. Except for a few occasional spells of speculative activity, the market was generally flat like a pancake. The volume of business dwindled to such proportions that even the leading firms found it difficult to meet their office expenses. With the disappearance of black money, which used to stimulate demand, and most income-tax disputes settled, business lacked incentive and the little activity that was there was confined to a few professional operators. But what really scared the outside public from taking a lively interest in the bullion market was the unscrupulous way the Bullion Board interfered with the by-laws of the Association.

Despite the facility for interim and special clearings and the provision for automatic margin depending upon fluctuations and the spread between two deliveries of a metal, the Board did not hesitate to interfere with the by-laws to suit the changing needs of its influential directors. The rise in the price of silver from Rs 151 in January to Rs 170-12 in February, the highest level for the year, seemed to create a payment deadlock. The Board declared a state of emergency, but it failed to get the approval of the general body. Surprisingly enough on one occasion the directors called to consider the question of "emergency " failed even to form a quorum. As usual the deadlock was resolved through a compromise and squaring-up of positions at a certain agreed rate.

. The price of silver declined gradually to Rs 151-8 in April but recovered again to Rs 166-5 in May. Later it moved irregularly lower to Rs 147-6 in October, the lowest level for the year. It improved to Rs 152-6 by the end of the year. In the last three weeks the price has risen further to Rs 159-7. With the year's fluctuations confined to a narrow range of Rs 23-6 it is really unfortunate that the Board of the Bullion Association should have thought of interfering with the by-laws to keep the market liquid.

The Board's latest proposal to fix a penalty for failure to deliver the goods on the due date deserves the strongest censure, because it reduces the delivery contract to nonsense. In a delivery contract the buyer cannot be denied the right to insist on delivery irrespective of its consequences to the seller who has enough opportunity to cover his " short " position before the end of the contract if he does not possess the goods to be delivered. In a hedge contract alone can the " shorts " be allowed to settle their dues by paying an agreed penalty. The need for forward trading in bullion is questioned by many, particularly on account of the ban on imports and a scarcity of floating stocks which makes " cornering " possible. But if people must speculate they must learn to behave. The latest amendment of the by-law is awaiting Government sanction. The uncertainty about the contract must soon be ended.

Fluctuations in gold were influenced chiefly by the trend in arrivals of smuggled gold. On balance the year ended with a loss of four annas per tola. After rising from Rs 82-0 to Rs 90-13 in February gold forward declined to Rs 84-3 in April. It improved to Rs 91-7 in June, the highest level for the year, but moved irregularly lower to Rs 79-1 in October, the year's lowest rate. It recovered to end the year at Rs 82-5, and has risen further to Rs 84-14 in January. The offtake generally continued poor. Sentiment was affected by the fall in the price of gold in the world " free " markets to the official price of $35 an ounce. Recently heavy sales of gold by Russia have evoked considerable interest, but fear of the price falling below $35 an ounce seem unwarranted because the American Treasury would buy any amount of gold at that price, irrespective of its origin. America may have a dislike for communism, but it is too materialistic not to accept Communist gold.

Bullion markets thrive on political insecurity and inflation. World political situation appears to be gradually improving. Inflation also has ceased to be a serious threat in most countries. Apart from strong " bull " manipulation which could 'push up prices considerably at times, no spectacular rise in bullion prices is thought likely this year, unless of course international political situation deteriorates and Indo-Pakistani relations worsen. The immediate outlook appears encouraging. Crops this year have been good. Seasonal demand is bound to make its influence soon.