Around the Markets

Bull Market Has Emerged

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The price pattern in cotton has been mould d by changing ideas about a turn in the cotton textile situation.

Bullion continues to rise. Cold is now again at its alb time peak of 1951. *But that was the Korean War—why up now?*

All fiscal impediments in the way of oil exports have been removed. It is now for the trade to show its enterprise.

NINETEEN-FIFTY-EIGHT was a boom year for .stock markets. True to the .spirit of the Sputnik Age, Wall Street .shot into space never explored before. The Dow-Jones Industrial average which had touched the low of 420 during the Syrian crisis in October 1957 and had recovered to 435.69 by the beginning of 1.958, crossed the 580 mark by the close of the year and it now stands around 595. The U S had missed the moon but Wall Street's bull had made it- and over --with ease. Coming in a time of recession, the market's amazing performance battled most of the experts. But Wall Street's bull really symbolised the new economic power and stability of the U S.

The performance of the London Stock Exchange was also quite impressive. The Financial Times' Ordinary share index which had touched the low of 154.4 on February 25 stood at 225.5 on December 31. This is not only the highest for the year but also a record high for a very long time. The highest point recorded in 1957 was 207.6. The impressive rise on the London Stock Exchange followed the progressive cuts in the Bank Rate from the crisis rate of 7 per cent to 4 per cent and the steady growth in the sterling area's gold and dollar reserves which has made it possible to widen the area of convertibility of the

Bear Market Ended with T T K Budget!

In India too 1958 was a very gainful year for the investor. Equities recorded spectacular gains allround and quite a large number of shares crossed the 3956 bull market tops which were lower only than the all-time highs touched in the 1946 boom. An analysis of price changes in 200 leading shares in different markets shows that 152 issues recorded a net rise over the year, gains averaging 24.7 per cent. In 1957. only 24 shares out of 125 had been able to show net improvement and the average rise was no more than 9.9 per cent. Of the 48 shares which suffered losses in 1958, the losses of as many as 31 were below 10 per cent.

The phenomenal decline in equity prices since August 1956 had shaken the investor rather badly. The then Finance Minister, Shri T T Krishnamachari, was blamed for it. His tax policy was thought, to have spoiled the investment climate by depriving private enterprise of the incentive to work and earn. But as the Finance Minister was entrusted with giving a concrete shape to the socialist pattern of society, T T K could not. allow himself to cater to the private sectors prejudices. The Plan called for an all out effort to mobilise every pie of available resources. The challenge had to be met.

Savings Drained Away?

Strange as it may seem in retrospect, the 1956-57 bear market ended with T T K's May 1957 Budget! The 1958 recovery was not a mere correction of the preceding downward trend. The primary trend itself got reversed. That a bull market should emerge in an economy faced with severe stresses and strains surprised many. But a bull market did emerge.

Drastic import curbs, for owing the foreign exchange crisis, affected raw material supplies. A difficult food situation added to the strain and the tempo of economic activity tended to slacken. That apart, the big business propaganda campaign against New Delhi's socialism was not calculated to create a healthy economic climate in the country. Even the Chairman of the Tata Iron and Steel Company did not hesitate to complain about New Delhi's "ideological attitude of hostility and mistrust towards private enterprise". And about the beginning of the year the champions of the investors' cause tried hird to convince the Government that penal taxation and the heavy food bill had cut deep into the community's savings and unless these' savings were restored, life could not re urn to the investment market. But the market put them in the wrong by staging a rise which exceeded the anticipations of even the. most optimistic buiIs.

The Tide Turns

It would be naive to suggest that speculators were encouraged by the small concessions announced in the February Budget and the further relief in cloth excise duty some time later. Speculators who are more daring and possess no less foresight than the captains of industry did not take long to realise that the criticism of the Government's economic policy was intended mainly to wrest more and more concessions. T T K's Budget had been harsh, but it had s*et* at rest future uncertainties by laying a firm foundation for a well integrated tax structure.

The worst had been known and had got cocounted. The lessons of the foreign exchange crisis, which dominated official thinking throughout the year, had not been ignored. Fiscal impediments in the way of exports were removed and incentive schemes were devised to stimulate exports. Imports were kept at the minimum. The drain on foreign exchange began to decline and since October-end, foreign exchange reserves have actually began to rise, Foreign aid outlook brightened as the year progressed and almost the entire requirements of the remaining period of the Second Plan have now been virtually underwritten.

Easy Money Changed Yield Pattern

The most important bull factor for the stock market was perhaps the extremely comfortable money conditions. The 1957-58 busy season had all the characteristics of a slack season. Easy money helped the boom in equities but it was not through the availability of huge funds for speculation on the stock exchange. Its influence was indirect. Easy money produced a boom in the gilt-edged market which, in its turn, markedly changed the pattern of yield on all investments.

By about the middle of September, equities had risen to levels which suggested that speculators bad discounted the future too optimistically and too soon. The market therefore paused for an important technical correction. This lasted until about the end of the year. Most technical analysts would say that the corrective phase is over and that the primary upward trend has been resumed. The way the market withstood the A I C C session was reallyy remarkable. For, the tone of the speeches at the Nagpur session was not encouraging.

Improved foreign exchange position, larger supplies of steel, better harvest and easy money should help the economic tempo in 1959. But its extent will depend on the co-operation between the Government and the people. Opportunities exist, but they have to be availed of. Successful implementation of the National Plans depends as much on mobilisation of monetary resources as on the nation's will to work

1958 was a good year for investors, 1959 promises to be much better. It is true that with the country facing crisis of internal resources one cannot be too sure what the February Budget will have in store *tor* the market But the volume of lnvestible funds will continue to grow. How it will find its way to the stock exchange is another matter. In recent years investment activity has tended to grow at the expense of speculative business and this has affected the fortunes of the stock exchange profession,

Gilt-edgeds

Impressive Bite

THE Gilt-edged market showed remarkable strength in 1958 due to sustained support from banks and other institutional investors. Prices rose even during the 1957-53 (October-June) busy season and the further rise thereafter was only to be expected. While scheduled banks' total advances showed a decline of Rs 8.68 crores over the year, their advances recorded a rise of Rs 206.78 crores from 1367.51 crores to 1574.29 crores. And what is more the rise occurred only in time deposits. Demand liabilities were slightly down by Rs 7.16 crores over the year. Time deposits are now well above demand deposits.

With deposits steeply up and advances down, banks had ample funds to invest. Little wonder that their holdings of Government Securities increased by Rs 204.15 crores. Of course support to the Gilt-edged market did not come from banks alone. Life Insurance Corporation and other institutional investors also played an important part. That is why, the market has continued to hold firm despite selling by banks in the past few weeks because of the rising seasonal demand for funds.

The rise In Government Securities over the year has Indeed been very impressive. The 2-1/2 per cent 1961 loan is up from Rs 94.45 to Rs 97.25, 3 per cent 1964 from 93.85 to 96.90, 3-1/2 per cent 1967 from Rs 99.60 to Rs 100.80, 4 per cent 1972 from Rs 100 to Rs 101.20 and the three per cent Conversion Loan from 71 to Rs 73.20. This rise has brought about a marked change In the yield pattern. That is perhaps why the Reserve Bank had to insist that the Ahmedabad Municipality should float a ten year loan only at four per cent

That the increase in bank deposits is largely due to the accrual of funds under P L 480 must be readily conceded. The withdrawal of these funds (amounting to over Rs 200 crores now) will have important effect on the money market but the time is not yet. Conditions in the money market therefore can be expected to remain easy in the foreseeable future because of the continued import curbs. Of course seasonal influences will have their -effect which will last till about the end of May.

The net borrowings of the Central and State Governments in 1958 amounted to Rs 245 crores. Despite easy money, the outlook for Government borrowing In 1959 seems less promising because banks have already got their funds locked up in Government Securities and they will not be in a position to lend the support they did last year.

Cotton

Erratic and Unexciting

TRADING in cotton in 1958 was a *very* unexciting affair. Fluctuations were erratic but they were not wide enough to attract the attention of the Forward Markets Commission. With the supply position of cotton neither tight nor *very* comfortable, sentiment In cotton futures was generally guided by changing ideas about a turn in the textile situation.

New Delhi's helpful attitude encouraged the hope that the textile crisis might be resolved soon but the relief in excise duty did not bring about any marked revival in the trade. Off-take tended to pick up but at a rather slow pace. Exports of cloth continued to disappoint and the Incentive scheme failed to yield any quick result In the face of sluggish conditions in the world textile trade. Exports of cloth in 1958 are estimated at barely 580 million yards as against 845 million yards In 1957, and mill cloth output is down from 5,317 million yards to 4,910 million yards.

Government policy towards export of raw cotton was also very helpful. Not only were export quotas liberalised but export duties were slashed, the quota system abandoned and exports allowed on a first-come-first-served basis. The policy has been liberalised still further in the new season and the whole season's quota announced right at the beginning of the season. The trade is now free to show its enterprise

Exports Better

Export performance in 1958 was better than in the previous year and imports were restricted because of the difficult foreign exchange position. Even so the carry-over at the end of August 1958 was appreciably larger because of reduced mill consumption following the decline in cloth output. Cotton futures which had been moving up and down in an erratic fashion within a comparatively narrow range developed pronounced weakness in September under the influence of the record estimate of the crop around 57 lakh bales. By November 1, Jarilia March had been marked down to Rs 593-4, a record low for many years.

Briefly fluctuations in various contracts in 1958 were as under:

Jarilia March 1858: open 690, high 723-8, lowest 652, closing 720 (March 25).

Jarilia May; open 685-4, high 694-8, low 638-8, closing 684.

Jarilia August: open 672-8, high 694-8, low 647, closing 674.

Tenders issued were: 4,200 bales against March, 5,250 bales against May and 4,800 bales against August.

The current hedge contract, March 1959, opened at 671-8 on July 14 and touched a high *of* Rs 687-8 on July 16. Thereafter it developed a downward trend which brought down the rate to Rs 593-4 on November 1. Since then it has been improving gradually because of the drastic revision of crop estimates from 57 lakh bales to 50/51 lakh bases and some recovery in cloth off-take. On January 19 it touched a high of Rs 667-12. Apart from the downward revision of crop estimates the recovery has oeea ue-^ea by the delay in the movement of the crop and the scarcity of imported cotton. But with arrivals likely to pick up well in coming weeks prospects of any further marked and sustained rise in prices are generally discounted.

Oilseeds

Fiscal Impediments Go

|N many ways 1958 was an eventful year for the oilseeds market. The foreign exchange crisis compelled the Government to remove all the fiscal impediments in the way of exports. The ban on the export of groundnut oil and H P S groundnut was lifted. Groundnut prices rose to record high levels for many years. Groundnut extractions enjoyed such fantastic premium over expellers, which contain 6 to 7 per cent oil, as had never been heard before. The U S which had always been taking between 15,000 and 20,000 tons of Indian castor oil annually hardly took a thousand tons last year.

Groundnuts were marked up to around Rs 41 per cwt, the highest price for a long time. Prices realised by groundnut oilcakes were the highest ever recorded. The crop was just normal but consumption had increased with the rise in population. Of course speculators too did not hesitate to exploit the untimely announcement of export quotas for groundnut oil, H P S and expellers. The export of extractions had been free and overseas demand was always good. Business was limited only by the manufacturers' ability to produce the stuff.

Bullish Fervour

Linseeds too recorded an impressive rise to around Rs 36 per cwt. This was based on the encouraging export performance of oil made possible by the tight world supply following the failure of crops, both in the U S and Canada. Shipments of linseed oil from Bombay in 1958 were nearly twice those in 1957. Although comparatively subdued, castorseeds never came down to a level which could bring the price of Indian castor oil to around Brazils parity. Little wonder therefore that the U S kept off the Indian market throughout the year. Of course the U S consumption was also substantially down in 1958. Export of castor oil from India was about 20,000 tons less than in the previous year but the Indian crop too was very much smaller around 95,000 tons against 1.30 lakh tons in the previous season. The Iron Curtain countries accounted for the bulk of the export business done last year.

Below are the figures of shipments of oils, oilcakes, and seeds effected from Bombay in 1958. The figures for 1957 are given In brackets. The figures are in tons.

Castor oil 18,661 (38,408), linseed oil 14,020 (7,548), cottonseed oil 2,388 (6,623), kardi oil 1,652 (373), groundnut oil 355 (10), sesame oil 262 (nil), higer oil 54 (629) and mustard and rapeseed oil 30 (nil): H P S groundnut 629 (nil), linseed 2 (nil), nlgerseed 205 (149), kardiseed 88 (nil), sesame seed 25 (nil); groundnut expellers 45,460 (19,628), groundnut extractions 51,490 (6,634), linseed cake 5,306 (550), cottonseed cake 2,378 (6,737), niger cake 256 (2,964), kardi cake 95 (nil), mowra meal nil (2,121), mowra cake nil (485) and sesame cake 40 (nil).

The oilseed market is in the grip of a bullish fervour at present. Groundnut May is already quoted at around Rs 181 per candy even though the season has still a long way to go. New Delhi's helpful export policy when the crop is Just normal has made bulls crazy.

Bullion

Gold at New High

IN India gold touched its all-time high of Rs 118-10 in 1951. The Korean War had sent prices of commodities sky-rocketing with the result that the value of money fell steeply Gold seemed to be the only commodity worth holding and hoarding. With the Korean War boom over, gold declined heavily to Rs 77-4 by the end of 1952. Since then it has been gradually seeking higher levels. On January 21, 1959, it was up again at Rs 118-10½ almost near the all-time peak.

What does the rising trend in gold indicate? Can it be that economic development has brought prosperity to the rural sector where people are believed to have a bias in favour of precious metals as media for investment? Or does it reflect the flow of hidden wealth into the bullion market? This is not improbable, particularly with the heavy incidence of taxation and lack of faith in the Government's attitudes among the class of people which makes big money. Hidden wealth must be indeed be very huge. Even in a small country like Pakistan hidden wealth disclosed after the establishment of the new army regime is placed at Rs 134 crores.

Fluctuations in bullion in 1958 were quite erratic even though the under-lying trend was unmistakably upward. The highest and lowest rates recorded by gold and silver ready in 1958 with the 1957 figures in brackets were: gold; high Rs 115-4 (112-8), low 104-9 (103-13); silver: high 202-8 (191), low 178-7 (174-2). The all-time high for silver is Rs 207-4. This was recorded in 1951. The price pattern last year continued to be moulded by con jectures about the flow of smuggled god and silver coins from Tibet, The West Asian political situation and the army coup in Pakistan were the other two factors which had a profound effect on the market for precious metals.

Margin Raise Fails to Check

Margin rules were tightened to discourage the rising tendency in prices, but all in vain. Margins can only influence the volume of speculative business but they can seldom have any profound effect on the price trend, And speculators cannot be blamed for taking full advantage of the poor supply position of precious metals, while demand continues to be fairly good, Smuggling *of* gold has been seriously affecting since the establishment of the army rule in Pakistan. Sales of Kolar gold have remained suspended since July, The supply of Tibetan coins has also tended to fall, presumably because of the decine in the Indo-Tibetan trade. The Deputy Finance Minister once told the Lok Sabha that the Chinese authorities had banned the export of Tibetan coins to India.

Tibetan coins constitute the only source of supply of silver. And gold comes only through smuggling. The supp'y of gold from Kolar is too small to make any difference to the supply position. In such a situation the existence of forward trading in precious metals is really beyond comprehension. The Forward Markets Commission report on the recognition of associations in respect of forward contracts in gold and silver, submitted last year, contains sufficient material to ruin the case for a futures market in these metals, which, however, has been upheld by the Commission.

No reliable estimates are available of the floating stocks of precious metals in the country. But the figures accepted by the Commission are 44,000 tolas of gold and 6,000 bars of silver. Even on the basis of the current high prices these stocks are worth only a few crores and it is easily possible for a few powerful operators to manipulate the market by cornering the stocks. That is what has actuary happened In the past. Perhaps the only good purpose served by a forward market in precious metals is that it brings a fairly large amount of revenue through stamp duty.

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