Around Bombay Markets

Cash Shares in Limelight

Thursday, Morning

DALAL STREET has been moving up and down in quite an indecisive fashion since about the beginning of June. While the general undertone of the market has continued to be distinctly firm, the price pattern of the leading speculative counters has often been a mixed one. Bulls have continued to dominate the market both as buyers and sellers. Erratic fluctuations, after a spectacular rise spread over two-and-a-half months, are capable of widely different interpretations. To those who are bullishly inclined, the market appears to be merely consolidating its position before pushing its way into new high ground. Bears think that the mar ket is undergoing the process of 'distribution'.

The basic factors contributing to the boom in equities are common knowledge. Bears know them as much as the bulls do. How far the current prices discount the favourable factors is the only point, and opinion on this differs sharply. Evidence had been accumulating for quite a long while that speculative activity had assumed unhealthy proportions. And recently the stock exchange authorities have taken certain measures to discourage bull manipulations. Margins have been made stiffer by enhancing the rates and reducing the free limits. Special deposit making-tip prices have been introduced to reduce the market's risk arising from wide fluctuations. The more recent behaviour of the market indicates a considerable decline in the volume of speculative activity. Restrictions on jobbing transactions have also had a salutary effect *on* the market.

RUNAWAY BOOM

That margins can be evaded on a large scale may be conceded. The special deposit system will also need to be extended to a larger number of shares to produce, an appreciable effect on speculative activity. But it would be unwise to judge the action taken by the stock exchange authorises, as many critics have done; on the basis of the effect they produce on prices. In fact the authorities should , concern themselves only with the orderly behaviour of the market, leaving the price curve to take care of itself. By itself, the rising trend in equity prices is welcome in that it helps the raising of risk capital, and there can b*e* little doubt that the success of the new issues over the past year or so has been possible because of the revival of confidence in the stock market. Of course, it is different in the case of a runaway boom; and that is perhaps what is feared to be taking place now.

It is arguable that the boom in equities is by no means speculative. For the rise in cash shares has been far more pronounced than in speculative counters. Trading on the stock exchange in recent weeks has indeed been notable chiefly for the remarkable strength in cash scrips. Since the beginning of June, A mar Dye Chem have risen from Rs 320 to Rs 515, Anil Hardboard from Rs 340 to Rs 485, Colour Chem from Rs 370 to Rs 441, Indian Hume Pipe from Rs 155 to Rs 190, Dharamsi Chemicals from Rs 181 to Rs 238, Indian Dyestuff new from Rs 695 to Rs 755, New India Industries from Rs 422 to Rs 552. New Standard Engineering from Rs 124 to Rs 180, Structural Engineering from Rs 261 to Rs 345 and West Coast Paper from Rs 180 to Rs 220. Most of these counters are being eagerly sought on prospects of Right issues because of the expansion plans that these companies have in view.

Bulls can certainly derive considerable comfort from the continued strength in cash counters. But inquiries with stockbrokers indicate that the rise is out of all proportion to the total volume of business done in them. Scarcity of offerings has been an even *more* important factor than the How of investments orders; and what is more, a good deal of buying in cash shares recently is said to be of a speculative nature. While the overall trading pattern of the market continues to be indecisive and the general tone is still firm, the exhorbitant carry-forward charges over the past few settlements —ranging between 14 and 20 per cent—underline the need for caption particularly on the part of the small fry who are more likely to be swayed by the mood of the market-

Cotton

PRICE POLICY AWAITED

'THE futures market in cotton is now as good as closed. It was on May 28 that the hedge contract crossed the 790 mark. No transactions can be officially recorded above that price. But business goes on though only on a limited scale. Buyers have to pay huge premiums, the latest quotation being around Rs 808 per candy. Brokers and jobbers alike have been rendered idle, and there is little hope about the revival of futures trading unless ceiling rates for the 1960-61 cotton crop season are raised substantially. Even then, futures trading might not be permitted until a clear picture of the crop emerges and the crop also turns out to be more than 50 lakh bales in bulk.

New Delhi has still to announce the floor and ceiling prices of cotton for the 1960-61 season. The announcement, is awaited with unusual anxiety because on this depends the future of the trade, both ready and forward. Whether higher ceiling prices would help increase production is a moot point. For. it is really the weather and not the price which holds the key to the size of the crop, the more so when there has never been any control over unginned cotton. But if controls cannot be efficiently administered and black-marketing is to persist anyhow, it is perhaps better to raise the ceiling prices to levels which would facilitate honest dealings. Hopes run high that the ceiling rates will be raised; and these hopes are likely to materialise perhaps before the end of this month. Informed sources believe that the ceiling for Moglai fine 25/32" will be raised from Rs 820 to Rs 900 with suitable increases in the descriptive varieties.

While trading in cotton futures has been virtually at a standstill for some weeks, brisk activity has been reported from the spot market. In view of the acute shortage of cotton, mills have been very anxious to cover their requirements at the earliest. Ibis very likely that they will utilise, all their quotas before the beginning of August when the new control order will come into effect. Under this order they can secure cotton at the ceiling rates but then they may not get what they want . They nauturally prefer paying huge premiums to waiting for the enforcement of the new control order. particularly when there is a distinct chance of ceiling prices being evised upwards.

Reliable reports indicate that Washington has issued purchase authorisation for another 3.2 lakh bales of 500 lbs each) of cotton stapling I inch and below under P L 480. This willraise the total import allocation lids season to 16.10 lakh bales. The additional import of short staple cotton is in accord with the industry's repeated demand. It should go a long way in making good the shortfall in indigenous.
applies and have a restraining effect to price-, when supplies begin to drive. Unconfirmed reports from further large quantities of cotton being imported from the U. S under P. L. 180 for building buffer stocks of cotton both to ensure uninterrupted supplies to the textile industry and regulate prices.

Meanwhile weather reports from almost all the important producing areas are said to he quite satisfactory. This should help limely sowings. Weather conditions will need to be ideal throughout the season to produce a crop which will make good the shortfall in the 1959-60 crop. One can only pray and hope for the best.

Oilseeds

FIRM TENDENCY

OILSEEDS are firm. Technical reactions quart. groundnut and cottonseed had never shown any marked easiness any time, and the continued strength in these commodilies reflects mainly their strong statistical position. With the 1959-60 cotton crop finally estimated at no more than 37.5 lakh hales, there can he hardly any doubt about the shortage of cottonseed. Groundnuts have continued remarkably firm despite the rather unencouraging performance on the export front. This is because of sustained buying by vanaspati manufactures both in forward and ready. Inquiries in the market indicate that a, few prominent vanaspali manufactures have- effected a virtual squeeze by accumulating huge lines in seed a- well as oil in Bombay and Saurashtra markets. Margins collected by trading associations provide no clue to the volume of speculative business in the market.

Export of groundnut oil has been at a standstill for long. The disparity between domestic and oversea prices is much too wide to he made good by the existing incentive scheme which provides an export quota of 3-½ tons of expellets for each ton of oil shipped, Governmenl had asked the trade to seek additional incentive but it is doubtful whether much would come out of it. The, expeller quota will have to he very large indeed to make business profitable. Meanwhile extraction manufacturers are reported to have pleaded with Government against the policy of allowing the export of expellers on the ground that this affects the export outlook for extractions, the output of which has increased tremendously over the past 18 months. It is difficult to say whether New Delhi's decision to exlend the existing incentive scheme for groundnut oil up to the end of September without any change in the expeller quota has anything to do with representations from the extraction manufacturers. Export business in extractions too has been rather on the low side in recent weeks. Hopes of the trade that the oversea demand would revive appreciably in June have not materialised. Oversea prices, however, have hardened a little over the past few weeks.

Castor, which hat! been distinctly subdued for quite some time owing to pressure of local supplies and lack of fresh export business with the U S on account of freight uncertainty, have developed renewed strength recently. The September contract which had been done down to Rs 172 on June 15 is up again at around Rs 176.50. The renewed strength in the commodity reflects optimism about fresh large sales of oil to the U S now that the freight uncertainly has been set at rest, although only for two months. Conference Lines have raised the freight for oil from $ 25 to $ 30) per ton from July, and the enhanced rate will remain in force up to the end of August. With U S consumption running high and stocks on the rather low side. India should be able to negotiate good business with the I S because Brazilian castor oil will not be available in large quantities till August end. India has already sold about 34,000 tons of castor oil this year, of which 29,000 tons have; been shipped up to the middle of June. Export of castor oil is likely lo establish a new all-time record ih 1960

Linseed have been out of favour with bulls for quite some time which of course, is easily understandable. The internal supply position is fairly comfortable, and the export outlook for linseed oil -does not seem quite promising. Prospects of bumper crops in Canada. *V* S and Argentina have brought about a marked change in market psychology abroad recently, with forward deli-, veries quoted at huge discounts. The disparity between the Indian and C K linseed oil prices, however. & not large. Any unfavourable turn in weather conditions in Ihe producing countries could lead to'.-a revival of demand for Unseed oil.

Money

On INTEREST RATES

THERE IS VERY LITTLEof the slackness that one would normally expect in the money market at this time o! the year. In fact, between April 20 and June 10 the total advances of scheduled banks recorded a small rise of Rs. 11.66 crores; and borrowings from the Reserve Rank are up by Rs. 7.37 crores. Investments are also down though by only Rs 1.06 crores. Deposits, however, have risen by Rs 11.7 crores. and cash and balances with the Reserve Rank are also up by Rs 21.42 crores. Interest rate- in the short-term money market have not shown any noticeable change over the past few weeks but they seldom respond to changes in monetary conditions. Most rates arc pegged, in a way. of course.

No final decision has yet been taken by commercial banks either in regard of the raising of lending rates or of reducing interest rates on deposits. Half of the additional deposits being impounded with the Reserve Rank and their establishment costs being high, the anxiety of these banks to increase their profit margins by pulling up the lending rates is understandable. Rut the move for a cut in deposit rates is quite inconsistent with the hardening trend in interest rates. Deposit rates are by no means very generous at present. Any cut here is likely to affect the flow of funds to the banking system.

Indications are that the State Bank is willing to cooperate with other commercial banks in putting up the lending rates only if they agree lo fall in line with it in respect of the interest rates on deposits. Take away the P L 480 funds, and the State Bank's disappointing performance on the deposit front becomes apparent. Willi the loss of P L 480 funds in future, it is only natural that the State Bank should want the other commercial banks to reduce their deposit rates so that its own deposits are not affected very adversely because of the lower interest it pays on them.

The Gilt-edged market is flat like a pancake. Dealers in Government Securities are having a tough lime. Despite the marked growth of funds with institutional investors, the Gilt-edged market has continued to remain inactive. With the new loans expected in the market next month, institutional investors are unlikely lo show any interest in existing loans for the time being. And with half the additional deposits now impounded with the Reserve Bank, scheduled banks will not be able lo take the same interest in Government Securities as they did before.

Bullion

UNEXCITING AFFAIR

THE bullion market is having a rather dull lime these days, which, of course, is not in the least surprising. June, July and August are the traditionally slack months for precious metals. Normally prices tend to drift lower during these months as a result of increased floating stocks, following 'Mack off-lake and larger arrivals.

Both gold and silver have recorded a sizable decline from the highest levels recorded early in May. which were an all-lime high. Gold ready has come down from Rs 138-11 to around Rs 126 and silver ready from Rs 231-4 to around Rs 211.

But with floating stocks being what they are and fresh supplies from outside the country extremely being limited, not many observers are inalined to forecast any serious break in the prices of gold and silver. Bulls are unlikely to become aggressive during the slack period but there is nothing in the overall supply position to encourage bears to show their might.