Around the Markets

Cotton Trade Is Paralysed

The production of cotton in the first year of the Third Plan is expected to be no better than in the first year of the Second Plan. The average for the past six years also works out to around the same figure. An extremely disappointing performance indeed !

Cotton production will not increase as long as the cultivator finds that he can earn more by producing crops other than cotton.

The maintenance of ceiling prices of cotton at the same level for nearly a decade has distorted the price relationship between cotton and other commercial crops to the detriment of cotton.

In any case price control over cotton has been reduced to a farce because a black market has been allowed to flourish whenever there has been a shortage hut it is not the farmer who collects the unofficial premiums !

THE cotton trade stands virtually paralysed and there seems no end to the trade's difficulties unless the Government removes control over cotton prices or effects a substantial increase in the present ceiling prices. The hedge contract (Moglai fine 25|32") is quoted only a few points below the statutory ceiling of Rs 693 per 3 quintals but nobody can blame the speculator for pushing up prices because speculative activity has been almost at a standstill as a result of the penal margin of Rs 6000 per unit of trading (30 candies of 3 quintals each). While futures are still quoted below the ceiling, all varieties of cotton, excepting Bengal Deshi, are commanding sizable premiums. If distribution control and compulsory survey could not check spot prices from rising above the ceiling, Forward Markets Commission's stern warnings and penal margins could hardly be expected to yield any results in the future market. Honest business in ready cotton has been rendered impossible because of the emergence of huge unofficial premiums ranging up to Rs 80 per candy in some cases. Cotton traders in certain important upcountry markets have suspended business to protest against the Government's strict control measures.

Good Start, But ...

The season, however, started well. Thanks to the distribution control despite a record crop of about 54 lakh bales in 1960-61 and huge imports exceeding 10 lakh bales, the carryover at the end of August 1961 amounted to 21.25 lakh bales which included 3.97 lakh bales of foreign cotton. The outlook for the new 1961-62 crop appeared reasonably good in July-September. Fairly large carryover and prospects of a good crop encouraged the authorities to relax distribution control and do away compulsory survey. Crop ideas began to be revised downward with the favourable turn in the weather in September. Conditions worsened with time and the latest estimates place the crop barely around 46.5 lakh bales. The hedge contract made its season's low of Rs 585 on 10th August and prices rose month by month with the downward revision of crop estimates. Spot prices shot through the ceiling. Controls were tightened. Compulsory survey was revived and requisitioning had to be resorted to fairly early in the season and, in January, the authorities introduced variety-wise distribution control.

Controls Tightened

Various measures taken by the Government-allotment of quotas, compulsory survey, requisitioning and introduction of variety-wise distribution—over the past few months to tackle the problem of shortage of indigenous cotton resulting from the partial failure of the 1961-62 crop have failed to check the rising trend in prices and unofficial premiums have continued to harden with the progress of the season. Survey conducted by regional committees is described by informed circles as mere farce and the survey results are said to vary with the mood of the market. Judged by the total quantity of cotton requisitioned at the instance of mills it is apparent that mills do not mind paying heavy premiums if only they could be sure of getting the stuff they need. All the measures taken by the Government in regard to the distribution of indigenous cotton amount to rationing without price control as prices have continued to keep well above the statutory ceiling rates. But this is not the first time that price control over cotton has been reduced to a sham because black market has been allowed to flourish whenever there has been a shortage and such occasions have by no means been few.

Production Static

Much was made of the record crop of 54 lakh bales in 1960-61 and even responsible men expressed considerable satisfaction over achieving the Second Plan revised target, forgetting altogether that the original target for the Second Plan had been fixed at 65 lakh bales. Any target could be achieved if it were to be revised to the actual production figure for the year. If the cotton supply position is not much worse it is because the Government imported about 10 lakh bales in 1960-61 despite a large crop and an almost equally large quantity had been Imported in the preceding 1959-60 season. Such large imports could not have been possible but for P L 480.

India has the largest acreage under cotton for any country in the world but its yield is about the lowest, a miserable 90 to 100 lbs per acre against over 180 lbs In Pakistan, 460 lbs in the US and 550 lbs in Egypt. The extremely low yield suggests the possibility of increasing output without having to bring about an increase in acreage. But if one goes by the performance since .956-57 there does not appear to be much room for optimism. Cotton production in the first year of the Second Plan amounted to 47.35 lakh bales and the figures for the first year of the Third Plan are not expected to be any better. The only achievement is in regard to quality because the percentage of long and medium staple in total production has been steadily rising which is to be greatly welcomed in that it is in line with consumer preference for finer varieties of cloth. But strange as it might seem increased output of superior varieties of indigenous cotton has not led to any decline in imports of foreign cotton because domestic production has been unable to keep pace with industry's growing requirements.

Acreage Down, Why?

The steady, though small, decline in acreage under cotton since 1957' 58 is an indication that cultivators prefer other crops to cotton because of the better prices they fetch. If the area under cotton has not suffered a serious decline it is probably due to natural limitations on the use of land for different crops. Indian farmer may be illiterate but he is certainly not ignorant. He understands the economics of cultivation. It is arguable that it was not merely the ideal weather which was responsible for the 54 lakh-bale crop in 1960-61; the exorbitant premiums, ranging up to Rs 200 per candy, which cotton prices enjoyed in 1959-60 had also a great deal to do with the following year's bumper crop. The diversion of acreage from cotton to other crops is a matter of serious concern as it indicates that the cultivator does not find cotton to be as remunerative as the other crops, And there can be no doubt that the relative movements in the prices of raw cotton and other commercial crops over the past decade have seriously upset the balance to the detriment of cotton cultivation. It is interesting to note that while the highest point recorded to date by the Economic Advisor's price index (base 1952-53 — 100) is 114 for raw cotton, the index for rapeseed has seen a high of 186, groundnut 171, raw jute 280 and tea 221. It would be idle to expect any marked improvement in cotton production unless the growers are assured that the cultivation of cotton is in no way less remunerative than other crops.

Need for Price Incentive

The Third Plan target for cotton has been fixed at 70 lakh bales. Considering that production in the first year of the Plan is unlikely to exceed 48 lakh bales and that it was only under very ideal weather conditions that the country had a crop of 54 lakh bales in 1960-61, it is to be wondered how the target of 70 lakh bales is to be achieved. And yet, the target appears to be rather conservative in face of the Third Plan target for cloth. To produce 9300 million yards of cotton textiles in the last year of the Plan, cotton mills alone will require 70 lakh bales. Provision has also to be made for extra factory consumption and possibly for exports of short staple cotton. If cotton production fails to keep pace with the growing requirements of the textile industry, the shortfall will need to be made good by imports which would involve a considerable strain on the country's foreign exchange resources. For, burely, India cannot hope to get all the foreign cotton it needs under P L 480. The outlook for cotton imports in the current season itself does not appear to be very promising. Total allocations made during the current season so far total about 5.13 lakh bales. Anticipating insurmountable difficulties in achieving the target of 70 lakh bales, Indian Cotton Mills' Federation has suggested import of raw materials for the manufacture of man-made fibres as a substitute for indigenous and imported cotton. The Federation has argued that a greater yardage of fabrics could be produced in the same amount of foreign exchange if the exchange were used for importing some of the fibres and raw materials for idigenous manufacture of man-made fibres. Besides, diversification of the production of Indian mills by the use of man-made fibres would be helpful both from the point of view of the local consumer and exports. The Federation's plea merits careful consideration because prospects of achieving the target set for cotton do not appear to be promising. Increased cotton production will remain an illusion unless the Government adopts a more realistic price policy. It would perhaps be somewhat uncharitable if no mention were to be made of the welcome change in the Government's attitude towards exports. The Government had made a complete mess of exports in the previous season notwithstanding fairly comfortable supply. But this season, the authorities have already released 2 lakh bales of Bengal Deshi for export and the entire quantity has been sold out. Possibly another 50,000 bales will be allowed for export during the season because of the larger Deshi crop which has littie bearing on the overall supply position of cotton because of its restricted internal connsumption.

Stock Exchange

Erratic Fluctuations in Equities

NINETEEN-SIXTY-ONE has been generally described as another gainful year for investors. And if one goes by the closing prices at the end of 1960 and 1961, the stock market's performance does give the impression of an all-round improvement in equity values during the year. A study of price movements in equity shares of 200 major companies by Harkisondas Lukhmidas, a Bombay firm of stockbrokers, shows a that only 52 shares were down over the year; 3 shares closed unchanged; 145 shares recorded gains. Of the 145 shares which were up, 49 recorded a rise of 30 per cent or more, 28 rose by between 20 and 30 per cent, 36 by between 10 and 20 per cent and the remaining 32 shares showed gains of less than 10 per cent. Out of the 52 shares that suffered losses, only 14 were down by 15 per cent or more, 14 were down by between 10 and 15 per cent and the remaining 24 shares lost less than 10 per cent.

The performance looks creditable but the market presents a very different picture if one takes a broader view, which alone really matters, of the price movements over the year as a whole. Of the 68 cleared securities listed on the Bombay Stock Exchange, 22 went below their 1960 lows and only 39 crossed their 1960 highs. A casual glance at the Vyapar's equity share index for Bombay shows how difficult a time the market had in 1961. Only once, on 7th June, did Vyapar'a equity share index rise above its 1960 high of 150.39 recorded in the last week of July and that, too, only by a nominal margin of 0.44. The behaviour of the Financial Express sensitive index for equities was not much different. The regional index for Bombay hit a high of 134.23 in 1961 against 132.89 in the previous year. But while the Bombay index did strike a new high, the all-India index and the regional indexes for Calcutta and Madras came nowhere near their 1960 peaks of 134.43. 133.98 and 140.51 respectively.

The percentage variations in equity values as measured by the high and low points recorded during the year were narrower in 1961 than in 1960. Trading in 1960 was characterised by two broad movements; the market recorded an impressive rise between January and July and this was followed by a precipitous fall which was carried right up to the beginning of 1961. The market movements in 1961 were quite erratic and in technical language, Dalai Street was a trading market throughout the year, moving well within the two points set by the 1960 high and the 1961 January low. A few broad movements stand out quite prominently and they deserve brief mention. After declining from 150.39 in July 1960 to 127.19 in January 1961, Vyapar's index recovered to 148.11 in March, reacted to 138.36 in April, improved to 150.83 in June, fell to 134.29 in August, recovered to 150.07 in November, eased again to 137.10 in December from where it recovered to 147.05 in the beginning of 1962 and has been moving irregularly lower since then.

Fluctuations Explained

The sharp decline from the 1960 high had brought equities to levels which looked quite attractive for investors and this caused an upward movement in January which gathered momentum after the Budget, partly due to the relief in bonus tax and partly, because almost all the additional tax burden was in the form of indirect levies. The impressive rise between January and March called for a technical correction and when the corrective movement got underway, the market was rudely shaken by the Estimates Committee's recommendation that the entire investible funds of the Life Insurance Corporation should be taken over by the Government in order to realise better the objectives of nationalisation. The panicky selling that followed the report quickly tilted the balance against bears. The market, began to improve and the recovery was helped by the flow of satisfactory corporate news.

But even before the market could reach the I960 peak, the Government, got worried about the rising trend in equity prices, thinking that speculation had taken an unhealthy turn even though the market had not faced any payments difficulty. The stock exchange auhorities had been taking necessary measures to ensure the liquidity and solvency of the market. For quite a long while, market sentiment was swayed mainly by rumours that the Government was contemplating stern measures to enforce stricter discipline on the market. Equities continued to decline until August-end when the market took an upturn once again which lasted till about the middle of November. Sentiment was helped by good corporate news, selective support from L.IC and the end of uncertainty about regulation of stock exchange activity. Stock exchange presidents formed an all-India committee which later decided on a system of automatic margins to take care of excessive rise or fall in equity prices. But the market faltered again when it approached its previous top recorded in June. Thoughts about the General Elections, developments in Goa, trouble on the northern borders—all these contributed to a severe shake-out in December. Prices rallied again after the Goa operation and the year-end rally was extended into the early part of January. The rally could not proceed very far, however, in the face of uncertainties in the political and economic fields.

New Issues

So much about the up and clown movements in the market. But the erratic trend in equity prices was by no means the only distinguishing feature of stock market activity last year. The year was equally notable for the marked decline in the craze for new issues, though the capital market continued to be in good form which was evident from the larger number of issues floated by old as well as new companies. Excepting a few isolated rases, premiums on new issues suffered a heavy decline. Not only that. Several issues which had been enjoying fancy premiums at one time could be had at a discount. Probably fantastic' premiums had been due to unscrupulous manipulation and Government restrictions on the transfer, of shares allotted on a firm basis made such manipulation difficult. Partly, however, the decline in premiums was due to the greater opportunities offered by increasing number of new issues. New issuers with "foreign collaboration continued to command respect.

The market story would not be complete if no mention was made of the remarkable strength in Bank shares on the one hand and the slump in sugar shares on the other. Bank shares which had been neglected for a few years shot into limelight on sustained support based on ideas of good working results and prospects of right issues. Sugar shares slumped mainly because of the Land Ceilings Act.

Hull and Bear Factors

In view of the increasing tempo of industrial activity under the Third Plan, one could have easily expected the stock market to push its way well above the 1960 peak. But the market's erratic behaviour in the first year of the Third Plan is not ununderstandable. True, industrial activity maintained an upward trend during the year but there was an appreciable decline in the rate of growth. Production was impeded by shortages of power and raw materials and transport bottlenecks. Corporate profits generally recorded an improvement but profit margins were mostly lower due to a rise in the costs of production. Inflationary psychology on which the stock market had been feeding all along received a welcome setback because of the improved supply of foodgrains. The foreign exchange situation did not worsen much further during the year but that was due to substantial foreign aid and I M F loans.

Though the export performance has been appreciably better, yet imports had to be reduced still further. The economic situation was thus not all too favourable from the market angle and the outlook for equities was clouded by political events. The Portuguese enclaves have been freed but Pakistan has again raised the Kashmir issue, and far more disturbing is the increasing trouble on the northern borders. Economic consequences of defending the vast and difficult border against an aggressive China can be disastrous.

The Outlook

At present, the stock market is no less perturbed over the thought of Shri T T Krishnamachari taking over the Finance Portfolio after the elections. The stock exchange community dreads the bold and imaginative TTK and it considers Shri Morarji Desai to be its own man even though he may have done little to alter the pattern of taxation laid down by TTK. The stock market's fears about TTK may not be altogether unwarranted. Shri Krishnamachari told a Congress public meeting on the Republic Day at Madras that he stood for full-fledged socialism and that he would have preferred the Congress election manifesto to have such undiluted socialism. He is also reported to have remarked that had he not left the Central Cabinet four years ago, he would have set in motion policies which would have brought a redistribution of the additional wealth created in the country. The stock exchange community might, however, derive some comfort from another statement by TTK that there would be no need for imposing any additional taxes, if only the existing taxes were fully collected.

The expanding corporate sector, steady increase in the volume of investible funds with individuals and institutional investors, particularly the L I C, and the growing popularity of equities as a medium of investment are some of the factors which should encourage one to take an optimistic view of the outlook for equities over a period of time. But fiscal policy as also monetary policy can have a significant bearing on the trend of equity prices and equity values can decline even as the economy expands. The stock market is interested in the economic prosperity of the country but. it. is even more concerned with how this prosperity is brought about.

Price Movements in Shares

(In Rupees)

Cleared Securities	1961		1960	
	High	Low	High	Low
Bombay Dyeing	71.90	58.50	72.70	60.40
Century	740.00	446.00	544.00	425.00
Kohinoor	332.50	259.50	372.00	262.75
Standard	1680.00	955.00	2100.00	736.00
Svadeshi	288.00	218.50	286.00	220.00
A C C	172.00	143.25	152.50	137.50
Indian Iron	28.70	23.00	26.55	21.84
Tata Steel	167.00	143.25	164.50	138.75
Larsen and Toubro	48.00	33.75	56.50	25.25
Telco	390.00	278.00	349.00	200.00
Voltas	319.00	247.00	307.00	183.00
Scindia	16.16	12.00	17.40	13.32
Belapur Sugar	335.00	240.00	435.00	310.50
Bombay Burmah	714.00	539.50	658.00	519.50
Hindustan Motors	23.68	17.68	23.64	14.32
National Rayon	593.50	460.50	617.00	346.50
Sirpur Paper	19.12	13.40	22.56	13.00
Tata Chemicals	22.08	16.24	22.04	15.03
Tata Oil	86.80	67.00	89.00	58.00
Wimco	314.00	250.00	280.00	234.50