Around Bombay Markets

Gold Futures Banned

Thursday, Morning

'THE Government *of* India has at long last decided to ban forward trading in gold throughout the country. All. outstanding deals have been compulsorily closed at the rates ruling in' the markets at the close of business of November 13. Only those who live on speculation or smuggling will feel sorry because of the closure of the futures market. With imports banned since Septem: bet 1939 — except for a brief period during the latter half of 1946 and two months of 1947—and domestic output very limited (annual production since 1955 has averaged around 5.3 million grams), there never existed any basis for allowing forward trading in gold. And the position in respect of silver has been even worse. In its report, submitted in 1957, on the recognition of associations in respect of forward contracts in gold and silver, the Forward Markets Commission had, however, made out a case for a futures market in bullion on the argument that it is not the volume of internal production which is really important but the volume of marketable stocks of the commodity and that in the case of bullion appreciable stocks of gold and silver appeared to be available in the country despite the small volume of production, Marketable stocks in respect of silver have *never* been really large — 5,000 to 6,500 bars of 2800 tolas each. And if the position is a little better in regard to gold it has been due entirely to large-scale smuggling. The supply of smuggled gold is varyingly estimated between Rs 25 crores and Rs 50 crores a year.

The bullion market has always been functioning under abnormal — artificial might be a more appropriate word—conditions and its record has been far from creditable. If the Bombay market has been able to function without any payments difficulty in the recent past it '. is . not due to the Forward Markets Commission's vigilance or a better sense of discipline among the members and the speculating -community, but is is due mainly to the very peculiar structure of., the hedge contract.and a fairly large supply of smuggled gold. For too long has the Govern-, ment tolerated forward trading in gold (the case against silver is equally strong) —'a facility which has been availed by the trade more for smuggling activity than for purposes of genuine business. To the extent to which the futures market has been facilitating the disposal of smuggled gold, this activity will receive a welcome setback but it would be foolish to think that the ban on forward trading will put an end to smuggling. Smuggling of gold will continue as long as the business continues to be very profitable-— domestic price is still double the international price — and the Government does not strictly control spot dealings. Spot transactions in gold should be controlled by licensing gold dealers and by obtaining systematic returns of their purchases, sales and stocks. Difficulties in enforcing such a control on a country-wide basis are many but they have got to be surmounted.

Further Checks Needed

Other things remaining the same, a.decline in the supply of smuggled gold will push up its price which will make it all the more difficult to attract unproductive hoards of gold through the gold bonds at the international price, the tax concessions notwithstanding. Subscrptions to gold bonds are likely to remain poor so long as the domestic price of gold keeps around the present level. If the huge gold hoards are to be mobilised for 'the country's economic development, it would be necessary to put some kind of restrictions on individual holdings of gold. The national emergency created by the Chinese aggression calls for drastic measures for mobilising gold hoards which are estimated around Rs 1800 crores at the international price of Rs 53.58 per 10 grams. In most countries, the use of gold is confined to monetary purposes and private transactions are permitted onlv to licensed holders or to specialised agencies which need the metal for industrial purposes. In the national emergency that exists today, any measure taken by. the Government to mobilise-the country's gold hoards is likely to receive good support from the nation. The Government should. also consider the issue of silver bonds which are likely to present a lesser difficulty because of the smaller difference in the domestic and international prices of the metal And stocks of silver in the country are not small.

The ban on forward trading in gold has not caused any flutter in the market. All outstanding positions have been compulsorily closed at the closing rates on Tuesday — 13th November. The price of spot gold has eased from Rs 106.50 to Rs 104.25 on fears of some kind of control being imposed on spot transactions. With forward market in gold banned, speculators have naturally turned their attention to silver. The quotation for silver Magsar delivery which had been marked down earlier in the week from Rs 219.75 to Rs 213.50 firmed up to Rs 217,50 at the week-end. Spot silver which had quoted at Rs 211.85 *on* Tuesday evening was marked up to Rs 214.50 the next day.'

Stock Exchange

Squaring up Business

THE small improvement in Vyapar's equity share index for Bombay from its 5th November panicky low of 117.29 to 122.91. on 14th November does not mark the end of the market's difficulties. The settlement has passed off smoothly because of the timely action taken by the market authorities under emergency rules. The market was reopened on 12th November after a lapse of about a week hut only for adjustment of outstanding business and that also under severe restrictions. Minimum prices have been fixed for all cleared and non-cleared securities at the closing levels on 3rd November- the day preceding 'Blue Monday' when trading was ordered to be suspended because of panicky state of affairs.

Since only squariup-up business is permitted, turnover is naturally restricted. Not many shares are quoted above the minimum prices. Stockbrokers are trying hard to persuade their clients, to square-up their buiftness but they are having no easy time. Official statement on the basic outlook for equities, selective support by the Life Insurance Corporation and restrictions on fresh selling have, imparted a measure of steadiness to the marker, hut there are yet no indications of a revival Of confidence. Encouraged by the steadier tone of the market, the authorities have relaxed restrictions on squaring-up of outstanding business.

Encouraging corporate: news has helped certain shares like Bombay Burma and Morarjee Mills to record appreciable gains in an other wise depressed market. Bombay Durmah have responded well to tho announcement , of bonus issue, on a one-for-one basis which is to be followed by the splitting of shares inio shares of Rs 25 each. The emergence of a few bright spots has not had any noticeable effect on the general trading sentiment. The preliminary results of the Tata Steel Company had failed to impress the market and the chairman's annual statement contains little that rotdd cheer the investors. It is difficult to say how long the market's present mood of despondency will last because it all depends On the political situation. Investors' confidence is unlikely to revive unless pence returns to the northern borders. The stock market will find it difficult to hold the present minimum priced if the border situation deteriorates further.

Cotton

Prices Ease Further

COTTON prices last week suffered a further setback and the deeline was more pronounced in the spot material than in futures which recovered near the week-end nearly half of the earlier losses. Jarilla March which had eased from Rs 7-17.50 to Rs 734 in the preceding week was marked down to Rs 719.50 on anxious bull liquidation and some bear pressure induced mainly by ideas about the Governments firm attitude in dealing with prices of essential commodities. The subsequent rally which took the quotation to Ks 729.75 on Wednesday — ttve closing was lower at Hs 727.75 was caused mainly by short covering based on technical consideration though sentiment wfcs also helped by reports of record consumption of cotton ia September. While prices keep moving op and down, the volume of business has continued to be moderate because speculators are reluctant to enter into large commitments in face of political uncertainty.

Spot cotton prices have come down quite substantially from their recent high fevela. But hi most (cases thte only fneHna the disappearance of the unofficial premiums on the revised ceiling prices. Few varieties are available at helow the ceiling. The crop is good, around 53/54 lakh bales, and the import outlook is not unpromising. Only the vety needy mills are making their purchases now and thev too are in no mood to pay prices higher than the ceiling rates. The Textile Commissioner seems quite serious about his job of ensuring supplies of cotton at the ceiling prices With a view to achieving this end he has imported restrictions On the movement of cotton. wherever considered nef-efcfeary. The freezing of certain zones upemmtry has been followed up with the bail on the movement of cotton from podowns and jaithas situated in Bombay, belong to the Bombay Port Trust. But all these restrictions are likely to become unnecessary when the crop movement gets into full swing after about the middle of Decern ber.

The current tightness seems to he a temporary phase, resulting from the late movement of the crop and a very poor carryover. While there is every likelihood of cotton prices keeping within the ceiling, no serious decline can be expected if the industry is to produce the additional 250 million to 300 million vards of coarse and medium cloth for the defence requirement*. With the overall supply position much better than in the previous season, the trade is critical of the supervisory scheme. The Tirupur Cotton Merchants Association has protested to the Union Minister for Industry and Commerce against the scheme. There is considerable dissatisfaction among the trade in regard to the choice of supervisors. Overses demand for Bengal Deshi has been picking up since recently.

Oil Seeds

Groundnut Extractions Firm

AFTER keeping distinctly subdued most of the time, the oilseeds market developed a steadier tendency at the week-end under the lead of groundnuts which continue to monopolise speculators[1] attention. Groundnut January which had been moving up and down irregularly between Ks 227.37 and Re 221.37 during the major part of the week firmed up to Rs. 228.87 on Wednesday and the closing was only slightly lower at Rs 228.37. Castor March eased from Rs 167,50 to R« 164.75 but were up again at Rs 167.75 at the week-end. Linseed March which had been marked down from Rs 39.25 to Rs 38.37 recovered to Rs 39.12. Cottonseed futures moved narrowly between Rs 105 and Rs 102.50.

The fcubdued tendency earlier in the week seamed to reflect market's Anxiety in regard to possible Government action for holding the price line of essential commodities. tit groundnut futures firmed up near the week-end despite the satisfartofy flow of arrivals because of the excellent Overseas demand for groundnut extractions. The U K was reported to have purchased 10,000 to 15,000 tons and it paid up to £38-5 per ton for November shipment — the highest price for nearly 3 years. December shipment was quoted around £37-10 and January position was mentioned around £36-15. Though Communist countries are keeping quiet For softie time, exporters seem fairly optimistic about an early revival of buying from these countries. Outstanding export sales are so heavy that most factories have sold their entire output for November and December when the solvent extractions plants would be working to their capacity because of the improved supply of expeller cake. Groundnut arrivals are gathering momentum and the nop this year is almost as good as last season. Groundnut extraction is about the only item that is finding a ready market abroad and the prices realised are also very attractive. Export activity in oils, including castor oil. is virtually at a standstill. Fresh export business put through last week in linseed rake and cottonseed cake was limited.