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Indian stocks to set new records after brief post Budget correction

Posted on **Friday, June 27, 2014 - 01:29 am**

The benchmark BSE Sensex will keep setting new record highs in the coming year, after a small correction in the next few months, a Reuters poll found on Thursday.

The Sensex, already trading near all-time highs, will rise to 27,750 points by the end of December, according to the median forecasts in a poll of 24 analysts taken in the past week. It ended at 25,313 on Wednesday.

That would mark a gain of 31 per cent for the full year, sharply higher than expected in the last poll in March.

The benchmark is expected to climb further to 30,000 by next June, the poll showed.

In the near-term, however, most equity analysts expect a pullback before September as investors take profits from the market's recent strong gains.

They expect the index to dip around 7 per cent before resuming its upward march as foreign and domestic investors alike regain enthusiasm about reforms from the new government.

“After the budget (in July) there are no major events, and foreign investors are sitting on huge profits, therefore there will be profit booking,” said V K Vijayakumar, investment strategist at Geojit BNP Paribas.

In a March poll, analysts underestimated the positive sentiment surrounding Indian stocks, forecasting the Sensex at 23,000 around now and 24,500 at the end of this year. All of them raised their forecasts up in June.

Foreign institutions invested nearly Rs 30,000 crore (\$ 5.0 billion) into Indian equities in March and April, compared with just Rs 21,200 crore in the first two months of the year.

Since he was sworn in last month, new Prime Minister Narendra Modi has given markets reason to be positive. Among other plans, his Bharatiya Janata Party is seeking approval from the environment ministry to increase output from coal mines.

Markets appear to believe these planned reforms aren't just promises but will be implemented.

“Whatever action has been taken, and the expectation of further action, has definitely provided a boost,” said Madan Sabnavis, chief economist at CARE Ratings.

“What we have seen happen in the stock market has been largely on account of FII (foreign institutional investor) funds coming in. This will probably continue as long as the European and American economies follow liberal policies.”

Global liquidity conditions have been favorable toward Indian stocks, too, Sabnavis added.

The US Federal Reserve is still pumping billions into markets every month, and is likely to keep interest rates low for at least another year. The European Central Bank has also been aggressive in its policy easing.

Risks to the bullish Sensex outlook include further sluggishness in the economy, which is growing at a near-decade low rate of 4.7 per cent, inflation remaining stubbornly high and fears of an overly zealous budget, analysts said.

(\$ 1 = 59.7000 Indian Rupees)

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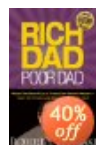
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