Monday , May 20, 2013
Will A Good Monsoon Push Up The Markets?
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The correlation between the monsoon and the markets has varied over the years with other factors of the economy, including national and global influencing markets …So the recent forecast by the Meteorological department may bring temporary cheer to the markets, but may not push the indices beyond a certain level. This means, a good monsoon is a pre-requisite for good economic performance, though not the deciding factor. Mayura Shanbaug Reports…

The link between the monsoon and equities has been severed as the market is smart and often takes in this information and moves ahead. And with so many developments taking place - both positive and negative, the stock markets are rarely influenced by a single factor for too long, believe experts...

"Presently, there is no significant correlation between the monsoon and the stock market since agriculture accounts for only 15% of the Indian economy," says Dr V K Vijayakumar, Investment Strategist, Geojit BNP Paribas Financial Services. Vijaykumar believes that even rural demand is not very significantly influenced by the monsoon. "Last year is a classic case: in spite of poor monsoon, rural demand remained robust and FMCGs did well...There are other factors like the huge outlay on MGNREGS and the consequent rise in rural wages that influence rural demand," he adds. In spite of the poor monsoon, the Nifty appreciated by 27% in calendar 2012.

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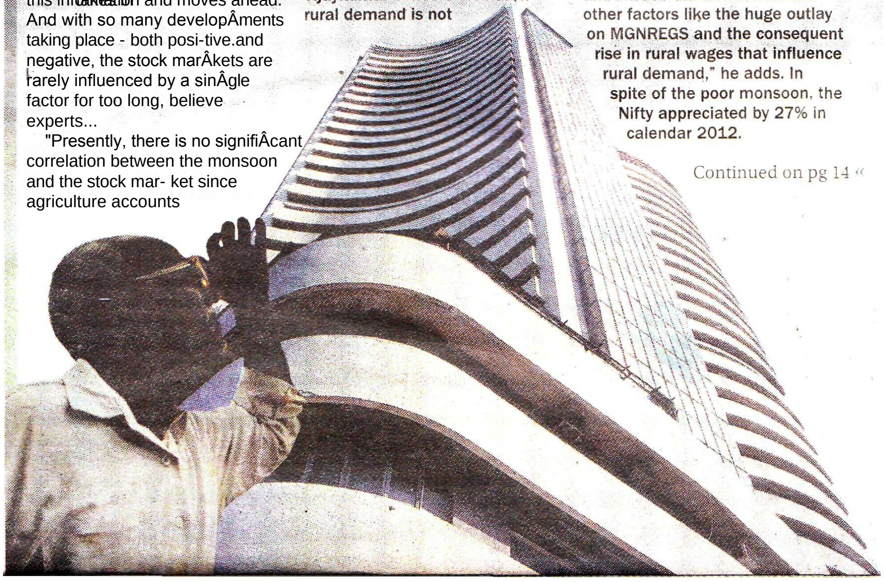

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"In brief, the factors that drive the markets will be non-monsoon factors. But, of course, another severe drought will be bad news," he adds. A "Normal monsoon will help the market to remain strong, but is unlikely to be a big driver of the market. The present bullishness in the market is being driven by liquidity. It is the capital inflows from abroad that are driving the market. These capital inflows, in turn, are driven by the relentless monetary easing in the DMs and the recent rotation of funds from debt to equity," he points out.

Vijaykumar says that it would be too early to be optimistic about the monsoon based on the Met's forecasts. "Met's forecasts have gone wrong on many occasions including last year," he says.

So will the Sensex touch 25000 levels by Diwali? "No;" says Vijaykumar. "We believe that Sensex is not likely to touch 25000 by Diwali. Economic and corporate fundamentals do not warrant the 25000 levels. We are constructive on the market in the shortterm; but our optiÂmistic assessment is 23000 by the year end. If liquidity drives the market beyond 23000, it would be the right time to book profits," he says.

According'to D. R. Dogra, Managing Director CEO, Credit Analysis Research Ltd (CARE), while the monsoon news is good news, the stock market would be guided by various other factors.

"The market would be guided by growth numÂbers, policy changes, the political situation, global economic dynamics, gold price and imports, inflation numbers, RBI policy stance and so on. Therefore, I would be a bit cautious when making such a conjecture as all these facÂtors seems to be sending contrasting signals most of the time," he says.

But Dogra feels that if all these conditions improve the Sensex could be in the region of 19000 to 21000 for most of the time. "25000 to my mind looks a bit distant as we need to have all the positive signals getting translated into concrete action and economic numbers," he feels.

Echoing similar sentiments, Vikram Dhawan, Director.Equentis Capital says a 5000 point rally in Sensex from now till Diwali looks a bit farÂ-fetched even under the most Bullish Scenario.

"Also such a sharp rally even if it happens in such a short time frame may stretch the valuaÂtions of frontline stocks to levels not seen since 2009. Investors are advised to book profits if such valuations are re-visited," says Dhawan.

"Also, normal monsoons are just one part of the jigsaw puzzle. We have a burgeoning Current Account Deficit, visible signs of economÂic slow-down in the country and a firming of the U.S. Dollar globally that may present challenges ahead," he adds.

Moreover, Flls participation in Indian stock markets is close to historic highs that in a way "Couples" us with the Global Economy which is not completely out of the woods.

So what are the global factors that can affect the performance? Dhawan feels that the Indian stock markets are vulnerable to any "International Negative Credit Event" like a Sovereign Bond Default or failure of large International Banks that may lead to a sharp reversal of flows into emerging markets like India. "Whilst the Global Debt crisis is far from over, however such an event is not foreseen in the near future," he adds.

According to Dogra, the global factor is very important because it can destabilize markets to a large extent. "Here I think, we need to see what happens to global growth especially in the USA. Second, stability in the euro area will be of importance. Few expected Cyprus to create a storm, but it did in a big way which finally led to the price of gold being driven down. Third, the approach to policy is imporÂtant because a lot of the good news is based on quantitative easing by various central banks. Fourth, any kind of geo political tenÂsions can cause turbulence in the oil economy and the Middle East regional dynamics needs to be monitored. Last the currency movement will play a role in driving sentiment and thereÂfore, our own market may be affected by factors over which we may have little control," he points out to the five important globalfactors that can affect markets.

NEAR-NORMAL MONSOON

The Indian Meteorological Department IMD had released its long-awaited forecast of the all-important monsoon, or summer, rainfall. The forecast has called for near-normal rainfall. 'Rainfall is expected to be 98% of the long-term average during the June to September season, it said. Rains between 96 %t and 104 % of a 50-year average of 89 cm for the entire season are considered normal, or average.

P.V. Joseph, of the Cochin University of Science and Technology, has stated that the rain-giving monsoon may begin seven to ten days earlier than usual along the Kerala coast of southwestern India. The professor emeritus is a former director of the India Meteorological Department (IMD).Joseph based his forecast on an earlier-than-normal peaking of sea-surface temperatures off eastern India. Another factor cited was the relatively early northward spread of equatorial cloudiness into south India.

As regards the future, he says "We believe that 75 bps more of rate cuts are possible in this financial,year if the present downtrend in inflation persists. In June, we may get another 25 bps rate cut and perhaps 25 bps cut in CRR. The latter is more important since it will facilitate better monetary transmission," says Vijaykumar.

"The sectors that will benefit from the rally will be the same sectors that are doing well now: Private sector banking, Pharma, FMCG and to a lesser extent technology. Monetary easing will make rate sensitives like autos more attracÂtive," he feels.

Dogra is positive that there are various possiÂbilities this year for the economy. "Assuming that a lot of changes do take place in the policy stance of the government we can see some * positive action in the banking space for sure as we could see some more private banks being given permission to set up shop," he says.

"Also any revival in the economy will be felt in the consumer goods segment including automoÂbiles which will have strong linkages with the capital goods segment once investment picks up. This in turn will also send positive signals-for the metals and chemicals industry," he adds.

However, Dogra feels that with a lot of uncerÂtainty, one cannot be too sure about the timing of this recovery and hence the percolation of benefit to these sectors.

The "Banking sector is the sole beneficiary of the rate cuts in the near-term. In the medium term as the rate cuts percolate to the real econÂomy the rate sensitive sectors like Real Estate, Auto, and Consumer Durables will benefit," feels Vikram Dhawan. "in the longer-term an environ[1] ment of low interest rates and reasonable growth may have a positive effect on all sectors in terms of lower cost of capital and stable busiÂness environment," he adds.

Dhawan is of the opinion that India is quite some distance away from entering into the High Growth mode i.e. over 6-7% GDP growth. Moreover, the interest rate cuts by the RBI have not yet percolated to the real economy due to tight liquidity," he says.

However, he feels that global markets gre - awash with liquidity and that is what is driving the stocks higher." At some point the fundaÂ-mentals and stocks prices will converge, though it may not necessarily mean a sharp correction in the Indian stock markets, however a proÂ-longed period of consolidation i.e. a long period, whe re,,stock prices move sideways in wide price bands is more iikely," he adds.