Date: 12th March’2014

KEEP YOUR FINGERS CROSSED- INTERESTING TIMES AHEAD.

The activity on the bourses reached a hectic level last week. The indices have breached records. The Bombay stock exchange and national stock exchange are witnessing sudden jump in volumes and are driven by a bullish sentiment. All the dormant and lethargic sections of the stock markets are waking up to this sudden phenomenon. The BSE index has touched a new high and holding on the gains. The value of rupee has strengthened and holding on.

The United State treasury began the process of reducing the QE, quantitative easing, by buying lower level of securities and there by reducing the flow of federal funds in to the financial markets. While just a mention about such a process shook the world markets last year, the actual event has not really made much of a dent in India. The Indian markets, stock and foreign Exchange, took a real blow on the earlier occasion when Mr.Ben Bernanke, the then US Federal Reserve chief just talked about it. The Rupee sank to a new low of 65 to US dollar and the stock markets tanked. However the present remarkable resilience of both the rupee and stock market is noteworthy in-spite of the US action regarding the QE.

July, 2013 witnessed a huge selloff from the FIIs and the hot money phenomenon was working and the markets were just a mute spectators and clue less. But the FII have returned now with a vengeance and the same hot money is finding the Indian markets more attractive and chasing them. It is estimated that about one billion US dollars, and still counting, was invested in the last couple of trading days. The foreign exchange scene too is heartening. After hitting a all time low of 67 rupees to a US dollar, the rupee has strengthened and closed at 61 last week. With increased FII flows the rupee is expected to be range bound or even breach the psychological 60 barrier.

The current account scene also has improved dramatically in the last couple of quarters. The actions initiated by the government on the import of gold and the policy initiatives of the RBI has yielded great results. The animated discussions in the past about the alarming current account deficit has suddenly disappeared and the numbers are expected to be looking very different for the year. The marginally improved exports and substantial drop in imports have also helped to this end. The combination of Raghuram Rajan in RBI and the finance minster Mr.Chidambaram seems to be paying good dividend to the economy.

I was in Brazil recently and it's economy seems to have slowed down. The sentiment of the businessmen is low and the local media is highlighting the possible challenges of the gradual tapering. The growth is expected to be less than 2%, and the current account balances are under pressure. The currency has depreciated by about 20% over a year. The Brazilian interest rates are one of the highest in the world and this is not helping the business either. The story is some what similar in China. The growth rates have started to fall and for the first time the Chinese currency has weakened marginally. China has also witnessed a bond default for the first time after it opened up the financial sector. The Communist party in China has decided to moderate the growth, and instead focus on corruption and environmental factors. China has finally realized the importance of social factors and have also relaxed the "one child " norm. Its banking system has come under tremendous pressure from the sticky loans, thereby lending has been considerably regulated by the its central bank. All these factors will dampen the pace of growth, but the Chinese economy will continue to grow at about 7 to 8 %, which is much lower than the scorching double digit growth witnessed in the last three decades. The Russian economy which hasn't been doing great in the last couple of years, now has the added challenge of negative perception due to the geopolitical tussle with Ukraine.

South Africa, the other member of the BRICS countries is in a similar situation of anemic growth, inflation and huge current account deficits. All these factors seem to make India look better than other BRICS countries, and the international funds have taken a positive outlook on India, and this probably explains the sudden rush of hot money into indian equity markets.

The speculation about Indian elections is adding to the mojo. Most of the international agencies are predicting Mr. Narendra Modi' victory and the markets seem to be already factoring this development into the valuations. The intervening two months period is critical to the economy. The markets are so sensitive that even pre poll surveys affect them. However, the Indian analysts and investors are not betting on India so soon. The sentiment is still subdued and view is " wait and watch". Though the government is busy approving long pending mega projects, and is trying to cover the lost ground, the markets seem to be uninterested and waiting for the Mr. Modi's victory. The question is whether Mr. Modi's victory is a certainty or will AAP spoil the party? Let's keep our fingers crossed.