

Around Calcutta Markets

Spurt in Equities

Wednesday, Evening

EQUITIES were marking time in the past few weeks. It was repeatedly hinted in these columns during the last fortnight that the process of absorption was nearing completion, and that a gradual recovery was not unlikely. During the current week, speculative scrips have moved up. There is some basis behind the resumption of the upward trend in equities. But it is doubtful whether the rise in prices would have been so sharp or sudden without the developments relating to the Suez Canal Company.

Since Cairo's decision to nationalise the Suez Canal Company, stock markets in this country have been apprehending an intensification of the international tension. On some such apprehension, "bears" covered their sales. To-day's fluctuations in equity prices suggests some fresh "bull" support to speculative, clearing shares. This week's spurt is mainly due to fears (or hopes?) of war-like developments arising out of Cairo's move.

There have been suggestions that the Western Powers may retaliate by directing traffic through the Cape. This would be a costly and uneconomic step to adopt. Ships will have to consume extra fuel. And the transshipment cost would be too high. But stock markets are arguing that some such retaliatory step would raise freight rates. Higher freight rates would involve increased export and import prices. These latter, in turn, would be reflected in a rise in the general level of prices, which, again, would mean higher profits for the industry.

There may be something in this argument. But the main premise on which this argument is based is baseless. Traffic through the Canal has not been affected by Cairo's decision. Britain and France have imposed economic and financial sanctions against Egypt. But the London talks between America, Britain and France have, reportedly, centred round the need for establishing an international administrative authority for the Suez Canal. This is an important aspect of the issue in dispute. And any such demand is not likely to start military action in the Canal Zone.

East - West "cold war" is responsible for the joint Anglo-American

withdrawal of the offer of aid to Egypt. By withdrawing the offer of help, the Western Powers wanted to teach a lesson to Egypt for her neutralist foreign policy. Cairo's policy to Israel and Col. Nasser's flirtations with the Communist bloc are resented in Washington. These are the political reasons for the withdrawal of the Anglo-American offer of aid to Egypt. Instead of requesting aid from Russia, Egypt has decided to nationalise the Suez Canal Company to secure the finance needed for constructing the Aswan Dam.

Under international law, Egypt is entitled to nationalise the Canal Company as it is registered as an Egyptian Company. Cairo has been wise in offering compensation to foreign stock-holders on a basis which is internationally accepted as a legitimate basis for payment of compensation. As a British director of the Company observed, Egypt had as much right to nationalise the Canal Company as the British Government had in nationalising the Coal mines. Egypt's action, therefore, is unlikely to hasten a global war. But stock markets are apprehending that America may prod Britain and France to adopt more positive measures.

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There may not be much in tin argument that equities are being pushed on anticipations of war-like developments. But there are developments. And there are developing economic events which justify a gradual recovery in equity values. It is now clear that the Union Government's loans have not extended the resources of the money market. Also, it is now better appreciated that the forthcoming loans by States are not likely to be so heavy as to starve stock markets of funds.

On the price front, the situation is changing in a way which is not very unfavourable to industry. In the recent past, the prices of food and of industrial raw materials were rising, but those for manufactured goods remained steady. As was to be expected, the prices of manufactured goods have also started moving up. This, in a way, indicates that industrial earnings and profits will not be affected as adversely as apprehended some weeks ago.

Tea auction prices: have been

moving up for the last few weeks. This had halted the downward trend in Tea shares some weeks ago. But the poor dividends for the 1955 season, announced recently, have had a depressing effect on Tea shares.

Despite the spurt in speculative scrips, cash shares still remain rather inactive. This, of course, means that investors still remain aloof from the market. But there has been selective support during the week for sound scrips among the various groups of shares. There are indications that speculative investors are interested in testing the market. It is doubtful whether clearing shares will maintain the higher levels in the absence of a further deterioration in the Egyptian situation. But, on the assumption that speculative shares will remain steady, a slow but gradual recovery in equities is not unlikely.



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power save prudence."

Juvenal.

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