Around Bombay Markets

Equities Continue to Sag

Thursday, Morning

EQUITIES continue to drift lower. The recovery which had followed the panicky selling after the announcement of the half per cent increase in the Bank Rate has proved to be a short-lived affair. The market has slipped again and moved into new low ground, indicating that the reactionary phase which started in the last week of August is still in progress. The process of technical adjustment has proved to be very painful. And in the mood of frustration that has come to prevail, an increasing number of observers are beginning to have serious doubts about the market's ability to resume its upward journey with vigour unless there is some big news from New Delhi to cheer the market.

The market's performance might have been quite different but for the extremely disappointing behaviour of the two Rayon shares—Century and National Rayon—which have a strong bear ing on the general market sentiment. Rayon shares have been under persistent pressure because of the growing weakness in the rayon yarn market. Expectations about the much-talked-about reduction in excise duty have yet to materialise and it is difficult to say whether the duty will at all be reduced in the near future. Last week, sentiment was greatly unsettled by the Government's decision on the revision of multipliers for fixing prices of popular varieties of cloth under the new scheme. The revision seems justified but that the Government should have felt it necessary to revise the multipliers within a day or so of the initial announcement reflects poorly on those who were entrusted with task of formulating these schedules. Trading sentiment also seemed to have been affected by the I M F chief's emphasis on the need for more taxation in India in order to contain inflationary pressures in the economy. "The proportion of total national income that is taken by taxation is still relatively low", said Mr Pierre-Paul Schweitzer. The stock market can scarcely be expected to ignore any mention of a rise in taxation.

The stock market's present mood is one of utter frustration. Turnover has again shrunk considerably. Outside public interest has virtually disappeared. Very little has been heard recently about any significant buying by the Life Insurance Corporation or the Unit Trust Market sentiment is extremely unsettled. Technically, however, the market is thoroughly liquidated and it is in a somewhat oversold position. But bears still dominate the scene.

Cotton

Futures at New Low

YET another week has gone by and the weather has continued to be favourable. And in another week or so, the most critical period for the cotton crop would be almost over. From available indications, it appears that the 1964-65 crop will set a new record; the crop is varyingly estimated between 62.5 lakh bales and 65 lakh bales. This will the third good harvest in a row. The country will have to be exceptionally lucky to have ideal weather conditions for yet another year. This underlines the need for determined and planned effort to increased cotton production, which will have to be achieved through higher yield because of the limited scope for bringing more area under cotton, if the Third Plan target of 70 lakh bales is to be achieved.

Neither the Government nor the industry will have any occasion to worry about cotton this season, unless, of course, imports are reduced considerably. The industry will be assured of ample supplies of cotton at substantially below the ceiling prices. And since cotton prices in India have for quite a long while been ruling higher than the world parity, the Government would be well-advised not to pay any heed to likely protests from farmers in the event of a sizable fall in cotton prices. It is necessary to draw New Delhi's attention to such a possibility because last year, official circles seemed inclined to support the market around Rs 700 (Moglai Jarilla fine 25/32"). If the authorities are really serious about keeping cloth prices down, it would be unwise to get worried over the decline in cotton prices.

Oilseeds

Futures Firm Up

OILSEEDS futures displayed marked strength last week. Castor were very much in the news because of the keen tussle between certain powerful bulls and bears. The March contract which was quoted around Rs 179 in the preceding week was bid up to a new high of Rs 186.25 and despite the setback caused by corrective profit-taking, at its Wednesday's closing of Rs 185.12 the contract showed a net gain of Rs 2.37 (per 250 kgs) over the week. The recent spurt in castor futures is not due to any fresh exciting developments on the export front. In fact, no worthwhile export business in castor oil has been reported for the past several weeks. Castor oil exports this year will not make a poor shoeing, though the bulk of this business has been with Russia and East European countries—rupee payment areas. The recent remarkable strength in castor futures is due essentially to strong bull manipulation; bulls seems to have been emboldened mainly by the strength in the spot material which continues to fetch a sizable premium on futures. Casrorseed ready, Kanpur quality, is quoted around Rs 203 (per 250 kgs). Linseed and cottonseed futures hardened mostly in sympathy with castor. But when trading commenced in groundnut futures on October 7, groundnut quickly stole the lead from castor.

Within a few hours of trading on the very first day (October 7), the lanuary contract in groundnut shot up from Rs 94.55 to Rs 95.75 (per 100 legs). Groundnut oil January, however, was neglected around Rs 18.50 (per 10 kgs). The bullish sentiment in groundnut futures reflected the renewed firmness in the spot material. Groundnut ready Khandesh quality which had declined to Rs 66 in the preceding week were up again around Rs 70.50 (per 50 kgs) last week; groundnut oil ready recovered from Rs 27.50 to Rs 31.25 (per 10 kgs). The sudden spurt in spot prices has been caused by the interruption in new crop supplies because of the heavy rains in the areas producing early maturing crop. Spot prices should ease, seasonal demand notwithstanding, with the normal movement of goods. Arrivals will be picking up in course of time.

In view of the negligible carryover from the previous season, new crop

quotations which are already substantially below the spot rates, might not register any big decline unless the urgent needs of crushers and vanaspati manufacturers are satisfied. But there can be little doubt that spot prices will come down very appreciably in coming weeks. Reliable reports indicate that New Delhi has no intention of permitting export of groundnut oil or even of groundnut HPS until it is able to get a clear picture of the *new* groundnut crop and it is also in a position to form a reasonably good idea of the rapeseed crop. It was really the partial failure of the rapeseed crop which seriously affected the total availability of edible oils last season. The need for. export promotion can scarcely be over-emphasised. But in allowing the export of an essential commodity like ground-

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nut oil, one cannot ignore its possible repercussions on domestic prices. Internal prices of essential commodities cannot be allowed to rise to a level where they lead to mass discontent.

Solvent Extracted Oil

The Union Ministry of Food and Agriculture has directed vanaspati manufacturers to desist with immediate effect (September 30) from using solvent-extracted groundnut, cottonseed or sesame oils in the manufacture of vanaspati at any level whatsoever. This decision is said to have been taken at the instance of the Ministry of Health. But strangely enough, vanaspati manufacturers are being allowed to use solvent-extracted soyabean oil up to 20 per cent of the total oil base processed for the purpose. The discriminatory treatment accorded to the Indian solvent-extracted vegetable oils is hard to appreciate; it certainly cannot be explained, as is implied by the official directive, on the ground that the Indian solvent extracted groundnut oil/cottonseed oil/sesame oil is injurious to health whereas soyabean oil which India is getting under P L 480 is not. The main motive behind the official directive is probably the quick disposal of the 75,000 tonnes of soyabean oil that India is getting from the U S. And if that were so, the Government could have easily compelled vanaspati manufacturers to utilise the entire quantity of soyabean oil without having to prohibit the use of Indian solvent-extracted oils.

If the vanaspati industry is not to be allowed the use of Indian solvent-extracted oils, it is obvious enough that these oils will have to utilised for non-edible purposes. For even as it has been, solvent extracted refined groundnut oil has never found favour with the consumers of edible oils. This is bound to hit the Indian solvent extraction industry very hard because it will be forced to sell the 60,000/75,000 tonnes of oil it produces to soap manufacturers at throw away prices. The prices which this oil is likely to fetch from soap manufacturers would be about Rs 2 to Rs 3 (per 10 kgs) less than what it has been realising from vanaspati manufacturers. It is common knowledge that the economic working of the solvent extraction manufacturing industry depends to a considerable extent on the prices it can secure for its oil. The solvent extracted oils will no doubt be allowed to be utilised in the manufacture of industrial hard oil but the total output of hard oil is only of the order of 30,000/35,000 tonnes and hardly 10,000 tonnes of groundnut oil are consumed for this purpose.

Money Market

Thursday morning

DESPITE an increase in the Bank Rate from September 26, the inter-bank call money rate remained unchanged at 1.25 per cent throughout the past week ending October 3. During the current week, however, conditions changed. Demand for funds became keen on Tuesday and lifted the rate to 2.25 per cent. The market turned still tighter by Wednesday and lenders could be located only at 2.5 per cent. The advance in the call rate was sharper in Calcutta where funds changed hands at even 5.5 per cent.

The rise in the call rate *vis-a-vis* the higher Bank Rate is by any means surprising although there is nothing to construe this as indicating the approach of the busy season. This time last year, the rate was between 2 and 2.5 per cent. Moreover the yield from Treasury Bills has been consistently higher in the neighbourhood of 2.400 per cent for several weeks now, and it even rose to 2.500 per cent on October 6. This also must have had sympathetic reactions on the call loan market to raise the inter-bank call rate to be on par with the discount rate available on Treasury Bills.

The special demand for funds in Calcutta may be seasonal due to the forthcoming Puja celebrations. The October-November Diwali seasonal demand in Bombay is yet to make its presence felt. In the meantime, even the beginning of the month demand for funds is not fully reflected in the Reserve Bank statement for the week ended October 2.

Notes in Circulation expanded by only Rs 7.03 crores to Rs 2370.28 crores. This is entirely supplied by the Banking Department. Even with this expansion in active notes, Note Issue has contracted fractionally by Rs 46 lakhs, having absorbed this amount of notes from the Banking Department where holdings of notes have in all gone down by Rs 7.49 crores during the week.

Central Government's deposits have risen by Rs 14.60 crores while those of State Governments are lower by Rs 30 lakhs. At the same time loans to Governments have moved up by Rs 9.35 crores.

Despite an expanded demand for funds scheduled banks' resources position appears comfortable with a rise in their balances with Reserve Bank to Rs 103.30 crores and a decline in their borrowings by Rs 23 lakhs to Rs 60 lakhs.

Foreign balances have receded by Rs 1.82 crores during the week and foreign securities have continued unchanged.

Business Notes

Fertilisers land Chemicals

THE Chairman of Fertilisers and Chemicals, Mr T A Joseph, disclosed at the last Annual General Meeting on September 29, that the third stage of the Company's expansion will be completed and the expanded plant ready for commissioning by the *end* of the year. But this is subject to availability of 20,000 kW of power from the Kerala State Electricity Board without which the expanded capacity might have to remain idle. Drastic power cut during the past year reduced production by an approximate sale value of Rs 2.5 crores. Power supply is a major problem to the Company. There are several major hydro electric projects in Kerala State now, but they are in various stages of progress, and it will be Some time before they are commissioned. Even then what is needed for the Company is a large thermal power station and this it has been urging since 1960. It is now understood that a thermal station with a minimum capacity of 100,000 kW will be put up at Cochin by the Government. The satisfactory working of the Company will to a large extent depend on the availability of power.

Water supply is also a matter of serious concern to the Company. Periyar river water which presently supplies the Company's needs is likely to be diverted on account of the Idikki power project; this will have grave consequences. This aspect, Mr Joseph stated, has been represented to the Kerala and Central Governments who, it is