

# *ShroffConnect Weekly Report*

## 30<sup>th</sup> Aug, 2014



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# Opinion as on 30/08/2014

## World Markets –

- **Money flow:** The money is flowing into stocks and dollar denominated assets.
  - **Opinion on money flow:** European, Chinese, Japanese and Brazilian economies are faltering. The major economy doing well is the US economy. It is no surprise that the money is flowing into US based and denominated assets. However, easy money policies across nations will keep money in the stock markets for some time, although it is quite clear that till date this policy has not worked very well.
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## Indian Markets –

- **Stock market:** The market rallied to close at its highest weekly level of 7954 Nifty.
- **Sectors:** FMCG, Healthcare, Banks, Auto, Consumer Durables and IT are doing well.
- **Positives:** Pro-active government.
- **Negatives:** Persistent high inflation, erratic monsoon.
- **Opinion:** The government is trying hard to present a picture of good governance, and it has been doing a better job than the previous one. The sentiment at the ground level has improved tremendously. It has done the Indian stock market no harm that the Chinese and Brazilian economies are not doing as well as imagined and hence, today, India presents a better opportunity for international investors. However, much remains to be done. Therefore, for now, investors should invest in sectors which are doing well and will do so in the immediate future rather than invest in those which seem undervalued today but could do well in the distant future.



Current news and world  
financial market prices

# Current scenario & news

## World economy

- If euro zone inflation falls deeper into the 'danger zone' as expected on Friday, it will at the very least complicate the European Central Bank's plans to wait and see whether its recent policy move to ignite the euro zone economy will work.
- The International Monetary Fund approved Friday the release of nearly USD1.4 billion in fresh funds for troubled Ukraine, as the country faces an escalation in fighting with pro-Russia separatists.
- The US Commerce Department raised its estimate for US economic growth to 4.2 percent Thursday, confirming the solid rebound from the first quarter's steep contraction.
- German 10-year bonds advanced this week, completing the longest run of monthly gains since January 2005, after European Central Bank President Mario Draghi fueled bets that officials will expand stimulus to revive the economy.
- Brazil, Latin America's largest economy has fallen into recession, just weeks before voting in what will be a tough re-election battle.

## Indian economy

- Cheering the rebound in India's economy which grew 5.7 per cent in the April-June quarter, highest in the past two-and-a-half years, India Inc on Friday said it expects the GDP to pick up further on the back of conducive investment policies and execution of reforms by government.
- Half of India's thermal power stations have less than a week's supply of coal on hand, according to weekly data, the lowest level since mid-2012 when hundreds of millions of people were cut off in one of the world's worst blackouts.
- Foreign institutional investors (FIIs) continued to invest in the Indian equities market which closed trade for the week ended Aug 28 trade at yet another record high.
- India's fiscal deficit in the first four months of the 2014/15 financial year was 3.25 trillion rupees (\$53.7 billion), or 61.2 percent of the full-year target.
- India's external debt rose by 7.6 per cent to \$440.6 billion in 2013-14 mainly due to rise in non-resident Indians deposits, the Reserve Bank said.

## WORLD MARKETS - A SNAPSHOT

|             | Name        | Description   | Week ended<br>30th Aug 2014 | % Change |
|-------------|-------------|---------------|-----------------------------|----------|
| STOCKS      | Brazil      | Bovespa       | 61288.15                    | 4.93     |
|             | China       | Shanghai      | 2217.20                     | (1.05)   |
|             | France      | CAC           | 4381.04                     | 3.02     |
|             | Germany     | DAX           | 9470.17                     | 1.40     |
|             | India       | Sensex        | 26638.11                    | 0.83     |
|             | Japan       | Nikkei        | 15424.59                    | (0.74)   |
|             | UK          | FTSE          | 6819.75                     | 0.66     |
|             | USA         | DJIA          | 17098.45                    | 0.57     |
| COMMODITIES | Copper      | \$/Pound      | 3.16                        | (1.25)   |
|             | Crude       | \$/Barrel     | 95.96                       | 2.47     |
|             | Gold        | \$/Troy Ounce | 1287.40                     | 0.56     |
|             | Natural Gas | \$/MMBtu      | 4.07                        | 5.99     |
|             | Silver      | \$/Troy Ounce | 19.49                       | 0.52     |
|             | Aluminium   | \$/Tonne      | 2096.50                     | 1.62     |
|             | Lead        | \$/Tonne      | 2240.00                     | (0.75)   |
|             | Nickel      | \$/Tonne      | 18800.00                    | 0.27     |
| CURRENCIES  | Zinc        | \$/Tonne      | 2356.75                     | 0.20     |
|             | USD/GBP     |               | 1.66                        | 0.00     |
|             | USD/EUR     |               | 1.31                        | (0.76)   |
|             | USD/AUD     |               | 0.93                        | 0.00     |
|             | JPY/USD     |               | 104.05                      | 0.13     |
|             | INR/USD     |               | 60.51                       | 0.07     |
|             | HKD/USD     |               | 7.75                        | 0.00     |
|             | BRL/USD     |               | 2.24                        | (1.75)   |
| BONDS       | 2 Year      | US Treasury   | 109.88                      | 0.07     |
|             | 10 Year     |               | 126.33                      | 0.35     |
|             | 30 Year     |               | 141.53                      | 0.78     |

## INDIAN MARKETS - A SNAPSHOT

|                      | Name          | Description | Week ended<br>30th Aug 2014 | % Change |
|----------------------|---------------|-------------|-----------------------------|----------|
| STOCKS               | Nifty         | Large Cap   | 7954.35                     | 0.52     |
|                      | Sensex        | Large Cap   | 26638.11                    | 0.83     |
|                      | BSE Midcap    | Mid Cap     | 9298.90                     | (0.45)   |
|                      | BSE Smallcap  | Small Cap   | 10264.45                    | (0.33)   |
| Some Major<br>Shares | ACC           | Rs/share    | 1492.55                     | (1.83)   |
|                      | Bharti Airtel |             | 369.80                      | 1.29     |
|                      | HDFC Ltd      |             | 1074.50                     | 2.86     |
|                      | Infosys       |             | 3598.80                     | (0.06)   |
|                      | L&T           |             | 1526.50                     | (0.88)   |
|                      | Reliance Inds |             | 998.70                      | 0.04     |
|                      | Tata Motors   |             | 525.05                      | 2.64     |
|                      | Tata Steel    |             | 513.15                      | (4.57)   |
| COMMODITIES          | Aluminium     | INR/Kg      | 126.70                      | 1.85     |
|                      | Copper        | INR/Kg      | 417.95                      | (2.23)   |
|                      | Crude         | INR/Barrel  | 5831.00                     | 2.68     |
|                      | Gold          | INR/10gms   | 27996.00                    | 0.66     |
|                      | Lead          | INR/Kg      | 135.85                      | (0.22)   |
|                      | Natural Gas   | INR/1mmBtu  | 246.90                      | 6.47     |
|                      | Nickel        | INR/Kg      | 1140.30                     | 1.01     |
|                      | Silver        | INR/Kg      | 42255.00                    | 0.72     |
|                      | Zinc          | INR/Kg      | 142.90                      | 0.74     |
| CURRENCIES           | INR/EUR       |             | 79.46                       | (0.76)   |
|                      | INR/GBP       |             | 100.42                      | 0.24     |
|                      | INR/100 JPY   |             | 58.00                       | 0.00     |
|                      | INR/USD       |             | 60.51                       | 0.07     |



Detailed macro analysis

## MACRO ECONOMIC SNAPSHOT AS ON 30/08/2014

| USA                     | Period    | Current | Previous |
|-------------------------|-----------|---------|----------|
| GDP Annual Growth Rate  | Quarterly | 2.50    | 1.90     |
| Inflation Rate          | Monthly   | 2.00    | 2.10     |
| Unemployment Rate       | Monthly   | 6.20    | 6.10     |
| Benchmark Interest Rate | Weekly    | 0.25    | 0.25     |
| Govt. bond 10 year Rate | Weekly    | ↓2.34   | 2.40     |

| Euro Area               | Period    | Current | Previous |
|-------------------------|-----------|---------|----------|
| GDP Annual Growth Rate  | Quarterly | 0.70    | 0.90     |
| Inflation Rate          | Monthly   | ↓0.30   | 0.40     |
| Unemployment Rate       | Monthly   | 11.50   | 11.50    |
| Benchmark Interest Rate | Weekly    | 0.15    | 0.15     |
| Govt. bond 10 year Rate | Weekly    | ↓0.31   | 0.38     |

| China                   | Period    | Current | Previous |
|-------------------------|-----------|---------|----------|
| GDP Annual Growth Rate  | Quarterly | 7.50    | 7.40     |
| Inflation Rate          | Monthly   | 2.30    | 2.30     |
| Unemployment Rate       | Monthly   | 4.10    | 4.10     |
| Benchmark Interest Rate | Weekly    | 6.00    | 6.00     |
| Govt. bond 10 year Rate | Weekly    | ↓4.26   | 4.28     |

| Japan                   | Period    | Current | Previous |
|-------------------------|-----------|---------|----------|
| GDP Annual Growth Rate  | Quarterly | -0.10   | 3.00     |
| Inflation Rate          | Monthly   | ↓3.40   | 3.60     |
| Unemployment Rate       | Monthly   | ↑3.80   | 3.70     |
| Benchmark Interest Rate | Weekly    | 0.00    | 0.00     |
| Govt. bond 10 year Rate | Weekly    | ↓0.49   | 0.51     |

| UK                      | Period    | Current | Previous |
|-------------------------|-----------|---------|----------|
| GDP Annual Growth Rate  | Quarterly | 3.20    | 3.00     |
| Inflation Rate          | Monthly   | 1.60    | 1.90     |
| Unemployment Rate       | Monthly   | 6.40    | 6.50     |
| Benchmark Interest Rate | Weekly    | 0.50    | 0.50     |
| Govt. bond 10 year Rate | Weekly    | ↓2.36   | 2.54     |

| India                   | Period    | Current | Previous |
|-------------------------|-----------|---------|----------|
| GDP Annual Growth Rate  | Quarterly | ↑5.70   | 4.60     |
| Inflation Rate          | Monthly   | 7.96    | 7.31     |
| Unemployment Rate       | Monthly   | no data |          |
| Benchmark Interest Rate | Weekly    | 8.00    | 8.00     |
| Govt. bond 10 year Rate | Weekly    | ↑8.56   | 8.51     |

| Brazil                  | Period    | Current | Previous |
|-------------------------|-----------|---------|----------|
| GDP Annual Growth Rate  | Quarterly | ↓-0.90  | 1.90     |
| Inflation Rate          | Monthly   | 6.50    | 6.52     |
| Unemployment Rate       | Monthly   | 4.90    | 5.00     |
| Benchmark Interest Rate | Weekly    | 11.00   | 11.00    |
| Govt. bond 10 year Rate | Weekly    | ↓11.21  | 11.68    |

| Russia                  | Period    | Current | Previous |
|-------------------------|-----------|---------|----------|
| GDP Annual Growth Rate  | Quarterly | 0.80    | 0.90     |
| Inflation Rate          | Monthly   | 7.50    | 7.80     |
| Unemployment Rate       | Monthly   | 4.90    | 4.90     |
| Benchmark Interest Rate | Weekly    | 8.00    | 7.50     |
| Govt. bond 10 year Rate | Weekly    | ↑9.73   | 9.33     |



# World macro scenario

- USA – US economic data is improving. QE3 tapering will be completed within this year. Low interest rates to continue for now.
- Europe – ECB cuts interest rate. Easy money policy to continue. GDP growth of Germany and France is nil for the last quarter.
- China – PMI numbers are better. Parallel banking is in trouble.
- Brazil – GDP growth in negative
- Japan – Japanese easy money policy to continue.
- S&P has downgraded Russia's credit rating to one level above junk status.
- US bombs the Islamic State. Civil war in Iraq? Fresh tension in Ukraine?? Israel conflict??

# Indian macro scenario

- Economy – Fiscal deficit is much above the desired levels. Current account deficit has moderated on lower imports.
- Government policies – GDP growth is 5.7%, highest in 9 quarters.
- RBI holds interest rates.
- India takes initiative to set up BRICS' New Development Bank.
- Politics – BJP has won the elections emphatically.
- Inflation – CPI up to 7.9%. WPI under 5.5%.
- Policy – Interim budget presented in Parliament. No big reforms. Insurance bill referred to a parliamentary committee.
- Monsoon has improved.

# Our concerns on the macro front

## World economies

- QE3 tapering.
- Eurozone's low GDP growth.
- Russian interference in Ukraine.
- Middle eastern troubles, possibility of civil war in Iraq and its effect on oil prices.

## Indian economy

- High interest rate.
- High fiscal deficit.
- Erratic monsoon.
- Delayed reforms.



Detailed technical analysis

## WORLD MARKETS - TECHNICAL SNAPSHOT

|                             |           | Very Bullish | Bullish | Neutral   | Bearish       | Very Bearish |
|-----------------------------|-----------|--------------|---------|-----------|---------------|--------------|
| STOCKS                      | Brazil    |              | Japan   | France ↑  |               |              |
|                             | China     |              | USA ↑   | Germany ↑ |               |              |
|                             | India     |              |         | UK        |               |              |
| COMMODITIES                 | Aluminium |              | Lead    | Copper    | Crude Oil ↓   |              |
|                             | Zinc      |              |         | Gold      | Natural Gas ↑ |              |
|                             |           |              |         | Nickel ↓  |               |              |
|                             |           |              |         | Silver    |               |              |
| CURRENCIES<br>(against USD) |           |              | HKD ↓   | AUD       | INR           | EUR          |
|                             |           |              |         | BRL       |               |              |
|                             |           |              |         | GBP       |               |              |
|                             |           |              |         | JPY       |               |              |
| BONDS<br>(US Treasury)      | 30 Year   |              | 10 Year |           | 2 Year        |              |

↑ = moved up from last week, ↓ = moved dn from last week

INDIAN MARKETS - TECHNICAL SNAPSHOT

|                             |   | Very Bullish | Bullish | Neutral                            | Bearish                    | Very Bearish |
|-----------------------------|---|--------------|---------|------------------------------------|----------------------------|--------------|
| INDICES                     | Mid Cap<br>Nifty<br>Sensex<br>Small Cap   |              |         |                                    |                            |              |
| SECTORS                     | Auto<br>Bankex<br>Cons Durable<br>FMCG<br>Healthcare<br>IT<br>Oil & Gas ↑<br>Teck |              | Metal   | Cap Goods ↓<br>Power ↓<br>Realty ↓ |                            |              |
| COMMODITIES                 | Aluminium<br>Nickel<br>Zinc   |              | Lead    | Copper<br>Gold<br>Silver           | Crude Oil<br>Natural Gas ↑ |              |
| CURRENCIES<br>(against INR) |   |              | USD     | GBP<br>JPY                         |                            | EUR          |

↑ = moved up from last week, ↓ = moved dn from last week

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