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Weekly Pick

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Oil plays spoilsport as markets post marginal gains; Dow ends higher, FTSE falls 4%

The market on Friday managed to end a largely negative day on a flat note. Benchmark indices managed to end just below the flatline.

In the broader markets space, the Nifty Midcap underperformed benchmark indices. Weak global cues from Wall Street spilled over to Asian markets. Indices there ended in the red, with some losses in the IT sector.

For the week, both the Sensex and the Nifty managed to end with gains of over half a percent and ending the fourth consecutive week in the green, while the Bank Nifty ended over 1 percent lower.

The Midcap index was up 1 percent, while the IT index was the highest gainer, having risen 5 percent. India VIX was at 12.93, down by 5.89 percent, and is expected to remain sideways.

Earlier in the week, the International Monetary Fund in its report said that India will grow at 7.4 percent in 2018, and 7.8 percent in 2019.

The rupee ended on Friday at its lowest level against the dollar since March 10, 2017, thereby posting its biggest weekly fall against the greenback since January 15, 2016.

Also, the minutes of the monetary policy committee's last meeting indicated expectations of an interest rate hike.

The Dow Jones Industrial Average fell 0.82 percent to 24,462.8, while the S&P 500 lost 0.85 percent and ended at 2,670.15. The Nasdaq Composite fell 1.27 percent to 7,146.13.Despite Friday’s decline, the S&P managed to churn out a gain of 0.5 percent for the week, finishing in the green for the second straight week.

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A US bond sell-off continued for a second day on Friday, pushing the 10-year Treasury yield to its highest level in more than four years, and steepening the yield curve after two weeks of flattening. Benchmark 10-year yields touched 2.962 percent, surpassing their January 2014 levels.

Crude oil prices dipped on Friday but stayed near their three-year high levels, reached earlier this week. This is because the ongoing OPEC-led supply cuts and strong demand have gradually started drawing down excess supplies.

US crude fell 0.4 percent to USD 68.06 per barrel, while Brent was last at USD 73.66, down 0.16 percent on the day.

European equities finished Friday's session relatively flat, as investors digested a fresh batch of corporate earnings while keeping an eye on market movements overseas.

For the week gone by, the STOXX 600 provisionally closed 0.7 percent higher, registering its fourth straight week of gains, as global markets recovered from a turbulent start to the year.

Asian stock indices ended Friday moderately lower amid declines in the technology sector. The Nikkei 225 slipped 0.13 percent, to end at 22,162.24, thereby shedding 2.65 percent for the week. South Korea's benchmark Kospi index fell by 0.39 percent to 2,476.33, but managed to end the week on a positive note, gaining 0.36 percent.

The Chinese economy expanded at a pace of 6.8 percent in the first quarter ending March, higher than the 6.5 percent growth target for the year set by the government. The Japanese stock market closed lower, tracking negative leads from global markets, and on a stronger yen.

HOT PURSUIT

India's growth momentum must continue despite elections: IMF

The International Monetary Fund has said it wants continued momentum in India's growth and structural reforms despite the election period. "We are not saying that India's structural reform speed will slow down because of elections. What we are saying is that the growth momentum and the structural reform momentum should continue despite the election period," said Changyong Rhee, Director of the Asia and Pacific Department at the IMF.

India is projected to grow at 7.4 percent in the fiscal year 2018-2019 as the economy recovers from temporary destruction due to currency exchange initiatives and the roll out of the new goods and services tax, Rhee said yesterday. Ken Kang, Deputy Director, at the IMF Asia and Pacific Department said the implementation of the GST was "a major reform" of the Indian tax system.

"In recent years, India has made impressive progress in reforms.. It (GST) will enhance the efficiency of intra-Indian movement of goods and services, help create a common national market as well as help boost jobs and growth," said Kang. He said India's introduction of flexible inflation targeting and of a statutory monetary policy which has helped strengthen the monetary policy framework was another big achievement.

"The government has recently announced a major recapitalisation plan for the public-sector banks in order to accelerate the work out of non-performing loans, as well as made some important legal improvements through a new insolvency and bankruptcy law," said Kang. "The IMF hopes that the reform momentum would continue," Kang added.

Looking ahead, said Kang, India needed to focus on labour market reforms with a focus on increasing formal female labour participation, to improve the business environment, and reduce complex regulations, but also to address supply bottlenecks, particularly in the agricultural sector and distribution networks. Responding to a question, Kang said that the IMF expects India's role in the region to expand. "India does have a room to expand its export orientation and to reduce further trade and non-trade barriers. The statutory tariff rate in India is relatively high at about 15 percent and higher than those in the rest of the region. So there is room to do more on trade reforms," he said.

Seek higher bids for Jaypee Infratech: IIFC tells co-lender IDBI

India Infrastructure Finance Company Ltd, the second largest lender to the beleaguered Jaypee Infratech, is said to be unhappy with the bids received for the Yamuna Expressway owner and has conveyed the same to IDBI Bank, the largest creditor to the company, according to a source aware of the development. The Gaur family-promoted company owes the lenders Rs. 9,100 crore and figured as one of the twelve companies in the central bank's first list of defaulters.

"The bids are much lower than the actual value of the assets. They are also much lower than what the company was offering to the creditors. IIFL has told IDBI of its displeasure over the bids and wants them to be higher," the official said.

Lakshadweep is a joint venture between Sudhir Valia-led Suraksha Asset Reconstruction Company and Mumbai-based Dosti Reality.. Dosti Realty is a real estate company promoted by Shanghvi's cousin Deepak Goradia. According to a conservative estimate, the value of the company's assets should not be less than Rs 20,277 crore. This is derived from the hospital being worth Rs. 500 crore, 167-km Yamuna Expressway Rs. 3,500 crore, 900-acre land parcel near Formula-1 track at the circle rate of Rs 7 crore per acre, 1,225 acres in Jewar at circle rate of Rs 3.34 crore per acre, 1,185 acres near Agra at circle rate of Rs 3.28 acres per acre and 10 million square feet FSI at Noida at Rs 2,000 per square feet. As per Lakshadweep's Rs 7,350 crore offer, it will make an upfront payment of Rs 1,200 crore to the banks. It has marked Rs 4,000 crore against the sale of land and another Rs 2,000 crore to be converted into long-term non-convertible debentures. A small equity stake may also be offered to the lenders. Adani Group has offered Rs 1,200 crore in cash, Rs 3,500 crore of land parcel and Rs 3,000 crore of back-dated instruments.

Jaypee Infratech's offer included this: 10 percent per annum interest on Rs 3,140 crore of sustainable debt and giving away 448 acres against Rs 2,340 crore of debt as well as an issuance of optionally convertible debentures and conversion of debt into equity.Jaypee parent Jaiprakash Associates' Executive Chairman and Chief Executive Officer Manoj Gaur had earlier said that Jaypee was close to clinching the deal with the lenders in 2016 but the RBI directive on NPAs spoilt its case. Jaypee's offer still remains the best and the Supreme Court has left it to the Committee of Creditors, a consortium of the company's lenders, to decide its fate.

Wall Street falls on investor nerves about interest rates, tech

Wall Street's three major indexes declined on Friday as investors worried about a jump in US bond yields, with technology stocks leading the decline on nerves about upcoming earnings reports and iPhone demand.

"There continues to be some concern over interest rates and their potential impact on equities. There's also been a little bit of a lack of momentum in this earnings period," said Rick Meckler, president of investment firm Liberty View Capital Management in Jersey City, New Jersey.

"It's not that earnings weren't good enough but company forecasts often weren't strong enough to make the market continue to rise," he said. The Dow Jones Industrial Average fell 202.09 points, or 0.82 percent, to 24,462.8, the S&P 500 lost 22.98 points, or 0.85 percent, to 2,670.15 and the Nasdaq Composite dropped 91.93 points, or 1.27 percent, to 7,146.13. Despite Friday's decline the S&P eked out a gain of 0.5 percent for the week to show its second weekly gain in a row. Equity investors were jittery as the 10-year Treasury yield reached its highest level since January 2014 as a bond selloff continued for a second day, driving the yield curve steeper after two weeks of flattening.

Benchmark 10-year notes last fell 12/32 in price to yield 2.9583 percent, from 2.914 percent Thursday. When yields are high, investors favor bonds over equities including sectors such as consumer staples and real estate, which promise high dividends and slow, predictable growth. But high interest rates can boost bank profits so the financial sector managed to show a 0.05 percent gain, making it the best performer out of the S&P's 11 industry sectors.

The consumer staples sector was the biggest percentage decliner with a 1.7 percent fall, led by PepsiCo. "We're seeing a follow through from yesterday's action when the key was weakness in consumer staples. We came to this earnings season with very optimistic expectations and we're seeing some very fundamental bottoms up issues at these companies," said Michael O'Rourke, chief market strategist at JonesTrading in Greenwich, Connecticut.

Apple fell 4.1 percent, making it the biggest drag on the major indexes after Morgan Stanley estimated weak demand for its latest iPhones, a day after Taiwan Semiconductor raised fears of softer smartphone sales.

S&P 500 companies are expected to report their strongest first-quarter profit gains in seven years. Of the 87 companies that have reported so far, 79.3 percent have topped profit expectations, according to Thomson Reuters.

HDFC Bank's Q4 profits expected to rise by 21%, close watch on NPAs

HDFC Bank, the country's second-largest private sector lender, is expected to post a 21 percent year-on-year rise in net profit at Rs 4,832 crore as it is expected to declare its Q4 results on Saturday, a Reuters poll suggests.

The bank had reported a net profit of Rs 3,990 crore in the January to March quarter in 2017.

The Aditya Puri-led private lender will announce its Q4 FY18 results on Saturday.

On similar lines, the net interest income (NII) – difference between interest earned and expended – is projected by the Reuters poll to grow at a healthy rate of 21 percent at Rs 10,877 crore compared to Rs 9,055 crore in the year ago period.

Provisions for the quarter under review are expected to grow to Rs 1,515 crore, up 20 percent from Rs 1,262 crore in Q4 FY 17.

Asset quality and provisions will be key figures to watch out for, especially after Reserve Bank of India's new framework was released on February 12.

In Q3, gross non-performing assets (NPAs) stood at Rs 8,234.88 crore as of December 2017, which was stable at 1.29 percent of its total loans.

In the third quarter, HDFC Bank had reported divergence in gross bad loans, the difference between RBI’s assessment and that reported by the lender, stood at around Rs 2,051.76 crore for FY17, while divergence in provisions was at Rs 793.39 crore.

A Motilal Oswal report said it expects loan growth at the bank to cross 22 percent while being a retail-focused bank, HDFC and Kotak Mahindra Bank, may report strong growth in the corporate segment.

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Iran oil imports fell 15.7% in fiscal year 2017/18

India's oil imports from Iran during the 2017/18 fiscal year fell by 15.7 percent from a year ago as state refiners reduced purchases after a row over development rights for an Iranian natural gas field, according to data from shipping and industry sources.

India, the world's third-biggest oil importer, shipped in a record 4.46 million barrels per day (bpd) oil in the fiscal year that ended in March to feed its expanded refining capacity.

During the period, Indian refiners received about 458,000 bpd of oil from Iran, compared to about 543,500 bpd during the prior year period, the data showed.

Indian state refiners, including Indian Oil Corp, Mangalore Refinery and Petrochemicals Ltd, Hindustan Petroleum Corp and Bharat Petroleum Corp, along with it subsidiary Bharat Oman Refineries Ltd, lifted about 27 percent less oil from Iran, the data showed.

In the current fiscal year, state refiners have drawn up plans to double Iranian oil imports to take advantage of freight discounts.Iran hopes to sell 500,000 bpd of oil to India during the fiscal year 2018/19, Zangeneh said in February. An Indian source, however, said, the imports from Iran could rise to 600,000 bpd.

In the last fiscal year, private refiner Reliance Industries boosted imports from Iran by about 50 percent to about 81,000 bpd, the data showed.Essar Oil's imports from Iran fell by 18 percent to 145,000 bpd in the last fiscal year, as the company, under new management led by Russian oil major Rosneft, has diversified its purchases.

HPCL-Mittal Energy Ltd, which operates the Bathinda refinery in northern Punjab state, marginally reduced its Iran oil purchases to about 16,000 bpd in 2017/18, the data showed.

In March, India's oil imports from Iran were 430,000 bpd, down 34.4 percent from the previous month and 18.2 percent from a year ago, the data from the sources showed.The sources declined to be identified as they were not authorised to speak with media. The last fiscal year, Iraq emerged as the top oil supplier to India replacing Saudi Arabia. Iran was the third-largest, while Nigeria replaced Venezuela as the fourth-biggest supplier.

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