

SURPRISE SURGE

Sensex posts biggest January gain in 15 years

A rise of 11.5% in first 20 trading sessions of 2012 exceeds forecasts, but technical analysts remain cautious

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The Sensex, the Bombay Stock Exchange's benchmark index, has posted its biggest gain in January in at least 15 years, outpacing analysts' predictions, as foreign investors poured in a record \$1.56 billion so far in the month in local stocks.

At the current levels, the Sensex has either exceeded many brokerages' year-end target or is inching closer to the top end of its 2012 trading range forecast.

With foreign institutional investors pumping in a record amount of money in January, the Sensex has gained 11.5% in the first 20 trading sessions of 2012 and closed Friday at 17,233.98 points. This is the biggest gain in the month of January for the gauge since 1997. The index is up 1,746.41 points, rising at an average 87 points per trading session.

The index is already 23% above Macquarie's year-end target of 14,000 points and has also broken above Edelweiss Financial Services Ltd's trading range prediction of 14,000-17,000. It is now hardly 800 points away from Deutsche Bank AG's and Ambit Capital Pvt. Ltd's year-end target of 18,000. Ambit Capital had a Sensex target of 14,500 for the first two months of 2012. CLSA's Chris Wood wrote in a late December note warning off a "violent sell-off" in 2012 that could take the Sensex to 11,000-12,000 levels.

While Citibank's Indian arm has a year-end Sensex target of 18,400, Morgan Stanley pre-



Looking up: The BSE building. The Sensex is up 1,746.41 points so far this year, rising at an average 87 points per trading session.

dicted a 16% gain and Kotak Institutional Equities forecast a 15-20% upside to the index from its December levels.

The broader Nifty index of the National Stock Exchange (NSE) has risen 12.6% in the same period, the biggest gain in 18 years, and closed Friday at 5,204.70 points. The index has gained 580.4 points in 20 trading sessions, averaging a gain of more than 29 points per session.

To be sure, analysts have a word of caution for investors as they think the rally has no

fundamental justification.

"It has been an event-driven rally and fundamentally nothing has changed. The rupee

has recovered after a sharp fall in December and the cut in the cash reserve ratio (CRR) by the central bank has helped this move. We could head lower again once problems resurface. We expect a 10-15% fall from current levels," said Amar Ambani, head of research at India Info-line Ltd.

Last week, the Reserve Bank of India cut the CRR by 50 ba-

sis points to inject liquidity, while the US Federal Reserve assured a low interest rate regime till 2014. Meanwhile, December quarter earnings of Indian companies have managed to marginally beat analysts' expectations. A basis point is one-hundredth of a percentage point.

"Risk money from overseas is moving into India. As far as the domestic situation is concerned, the quarterly results that have come so far are slightly above analysts' projections," said Manish Sonthalia, vice-president and fund manager, Motilal Oswal Asset Management Co. Ltd. "Further, there is an increasing feeling among market participants that once the Uttar Pradesh elections are over, the government will go ahead with policy reforms."

Indian companies that have reported their December quarter results so far show earnings grew at the slowest pace in 11 quarters, while profit margins hit a four-year low, hurt by higher commodity prices and interest rates.

According to technical analysts, the indices may be running out of steam after such a sharp climb and could correct in the coming days. They advise investors to exit at current levels.

"I would want to book profits at around 5,250 levels on the Nifty as it is nearing a channel top after rising substantially from the 4,531 bottom. It may correct to 4,850-4,900 levels," said Vijay L. Bhambhani, a technical analyst.

A look at NSE's derivatives trade data for Friday shows that investors are ramping up short positions at every rise, hoping for a fall in stocks. With the Nifty crossing 5,200 levels on Friday, Nifty 5,100 put options saw the biggest addition in open interest, with the addition of 1.36 million contracts to take the tally of total open positions betting on a fall to 4.3 million.

While this rally in its initial phase saw broad-based participation, with most stocks going up, off late several stocks have started showing signs of fatigue. On Friday, even as the Sensex gained 157 points, 14 of its 30 stocks ended the day lower.

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Technical analysts say stock indices may be running out of steam and could correct in the coming days