Stock Exchange

Market "in the Bank?"

MONEY has suddenly become very tight during the week. The Imperial Bank raised its lending rate in two rapid stages on Monday and Tuesday from 3 to 3¼ per cent and then to 3½ per cent for borrowings over five lakhs and to 3| per cent for borrowings under five lakhs. The Scheduled Banks' advances rose sharply by 13 crores during the week ended December 7.

The rapidity with which this tightness has developed is intriguing and no satisfactory explanation can be offered for it unless it be tjhat rumours about the solvency of a particular bank current some days ago led several of the new banks to strengthen their cash position. If this, was done by borrowing from the Imperial Bank, it would not explain, however, the increase in the total of bank advances. Heavy imports of American cotton, the beginning of the crushing season in sugar factories, the approaching year end, all these may have contributed to the stringency. The banks are all on the alert and in anticipation of increasing stringency, probably borrowed from the Imperial Bank so long as the Imperial's lending rate was below the Bank Rate. Now that that the Imperial Bank lending rate has come into line with the Bank Rate, it is no longer profitable for the banks to go to the Imperial Bank for accommodation and the stage has been reached where the money market is or will soon be " in the Bank "

The heavy fall in gilt-edged prices, the acute stringency in supplies of money together with the freer trading in the foreign exchange market in dollar and other currencies in London have all added to the unsettling effects on banks generally, The Finance Minister's apologia that the beginning of the busy season is obviously the right time to raise the Bank Rate is not supported by recent events which suggest that the measure was really ill-timed. Had a little more time been given to banks before raising the Bank Rate, they would have been in a better position to make necessary adjustments and the unsettling effects could have been guarded against.

Ia the giltsedge market relatively listless conditions prevailed. The 9 percent 1986 Conversion Loan is steady around Rs 80-4 there has been some improvement in the 3 per cent 1970-75 which firmed up from Rs 87-12 to Rs 88. The short and medium dated loans were on .the whole quiet.

In the share market Tata Deferreds have been distinctly weaker because of the reported liquidation by a leading operator and the price declined from Rs 1,770 to Rs 1740, On Wednesday, just before closing, there was a smart improvement. The early losses were recovered, the closing quotations being Rs 1,770.

Textiles continued to improve, Kohinoor being the most prominent with a rise to Rs 322. It is expected that fine and superfine cloth prices will be raised by about 30 per cent, though this is lower than the 40 per cent rise expected at One time. Partial restoration of power cut may further improve the market.

In the miscellaneous section, Associated Cements are well maintained at Rs 179, Belapur have improved to Rs 277 while Scindias recovered smartly from Rs 13-4 to Rs 14 10. In the bank section, Imperial Banks have improved to Rs 1,775 while Central Banks have declined from Rs 70 to Rs 68.