Around Calcutta Markets

Irregularly Lower Trends

Wednesday, Evening

EQUITIES should have moved up in the last few days. Developments were encouraging. Indeed, Lyons Range was rather steady in the closing days of last week. Unfortunately, however, the steadines proved short-lived. In the current week equities have developed an irregularly lower trend. At the time of this writing, equities remain depressed because of TTK's emphasis that the finances for the Plan will have to be obtained by mobilising internal resources, including taxation. This is interpret, ed by the market as a fresh reminder that taxation will increase in the coming May budget.

Despite many favourable developments, equities remain inactive. There has been a considerable fall in stock exchange activity in recent days. Fluctuations even in speculative scrips remain narrow. In cash scrips, the volume of turnover is negligible. True, sellers have become scarce. But buyers remain timid. On the least unfavourable development, the buying support, never firm, vanishes. In consequence, equities sag, even though there is no selling, pressure.

Technical Factors

Both technical factors and wider issues should have caused some steadiness in equities. According to the decision of the Calcutta Stock Exchange, business in Indian Iron will continue on a. cum-right basis until further notice. Delivery of shares in the clearing on February 20 next will be compulsorily carried over to the next settlement at fixed "budla" rates. This had a temporary steadying effect on Indian Iron. But, in the current week, Indian Iron have eased in the absence of follow-up support.

Some other market factors are also encouraging. There are reports that Texmaco have completed arrangements for manufacturing sugar machinery in collaboration with a Dutch firm, Even so, Texmaco remain quietly steady. Negotiations for amalgamation of Burrakur and Standard have fallen through. This may explain the irregularly lower trend in Burrakur. On the other hand, National Jute remain relatively steady on continued buying support from interested parties. There are unconfirmed reports of purchases of blocks of shares of National Jute by parties who want to acquire controlling interest in this jute mill company.

Wider Issues

Wider economic developments were rather encouraging.. Though the reduction in the British Bank Rate is not likely to have any immediate direct effect on the Indian money market, there are indications that the rising tendency in Indian money rates may be halted. Of course, the recent increase in the Reserve Banks' rates for advances must have its repercussions. Money rates are not likely to fall during the current busy season. But New Delhi, it is now clear, is considering plans for broadening the or edit base. These plans, when implemented, should lead to somewhat comfortable conditions in the money market.

New Delhi is also exploring pro spects of raising exports. Recently, the eight export promotion councils, already formed, met in New Delhi to formulate further measures to promote exports. Both the public and the private sectors will now consider ways and means of importing capital goods under credit arrangements from foreign exporters or companies. To arrange such credits, both the Government and industry may be willing to offer partnership to foreign concerns. These measures are expected not only to ease the foreign exchange position, but also conditions in the internal money market.

Tax Fears

In a "bull market, any of these developments would have caused a spurt in equities. But investors are so much perturbed about rising taxation that they are unwilling to purchase shares even at the current low levels. Not a week passes without TTK's reminder to the country that taxation will have to be raised further. On wider grounds, this relative emphasis on taxation is justified. Such a policy is sound economics and good politics. As the people realise that the Government is determined to tax the rich for financing the Plan, they will be in a mood to co-operate.

To emphasise the need for maximising tax resources, is not necessarily to suggest a further increase in direct taxation. There are many obstacles to the proposed expenditure tax. Some aspects of the Kaldor plan are liable to criticism. But the great merit of the Kaldor plan is that it means and involves a complete inventory of a person's income and wealth. This is where tax evasion comes in. That there is considerable tax evasion, is beyond dispute. In so far as the Kaldor plan is expected to minimise tax evasion, there is a case for a reduction in the level of direct taxation. India's tax structure needs to be overhauled. But neither the Kaldor plan nor the need to overhaul the tax system involves a higher level of direct taxation.

Fears of higher taxation continue to impede stock market activity. So far as Lyons Range is concerned, there is the immediate problem of the ordinary-right issue by Indian Iron. This issue involves about seven crores of rupees. It will therefore, mean withdrawal of this amount from the money market. In recent months, new issues have not been quite successful because, among other reasons, of tight money conditions. There are apprehensions that new issues, such as the Indian Iron and Indian Aluminium offers, will lead to a further depletion of funds available for investment in existing equities, the more so as the busy season will be at its height in the very near future.

There is another factor to be taken into consideration. With the new issue, ordinary shares of Indian Iron will be doubled. This means that the floating stock available to the market will be enlarged considerably. There will be such an increase in the floating stock that this factor alone will be an obstacle, in the prevailing mood of the market, to any consistent rise in Indian Iron. There is another way of looking at it. A huge floating stock will discourage speculators to rig prices up. That may be. But the increase in the floating stock is likely, in the existing circumstances, to help "bears",

Jute shares remain inactive, but steady. Developments in gunny and raw jute markets continue to be favourable to Jute shares. There is no active Investment support, but there is occasional investment buying of sound Jute shares. There is also some spasmodic buying support for Tea shares. But for the downward trend in equities in general, both these groups of shares might have ruled steadier. As clearing shares continue to sag, the rising trend in these groups is checked. And as these groups continue to mark time investors feel shy in lending active support *to* the market.

There are reasons why Coal shares remain depressed. Since the Appelate Tribunal's award involving higher labour costs, there have been apprehensions that the profits of coal companies will suffer. While these fears explain why Coal shares remain friendless, there are, on the contrary, apprehensions that higher labour costs will prompt a demand for a further rise in coal prices. In the event, the falling trend in Coal shares may be halted.