Around Bombay Markets

Cotton in Limelight

Thursday, Morning

WHILE the stock exchange continued to have a dull and uneasy time, cotton and oilseeds markets enjoyed near-boom conditions last week. Cotton, groundnuts, castor and cottonseeds hit new highs for the season. Bulls dominated the scene. Bears appeared to have been virtually routed. Bullion prices moved up and down rather irregularly but the undertone was distinctly steady. Short-term money tended to harden towards the week-end, indicating a possible end of the slack season.

Cotton was in the news, with futures recording the steepest rise for any single.week this season. Jarilla March which had been down to Us 736 on November 25 was bid up to Rs 763.50 on December 1 and to Rs 768 in kerb dealings before the start of the official session on December 2. The closing rate of Rs 756-50 showed a net rise of Rs 18.25 per candy over the week. The East India Cotton Association Board met on November 30 to settle details about the margin already provided in the by-laws, ft decided in favour of an ex-parte margin on buyers with a free limit of 500 bales for a member and 500 bales for a client in case the member's total purchases did not exceed 2,000 bales. The rate of margin was kept at Rs 15 per bales at above Rs 750 and Rs 25 per bale at above Rs 770.

Cotton future shot up despite the Board's decision taken on Monday evening. The setback from Rs 768 (kerb rate) to Rs 753.25 came only after the Forward Markets Commission's directive raising the margin from Rs 25 to Rs 75 per bales at above Rs 770. But it might not have been so drastic had heavy short covering over the preceding few days not weakened the market's technical position.

The utility of margin as a check on the rising trend can be questioned. At best margins tend to reduce the volume of speculative business, by eliminating the smaller fry. But a thin market is even more responsive to small changes in demand. If prices do not rise above Rs 770, it would be because the rate might seem to discount most of the bullish factors which have produced the recent spurt in prices. Of course, this does not necessarily imply that speculators should be allowed to have a free hand to exploit the imbalance between demand and supply and play havoc with the market. Margins will be welcomed to the extent to which they can have a restraining effect on unhealthy speculation.

Cotton futures have recorded i steep rise over the past few weeks but it would be wrong to blame speculators for rigging up prices. For spot cotton prices are still very much higher. Indeed, most varieties are commanding sizable unofficial premiums. Facts about the demand and supply position of raw cotton are now fairly common knowledge- Crop estimates vary from 45 lakh bales to 48 lakh bales but it is the delay in the crop movement which has made the supply position so tight. Added to this is the problem of unsatisfactory quality of the present arrivals. With arrivals falling below current off-take, mills have been taking up the ready lots almost at any price. The encouraging textile news and fairly large forward sales of cloth have encouraged mills to look for cotton without much consideration for the price. Sellers in delivery contracts have been virtually squeezed. Not until the pace of arrivals gathers sufficient momentum and arrivals exceed the current off-take can spot cotton develop any noticeable softness. That might come about in January. By that time foreign cottons too might find their way here.

When the rise in prices is due to a shortfall in supply, the solution lies in increasing supplies failing which demand must be restricted and supplies rationed. The Cotton Control Order should be made effective. Some restriction can be placed on the stocks held by the mills- The penalty clause in respect of trading in delivery contracts which has emboldened buyers to accumulate positions even at the ceiling rates could be done away with. It is in these directions that efforts should be made to curb the rising trend in cotton prices. Margins alone cannot perform a miracle.

Oilseeds

SPORT NEAR WEEK-END

THE previous week's reactionary trend was carried into the earlier part of the week under review. Later, however, the market took a sudden turn. Prices recorded an impressive rise which took groundnuts, castor and cottonseeds into new high ground- Only linseeds were out of favour and subdued due to weaker overseas advices induced by Washington's decision to release a fairly large quantity of linseed oil from the stockpile. The U K quotation for linseed oil declined sharply from .£ 117-10 to £112. Linseed cake too were virtually neglected, with the overseas quotalion mentioned at around £ 37 per ton.

The remarkable buoyancy displayed by the oilseeds market during the latter part of the week reflected partly the basic outlook for commodities. Partly it was attributable to improved prospects of export business with the increased availability of freight even for prompt shipments. The Conference lines held out firm assurances about adequate freight both for oil and cakes- They were also said to have agreed to give dispensation in respect of the deferred rebate concession if they failed to provide all the freight required by shippers. Informed sources said that the Conference Lines were inclined to reconsider their earlier decision on increasing the freight by ten shillings per ton from January.

Export houses were reported keen and persistent buyers in groundnut oil during the latter part of the week, mostly against their previous sales, which are varyingly estimated between 20,000 tons and 30,000 tons, shipment ranging up to the middle of January. Arrivals of groundnut and groundnut oil were not unsatisfactory but they were not large enough to meet the demands of vanaspati manufacturers, crushers and export houses. That explained the remarkable strength in the spot material. Sentiment was also greatly helped by reports that Yugoslavia and Czechoslovakia had purchased about 25,000 tons of groundnut extractions, 50 per cent, at Rs 415 per ton f.o.b. any port. January-March shipments. Prospects of further large business with the Communist countries were rated high. Inquiries from the U K and other Continental countries were rather poor and prices quoted were also lower- Many shippers here were said to have covered their sales abroad because of the setback in prices there.

The sudden spurt in castor futures which lifted the price from Rs 167,62 to Rs 171.25 on December 2 was attributed to reports that the U S had purchased about 300 tons of castor oil Commercial at 14.60 cents per pound and that it was willing to purchase larger quantities at that price, January-February shipment. The price mentioned is considerably below the Indian parity but the revival of U S interest and the improvement in the bids were interpreted bullishly. Bears got unnerved and bulls tightened their hold. Improved export prospects apart, the increased popularity of castor with bulls owes not a little to the fact that while trading in cotton and groundnuts is under margin, business in castor is still free, the margin limit being Rs 175 per candy. Cottonseeds were marked up mainly because of the spurt in cotton futures.

The export policy for groundnut oil ended with November. Fresh announcement is needed to make further business possible. Reports are that the incentive scheme for oil might undergo an important change. Manufacturers of groundnut extractions are reported to have requested the Government not to allow the export of expellers when extractions have a ready market abroad and domestic manufacturing capacity has been increased appreciably. It is argued that the export of oil could be encouraged by linking it with the import of certain items like chemicals, machinery and copra. Considering that the Government is anxious to promote exports the trade can hope for the best. The extension of the shipment period for expellers is welcome but even more welcome is the facility in respect of advance shipment of groundnut expellers earned under the oil incentive scheme because this will put the trade in funds on account of the profit margin in cake exports. The release of a fresh export quota for 20,000 tons of H. P. S. groundnut is not of much practical value since there already remain about 15,000 tons to be sold against the previous quota.

Fluctuations in oilseeds futures during the week ended December *2* with the previous week-end closing prices in brackets were as follows: castor May (Rs. 166.12) 166.62, 164.87, 169 167-75, 170.25, 167.62. 171.25; groundnut February (Rs. 177.87) 177.75, 178, 17712, 181.62, 180.75. 18:187, 181.75, 184.25; cottonseed February (Rs. 131,50) 132.25. 135.50, 134.75, 140.50, 137.25, 138.25; linseed May(Rs, 34.75 per cwt) 34.81. 34.37, 35.25, 34.62.

Stock Exchange

DIFFIDENT MOOD

DALAL STREET is off colour. Equities last week moved up and down irregularly in quite an indecisive fashion. Although Wednesday's closing prices presented a mixed fare over the week, the general tendency was distinctly subdued. The volume of business was on the low side and activity was predominantly professional. Enthusiasm to follow the rise was lacking but whenever prices receded certain professional operators who are still having a huge stake in the market lent fresh support to keep up the morale of the market. Only a few counters like Hindustan Motor, B. B. Petrol, Gwalior Rayon, Voltas and Tata Oil managed to hold firm.

Fears of a supplementary budget had been swaying the market for quite some time. Talks of a budget have ended with the end of November. The Government's decision on the Pay Commission's recommendations is to cost the Centre additional Rs 18 crores anually against earlier forecasts of Rs 40 crores. The supplementary demands for grants made by the Finance Minister for the current year total no more than Rs, 14.65 crores. But all this has brought no cheer to the market.

This, however, is not surprising. The Prime Minister's impassioned call to the nation to be prepared for any eventuality underlines the deterioration in the Sino-Indian relations. Defence is bound to tell on the country's limited resources. Its implications can scarcely be exaggerated. The stock market has also reason to feel uneasy over the Tyagi Committee's recommendations about stricter enforcement of the penal sanctions behind taxation for checking extensive tax evasion.

That stock exchange operators should be talking more about mounting costs in the textile industry instead of the manked improvement in the textile situation is an indication of the change in the mood of the market. The Government's decision to charge interest on advances made to the steel producers is of little significance from the market angle because the producers are to be compensated for the increased burden of interest charges. If Steel shares remain out of favour it is because of the none-too-good dividend oul look despite rising production, A.C.C.'s dividend has come as a big disappointment but it is long since the gilt-edged A. C. C. lost their gilt.

Dalai Street's overall trading pattern reflects lack of faith in fhi market's ability to sustain higher levels. With the money market conditions likely to get tighter and tighter in coming weeks, several new issues yet to come to the market and prospects for the February budget by no means promising, equities might not find it easy to keep steady at around the present levels.

Money

SLACK SEASON ENDS

CONDITIONS in the short-term money market suddenly turned tight near the week-end. Exchange and bigger Indian banks experienced considerable difficulty on December 2 in securing all their inter-bank call money requirements even at two per cent. Only two days earlier—on November 30 — lenders were said to be unable to employ all their funds and the exchange and bigger Indian banks could get all they needed at a mere 3/4 per cent. The treasury bill rate had fallen to a new low of 2.338 per cent although the amount offered was less than in the preceding week.

The usual beginning-of-the-month requirements could have contributed to the sudden pull on the money market. But inquiries with the dealers indicated that there had been considerable revival of demand for funds from the mofussil. It is very likely that last week-end tightness might mark the beginning of the busy reason which had been delayed by a couple of weeks. The slack season is supposed to end with October. But in a predominantly agricultural economy one can never be too sure about the season. Untimely rains can upset all calculations about crop movements. And this is what has happened this time.