

Markets bounce back strongly on short covering of bearish bets

US Fed's lower-than-expected hike, views on recession help Sensex rise 1.87%; rupee gains 14 paise vs dollar

PALAK SHAH

Mumbai, July 28

Hyper pessimism in the stock markets finally gave way to a rally after the US Federal Reserve announced a lower-than-expected rate hike of 75 basis points. Positive commentary by Fed Chairman Jerome Powell about the US economy and jobs growth also buoyed investors.

On Thursday, the Sensex and the Nifty saw their best single-day gains in nearly five weeks, mainly on the back of short covering on bearish bets. The rupee logged its biggest single day surge in over two months on the back of robust dollar inflows from exporters and foreign portfolio investors. The Sensex and

the Nifty gained nearly 10 per cent from the low levels that both indices had touched in June. On Thursday, the Sensex rose 1,041 points, or 1.87 per cent, to close at 56,857. The Nifty index gained 287 points, or 1.73 per cent, to end at 16,929. The rupee, too, gained 14 paise to close at 79.77 against the US dollar.

Trading volumes in the stock markets have been low for the past few days in anticipation of an aggressive rate hike by the US Fed. The US central bank hiked interest rates by 75 bps for the second time in two months, but the US stock markets took a positive cue from the comments of the Fed Chairman. Powell said that the US economy and job

FPIs slow down on selling

PALAK SHAH

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In the past couple of weeks, foreign portfolio investors (FPIs) have nearly covered their entire bearish bets in the index futures segment in India's equity markets. Data from Indiacharts showed that FPIs were holding net shorts of 1.46 lakh contracts in the index futures segment on the National Stock Exchange as on June 16, which has now fallen below 10,000 contracts. It is for this reason too that the Nifty and Sensex rallied nearly 10 per cent since their lows of June.

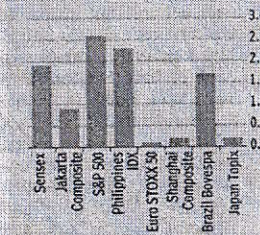
FPIs were net buyers of in-

dex futures worth ₹7,568 crore in July so far and buyers of stock futures of ₹1,897 crore. In June, FPIs were net sellers of index futures for ₹10,847 crore and net buyers of stock futures worth ₹ 6,313 crore.

The FPI selling spree in the equity cash segment in July has declined substantially, according to data.

In July so far, the FPIs net sold cash equities worth ₹7,614 crore compared to ₹58,000 crore in June. In March and April, FPIs sold cash equities worth ₹43,000 crore and ₹ 40,000 crore, respectively, as per exchange data.

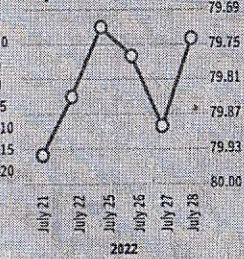
Sensex outperformed other Asian indices on Thursday...



... It was also among the more resilient in 2022



Rupee vs dollar



growth were strong and the Fed would be accommodative in its stance to see that it is able to tackle any signs of recession. The 75 basis point Fed hike was expected and factored in by the markets, and hence there was not much of a negative reaction, analysts said. Also, the fact that huge short positions were still to be unwound in the US equity markets, per data, is signal enough that markets may not crash in a hurry.

Indian markets to outperform

A spike in inflation globally on the back of the Russia-Ukraine war has led central banks to hike interest rates and taper the quantitative easing to arrest a runaway rise in crude, metal, and food prices. But, as a domino effect, this tightening of the policy also sucked away liquidity from stock markets and curbed banks' lending power, leading to a slowdown in consumer demand. But analysts believe that India's markets will keep outperforming the world in the coming months.

"A mild recession in the US and the rest of the world could actually be good for India, which benefits by way of lower costs of commodities and other costs as

well as the availability of the US dollar. Markets have already started factoring in the probability of a cut in interest rates by the Fed as fears of a hard landing spread. India has already benefited from the fall in commodity prices lately.

Currency moves

In the months ahead, it will also benefit from the lower cost of and availability of US dollar denominated capital. India's higher growth differential vis-a-vis the rest of the world will act as a magnet and pull in capital flows, "said Sachchidanand Shukla, chief economist at

Mahindra Group." The rupee ended up 14 paise at 79.76 over the previous close of 79.90. Market players said the dollar has weakened. Moreover, the contraction of the US economy for the second consecutive quarter could see the US Fed reducing the quantum of rate hikes going forward; this could be a positive for the rupee. Though there was no RBI action in the over-the-counter market, it is believed to have sold dollars in the futures market. The rupee closed at 74.63/64 in aftermarket hours of trading.

With inputs from K Ram Kumar

After Fed rate hike, RBI may follow suit, say economists

KR SRIVATS

New Delhi, July 28

The Reserve Bank of India (RBI) may increase the repo rate by between 35 and 50 basis points at the Monetary Policy Committee (MPC) meeting starting August 5, say economists.

While it should not be seen as a synchronised action, the

RBI's rate hike will follow the US Federal Reserve's decision on Wednesday to raise its benchmark interest rate by a sizable three quarters of a point (75 basis point) for the second straight time in its push to tame the worst inflation flare up in the US in four decades, they said.

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