No rate cut by RBI, but uptrend remains intact; Sensex on track to hit 36K in 2015

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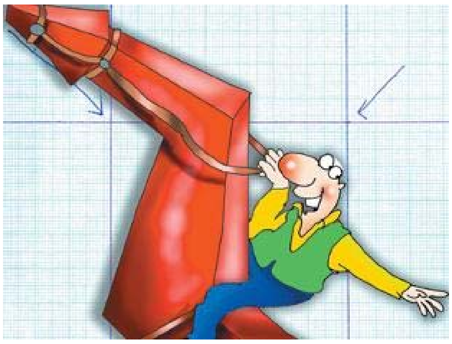

Expectation of rate cut by RBI in the first half of 2015 which looks almost certain will keep momentum alive for Indian markets, say experts.

NEW DELHI: Expectation of rate cut by the Reserve Bank of India (RBI) in the first half of 2015 which looks almost certain will keep momentum alive for Indian markets along with further policy action and Budget announcement in the next 12 months, say experts.

They also see Indian markets trading at fair valuation and expect corporate earnings to recover next fiscal year (FY16) as investment cycle turns and consumer spending picks up which will keep the momentum going for Indian markets.

On expected lines, RBI in its fifth bimonthly monetary policy review on Tuesday kept all the key rates unchanged, CRR at 4 per cent, Repo Rate at 8 per cent while Reverse repo rate at 7 per cent.

The forward guidance is dovish, with the central bank saying a change in the monetary policy stance now would be premature, but if inflation stabilizes a change can happen early next year.

The statement said that "if the current inflation momentum and changes in inflationary expectations continue, and fiscal developments are encouraging, a change in the monetary policy stance is likely early next year, including outside the policy review cycle."

"I am not too sure if market is going to get significantly disappointed by RBI action. Therefore, broadly the underlying sentiment for the broad market still remains pretty strong and intact," says Taher Badshah, Senior Vice President & Co-Head Equities, Motilal Oswal Asset Mgmt Co Ltd.

It has already been a dream run for Indian market which has rallied over 34 per cent so far in the year 2014 betting on 'Modinomics', but analysts are convinced that the rally is over. They see Sensex hitting levels above 32000 -36000 in the next 12 month.

A week after several brokerages downgraded corporate earnings for FY15 and FY16, leading market intermediaries like Citi, Morgan Stanley, UBS, and Ambit Capital have said they expect the benchmark index, BSE Sensex, to touch levels between 32,500 and 36,000 by December 2015, ET reported.

Global investment bank, Citigroup in its latest report raised December-2015 Sensex target to 33000, from 31,000 earlier. They sees government-driven reform as a constant; a mix of execution and policy, backed by ongoing monetary/financial sector evolution will set the tone for the markets.

"We expect 2015 to be a good year: we raise December 2015 market targets, Sensex-33,000, and Nifty target to 9,850, at 16x Dec16. Year 2015 should be front-loaded with falling rate gains, back-loaded with an actual economic/investment recovery; and accompanied by steady regulatory/execution reform," the global investment bank said in a report.

Analysts at top brokerages firms acknowledged that valuations are already pricing in reforms and next year's growth story even as growth cycle remains subdued.

For Nifty the number could well surpass 10,000 in the next twelve month on hopes of further policy action, Budget announcement and global liquidity.

Vikas V Gupta - Executive Vice President at ArthVeda Fund Management Pvt. Ltd says that upcoming Budget will be important event which will be eyed by investors not just in India but across the globe.

"We think post-budget markets could be in the 9000-11000 range for Nifty over next 6-12 months. However, ArthVeda as a house doesn't focus on market levels but on fundamentals. Based on our estimates of fundamentals, we expect 30% earnings growth in Nifty in FY16," he adds.

Even though, Indian market is in a multi-year bull run, there is always a possibility of a correction of 300-400 points but the broader trend looks intact and investors should use the dip to enter markets.

"Some short term corrections might not be ruled out around 300 to 400 points on the Nifty, but on the balance, I believe that there will be a huge expectations build up around budget," says P Phani Sekhar, Fund Manager-PMS, Angel Broking.

"I will not be surprised to see the Nifty back to levels closer to 9000 because on valuation terms, we are not at all pricey. At 8600, we are trading at close to 16 times earnings on an earnings growth expectation of 16% which can always be upgraded if the right steps happen," he adds.

Global brokerage firms see rate cut in 1H2015

Analysts at top global brokerage firms such as Nomura, Goldman Sachs, Barclays see the RBI cutting rates by 25-50 bps by June 2015.

Nomura expects the Reserve Bank of India to cut key policy rates by June next year and for the whole year the global investment bank sees a cut of 50 bps.

Barclays see a cut of 50 bps during first half of 2015, with the first cut coming as early as in February meet. Possibility of larger rate cuts is there if disinflation is stronger than expected.

Goldman Sachs sees cut in repo rate by 25bps each in Feb & April 2015. The central bank may ease rates barring commodity shocks. It may not be aggressive in rate cuts unless sharp disinflation is seen.

We can see a rate cut in its next policy review on 3rd February 2015. Governor also added that he will not wait even for the policy review meeting if he found all the factors under a comfortable situation, he can go for rate cut any time in next year."

Governor Rajan has been under pressure from India Inc. for a reduction in policy rates given the fact that commodity prices have eased, and a rate cut would help in reviving growth and kick start lagging investment cycle in Asia's third largest economy.

"We can see a rate cut in its next policy review on 3rd February 2015. Governor also added that he will not wait even for the policy review meeting if he found all the factors under a comfortable situation, he can go for rate cut any time in next year," says Rohit Gadia, Founder & CEO, CapitalVia Global Research Limited.