

Market expects policy action after Presidential polls

Expectations of policy action by the government soon after the much-awaited Presidential poll on Thursday and the wholesale [inflation](#) reading may set the tone for stocks in the week ahead.

Investors will also eye foreign institutional flows, which turned positive for the first time in four months this July, on hopes of government's intent to kick-start growth by passing key legislation and improving the fiscal deficit by cutting on diesel subsidies.

The BSE Sensex ended down 1.75% at 17214 last week - its first negative weekly close in the past six weeks even as foreign investors pumped in Rs 7,356 crore into Indian equities in the month through July 13. They had dumped stocks worth Rs 1,957.4 crore since April largely in response to the government's move to retroactively tax overseas transfers of Indian assets (GAAR) during the Union Budget in mid-March.

"FIIs and other investors have put in money anticipating some action by the government on the lines of power sector reforms, opening up multi-brand retail, raising diesel prices and passing key legislation related to pension and banking amendments," said Sonam Udasi, senior vice-president (research), IDBI Caps.

"If nothing happens soon, markets could tumble," he said.

Markets widely expect that **Pranab Mukherjee**, UPA's choice for president, will breeze through the presidential election this Thursday. With his exit and substitution by PM **Manmohan Singh** at the finance ministry, investors are hopeful the government will push through painful but important decisions like increasing diesel prices, whose subsidy has drilled a large hole in the government's pocket.

Prime Minister Manmohan Singh's move to set up an expert panel to finalise the controversial GAAR rules, taking the process out of the finance ministry's hands, may infuse some confidence into investors, but they are awaiting bigger market-friendly measures to revive sentiment.

"It's time to walk the talk. The government has done well to found a panel that will look into the GAAR issue that's created uncertainty. They have to show similar resolve on other fronts for market confidence to be intact," Kisan Choksey, chairman, KR Choksey Shares & Securities.

The inflation reading for June to be released on Monday is expected to show inflation grew 7.6%, slightly higher than the previous month's 7.55%. Higher inflation may reduce RBI's headway to cut interest rates at its policy meet on July 31. Market watchers, including Choksey, feel markets could be disappointed if RBI keeps rates steady but passing of reforms will offset the short-term impact of rising inflation.

Apart from domestic cues, markets will also track US Fed chief Ben Bernanke's testimony to US lawmakers on the state of its economy this week and the euro area finance minister's meeting to finalise the bailout package for Spain's banks.

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