MARKETS: Weak IIP indicates recovery not in sight

12th Mar, 2016

For the third month in a row the IIP data has declined indicating recovery is still away. It also raises strong doubt about validity of high GDP forecasts by government, as the IIP indicates a falling manufacturing activity while GDP is assuming a positive growth.

IIP shows a serious weakness in economy as there is a drastic fall in outputs of capital goods (-20.4%) and consumer durables (-5.7%), reflecting weakness in both investments and consumption. Other indicators like falling exports and weak non-food credit demand also indicates a deteriorating economy.

It is expected that RBI may reduce rate by 0.25% in its 5th April meeting as industry strongly demand for a rate cut and inflation outlook is expected to be favorable.

Investors should remain cautious as the long term risks still exist in markets, stock valuations are still not cheap, and domestic problems of reform bills, funding for infrastructure projects, falling corporate income, falling demand, global dumping, burdens of 7th pay commission & OROP, and doubts over political stability are going to put downward pressures on Sensex.