

India Stocks Climb for Second Day Amid Bets on Dovish RBI Head

Indian stocks extended gains after entering a bull market and sovereign bonds climbed the most since April amid speculation the next central bank governor may cut interest rates faster to bolster economic growth.

ICICI Bank Ltd. and Axis Bank Ltd. were among the biggest gainers on the S&P BSE Sensex and sent a gauge of lenders to an 11-month high. National Aluminium Co. surged the most in 6 1/2 years, helping an index of metalmakers to its steepest gain in three months, as Goldman Sachs Group Inc. raised price forecasts for most industrial metals through 2017.

The Sensex added 0.7 percent at the close, extending its two-day gain to 2.5 percent, the most since May 27. A successor to Reserve Bank of India Governor Raghuram Rajan may be named this week, and Arvind Panagariya, vice chairman of a government-established policy research group was the top contender for the job, Bloomberg TV India reported Monday. Rajan, whose term ends Sept. 4, was accused by a member of Prime Minister Narendra Modi's ruling party of keeping borrowing costs too high.

"The next governor is very likely to be a pro-growth oriented person," Vikas Gupta, an executive vice president at Arthveda Fund Management Pvt. in Mumbai, said by phone. "The government has been talking about cutting rates on deposits as well as lending. They will keep in mind the candidate's views on borrowing costs while selecting."

Bad Debts

Banks have reported record losses as delinquent loans surged under a Rajan-led clean up, leading to allegations that his rigid rules and focus on inflation were stifling investment. His successor may refrain from fresh asset reviews after the current one

ends in March 2017, said Nikhil Johri, chief investment officer at Trivantage Capital Management India Pvt. in Mumbai.

Rajan took charge of the central bank in 2013, when the rupee hit a record low and the inflation rate was among Asia's fastest. After tight monetary policy and a crash in global oil prices helped damp price pressures, he began cutting borrowing costs last year and brought the benchmark rate to a five-year low of 6.5 percent.

The Sensex has rebounded 21 percent from a low reached in February amid forecasts for above-normal monsoon after back-to-back droughts and a recovery in company earnings. The rally has pushed up the index's valuation to 16.7 times projected 12-months profits, versus a five-year average of 14.3.

"The market will consolidate at the current level as the rally has been superb," R.K. Gupta, managing director of Taurus Asset Management Co., which oversees \$590 million, said from New Delhi. "Gains have come on the hope of a good rainfall, better earnings and the GST bill getting passed in the monsoon session of parliament. We might see a correction if any of these variables don't work out."

The government will succeed in passing the Goods and Services Tax Bill in the parliament session due to start July 18, ANI reported Monday citing Transport Minister Nitin Gadkari.

Tata Steel Ltd. climbed to a one-month high. NBCC India Ltd., a state-run construction company, soared 12 percent to a record, while developer Unitech Ltd. jumped 14 percent. Yields on bonds due in January 2026 slid five basis points, the most since April 4, to 7.34 percent. That's the lowest close for benchmark 10-year debt since June 2013.

Foreigners bought \$160 million of shares on July 11, extending this year's total to \$3.2 billion. They invested \$771 million in June, capping a fourth month of net purchases, the longest run of inflows since April 2015, data compiled by Bloomberg show.