

**Indian equities fall significantly; sentiments take a beating after UK announces full lockdown to fight new strain of coronavirus..**

- 1) Today's significant fall was triggered by fears of a resurgence of coronavirus following a new strain in the United Kingdom (UK) and UK announcing a lockdown. Over the past few sessions, the indices have been on a winning spree, hitting record highs almost daily on the back of massive liquidity from FPIs led by positive developments on COVID-19 vaccine front.
- 2) The Sensex was down by 2,133 points and registered its sharpest intra-day fall since April 2020. The Nifty index, on the other hand, lost 646 points from day's high. At close, the Sensex settled at 45,554 levels, down 1,407 points or 3 per cent. Meanwhile, the Nifty50 index ended at 13,328 levels, down 432 points or 3.14 per cent. ONGC declined by 9 per cent, while IndusInd Bank and M&M (down 7 per cent each), and SBI (down 6 per cent) ended the day as the top laggards on the Sensex.
- 3) Individually, aviation stocks, InterGlobe Aviation and SpiceJet, declined up to 10 per cent on the BSE after India suspended flights from the UK till December 31 as the country entered a tougher lockdown to fight a new strain of coronavirus.
- 4) Sectorally, Nifty PSU Bank index declined by 7 per cent, Nifty Realty index fell by 6 per cent, and Nifty Metal index dropped 5 per cent on the NSE.
- 5) India VIX, the volatility gauge, rallied by over 23% in the intra-day deals to hit a high of 23.4 levels. This was the index's biggest jump since July 18, 2020.

**Sectors and stocks**

- 1) Shares of Computer Age Management Services (CAMS) rallied by 9 per cent to Rs. 1,752 on the BSE in the intra-day trade on Monday, surging 16 per cent in the past two trading days, on the back of heavy volumes. The stock was quoting at its highest level since its listing in October 2020. On Wednesday, December 16, 2020, the company had announced that it has received a communication from the Pension Fund Regulatory and Development Authority, New Delhi, stating that the company has been considered eligible for selection and further grant of registration as a Central Record Keeping Agency under the National Pension Scheme (NPS) under the Pension Fund Regulatory and Development Authority (Central Recordkeeping Agency) Regulations, 2015. The selection is subject to certain fulfillment of certain conditions including the de-registration of the company as a Point of Presence under the Pension Fund Regulatory and Development Authority (Point of Presence) Regulations, 2018. "The company is in the process of complying with such conditions to obtain the registration as a Central Record Keeping Agency and will provide the updates as and when required," CAMS said in a regulatory filing. With past two day's rally, the stock of CAMS is trading at a 42 per cent premium compared with the issue price of Rs. 1,230 per share on the BSE. The Rs. 2,250 crore initial public offering (IPO) of CAMS had received a strong demand with its IPO getting subscribed 47 times. CAMS is India's largest registrar and transfer agent (RTA) of mutual funds (MF) with a market share of around 70 per cent based on average assets under management (AAUM) managed by their clients as of July 2020. CAMS provides a comprehensive portfolio of technology-based services such as transaction origination interface, transaction execution, payment, settlement, record keeping, brokerage computation, and compliance-related services.
- 2) Shares of mid-and-smallcap companies were under severe pressure on Monday, with the S&P BSE Midcap and S&P BSE Smallcap indices declining by over 5 per cent as investors booked profits after European markets opened with sharp cuts. Speciality Restaurants, Kirloskar Ferrous Industries, RPP Infra Projects, Chennai Petroleum Corporation, Rane Holdings, Shalimar Paints, Ramkrishna Forgings and Safari Industries from the smallcap index declined by more than 10 per cent. The New India Assurance Company, Tata Power Company, Federal Bank, RBL Bank, Ashok Leyland and Canara Bank from the midcap index slipped between 8 per cent and 10 per cent. In the auto space, companies with exposure to Europe such as Tata Motors, Motherson Sumi, and Apollo Tyres slid 6-7 per cent in trade. Shares of SpiceJet were locked in lower circuit of 10 per cent at Rs 91.45 over the UK border closure.

## Key recent developments

- 1) India will suspend flights from and to the UK from Tuesday midnight till December 31, joining others in announcing travel bans over a new strain of the coronavirus in the European country. Europe and regions from Canada to Hong Kong suspended travel links to the UK, as a full lockdown came into force in London and southeast England to contain a mutation to the coronavirus.
- 2) Prime Minister Narendra Modi (PM Modi) on Saturday addressed the Foundation Week of the Board of Commerce and Industry of India (ASSOCHAM) through video conferencing and appealed to the industrialists, full strength for Aatma Nirbhar Bharat in the coming years. PM Modi said, during this period of COVID-19 pandemic, there has been a record FDI in India. He said, we have a special focus on manufacturing to achieve the goal of self-reliant India. The PM said that we are constantly doing reforms to encourage manufacturing. The country today stands with Enterprise and Wealth Creators giving opportunities to millions of youth.
- 3) President Donald Trump on Friday signed legislation that could kick Chinese companies off of U.S. exchanges unless American regulators can review their financial audits, a move likely to further escalate tensions between the two countries. The President has long railed against China for what he calls unfair trading practices, and slapped tariffs on billions of dollars in imports.
- 4) China said it has already administered more than 1 million coronavirus vaccines since July and plans a phased rollout going forward that will initially target workers at higher risk of infection, as the country seeks to be at the vanguard of the global Covid-19 immunization effort. Vaccines developed by Sinovac Biotech Ltd. and the state-owned China National Biotec Group Co. have been dispensed in the country since they were granted emergency-use authorization in July.
- 5) Serum Institute of India will seek approval for a two full-dose regimen from the Indian drug regulator after its partner, Oxford University, cited data from early trials and said following such a regimen showed a better immune response. After phase 3 trials, Oxford, which is developing the Covid-19 vaccine Covishield with AstraZeneca, had said a full dose followed by a half-dose regimen showed 90 per cent efficacy, while a full two-dose regimen showed 62 per cent efficacy. However, it had said more work needed to be done to affirm that result.
- 6) Reliance Industries (RIL) and BP earlier announced the start of production from the R Cluster, ultra-deep-water gas field in block KG D6 off the east coast of India. RIL and BP are developing three deepwater gas projects in block KG D6 – R Cluster, Satellites Cluster and MJ – which together are expected to meet ~15% of India's gas demand by 2023. These projects will utilise the existing hub infrastructure in KG D6 block. RIL is the operator of KG D6 with a 66.67% participating interest and BP holds a 33.33% participating interest.
- 7) S&P Global Ratings earlier raised India's growth projection for the current fiscal to (-) 7.7 per cent from (-) 9 per cent estimated earlier on rising demand and falling COVID infection rates. "Rising demand and falling infection rates have tempered our expectation of COVID's hit on the Indian economy. S&P Global Ratings has revised real GDP growth to negative 7.7 per cent for the year ending March 2021, from negative 9 per cent previously," S&P said in a statement. The US-based rating agency said its revision in growth forecast reflects a faster-than-expected recovery in the quarter through September. For the next fiscal, it projected India's growth to rebound to 10 per cent. India's gross domestic product fell 7.5 per cent in the July-September quarter, against a contraction of 23.9 per cent in the April-June quarter. S&P said India is learning to live with the virus, even though the pandemic is far from defeated and reported cases have fallen by more than half from peak levels, to about 40,000 per day. The feared resurgence following the recent holiday season has yet to materialise. "It is no surprise that India is following the path of most economies across Asia-Pacific in experiencing a faster-than-expected recovery in manufacturing production," S&P Global Ratings Asia-Pacific chief economist Shaun Roache said. Manufacturing output was about 3.5 per cent higher in October 2020, compared to the year-ago period, while the output of consumer durables rose by almost 18 per cent. "This recovery underscores one of the more striking aspects of the COVID-19 shock -- the resilience of manufacturing supply chains. Again, as with demand, some slowing of output momentum has emerged more recently," S&P said.
- 8) The Wholesale Price Index (WPI) based inflation rose to 1.55 percent in November - a nine month high, as manufactured products turned costlier, while food prices eased. WPI inflation in October 2020 was at an eight-month high of 1.48 percent as manufactured products turned costlier. November 2019 WPI inflation was at 0.58 percent, due to increase in prices of food articles. Food inflation for November 2020 is at 4.27 percent compared to 5.78 percent in October 2020. Primary articles inflation is at 2.72 percent, down 0.8 percent month-on-month (MoM) from 4.74 percent in October 2020. Manufactured products inflation is at 2.97 percent, up 0.8 percent MoM compared to 2.12 percent in October 2020, and all commodities index is up 0.3 percent MoM. Fuel and power inflation stood at -9.87 percent, up by 0.2 percent MoM, compared to -10.95 percent in October 2020.



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- 9) India's retail inflation for November stood at 6.93 percent against 7.61 percent in October. Vegetables inflation for November came in at 15.63 percent, oils and fat at 17.86 percent, meat and fish at 16.67 percent, and pulses and products at 16.67 percent.
- 10) Industrial production rose 3.6 per cent in October, mainly due to better performance of manufacturing and electricity generation sectors, official data showed on Friday. According to the Index of Industrial Production (IIP) data, manufacturing and electricity generation sectors registered a growth of 3.5 per cent and 11.2 per cent, respectively. The mining sector witnessed a contraction of 1.5 per cent in October. The IIP had contracted by 6.6 per cent in October 2019.
- 11) Earlier, The Reserve Bank of India (RBI) revised its forecast of economic growth for the current fiscal year (2020-21) to minus 7.5 per cent compared to its earlier forecast of minus 9.5 per cent. RBI governor Shaktikanta Das said the change in forecast has been prompted by a surge in demand in both rural as well as urban areas. The second half of the fiscal year is expected to show positive growth despite disruptions caused by coronavirus pandemic, he added.
- 12) The RBI kept the policy repo rate unchanged at 4 per cent amidst high inflation. CPI inflation rose sharply to 7.3 per cent in September and further to 7.6 per cent in October 2020, with some evidence that price pressures are spreading. Food inflation surged to double digits in October across protein-rich items including pulses, edible oils, vegetables and spices on multiple supply shocks. Core inflation, i.e., CPI excluding food and fuel, also picked up from 5.4 per cent in September to 5.8 per cent in October. Both three months and one year ahead inflation expectations of households have eased modestly in anticipation of the seasonal moderation of food prices in the winter and easing of supply chain disruptions. The RBI governor said inflation is likely to remain elevated with some relief in the winter months. "CPI inflation is seen at 6.8 percent for Q3FY21 and projected CPI inflation is at 5.8 percent for Q4FY21. For H1FY22, projected CPI inflation is seen at 5.2-4.6 percent with risks broadly balanced," said Das. Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent. The Monetary Policy Committee (MPC) also decided to continue with the accommodative stance as long as necessary – at least during the current financial year and into the next financial year – to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.
- 13) Real GDP for the September quarter contracted 7.5 per cent year-on-year, on the back of the steep contraction in manufacturing, construction, and services, data released by the National Statistical Office showed on November 27. The real GDP for April-June 2020 had contracted 23.9 per cent, the steepest fall ever (and the first contraction in 40 years). The July-September 2019 quarter had witnessed a GDP growth of 4.4 per cent.
- 14) Turning to the growth outlook, the recovery in rural demand is expected to strengthen further, while urban demand is also gaining momentum as unlocking spurs activity and employment, especially of labour displaced by COVID-19. Fiscal stimulus is increasingly moving beyond being supportive of consumption and liquidity to supporting growth-generating investment. On the other hand, private investment is still slack and capacity utilisation has not fully recovered, RBI Governor Shaktikanta Das said in Monetary Policy Statement.
- 15) Prime Minister Narendra Modi earlier said that experts believe that the wait for a COVID-19 vaccine will not be long and it may be ready in a few weeks, asserting the vaccination drive in India will begin as soon as scientists give the nod. In his remarks here at an all-party meeting held virtually, he said healthcare workers involved in treating COVID-19 patients, frontline workers, who include police personnel and municipal staff, and old people suffering from serious conditions would be inoculated on priority. Noting that there have been questions about the price of the COVID-19 vaccine, the prime minister said it is natural to have such queries and asserted that public health will be accorded top priority in the matter and states will be fully involved. In his concluding address at the meeting called by the Union government to discuss the pandemic situation, Modi sought to address most burning aspects of the issue, ranging from India's vaccine readiness to its pricing, and reiterated that the country has done better than even some developed countries and those with better health infrastructure in tackling the pandemic.
- 16) Goods and service tax (GST) collections for November 2020 stood at Rs. 1.04 lakh crore, marginally lower than Rs 1.05 lakh crore collected in October this year, but higher than Rs. 1.03 lakh crore collected in the same month last year. Economic recovery is clearly evident from improved GST collections data. GST Collections crossed the Rs. 1 lakh crore mark for the second time since April, after last month's Rs. 1.05 lakh crore.

### **Global markets**

- 1) European equities declined by 2 per cent on Monday, the dollar strengthened and market volatility surged amid growing unease over the economic impact of a new coronavirus strain in Britain which has seen several European countries shut their borders to the UK.
- 2) German equities declined by around 2 per cent, while pan-European travel and leisure stocks lost more than 5 per cent.
- 3) Asian equities declined outside Japan by 0.2 per cent. Japan's Nikkei was down by 0.4 per cent, off its highest since April 1991.

### **Ajcon Global's view**

- 1) Bears took over from bulls after a stellar run in last 8 months. The fall was on expected lines after the rally was led by FPI liquidity and it needed a reason to cool down. UK announcing full lockdown after a new coronavirus strain acted as a trigger for today's fall. We do not expect immediate bounceback as we are entering into Christmas and New Year. In addition with the above new developments there would be overhang on Indian companies having exposure to UK and Europe.
- 2) We have been reiterating several times to be ready for a big sell off as benchmark indices Sensex and Nifty valuations were expensive led by significant spike of FPI liquidity in the past few months especially in last 2 months. We had expected today's correction last week as equities were in overbought zone for quite some time.
- 3) Globally, all eyes would be on the new strain of coronavirus developments in other parts of the world after its emergence in Europe. Investors will keep an eye on the progress of COVID-19 vaccine roll out and its efficacy in various countries after these new developments.
- 4) Domestically, all eyes would be on Union Budget and budget related stocks will remain focus in coming weeks and January 2021 ahead of Union Budget to be announced in February 2021. Investors would remain stock specific in coming weeks.

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