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YOUR FRIENDLY FINANCIAL ADVISORS

Market wrap **March 02, 2022**

Indian equities were under tremendous pressure; Russia's invasion of Ukraine has created upsurge in crude oil and metal prices..

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	55,468.90	56,247.28	**778.38**	**1.38**	55,629.30	**55,755.09**	55,020.10
Nifty	16,605.95	16,793.90	**187.95**	**1.12**	16,593.10	**16,678.50**	16,478.65

1) Indian equities were under pressure led by jump in crude oil prices. Crude oil prices were up significantly on Wednesday led by supply disruptions amidst Russia - Ukraine war. Brent crude oil hit a high of $113 per barrel. The release of 60 million barrels by United States from its strategic reserves did not result in cooling off crude oil. However, metal stocks were upbeat today as supply disruptions in metals due to sanctions imposed on Russia has pushed metal prices.

2) The Sensex closed down by 778.38 points or 1.38 percent to end at levels of 55,468.90. During the day, Sensex had witnessed a fall of over 1,200 points but later covered losses after media reports suggested that Russia would resume talks with Ukraine. Earlier, Ukrainian President Volodymyr Zelensky called on Russia to stop bombarding civilians and resume talks. Among the Sensex 30 stocks, Maruti Suzuki, Dr Reddy's Labs, Asian Paints, ICICI Bank, HDFC twins and Sun Pharma were down in the range 2.8 - 6 percent. On the other hand, Tata Steel, Titan, Reliance Industries, Nestle India were up in the range of 1.35 - 5.54 percent.

3) On the other hand, the Nifty was down by 187.95 points or 1.12 percent to end at levels of 16,605.95.

4) The broader markets were under pressure today. Both BSE MidCap and the BSE SmallCap indices witnessed a fall of 0.10 percent respectively.

5) In terms of sectoral performance, the Nifty Metal index was the top gainer on the NSE today (up 4 per cent) while the Nifty Auto index fell by 3 per cent. The Nifty Bank, Financial Services, and Pharma indices fell by 2 per cent each.

6) FIIs sold equities worth Rs. 4,338.94 crore on Wednesday. On the other hand, DIIs bought equities worth Rs. 3,061.70 crore. In the month of February 2022, FIIs sold equities worth Rs. 45,720.07 crore. On the other hand, DIIs have bought equities worth Rs. 42,084.07 crore.

Sectors and stocks

1) Shares of oil exploration & production companies – Oil Natural Gas Corporation (ONGC) and Oil India – rallied up to 10 per cent on the BSE in Wednesday's intra-day trade as oil prices surged to their highest levels since 2014.

2) Shares of metal companies continued to rally significantly as sanctions against Russia raised possibility of supply disruptions of aluminium and gas, which will push up prices. Russia produces about 6 per cent of the world's aluminium and accounts for about 7 per cent of global nickel mine supplies. London aluminium futures hit record high on Monday after Western countries ratcheted up sanctions on Russia for its invasion of Ukraine, including blocking some banks from the SWIFT global payments system, raising fears of supply disruptions. (Reuters)

3) Shares of Vedanta hit an over 11-year high of Rs. 395.25, up 4 per cent on the BSE in Wednesday's weak market, on rising commodity prices. The stock was trading at its highest level since May 2010. In the past one week, Vedanta has outperformed the market by gaining 12 per cent on higher commodity and crude oil prices . Vedanta, a subsidiary of Vedanta Resources, is one of the world's leading oil & gas and metals company with significant operations in oil & gas, zinc, lead, silver, copper, iron ore, steel, and aluminium & power across India, South Africa and Namibia. CRISIL Ratings upgraded its long-term rating of Vedanta to 'CRISIL AA' from 'CRISIL AA-', and revised the outlook to 'Stable' from 'Positive'. The short-term rating on bank facilities and commercial paper has been reaffirmed at 'CRISIL A1+'.

4) Shares of HDFC Bank were under pressure and fell by 5 per cent to Rs. 1,358 on the BSE in Wednesday's intra-day trade. In the past one week, HDFC Bank has declined by 10 percent.

Key recent major developments..

1) U.S. President Joe Biden warned Vladimir Putin that the Russian leader "has no idea what's coming". "While he may make gains on the battlefield- he will pay a continuing high price over the long run," Biden said in his State of the Union address. It was announced that U.S. airspace would be closed to all Russian aircraft. "We will join our allies in closing off American airspace to all Russian flights, further isolating Russia," Biden said. Biden said U.S. forces would "not engage in the conflict with Russian forces in Ukraine," but they would be deployed to help secure NATO allies.

2) Fed Chair Jerome Powell said on Wednesday that "The Federal Reserve will move forward with plans to raise interest rates this month to try to tame high inflation, but the outbreak of war in Ukraine has made the outlook "highly uncertain" for U.S. central bank policymakers as they plan their next steps".

3) Global financial services provider firm Moody's Analytics said "Global gas prices are expected to rise if any material and sustained escalation in the conflict between Russia and Ukraine puts constraints on Russia's gas exports." Russia is the world's largest exporter of gas. The majority of its gas exports stay in Europe, with Germany, Italy, Turkey, Austria and France the largest recipients, the consulting firm said adding nevertheless, Asia's largest economies - China, Japan, South Korea and India - all source some of their gas needs from Russia. Japan's largest supplier is Australia, but it also has long-term contracts with Russia, Malaysia, Qatar, and Brunei, the rating agency said. "And although there are other large global producers that could reroute supplies, it would take time to build infrastructure and increase liquefied natural gas processing capacity." In the meantime, however, global supplies would stay tight, it added.

4) Domestically, Gross Goods and Services Tax (GST) revenue collections in February (for sales in January) jumped by 17.6 per cent year-on-year to Rs. 1.33 lakh crore, data released by the Finance Ministry on Tuesday showed. This is the fifth consecutive month of GST collections being more than Rs. 1.30 lakh crore. The gross GST revenue collected in the month of February 2022 stood at Rs. 1,33,026 crore of which Central GST is Rs. 24,435 crore, State GST is Rs. 30,779 crore, Integrated GST is Rs. 67,471 crore (including Rs. 33,837 crore collected on import of goods) and cess is Rs. 10,340 crore (including Rs. 638 crore collected on import of goods).

5) Domestically, in a key development, GDP growth rate for the October-December quarter of 2021-22 stood at 5.4 per cent as against 0.7 per cent growth in the corresponding period a year ago, with the construction sector recording a contraction of 2.8 per cent and manufacturing sector registering a meagre growth of 0.2 per cent. In its second advance estimates of national accounts, the National Statistical Office (NSO) has projected 8.9 per cent growth in 2021-22. In its first advance estimates released in January, it had projected 9.2 per cent growth for 2021-22 as against a contraction of 6.6 per cent in 2020-21.

6) Earlier, the Union Cabinet on Saturday approved a proposal to allow foreign direct investment (FDI) up to 20 per cent in Life Insurance Corporation through the automatic route. The decision is expected to open doors for foreign investors who are keen to participate in the upcoming initial public offering (IPO) of LIC scheduled for next month, considered to be India's largest public offering.

7) Last week on Friday, Finance Minister Nirmala Sitharaman said "India's development is going to be challenged by the newer challenges emanating in the world. Peace is being threatened and after the Second World War, (a) war of this significance, this impact, on the globe probably is not felt,". She said human welfare needs a conducive environment without any disruptions or disturbances to make the post-pandemic economic recovery sustainable. Earlier, Finance Minister Nirmala Sitharaman on Tuesday had said the Russia-Ukraine crisis and the ensuing jump in global crude prices are a challenge to financial stability in India. The two issues were discussed at the meeting of Financial Stability Development Council (FSDC), which comprises all the financial sector regulators, Sitharaman told reporters. "It is difficult to say how it (crude prices) will go. Even today, in the FSDC, when we were looking at the challenges which are posed for the financial stability, crude was one of the things. International worrisome situations where we actually voiced that we want a diplomatic solution for the situation that is developing in Ukraine... all these are headwinds, FM Sitharaman said.

8) Globally, as per a statement released by The White House, The United States, along with Allies and partners, has imposed severe and immediate economic costs on Russia in response to Putin's war of choice against Ukraine. The Financials sanctions targeted all ten of Russia's largest financial institutions, including the imposition of full blocking and correspondent and payable-through account sanctions, and debt and equity restrictions, on institutions holding nearly 80 percent of Russian banking sector assets. The unprecedented export control measures will cut off more

than half of Russia's high-tech imports, restricting Russia's access to vital technological inputs, atrophying its industrial base, and undercutting Russia's strategic ambitions to exert influence on the world stage. The impact of these measures will be significantly magnified due to historical multilateral cooperation with a wide range of Allies and partners who are mirroring our actions, inhibiting Putin's ambition to diversify Russia's brittle, one-dimensional economy.

9) Before attack on Ukraine by Russia, the tensions between the two countries has already resulted in sanctions imposed on Russia by its western counterparts and a significant jump in crude oil prices which will have a severe impact on global inflation. Brent crude oil price had touched $105 a barrel mark for the first time since September 2014 on the back of war between Russia and Ukraine. Natural gas prices in Europe were up by 25 percent.

Ajcon Global's observations and view

1) Indian equities were under pressure led by jump in jump in crude oil prices. However, metal stocks were upbeat today as supply disruptions in metals due to sanctions imposed on Russia has pushed metal prices. Russia's invasion of Ukraine with full scale military attack on its key cities has created havoc in capital markets across the globe. The war has directly impacted crude oil prices which has rattled investors sentiments across the globe. We believe volatility would remain and investors will keenly track developments related to it. We believe investors can gradually enter in quality stocks on pessimism in staggered manner as any positive development can lead to reversal of crude oil prices.

2) Apart from war between Russia and Ukraine, there are strong headwinds like high crude oil prices and fears of US Fed hiking interest rates, fears of liquidity tightening and hawkish stance of global central banks amidst spike in global inflation and strong FII selling.

3) It is advisable for investors to look out for stock specific opportunities considering growth outlook and management pedigree amidst the ongoing crisis. It would be advisable to avoid companies having exposure to Russia, Ukraine and Eastern European countries . Additionally, companies dependent on crude oil and crude oil derivatives will face significant margin pressure. Supply chain disruptions would also pose a challenge for companies and hence investors need to careful in selection of stocks.

4) Always remember, steep corrections and crash in a structural bull market will keep markets healthy. Structurally, Indian economy is poised to do well after major reforms like thrust on digital economy after demonetisation, implementation of GST, RERA, Insolvency and Bankruptcy Code, reforms in power, one of its kind Union Budget announced last year which focused on investment led spending to drive growth with impetus on Privatisation, thrust on Aatmanirbhar Bharat resulting into Production Linked Incentive (PLI) schemes for various sectors, reforms in Direct Taxes, thrust on renewables sector, Ethanol blending, scrapping policy etc. India today has emerged as a potential destination for investment.

5) Before the significant correction, the domestic sentiments were upbeat as in third wave of COVID-19 led by Omicron variant did not have a major impact on the economy. In addition, factors like good growth in merchandise exports, RBI's accommodative stance in its Monetary Policy, good GDP data, robust GST collections, PLI incentives in various sectors, strong vaccination drive, faster than expected economic recovery in Unlock phase, expectations of strong Q3FY22 earnings season, good Q2FY22 earnings season and management commentary, good economic activity witnessed in the festive season of Navratri, Diwali, Christmas, New Year and good spike in retail participation from Tier II and Tier III cities as people have become more financial literate in COVID-19 crisis.

6) There is a strong line up of IPOs and focus would be on LIC IPO considering its scale. As per media reports, Finance Minister Nirmala Sitharaman's interview suggested that the FM may consider another look at the timing of Life Insurance Corporation of India IPO amidst Russia's invasion of Ukraine which has rattled financial markets. We suggest investors to be careful about the forthcoming IPOs and understand the fundamentals based on risk reward profile. No doubt, IPOs of sectors in limelight like E-Commerce, Insurance, companies engaged in Digital space, Speciality chemicals, Companies business model suited to new age, companies having business model which caters to the demands of Electric Vehicles would always gain maximum attention. However, investors need to be careful with expensive IPOs whose valuations are beyond logic. The carnage witnessed in some of the recently listed companies makes a case for investors to be more cautious.

7) Domestically, positive factors like dovish stance of RBI in its Monetary policy, growth-oriented Union Budget presented by the Finance Minister (we believe the Budget is growth oriented with significant focus on capex. Emphasis is laid on Agriculture, MSMEs, Housing, Digital ecosystem, Defence, Electric Vehicles and Solar Power) and strong GST collections will support bulls. With Q3FY22 earnings season coming to an end, investors will now keenly track global cues like global inflation data, outcome of US Federal Reserve policy and crude oil price movement.

The results of assembly elections in Uttar Pradesh, Punjab, Uttarakhand, Goa and Manipur will also play in investors mind. Going ahead, with GST collections and Q3 GDP data out, investors will keep an eye on upcoming monthly auto sales numbers and manufacturing PMI data

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