

Indian equities come under pressure; fresh outbreak of COVID-19 cases in China, ECB intentions of rate hike and rupee touching an all time low affected investor sentiments..

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	54,303.44	55,320.28	1016.84	1.84	54,760.25	54,780.78	54,205.99
Nifty	16,201.80	16,478.10	276.30	1.68	16,283.95	16,324.70	16,172.60

- 1) On Friday, Indian equities were under severe pressure as China witnessed fresh outbreak of COVID-19 cases after reopening, rising COVID-19 cases in India and ECB revising their baseline inflation projections up significantly and its intent of a rate hike in the coming policy meet affected investor sentiments. Indian rupee hitting an all time low against the US Dollar also played spoilsport. There are headwinds like RBI hiking repo rate by 50 bps in the recent monetary policy (earlier hiked the repo rate by 40 bps in a surprise move), ongoing war between Russia and Ukraine and its effect on crude oil, commodities and gas prices, rising bond yields, high global inflation especially in US, slowdown concerns in US, hawkish stance of global central banks, Indian rupee falling to its life-time low against the US dollar, US Fed hiking interest rates by 50 bps.
- 2) The Sensex was down by 1016.84 points or 1.84 percent to end at levels of 54,303.44. On the other hand, Nifty was down by 276.30 points or 1.68 percent. Among the Sensex 30 stocks, the major losers were Kotak Bank, Bajaj Finance, HDFC, Reliance Industries, Wipro, Tech Mahindra, Infosys, Tata Steel, HDFC Bank, Bajaj Finserv, Tata Consultancy Services, ICICI Bank down in the range of 1.7 percent to 3.96 percent.
- 3) The broader markets too ended in red. The BSE MidCap index was down by 0.64 percent, while the BSE SmallCap index was down by 0.70 percent.
- 4) In the week gone by, the Sensex witnessed a fall of 1,466 points or 2.63 percent, to 54,303.44, while the Nifty declined 382.5 points, or 2.3 percent, to 16,201.80. In the same period, the BSE Midcap fell by 1.25 percent and the BSE Smallcap indices fell by 2 percent respectively.
- 5) Month till date, FIIs sold equities worth Rs. 18,814.96 Crore. On the other hand, DIIs have bought equities worth Rs. 13,086.69 Crore. In May 2022, FIIs had sold equities worth Rs. 54,292.47 Crore. On the other hand, DIIs bought equities worth Rs. 50,835.54.

Sectors and stocks

- 1) Shares of IIFL Finance rallied by 13.06 per cent to Rs. 372 on the BSE in Friday's intra-day trade and finally ended up by 7.57 percent at Rs. 353.90 after the Company said that its wholly owned subsidiary IIFL Home Finance Limited, one of India's largest affordable housing finance companies with assets under management of Rs. 23,617 Crore as of March 31, 2022, has entered into definitive agreements for raising Rs. 2,200 Crore of primary capital for a 20% stake from a wholly owned subsidiary of the Abu Dhabi Investment Authority (ADIA). The deal completion is subject to regulatory approvals. This would be one of the largest equity investments in the affordable housing finance segment in India by a financial investor. Backed by a technology backbone enabling 100% digital onboarding for home loans, robust credit appraisal and collection systems, IIFL Home Finance Limited proposes to use the additional capital to continue its granular expansion strategy into new markets to address the significant and growing demand for housing loans. Speaking on the occasion, Nirmal Jain, Founder, IIFL Group said, "We are delighted to partner with ADIA who bring to the table long term commitment and rich experience of supporting growing businesses. The investment recognizes IIFL Home Finance's position as one of India's largest providers of affordable housing loans and how well it is placed to continue to target the large, resilient housing finance market." "IIFL Home Finance has already established itself as one of India's leading technology-enabled mortgage lenders. This investment aims to support the company for its next phase of growth, as it meets the significant demand in India's large, under-served and fast-growing affordable housing finance market", said Hamad Shahwan Aldhaheri, Executive Director of the Private Equities Department at ADIA.

- 2) Shares of Bajaj Auto rallied by 2.07 per cent to Rs 3,965.75 on the BSE in Friday's intraday trade after the company said its board will consider buyback proposal on June 14, 2022. The stock finally ended marginally up by 0.22 percent to Rs. 3,885.25. With this, the stock has rallied 5 per cent in two trading days. "The meeting of board of directors of the company is scheduled to be held on Tuesday, 14 June 2022, inter-alia to consider a proposal for buyback of fully paid-up equity shares of the company," Bajaj Auto said after market hours on Thursday.
- 3) Shares of Life Insurance Corporation of India (LIC) continued to be under pressure and hit a new low of Rs. 708.70 and finally ended down by 1.70 percent at Rs. 709.70 on the BSE. The stock of LIC was trading lower for the ninth straight trading day and has declined by around 16 per cent during the period.

Key recent major developments..

- 1) According to data released by the Ministry of Statistics and Programme Implementation (MoSPI), India's factory output growth accelerated to an eight month high at 7.1 per cent in April 2022. The growth was led by growth in Electricity output by 11.8 per cent in April, followed by mining output and manufacturing output rising by 7.8 per cent and 6.3 per cent respectively.
- 2) Fitch Ratings has revised the Outlook on India's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Stable, from Negative, and has affirmed the IDR at 'BBB-'. "India's strong medium-term growth outlook relative to peers is a key supporting factor for the rating and will sustain a gradual improvement in credit metrics. We forecast growth of around 7% between FY24 and FY27, underpinned by the government's infrastructure push, reform agenda and easing pressures in the financial sector. Nevertheless, there are challenges to this forecast, given the uneven nature of the economic recovery and implementation risks for infrastructure spending and reforms," Fitch said. Fitch Ratings on Friday revised India's GDP growth forecast to 7.8 per cent for the current fiscal (April 2022 to March 2023) from the 8.5 per cent owing to inflationary impacts of the global commodity price shock which is dampening some of the positive growth momentum.
- 3) Globally, US consumer inflation in May reached its highest level in more than four decades led by rising energy and food prices pushed prices higher. The Labor Department on Friday said that the consumer-price index increased 8.6 % in May from the same month a year ago, marking the highest reading since December 1981. Record gasoline prices and geopolitical factors threaten to keep inflation high in the coming months, suggesting the Fed will have to pump the brakes on the economy for longer.
- 4) The European Central Bank (ECB) intends to hike interest rates by 25 basis points at its July monetary policy meeting. ECB expects to raise the key interest rates again in September. The calibration of this rate increase will depend on the updated medium-term inflation outlook. If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at the September meeting. In the meantime, the ECB decided to leave the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.50% respectively. ECB in its Monetary policy said, Russia's unjustified aggression towards Ukraine continues to weigh on the economy in Europe and beyond. It is disrupting trade, is leading to shortages of materials, and is contributing to high energy and commodity prices. These factors will continue to weigh on confidence and dampen growth, especially in the near term. However, the conditions are in place for the economy to continue to grow on account of the ongoing reopening of the economy, a strong labour market, fiscal support and savings built up during the pandemic. Once current headwinds abate, economic activity is expected to pick up again.
- 5) On Friday, the rupee slipped by 19 paise and touched an all time low of 77.93 against the US dollar led by unabated FII selling and rising crude oil prices.
- 6) The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) on Wednesday unanimously voted to increase the benchmark policy rate by 50 basis points thereby taking the repo rate to 4.90 per cent. Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.65 per cent and the marginal standing facility (MSF) rate and the bank rate to 5.15 per cent. The MPC also voted unanimously to remain focused on the withdrawal of accommodation to ensure that inflation remains within range going forward, while supporting growth. While the real GDP growth forecast for FY23 has been retained at 7.2 per cent, with Q1 at 16.2 per cent; Q2 at 6.2 per cent; Q3 at 4.1 per cent and Q4 at 4.0 per cent.

RBI Governor Shaktikanta Das said "With the assumption of a normal monsoon in 2022 and average crude oil price (Indian basket) of US\$ 105 per barrel, inflation is now projected at 6.7 per cent in 2022-23, with Q1 at 7.5 per cent; Q2 at 7.4 per cent; Q3 at 6.2 per cent; and Q4 at 5.8 per cent, with risks evenly balanced. It may be noted

that around 75 per cent of the increase in inflation projections can be attributed to the food group. Further, the baseline inflation projection of 6.7 per cent for 2022-23 does not take into account the impact of monetary policy actions taken today. The MPC noted that inflation is likely to remain above the upper tolerance band of 6 per cent through the first three quarters of FY23. It may be noted that around 75 per cent of the increase in inflation projections can be attributed to the food group. Between February and April, headline inflation increased by about 170 basis points. With no resolution of the war in sight and the upside risks to inflation, prudent monetary policy measures would ensure that the second-round effects of supply side shocks on the economy are contained and long-term inflation expectations remain firmly anchored and inflation gradually aligns close to the target.

The monetary policy actions, including withdrawal of accommodation, will be calibrated keeping in mind the requirements of the ongoing economic recovery", Das said.

RBI Governor Shaktikanta Das The Indian banking system also remains strong and its health has improved in recent years as reflected in key indicators – capital adequacy, asset quality, provisioning coverage and profitability. Bank credit offtake has gradually improved in the recent months, supported by both resilience of the banking system and progressive normalisation of economic activity. The strength of the banking sector and deleveraged corporate balance sheets will help us in sustaining the economic recovery.

He further added "India's exports have performed exceptionally well despite weakening recovery across major trading partners. The impact of rising crude oil prices on petroleum, oil and lubricants (POL) import bill has been partly offset by export of petroleum products, which also benefitted from better price realisations in recent months. Optimism on exports of both goods and services and remittances should help contain the current account deficit (CAD) at a sustainable level, which can be financed by normal capital flows. As on June 3, 2022, India's foreign exchange reserves were of the order of US\$ 601.1 billion, which are further supplemented by a healthy level of net forward assets of the RBI."

At Ajcon Global, we believe the banks are rather benefitted by the hike in the rates by RBI in its Monetary policy as a large part of credit portfolio is under automatic route of increase linked with Repo and MCLR increase will come into effect soon, whereas the deposit rate increase has a lot of time lag.

- 7) Oil prices had jumped about 3 percent to a 13-week high on Wednesday as U.S. demand for gasoline has kept rising despite record pump prices, on expectations China's oil demand will increase and on growing supply concerns in several countries. Brent and WTI were on track for their highest settlements since March 8, which were their highest since 2008. U.S. commercial crude oil inventories rose unexpectedly last week, while crude in the Strategic Petroleum Reserve fell by a record amount as refiners' inputs rose to their highest since January 2020, the Energy Information Administration said.
- 8) The World Bank on Tuesday slashed its global growth forecast by nearly a third to 2.9% for 2022, warning that Russia's invasion of Ukraine has compounded the damage from the COVID-19 pandemic, and many countries now faced recession. The war in Ukraine had magnified the slowdown in the global economy, which was now entering what could become "a protracted period of feeble growth and elevated inflation," the World Bank said in its Global Economic Prospects report, warning that the outlook could still grow worse. In a news conference, World Bank President David Malpass said global growth could fall to 2.1% in 2022 and 1.5% in 2023, driving per capita growth close to zero, if downside risks materialized. Malpass said global growth was being hammered by the war, fresh COVID lockdowns in China, supply-chain disruptions and the rising risk of stagflation -- a period of weak growth and high inflation last seen in the 1970s. "The danger of stagflation is considerable today," Malpass wrote in the foreword to the report. "Subdued growth will likely persist throughout the decade because of weak investment in most of the world. With inflation now running at multi-decade highs in many countries and supply expected to grow slowly, there is a risk that inflation will remain higher for longer." (Source: Reuters)

Ajcon Global's observations and view..

- 1) **Short term view:** After taking cue from ECB meet, investors will take cues from the upcoming US Fed meet and will continue to monitor COVID-19 situation in China which will drive market direction in the near term. Domestically, with IIP data out, investors will track onset and progress of monsoon in different parts of the nation, eye on increase in COVID-19 cases and crude oil price movement. We expect market to be volatile considering headwinds like rising crude oil prices, high inflation across the globe especially in US, slowdown concerns in US, rupee falling to all time low against the US Dollar and US Fed hiking interest rates by 50 bps. There are other headwinds like weak global demand outlook led by hawkish stance of global central banks, ongoing war between Ukraine and Russia, ris-

ing bond yields globally. However, domestically, robust GST Collections in the past few months and Direct Tax collections depict strong revival in Indian economy which will keep bulls in picture.

- 2) **Long term view:** 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 sector, 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.
- 3) **Strong line up of IPOs:** There is a strong line up of IPOs upcoming in the near future. We suggest investors to be careful with IPOs that are look expensive and understand the fundamentals based on risk reward profile before taking a decision to invest. 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.
- 4) **Approach suggested for investors:** It is advisable for investors to look out for stock specific opportunities considering growth outlook and management pedigree amidst the ongoing crisis. History has proved that after any crisis, equities recover strongly and give stellar returns. We recommend investors for the near term to Buy quality names on dips and sell on rise considering the volatility in the market in the near term. It would be advisable to avoid companies having exposure to Russia, Ukraine and Eastern European countries for the time being. Additionally, companies dependent on crude oil and crude oil derivatives will face margin pressure. Supply chain disruptions would also pose a challenge for companies and hence investors need to be careful in selection of stocks.



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