

**Domestic bourses end in red amidst volatility; all eyes on the outcome of US Fed meeting..**

| Index         | Today's Close | Prev. close | Change        | % change    | Open      | High             | Low       |
|---------------|---------------|-------------|---------------|-------------|-----------|------------------|-----------|
| <b>Sensex</b> | 52,693.57     | 52,846.70   | <b>153.13</b> | <b>0.29</b> | 52,495.94 | <b>53,095.32</b> | 52,459.48 |
| <b>Nifty</b>  | 15,732.10     | 15,774.40   | <b>42.30</b>  | <b>0.27</b> | 15,674.25 | <b>15,858.00</b> | 15,659.45 |

- 1) On Tuesday, Indian benchmark indices ended in red amidst high volatility led by Wholesale Price Index (WPI) inflation rising to 15.8 percent in May 2022, investors turning nervous ahead of the US Fed meet outcome (expectations of big hike in interest rates), spike in US Treasury yields and sell off in global markets. Earlier, ECB revised baseline inflation projections up significantly and its intent of a rate hike in the coming policy meet which affected investor sentiments. Indian rupee hitting an all time low against the US Dollar is also playing in investors mind. The overall mood has been affected led by fresh outbreak of COVID-19 cases in China after reopening, increasing COVID-19 cases in India, 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 with no signs of cooling off, rising crude oil prices, commodities and gas prices, increasing bond yields, high global inflation especially in US, slowdown concerns in US and hawkish stance of global central banks.
- 2) The Sensex was down by 153.13 points or 0.29 percent to end at levels of 52,693.57. On the other hand, Nifty was down by 42.30 points or 0.27 percent. Among the Sensex 30 stocks, the major losers were IndusInd Bank, Tech Mahindra, Reliance Industries, HDFC Bank, Hindustan Unilever, Maruti Suzuki, Asian Paints down in the range of 1 percent to 2.37 percent.
- 3) The broader markets too ended in red. The BSE MidCap index was down by 0.16 percent, while the BSE SmallCap index was down by 0.40 percent.
- 4) In terms of sectoral indices performance, the major losers were BSE Energy index declining by 1.22 percent, BSE Oil & Gas index falling by 1.14 percent, BSE Auto index falling by 0.52 percent, BSE Metal index falling by 0.47 percent BSE Consumer Discretionary Goods & Services index declining by 0.40 percent, BSE Consumer Durables index declining by 0.29 percent, BSE Bankex index slipping by 0.24 percent.
- 5) Month till date, FIIs sold equities worth Rs. 27,481.22 Crore. On the other hand, DIIs have bought equities worth Rs. 19,708.79 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 Adani Enterprises (AEL) touched a high of Rs. 2,220 on the BSE in Tuesday's intra-day trade and finally ended up by 5.53 percent to Rs.2,196.50 after AEL intimated about execution of binding arrangement by Adani Enterprises Limited in relation to establishment of a Joint Venture with TotalEnergies through Adani New Industries Limited a Wholly Owned Subsidiary of the Company. "Adani, India's fastest-growing diversified business portfolio and energy supermajor TotalEnergies of France, have entered into a binding arrangement on 13th June, 2022 for a new partnership to jointly create the world's largest green hydrogen ecosystem. This strategic alliance will involve an issuance of shares by Adani New Industries Ltd (ANIL), a Wholly Owned Subsidiary (WOS) of the Company, representing 25% minority interest to TotalEnergies with the balance shareholding being held by AEL." the Company said in its press release.
- 2) Shares of oil marketing companies (OMCs) were under pressure on Tuesday led by high crude oil prices. Shares of Hindustan Petroleum Corporation (HPCL) hit its 52 week low and ended the day down by 5.75 percent to Rs. 213.80. Bharat Petroleum Corporation (BPCL) hit their respective 52-week lows, while Indian Oil Corporation (IOCL) fell by 3.12 per cent on the BSE in intra-day trade.

## Key recent major developments..

- 1) OPEC has stuck with its forecast that world oil demand will exceed pre-pandemic levels in 2022, although the producer group said Russia's invasion of Ukraine and developments around the coronavirus pandemic pose a considerable risk. In a monthly report released on Tuesday, the Organization of the Petroleum Exporting Countries (OPEC) maintained its forecast that world oil demand would rise by 3.36 million barrels per day (bpd) in 2022, extending a recovery from 2020's slump. The Ukraine war sent oil briefly above \$139 a barrel in March, the highest since 2008, worsening inflationary pressures. COVID lockdowns in China, where a Beijing outbreak has prompted the resumption of mass testing, have curbed oil demand. "Looking ahead, current geopolitical developments and the uncertain roll-out of the pandemic toward the end of the second half of the year continue to pose a considerable risk to the forecast recovery to pre-pandemic levels," OPEC said in the report. (Source: Reuters)
- 2) Fitch Ratings on Tuesday said the Reserve Bank is likely to raise interest rates further to 5.9 per cent by December 2022, on deteriorating inflation outlook. In its update to Global Economic Outlook, Fitch said India's economy faces a worsening external environment, elevated commodity prices, and tighter global monetary policy. "Given the deteriorating outlook for inflation, we now expect the RBI to lift rates further to 5.9 per cent by December 2022 and to 6.15 per cent by the end of 2023 (vs. previous forecast of 5 per cent) and to be unchanged in 2024," Fitch said.
- 3) Wholesale price-based inflation surged to a record high of 15.88 per cent in May as crude prices rose and heatwave brought about a spike in prices of vegetables and fruits. The Wholesale Price Index (WPI)-based inflation was 15.08 per cent in April and 13.11 per cent in May last year. The Wholesale Price Index (WPI)-based inflation maintained its increasing trajectory for the third month in a row, and remained in double digits for the 14th consecutive month since April last year.
- 4) Domestically, the Consumer Price Index had slipped to 7.04 percent in May 2022 as against 7.79 percent in April 2022. However, it is still above RBI's upper tolerance band of 6 per cent.
- 5) On Monday, the rupee slipped by 11 paise and touched an all time low of 78.04 against the US dollar led by unabated FII selling, sell off in global markets, rising US bond yields and spiking crude oil prices.
- 6) 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.
- 7) 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.
- 8) 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.
- 9) 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.

- 10) Last week on Wednesday, The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) 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.

#### **Ajcon Global's observations and view..**

- 1) **Short term view:** Investors will take cues from the outcome of upcoming US Fed meet (expectations of big rate hike) which can dampen sentiments as growth outlook would be affected. Domestically, COVID-19 cases are increasing which will too play on investors mind as after China's reopening from lockdown there has been a fresh outbreak of COVID-19 cases. With WPI inflation, CPI Inflation and IIP data out, investors will track onset and progress of monsoon in different parts of the nation 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 earlier 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, rising 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. The recent fall and any further steep decline should be considered as a Buying opportunity in quality names.

- 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.



## Disclaimer

Ajcon Global Services Limited is a fully integrated investment banking, merchant banking, corporate advisory, stock broking, commodity and currency broking. Ajcon Global Services Limited research analysts responsible for the preparation of the research report may interact with trading desk personnel, sales personnel and other parties for gathering, applying and interpreting information.

Ajcon Global Services Limited is a SEBI registered Research Analyst entity bearing registration Number INH000001170 under SEBI (Research Analysts) Regulations, 2014.

Individuals employed as research analyst by Ajcon Global Services Limited or their associates are not allowed to deal or trade in securities that the research analyst recommends within thirty days before and within five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, We and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage.

Ajcon Global Services Limited or its associates may have commercial transactions with the Company mentioned in the research report with respect to advisory services.

The information and opinions in this report have been prepared by Ajcon Global Services Limited and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Ajcon Global Services Limited. While we would endeavour to update the information herein on a reasonable basis, Ajcon Global Services Limited is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Ajcon Global Services Limited from doing so. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Ajcon Global Services Limited will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Ajcon Global Services Limited accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Ajcon Global Services Limited or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Ajcon Global Services Limited encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Ajcon Global Services Limited or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Ajcon Global Services Limited nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Akash Jain – MBA (Financial Markets) or any other Research Analysts of this report has not received any compensation from the company mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Ajcon Global Services Limited or its subsidiaries collectively or Directors including their relatives, Research Analysts, do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.



It is confirmed that Akash Jain – MBA (Financial Markets) research analyst or any other Research Analysts of Ajcon Global do not serve as an officer, director or employee of the companies mentioned in the report.

Ajcon Global Services Limited may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor Ajcon Global Services Limited have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Ajcon Global Services Limited by any Regulatory Authority impacting Equity Research Analysis activities.

### **Analyst Certification**

I, Akash Jain MBA (Financial Markets), research analyst, author and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. I also certify that no part of compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view (s) in this report.

### **For research related queries contact:**

Mr. Akash Jain – Vice President (Research) at, [research@ajcon.net](mailto:research@ajcon.net), [akash@ajcon.net](mailto:akash@ajcon.net)

CIN:L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

**Website:** [www.ajcononline.com](http://www.ajcononline.com)

### **Registered and Corporate office**

408 - (4<sup>th</sup> Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062