



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on March 05, 2022

Bears rule for the moment as crude oil and commodities prices continues to spike led by war between Russia and Ukraine; selective stock picking amidst uncertain environment would remain key..

- 1) Bears were in control amidst significant volatility led by war between Russia and Ukraine in Ukraine which has affected global sentiments. The war has already resulted in significant jump of crude oil and commodities prices. Crude oil prices have peaked led by supply disruptions amidst Russia - Ukraine war. Brent crude oil hit a high of \$119.84 per barrel, highest since 2012. The release of 60 million barrels by United States from its strategic reserves did not result in cooling off crude oil. Despite the significant rise in crude oil prices, the Organization of Petroleum Exporting Countries (OPEC) and its allies, including Russia, have opted to maintain a 400,000 barrel per day increase in output in March. Domestically, weak monthly auto sales numbers and Q3GDP data also dented investor sentiments.
- 2) The Sensex was down by whopping 1,524.71 points or by 2.73 percent to close at levels of 54,333.81. On the other hand, Nifty was down by 413 points or 2.47 percent to end at levels of 16,245.4.
- 3) The broader markets too were under pressure. The Nifty Midcap 100 index was down by 1.5 percent and Nifty Smallcap 100 index was down by 0.35 percent in the week gone by.
- 4) In terms of sectoral performance, sectors like auto, banking, NBFCs, telecom, realty and Paints were under tremendous pressure. However, metals and oil and gas stocks were upbeat led by rally in commodity and crude oil prices.
- 5) During the week, Foreign institutional investors (FIIs) sold equities worth Rs. 22,563 Crore while DIIs have bought equities worth Rs. 16,742 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.

Key recent major developments..

- 1) The International Monetary Fund warned Russia's war with Ukraine and the subsequent sanctions imposed upon President Vladimir Putin's country will have a "severe impact" on the global economy. "While the situation remains highly fluid and the outlook is subject to extraordinary uncertainty, the economic consequences are already very serious," the Washington-based lender said in a statement on Saturday. "Price shocks will have an impact worldwide, especially on poor households for whom food and fuel are a higher proportion of expenses," the IMF said. "Should the conflict escalate, the economic damage would be all the more devastating. The sanctions on Russia will also have a substantial impact on the global economy and financial markets, with significant spillovers to other countries." The Fund said central banks will need to "carefully monitor the pass-through of rising international prices to domestic inflation, to calibrate appropriate responses." Governments will need to find ways to support the most vul-

nerable households and help offset rising living costs. "This crisis will create complex policy tradeoffs, further complicating the policy landscape as the world economy recovers from the pandemic crisis," the Fund said.

- 2) 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.
- 3) 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".
- 4) 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.
- 5) 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).
- 6) 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.
- 7) 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.
- 8) 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 significant jump in crude oil prices and has hit a high of \$119.84, highest since 2012 which is a matter of great concern. 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. 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. We believe investors should be very selective and can gradually enter in quality stocks on pessimism in staggered manner.

- 2) 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 be careful in selection of stocks.
- 3) 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.
- 4) 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.
- 5) 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.
- 6) 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 (upcoming US and China inflation numbers) and crude oil price movement. Going ahead, with monthly auto sales (weak numbers), GST collections and Q3 GDP data (subdued) out, investors will keep an eye on the result of assembly elections in Uttar Pradesh, Punjab, Goa, Manipur and Uttarakhand due on March 10, 2022.

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