



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on March 19, 2022

Indian equities bounce back on talks of peace between Russia and Ukraine; falling price of crude oil and industrial metals triggers rally..

- 1) Indian equities witnessed good bounce back in the week let by talks of peace between Russia and Ukraine. The fall in prices of crude oil and industrial metals has led to good rally across the board. FIIs turned net buyers after a long time. FIIs were net buyers on Wednesday - March 16, 2022 (net purchase of equities worth Rs. 311.99 crore of equities) and Thursday - March 17, 2022 (net purchase of equities worth Rs. 2,800.14 crore). Month till date, FIIs sold equities worth Rs. 41,617.18 crore. On the other hand, DIIs have bought equities worth Rs. 31,620.02 crore.
- 2) The Sensex was up by whopping 2,313.63 points or by 4.16 percent to close at levels of 57,863.93. On the other hand, Nifty was up by 656.6 points or 3.94 percent to end at levels of 17,287.05.
- 3) The broader markets too were upbeat. The BSE Midcap and Smallcap indices gained two percent each in the week gone by.
- 4) In terms of sectoral performance, sectors like banking, auto, IT, realty, sugar, paper were top performers.

Key recent major developments..

- 1) The Federal Reserve raised interest rates by 0.25 percent for the first time since 2018 as the US economy is facing high inflation amidst the impact of the war in Ukraine and the coronavirus crisis. The rate hike was in line with street expectations.
- 2) Ukrainian President Volodymyr Zelensky said in a video address released early on last Wednesday that the positions of Ukraine and Russia at peace talks were sounding more realistic, but more time was needed. Meanwhile, UK Prime Minister Boris Johnson said Ukraine was unlikely to join NATO "anytime soon".
- 3) Last week, the price of Brent Crude had cooled off to nearly a three-week low of \$97.44 per barrel on Tuesday as de-escalation talks between Russia-Ukraine continue. On the other hand, Chinese lockdown in select provinces over outbreak of Covid-19 triggered fuel demand concerns.
- 4) Domestically, the wholesale price-based inflation in February rose to 13.11 per cent on hardening of prices of crude oil and non-food items, even though food articles softened. WPI inflation increased in February and remained in double digits for the 11th consecutive month, beginning April 2021. WPI inflation last month was 12.96 per cent, while in February last year, it was 4.83 per cent. The rise in crude oil and natural gas prices after the Russian invasion of Ukraine, beginning February 24, has put pressure on the wholesale price index, even though food articles saw softening across categories of vegetables to pulses to protein-rich items.

- 5) Earlier, Russian President Vladimir Putin said that Western sanctions were illegitimate and Russia would calmly solve the problems arising from them. Addressing a government meeting, Putin also said Moscow - a major energy producer which supplies a third of Europe's gas - would continue to meet its contractual obligations. Speaking calmly, the Kremlin leader acknowledged that sanctions imposed since the start of what Russia calls its special military operation in Ukraine were being felt. "It is clear that at such moments people's demand for certain groups of goods always increases, but we have no doubt that we will solve all these problems while working in a calm fashion," he said. "Gradually, people will orient themselves, they will understand that there are simply no events that we cannot close off and solve." Speaking at the same meeting, Finance Minister Anton Siluanov said Russia had taken measures to limit the outflow of capital and that the country would service its external debts in roubles. "Over the last two weeks Western countries have in essence waged an economic and financial war against Russia," he said. He said the West had defaulted on its obligations to Russia by freezing its gold and foreign currency reserves. It was trying to halt foreign trade, he said.
- 6) Domestically, retail investors have invested in Rs. 19,705 crore in equity-oriented mutual fund (MF) schemes in February, 2022. This was the 12th consecutive month of inflows into the equity category. The data from Association of Mutual Funds in India (Amfi) shows that all the 11 categories of equity funds recorded net inflows. Among the equity categories, flexicap and sectoral funds saw net inflows of Rs 3,873.56 crore and Rs 3,441 crore respectively. Inflows through the systematic investment plan (SIP) continued to remain strong at Rs 11,437.70 crore, only Rs 79 crore lower compared to January. Total assets under management of SIP fell to Rs 5.49 trillion in February as against Rs 5.76 trillion in January due to the correction in the market.
- 7) Earlier, 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 vulnerable households and help offset rising living costs. "This crisis will create complex policy trade-offs, further complicating the policy landscape as the world economy recovers from the pandemic crisis," the Fund said.
- 8) Earlier, 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.
- 9) 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).
- 10) Domestically, 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.

Ajcon Global's observations and view..

- 1) Indian equities were upbeat during the week led by fall in crude oil prices owing to talks of peace between Russia and Ukraine. However, there are headwinds like increase in COVID-19 cases in China, Hong Kong and hawkish stance of global central banks.

- 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 are expected face some 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) There is a strong line up of IPOs and focus would be on LIC IPO considering its scale. Earlier, as per media reports, Finance Minister Nirmala Sitharaman's interview had 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 had 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.
- 5) Before the significant correction earlier led by war between Russia and Ukraine in Ukraine, the domestic sentiments were upbeat as 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, strong Q3FY22 earnings season and management commentary and good spike in retail participation from Tier II and Tier III cities as people have become more financial literate in COVID-19 crisis. 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.
- 6) Going ahead, we expect market to remain range bound with a positive bias. All eyes would be on key developments related to outcome of peace efforts between Ukraine and Russia. Investors will keenly watch out for COVID-19 numbers especially in countries like China, Hong Kong and South Korea.

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