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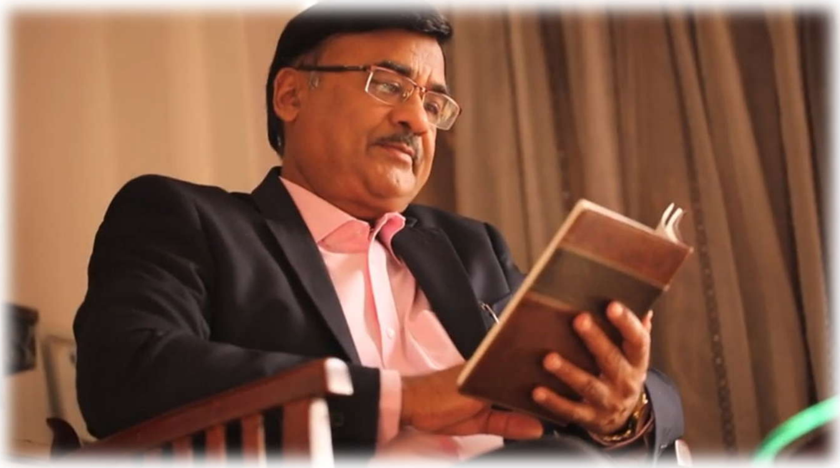

Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on March 21, 2020

Worst weekly performance witnessed since 2008; all eyes on COVID-19 developments and crude oil price..

On a weekly basis, both Sensex and Nifty slipped over 12 per cent which was the worst weekly performance since 2008. Investors' witnessed a significant decline of more than Rs. 13 lakh crore in a week. BSE Small-cap index which plunged 14 percent, and the Mid-cap index fell nearly 12 percent for the week ended March 20.

The average market capitalisation of the BSE-listed companies fell from Rs 129.26 lakh crore registered on March 13, to Rs. 116.09 lakh crore as on March 20 owing to escalation of COVID-19 cases in India impacting the overall economy due to lockdown in many parts of India and globally. Prime Minister Narendra Modi, during his address to the nation on Friday, appealed citizens to show 'resolve and patience' to tide over the crisis. He has called for 'Janata Curfew' on March 22 to contain the spread of coronavirus. On Friday, the S&P BSE Sensex rallied 1,628 points or 5.75 per cent to settle at 29,916. Of 30 constituents, 28 advanced and just 2 declined. Reliance Industries (RIL), HDFC and TCS contributed the most to the index's gains. ONGC jumped over 18.5 per cent to Rs 72.45 apiece. It ended as the top gainer on the index. Other heavyweights such as RIL, Hindustan Unilever (HUL), and TCS gained in the range of 10-12 per cent.

The rupee too hit a fresh lifetime low to touch 75.20 against the dollar owing to massive outflow by FIIs in the month of March 2020 (till date) and moving to safer assets.

SEBI came in action by providing a helping hand to sinking equity markets. SEBI on March 19 allowed listed companies to defer the disclosure of Q4 and annual earnings by 45 days to June 30. On March 20, SEBI announced measures to make short-selling of stocks, difficult in order to counter the market volatility caused by the coronavirus crisis. The market regulator said it discussed with the stock exchanges, clearing corporations and depositories appropriate measures that may be taken in the existing circumstances, taking note of the continued abnormally high volatility in the market. These measures, it noted in the release, will be effective from the beginning of trading on March 23, 2020, and said it will take further suitable action if needed. As part of the measures, SEBI has proposed to raise margin for the non-F&O stocks to 40 percent in a phased manner. The proposed margins would only be applied in the cash market and may be applicable for a period of one month. The market-wide position limit on F&O stocks may be cut to 50 percent, the regulator said in the release. The regulator also said that the dynamic price bands for F&O stocks may be flexed only after a cooling-off period of 15 minutes from the time of meeting the existing criteria specified by stock exchanges for flexing.

In another key development, The Reserve Bank of India (RBI) said to improve liquidity in the system, the central bank proposed to conduct another 6 months US dollar/rupee sell-buy swap on March 23. RBI said it will conduct LTRO (long-term repo operation) in multiple tranches up to a total amount of Rs 1 lakh crore at the policy rate. This will be followed by a review of the performance of LTRO. In addition, RBI will buy government bonds worth Rs. 30,000 crore through open market operations (OMO) in two tranches. The auctions are scheduled to be conducted on March 24 and 30. The stress in certain financial market segments 'is still severe' and financial conditions remain tight, the RBI said in a release. The OMO will ensure liquidity and turnover is adequate in all market segments, it said.

Crude oil

Crude oil has been declining significantly since last 4 weeks. US crude prices witnessed its biggest weekly decline of 29 percent since the 1991 Gulf War as the coronavirus epidemic dried up global demand. Crude oil on Friday declined by 10.7 percent. US crude Brent crude registered a fall of 20 percent.

Global markets

Globally, to counter crisis caused by COVID-19 pandemic, US Fed cut rates and opened dollar swap lines for nine additional foreign central banks. US Fed slashed interest rates twice in two weeks and the largest in Fed history, bringing the rates between 0 and 0.25 percent. Bank of England too reduced interest rates to a record-low 0.1 percent. It also added 200 billion pounds to its asset-purchase program in its latest emergency action to mitigate the economic impact of the coronavirus pandemic.

Ajcon's view

We believe the recent world crisis caused by pandemic COVID-19 has created fear amongst all citizens which has led to fall of financial markets globally. As it is said, that change is only constant in this world. We believe, that this phase of crisis and uncertainty will change soon. Always remember, tough times never last but tough people do. We advise investors to not lose hope in Indian equities as historically it is proven that market do witness recovery post an epidemic. The best thing for the Indian economy is that the Crude oil prices have shattered which augurs well for an oil importing economy. Having said that, we would advise investors not to time the markets as no one knows the bottom as the whole world is worried as to how long it will take the dust to settle now. The recent destruction caused by COVID-19 is ideal for value pickers. Investors having surplus cash with horizon of at-least 3 years can start fresh and add stocks in a staggered manner on every declines comprising of quality companies. Ideally one should look at Companies which has seen massive destruction in their share price, have strong portfolio of brands, strong management integrity, monopoly kind of presence, competitive advantage, have weathered the storm in different market cycles, low debt and debt free, able to generate positive cashflow consistently.

Dr. Ashok Ajmera

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