



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on August 21, 2021

Indian equities come under pressure which was expected; metals faced the maximum brunt..

- 1) For the week, Indian bourses ended in negative terrain. Both the benchmark indices Sensex and Nifty hit their respective lifetime highs of 56,118.57 and 16,701.85. On a weekly basis, S&P BSE Sensex was down by 0.19 percent and Nifty was down by 0.47 percent for the week. The broader markets were under significant pressure. BSE Smallcap was down by over 2 percent while BSE Midcap index was down by over 1 percent.
- 2) On the sectoral front, Nifty Metal index was under significant pressure and declined by 8 percent for week. The other losers were Nifty Media, PSU Bank and Realty indices falling by over 5 percent each. On the other hand, Nifty FMCG index bucked the trend and was up by 5 percent.
- 3) During the week, Foreign institutional investors (FIIs) sold equities worth Rs. 4,314.40 crore. Domestic institutional investors bought equities worth Rs. 162.45 crore. In the month of August till date, FIIs sold equities worth Rs. 819.16 crore and DIIs bought equities worth Rs. 1,695.67 crore.

Key recent major developments..

- 1) The world's first DNA plasmid vaccine, indigenously developed ZyCoV-D, the Cadila Healthcare (Zydus Cadila) three dose vaccine for Covid-19 received the emergency use authorisation from the Drugs Controller General of India (DCGI) for use in adolescents 12 years old and above. This makes it India's first Covid-19 vaccine to be available for this age group. The vaccine has many other firsts. For one it is based on DNA plasmid technology, secondly it will be administered using needle-free injection system (NFIS), and thirdly it remains stable in room temperatures for three months. This is also a three-dose vaccine given on day zero, day-28 and day-56.
- 2) Finance Minister Nirmala Sitharaman on Monday said that she expects inflation to remain in the prescribed range during the current fiscal. The RBI has been mandated to keep inflation at 4 per cent, with tolerance level of 2 per cent on either side. She expressed confidence that the revenue would be buoyant in the coming months. Both Goods and Services Tax (GST) and direct taxes have improved in the past few months, the minister said. On the demand pick up, she said there is enough liquidity in the market and credit growth is expected to pick up in the coming festive season.
- 3) According to the data released by the Ministry of Commerce and Industry, India exported goods worth US\$35.43 billion in July 2021, the highest first time ever in a month, due to recovery in key global markets and robust demand, Outbound shipments grew by nearly 50 per cent over July 2020, which can be partly attributed to a favourable base. As compared to pre-Covid level, the growth was 35 per cent from July 2019. Merchandise exports and imports had plummeted in the first few months of 2020-21, with the imposition of lockdown measures to curb the spread of Covid-19. On a sequential basis, outbound shipments grew at their fastest



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this fiscal year, witnessing an 9-per cent jump. The growth was led by higher demand for engineering goods, gems and jewelry, textiles and apparels, chemicals and electronic goods.

- 4) India's industrial production grew 13.6 per cent in June from the year-ago period due to the low-base effect, data released by the Ministry of Statistics and Programme Implementation showed. The impact of a low-base declined in June as compared to the last two months. In April and May, growth was 134.6 per cent and 28.6 per cent, respectively, thereby portraying an exaggerated picture of industrial activity. Factory output, measured by Index of Industrial Production (IIP), has been growing sharply since March due to a favourable base effect as industrial activity came to a virtual halt a year ago following the nationwide lockdown. In June 2020, IIP contracted 16.6 per cent. On a sequential basis, IIP grew 5.7 per cent from May, in line with the opening up of the economy, with states gradually easing restrictions after region-wise lockdown during the second wave in April-May. However, it still remained below April's level, indicating that the pace of recovery is slow.
- 5) Around 50.07 lakh domestic passengers travelled by air in July, 61 per cent higher than the 31.13 lakh who travelled in June, the country's aviation regulator said on Friday. According to the Directorate General of Civil Aviation (DGCA), 21.15 lakh people and 57.25 lakh had travelled within the country by air in May and April, respectively. The sudden drop in domestic air traffic in May was due to the second wave of the Covid-19 pandemic that had badly hit the country and its aviation sector.
- 6) Finance Minister Nirmala Sitharaman earlier assured India Inc that the government is ready to do everything required to revive and support economic growth. There are indicators which suggest that the economy is buoyant and recovery is taking place post lifting of COVID-19 restrictions by states, she said while addressing the CII Annual Meeting 2021. She further said foreign direct investment has seen a growth of 37 per cent so far this fiscal, while forex reserves increased to \$620 billion as of July. She also exhorted the industry to come forward and invest in the economy. Indian economy has not reached the level where Reserve Bank of India can begin pulling back liquidity as Asia's third largest economy is still recovering from the shock of two major waves of coronavirus, Finance Minister Nirmala Sitharaman said on Thursday.
- 7) India's retail inflation eased to a three-month low in July, back within the Reserve Bank's tolerance level (2 per cent-6 per cent) after staying above the upper band for two straight months, government data released on Thursday showed. The consumer price index (CPI) based inflation cooled to 5.59 per cent in the last month from 6.26 per cent in June. Food inflation fell substantially to 3.96 per cent in July from 5.15 per cent in June.
- 8) The RBI in latest monetary policy review has kept the rates and stance unchanged and pledged to remain accommodative in the near future, while raising its inflation forecast to 5.7 per cent during 2021-22. RBI projected 5.9 per cent in the second quarter, 5.3 per cent in third, and 5.8 per cent in the fourth quarter of the fiscal, with risks broadly balanced. CPI inflation for Q1FY23 is projected at 5.1 per cent. Meanwhile, Industrial output for the month of June rose 13.6 per cent, in a sign that the low base effect of the last year is waning.
- 9) The government is working on a Rs. 6 trillion asset monetisation plan that will include a range of assets including pipelines of Power Grid Corporation of India (PGCIL) and national highways, among others, DIPAM Secretary Tuhin Kanta Pandey said. "National monetisation plan will have a range of assets from Power Grid pipeline to national highways, toll operate transfer (TOTs)," Department of Investment and Public Asset Management (DIPAM) Secretary Pandey said. The Infrastructure Investment Trust (InvIT) of Power Grid Corporation of India (PGCIL) was successfully done which has led to putting regulatory systems in place. This entailed streamlining a host of regulations and procedures. The second InvIT by GAIL is expected soon, which is also in the pipeline, Pandey said at the annual session of industry body CII. Tenders for public private partnerships (PPP) in railway stations have also been announced, and the model has been successful in managing airports. "There is a big asset monetisation pipeline where private sector participation is anticipated," Pandey said. The government has also developed an asset monetisation dashboard for monitoring real-time progress of its asset monetisation pipeline, and providing visibility to investors.

Global markets

- 1) US equities were under pressure led by rising COVID-19 cases. The minutes released of the Federal Reserve latest meeting released on Wednesday suggested to start reducing asset purchases before the end of the year. US consumer price inflation stood at 5.4 percent YoY in July.
- 2) China's technology companies touched new lows on Friday and Hong Kong's benchmark index hit an almost 10-month trough, as an unrelenting series of Chinese regulatory crackdowns crushed investors' confidence. Earlier, China issued separate rules to protect key network facilities and information systems, effective next month.



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- 3) The Shanghai Composite index fell by 1.1 percent to its lowest close in more than two weeks on Friday. Earlier, Goldman Sachs Group Inc. downgraded its economic growth forecast for China as measures to contain the fast-expanding Covid-19 resurgence curb spending. The economists cut their projection for quarter-on-quarter growth of gross domestic product in the third quarter and also lowered their full-year GDP growth forecast to 8.3% from 8.6%, according to a report released late Sunday.
- 4) The Hang Seng index declined by 1.8 percent and its weekly drop of 5.8 percent was the largest since the panic at during first wave of COVID-19 in March 2020.
- 5) Japan's economy rebounded more than expected in the second quarter after slumping in the first three months of this year, data showed, as sign consumption and capital expenditure were recovering from the Coronavirus (Covid-19) pandemic's initial hit. The world's third-largest economy grew an annualised 1.3% in April-June after a revised 3.7% slump in the first quarter, preliminary gross domestic product (GDP) data showed on Monday, beating a median market forecast for a 0.7 percent gain.
- 6) UK GDP grew by 4.8 percent on QoQ basis in Q2 as activity and demand rebounded with the easing of covid restrictions.
- 7) Eurozone inflation in July rose to 2.2 percent on YoY basis above European Central Bank's target.

Ajcon Global's observations and view..

- 1) Last week, Indian benchmark indices were under pressure with broader markets too facing the heat. Metal stocks were hammered led by sharp fall in iron ore futures across the world. Global equities were under pressure after the minutes released by the US Federal Reserve suggested tapering of the Fed's stimulus plan by late 2021. Increasing COVID-19 cases in various countries due to spread of new variants of COVID-19 and tensions in Afghanistan also raised concerns.
- 2) Bulls will remain in hunt due to factors like good Q1FY22 earnings season so far with most of the Companies reporting good performance, strong management commentary in Q1FY22 by majority of the Companies, growth in Industrial production and ease in retail inflation expansion in Services PMI in July on a monthly basis, better than expected China's economic data, positive US employment data and other positive US economic indicators, rally in commodities, economic activity picking up at fast pace after unlock in major states, significant decline of COVID-19 cases in the second wave with decent vaccination drive are supporting sentiments. In addition, the country gearing up and taking all the measures to prepare itself for likely third COVID-19 wave. In addition to liquidity provided by FPIs in equities, there is good spike in retail participation from Tier II and Tier III cities as people have become more financial literate in COVID-19 crisis.
- 3) India has given the covid antidote to around 57.61 crores beneficiaries in the nationwide vaccination. Investors are also hopeful that vaccine shortages will be resolved in some months as vaccine manufacturers' ramp up supplies. The entry of new vaccines is also expected to ease the supply crunch.
- 4) It is advisable for investors to look out for stock specific opportunities. We believe intermediate corrections like last week will keep markets healthy. With Monthly Auto sales numbers and RBI's Monetary policy out, investors will track global cues especially on spread of COVID-19 variants and key developments in China, movement in crude oil prices and metals, ongoing Q1FY22 earnings season, vaccination drive and economic activity and COVID-19 cases in India. Economy is expected to do well unless there significant impact of likely third wave of COVID-19. With festive season coming up, demand is expected to remain strong across sectors.
- 5) We suggest looking at fundamentally strong midcaps and small caps backed by good management after decent fall.

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