



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on August 08, 2021

Buoyancy witnessed in Indian equities; investors will keep busy in upcoming IPOs..

- 1) For the week, Indian bourses ended in positive terrain but were under pressure on Friday after RBI's Monetary policy decision amidst high inflation. Both the benchmark indices Sensex and Nifty hit their respective lifetime highs of 54,277.72 and 16,238.2. On a weekly basis, S&P BSE Sensex was up by 3.21 percent and Nifty rallied by 3 percent for the week. However, the broader market were lacklustre. BSE Smallcap was flat while BSE Midcap index was up by 0.5 percent gain.
- 2) During the week, Foreign institutional investors (FIIs) were net buyers and bought Rs. 2,616.04 crore worth of equities in the week ended August 6, 2021. Domestic institutional investors also remained net buyers for the week pumping in Rs. 897 crore.

Key recent major developments..

- 1) Domestically, the RBI's - The Monetary Policy Committee (MPC) maintained status quo and kept interest rates unchanged. Currently, the repo rate is 4 percent and reverse repo rate is 3.35 percent. Reserve Bank of India (RBI) Governor Shaktikanta Das said the policy stance continues to be "accommodative". The MPC has retained its GDP growth projection of 9.5 percent for FY22. The RBI's policy decision was along expected lines, the 5:1 vote on maintaining accommodative stance and rise in CPI projection for FY22 to 5.7 per cent from 5.1 per cent affected investor sentiments on Friday indicating that debate on inflation is gaining centre stage.
- 2) Globally, Eurozone inflation in July rose to 2.2 percent on YoY basis above European Central Bank's target.
- 3) Fed Vice Chair Richard Clarida, a major architect of the Fed's new policy strategy, said on Wednesday he felt the conditions for raising interest rates could be met by the end of 2022, raising expectations the central bank could scale back its bond-buying programme soon. Earlier, US had witnessed a big spike in inflation and registered highest spike in 13 years (since August 2008) to 5.4 percent. Earlier, US added a solid 850,000 jobs as economy extends its gains. The report from the Labor Department was the latest sign that the reopening of the economy is propelling a powerful rebound from the pandemic recession. Restaurant traffic across the country is nearly back to pre-pandemic levels, and more people are shopping, traveling and attending sports and entertainment events. The number of people flying each day has regained about 80 percent of its pre-COVID-19 levels.
- 4) Merchandise exports grew 48 per cent YoY in July to \$35.17 billion on account of a rise in global orders in shipments of petroleum products, engineering products, gems and jewellery segments, preliminary data released by the commerce and industry ministry showed. On a sequential basis, outbound shipments witnessed an 8 per cent jump and grew over 34 per cent as compared to July 2019. Exports during April-July 2021 were \$130.56 billion, up by 73.86 per cent over the same period a year ago and up by 21.85 per cent over the same period of 2019. During the first four months of the fiscal, India's exports have covered close to a third of its annual exports target of \$400



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billion. On the other hand, merchandise imports widened to \$46.4 billion in July, resulting in a trade deficit of \$11.23 billion. "Aatmanirbhar Bharat Powering Indian Economy: The Indian Merchandise Exports Upwards arrow by 22% in April-July'21 over the same period of 2019. India's exports have covered 32.64% of its annual target of \$400 billion," commerce and industry minister Piyush Goyal said in a tweet.

- 5) The output of eight core sectors grew 8.9 per cent in June, mainly due to a low base effect and uptick in production of natural gas, steel, coal and electricity, official data showed on Friday. The eight infrastructure sectors of coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity had contracted by 12.4 per cent in June 2020 due to the lockdown restrictions imposed to control the spread of coronavirus infections. According to the commerce and industry ministry data, production of coal, natural gas, refinery products, steel, cement and electricity jumped by 7.4 per cent, 20.6 per cent, 2.4 per cent, 25 per cent, 4.3 per cent and 7.2 per cent, respectively, in June 2021, as against (-) 15.5 per cent, (-) 12 per cent, (-) 8.9 per cent, (-) 23.2 per cent, (-) 6.8 per cent and (-) 10 per cent in the same month last year. Crude oil output contracted by 1.8 per cent during the month under review as against a negative growth of 6 per cent in June 2020. Fertiliser segment recorded a growth of 2 per cent in June. During April-June period this fiscal, the eight sectors grew by 25.3 per cent against a contraction of 23.8 per cent in the same period last year.
- 6) Non-food bank credit growth stood at 5.9 per cent in June compared to 6 per cent in the year-ago period, according to RBI data released on Friday. Credit to agriculture and allied activities continued to perform well, registering an accelerated growth of 11.4 per cent in the reporting month compared to 2.4 per cent in the same month of the previous year, as per RBI data on Sectoral Deployment of Bank Credit June 2021. Growth in credit to micro and small industries accelerated to 6.4 per cent in June whereas it was a contraction of 2.9 per cent a year ago. Credit to large industries contracted 3.4 per cent in June 2021. In the year-ago period, there was a growth of 3.6 per cent. Growth in loans to the services sector decelerated to 2.9 per cent in the reporting month from 10.7 per cent in June 2020, mainly due to contraction/deceleration in credit growth to commercial real estate, NBFCs and tourism, hotels and restaurants. "However, credit to trade segment continued to perform well, registering an accelerated growth of 11.1 per cent in June 2021 as compared to 8.1 per cent a year ago," the data showed. Personal loans registered an accelerated growth of 11.9 per cent in June 2021 as compared to 10.4 per cent a year ago, primarily due to accelerated growth in loans against gold jewellery and vehicle loans, the central bank data showed.
- 7) ArcelorMittal SA boosted its guidance for global steel demand after a record-breaking price rally yielded the company's best quarter since 2008. Steel has surged over the past 12 months, joining a wider commodities boom as producers struggled to meet an unexpectedly strong rebound in demand from the construction and manufacturing industries. After a decade of plant shutdowns and job cuts in Europe's steel industry, demand from the infrastructure and renewable energy sectors is creating optimism about the future, said ArcelorMittal Chief Executive Officer Aditya Mittal. "Looking forward, we see the demand outlook further improving into the second half and have therefore upgraded our steel consumption forecasts for the year," Mittal said Thursday in a statement. The biggest steelmaker outside of China now expects 2021 steel demand -- a key barometer of economic growth -- to increase by 7.5% to 8.5% from last year. In May, the company projected demand to be at or above the upper end of its initial 4.5% to 5.5% forecast, following a contraction in 2020.
- 8) The International Monetary Fund (IMF) has sharply scaled down India's economic growth projection by 300 basis points to 9.5 per cent for the current financial year from 12.5 per cent estimated earlier in April. IMF said the downward revision is owing to "lack of access to vaccines" and possibility of renewed waves of coronavirus. "Growth prospects in India have been downgraded following the severe second Covid wave during March-May and expected slow recovery in confidence from that setback," IMF said in the latest edition of its flagship World Economic Outlook (WEO) report, released on Tuesday.
- 9) Earlier, Global rating agency Standard and Poor's affirmed India's sovereign rating at "BBB-" and maintained a stable outlook on the gradual recovery in the economy. India's recovery will gain pace through the second half of fiscal 2022 and into the following year, helping stabilise the country's overall credit profile, S&P said in a statement. But it warned that the country's fiscal settings are weak, and deficits will remain elevated ahead even as the government undertakes some consolidation. The country's strong external settings help buffer the risks associated with the government's high deficits and debt stock. India's economy is gradually recovering from a deep contraction in fiscal 2021 (year ended March 31, 2021) and a subsequent severe second wave of Covid-19. "We expect real GDP growth to rebound to 9.5% in fiscal 2022 on continued normalization of activity and progressively higher vaccination rates," the rating agency said.

Ajcon Global's observations and view..

- 1) Indian benchmark indices hit new all time high during the week. 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, 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. However, there are concerns like rise in COVID-19 cases in various countries due to spread of new variants of COVID-19. In addition, there are inflation concerns across the globe which act as headwind.
- 2) India has given the first dose covid antidote to around 50.68 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.
- 3) It is advisable for investors to look out for stock specific opportunities and stay away from names which are suddenly rallying for no reason. We believe intermediate corrections 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, Industrial production data for June and CPI inflation numbers for August, ongoing monsoon, vaccination drive and economic activity and COVID-19 cases in India.
- 4) In the near term, markets will remain rangebound for some time with a negative bias. There is a strong line up of IPOs like Nuvoco Corporation, CarTrade Tech, Aptus Value Housing Finance India and Chemplast Sanmar. Investors will keep busy in the upcoming IPOs as the listing gains have been phenomenal in the recent IPOs. It is recommended to ride the IPO boom; mainly for listing gains. We suggest looking at fundamentally strong midcaps and small caps rather than expensive large caps.

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