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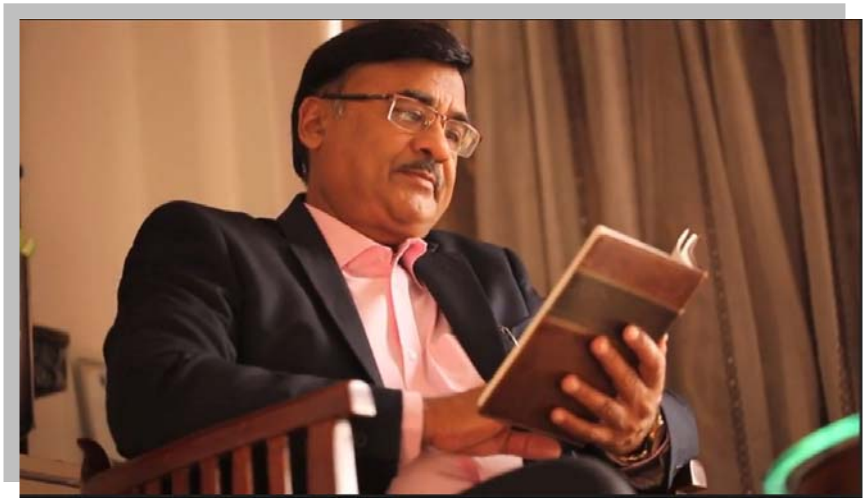

Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on Jan. 30, 2022

Benchmark indices were under tremendous pressure; all eyes on the upcoming Union Budget and ongoing Q3FY22 earnings season..

1) Bears were in command last week amidst significant volatility led by weak global cues. The Sensex was down by 3.1 percent or 1,836.95 points to close at levels of 57,200.23. On the other hand, Nifty was down by 515.2 points or 2.92 percent to end at levels of 17,101.95. .

2) The broader markets too were under pressure. The Nifty Midcap index was down by 2.5 percent and Nifty Smallcap index was down by 3.7 percent in the week gone by.

3) In terms of sectoral performance, IT, metals, FMCG, pharma realty were under pressure. On the other hand, Banking sector did well.

4) During the week, Foreign institutional investors (FIIs) sold equities worth Rs. 22,158.15 Crore. Month till date, FIIs have sold equities worth Rs. 37,721.87 Crore while DIIs in the same period have purchased equities worth Rs. 18,279.75 Crore.

Key recent major developments..

1) Brent crude, the global benchmark, touched 90 dollars a barrel for the first time in seven years as rising political tensions between Ukraine and Russia added to concerns that supply could get even tighter. Although OPEC+ is yet to roll back its 3.4 mbopd of production cuts initiated in April 2020, fast recovery in oil demand, switch from high cost gas to oil, and low inventories resulted in Brent touching a seven year high.

2) US Federal Reserve is likely to raise US interest rates in March and is also expected to end its bond purchase programme before going for significant reduction in its asset holdings.

3) U.S. economic growth accelerated in the fourth quarter as businesses replenished depleted inventories to meet strong demand for goods, helping the nation to post its best performance in nearly four decades in 2021. Gross domestic product increased at a 6.9% annualized rate last quarter, the Commerce Department said in its advance GDP estimate on Thursday. That followed a 2.3% growth pace in the third quarter. The economy grew 5.7% in 2021, the strongest since 1984. It contracted 3.4% in 2020, the biggest drop in 74 years. Growth last year was fueled by massive fiscal stimulus as well as very low interest rates. The momentum, however, appears to have faded by December amid an onslaught of COVID-19 infections, fueled by the Omicron variant, which contributed to undercutting spending as well as disrupting activity at factories and services businesses. (Source: Reuters)

4) Earlier, in a special address at the World Economic Forum's Davos Agenda summit Prime Minister Modi said that India focused on reforms in right way, adding that global experts have praised government's decisions while

delivering. "India has given world a bouquet of hope consisting of trust towards democracy, technology to empower 21st century," he added. "In 2014, there were a few hundred registered startups in India. Today their number has crossed 60 thousand with above 10 thousand of them registered in the last 6 months. More than 50 lakh software developers are working in the country today," he said.

5) According to the State of the Economy report of the Reserve Bank of India (RBI), the Omicron wave could be a flash flood, rather than a wave, and the Indian economy could recover its march towards a pre-pandemic level. The infection surge due to Omicron has dented recovery temporarily. "The recovery that has been underway in the Indian economy with the ebbing of the second wave of the pandemic is encountering headwinds from a rapid surge in infections in a third wave marked by the rapid transmissibility of the Omicron variant," the report said. Mobility indicators have dropped below the baseline numbers as daily infections surged to over 271,000 on January 13, the highest since mid-May 2021, with active caseload hitting 1.55 million. However, aggregate demand conditions stayed resilient. The issuance of E-way bills surged to 72 million in December, the second highest in its history, indicating "the likelihood of robust collection of the goods and services tax (GST) in January 2022." "With a strong pick-up in manufacturing and construction, highway toll collections soared by 16 per cent month-on-month (MoM) in December. Power consumption rose by 4.5 per cent to 110.3 billion units in December," the report said. "Monetary and credit conditions are improving with bank credit picking up in a gradual but sustained manner. India's digital payment ecosystem is also expanding rapidly," the report said. However, the report noted that the global outlook "remains clouded by considerable uncertainty," as inflation continues to mount across geographies amidst disruptions in production, supply chains and transportation. "There are indications that supply chain disruptions and shipping costs are slowly easing, although the waning of inflation may take longer. This provides a window of opportunity to focus all energies on accelerating and broadening the global recovery," it said.

6) Merchandise exports witnessed nearly 40 per cent growth year-on-year to $37.81 billion in December, as demand for Indian products continues to remain robust, according to data released by the commerce and industry ministry on Friday. On a sequential basis, outbound shipments grew nearly 29 per cent. Engineering goods, petroleum products, gems and jewellery, organic and inorganic chemicals, drugs and pharmaceuticals, continued to remain top exported goods. On a cumulative basis, India's merchandise exports in April-December crossed $301 billion, achieving three fourth of the annual export target of $400 billion in the first nine months of FY22. The number has also exceeded total exports of 2020-21, which was at $290 billion.

7) Wholesale Price Index-based Inflation (WPI) for December moderated slightly compared with November, but stayed in double digits for the ninth consecutive month, data released by the Commerce Ministry showed on Friday. WPI inflation bucked a 4-month rising trend in December 2021 and came in at 13.56 percent, even though food prices hardened. Factory-gate infInflation in November was 14.23 per cent, while in December 2020 it was 1.95 per cent. "The high rate of inflation in December 2021 is primarily due to rise in prices of mineral oils, basic metals, crude petroleum & natural gas, chemicals and chemical products, food products, textile and paper and paper products etc as compared to the corresponding month of the previous year," the Commerce Ministry said.

3) The World Bank retained its FY22 growth forecast for India at 8.3 per cent but upgraded it to 8.7 per cent for FY23, from 7.5 per cent estimated earlier, citing improving growth prospects, especially a reviving private capex cycle.

4) India's retail inflation rate rose to a five month high in December and growth in factory output decelerated to a nine month low in November. Data released by the statistics department showed retail inflation rate as measured by the consumer price index rose to 5.59 per cent in December from 4.91 per cent a month ago. Growth in factory output as measured by the Index of industrial production (IIP), on the other hand, dipped to 1.4 per cent in November compared to 4 per cent in the preceding month.

5) Emerging economies must prepare for US interest rate hikes, the International Monetary Fund said, warning that faster than expected Federal Reserve moves could rattle financial markets and trigger capital outflows and currency depreciation abroad. In a blog published Monday, the IMF said it expected robust US growth to continue, with inflation likely to moderate later in the year. The global lender is due to release fresh global economic forecasts on Jan. 25. It said a gradual, well-telegraphed tightening of U.S.monetary policy would likely have little impact on emerging markets, with foreign demand offsetting the impact of rising financing costs. It said emerging markets with high public and private debt, foreign exchange exposures, and lower current-account balances had already seen larger movements of their currencies relative to the US dollar. The fund said emerging markets with stronger inflation pressures or weaker institutions should act swiftly to let currencies depreciate and raise benchmark interest rates.

Ajcon Global's observations and view..

1) Indian benchmark indices ended in red in last week led by hawkish stance of US Fed, jump in Crude oil prices with Brent Crude oil trading above US$90 per barrel, continued FII selling, weak global cues like geopolitical tensions between Ukraine and Russia and worries over inflation.
2) Before the correction which started from last week, the sentiments were upbeat as in third wave of COVID-19 led by Omicron variant, death rates have been lower so far as compared to devastating Delta variant. Despite significant spike in COVID-19 cases on daily basis, the hospitalisation rates are also lower. The restrictions imposed too by various states so far are not a major dampener to economic activity. In addition, factors like good growth in merchandise exports, RBI's accommodative stance in its Monetary Policy, good GDP data, robust GST collections, strong manufacturing PMI, 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.
3) It would be prudent to stay with quality names at decent valuations in uncertain times. It is advisable for investors to look out for stock specific opportunities considering growth outlook and management pedigree. Always remember, corrections in a bull market will keep markets healthy. Structurally, Indian equities are 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. 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) We expect volatility in build up to Union Budget presentation on Tuesday and investors will take cues from Economic Survey on Monday. Market participants will keenly watch the Budget announcements after second wave of COVID-19 and ongoing third wave of COVID-19. Street participants will keep an eye on expectations from different stakeholders from the Union Budget amidst upcoming assembly elections in Uttar Pradesh, Punjab, Uttarakhand, Goa and Manipur. Investors will continue to track ongoing Q3FY22 earnings season which has been mixed so far, global cues like geopolitical tensions between Russia and Ukraine, global inflation data, US Treasury yields, oil price movement.

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