12 February 2022

Wealth Wisdom

ALPHA INVESTOR

Weekly e-Newsletter

Highlights

- India's foreign exchange reserves declined by $4.531 bn
- RBI kept the benchmark interest rate unchanged at 4%
- The US consumer prices reflecting the fastest annual growth since Feb' 1982
- The U.S. trade deficit widened modestly in the month of Dec'21
- U.K. retail sales grew at a stronger pace in January 2022
- China's services sector in January expanded at the slowest pace in five months

Indian Equity Market

In the passing week, key gauges ended in red impacted by negative cues from global markets. US inflation soared over the past year at its highest rate in four decades, hammering America's consumers, wiping out pay raises and reinforcing the Federal Reserve's decision to begin raising borrowing rates across the economy.

Markets made a pessimistic start to the week as sentiments dampened with RBI data showing that the country's foreign exchange reserves declined by $4.531 billion to stand at $629.755 billion in the week ended January 28. It touched a lifetime high of $642.453 billion in the week ended September 3, 2021.

However, markets witnessed recovery during the week as traders got some support with Minister of State for Finance Pankaj Chaudhary's statement that India's gross domestic product (GDP) is projected to grow at 9.2% to Rs.147.5 lakh crore in 2021-22. Sentiments also got a boost as the preliminary data of the commerce ministry showed that India's exports grew by 28.51% to $8.67 billion during February 1-7 on account of healthy growth in sectors such as petroleum, engineering and gems and jewellery. According to the data, $8.67 billion per week is almost 20% more than the weekly run rate of $7 billion clocked this year.

Markets extended rally after Reserve Bank of India (RBI) kept the benchmark interest rate unchanged at 4% and decided to continue with its accommodative stance as long as necessary to support growth and keep inflation within the target. Besides, RBI retained its growth projection at 9.2% and inflation at 5.3% for the current financial year.

But selloff on final day of the week mainly dragged key indices lower for the week as investors turned pessimistic after Finance Minister Nirmala Sitharaman has said that the Indian economy suffered the biggest contraction due to the COVID-19 pandemic, but the government has been able to contain retail inflation at 6.2%. She said the Budget for the 2022-23 fiscal year, stands for continuity, brings stability to the economy along with predictability of taxation.

Inside the issue

Indian Indices Performance

BSE movement for the week

The Bombay Stock Exchange (BSE) Sensex slipped 491.90 points or 0.84% to 58,152.92 during the week ended February 11, 2022. The BSE Midcap index losses 2.02%, while Smallcap index slipped 3.40%.

NSE movement for the week

The Nifty slipped 141.55 or 0.81% to 17,374.75. Bank Nifty was down by 0.70% to 38,517.25, Nifty IT was down 2.00%, Nifty Mid Cap 100 decreased 2.34% and Nifty Next 50 lost 1.06%.

INDICES PRICE TO EARNING (PE)

(Trailing)

S&P BSE 500: 24.81

NIFTY 500: 23.85

Equity Indices in US $ (YTD)

BSE Dollex 200: 1660.41(-1.79%)

Nifty 50 USD: 7986.68 (-1.27%)

Industry & Economy

The Reserve Bank of India (RBI) in its bi-monthly monetary policy review has decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0%. This is the tenth time in a row that the Monetary Policy Committee (MPC) headed by RBI Governor Shaktikanta Das has maintained the status quo. Consequently, the reverse repo rate under the LAF remains unchanged at 3.35% and the marginal standing facility (MSF) rate and the Bank Rate at 4.25%.

The MPC decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

Debt Market

The RBI MPC decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis.

10Y benchmark yield traded wider tracking an overnight sell-off in US Treasury yields. However, yields rallied across the curve. 6.54 GS 2032 closed at 6.70%.

RBI set the cut-off of 14-day variable rate reverse repo auction at 3.99%. It received offers worth INR 4.9tn against the notified amount of INR 6.5tn. RBI announced 4-day variable rate reverse repo auction, worth INR 2tn, to be conducted on Monday.

In PSU segment, 5Y quality corporate names were quoted around 6.15% and the 10Y traded around 7.06% respectively. 5-10s curve remains steep at ~91bps in PSU segment and at ~94bps in non-PSU segment.

Primary pipeline continues to build up with multiple issuances concentrated around 2 - 5Y maturity bucket. In money market, AAA 3M CP closed at 4.00%.

MAJOR INDICATORS

B Crude (USD/bbl)	94.44
Gold (USD/Oz)	1858.76
USD / INR	75.37
10 Yr G-sec Yield	6.70%

Policy Rates

Repo	4.00%
Reverse Repo	3.35%
Bank Rate	4.25%

Reserve Ratios

CRR	4.00%
SLR	18.00%

FII Flow (YTD 2021) US$ Mn

Equity	(5806.86)
Debt	(229.44)
Hybrid	225.54

System liquidity

Surplus/ Deficit	INR ~7 tn

FII Activity

Equity Market

FIIs were net sellers in equity segment in the week, with gross purchases of Rs.34,635.13 crore and gross sales of Rs.41,088.90 crore, leading to a net outflow of Rs.6,453.77 crore.

Debt Market

FIIs stood as net sellers in the debt segment with gross purchases of Rs.2,472.34 crore against gross sales of Rs.4,070.70 crore, resulting in a net outflow of Rs.1,598.36 crore.

Hybrid Market

In hybrid segment, FIIs stood as net buyers, with gross purchases of Rs.167.40 crore and gross sales of Rs.157.77 crore, leading to a net inflow of Rs.9.63 crore.

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US Market

The U.S. markets ended higher during the passing week. Upbeat earnings news from some well-known companies contributed to strength on markets. However, traders were cautious after a key inflation report showed a faster-than-expected rise in prices and boosted the benchmark 10-year Treasury yield above a key level. A highly anticipated Labor Department report showed consumer prices in January were up by 7.5% compared to the same month a year ago, reflecting the fastest annual growth since February of 1982.

The annual rate of growth in core prices accelerated to 6.0 percent in January from 5.5% in December, showing the biggest jump since August of 1982. The data raised concerns that the Federal Reserve will increase interest rates more aggressively in an effort to fight elevated inflation.

Meanwhile, with the value of imports increasing by slightly more than the value of exports, the Commerce Department released a report showing the U.S. trade deficit widened modestly in the month of December. The Commerce Department said the trade deficit widened to $80.7 billion in December from a revised $79.3 billion in November. Though, first-time claims for U.S. unemployment benefits showed another modest decrease in the week ended February 5th, according to a report released by the Labor Department.

The US consumer prices in Jan'22 were up by 7.5% (MoM), reflecting the fastest annual growth since February 1982.

European Market

European markets traded jubilantly during the passing week as traders opted to buy beaten down but fundamentally strong stocks after drubbing in risky assets last week amid expectations of a series of rate hikes by central banks in the coming months. Investors also digested the latest batch of corporate earnings updates and economic data from the region and continued to follow news about tensions between the U.S. and Ukraine.

On the economic front, German exports increased unexpectedly in December with Exports rising 0.9% month-on-month in December. On a yearly basis, exports advanced 15.6%. Investors shrugged off data showing that German industrial production declined unexpectedly in December, the first fall in three months.

Meanwhile, France's trade deficit widened notably at the end of 2021 driven by the increase in imports. Exports dropped 0.4% from November, while imports increased 2.5%, data showed. On a yearly basis, exports and imports advanced 13.5% and 24.7%, respectively. Data showed U.K. retail sales grew at a stronger pace in January due to the easing of lockdown restrictions.

Asian Market

Asian markets, barring Seoul composite index ended in green during the passing week, despite data from the U.S., traders also remain worried and cautious amid the rapid spread of the coronavirus Omicron variant in most countries and the likely economic impact.

Japanese Nikkei edged higher by around a percent as investors reacted to a string of positive earnings results. Traders overlooked the Ministry of Communications and Internal Affairs stating that the average of household spending in Japan was down 0.2% on year in December. Market participants also paid no heed towards the Ministry of Finance stating that Japan also posted a current account deficit of 370.8 billion yen in December-missing expectations for a surplus of 73.5 billion yen.

Chinese Shanghai surged by over 3% despite a private survey showed activity in China's services sector in January expanded at the slowest pace in five months. Besides, Hong Kong shares rose even as data showed the country's IHS Markit SAR Purchasing Manager's Index (PMI) declined to 48.9 in January from 50.8 in December.

Week Ahead

Traders will also be looking forward toward the Wholesale Price Index (WPI) data for the month of March, scheduled to be release on February 14. WPI rate in India inched down to 13.56% in December 2021 from 14.23% in the previous month. On the same day, Consumer Price Index (CPI) for the month of January is also going to release.

Traders will be reacting to lots of important earnings in the last leg of the result season starting with Adani Enterprises, Alembic, Coal India, Dish TV India, Ircon International, PTC India, RailTel Corporation of India, V2 Retail, Schaeffler India, Ambuja Cements, Nestle India etc.

On the global front from the US, traders will first be eyeing Consumer Inflation Expectations on 14 February followed by PPI MoM, Redbook on February 15, Retail Sales, Industrial Production, FOMC Minutes on February 16, Initial Jobless Claims on February 17 and finally Baker Hughes Total Rig Count on February 18.

Technical Viewpoint - S&P CNX Nifty

During the week, CNX Nifty touched the highest level of 17,639.45 on February 10 and lowest level of 17,043.65 on February 8. On the last trading day, the Nifty closed at 17,374.75 with weekly loss of 141.55 points or 0.81%.

For the coming week, 17,065.78 followed by 16,756.82 are likely to be good support levels for the Nifty, while the index may face resistance at 17,661.58 and further at 17,948.42 levels.

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