19 February 2022

ALPHA INVESTOR

Weekly e-Newsletter

Highlights

- Indian manufacturing sector contracted by 0.1% in Dec'21
- India's wholesale inflation rose to 12.96% in January
- Russian invasion of Ukraine as imminent—Biden administration
- Euro zone government bond yields rose on looming interest rate hikes
- U.K. consumer price inflation accelerated at the fastest pace in nearly 30 years in January
- Chinese central bank pumped in more funds to support economic growth

Inside the issue

Indian Equity Market

In the passing week, local equity benchmarks witnessed a bearish run, amid tensions rise over Russia's military buildup near Ukraine and the US warning an invasion may be imminent. Also, Minutes of the last meeting of the Federal Reserve showed most policymakers are in favor of faster rate hikes to tackle inflation.

Markets made an awful start to the week and tumbled three percent mainly induced by heavy global sell off fueled by escalating tensions between Russia and the West over Ukraine. Weakness in industrial production data too dampened sentiments the manufacturing sector, which constitutes 77.63%, contracted by 0.1% in December. Sentiments also got dented as wholesale inflation across the country rose to 12.96% in January, which was higher than expectation.

On the very next day, markets witnessed splined recovery and recouped all of its initial losses as Report stated that some Russian troops in military districts adjacent to Ukraine are returning to their bases after completing drills, a move that could de-escalate frictions between Moscow and the West. Additional support also came after India's overall exports (Merchandise and Services combined) in January 2022 are estimated to be $61.41 billion, exhibiting a positive growth of 36.76% over the same period last year.

However, markets witnessed immense volatility throughout the week as traders remained concerned on uncertainty over Ukraine - Russia tensions. Traders also got anxious with Acuite Ratings & Research said India's FY22 current account deficit faces mild upside risk from high commodity prices. The wider merchandise trade deficits pulled India's Q2FY22 current account into the negative territory. Sentiments also get dented after SBI's research report- Ecowrap stated that country's gross domestic product (GDP) is likely to grow at 5.8% in the third quarter of fiscal 2022.

Indian Indices Performance

BSE movement for the week

The Bombay Stock Exchange (BSE) Sensex slipped 319.95 points or 0.55% to 57,832.97 during the week ended February 18, 2022. The BSE Midcap index losses 1.98%, while Smallcap index slipped 3.29%.

NSE movement for the week

The Nifty slipped 98.45 or 0.57% to 17,276.30. On the National Stock Exchange (NSE), Bank Nifty was down by 2.38% to 37,599.15, Nifty Mid Cap 100 decreased 2.67% and Nifty Next 50 lost 2.03%, Nifty IT was up by 0.30%.

INDICES PRICE TO EARNING (PE)

(Trailing)

S&P BSE 500: 24.60

NIFTY 500: 23.29

Equity Indices in US $ (YTD)

BSE Dollex 200: 1659.09(-1.87%)

Nifty 50 USD: 8018.81 (-0.87%)

Industry & Economy

Reserve Bank of India (RBI) article on the 'State of Economy' published in February bulletin has stated that the 2022-23 Budget proposals and the recent monetary policy announcements have set the tone for a durable and broad-based economic revival which has started gaining traction as the nation emerges from the third wave of the COVID-19 pandemic.

The article also emphasized that the domestic economic situation continues to improve, the unsettled global environment notwithstanding. It noted that the renewed emphasis on public investment in the Budget through infrastructure development is expected to crowd-in private investment and strengthen job creation and demand in 2022-23.

Debt Market

SBI's research report- Ecowrap stated that country's gross domestic product (GDP) is likely to grow at 5.8% in the third quarter of fiscal 2022.

10Y benchmark yield closed on a positive note at 6.66% on account of fall in US Treasury yields and crude oil prices. RBI set the cut-off of 7-day variable rate reverse repo auction at 3.99%. It received offers worth INR 1.67tn against the notified amount of INR 3tn.

Corporate bond yields move in-line with G-sec. 5Y quality corporate names were quoted around 6.17% and the 10Y traded around 7.03% respectively in the PSU segment. 5-10s curve remains steep at ~86bps in PSU segment and at ~95bps in non-PSU segment.

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

MAJOR INDICATORS

B Crude (USD/bbl)	93.54
Gold (USD/Oz)	1898.43
USD / INR	74.66
10 Yr G-sec Yield	6.66%

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	(6503.73)
Debt	(69.47)
Hybrid	243.91

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.29,804.44 crore and gross sales of Rs.34,355.87 crore, leading to a net outflow of Rs.4,551.43 crore.

Debt Market

FIIs stood as net sellers in the debt segment with gross purchases of Rs.1,530.20 crore against gross sales of Rs.1,983.70 crore, resulting in a net outflow of Rs.453.50 crore.

Hybrid Market

In hybrid segment, FIIs stood as net buyers, with gross purchases of Rs.191.31 crore and gross sales of Rs.65.15 crore, leading to a net inflow of Rs.126.16 crore.

US Market

The U.S. markets ended lower during the passing week amid geopolitical concerns, as the Biden administration has reverted to describing a Russian invasion of Ukraine as imminent. Russia has expelled the deputy chief of the U.S. diplomatic mission in Moscow. The latest developments come after Ukraine and pro-Russian separatists traded accusations of attacks in the eastern part of the country. Meanwhile, the Federal Reserve released the minutes of its January monetary policy meeting, reiterating the view that it would soon be appropriate to begin raising interest rates. The Fed said consequently, most participants suggested that a faster pace of rate increases than in the post-2015 period would likely be warranted.

Besides, sentiments were also weak after reporting three straight weekly decreases in first-time claims for U.S. unemployment benefits, the Labor Department released a report showing initial jobless claims unexpectedly increased in the week ended February 12th. The Commerce Department released a report showing new residential construction in the U.S. pulled back sharply by 4.1% in the month of January.

Manufacturing activity in the Philadelphia area expanded at a slower rate in the month of February, according to a report released by the Federal Reserve Bank of Philadelphia. The bigger than expected decrease by the headline index came as the new orders index fell to 14.2 in February from 17.9 in January, and the shipments index tumbled to 13.4 from 20.8.

U.S. President Joe Biden said there was every indication Russia planned to invade Ukraine in the next few days and was preparing a pretext to justify it.

European Market

European markets ended the passing week in red terrain as worries about geopolitical tensions, and looming interest rate hikes amid rising inflation rendered the mood cautious. Euro zone government bond yields rose, with Germany's 10-year government bond yield hitting a new high since December 2018, after two European Central Bank officials made the case for ending the ECB's bond-buying scheme.

On the economic front, U.K. consumer price inflation accelerated at the fastest pace in nearly 30 years in January, boosting bets for a hike in interest rates for a third meeting in a row. Eurozone industrial production growth halved in December. Industrial output grew 1.2% on a monthly basis. The slowdown was driven by the weakness in energy and durable consumer goods production. Consumer price inflation rose slightly to 5.5% in January from 5.4% in December.

Meanwhile, German economic confidence strengthened in February despite rising economic and political uncertainties. The euro area trade deficit widened in December as exports declined amid a rise in imports, data from Eurostat showed. The balance posted deficit for the second consecutive month. Month-on-month, exports decreased 0.6%, while imports grew 3.1% in December.

Asian Market

Asian markets ended mixed during the passing week following the negative cues from Wall Street, amid renewed geopolitical concerns. KOSPI Composite Index fell marginally even as the government data showing that the country recorded its strongest job growth in 22 years in January due to a low base effect and the ongoing economic recovery from the pandemic.

Japanese Nikkei edged lower by over two percent after data showed Japan posted a merchandise trade deficit of 2,191.1 billion yen in January. Exports gained 9.6% on year, imports surged an annual 39.6%. Traders overlooked data showing that the value of core machine orders in Japan was up a seasonally adjusted 3.6% on month in December- coming in at 932.4 billion yen.

However, Chinese Shanghai ended higher by more than half a percent after the country's central bank pumped in more funds to support economic growth. Traders also took some support with data showed the country's factory-gate inflation eased to its slowest pace in six months in January, raising hopes policymakers could ease policy further to boost economic growth.

Week Ahead

The coming week is expected to remain volatile one for local equity markets on account of F&O expiry, which is scheduled to take place on Thursday i.e., February 24, 2022. Meanwhile, trend in investment by foreign institutional investors and the movement of rupee against the dollar will also be closely watched by the market-participants.

With no major cues in sight, traders will be eyeing Deposit Growth and Bank Loan Growth which is schedule to be release on February 25. The value of loans in India increased 8.20% in January of 2022 over the same month in the previous year and the value of deposits in India increased 9.3% year-on-year in the fortnight ending January 14, 2021.

On the global front, investors will be eyeing macro-economic reports from world's largest economy, United States, starting with Markit Manufacturing PMI Flash, Richmond Fed Manufacturing Index on February 22 followed by Redbook on February 23, GDP Growth Rate, Chicago Fed National Activity Index, Initial Jobless Claims on February 24 and finally Michigan Consumer Sentiment Final, Baker Hughes Total Rig Count on February 25.

Technical Viewpoint - S&P CNX Nifty

During the week, CNX Nifty touched the highest level of 17,490.60 on February 16 and lowest level of 16,809.65 on February 14. On the last trading day, the Nifty closed at 17,276.30 with weekly loss of 98.45 points or 0.57%.

For the coming week, 16,893.77 followed by 16,511.23 are likely to be good support levels for the Nifty, while the index may face resistance at 17,574.72 and further at 17,873.13 levels.

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