MARKETS MAYHEM

Financials drag indices down on heavy selling

The biggest losers on Nifty were Axis Bank, ICICI Bank, IndusInd Bank, Titan and Shree Cement

FE BUREAU
Mumbai, April 3

FOREIGN PORTFOLIO INVESTORS continued to sell equities on Friday, dragging the 30-share Sensex down by 2.39% or 674.3 points to close at 27,590.95. The broader Nifty50 barely managed to hang on to the 8,000 mark after falling 2.06% or 170 points to end the session at 8,083.8.

The market's fall on Friday was led by heavy selling in financial stocks. The week that ended is the seventh consecutive where the markets ended in the red. Nifty Bank declined 5.2% underperforming the benchmarks. It slumped 959 points to close at 17,249. According to market experts, the sell-off in banking stocks is unlikely to have much effect on the weightage of financial stocks.

Rusmik Oza, executive vice president - head of fundamental research, Kotak Securities, explains that there are stages and cycles to a market leadership. "For the last two to three years the BFSI space excluding PSU stocks was performing well but, now it may take a back-seat for a few quarters.

Major sectoral losers on NSE

	Close	Fall (%)
Pvt Bank	9,157.10	-5.5
Bank	17,249.30	-5.3
Financial Service	8,562.10	-4.3
PSU Bank	1,232.30	-4.0
IT	11,680.05	-3.0
Auto	4,517.75	-3.0

However, their weightage and leadership is unlikely to change since there is no big alternative to these companies," he said. Currently, the weightage of financial stocks on the Nifty is 36.5%, down from 41.9%."

On the other hand, Deepak Jasani, head of retail research at HDFC Securities said, "The leadership may change if the banks continue to underperform for the next few months and the contender for it could belong to the consumption sector which has stocks such as HUL or the IT sector."

Bank Nifty has slumped by 44% in the last six weeks, which makes it the biggest six- week fall ever and has fallen 46.8% since its highs in January. It fell 14% this week which is the most among other indices. Moody's Investor Service on Thursday changed the outlook of the Indian banking system to negative from stable. All the constituents of banking stocks ended the day in the red with RBL Bank, Axis Bank, IndusInd Bank, Bandhan Bank and State Bank of India declining the most. RBL Bank was the top loser, down by 15.5%. Axis Bank was down 8.8%.

In its report, Kotak Institutional Equities said, "We upgrade Axis Bank to buy from reduce reflecting the correction in valuation multiples, a strong liability franchise and a slightly different entry point into this slowdown for the bank as compared to the past, which should result in faster recovery in business momentum as we move into a more normalised environment." IndusInd bank which was the worst performing stock for FY20 was down by 8.3% during Friday's trading session. Bandhan Bank and State Bank of India were down by 7.4% and 6.5%.

According to the provisional data on the exchanges, FPIs on Friday sold equities worth $257 million, on the other hand domestic institutional investors (DIIs) bought equities worth $29.9 million. The global cues were also muted for the markets with bourses in Taiwan, Hong Kong and China trading in the red. Stock markets in Germany, United Kingdom and France were down between 0.2% to 1.1% at the time of press.

Dow Jones Mini futures was down 214 points indicating a tepid start to the US markets.

Gold shines bright in FY20 clocking 30% returns

URVASHI VALECHA
Mumbai, April 3

GOLD HAS EMERGED as the best performing asset class of FY2020 as it delivered 29.7% during the year. The Covid-19 pandemic and the trade war prior to that took the wind out of risky assets. A weaker rupee further added to gold's sheen in FY20, making more investors take refuge in the safe haven asset. Going ahead, market experts expect gold to either outperform or reach the ₹50,000 per 10 gram mark in the country.

Gold closed at ₹40,989 per 10 gram on March 31 at MCX, taking the returns generated by the yellow metal to 29.7%. This makes it the best performing asset class in FY20 after three consecutive years of underperformance according to data on *Bloomberg*. For FY20, equities generated negative returns, which means that the returns from equities was down by 26%, *Bloomberg* data showed.

According to Ravindra Rao, vice-president — head commodity research, Kotak Securities, one can compare the current scenario for gold to the one during the 2008 financial crisis. During the financial crisis, gold prices fell at first and continued to be highly volatile. After quantitative easing by central banks causing a liquidity infusion the yellow metal prices picked up.

"Until now, the prices of gold are still subdued because of panic selling due to the Covid-19 pandemic. Once the virus is contained, gold will rally even more for the next six to eight months. Gold has already gained 11% in the first three months of the calendar year. It could even outperform the growth it saw in FY20 and reach

the ₹50,000 mark towards the end of FY21," he said, adding that with the International Monetary Fund (IMF) announcing that a global recession is likely, the rally of gold would be much stronger.

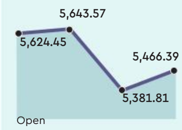
On April 1, 2019, the price of gold on MCX was ₹31,643 per 10 gram. The prices of gold rallied for the better part of the year because of the prolonged negative sentiments surrounding the US-China trade war. According to Hareesh V, head — commodity research, Geojit Financial Services, the trade war and the Covid-19 pandemic are the main reasons for the surge in gold prices. But, in India specifically, depreciating rupee has a role to play as well. "In India, gold prices have risen because of high international prices and weaker rupee. Around the world, gold prices are determined in dollars and since the rupee has been depreciating so, the gold prices have increased much more," he said, adding that if the rupee were to reach 80 or 85 against the dollar then, the price of gold could go up to Rs 50,000 per 10 gram. The rupee has depreciated 8.6% in FY20 and closed the year at 75.63 against the US dollar.

Street Signs

BSE Metal

Index falls on output cut, weak demand due to Covid-19

2.17%



BSE Oil & Gas

Index rises as Brent prices hit near $35 per barrel

2.03%

April 2

INDIAN BASKET CRUDE

$20.93 BBL

₹1,578.07 BBL

EXCHANGE RATE

₹75.39/$

PRICE POINTS

April 3

	Del	Mum	Kol	Blr
Rice	34	31	31	52
Wheat	24	33	NR	36
Tur dal	98	97	85	96
Potato	37	27	20	36
Sugar	38	41	40	38
Mustard oil	132	114	106	132

Price in ₹/kg for Delhi, Mumbai, Kolkata and Bengaluru Source: Dept of consumer affairs

Covid-19 outbreak to have adverse impact on sugar consumption, prices: Icra

PRESS TRUST OF INDIA
Mumbai, April 3

THE COVID-19 OUTBREAK is likely to have an adverse impact on sugar consumption, leading to a decline in prices by 3-4% in the near term, according to a report.

This is notwithstanding the decline in domestic sugar production along with the exports, which is likely to result in closing stocks correction to 10-10.5 million tonne for sugar season SY 2020, from 14.5 million tonne in SY 2019, ratings agency Icra said in its report.

"The decline is mainly due to lower sugar production and higher sugar exports. However, if the government continues with the buffer stocks of 4 million tonne in next year too, the net available sugar balance for market would be around 6-6.5 million tonne, which is closer to the normative sugar stock levels," Icra Ratings senior vice president and Group Head Sabyasachi Majumdar said.

Domestic sugar production estimates for SY 2020 at 26.5 million tonne is lower by 19.5% year-on-year, Icra said.

This is primarily due to the decline in cane availability in Maharashtra and Karnataka following the drought last year and heavy rainfall and water logging during the current year (August-September 2019), it added.

Icra expects domestic sugar consumption of around 26 million tonne in SY2020. In SY2020, as of February 2020, the export contracts have been made for a quantity of over 3.5 million tonne, out of which about 2.2 million tonne are shipped.

Considering that the exports are likely to be around 4.5-5.0 million tonne when compared to the government-approved 6 million tonne, the closing stocks would be around 10-10.5 million tonne.

"The decline in domestic sugar production along with the monthly sugar release mechanism and creation of 4 million buffer stock has supported the sugar prices in the recent past. The sugar prices remained range bound between ₹32-33 per kg during November 2019-February 2020," Majumdar said.

RBI announces 3rd targeted LTRO for ₹25,000 cr

PRESS TRUST OF INDIA
Mumbai, April 3

TO ENSURE ADEQUATE liquidity in the system, especially in the corporate bond market, the Reserve Bank of India (RBI) on Friday announced the third targeted long-term repo operation (TLTRO) on April 7 for ₹25,000 crore.

The central bank announced the LTROs on February 6 and has pumped in liquidity worth ₹1 lakh crore since then, and the TLTRO was announced on March 27 and has so far done two tranches worth ₹50,000 crore and the initial target is ₹1 lakh crore.

The second tranche was conducted for ₹25,000 crore on Friday.

The new issue coming up on April 7 is of three-year tenor, the central bank said.

"The Reserve Bank will conduct TLTROs of up to three-year tenor of appropriate sizes for a total amount of up to ₹1,00,000 crore. So far, ₹50,000 crore has been conducted in two tranches and it has now been decided to conduct another TLTRO operation for ₹25,000 crore," the RBI said in a statement.

The funds availed under this tranche of

TLTRO would have to be deployed within 30 working days from the date of the operation, it added.

While announcing the TLTRO, the monetary authority had said banks would have deploy at least 50% of the proceeds in corporate bonds, commercial papers and debentures, so that the secondary market for debt remains fully liquid.

Illiquidity has been the bane of the corporate debt market in the country as most of the funds being parked in government securities making the government the largest borrower.

The TLTRO will go a long way in helping the fund-starved non-banking financial companies (NBFCs) and housing finance companies (HFCs) as they borrow heavily from the debt market to meet their working capital requirements.

Announcing the TLTROs, the RBI has said the onset and rapid propagation of the Covid-19 pandemic has led to large-scale sell-offs in the domestic equity, bond and foreign exchange markets.

"With the intensification of redemption pressures, liquidity premia on instruments such as corporate bonds, commercial paper and debentures have surged. Combined with the thinning of trading activity with the virus outbreak, financial conditions for these instruments, which are used to access working capital in the face of the slowdown in bank credit, have also tightened," it said.

The central bank also added that to mitigate their adverse impact on economic activity leading to pressures on cash flows, it has been decided that the RBI will conduct auctions of targeted term repos of up to three years tenor for a total of up to ₹1 lakh crore at a floating rate linked to the policy repo rate.

Increased lending capacity to be used to cater to corporates and MSMEs: Indian Bank

FE BUREAU
Chennai, April 3

CHENNAI-HEADQUARTERERD PUBLIC sector lender Indian Bank has said the increased lending capacity gained post Allahabad Bank amalgamation would be utilised to serve corporate and MSME sectors.

The coming together of two banks rich in legacy from the pre-Independence era — Indian Bank with 113 years and Allahabad Bank with 155 years — has created a bank with sound financial strength, nationwide connectivity with 6,000 plus branches, over 4,800 ATMs, 43,000 employees serving 120 million customers and business mix of ₹8 lakh crore, said Padmaja Chunduru, MD & CEO, Indian Bank.

The complementary branch presence has added to the network of Indian Bank in the northern, central and eastern states and the customers of both the banks will benefit from a wider geographical reach, she said.

Effective April 1, 2020, all the branches of Allahabad Bank had started functioning as branches of Indian Bank. K Ramachandran, executive director of erstwhile Allahabad Bank has joined as ED of Indian Bank.

"We assure all that the bank would continue to deliver top grade products and services to all its customers. We deeply value the rich legacy of both the banks which give us a great platform to serve our clientele pan India," Chunduru said.

The integration offers the bank a host of revenue and cost synergies. The realisable revenue synergies arise from harmonised and wider product offering, optimisation of operations, increased opportunities for cross-selling and technology spend optimisation.

The large branch network and BC network of both the banks spread over the length and breadth of the country will ensure full coverage of priority sectors. Customers of both the banks shall have access to a wider range of products and services. The HR policies and employee benefits have been harmonised and all employees will benefit from this integration, both in terms of benefits and investments in their training for talent and skill building, she said.

Opec+ debates biggest ever cut as virus destroys oil demand

RANIA EL GAMAL & ALEX LAWLER
Dubai/London/Moscow, April 3

OPEC AND ITS allies are working on a deal for an unprecedented oil production cut equivalent to around 10% of global supply, an Opec source said after the US president called on producers to stop the market rout caused by the coronavirus pandemic.

The meeting of Opec and allies such as Russia has been scheduled for Monday, April 6, the Azeri energy ministry said, but details were still thin on the exact distribution of production cuts.

Oil prices have fallen to around $20 per barrel from $65 at the start of the year as more than 3 billion people went into a lockdown because of the virus, reducing global oil demand by as much as a third or 30 million barrels per day.

US President Donald Trump said on Thursday he had spoken with both Russian leader Vladimir Putin and Saudi Crown Prince Mohammed bin Salman and they agreed to reduce supplies by 10-15 million

bpd out of a total global supply of around 100 million bpd.

But the International Energy Agency (IEA) warned on Friday that a cut of 10 million bpd would not be enough to counter the huge fall in oil demand. Such an output cut would still result in a 15 million bpd stock-build in the second quarter, said Fatih Birol, the head of the agency.

Trump said he did not make any concessions to Saudi Arabia and Russia, such as agreeing to a US domestic production cut — a move forbidden by US antitrust legislation.

Some US officials have suggested US production was set for a steep decline anyway because of low prices.

"The US needs to contribute from shale oil," an Opec source said. Russia has long expressed frustration that its joint cuts with Opec have only been lending support to higher-cost US shale producers.

A second Opec source said any cut in excess of 10 million bpd must include producers from outside Opec+, an alliance which includes Opec members, Russia and other producers, but excludes oil nations such as the United States, Canada, Norway and Brazil.

The second source added that Opec+ was watching the outcome of a meeting between Trump and oil firms later on Friday and that a final figure on cuts depended on participation by all oil producers.

Jason Kenney, the premier of Alberta, Canada's primary oil-producing province, said on Thursday that Alberta was open to joining a production-cut deal.

Quick View

HDFC to raise up to ₹7,500 cr by issuing bonds next week

MORTGAGE LENDER HDFC will raise up to ₹7,500 crore by issuing bonds on a private placement basis, the company said on Friday. The base issue size of non-convertible debentures (NCDs) is ₹2,500 crore with the green shoe option of ₹5,000 crore. The object of the issue is to augment the long-term resources of the lender, it said in a regulatory filing. "The proceeds of the present issue would be utilised for financing/ refinancing the housing finance business requirements of the corporation," it added.

MF industry asset base up marginally in March qtr

MUTUAL FUNDS' ASSET base rose marginally to over ₹27 lakh crore in the January-March quarter, with SBI MF emerging as the largest fund house. The average asset under management (AAUM) of the industry, comprising 44 players, stood at ₹26.77 lakh crore in the October-December quarter 2019, according to data by the Association of Mutual Funds in India (Amfi). The asset base of the industry was ₹24.5 lakh crore in the same period a year ago.

INTERVIEW: DHAWAL DALAL, CIO-Fixed Income, Edelweiss AMC

'RBI will have to consider buying corporate bonds directly from market'

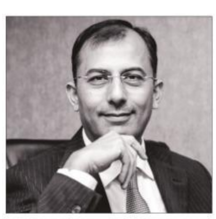
Global central bankers like US Federal Reserve (Fed) and European Central Bank (ECB) have announced facilities to buy corporate bonds from the markets, unlike in India where the Reserve Bank of India (RBI) has asked banks to buy corporate bonds. ***Dhawal Dalal****, CIO-Fixed Income at Edelweiss AMC in an interview with* ***Chirag Madia*** *says that if targeted LTRO doesn't work out, the RBI will have to review the scheme and consider buying corporate bonds directly from the markets. Edited excerpts:*

What is your outlook on debt markets, post the RBI policy?

The Reserve Bank of India (RBI) has clearly articulated that they are "in-charge" and they will do whatever it takes to ensure India's financial stability and protect economic growth. The RBI has already cut the repo rate and reserve repo rate sharply and the reverse repo rate has been made the operational rate. Secondly, they also infused liquidity worth ₹3.7 lakh crore, to help the economy cope with the novel coronavirus related economic slowdown. That said, from April, we are going to see massive primary supply of government bonds and to some extent 10-year benchmark yields are reflecting that nervousness as they refuse to decline below 6%. Yields would have fallen twice below 6%, but failed because market participants believe that the fiscal deficit for FY 21 is likely to be substantially higher than the projected 3.5% of gross domestic product (GDP), on account of heavy borrowing requirements by the government as well as state borrowing, due to the likely shortfall in Goods and Services Tax (GST) collections in FY21. So, heavy supply pressure is likely to keep the yield curve steeper, that is short term yields anchored by the reverse repo rate, while long-end of the yield curve will reflect the demand-supply mismatch.

With announcement of measures such as Targeted Long-Term Repo Operations (TLTRO) by RBI, how much debt papers are you planning to sell to banks?

For Edelweiss AMC, March witnessed net inflows in non-liquid schemes. As of now, we are satisfied with our portfolio positions and liquidity levels.



Based on that, we are not actively planning to offer anything under the targeted LTRO. Having said that, we will scan through some of our non-AAA bond holdings and check if banks are interested in them. Most of our exposure is at the short-end of the money market assets and high-quality AAA-rated bonds of public sector undertaking (PSUs) and public financial institutions (PFIs). That said, we welcome banks' bidding interest in the corporate bonds, as it is likely to increase liquidity in the corporate bond market.

Do you think more TLTRO will be announced by the RBI?

Globally, the US Federal Reserve (Fed), the European Central Bank (ECB) and other central banks have announced facilities to buy corporate bonds from the markets. Here in India, the RBI has decided to give money to banks and have asked them to go and buy corporate bonds — 50% through the primary markets and 50% from the secondary markets. I think this may add an additional layer of complexity. Banks will likely use their own credit evaluation process and risk management practices to find out which corporate credit to invest in and their levels. If targeted LTRO doesn't work out, my sense is that RBI will have to review the scheme and consider buying corporate bonds directly from the markets.

What kind of strategy are you adopting at this point of time?

Whenever yield curves are steep (difference between overnight rates and 10-year G-Sec yields) with almost 150-200 basis point gap, investors will try to figure out what will happen going forward. Based on the experience of 2008-09 and 2013, we believe that whenever the banking system is flushed with excess liquidity for a long period of time, at some point in time it could turn out to be inflationary. This kind of investment landscape requires careful observation of inflation / reversal of RBI's easy monetary policy and expected total returns from rolling down the yield curves until they start to flatten again. Bond investors will likely evaluate various strategies that could involve higher cash allocation and exposure to long-maturity bonds (seven year plus).

As a fund manager what are the key risks or concerns in the debt market?

Before the RBI's surprise rate cut, the concern with mutual funds was on the liability side. Now, the worry is what if investors don't return to debt mutual funds in April due to "Sudden-Stop" in economic activities & cash flows and their percolating impact amid the RBI-sponsored moratorium. We are in regular touch with our clients to understand their thinking and their investment strategy. In March, MF industry had seen net outflows from debt funds as many institutional investors had redeemed money to pay for the last tranche of advance tax, as well as unscheduled interim dividend after the changes in the dividend distribution tax (DDT), from the start of this fiscal. As a fund manager, it is our endeavour to understand what our clients want and offer them suitable investment solutions.

Given the current situation what strategy should investors adopt at this point of time?

Based on our current assessment of the situation, investors should continue to focus on fixed income funds which invest only in AAA rated liquid corporate bonds. We believe that the time is not right to look at credit funds because the ongoing crisis may put further upward pressure on credit spreads. Investors must be cognisant of the novel Coronavirus induced challenging investment landscape and ensure that the 'return of capital' is perhaps more important than the 'return on capital' in our opinion.