

06 October 2024

IFA GLOBAL WEEKLY OUTLOOK

India Forex & Asset Management (IFA Global)
FX, Treasury & Wealth Management

Global Developments & Global Equities

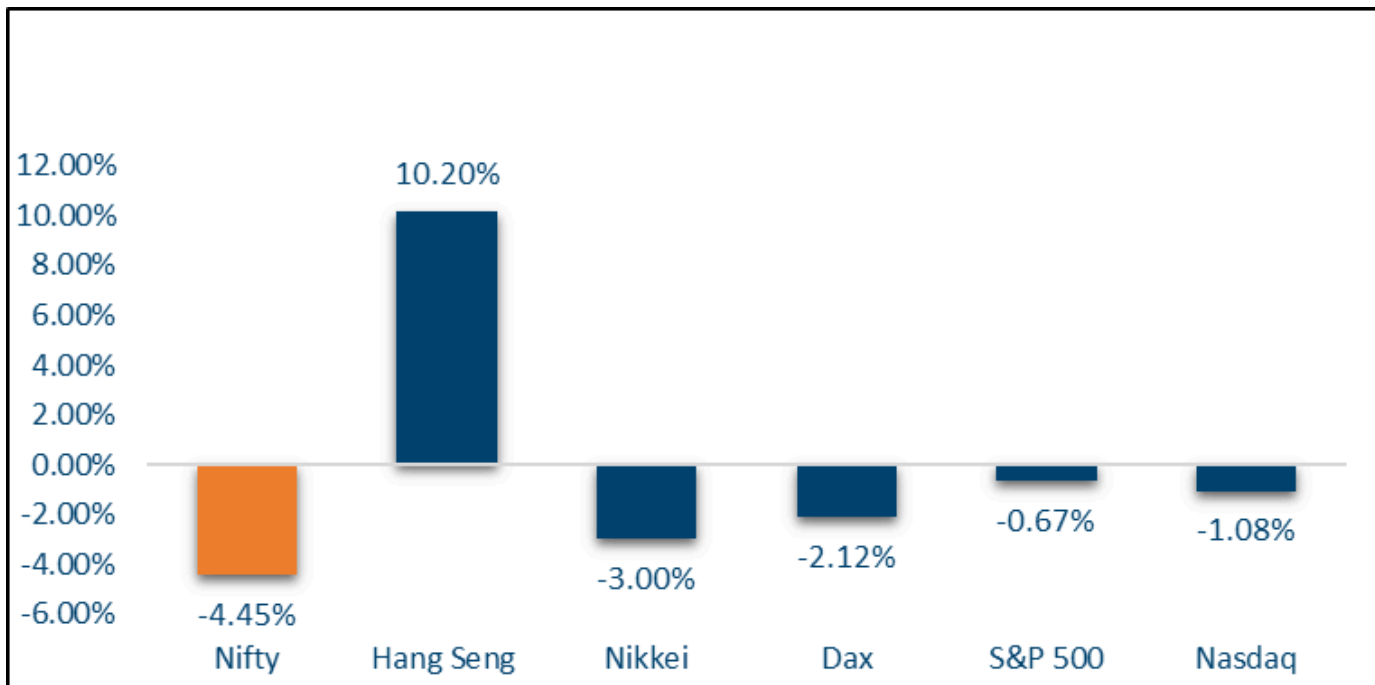
MIDDLE EAST GEOPOLITICS, DIALLING BACK OF FED RATE CUT EXPECTATIONS DAMPEN RISK SENTIMENT

We saw some risk aversion set in this week on flaring up of tensions between Israel and Iran. What was earlier a war between Israel and Iranian proxies such as Hamas, Hezbollah and Houthis is threatening to become a major war between two countries with ample military might. All the US data that came in this week right from JOLTS, ADP, ISM services, NFP,

Unemployment Rate to Average Hourly Earnings Growth came in better than expected. This again highlights the incredible resilience of the US economy. Markets were pricing in 3 cuts by the end of 2024 until last week but have now aligned with Fed's dot plot which indicates 2 cuts of 25bps. Key data in the coming week would be the US September CPI print (exp 2.3% yoy / 0.1% MoM).

NIFTY V/S GLOBAL MARKETS

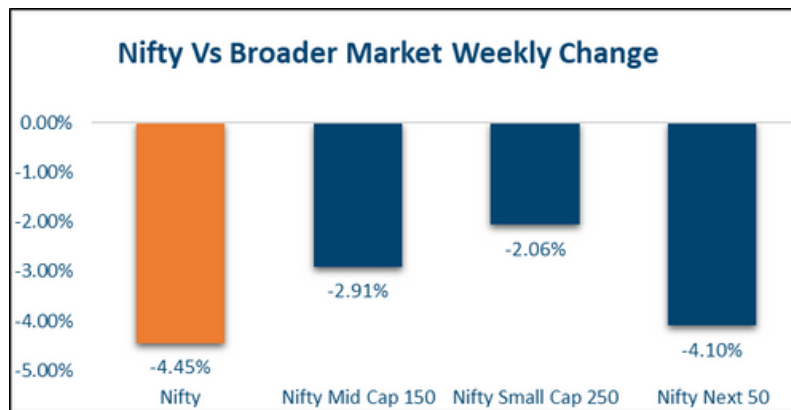
Equities globally traded on a cautious note amid rising geopolitical tensions and with Fed rate cut expectations getting pushed back on strong US data. Nifty (-4.5%) underperformed as domestic developments compounded the effect of global headwinds. SEBI came out with measures to clamp down retail participation in derivatives. It limited weekly expires to one per exchange, increased contract value, did away with margin benefit for calendar spread trades executed on expiry day due to basis risk involved and mandated upfront collection of option premium from buyers. Nikkei fell 3% this week while S&P500 and Nasdaq ended about flat. Shanghai composite was shut this week from Tuesday onwards for a national holiday. It will be interesting to see if the China stimulus impact continues to propel Chinese equities higher next week. There has been a significant reduction in underownership of Chinese equities by global fund houses post the double barrel fiscal and monetary policy stimulus rolled out last week. However there is still some room for underownership to correct further.



Domestic Equities

NIFTY OUTPERFORMS AS MIDCAPS FACE OVERVALUATION:

Broader markets outperformed the Nifty 50 with Midcap and Smallcap indices ending 3% and 2% lower respectively. High Beta Realty (-7.7%) and Auto index (-6.1%) were the worst performers. Metals was the only sector which ended with gains (+0.5%) on overhang from last week's China stimulus.

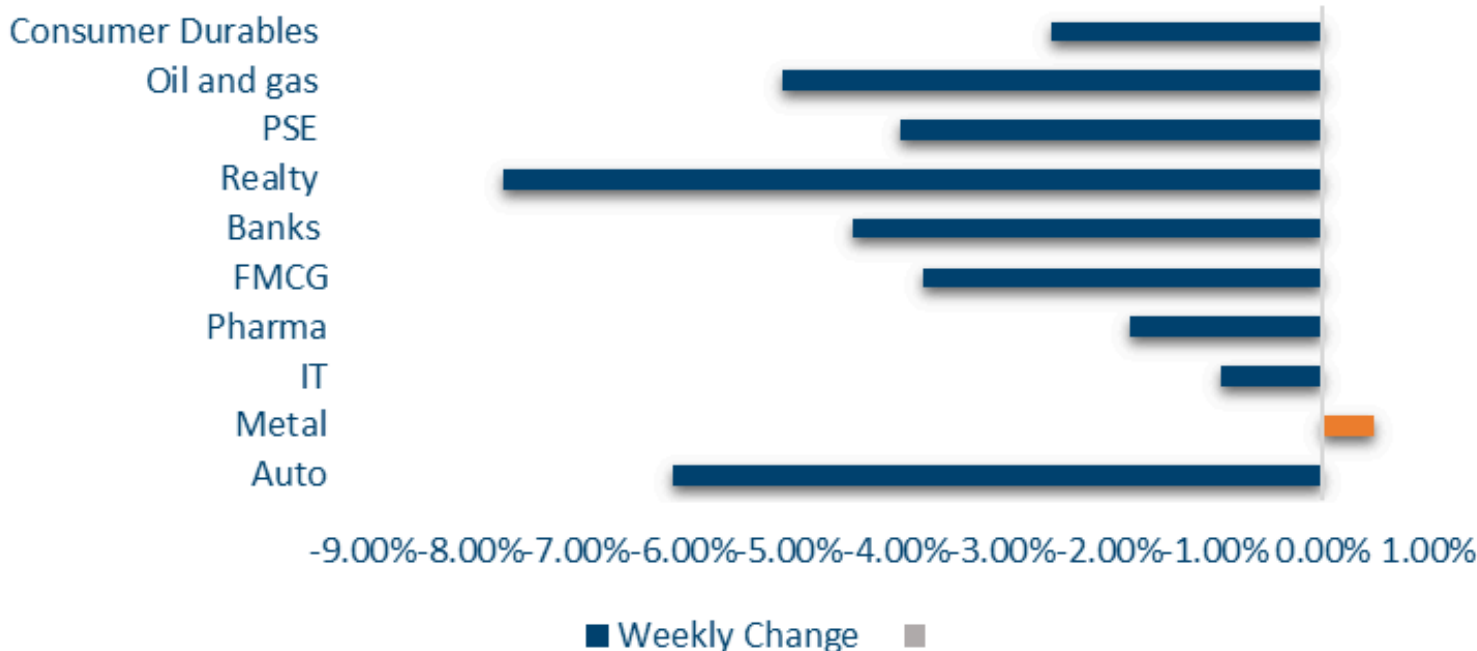


Inflows/Outflows	FII RS Crores	DII Rs Crores
This Week	-20,822.62	17,523.51
Previous Week	3,933.07	15,961.71

Top Gainers	Performance
BASF India Ltd.	19.30%
Jaiprakash Power Ventures Ltd.	11.50%
Whirlpool of India Ltd	9.60%

Top Losers	Performance
Macrotech Developers Ltd	-15.30%
Sterling and Wilson Renewable Energy Ltd	-14.90%
Intellect Design Arena Ltd.	-13.40%

Weekly Change in Sectoral Indices



Fixed Income, IPO, and Institutional Deals

FIXED INCOME:

Globally fixed income too came under pressure as US treasury yields rose. US 10y treasury yield rose 21bps to 3.96% while 2y rose 36bps to 3.92%

Yield on the India benchmark 10y rose 7bps to 6.83% this week. 1y OIS rose 7bps to 6.46%. 5y OIS rose 10bps to 6.13%. Banking System liquidity has moved into a surplus of more than Rs 2 lakh crs.

We have the RBI monetary policy on Wednesday, 9th October. This is the first MPC meet for new external members. We expect a status quo on the repo rate and see a possibility of a change in stance to neutral from withdrawal of accommodation.

PRIVATE EQUITY AND VENTURE CAPITAL:

It was a quiet week for PE and VC funding, with volumes hitting a two-month low and no deals exceeding \$50 million. Companies raised a total of \$78 million across 15 deals, a 78% drop from last week's \$351 million over 23 deals. The largest deal was a \$40 million Series A round by specialty chemical company Mstack, co-led by existing investors Lightspeed Venture Partners and Alpha Wave Global.

The second-largest deal saw Bertelsmann India Investments leading a \$10.6 million Series B round for Basic Home Loan, aimed at expanding its market reach and strengthening its tech infrastructure.

On the M&A front, BLS International acquired Dubai-based Citizenship Invest for \$31 million through its subsidiary, funding the entire acquisition internally.

REAL ESTATE:

Adani Realty, holding an 80% stake in the Dharavi Redevelopment Project, faces a major setback due to litigation, with only 50 acres of salt pan land available for rental housing. Meanwhile, Kanakia Spaces is set to invest over Rs 1,100 crore to redevelop two housing societies in Borivali, Mumbai, spanning 3.3 acres. The project, valued at more than Rs 1,500 crore, is expected to start in six months and be completed in about four years.

Additionally, Emerald Haven Realty, a subsidiary of TVS Holdings, has acquired land parcels in Bengaluru and Chennai, with a combined revenue potential of Rs 900 crore.

INITIAL PUBLIC OFFERING (IPO):

This past week saw the listing of Manba Finance, KRN Heat Exchanger, and Diffusion Engineers as all of them listed on a premium. KRN being the outperformer by providing 113.6% listing gains.

The upcoming week is relatively muted with only 2 offerings scheduled in the form of Garuda Construction and Engineering Limited and Shiv Texchem Limited. However, this fiscal year looks quite promising for IPOs with SEBI's approval pending for around 26 companies proposing to raise north of Rs. 72,000 crores.

IFA GLOBAL WEEKLY REPORT

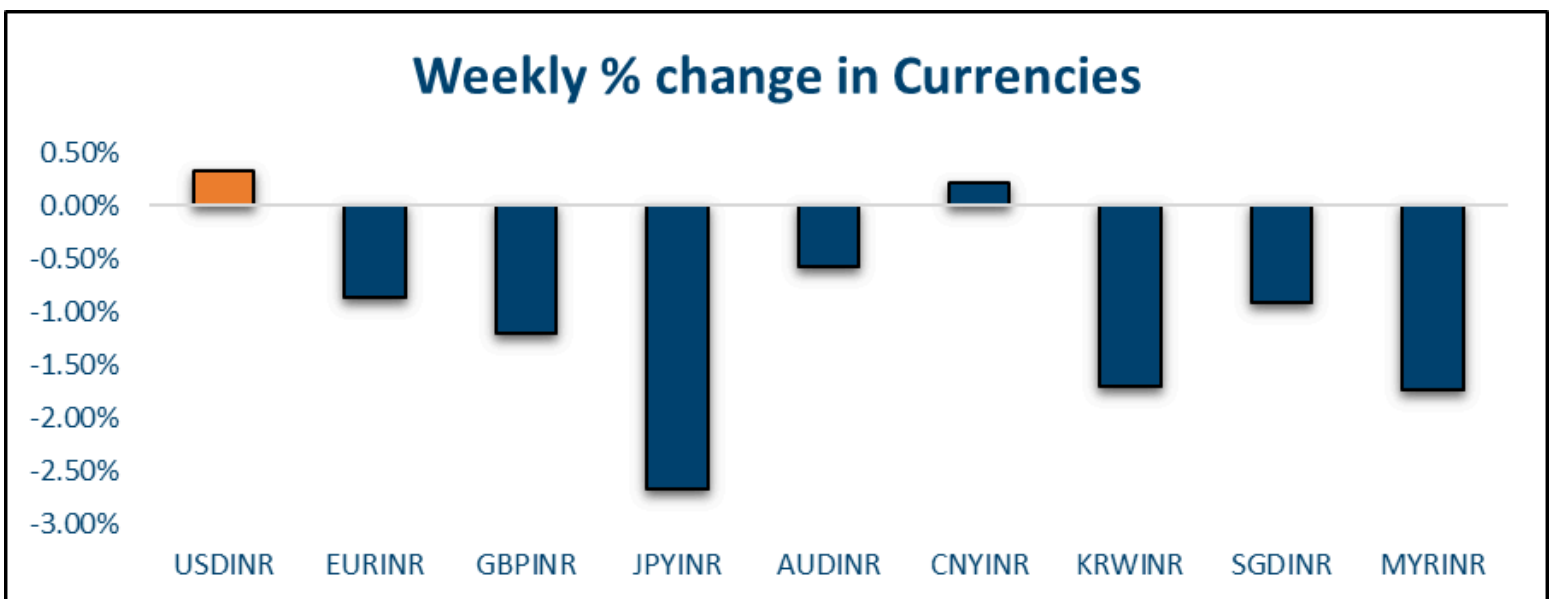
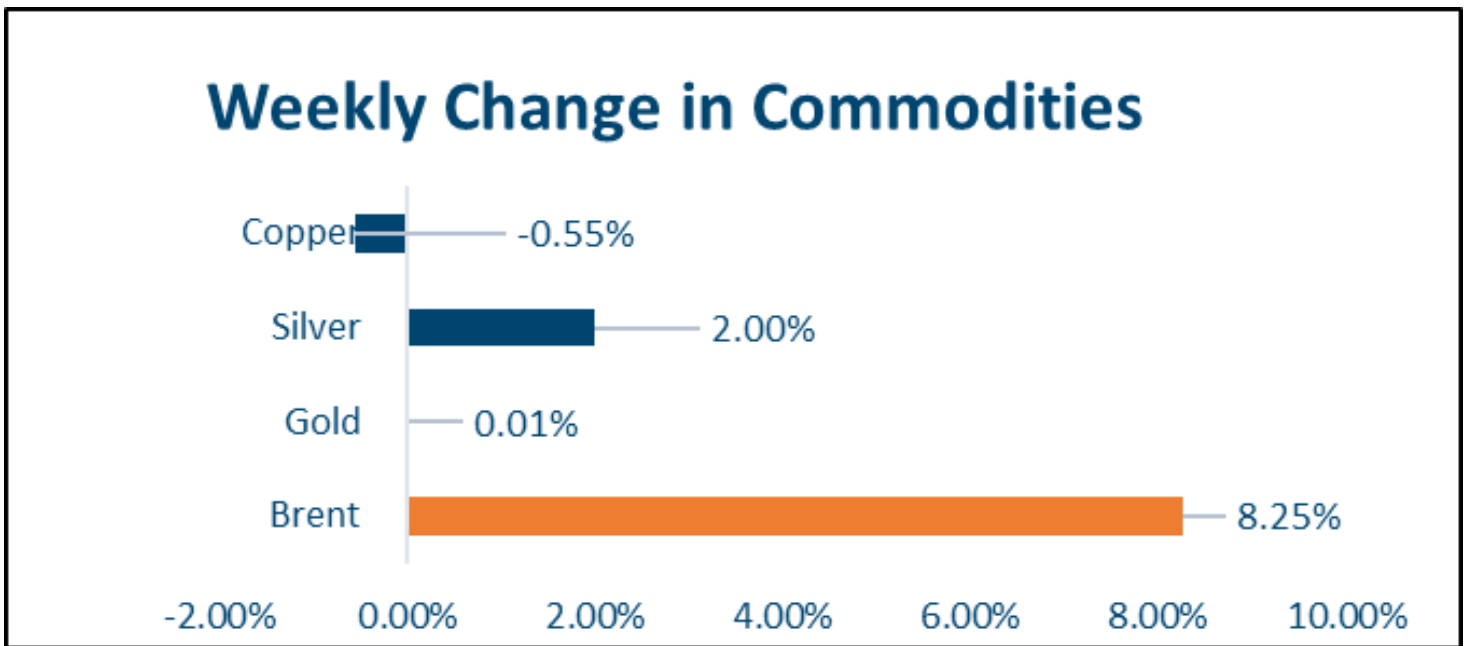
FX and Commodities

FOREIGN EXCHANGE:

Dollar strengthened against all G10 currencies this week on stronger than expected US data and amid overall risk off tone. CAD (-0.4%) was the best performer and JPY (-4.4%) was the worst performer. All Asian currencies too weakened against the Dollar. Rupee (-0.3%) outperformed along with Yuan (-0.1%) in a strong Dollar environment. On the other hand, KRW (-2.8%), IDR (-2.3%) and MYR (-2.2%) depreciated significantly.

COMMODITIES:

The big mover in commodities this week was Crude. Brent rose 8.5% to USD 78.05 per barrel on flaring up of Middle East geopolitical tensions. Passage through the Strait of Hormuz could be disrupted due to the Israel-Iran conflict. It is a key shipping route for global trade and particularly so for Crude. Gold ended the week flat on opposing forces of Dollar strength and risk aversion. Silver gained 2%. Base metals Copper and Aluminum were almost flat on the week.



IFA'S VIEW

Ideas and Opportunities

WHAT WE LIKE:

Given the lingering risks, we would like to tilt the portfolio allocation towards defensives and safe havens a bit.

Equities:

Within equities, we could see global fund houses trim the underownership of Chinese equities further. The underownership had resulted in Indian equities being the beneficiary. We can expect the reverse to happen now. We may therefore see Indian equities underperform the MSCI EM index over the very short term. 24550 would be a crucial support for the Nifty around which one can look to accumulate the index. We prefer the comfort of Nifty 50 rather than venturing out in the broader markers, especially stepping into the earnings season.

FX:

USD/INR is back to the 84 mark where it had encountered significant resistance. We expect the central bank to offer Dollars around those levels to arrest Rupee depreciation. RBI's FX Reserves are now at an all time high of USD 705bn, with significant part of the gains coming from valuation impact in the week ending 27th September.

We expect the Rupee to outperform amid Dollar strength. Exporters can look to add to hedges at current levels against crystallized exposures. Importers can look to buy protection against extreme moves given that vols are still cheap.

Fixed Income:

A near term bottom seems to be in place on the 10y yield at 6.72%. However we see limited upside from current levels as well and believe 6.90% could be a good level to add duration to the portfolio.

Commodities:

We continue with our bullish view on precious metals. We see further upside of 5-10% in both Gold as well as Silver from current levels. Given the steady USD/INR, we are comfortable expressing the view in INR terms as well.

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