

29 September 2024

IFA GLOBAL WEEKLY OUTLOOK

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

Global Developments & Global Equities

CHINA UNLEASHES DOUBLE BARREL FISCAL AND MONETARY STIMULUS

The highlight of the week was People's Bank of China (PBoC) unleashing a flurry of decisive measures to stimulate the Chinese economy. PBoC cut the Reserve Requirement Ratio by 50bps to 9.5%, the 7 day reverse repo by 10 bps to 1.70% and 1y Medium term lending facility rate by 30bps 2%. The MLF rate cut was the biggest since 2016, since when the PBoC started using the monetary tool to guide market interest rates.

The Chinese government too took a series of steps. It pledged to boost fiscal spending and rolled out new subsidies for jobless graduates and also issued cash handouts.

These fiscal and monetary policy measures are intended at reviving the Chinese economy

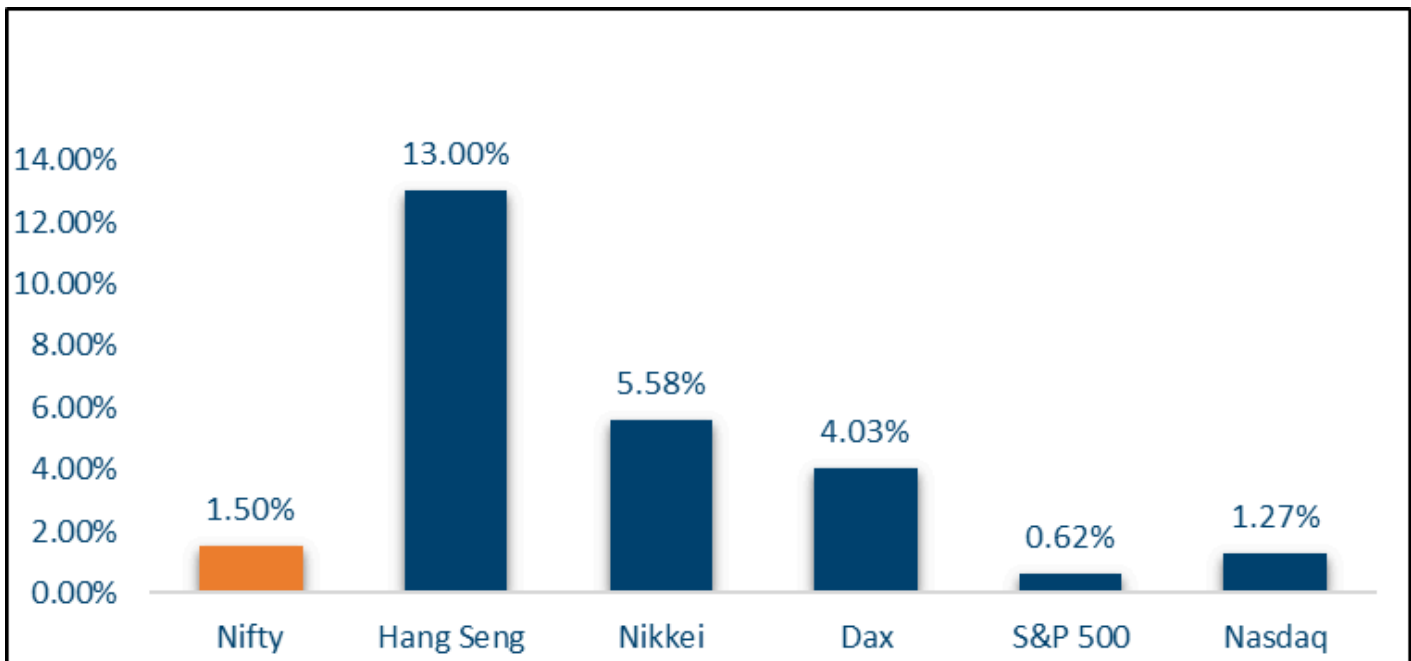
grappling with weak consumption due to a debilitating property sector crisis and rising global trade tensions. The Chinese economy is expected to grow 4.8% against projected 5% in 2024. The latest steps are expected to help bridge the gap to some extent in the last few months of the year.

US Aug headline PCE print came in a tad higher at 2.3% yoy against expected 2.2% while core PCE print came in line with expectations at 2.7% yoy

Market is pricing in a 72bps of rate cuts by end of the year compared to Fed dot plot which is indicating 50bps. US September jobs due on 4th October will be the key data to look forward to in the coming week.

NIFTY V/S GLOBAL MARKETS

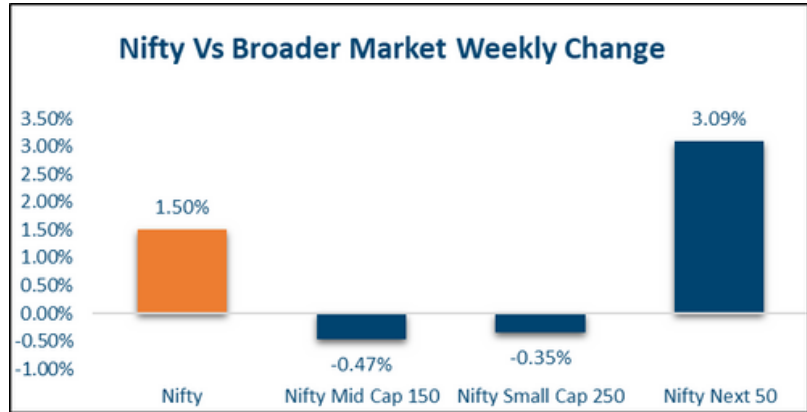
The Hang Seng and the Shanghai composite were clearly the best performers this week gaining 13% and 12.81% respectively on the back of fiscal and monetary policy measures initiated to stimulate the economy. Equities elsewhere too did well with Nikkei gaining 5.6%, a broader gauge of European equities, STOXX600 rising 2.7% and S&P500 gaining 0.6%



Domestic Equities

NIFTY OUTPERFORMS AS MIDCAPS FACE OVERVALUATION:

The Nifty50 gained 1.5% this week. The benchmark index continued to outperform the broader indices with Midcap index rising 0.3% and Smallcap index in fact dropping 0.4%



Primary sectors led the rally. Auto, metal and Oil&Gas sectoral indices rose 4.6%, 7% and 5.9% respectively. Banks and FMCG stocks were the sector laggards and those too were just about flat on the week.

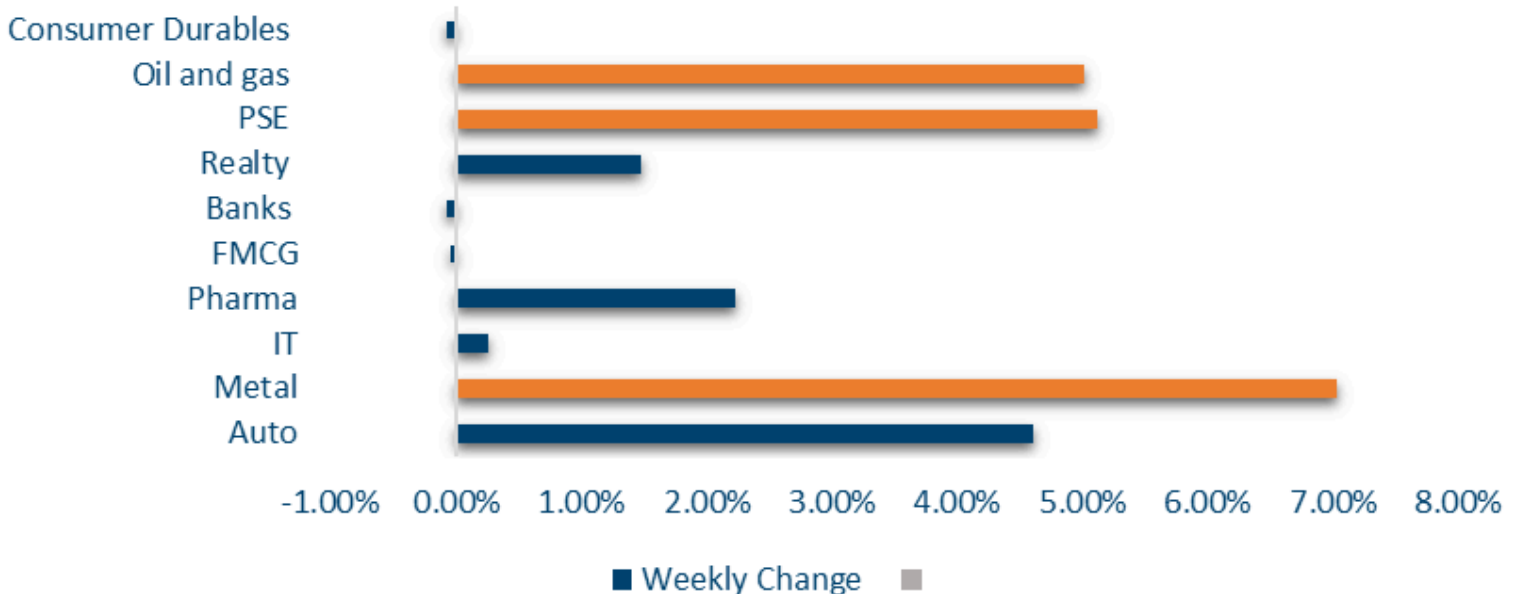
FPIs have invested net USD 6.9bn in domestic equities in September, the most since Dec'23
The INVIX dropped from 12.75 to 11.96 this week

Inflows/Outflows	FII RS Crores	DII Rs Crores
This Week	3,933.07	15,961.71
Previous Week	11,517.92	-633.67

Top Gainers	Performance
Vedanta Ltd.	14.00%
Ceat Ltd.	14.00%
JM Financial Ltd.	13.20%

Top Losers	Performance
Concord Biotech Ltd.	-21.30%
Easy Trip Planners Ltd	-16.40%
PB Fintech Ltd.	-15.10%

Weekly Change in Sectoral Indices



Fixed Income, IPO, and Institutional Deals

FIXED INCOME:

While the treasuries in the US ended the week relatively unchanged with 2y ending at 3.56% and 10y ending at 3.75%, the China 10y bond yield surged 12bps to 2.15% on fiscal stimulus measures. China is expected to issue about 2tn Yuan if special sovereign bonds this year to fund the stimulus. The 2y China bond yield dropped 2bps to 1.36%.

Yield on the benchmark 10y bond yield ended 3bps lower at 6.64% on the week. The entire term structure is extremely flat with 3m T-bill at 6.50%. We could see the yield curve flatten further given the positive risk sentiment and demand supply dynamics at the longer end of the curve.

The spread between 1y T-bill (6.56%) and 1y CD (7.62%) however continues to remain elevated at 106bps! 1y OIS ended the week flat at 6.39% while 5y OIS ended 2bps higher at 6.03%

RBI policy is due on the 9th of October. We could see a stance change given that the Fed has Kickstart it's rate cut cycle with a bigger than expected 50bps cut. .

PRIVATE EQUITY AND VENTURE CAPITAL:

This week saw a significant slowdown in funding momentum within the VC and PE space, dropping to nearly half of the previous week's activity, with only two transactions exceeding \$100 million. The overall deal volume also hit a September low, with approximately \$351 million raised across 23 deals. Leading this week's fundraising was Bangalore-based software firm Whatfix, which announced a \$125 million round led by Warburg Pincus, following its second-largest deal from the prior week. The second-largest deal was a \$102 million Series D funding round for M2P Fintech, led by Helios Investment Partners. This round, a mix of primary and secondary capital, boosted the company's valuation to an impressive Rs. 6,550 crores.

In the M&A space, activity remained robust. One of the most notable transactions was Sequent Scientific Ltd's merger with Viyash Life in a Rs. 8,000 crore deal. Additionally, Zaggie Prepaid Ocean Services made strategic moves by acquiring Span Across IT Solutions and taking a stake in Mobileware Technologies..

REAL ESTATE:

SEBI has continued to support small to mid-sized REITs by approving Rudrabhishek Enterprises Ltd. for registering its first SM REIT, making it the second entrant in this investment category.

Mumbai-based real estate developer, Rustomjee Group, backed CAT II Real Estate AIF has tapped additional funds and raised its target corpus to Rs. 500 crores. Some of its key limited partners include SBI, ICICI Bank, and Famy Care. The strategy revolves around backing quick turnaround residential projects with low equity investments which includes investing in Rustomjee's redevelopment assets across Mumbai.

INITIAL PUBLIC OFFERING (IPO):

This week, Arkade Developers and Northern Arc Capital delivered strong debuts with over 30% listing gains, while Western Carriers underwhelmed with a 1.2% discount on its listing. The IPO season remains active, with 12 more listings scheduled this week, including KRN Heat Exchanges, which was oversubscribed by over 200 times. Foodtech giant Swiggy's \$450 million IPO filing marks a significant milestone for the sector, while MobiKwik's approval for its Rs. 700 crore IPO highlights the dynamism of fintech. Additionally, SaaS unicorn Fractal is considering a potential \$500 million IPO, reflecting the increasing maturity of India's startup ecosystem as companies turn to public markets for their next phase of growth.

IFA GLOBAL WEEKLY REPORT

FX and Commodities

FOREIGN EXCHANGE:

Dollar weakened against all G10 currencies except the Norwegian Krone this week. NZD (+1.7%) and AUD (+1.4%) were the best performing currencies this week.

Among Asian currencies, THB (+2%) and MYR (+1.9%) were the best performing currencies. The offshore Yuan strengthened 0.9% on the back of positive sentiment following the stimulus measures. Yen surged about 3% on Friday against the Dollar as the candidate who was seen as being against policy tightening lost in the LDP elections to Shigeru Ishiba who is set to be the next PM.

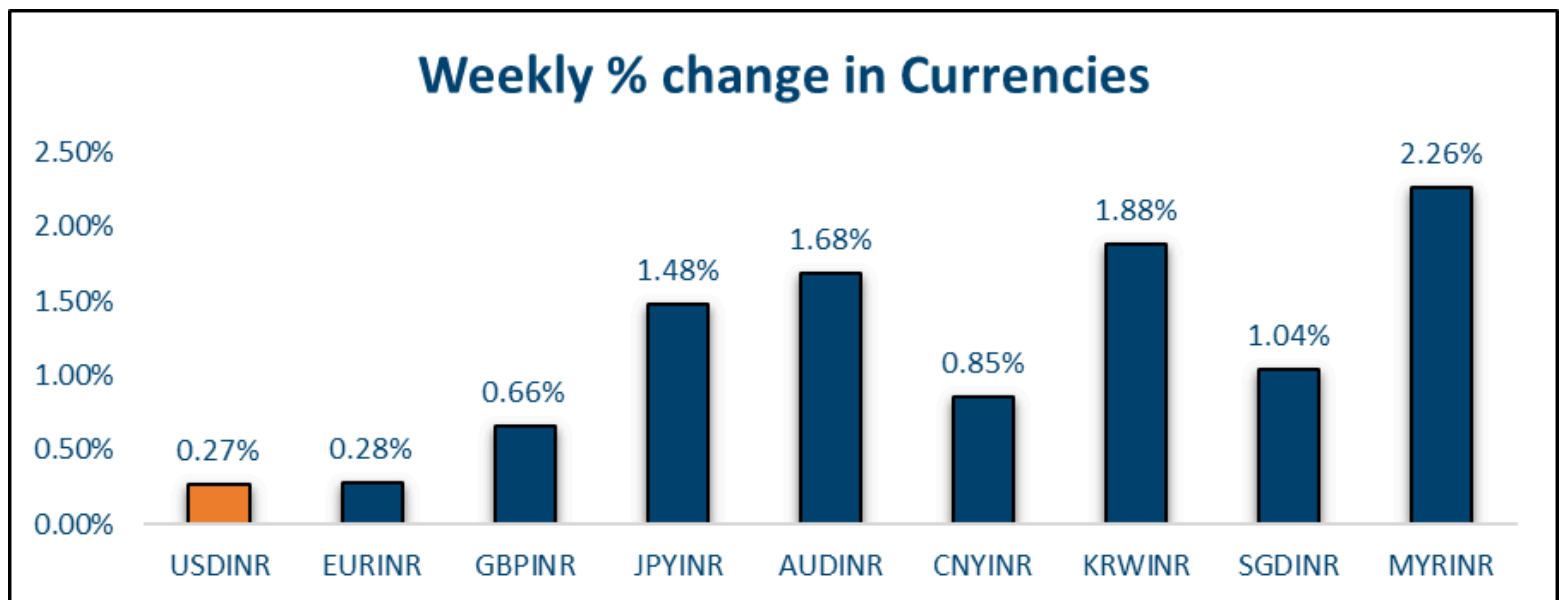
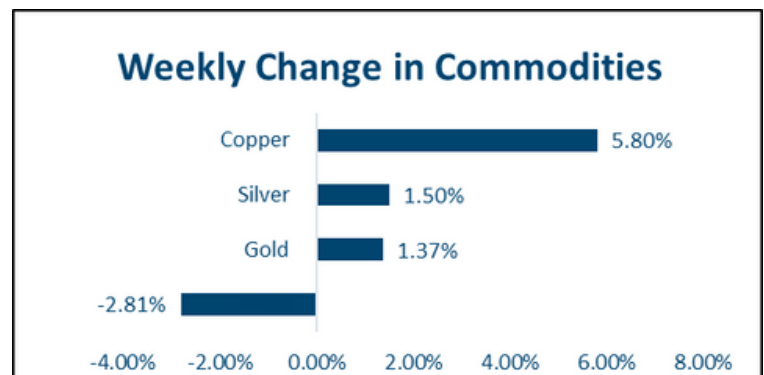
Rupee underperformed, as expected, amid broad based Dollar weakness, ending the week 0.2% lower at 83.70.

1y forward yield ended the week 2bps higher at 2.39%. 3m ATMF implied volatility continues to remain steady around 2.35%

Cross/INR surged as a result of Rupee underperformance with CNH/INR approaching the 12 mark. Since June end, the Rupee has weakened 5% against the Yuan.

COMMODITIES:

Commodities did well this week across precious metals and industrials. Copper surged 5.3% on hopes of demand revival post the stimulus measures unleashed by the PBoC and China government. Gold and Silver rose 1.4% and 1.3% respectively. Brent however ended the week 3.3% lower. Focus will be on the Joint Ministerial Monitoring Committee (JMMC) meeting of OPEC on 2nd October to see if the production hikes are deferred considering the current dynamics.



IFA'S VIEW

Ideas and Opportunities

WHAT WE LIKE:

Equities:

We believe the rotation towards large caps will continue. We may see continued outperformance of large caps relative to Smallcaps and Midcaps given the elevated valuations. In terms of sectors, we may see a shift towards more defensive play. Metals however may continue to do well on big bang China stimulus.

Last week's move in China equities suggests to us that we are seeing the onset of bridging of gaping valuation gap between US and Chinese equities.

FX:

We expect the Dollar to continue to weaken broadly. Commodity currencies could outperform in a positive risk sentiment backdrop. We may see follow through in Yen strength taking it towards the 140 mark again. We expect the Rupee underperformance to diminish as significant correction of overvaluation has already happened. Exporters can now consider hedging Cross/INR exposures for their cash flow exposures. We advise caution on Yen imports and Yen borrowing exposures as we see further upside in JPY/INR.

Fixed Income:

In Fixed Income we prefer being long duration in IGBs given the positive sentiment and demand-supply dynamics at the long end of the curve. We could see the IGB curve flatten further or perhaps even invert unless the RBI delivers a 25bps cut in the October policy.

Commodities:

We continue to remain bullish on precious metals. Gold and Silver are likely to benefit from lower US real rates and a weaker Dollar. Base metals may see positive traction on the overhang of China stimulus. Energy complex may underperform unless geopolitical tensions threaten supply constriction.

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