



NETRA

Early Warning & Signals Through Charts

March 2022

DSP

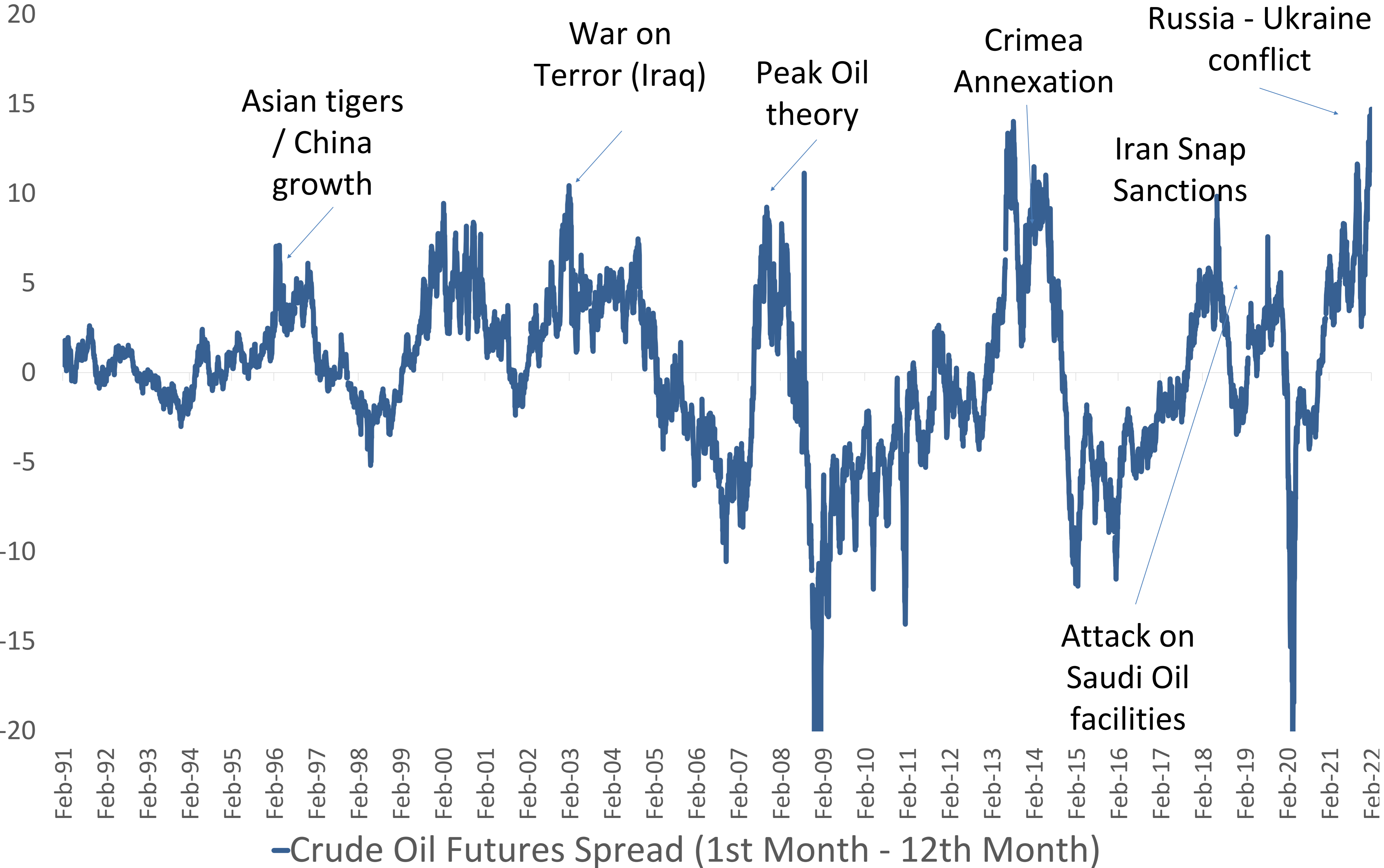
Crude Oil Backwardation Has Priced in A War?

Backwardation: A condition when the futures market is abnormal. This happens when price of the futures contract which is months ahead trades at a discount to the near month prices. Since commodities entail a storage cost, called cost of carry, ideally they would be more expensive in the future.

This occurs when there is a threat to supply or a massive demand boost. The Russia-Ukraine conflict has created nervousness with respect to Oil supplies.

Crude Oil futures are now witnessing the widest backwardation seen since 1990s.

Each of the previous instances of such wide backwardation have result in Crude Oil prices falling more than 20%.



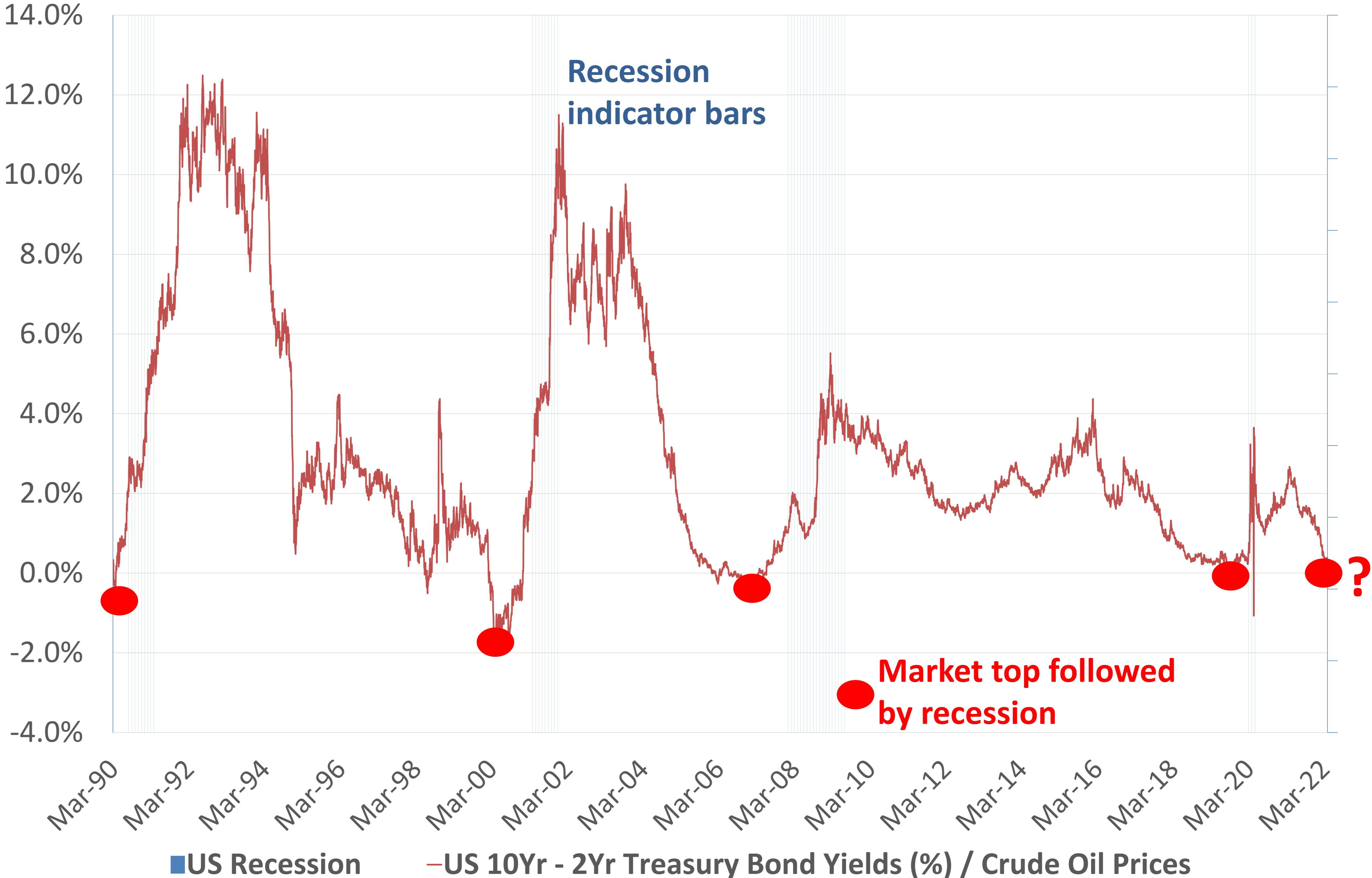
Falling Bond Yield and Rising Crude Is An Omen!

The huge spike in crude oil prices & the fall in bond yields indicates two things:

- First, that a supply led oil price spike is killing growth expectations
- Second, bond markets are pricing in a sharp slowdown in growth

Historically this has led to market tops in the US and usually a recession as well. Will this time be different?

In any case, we must prepare for slower than expected growth in 2022 and lower equity prices.



China – The Biggest Growth Market for Crude Oil is Slowing!

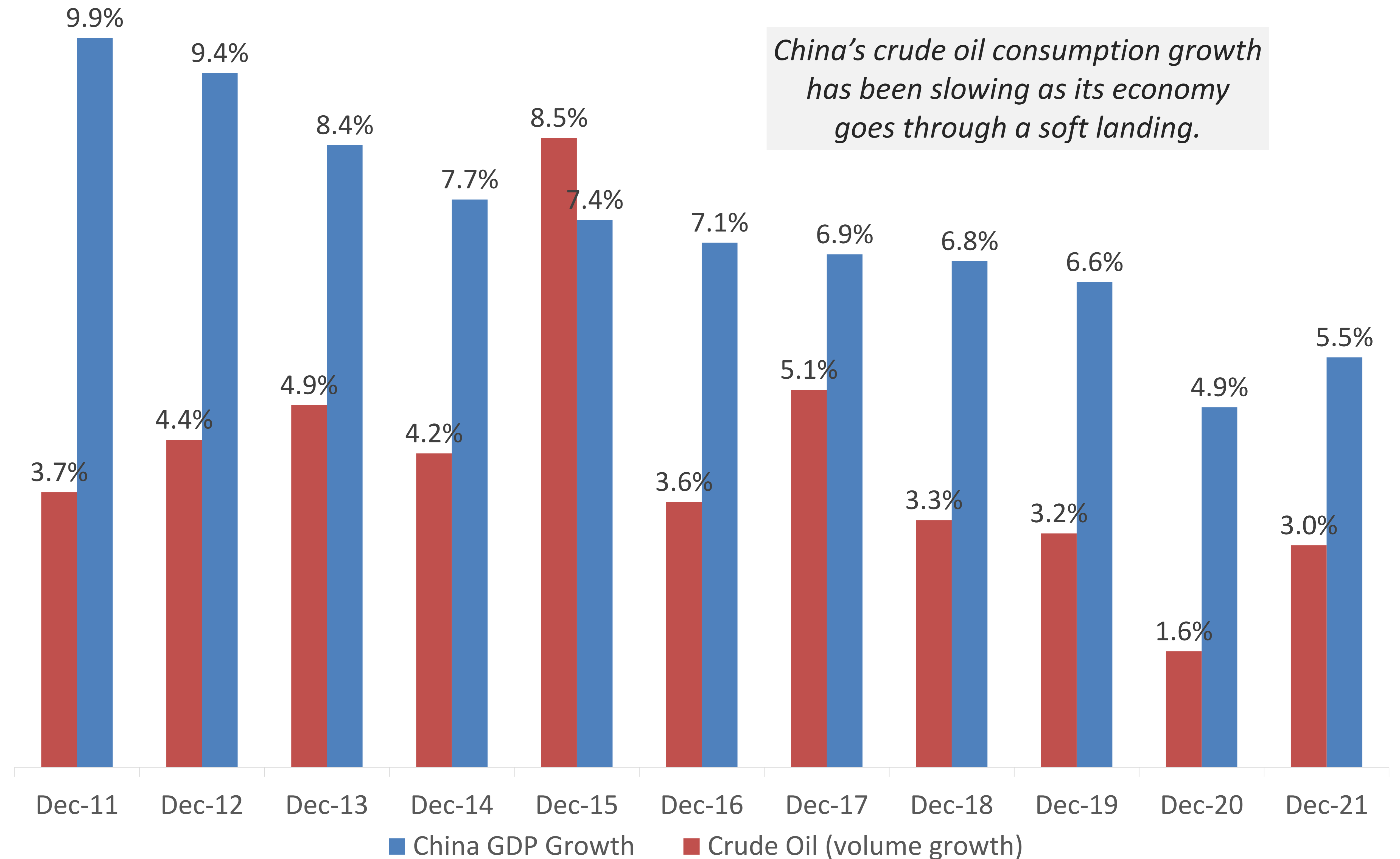
China accounts for more than half of the annual growth. That means most of the growth on a year on year basis for crude oil consumption comes from China.

At present China is nearing a 15 million barrels per day of crude oil consumption.

Over the last few years the Crude Oil consumption volume growth in China has slowed.

This is the single biggest headwind for Crude oil over the long term. At present, the reflection on prices is balanced by supply side issues. But this will turn out to be a headache for the markets as supply side crisis ends.

China's crude oil consumption growth has been slowing as its economy goes through a soft landing.



Cure for High Commodity Prices is High Commodity Prices

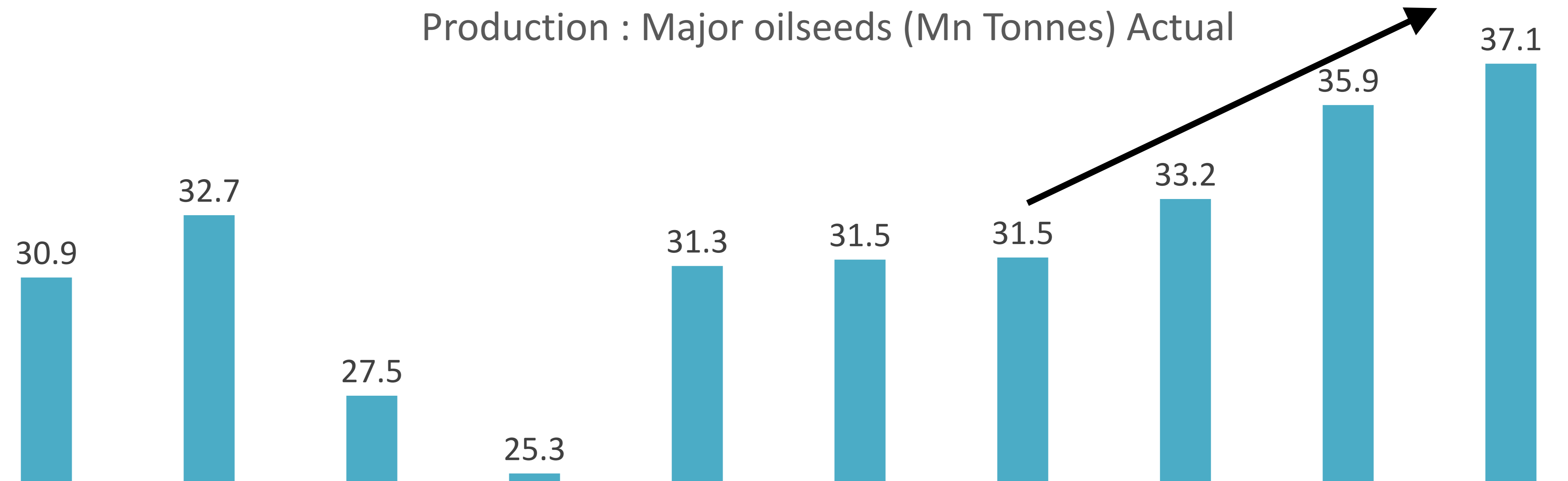
India has faced huge spikes in pulses inflation in the past. That got tackled to some extent through high growth rates in pulses production domestically.

A similar story is repeating in oil seeds and edible oil. There has been a massive spike in edible oil inflation in India in the last two years.

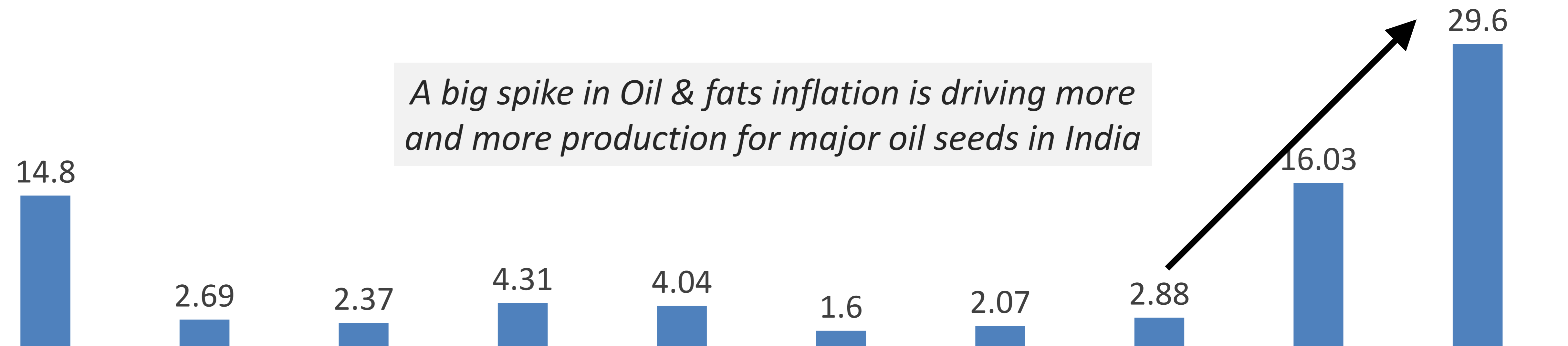
The rising production trends should probably quell this trend and normalize it to a certain degree. However a part of this price rise is due to higher prices globally and is beyond local measures.

But it is amply clear that higher commodity production in local markets is key to quell inflation fears.

Production : Major oilseeds (Mn Tonnes) Actual



A big spike in Oil & fats inflation is driving more and more production for major oil seeds in India



■ Oils and fats CPI Inflation (yoy, %)

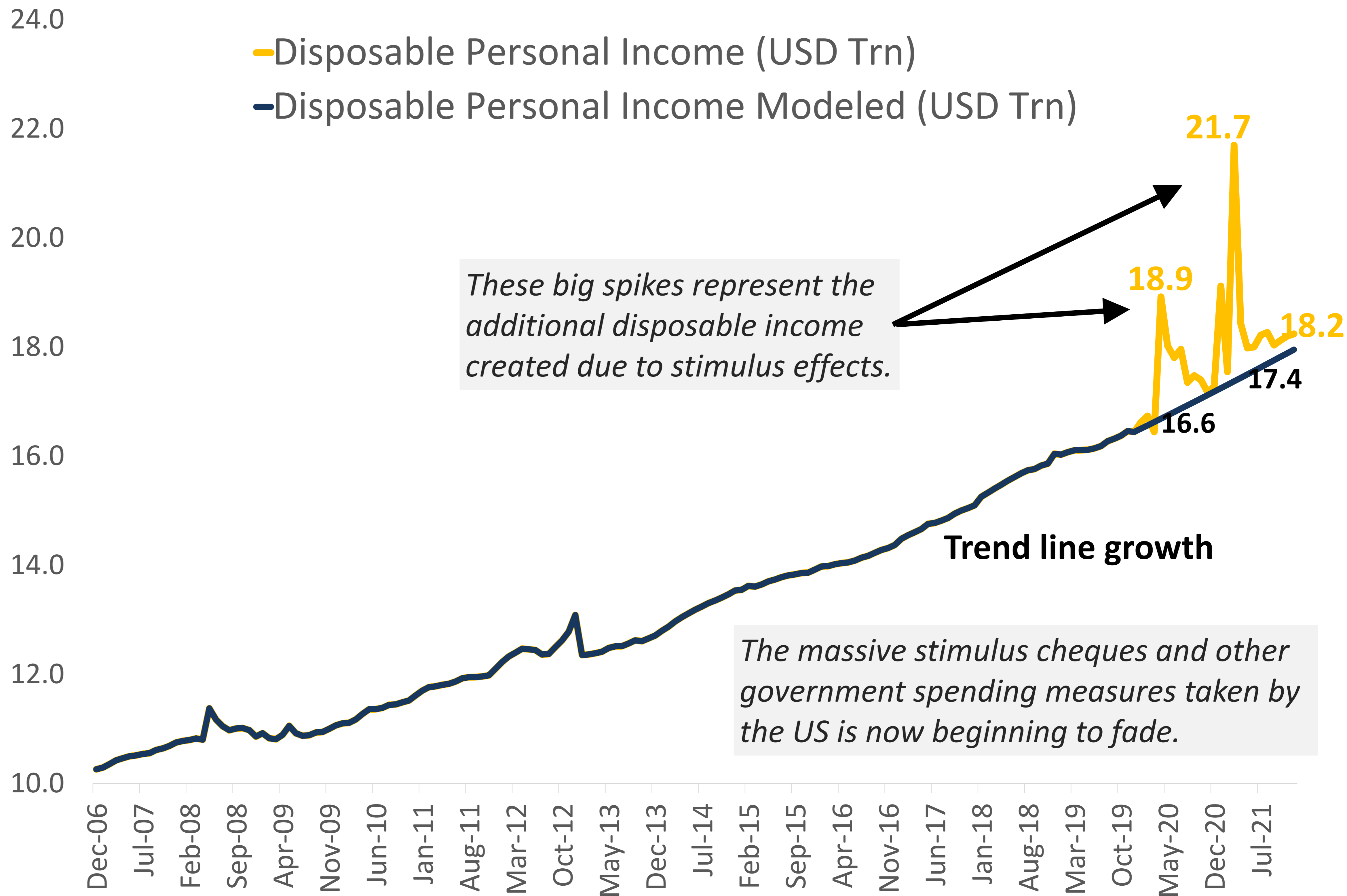
US Stimulus Sugar-rush Is Fading

US stimulus is now fading away.

Disposable Personal Income (DPI) is the amount that people have left to spend or save after paying taxes. This was likely to get hit due to COVID led disruption. To counter it, the US government enacted massive stimulus and gave money directly to US consumers.

In Dec '19 the US DPI was at \$16.4 trn. Due to the stimulus this number rose by \$4.3trn versus what it should have been if there was no COVID or no stimulus.

This means that the stimulus added nearly 20% to additional spends in US. DPI is now nearly back to pre-covid trend estimates implying that growth, inflation and demand should normalize from current high levels. Can it make a bearing on stock prices?

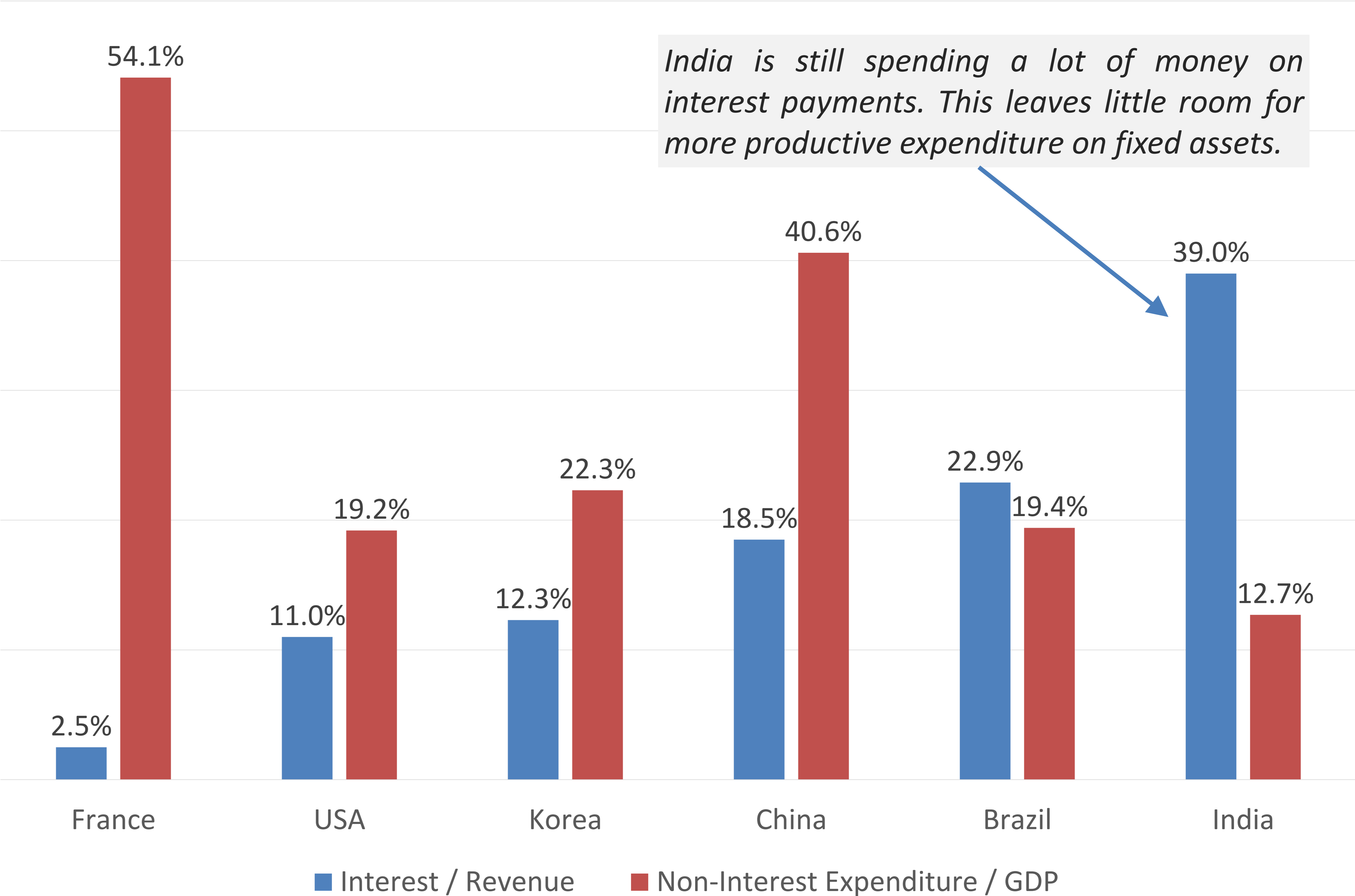


Interest Payments Dominate India's Finances

Fiscal dominance refers to relatively large fiscal deficit (especially revenue deficit)-to-GDP ratios impacting monetary policy.

By definition, fiscal dominance impedes the effective implementation of monetary policy aimed at controlling inflation.

India is marred by high interest payments which reduces the resources available for productive expenditure such as creation of fixed assets. This creates a double whammy- i) Monetary policy struggles to tame inflation and ii) Non productive expenditure driven rise in fiscal deficit doesn't aid growth.



Who's The Biggest Buyer of Government Securities in India?

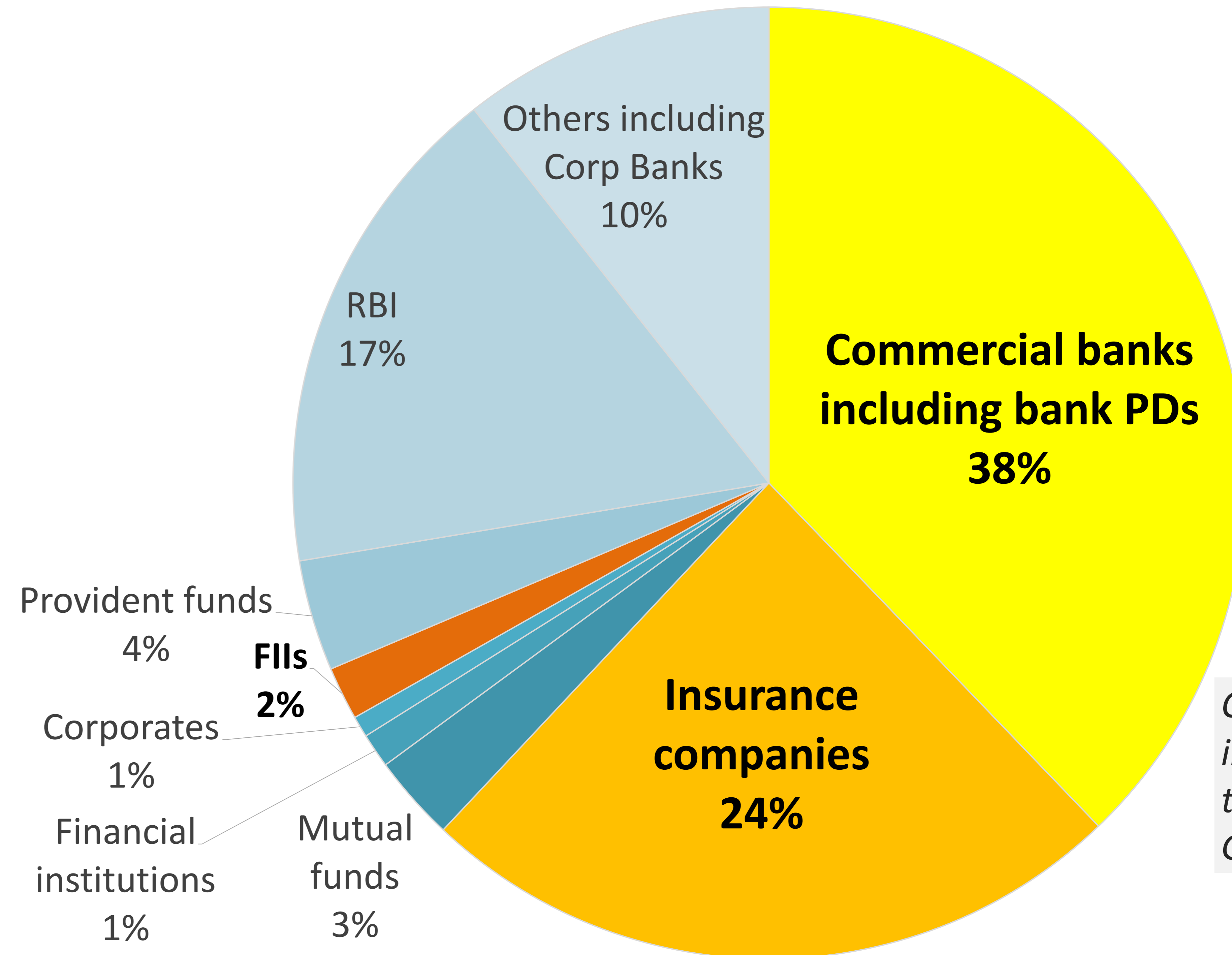
The Budget announcement of INR 15 trn in government borrowing has sparked off a debate. There is a likelihood that there could be a dearth of buyers for such a high gross borrowing.

Commercial banks and insurance companies are the largest holders of government securities.

There is a chance that FPIs who have been conventionally holding about 3.5% of Gsec outstanding could add to demand for government securities in FY23.

But demand from commercial banks and insurance companies remains the key.

Ownership Pattern of Central Government Securities



Commercial banks & insurance co.s are the biggest buyers of Govt securities.

The Current Growth Revival In India Needs Uniformity

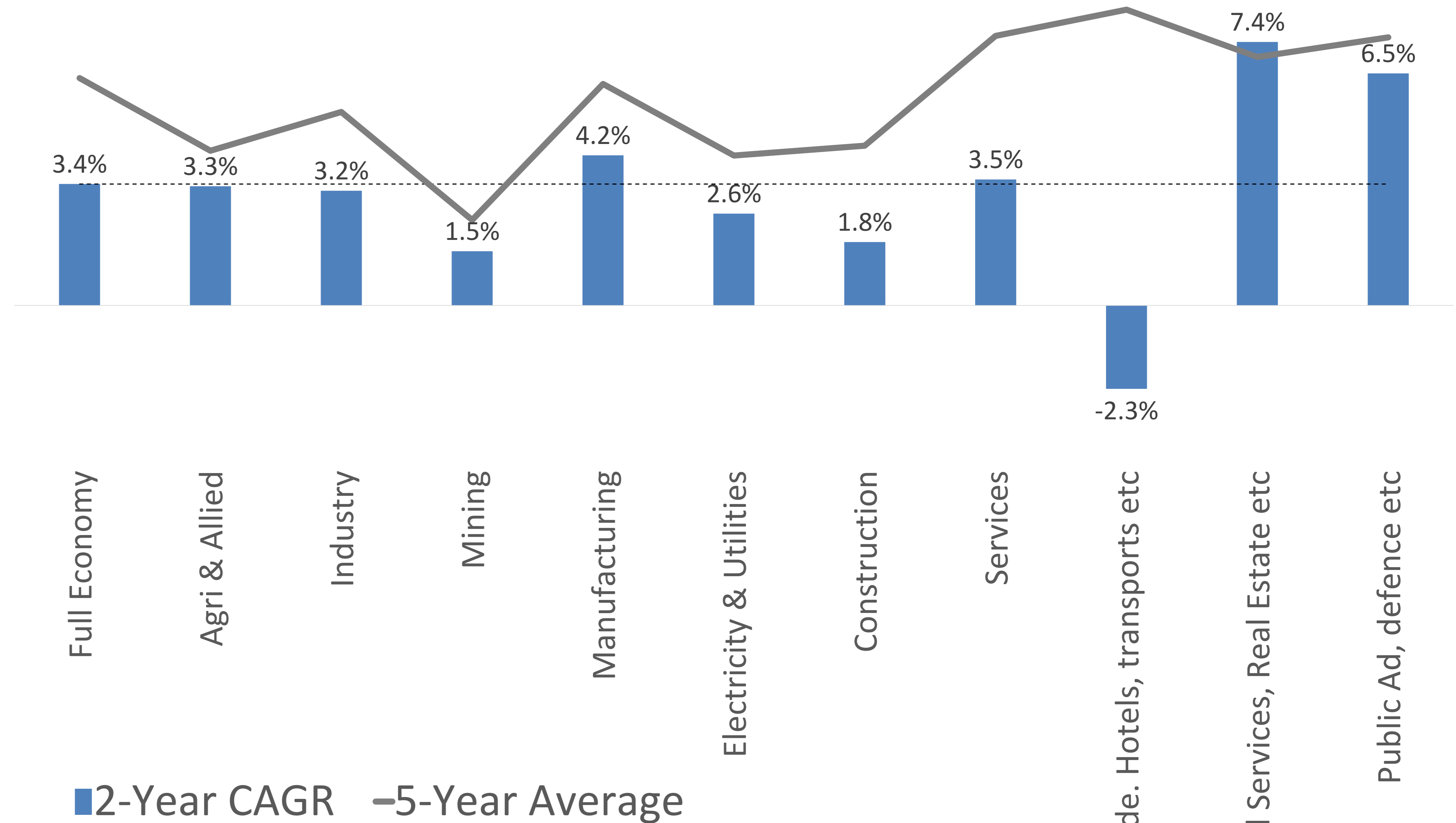
The growth so far hasn't been uniform.

Services sector growth has been underwhelming. However, within services, the categories of 'Financial Services, Real Estate and Professional Services' are clearly outperforming. All other sectoral growth rates are below the averages recorded pre-pandemic.

The latest GDP growth in Q3FY22 at 5.4% is 90bps lower than RBI's estimates of 6.3% in Q3 creating further support for the accommodative monetary policy.

Will RBI stay growth focused?

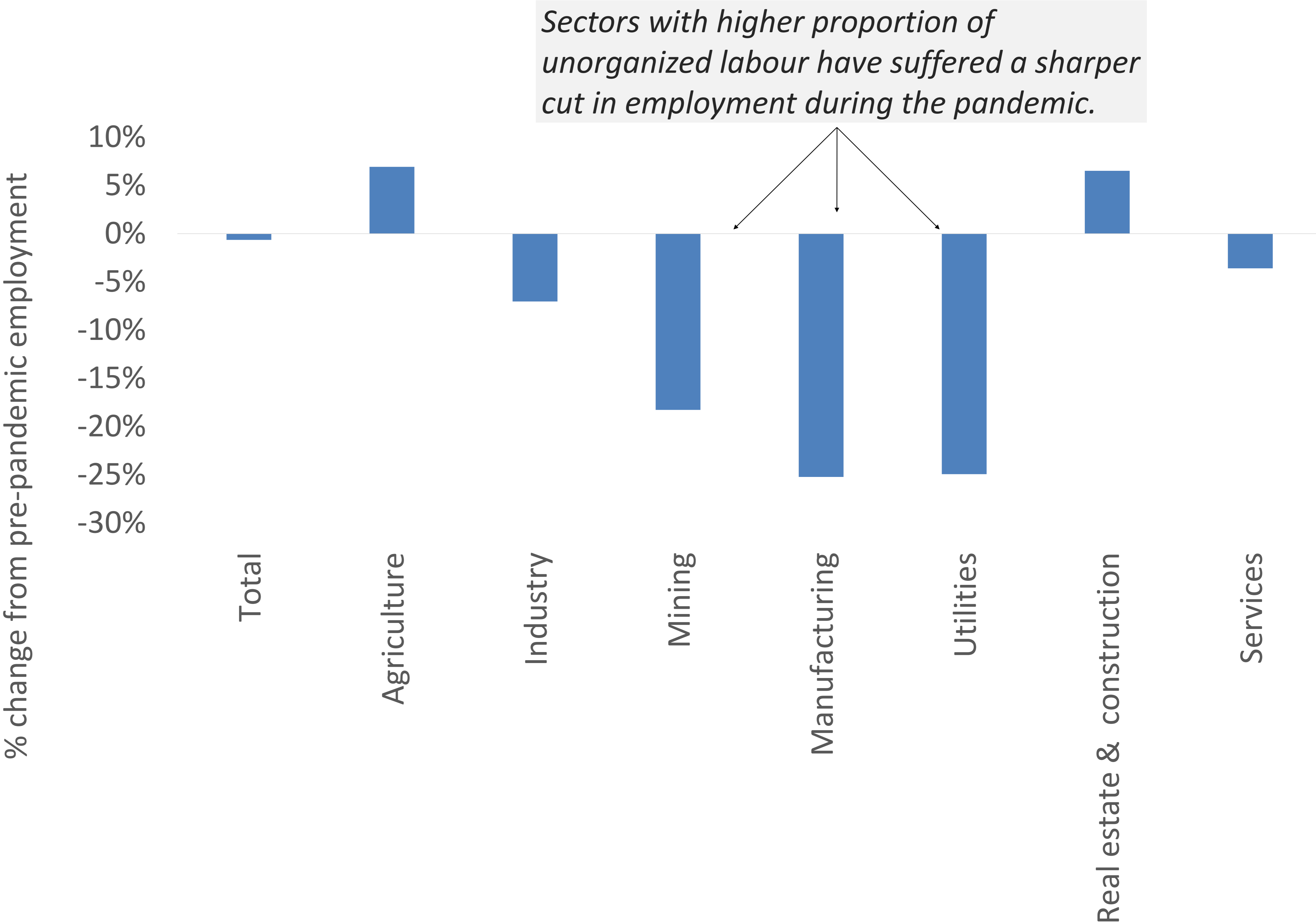
The current GVA growth is still below 5-year average growth rate seen pre-pandemic and is much below the potential output.



Employment Data Shows Grim Picture For The Unorganized Sectors

The CMIE employment survey data shows that employment continues to be below pre pandemic levels even when growth is recording a moderate uptick. Even within employment, sectors such as manufacturing, which are more unorganized, are seeing a sharper cut.

Services, despite lagging in growth, has shown a shallower employment contraction as most of it is under the organized sector. Clearly, all the anecdotal hiring spike has been driven by the formal sector alone!



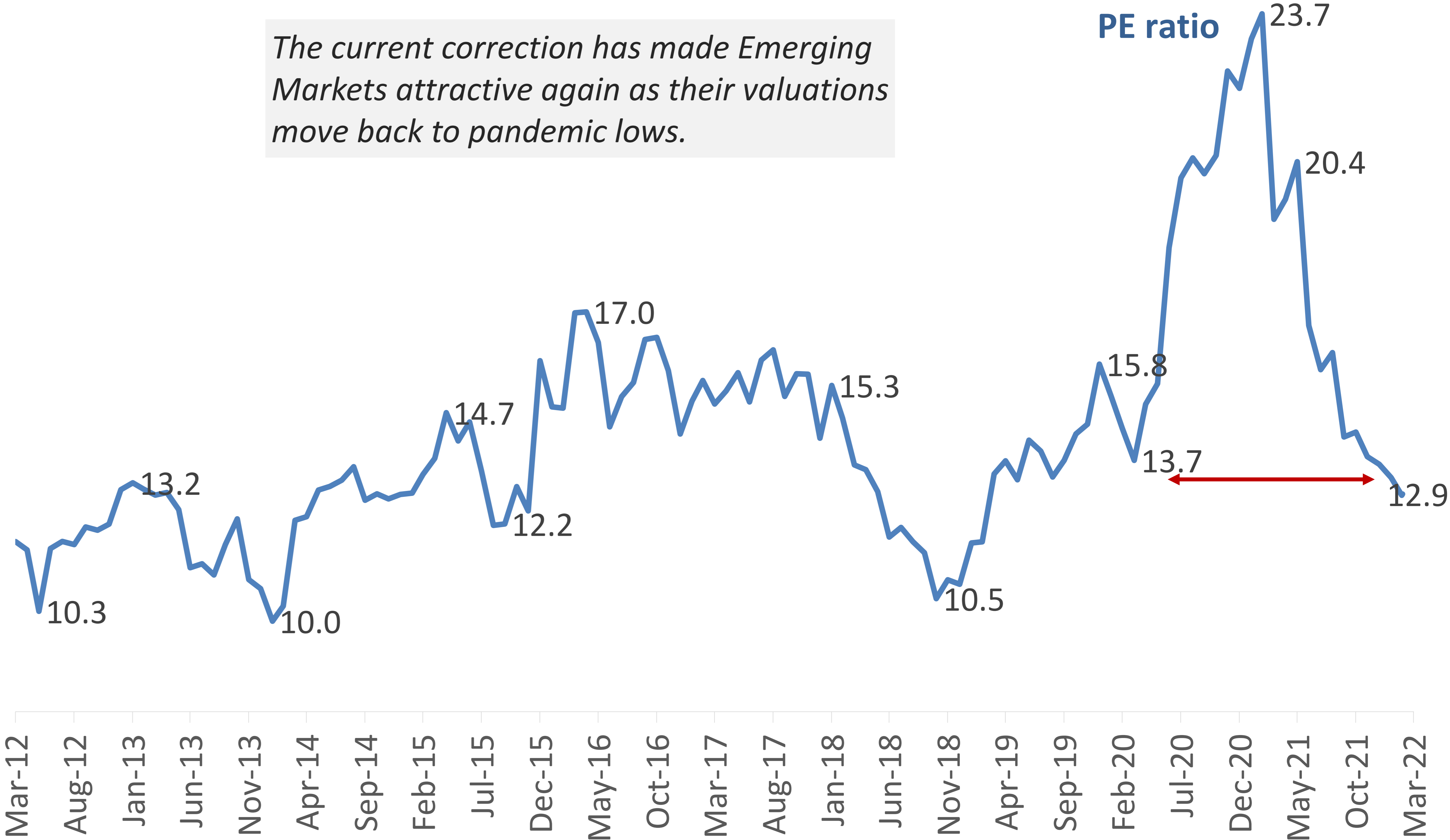
Good Time For EMs?

Earnings expectations for Emerging Markets have been on a rise and the recent price correction in light of Russia-Ukraine war has now made the EM equities as cheap as pandemic lows.

Emerging markets equities are now trading at one of the softest levels in last few years.

This makes the ongoing correction an attractive opportunity in emerging markets including India.

MSCI EM Index Price to Earnings



Factor Investing – How has every factor played out since Nifty 50 peak

Momentum factors have been the worst performing while Value factors have relatively performed well.

Though every factor has behaved differently in the recent bearish market, direction of all the factors remains same i.e. NEGATIVE.

Thus, factor investing can also have its share of volatility of performance.

ASSET ALLOCATION helps in a smoother investment journey!

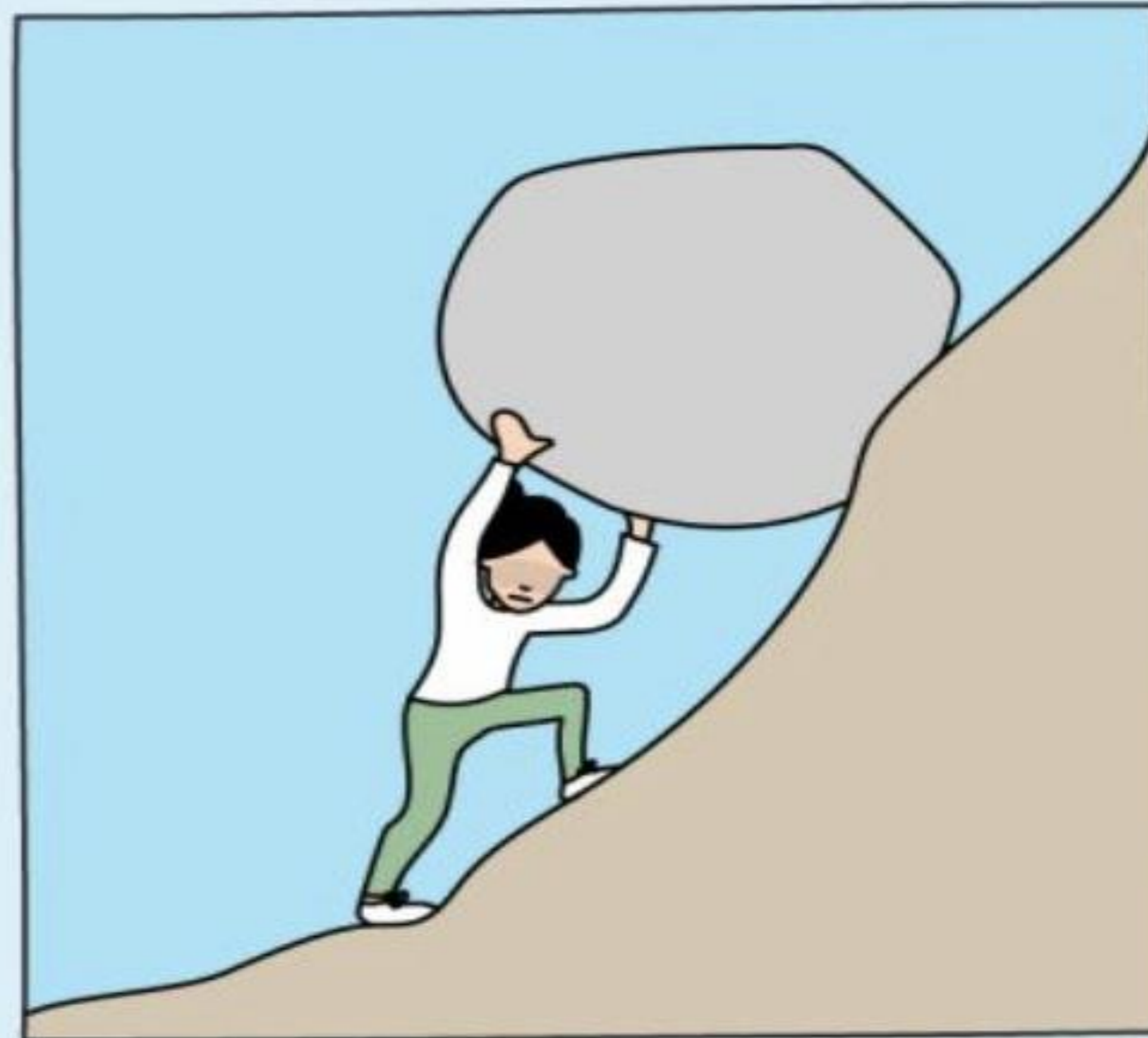
Capitalisation	Factors	Index Name	Returns from Market peak (18 Oct 2021)
Large cap	Market weighted	Nifty 50 TRI	-8.7%
	Value	Nifty 50 Value 20 TRI	-7.0%
	Equal	Nifty 50 Equal Weight TRI	-8.5%
	ESG	NIFTY 100 Enhanced ESG TRI	-9.0%
	Low volatility	Nifty 100 Low Volatility 30 TRI	-9.4%
	Quality	NIFTY 100 Quality 30 index TRI	-9.4%
Large & Mid cap	Alpha + Quality + Low volatility+Value	NIFTY Alpha Quality Value Low Volatility 30 TRI	-9.0%
	Alpha + Quality + Low volatility	NIFTY Alpha Quality Low Volatility 30 TRI	-9.1%
	Quality	Nifty 200 Quality 30 Index TRI	-9.1%
	Alpha + Low volatility	NIFTY Alpha Low Volatility 30 TRI	-9.3%
	Market weighted	Nifty 200 TRI	-9.5%
	Quality + Low volatility	NIFTY Quality Low Volatility 30 TRI	-9.7%
	Momentum	Nifty 200 Momentum 30 Index TRI	-12.9%
	High Beta	Nifty High Beta 50 TRI	-13.7%
Midcap	Market weighted	Nifty Midcap 150 TRI	-12.7%
	Quality	NIFTY Midcap150 Quality 50 TRI	-13.4%
Multicap	Alpha	Nifty Alpha 50 TRI	-6.5%
	Value	NIFTY 500 Value 50 TRI	-8.9%
	Market weighted	Nifty 500 TRI	-9.6%

Relaxed Investing: #KeepCalm

**Don't make
investing a pressure
cooker.**

**Make a plan,
stick to it.
Evaluate periodically.**

JUST BECAUSE YOU
CAN ENDURE



DOESN'T MEAN
YOU HAVE TO



LIZ FOSSLIEN

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