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"It is not a matter of what is true that counts, but a matter of what is perceived to be true."
- Henry Kissinger

Politics, Finance Minister – The Factor of Our Market

Being one among the stock market participants, *investing or trading (regardless of which market we are into) with one common goal of making money*, our decision (buy/sell), *especially in context of Nepal,* are more of a function with the political events and affairs that transpire over time. In fact, the political setting of a country or a region or a global village is one of the major fundamental factor investors takes note of. Where there are political stability or positive political atmosphere, investor optimism over the market gets boosted and is reflected by the booming market. On other hand, political instability results pessimism among the participants and market becomes volatile. Nevertheless, both scenario of political stability and instability provides opportunities to make money, *depends on the art or craft you polish.*

Governmental instability compounded by unfriendly policies has a part to play for present situation of Nepalese stock market. In recent days, investors have become very sensitive about the next head of Ministerial Cabinet or the next Finance Minister. Investors have now understood the importance the political and economic view a policy maker hold.

After the general elections of 2017, three finance ministers remained in the limelight: Dr. Yub Raj Khatiwada, Mr. Janardan Sharma and Mr. Bishnu Prasad Paudel. Dr. Yub Raj Khatiwada, a seasoned economist became finance minister from 26th February, 2018 to 4th September, 2020. On the day of his appointment, he stated sectors like real state, hire purchase and stock market as "unproductive". During his tenure, Inland Revenue Department changed the method of calculating Capital Gains Tax that created confusion and uncertainty directly affecting stock trading. To topple the matters more, COVID-19 first wave started to turn down the economic activities. Moreover, on his reappointment, on March 4, 2020, NEPSE toppled by 68.47 points (-4.54%). Many feared that new rules in the tax system would force investors to disclose the source of income for making investments above 10 Lakhs. NEPSE was at level of 1350 at the start of his tenure and went up to 1500 level at the end of his tenure. But during his tenure, NEPSE also reached to low of 1100 levels. Increase in volume of transaction due to large issue of rights and bonus issue at that time also contributed to the volatility in market.

From 14th October, 2020 to 13th July 2021, Bishnu Prasad Poudel became the Finance Minister for the second time. Investors regarded his policies to be market friendly.

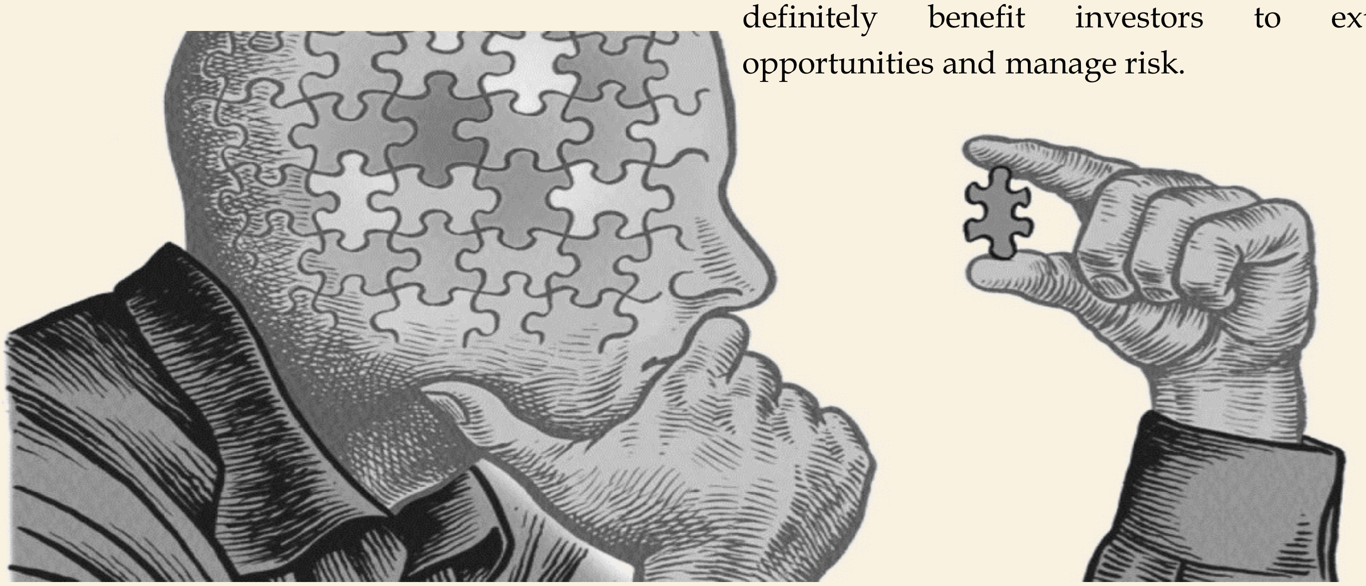
During his first tenure as Finance Minister from 5th November, 2015 to 1st August, 2016, he reiterated the importance of real sector to be listed in the stock exchange. In his third tenure, from 26th December, 2022 to 27th February, 2023, Poudel had responsibility to coordinate and mend the relationship with regulators like NRB. His policies during this period were much on rejuvenating economic activities. To make this possible, Ministry of Finance revised budget and concentrated more on capital spending from government coffers to revive growth. But due to political fiasco, he resigned from the post and the present government is yet to appoint another finance minister.

It cannot be a coincidence that during his second appointment, market started a bull run. Although, credit for starting bull-run should also go to entry of new investors along with use of leverage at high levels but we can't deny the fact that investors sentiments were uplifted due to him being appointed as finance minister. At the start of his second tenure, market was at 1560 level which scooted up-to 2800 level at the end of his tenure.

Mr. Janardan Sharma became the finance minister from 13th July 2021. He held this post till the 2022 General Election. As a new face in the ministry, investors had high hope on him. But his time at finance ministry was mired by controversies in budgetary allocation and unduly influencing independent regulator like NRB.

Likewise, during his tenure, Nepalese economy was unstable. Economic indicator like Trade deficit was 35.5% of GDP and Current Account deficit was 12.8% of GDP. When he assumed office, NEPSE was at 2800 level but post 2022 General Election, NEPSE reeled to 1900 level.

We looked at political instability in Nepal through analyzing the changes in Finance Ministers and effect they had on economy and the stock market. Generally, a finance minister brings his /her qualification, experience, political ideologies and view on public and private sector that could affect policy making and decisions towards economy and businesses. Investors in recent times, have been sensitive about ideologies, political knot, and view of finance ministers as they feel it could actually drive the market. So, analyzing political scenario and factoring the political situation would definitely benefit investors to extract opportunities and manage risk.



An old boss once warned:

"You'll never be rich since you're obviously smart, and someone will always offer you a job that's just good enough".   ***- The Almanack of Naval Ravikant***

MARTKET NOTE…

ARE WE AT BOTTOM OR THE WORST YET TO COME?

Market has been on a bearish trend since August 2021 when it made the all-time high of 3200. Within a year i.e. by September 2022, market hovered at 1800, and at recent it is hanging at 1900, witnessing approx. 40% fall.

Technically, bull and bear market are hypothesized when 20% reverse change is noticed from the previous high or low level. Taking note of this, NEPSE has actually encountered both bull and bear phase from the high of 3200 to low of 1800. Aug. 2021 to Dec. 2021 (5 months) recorded the first bear when market plunged 28% from 3200 to 2300. Then market made 26% upswing to 2900 level by January, 2022 (2 months), reporting a short-lived bull. It has been a year since market made the depressing bear run, *approx. 38% fall from 2900.*

The surplus liquidity in the economy at times of Covid-19 lockdown in mid of 2020 shoot up the market by north 160% in a year. As the economy headed towards normalcy with the huge import demands, the economy and banking sectors landed to the reality of liquidity crunch, which stressed the interest rates, inflation, forex reserve, etc. directly hitting the stock market.

For around 3 months, from mid Sept. to mid Dec. 2022, market floated sideways in between 1800 to below 2000 level, marking the 1800 as strongest support. The pessimistic investors sentiments turned to hopes and excitement after the appointment of market favored Finance Minister Mr. Bishnu Poudel in late Dec. 2022, swiftly pulling the market up to 2270 level (22%), again clocking a momentary bull. As his tenure ended in a month of two, market has returned to the previous bracket of sideways.

Despite the formation of the Golden cross-over in NEPSE on Feb. 2023 at 2040 level where 50D SMA crossed the 200D SMA from below indicating the strong bull outlook, the hypothesis got invalidated as index fell below 2040 shortly, *trading beneath 50D and 200D SMA*. Among the sub-indices, Microfinance, Manufacturing & Processing, Commercial Banking, etc. are floating at significant down to the 50D and 200D SMA level. Most sub-indices are already trading at or lower than 50D and 200D SMA. Hydropower, Hotels still provides bullish outlook.

Further, market volume at recent time has seen a major drop, nosediving all the way from approx. 7.3 million a month ago to below 3 million at month end. Approx. 60% decline in turnover and volume are observed in a month while transaction size has shrinkage to approx. 50%. Virtually, all sub-indices have diminishing volumes over the period. This can indicate the bearish and pessimistic sentiments of investors as found expressed through social media. Empirically, market has also gone up following the weak period of volumes.

Overall stock market, as spelled by the market cap to GDP ratio has remained at or below 60%, explaining the underpriced market. However, this does not mean all sectors/securities are cheap to buy, instead more than half securities have higher P/E and overall market P/E ratio is above 40. Companies' financial performance have constraint lately, *some BFI's even reporting losses.*

Needless to say, market is always unpredictable, and it is incalculable to determine the bottom level. S&P 500 may take a year to touch the bottom but same may not apply in our context. If we look at the longer horizon, from the high of near 1900 (mid 2016) to the bottom of 1100 (late 2019), it took almost 3.5 years. If we again see the bigger picture and note the fall from 3200 (Aug. 2021) we can infer some more time for market to bottom. Given that the market has already tumbled more than 40%, *almost same percentage as witnessed in 1900 to 1100 journey*, we can hope the next bottom to be no less than 1700 following the consolidated market of a year or less.

For all bleak national and international fundamental factors, as investor, we need to remain optimistic and positively take note of improving national economic indicators, giving hopes of another market opportunities (though short-lived).

WHERE DO THE FACTORS STAND?

1) Banking Liquidity – CD: 85.6%

- CD ratio fell from 86.65% to 85.6% by Falgun end.
- Banking deposit by month end totaled approx. Rs. 5,388 billion from Rs. 5,363 billion meagre 0.46% rise. On other hand, banks loan has decreased to Rs.4,809 billion from Rs. 4,826 billion last month, reflecting 0.35% drop.
- Lowering CD ratio pictures the improving liquidity, but actually questions the availability of loanable fund in the banking sectors.

2) Interest Rate – IBR: 7.00%

- A, B, and C Class BFI decreased interest on Deposits, *applicable from Chaitra*. Commercial banks decreased deposit rates by 0.42% to 6% and 8% on saving account limited call account to 3%, while premium on loan capped at 5%. Development banks decreased FD rates by 0.25% (< 1 year deposit) and by 0.15% (> 1 year deposit). Finance sector reduced FD rates by 0.20% (< 1 year deposit) and by 0.15% (> 1 year deposit).
- Inter-bank rate has resurged to 7.00% at month end, against 5.25% previously. The rate though remains much volatile relates inversely to banking system liquidity supply.
- 91-day T-bill has decreased to 9.09% from 9.63%.

3) Inflation: CPI – 7.88%

- Consumer Price Inflation (CPI) and Wholesale Price Inflation (WPI) recorded 7.88% and 9.67% respectively in mid-February 2023. Corresponding previous period reports 5.97% and 10.34% resp. Rising inflation globally amidst the ongoing tension between the Russia-Ukraine, fear of global recession, rising oil/fuel prices, etc. cast doubts on government fiscal targe to limit inflation at 7%.

4) Remittances – 27.1% rise

- The amount of remittance has increased by 27.1% to Rs.689.88 billion in the first seven month of current fiscal year 2079/80. In terms of US Dollar, remittance has increased 16.4% to USD 5.30 billion. Such remittance inflows were 4.4% negative in the corresponding previous period.
- 57.3% rise in workers taking foreign employment approval till seven months of current fiscal year.

5) Govt. Revenue and Expenditure

- Government is able to collect 41.53% (i.e., Rs.582.77 billion) of its fiscal year 2079/80 targeted revenues till month end.
- Government expenditure has reached 43.44% of its budgeted expenditure (i.e. 1793.8 billion) where 51.46% are recurrent and 22.15% are capital expenditure.
- In corresponding previous period, revenue collection was 58% while the expenditure was 41.36%, recurrent being 50.54%.
- Although % of expenditure aligns to previous period, government fell short in its revenue collection by 16%.

6) BoP - Surplus

- In the seven months of 2079/80, Balance of Payment is at surplus of Rs.133.21 billion, BoP was at surplus of Rs.97.10 billion till six months period.
- Current account is at deficit of Rs.29.64 billion against the deficit of Rs.411.34 billion previously.
- Merchandise import decreased 19.9% to Rs.919.17 billion while merchandise export decreased 29% to Rs.93.43 billion.
- Trade deficit has decreased by 18.7% to Rs.825.73 billion during the seven months of 2022/23.

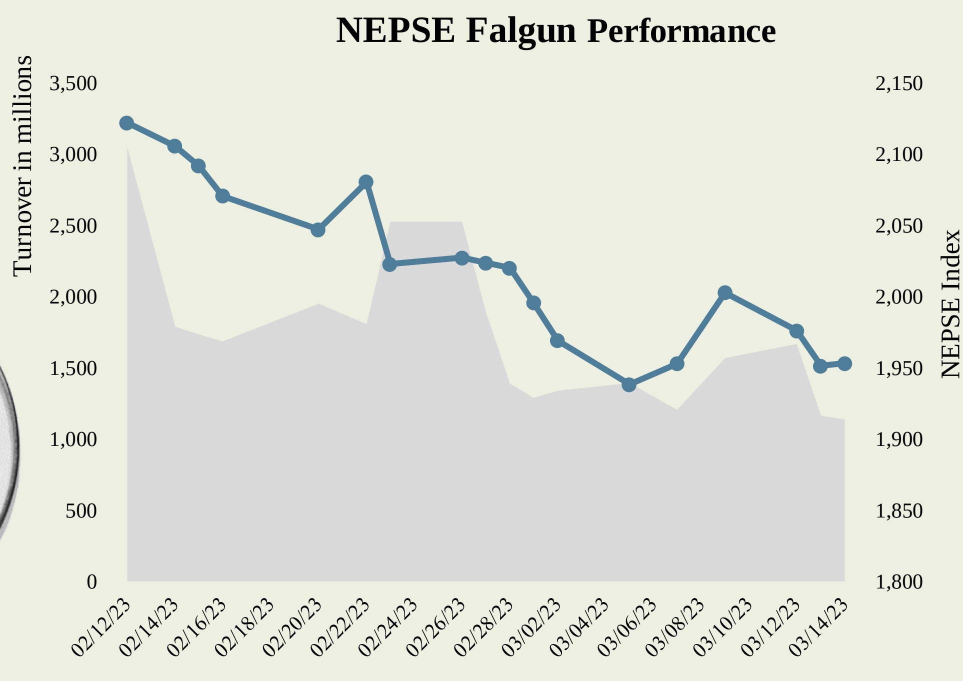
7) Forex Reserve – Stable

- Gross foreign exchange reserve increased 13.8% to Rs.1383.33 billion. Equivalently, it is an increase of 10.2% to USD 10.50 billion.
- Such reserve is adequate to meet the prospective merchandise import of 10.8 months, and merchandise and service import of 9.4 months. This is higher than the current Monetary Policy target of maintenance of reserves sufficient to meet at imports.

8) Global Concern – Collapsing Banks and Looming Recession

- Silicon Valley Bank, Signature Bank, and Silvergate - 3 of the largest banks in the US went bankrupt one after another. But the fate of Credit Suisse, categorized as Globally Systematically Important Bank, would determine the systemic impact of likely 2023 global recession. The bank is under serious pressure after more than 70% drop in its value given the series of scandal and poor management resulting huge financial losses.

NEPSE SCANNER



- NEPSE salvaged to 1953 level from 2121.87 (beginning), peaking the high of 2122.56 and bottoming 1935.21 (186.79 points volatility) in the review month, shedding 168.81 (7.96%) points.
- Sensitive, float, and sensitive float index simultaneously fell by 8.93%, 7.98%, and 9.54% respectively.
- Month end comparison detect an approx. 55% drop in volumes, turnover amount and transaction size while monthly average shows 46.07 lakhs (-46%), Rs.1.64 billion (-47%) , and 34.49 thousand (-35%) respectively.
- Market cap decreased 7.78% to Rs. 2.82 trillion, out of which approx. 35% are only floated. Sensitive market cap which covers A class stocks has suffered 5.75% loss and the size of Float and Sensitive float market cap has fell by 7.15% & 2.72% respectively.

Metrics	**14.03.2023**	**12.02.23**	**Monthly Change**
NEPSE	1,953.06	2,121.87	-7.96%
Sensitive	368.32	404.44	-8.93%
Float	137.22	149.12	-7.98%
Sensitive Float	123.22	136.22	-9.54%
Turnover (Mill)	1135.93	3,047.74	-62.73%
Shares Volumes	33,181,08	8,139,840	-59.24%
Total Transactions	26,437	51,266	-48.39%
Total Scrips Traded	255	253	0.79%
Market Cap (Rs.Mill)	2,823,679.44	3,061,962.03	-7.78%
Sensitive Mrkt Cap (Rs.Mill)	1,145,366.84	1,215,202.05	-5.75%
Float Mrkt Cap (Rs.Mill)	1,009,194.26	1,086,894.36	-7.15%
Sen. Float Mrkt Cap (Rs.Mill)	401,569.29	412,780.62	-2.72%
Average Return	16.32%	19.43%	-3.11%
Standard Deviation	25.16%	25.27%	-0.11%
10 Day 10% VAR	-6.58%	-6.55%	-0.03%
Market Cap / GDP Ratio	58.20%	63.11%	-4.91%

Note: For avg. return, std. dev.and VaR computation, data is considered since 1.1.20. Assumed annual 225 trading days.

- Avg. market return has slumped to 16.32% from 19.43% while the risk level (std. dev. and 10 day 10% VaR) has both shrunk minutely.
- Market is under-valued as per Market capitalization to GDP ratio (Buffett Indicator).

Average Turnover

NPR. 1.65B

-44.44%

Average Volume

NPR. 4.6M

-44.10 %

Average Transaction Size

NPR. 34.49K

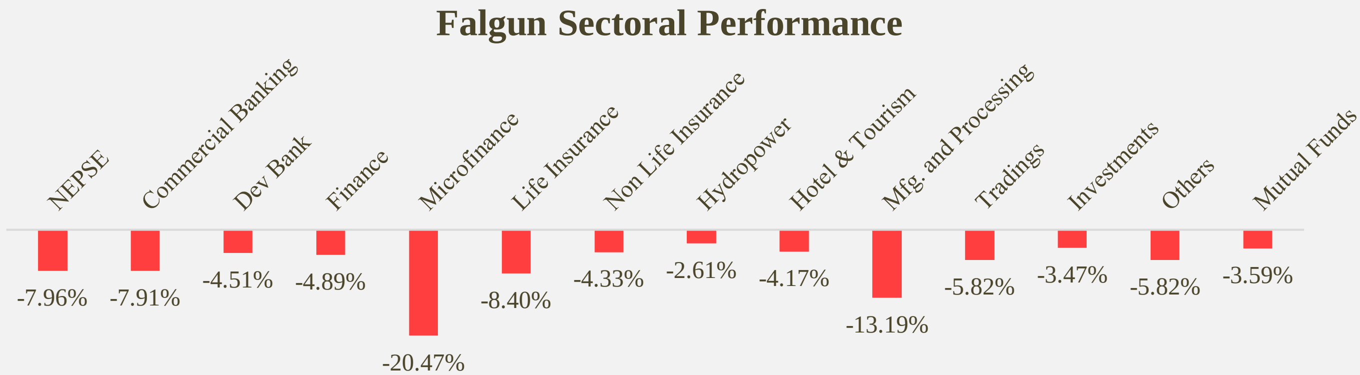
-32.68 %

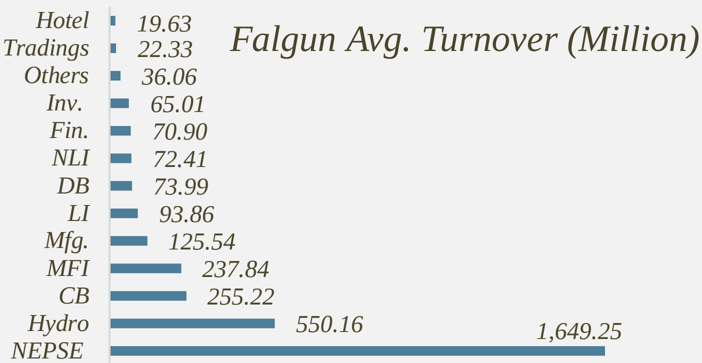
Average Market cap

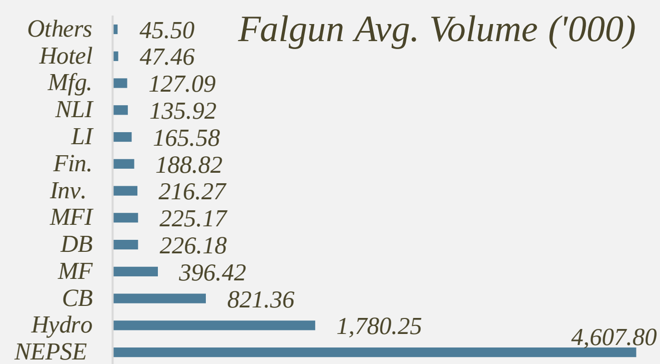
NPR. 2.9T

- 6.26%

SECTOR SCANNER



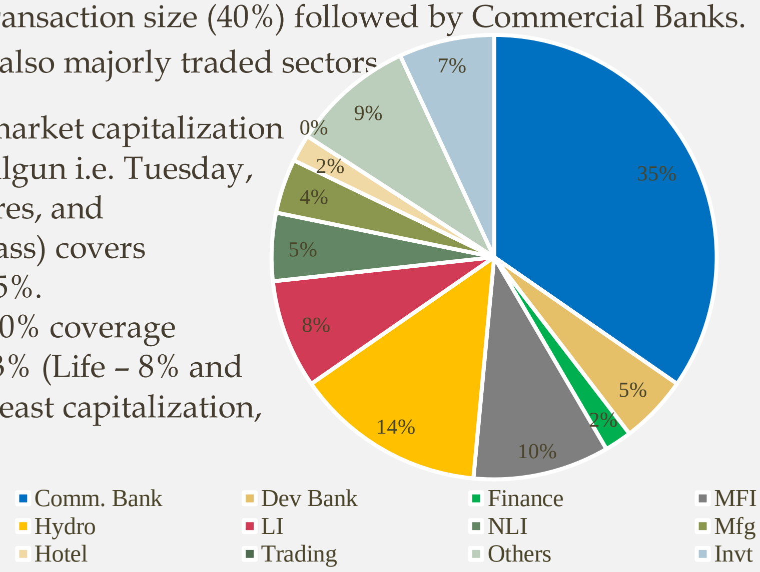




- Microfinance sector lost the most (20%) in the month following the NRB's revision to the Integrated Directives for MFI, 2078, resulting panic and confusion among the investors regarding the profitability and return distribution by the sector in future. Manufacturing and Processing, Life Insurance, and Commercial Banks were the other major losing sector. Hydropower sector remained the least sensitive to the market volatility.

- Hydropower sector continued to lead the market in all trading days of Falgun in terms of Turnover (33%), Volumes (38%), and Transaction size (40%) followed by Commercial Banks. Microfinance, Development Bank were also majorly traded sectors.

- Pie- chart on right shows the tentative market capitalization of 12 sectors as on last trading day of Falgun i.e. Tuesday, but excludes Promoter shares, Debentures, and Mutual Funds. BFI sector (A, B, C, D Class) covers approx. 50%, Commercial Bank alone 35%. Hydro and Microfinance has 14% and 10% coverage respectively. Insurance sector occupy 13% (Life – 8% and Non-Life – 5%). Trading sector has the least capitalization, *amounting approx. Rs.12 billion.*



Banks and Financial Institutions: Amid ease in liquidity due to increase in deposits and approaching deadline of NRB directives to bring interest rate spread to 4.2% for Commercial banks and 4.8% for Development banks and Finance by Chaitra, 2079, BFI has decrease interest rates on savings and fixed deposits from the month of Chaitra. Nepal Banker Association (NBA) meeting capped loan premium on interest rate up-to 5% (previously 6%) for A class Commercial banks while the interest on savings deposit were lowered by 0.42% to 6% and 8% (previously 6.42% and 8.42%). Further, call deposit has been limited to 3% and no change made to FD rate. Development Banks followed suit by reducing the interest rates on Fixed Deposit by 0.25% (< 1 year deposit) to 11.50% and by 0.15% (> 1 year deposit) to 11.60% and Savings Deposit rate by 0.15%. Likewise, financial institutions reduced the interest rate on fixed deposits by 0.20% for deposits above a year and by 0.15% for deposits under a year.

Likewise, Banks and Financial institutions have been reeling under large NPLs on account of subdued economic activities for different sectors. We expect more NPLs to be reported ahead. Additionally, one of the largest avenues for credit flow for banking sector have been Import and Trust Receipts Loan. But, persistent decrease in imports even after lifting the curbs on import indicates potential contraction in its revenue books.

"You never know what kind of setup market will present to you, your objective should be to find opportunity where risk reward ratio is best."

- Jaymin Shah

Micro Finance Institutions: D class Micro Finance Institutions have been under pressure of NRB's strict regulations. MFIs are required to put amount equivalent to 50% of the excess of 15% of proposed dividend (cash or bonus) to the General Reserve account. Previously, this provision applied to dividend issue above 20%. In addition to the former requirement of transferring 1% of Net Profit to the Client Protection Fund and Corporate Social Responsibility (CSR) fund, MFI are now required to transfer fund equivalent to 35% (formerly 25% of proposed dividend in excess of 20%) and 10% of amount in excess of 15% proposed dividend to the Client Protection Fund and CSR account respectively. MFI can now provide micro-credit up to only Rs. 7 lakhs per person, scrapping the former provision of issuing up to Rs.15 lakhs for individuals falling under the 'Performing loan' category. NRB also capped the interest on deposit up to 50% of highest interest on loan charged. Moreover, NRB restricted borrowers to take up loan from multiple banks and financial institutions completely (previously borrowers could take up multiple loan from banks and MFIs up to single borrower limit). Likewise, if previously, loan was taken above single borrower limit by a borrower, then the last MFI granting loan above such limit should provision 100% of amount above such limit. We expect these regulations to affect dividend payout capability and pressurize profitability of MFIs in coming quarters.

Insurance Sector: On Magh End, 2079, total number of life insurance policies increased by 36.20% whereas, total number of non-life insurance policies decreased by 3.51% as compared to Magh End, 2078. Likewise, Life Insurance gross premium increased by 2.57% and Non-Life insurance gross premium increased by 5.74%. Moreover, as of now, 44.70% of total population have been covered by Life Insurance business.

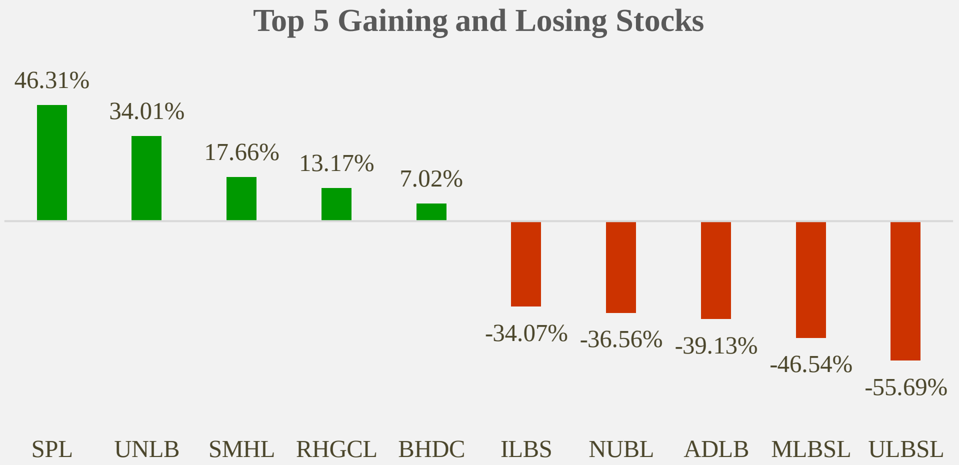
In life insurance sector, we find immense decrease in collection of Pratham Beema Sulka (First Insurance Premium) by 28% from Magh End, 2078 to Magh End, 2079. Furthermore, top three gross insurance premium collector for first seven month of current fiscal year are Nepal Life Insurance (NPR. 21 bill.), Life Insurance Nepal (NPR. 10 bill.) and National Life Insurance (NPR. 8 bill.)

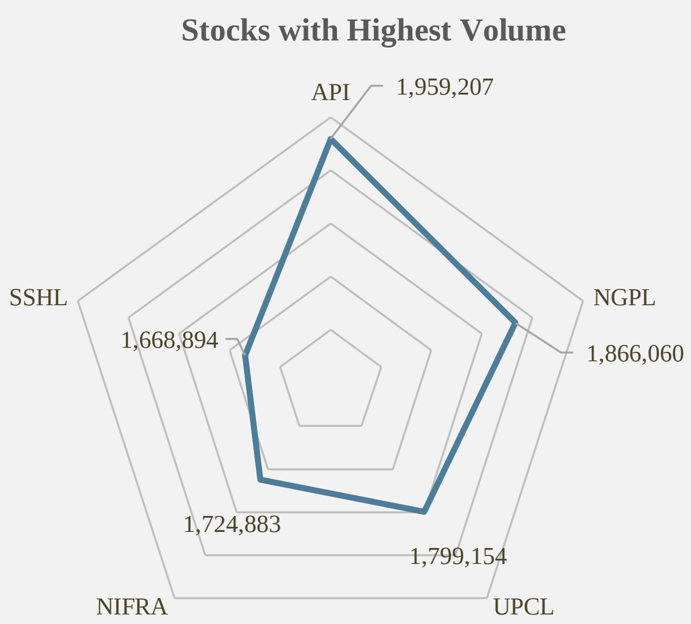
Within the review period, Sagarmatha and Lumbini General Insurance carried joint transaction from Falgun, 29, 2079 in the name of *Sagarmatha Lumbini Insurance Company Limited*. Siddhartha Insurance Limited and Premier Insurance Company Limited carried joint transaction from Falgun 17, 2079 in the name of *Siddhartha Premier Insurance Limited*.

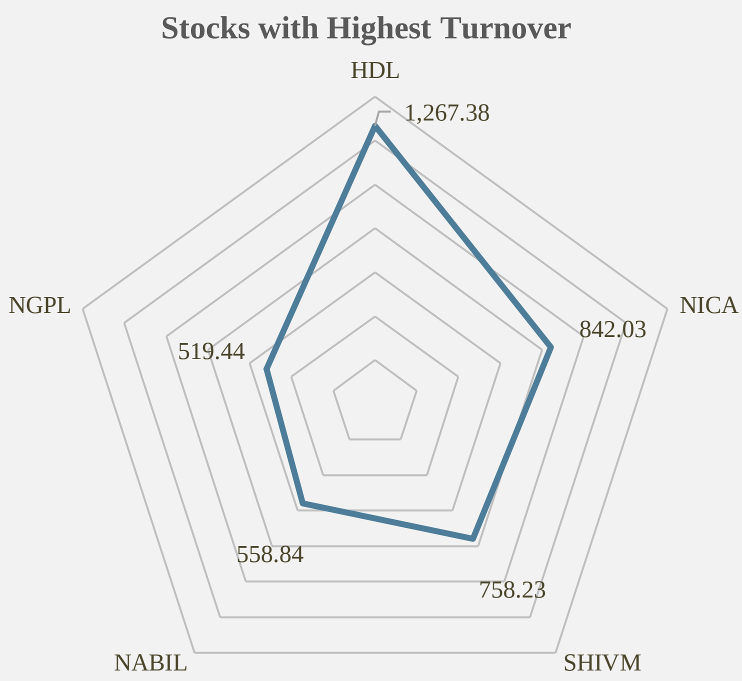
"It's not that stock prices are capricious. It's that the news is capricious."

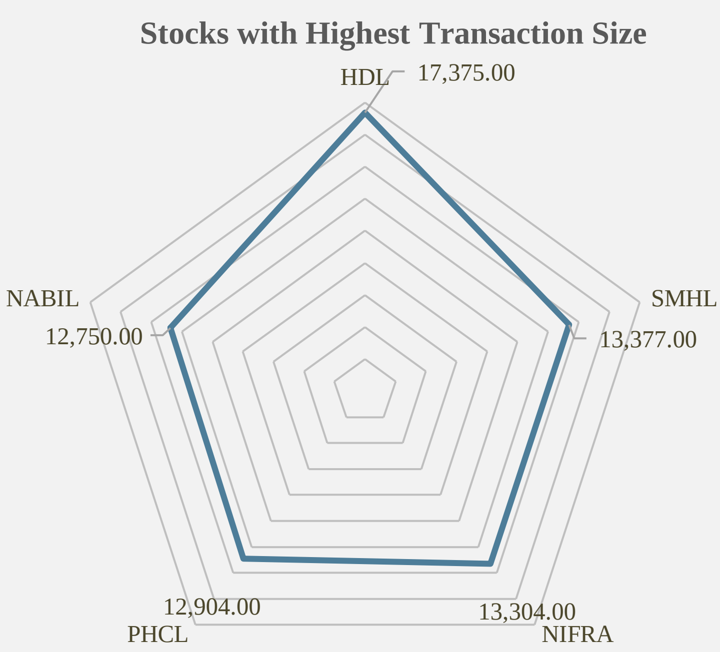
- Burton Malkiel

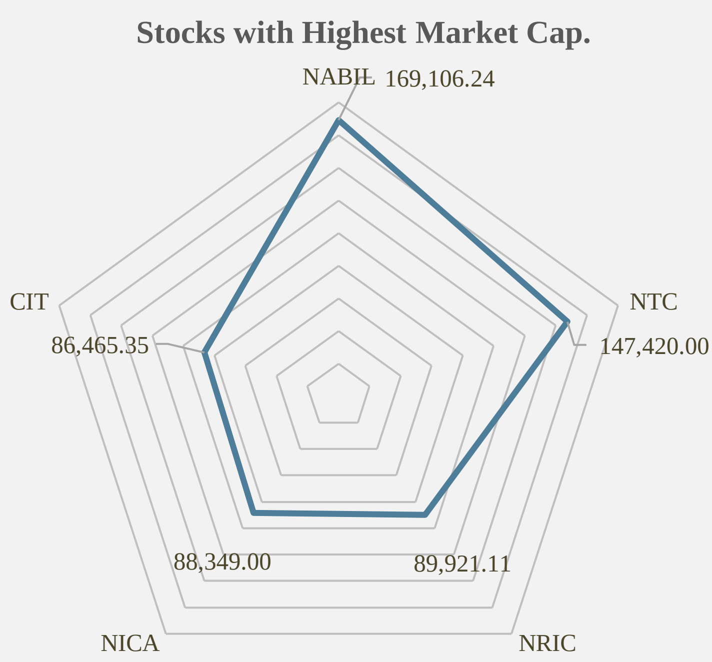
STOCK SCANNER











❖ **Key Sectoral Allocation of Mutual Funds**	*Commercial Banks, Development Banks, Life/Non-Life Insurance, Microfinance*
❖ **Key Holdings of Mutual Funds**	*NLICL, CBBL, NICA, NIL, NUBL*

OUTLOOK AHEAD…

We expect the limited downside potential, *1800 as our strong support,* and more of a sideway market ahead that could range 1800 to 2000 level. We believe market has already factored and priced most negative fundamentals, even the anticipation of higher banks NPL. Global events such as simultaneous failure of US banks, Credit Suisse crisis, systemic threats of 2023 recession, etc. could cause panic even to our market, potentially breaking our 1800 support and heading to 1700. Despite these factors, improving liquidity as manifested by the lowering CD ratio, rising remittance etc. provides hopes of upswing market. But high interest rates and dampened aggregate demand has led to low demand of loanable funds although Interest rates, *the major catalyst of our market,* are expected to be on declining trend ahead. In the political landscape, appointment of Finance Minister is a major event to watch out for.