गरिमा क्यापिटल लिमिटेड
GARIMA CAPITAL LIMITED
(A Subsidiary of GARIMA BIKAS BANK LIMITED)
समृद्धिको सारथी

THE ANALYTICS

MONTHLY GARIMA INSIGHT

CHAITRA, 2079
(15 MARCH 2023 - 13 APRIL 2023)
VOL : 1, ISSUE : 4

Interest rate -The Key of our Market

Are We Approaching End of Dollar Hegemony ?

Market Scanner

MACROECONOMIC FACTORS

MARKET OUTLOOK

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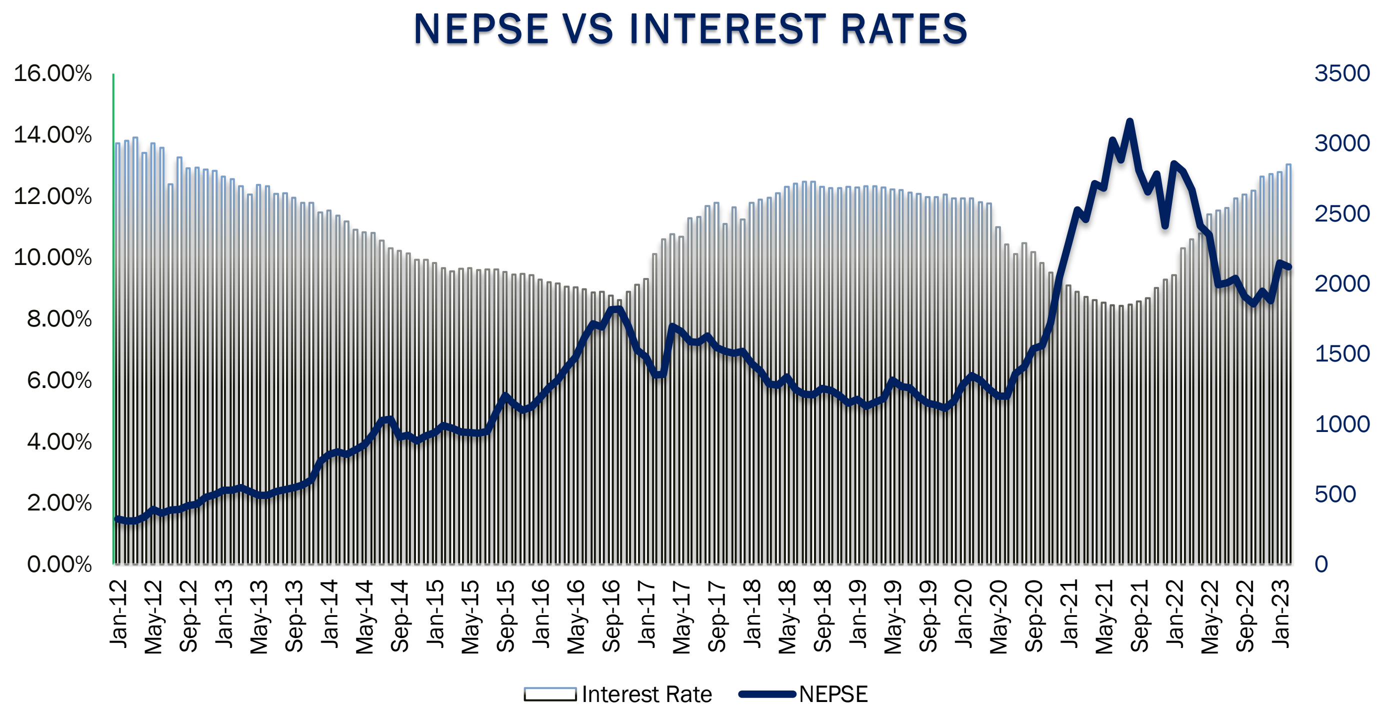
Market Note:

Interest Rate -
The Key of Our Market

For the investable market or assets classes that we have here in Nepal such as stock market, bonds/debentures, real estates, etc. empirical analysis has shown the interest rate to run into the inverse or negative relationships with such assets. That is, the rising interest rate is capable to pull down the stock, bonds, real estate market, etc. and true to the vice-versa. The current tensity in the stock market (NEPSE), real estate market pledges our theory at best. And it is not a fluke as empirical scanning of this variables constantly uphold this indirect relationship.

Given below (next page) is a chart that depict the contrary relations between the interest rate (lending rate) and the stock market index i.e. NEPSE. *(For this article, our market is referred to the Stock Market.)* As the chart shows, NEPSE has enjoyed the Bull cycle when the interest rate was on downward trends *(Jan. 12 to Sept. 16 and Jan. 20 to Aug. 21)* and NEPSE turned Bearish when the interest rate began soaring up *(Sept. 16 to Jan. 20 and Aug. 21 to present).* Market made a new high each time the interest rate made its base. Interestingly, market rose by more than 5.5 times in Jan. 12 to Sept. 16 bull and by more than 2.5 times in Jan. 20 to Aug. 21 bull. Approx. 35% drop was noticed in Sept. 16 to Jan.20 bear market and recent bear has reported 40% dive.

Stock market is often regarded as the barometer of the national economy as the market tends to priory compound the sign of thriving economy while market discount the economic downturn in advance. The thriving economy is often the reaction of the lower interest rate environment because at such environment borrowing cost contract, and investment and economic activities takes off. At higher rate, economy struggles as activities freeze.



Having said so, lower interest rate environment has its own costs, the inflation. Monetary Policy main objective and challenges is to up-keep the inflation or ensure price stability, and interest rate is the major tool to do so.

The level of interest rate depends upon the demand and supply of credit/money in the economy. More the demand and less the supply of credit (illiquidity), more the interest rate will be. And, less the demand and more the supply of credit (liquidity), less the interest rate will be. Central Bank will proceed to increase the interest/policy rate to control excess liquidity/credit flow and lessen the interest rate for credit growth. These all macros-economic variable rotates on a cycle and thus we tend to have the bull and bear cycle in our market too. Market participant will be encouraged to invest in the market since they can borrow at low, margin loan will be low, and market return will be higher.

The present scenario of year-long high interest rate can be expected to cool down now, *as corroborated by single digit FD rates.* We can expect the curtailment in the base rate, lending rate etc. in next quarters potentially stimulating the economy and producing another bull cycle augmenting the market more than twice the current level.

Thanks to the influx of remittance, we see the huge Deposit/GDP (approx.110%) and Credit/GDP (approx. 100%) now. Remittance has also somehow eased the years long liquidity issue, (CD ratio approx. 85%). As the liquidity progress, the poor aggregate demand in the market can be boosted by downsizing the interest rate. Slow down in economic growth (approx. 4.5%) of the country also warrant the lower interest rate. On the other hand, the rising inflation (above 7%) (though warrant high interest rate) can be attributed to the after-effect of COVID-19, rising tensions between Russia and Ukraine, effect of global recession, etc. and can be accepted given the surging inflation on a global scale.

The fate of interest rate should be left to market (not the stock market) to decide rather than any artificial pull down. The bull on natural pull down of interest rate would be more sustainable.

Are we Approaching The End of Dollar Hegemony ?

The Status of USD as a reserve currency and Petrodollar

In 1944, during World War II, delegates from 44 countries met in Bretton Wood and decided that world's currency to be pegged to USD instead of gold since USD was already linked with gold as US owned the majority of the world's gold. The arrangement was known as Bretton Woods Agreement and since then, the dollar officially turned out to be the world's reserve currency.

The origin of petrodollar also happened during 1944 when Saudi Arabia signed an agreement with US to accept US dollars as the only payment currency in exchange of oil for military and business training.

Dollar is America's superpower. With its reserve currency status, it gives US government ability to weaponize the dollar against its political adversaries by imposing sanctions on any country in the world and inflicting massive economic costs on them.

The profound economic disruption experienced by Iran in 2012 when US and its closest ally Europe imposed sanctions on Iran oil exports unless Iran curtails its nuclear programme and the recent sanctions imposed on Russia for its invasion in Ukraine by seizing nearly half (USD 300bn) of Russia's foreign currency reserves and evicting Russian banks from SWIFT, an interbank messaging service that facilitates international payments have reminded the world of the reach and dependence on the dollar.

De-Dollarization and Sign of De-Dollarization

De-dollarization refers to reducing the dollar's dominance in global markets. It is a process of substituting the US dollar as the currency used for trading oil and other commodities, buying US dollars for the forex reserves, bilateral trade agreements, dollar denominated assets. This process would help to reduce dependence of other countries on US dollar and US economy, which could mitigate the impact of economic and political changes in the US on their own economies.

US sanctions based on its whims have shaken the faith in the greenback, demonstrating that US can arbitrarily and unilaterally, based on its own policy considerations can cut off reserves of a foreign nation. This led major countries to look for initiating non-dollar currencies trade and diversifying their foreign exchange reserves, *the beginning of de-dollarization trend*.

China is pushing its currency, the yuan, to be the primary competitor to the dollar in international trade. It has established trading partnerships with Russia, Brazil, Saudi Arabia and other countries to deal directly in yuan. The yuan has surpassed the US dollar as the most traded currency in Russia in monthly trading volume in February 2023, and emerged as the second most important currency in Brazilian foreign reserves.

BRICS is pondering to develop a new currency to settle trade among member states. In World Economic Forum Summit held in Davos in January 2023, Saudi Arabia's finance minister said that his country is open to the idea of settling oil trade in currencies other than the US dollar.

Can Dollar Be Dethroned?

The dollar weight in foreign reserves has fallen below 60%, more than 10% lower over past two decades, according to the IMF's COFER Q4 2022 report. China's yuan, though has grown the fastest since 2016, accounts for only 2.7% of global reserves.

Trade is generally preferred in currencies that are freely convertible and highly liquid. The yuan is neither, because of its domestic policy choices and economic restrictions. Russia and China lack transparency in their economic policy. Since the decision-making process in these countries is undemocratic, it will be difficult for traders to completely rely on these currencies as reliable alternatives.

The dollar's dominance is unlikely to change in the near future, and it will remain the principal currency of international trade and transactions. No other currency is close to replace its dominance.

Why the Dollar Dominance May Continue?

Carson Group, financial advisor provides three big reasons for USD to still stay resilient;

1. ***The World has confidence in the US, and thereby the U.S. dollar***

US has the world's deepest and most liquid financial markets owing to the size and strength of the US economy, open trade and capital flows with fewer restrictions and strong rule of law and property rights. This is the reason why, despite the US making up just about 25% of the world economy, about 60% of global foreign currency reserves are denominated in USD.

2. ***The US dollar is dominant in trade and international finance***

USD is the world's most popular medium of exchange in global trade. 60% of international foreign currency banking claims, i.e., bank deposits and loans in foreign currency are dollar denominated and this has been fairly stable since 2000 and has increased over the last few years.

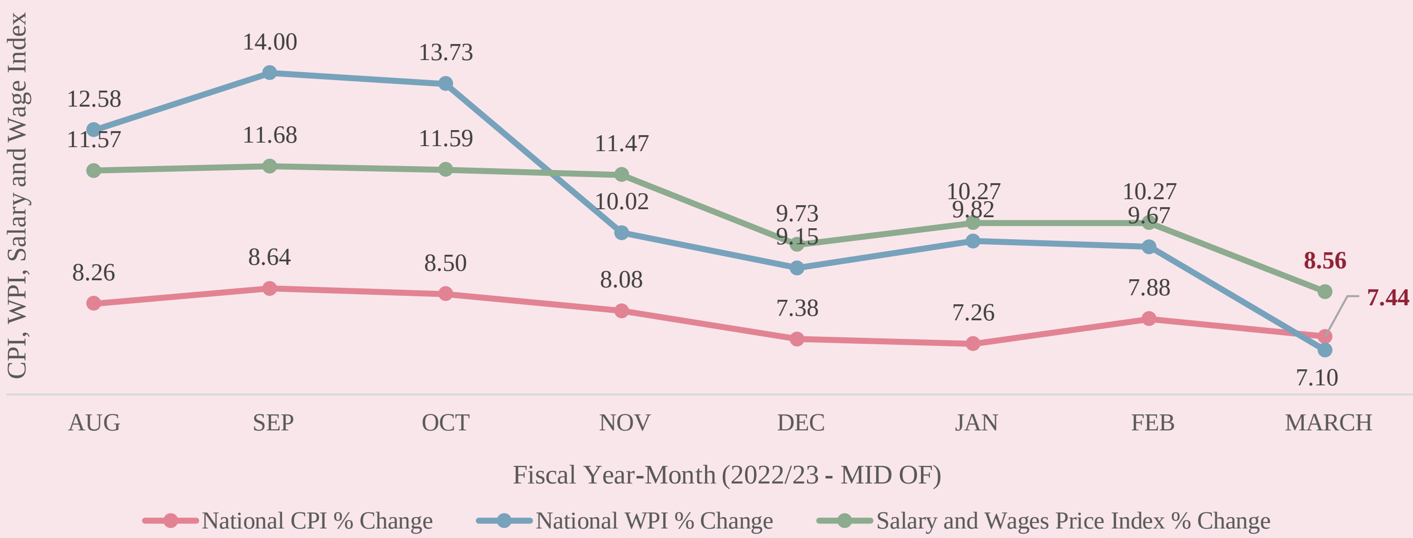
3. ***US is willing to maintain massive trade deficits***

America imported USD 3.3tn worth of goods in 2022 while exported only USD 2.1tn worth of goods in the same period leading to a huge trade deficit of USD 1.2tn and leaving foreigners with lot of US dollars.

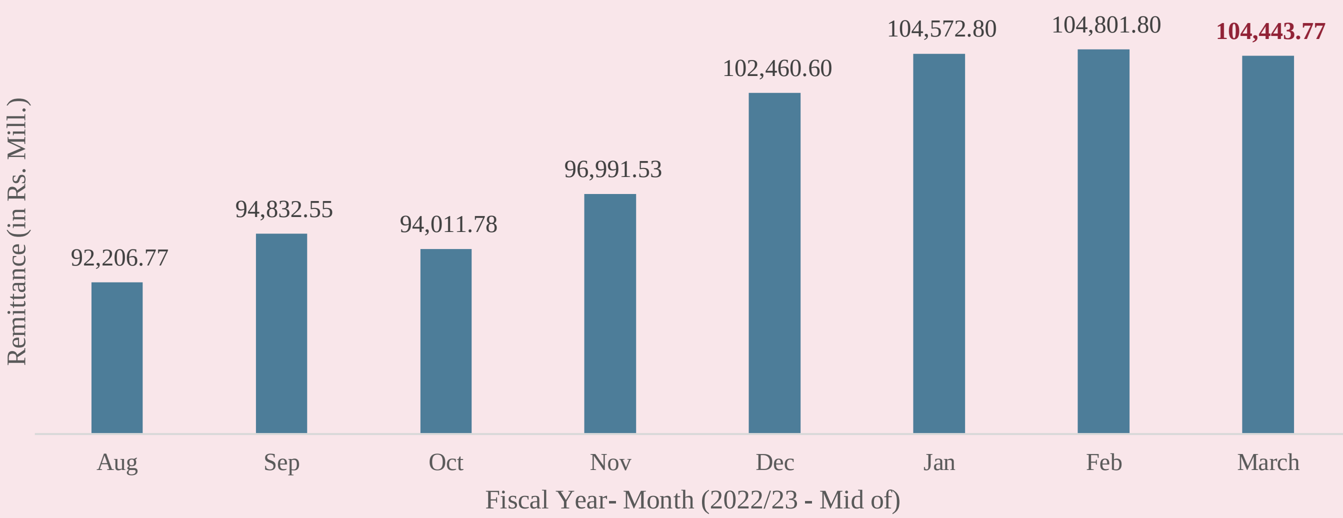
In order make use of the dollars, foreigners either invest it into the most safest, US treasuries or hold it in cash. As of Q4 2022, rest of the world held about USD 7.4tn in US securities and USD 1tn in USD banknotes. These are liabilities of the US government that the US is willing to issue. No other country, including the Eurozone, looks capable or willing to do that anytime soon.

WHERE DO THE FACTORS STAND?

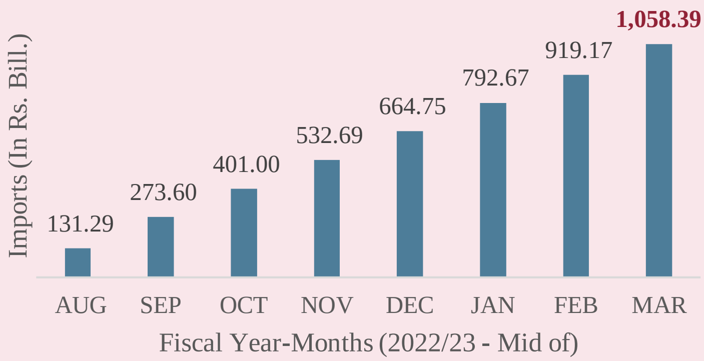
INFLATION RATE *(CPI - 7.44%)*



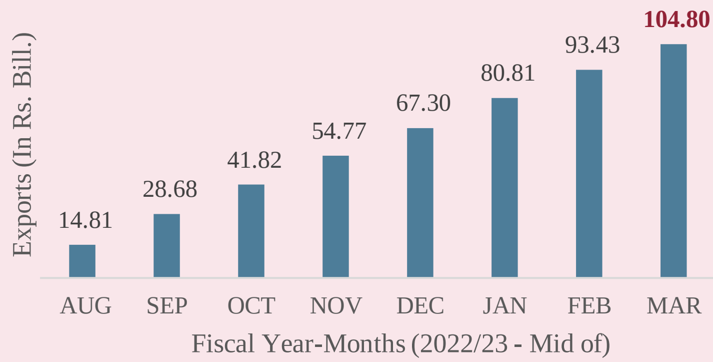
MONTHLY REMITTANCE INFLOW *(+25.3%)*



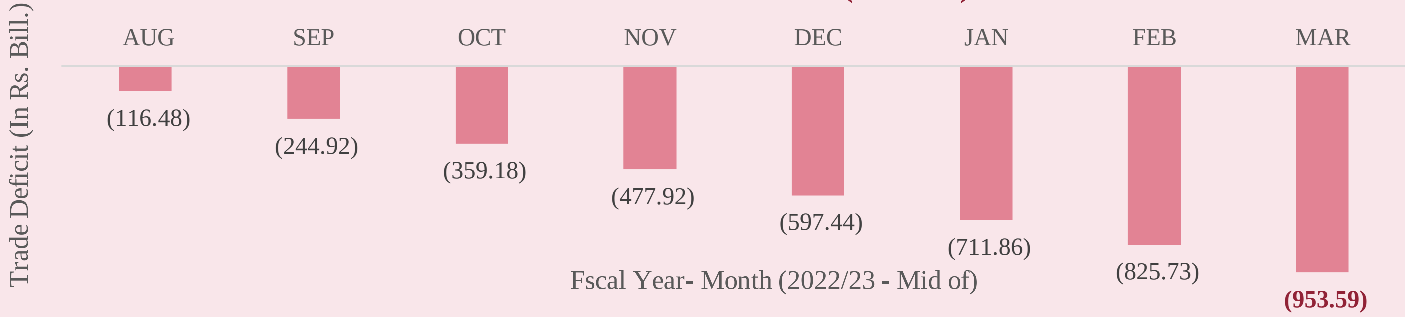
TOTAL IMPORT (-19.1% Y-o-Y)



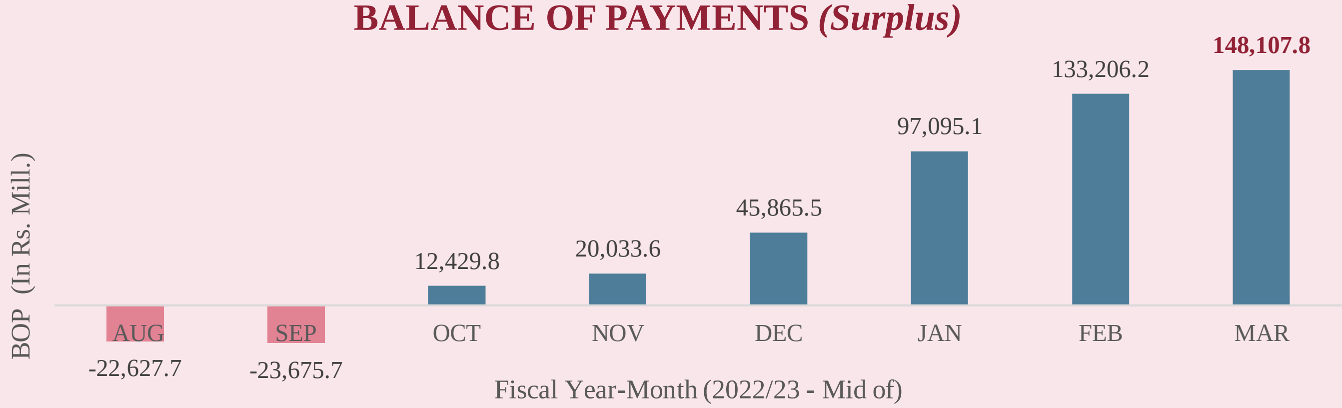
TOTAL EXPORT (-29.1% Y-o-Y)



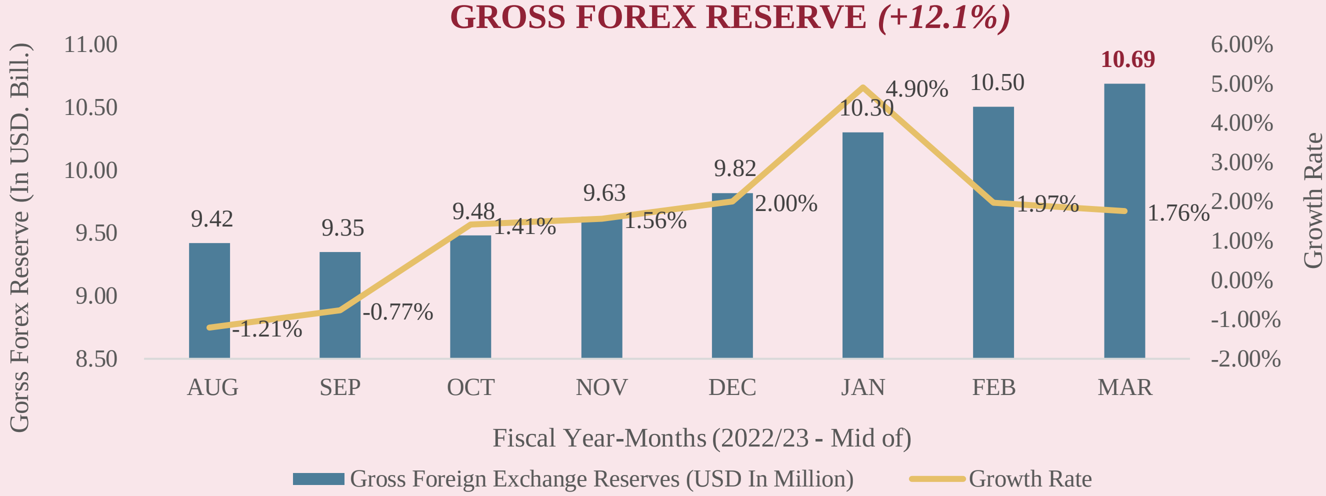
TRADE DEFICIT (-17.9%)

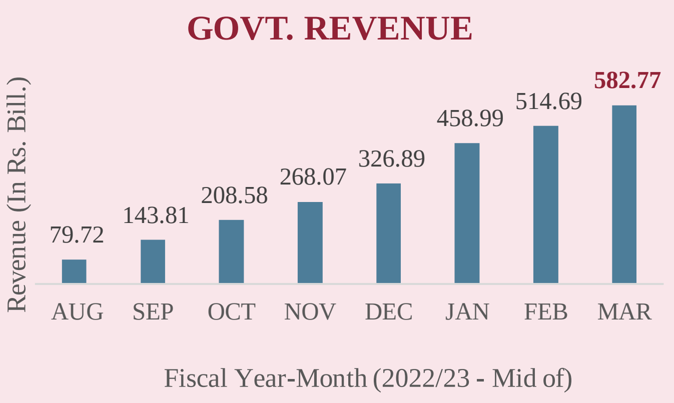


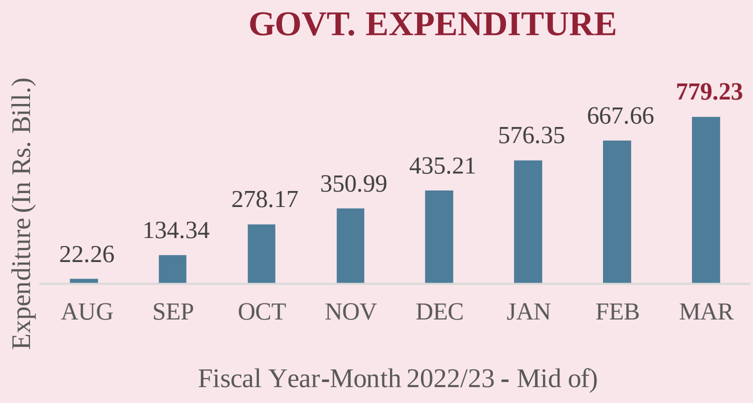
BALANCE OF PAYMENTS *(Surplus)*

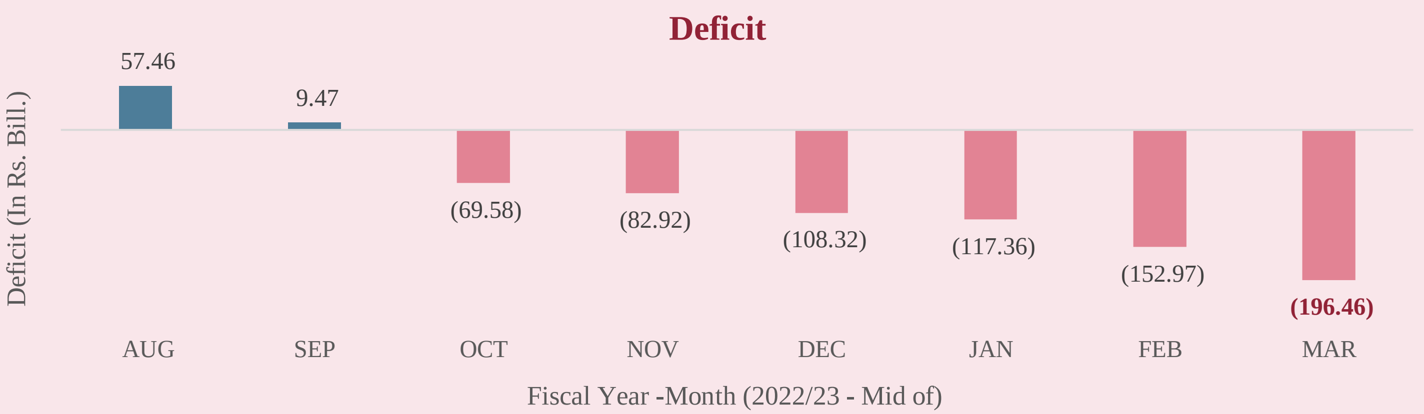


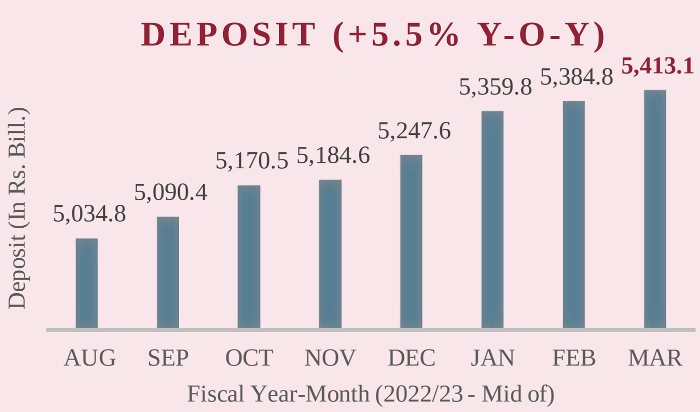
GROSS FOREX RESERVE *(+12.1%)*

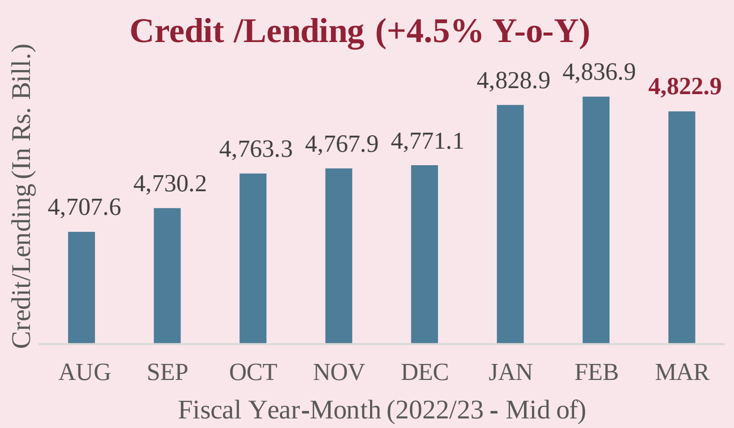


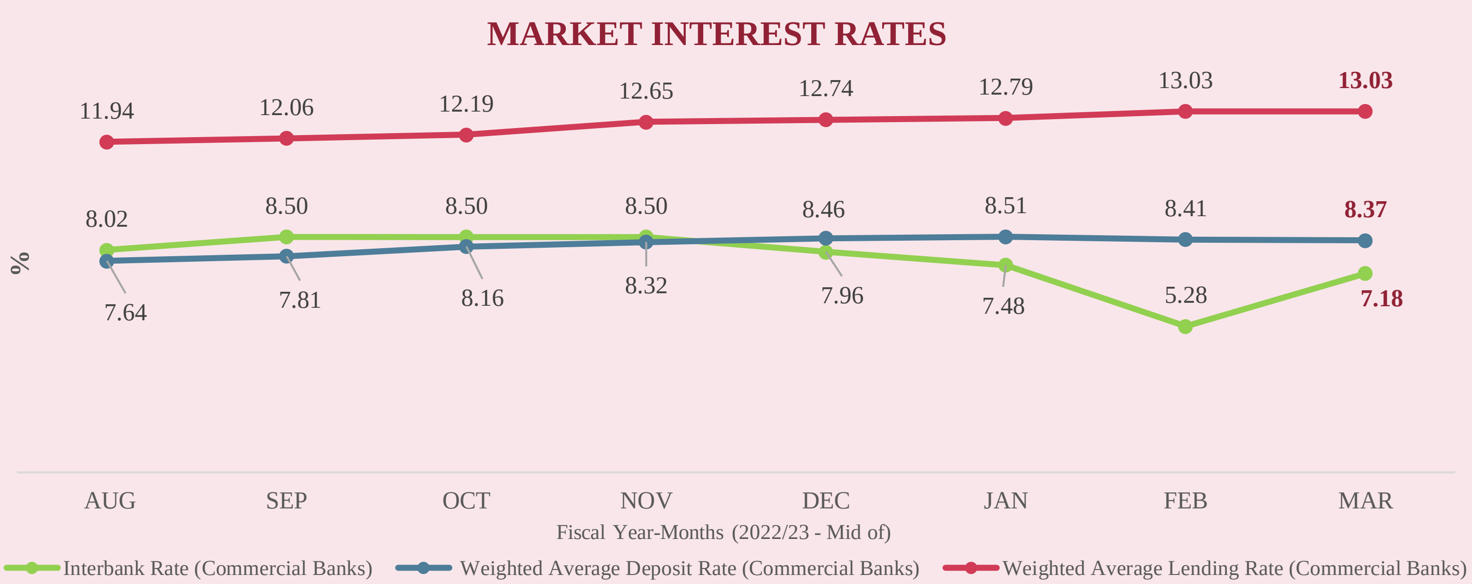

GOVT. REVENUE
Revenue (In Rs. Bill.)
79.72
143.81
208.58
268.07
326.89
458.99
514.69
582.77
AUG SEP OCT NOV DEC JAN FEB MAR
Fiscal Year-Month (2022/23 - Mid of)


GOVT. EXPENDITURE
Expenditure (In Rs. Bill.)
22.26
134.34
278.17
350.99
435.21
576.35
667.66
779.23
AUG SEP OCT NOV DEC JAN FEB MAR
Fiscal Year-Month 2022/23 - Mid of)

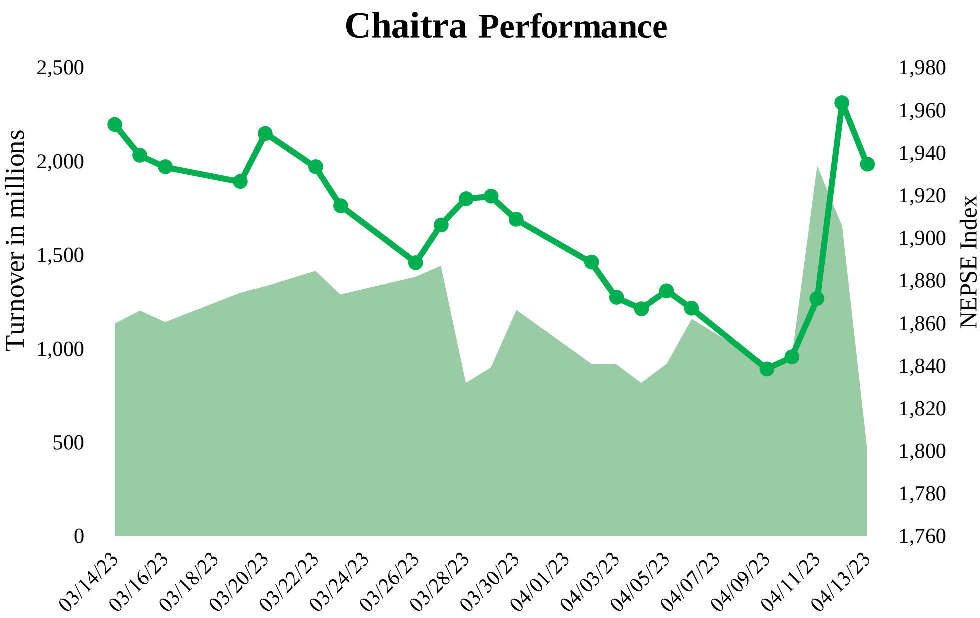

Deficit
Deficit (In Rs. Bill.)
57.46
9.47
(69.58)
(82.92)
(108.32)
(117.36)
(152.97)
(196.46)
AUG SEP OCT NOV DEC JAN FEB MAR
Fiscal Year -Month (2022/23 - Mid of)


DEPOSIT (+5.5% Y-O-Y)
Deposit (In Rs. Bill.)
5,034.8
5,090.4
5,170.5
5,184.6
5,247.6
5,359.8
5,384.8
5,413.1
AUG SEP OCT NOV DEC JAN FEB MAR
Fiscal Year-Month (2022/23 - Mid of)


Credit /Lending (+4.5% Y-o-Y)
Credit/Lending (In Rs. Bill.)
4,707.6
4,730.2
4,763.3
4,767.9
4,771.1
4,828.9
4,836.9
4,822.9
AUG SEP OCT NOV DEC JAN FEB MAR
Fiscal Year-Month (2022/23 - Mid of)


MARKET INTEREST RATES
11.94
12.06
12.19
12.65
12.74
12.79
13.03
13.03
8.02
8.50
8.50
8.50
8.46
8.51
8.41
8.37
%
7.64
7.81
8.16
8.32
7.96
7.48
5.28
7.18
AUG SEP OCT NOV DEC JAN FEB MAR
Fiscal Year-Months (2022/23 - Mid of)
Interbank Rate (Commercial Banks)
Weighted Average Deposit Rate (Commercial Banks)
Weighted Average Lending Rate (Commercial Banks)

NEPSE SCANNER



- NEPSE salvaged to 1934.47 level from 1953.06 (beginning), peaking the high of 1981 and bottoming 1833 in the review month, shedding 18.59 (0.95%) points.
- Sensitive, float, and sensitive float index simultaneously fell by 0.09%, 1.25%, and 0.53% respectively.
- Month end comparison detect an approx. 54% drop in volumes, turnover amount and transaction size while monthly average show 36 lakhs (-21.74%), Rs. 1.17 billion (-29.09%), and 31 thousand (-10.41%) respectively.
- Market cap decreased 0.36% to Rs. 2.81 trillion, out of which approx. 35% are only floated. Sensitive market cap which covers A class stocks has suffered 0.09% loss and the size of Float and Sensitive float market cap has fell by 0.67% & 0.53% respectively.

Metrics	**13.04.2023**	**14.03.2023**	**Monthly Change**
NEPSE	1,934.47	1,953.06	-0.95%
Sensitive	367.98	368.32	-0.09%
Float	135.5	137.22	-1.25%
Sensitive Float	122.57	123.22	-0.53%
Turnover (Mill)	1,653.33	1,135.92	45.55%
Shares Volumes	4,913,702	3,318,108	48.09%
Total Transactions	44,708	26,437	69.11%
Total Scrips Traded	270	255	5.88%
Market Cap (Rs.Mill)	2,813,553.79	2,823,679.44	-0.36%
Sensitive Mrkt Cap (Rs.Mill)	1,144,313.24	1,145,366.84	-0.09%
Float Mrkt Cap (Rs.Mill)	1,002,418.76	1,009,194.26	-0.67%
Sen. Float Mrkt Cap (Rs.Mill)	399,443.17	401,569.29	-0.53%
Average Return	15.55%	16.32%	-0.77%
Standard Deviation	25.05%	25.16%	-0.12%
10 Day 10% VAR	-6.55%	-6.58%	0.03%
Market Cap / GDP Ratio	57.99%	58.20%	-0.21%

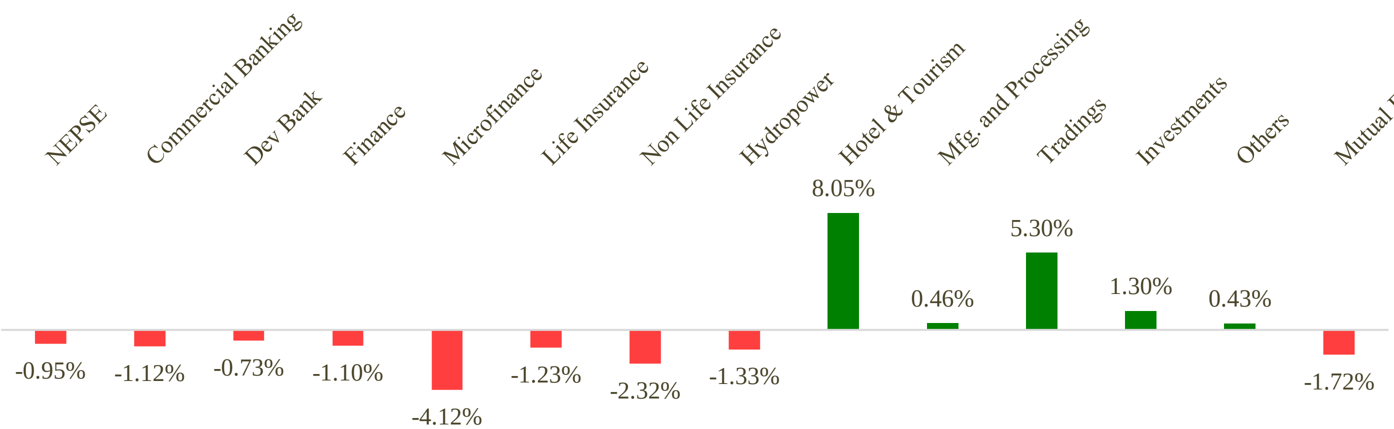
Note: For avg. return, std. dev.and VaR computation, data is considered since 1.1.20. Assumed annual 225 trading days.

- Avg. market return has slumped to 15.55% from 16.32%, Standard Deviation has shrunk by 0.12% and 10-day 10% VAR gained minutely by 0.03%
- Market is under-valued as per Market capitalization to GDP ratio (Buffett Indicator).

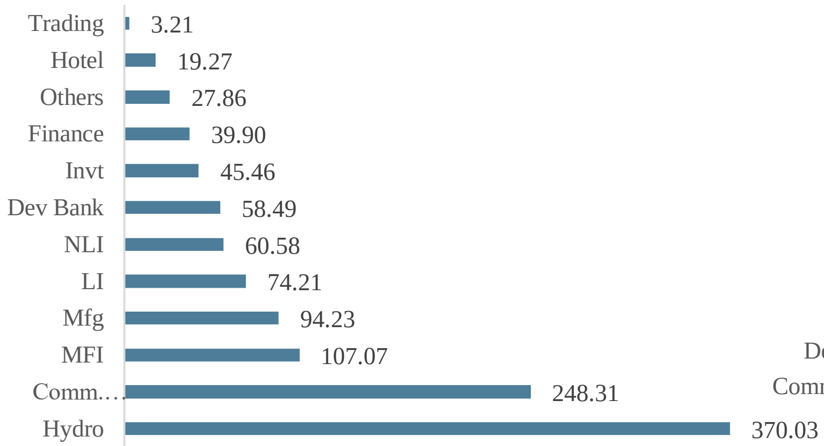
Average Turnover	Average Volume	Average Transaction Size	Average Market cap
Rs. 1.17B	*NPR. 3.6M*	*NPR. 30.90K*	*NPR. 2.76T*
-29.09%	*-21.74%*	*-10.41%*	*-5.26%*

SECTOR SCANNER

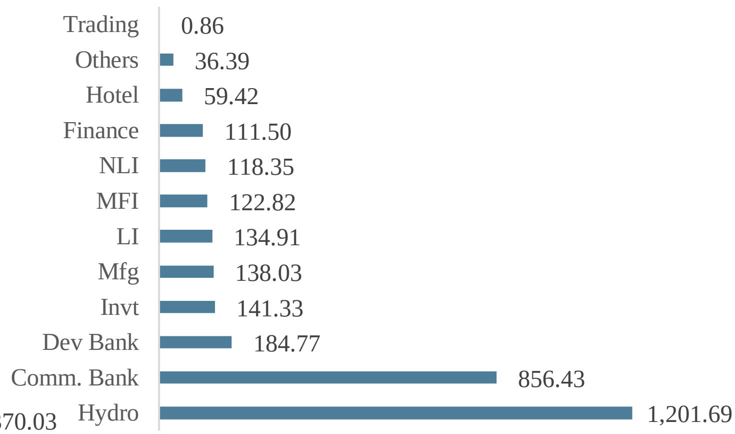
Monthly Sectoral Performance



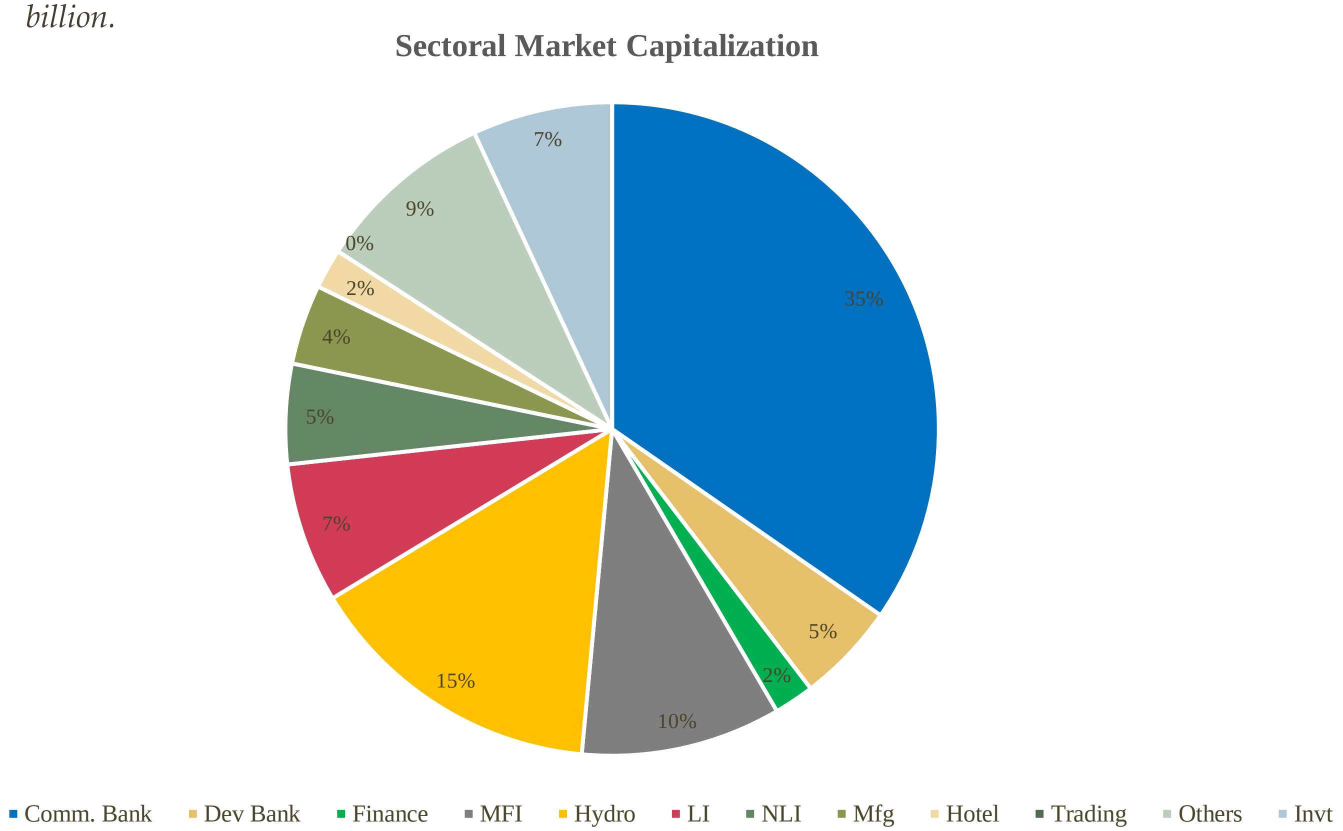
Chaitra Avg. Turnover (Million)



Chaitra Avg. Volume ('000)



- Microfinance sector lost the most (4.12%) in the month, still the after-shock of the NRB's revision to the Integrated Directives for MFI, 2078, potentially questioning the profitability and return distribution by the sector in future. Hotel & Tourism, and Trading sector saw major rise in the month, rising 8% and 5.3% respectively.
- Hydropower sector continued to lead the market in all trading days of Chaitra in terms of Turnover (35.71%), Volumes (37.73%), and Transaction size (48.55%) followed by Commercial Banks. Microfinance, Life Insurance were also majorly traded sectors.
- Pie- chart on right shows the tentative market capitalization of 12 sectors as on last trading day of Chaitra i.e. Thursday, 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 15% and 10% coverage respectively. Insurance sector occupy 12% (Life – 7% and Non-Life – 5%). Trading sector has the least capitalization, *amounting approx. Rs.12.63 billion.*



"OK, first rule of Wall Street – Nobody – and I don't care if you're Warren Buffett or Jimmy Buffett – nobody knows if a stock is going up, down or sideways, least of all stockbrokers. But we have to pretend we know."

- Mark Hanna. The Wolf of Wall Street.

Banks and Financial Institutions: Total deposits collected by Banks and Financial Institutions amounted NPR. 5437 billion whereas commercial banks alone had the total deposits of NPR. 4796 billion. Likewise, CD Ratio is at 85%. Nepalese banks have been under pressure due to higher NPLs and we expect further increase in BFI's NPL in coming quarters. In the near term, the effect of tuning down the interest spread for commercial banks, development banks and finance companies along with addition of Counter Cyclical Buffer (0% to 2.5%) in capital adequacy could affect the balance sheet of Banking and Financial Institutions. On the other side, Nepal Bankers Association (NBA) meeting recently slashed rates on personal deposits by 10% for the month of Baisakh. Likewise, the interest rate on fixed deposits has now been decreased to single digits. According to NBA, rate for one-year fixed deposits has decreased from 11 percent to 9.9 percent, rate of institutional fixed deposits has been decreased from 9 percent to 7.99 percent and interest rate on savings has remained from 5.4 to 7.4 percent.

This slashing of interest rates would further decrease the Base rate in near future.

Following the suit, Development Bankers Association Nepal also decreased interest rates. Interest rate on personal term deposit has been determined at 10.6% (previously 11.6%). Institutional term deposits have been lowered to 8.6%. Additionally, savings rate is decreased by 0.60%.

Despite the notable revision to deposit rates, lending rate has been slightly decreased by approx. 1%. We expect further downward revision to lending rate in next quarter.

"Look at market fluctuations as your friend rather than your enemy. Profit from folly rather than participate in it."

- Warren Buffett

For the finance companies, individual fixed deposits rate shall be at the range of 10.60%–10.75%. The average rate of the same for institutions is 8.75%. The average interest rate for remittance has been maintained at 11.60-11.75%. The interest rates on savings has been maintained at an average rate of 8-9%.

On the macroeconomic side, according to 8 Monthly Current Macroeconomic and Financial Situation, Deposits in BFIs increased by 10.43% on y-o-y basis. Likewise, Credit/lending increased only by 2.59% on y-o-y basis. High interest rates with subdued economic activities have decreased the demand of lending. Likewise, as on Falgun end 2079, overall CAR stands at 12.92% where 12.90% is of Commercial Banks, 12.26% is of Development Banks, and 16.78% is of Finance Companies.

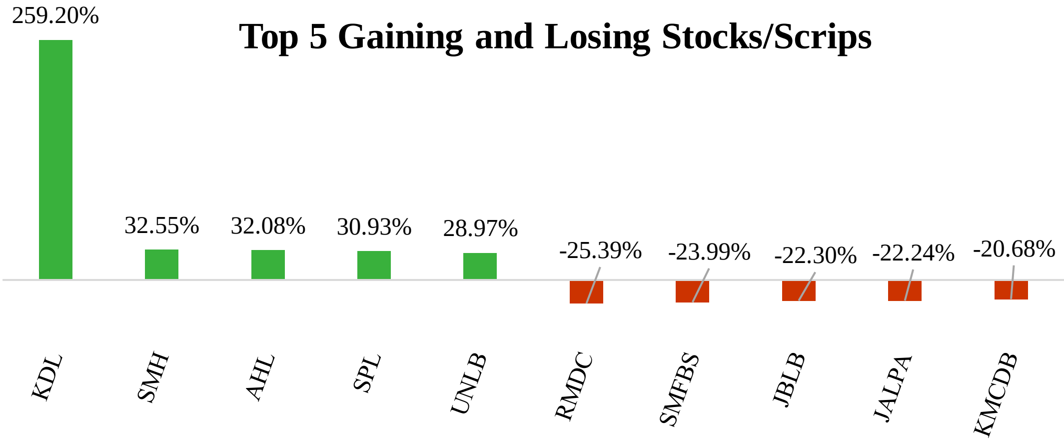
Insurance Sector: By Falgun end, 2079, total number of life insurance policies increased by 25.15% whereas, total number of non-life insurance policies decreased by 3.24% as compared to Falgun end, 2078. Likewise, life insurance gross premium increased by 1.66% and non-Life insurance gross premium increased by 2.27 %. Moreover, as of now, 44% of total population have been covered by Insurance business. In life insurance sector, we find immense decrease in collection of Pratham Beema Sulka (First Insurance Premium) by 28.57% from Falgun end, 2078 to Falgun end, 2079. Furthermore, top three gross insurance premium collector for first 8 month of current fiscal year are Nepal Life Insurance (NPR. 24 bill.), Life Insurance Nepal (NPR. 11 bill.) and National Life Insurance (NPR. 10 bill). Among Non-Life insurance, Shikar Insurance (NPR.33 bill.), Neco Insurance (NPR.19.78 bill.) Himalayan Everest Insurance (NPR.19.12 bill.) remained top three insurance premium collector for Falgun end, 2079.

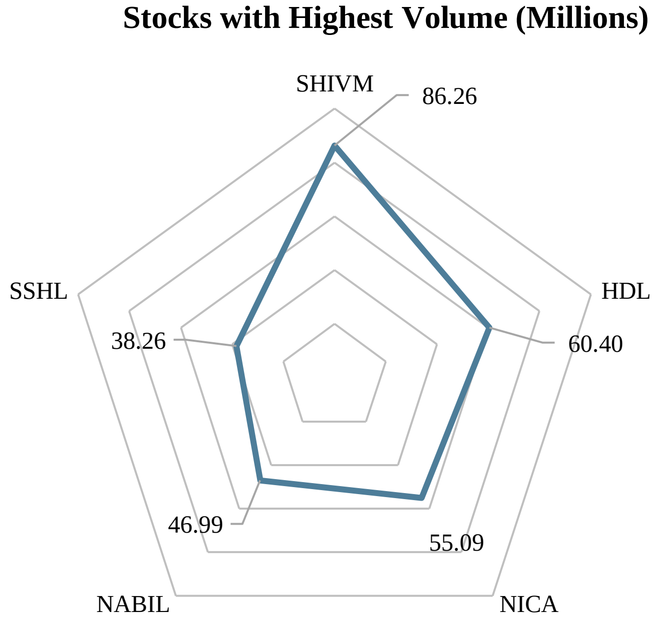
On Mergers and Acquisition side, United Insurance inked final agreement of merger with Ajod Insurance (AIL) on 4th Chaitra, 2079. Likewise, shares of Siddhartha Premier Insurance (SPIL) got listed on the exchange on 20th Chaitra,2079.

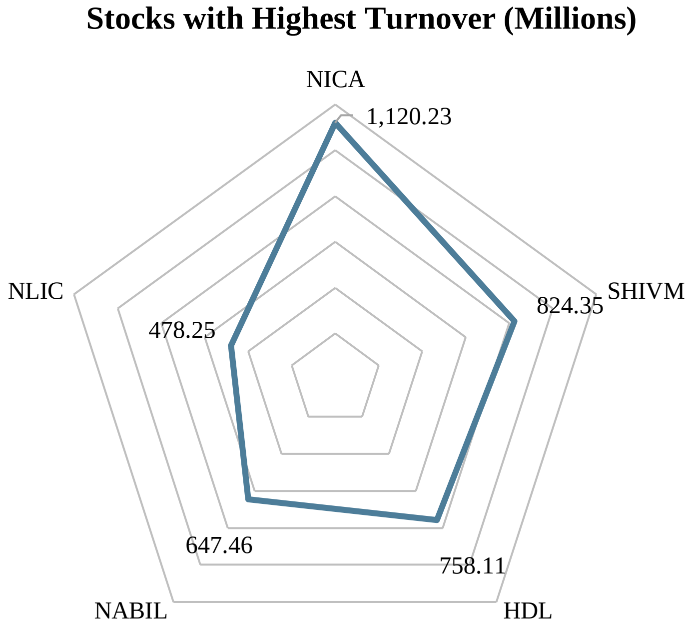
Regulatory authority of Insurance business of Nepal, Nepal Insurance Authority (NIA) awarded licenses to four companies to operate micro-insurance services namely: Guardian Micro Life Insurance, Nepal Micro Insurance Co. Ltd, Protective Micro Insurance Ltd Nepal, Crest Micro Life Insurance Ltd.

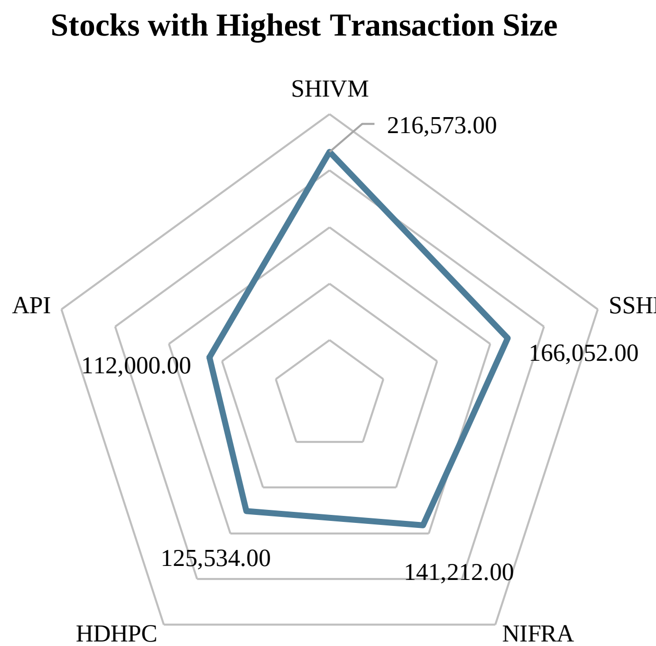
Microfinance Institutions: With respect to recent pressure arising from regulatory authority, some microfinance companies have revised their dividend announced for F.Y 2078/79. Jeevan Bikas Laghubitttta Bittiya (JBLB) revised its dividend to 14.999% from previously announced 33.15%. National Microfinance Laghubitta Bittiya (NMFBS) revised its dividend to 15% from previously announced 34.45%. Lastly, Samudayik Laghubitta Bittiya (SLBSL) also revised its dividend to 15% from previously announced 21.05263%. Moreover, on 2nd Chaitra, 2079, Manushi Laghubitta Bittiya Sanstha limited (MLBS) and Shrijanshil Laghubitta Bittiya Sanstha limited (SHLB) signed MOU for merger. Likewise, Smata Gharelu Laghubitta Bittiya Sanstha limited (SMATA) received pre approval from SEBON for merger with Swarojgaar Laghubitta Bittiya Sanstha limited (SLBBL) on 6th Chaitra, 2079. Mirmire Laghubitta Bittiya Sanstha limited (MMFDB) inked final merger agreement with Nerude Laghubitta Bittiya Sanstha limited (NLBBL) on 19th Chaitra, 2079.

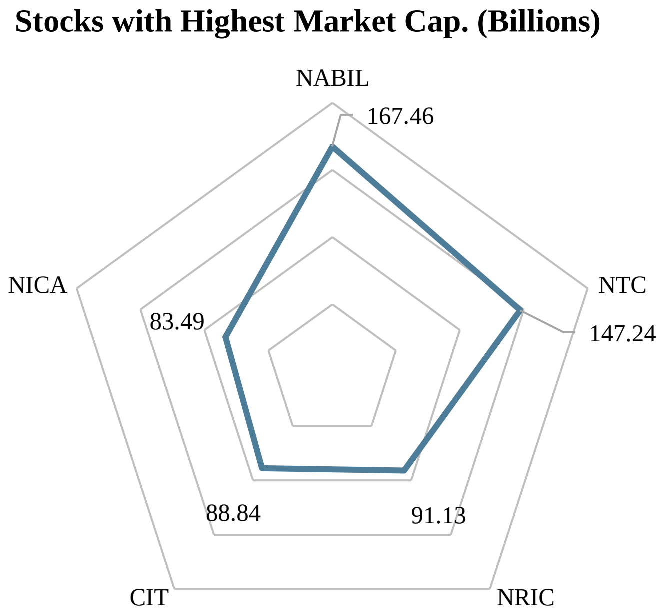
STOCK SCANNER











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

OUTLOOK AHEAD…

Technical Indicator (13th April)	Value
RSI	51.57
MACD line	-24.35
Signal line	-35.29
Bollinger Upper Band	1969.08
Bollinger Middle Band	1900.93
Bollinger Lower Band	1832.79
ADX	26.26
Simple Moving Average (50 Day)	1996.68
Simple Moving Average (200 Day)	1988.00

Technical Overview:

Technically the market has been on bearish run as depicted by the above chart. The NBA decision on cutting down the interest rate (for deposit) from Baisakh on 12th April pulled up the market by 92 point on single day giving the hope of upward trend after breaking the months of sideways movements. But market didn't confirm the same as next day (April 13) market reversed down. SMA 200D and 50D lies above the current index (1934) picturing the bearish momentum.

We expect market to move sideways with the range of 2000 to 1830 (based on fibonacci retracement indicator) in coming month. In recent days, liquidity conditions have been easing mainly due to rise in remittance. Credit to Deposit Ratio have eased along with decrease in deposit interest rates offered by BFIs. Thus, we expect decrease in interest rates would trickle down to decreased Base Rates in coming quarters, resulting the notable fall in lending rates. This can be major catalyst for Market to find upward direction, breaking the sideways trend in coming periods.

Although, the investors sentiment has somehow improved due to decrease in interest rates but the fear of possibly higher NPL in quarter 3 reports might cautious investors before putting money into the market. The verdict of Supreme Court with regard to issuance of additional brokerage license, stock exchange license, commodities exchange license, etc. may reward the market in a long run. Any surprise decision on upcoming monetary policy review with regard to Margin loan and lowering the 150% risk weights on share loan might give more fuel to market to rise. The subdued level of government's capital expenditure, poor revenue collection should be timely taken care of.

***"At all times, in all markets,
in all parts of the world,
the tiniest change in rates
changes the value of every financial asset."***

– Warren Buffett

Important Disclaimer:

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The sole purpose of this report is to provide analytical insight of the market performance and the state of affairs to whoever interested market participants along with our valued clients and customers.

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