

 **MACRO & MICRO**

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**No winners in war**

- **Russia's onslaught on Ukraine has plunged a world only just emerging from Covid-led shocks into renewed uncertainty**
- **Impact of sanctions on Russia may linger well beyond the war as the West is structurally decoupling from Russian energy**
- **We expect the stock market to rebound at each step of any future reconciliation despite a wary outlook on the pace of talks**

**Kumar Manish | Aseem Madan**  
researchreport@bobcaps.in

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**Uncertainty abounds:** Economies globally were just about recovering from pandemic-led shocks. A staggering 6mn people have succumbed to the Covid-19 virus thus far, but cases are now on the decline globally and in India. However, the Russian attack on Ukraine has clouded the global outlook once again. India's stock market is down ~10% since its January peak. Oil will have the most telling impact on India in the event of a full-scale global ban on Russian supply, but we believe the rest of the world can plug this gap over 1-2 years if concerted efforts are made.

**Structural decoupling from Russia:** The EU, Russia's largest trading partner, has already pledged to reduce two-thirds of its Russian gas imports by Dec'22 and fully phase out all fossil fuel imports from the country before 2030. We expect to see a gradual decline in imports of other commodities as well, leaving Russia to sell to less creditworthy customers. This will also lower Russian leverage over Europe. A part of demand will simply be substituted by renewable energy, leading to permanent demand destruction for fossil fuel well ahead of earlier plans. The US can also use this opportunity to wean Iran and Venezuela away from Russia's influence.

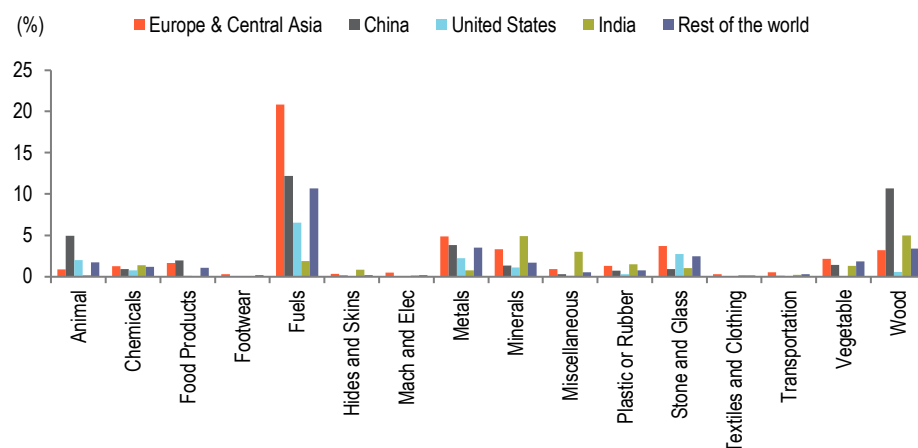
**NATO and EU get fresh boost:** The attack by Russia has not only reinvigorated NATO after a tenuous period under Donald Trump who demanded a "fair" share of defence spends from Europe, but it has also brought countries in the EU much closer. We expect the EU to now have far more synchronised energy policies.

**Impacts on India material near term but manageable over longer term:** The spike in oil price is negative for inflation and forex outgo for India, considering oil imports of ~4mbpd, but we believe the economy may not suffer materially in the longer run. Indian refiners and non-ferrous companies may gain near term, but Russia's dominance in metals such as palladium (largest supplier) and nickel (third largest) will likely be adverse for consuming sectors in India such as catalytic converters for automobiles and batteries.

**Market likely to rebound on first signs of reconciliation:** Valuations are usually forward looking. So, any signs of a possible reconciliation between the warring countries will likely fuel a sharp rebound in the stock market. That said, the war could prove to be a winner's curse for Russia in the form of debilitating and prolonged sanctions.



**Fig 1 – Import demand fulfilled by Russia (by value)**



Source: Bloomberg, BOBCAPS Research | Data as of 2019

**Fig 2 – Global demand fulfilment of major Russian exports**

Commodity	Current price	Unit	Russian production	Russian exports	Global demand	% of Global supply from Russia
Crude Oil (Brent)	113.14 US\$/bbl	mbpd	11.3	5.0	88.7	5.6
Petroleum Products	120-140 US\$/bbl	mbpd	5.8	2.8	82.9	3.4
Natural Gas	4.53 US\$/MMBtu	bcfpd	65.7	21.2	369	5.7
Palladium	2892.7 US\$/mt	mt	98	86	311	27.7
Nickel	48048 US\$/mt	mt	0.3	0.272	2.4	11.3
Aluminum	3341 US\$/mt	mt	3.84	3.0	64	4.7
Com	738.5 US\$/bu	mt	15	4.5	197	2.3
Wheat	1141.5 US\$/bu	mt	75.5	35	206	17

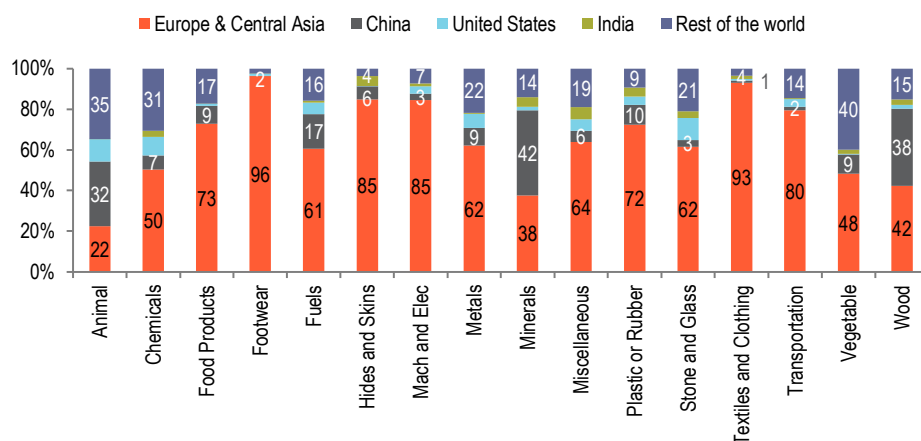
Source: Bloomberg, BOBCAPS Research | Note: Petroleum products are derived from Crude Oil

**Fig 3 – Concerted global efforts could replace Russian oil in 1-2 years**

Country (kbpd)	Current production	Production capacity	Surplus capacity	Time required for additional volumes
Venezuela	1,000	3,500	2,500	2-3 years
USA	16,000	18,000	2,000	6-12 months
Saudi Arabia	10,000	13,500	3,500	3-9 months
UAE	2,900	4,000	1,100	3-9 months
Iran	3,000	4,500	1,500	6-12 months
Libya	1,300	2,000	700	1-2 years
<b>Total</b>			<b>11,300</b>	

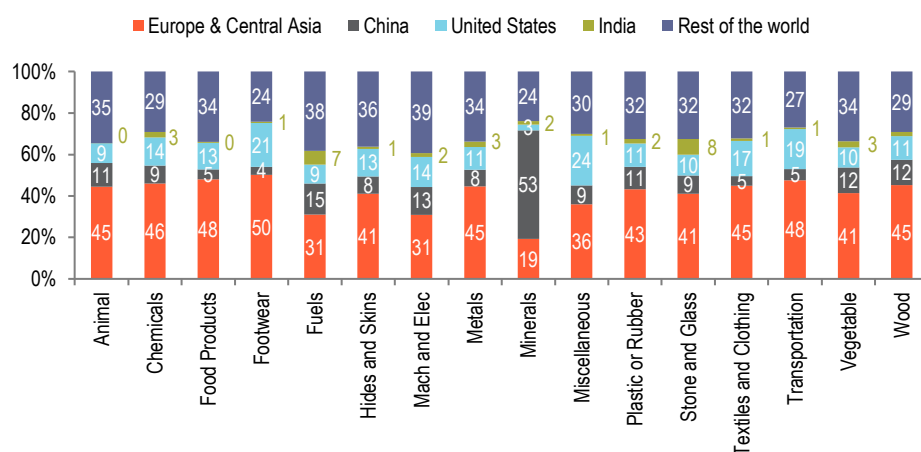
Source: EIA, BP, BOBCAPS Research

**Fig 4 – Share of Russian exports**



Source: WITS, BOBCAPS Research | Data as of 2019

**Fig 5 – Share of global imports**



Source: WITS, BOBCAPS Research | Data as of 2019

**Fig 6 – Index performance**

(%)	1M	3M	6M	YTD	1Y	3Y	5Y
Nifty 50	(5.7)	(5.2)	(4.5)	(4.4)	9.4	50.4	85.7
Nifty Next 50	(5.4)	(7.2)	(6.7)	(5.5)	13.5	45.3	65.9
Nifty 200	(5.9)	(6.1)	(4.6)	(4.9)	10.8	51.4	82.8
Nifty 500	(6.1)	(6.4)	(4.4)	(5.4)	11.8	54.0	84.0
NIFTY Midcap 100	(7.6)	(10.1)	(4.4)	(7.9)	15.8	61.3	72.1
NIFTY Smallcap 100	(8.1)	(10.5)	(5.8)	(10.8)	19.3	58.5	52.6
NSE NIFTY Smallcap 250	(7.7)	(8.2)	(1.7)	(8.3)	25.6	71.8	71.1
Nifty Dividend Opp 50	(3.0)	(2.5)	(1.5)	(2.6)	17.5	38.8	59.1
NIFTY100 ESG	(5.7)	(6.0)	(6.0)	(6.6)	12.4	61.3	105.1
S&P 500	(5.0)	(9.2)	(4.1)	(10.2)	9.7	56.0	80.3
Stoxx 600	(9.2)	(9.8)	(8.0)	(12.1)	1.6	15.8	14.9
Nikke 225	(7.2)	(9.7)	(15.4)	(10.8)	(11.5)	22.2	31.0
FTSE 100	(7.3)	(2.5)	1.2	(3.7)	5.7	0.1	(3.2)

Source: Bloomberg, BOBCAPS Research

**Fig 7 – Sector performance**

(%)	1M	3M	6M	YTD	1Y	3Y	5Y
Nifty 50	(5.7)	(5.2)	(4.5)	(4.4)	9.4	50.4	85.7
Nifty Bank	(11.6)	(7.1)	(6.0)	(2.8)	(4.1)	24.2	66.3
Nifty IT	0.2	(1.5)	1.7	(8.5)	36.1	129.7	229.3
Nifty Auto	(14.2)	(9.6)	(0.9)	(8.4)	(5.1)	16.7	2.5
Nifty Pharma	(3.9)	(2.7)	(8.7)	(8.1)	6.2	44.9	24.9
Nifty Metal	1.7	8.9	6.9	11.6	59.1	109.0	103.1
Nifty FMCG	(3.9)	(7.0)	(12.4)	(5.5)	6.4	18.6	59.0
Nifty PSU Bank	(13.0)	(5.9)	12.0	4.0	11.9	(10.4)	(19.6)
Nifty Realty	(9.1)	(17.6)	2.5	(11.6)	21.6	81.1	116.0
Nifty Financial Services	(10.7)	(11.2)	(11.2)	(6.9)	(3.3)	38.9	93.9
Nifty Infrastructure	(5.4)	(6.1)	(1.6)	(3.6)	12.2	57.1	59.8
Nifty Energy	0.5	5.9	17.3	9.7	28.4	61.6	118.6
Nifty CPSE	0.7	9.0	21.7	10.6	33.0	18.1	(1.3)
Nifty India Consumption	(5.9)	(7.6)	(7.0)	(6.5)	10.3	37.7	67.8
Nifty Media	(5.3)	(13.8)	25.3	(3.9)	23.2	(13.4)	(30.2)
NIFTY Private Bank	(11.2)	(7.6)	(7.9)	(3.1)	(9.2)	10.3	52.2
Nifty PSE	(1.5)	2.5	8.3	5.4	23.6	19.5	2.5
Nifty Commodities	(4.0)	1.1	1.4	2.7	27.6	67.0	70.4
NSE Nifty Fin Services	(10.7)	(11.2)	(11.2)	(6.9)	(3.3)	38.9	93.9
Nifty Services Sector	(6.4)	(6.6)	(5.1)	(5.5)	7.7	51.9	100.7

Source: Bloomberg, BOBCAPS Research

**Fig 8 – Commodity prices**

(%)	Level	1M	3M	6M	YTD	1Y	3Y	5Y
<b>Energy</b>								
NYM WTI Crude (US\$/bbl)	109.75	23.9	54.7	62.4	47.4	88.1	100.4	111.9
ICE Brent Crude (US\$/bbl)	113.14	25.7	52.5	62.0	47.1	83.6	84.0	108.8
ICE ARA Gasoil (US\$/MT)	1,522.5	87.6	135.8	156.1	129.6	184.7	161.3	199.1
NYM NYH Gasoline (US\$/gal)	332.2	19.0	48.2	54.3	42.5	75.1	84.7	NA
NYM NYH Heating Oil (US\$/gal)	363.9	33.4	64.6	73.9	59.3	92.9	83.9	NA
NYM HH Nat Gas (US\$/MMBtu)	4.53	15.0	22.1	17.6	29.3	80.1	81.7	69.3
ICE NBP Nat Gas (US\$/MMBtu)	373.58	108.3	115.2	299.3	139.8	735.9	694.3	823.6
<b>Metals</b>								
LME Aluminums (US\$/MT)	3341	2.3	27.2	17.7	19.0	54.1	78.5	78.9
LME Coppers (US\$/MT)	10,001.5	(0.6)	4.9	6.5	2.9	13.9	56.4	75.8
SGX Iron Ore (US\$/MT)	162.25	6.9	51.0	39.0	36.0	38.7	148.7	NA
LME Nickel (US\$/MT)	48,048	107.2	141.8	138.0	131.5	198.8	267.1	373.4
Steel China (CNY/MT)	5,122	1.6	7.5	(12.4)	7.9	4.7	32.8	39.1
Spot Gold	1,985	8.6	11.3	11.0	8.5	15.0	52.9	64.8
Spot Silver	25.6	10.1	15.1	7.6	9.6	(2.5)	66.6	50.0
<b>Agriculture</b>								
CME Live Cattle (US\$/lb)	134.0	(6.0)	(2.2)	2.6	(3.8)	8.9	NA	NA
ICE Coffee (US\$/lb)	229.3	(11.3)	(4.3)	19.9	1.5	65.4	NA	NA
CBT Corn (US\$/bu)	738.5	15.3	24.7	38.9	24.1	50.2	NA	NA
ICE Cotton (US\$/lb)	118.0	(4.3)	12.4	27.8	6.8	45.5	NA	NA
CBT Soybeans (US\$/bu)	1,682.5	6.7	31.3	28.9	24.7	39.1	NA	NA
ICE Sugar (US\$/lb)	18.94	5.3	(1.8)	(2.5)	1.8	28.4	NA	NA
CBT SRW Wheat (US\$/bu)	1,141.5	46.6	44.4	61.9	47.4	74.5	NA	NA

Source: Bloomberg, BOBCAPS Research

**Fig 9 – Exchange rates**

(%)	Current	1M	3M	6M	YTD	1Y	3Y	5Y
USDINR	76.1	(1.5)	(0.4)	(3.5)	(2.3)	(4.2)	(7.9)	(12.5)
EURINR	84.2	1.9	1.6	3.3	0.1	3.1	(6.5)	(16.1)
JPYINR	0.7	(1.6)	1.5	2.0	(1.6)	2.1	(3.9)	(12.0)
GBPINR	100.3	1.4	(0.3)	1.6	0.1	1.1	(8.5)	(19.3)

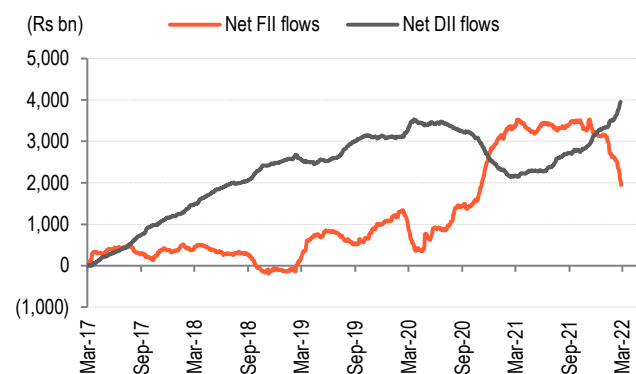
Source: Bloomberg, BOBCAPS Research

**Fig 10 – Yields**

(%)	1M	3M	6M	YTD	1Y	3Y	5Y
India 10Y yield	6.73	6.37	6.19	6.45	6.25	7.37	6.90
India AAA corporate yield	7.21	6.98	6.86	7.00	7.24	8.72	8.06
India AA corporate yield	7.98	7.77	7.64	7.79	7.96	9.27	8.53
US 10Y yield	2.03	1.48	1.34	1.51	1.52	2.63	2.57
EU 10Y yield	0.28	(0.35)	(0.32)	(0.18)	(0.31)	0.07	0.49
Japan 10Y yield	0.23	0.06	0.05	0.07	0.13	(0.03)	0.09

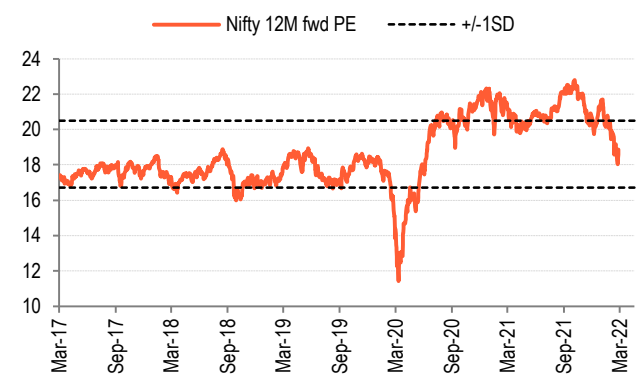
Source: Bloomberg, BOBCAPS Research

**Fig 11 – FII continue to sell**



Source: Bloomberg, BOBCAPS Research

**Fig 12 – Valuations have moderated**



Source: Bloomberg, BOBCAPS Research

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**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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