

**NEWS**

**DOMESTIC NEWS**

**GST Revenue falls 41% in Q1 of 2020-21:** For the quarter of April to June, the Goods and Service Tax collections stood at ₹1.86 lakh crore which shows 41% drop compared to the collection of ₹3.14 lakh crores in the same period of last year. It happened due to the economic impact of the pandemic and secondly because of the relaxations given by Government in filing the returns and payments of taxes. But the increasing trend in June 2020 indicates the recovery line forming up for the next quarters.

(Source: The Hindu)

**PNB declares yet another scam; reveals Rs 3,688 crores exposure to DHFL:** State-owned Punjab National Bank reported a fraud of Rs 3,688.58 crores to RBI in NPA account of DHFL to RBI. Provisions amounting Rs 1,246.58 crores, has already been made by the bank as per prescribed prudential norms. Last year in November, the Reserve Bank had sent the troubled mortgage lender DHFL for bankruptcy proceedings, making it the first financial services player to go to the NCLT for a possible debt resolution.

(Source: Economic Times)

**Mukesh Ambani now richer than Warren Buffett as RIL shares break records:** The chairman of Reliance Industries had a rollercoaster 2020 and is now worth \$68.3 billion, eclipsing the fortune of Warren Buffett. He has surpassed Buffett's \$67.9 billion as his shares have more than doubled since March as its digital unit got more than \$15 billion in investments from renowned companies. He became the only Asian tycoon in the exclusive club of the world's top 10 richest people.

(Source: Mint)

**India's trade deficit with China dips to \$48.66 billion in FY20:** On account of the decline in imports from China, the trade deficit has fallen by 9.5% in 2019-20. Exports stood at \$16.6 billion and imports were \$65.26 billion making the trade deficit of \$48.66 billion, which was \$53.56 billion in FY19 & \$63 billion in FY18. Further to widen the trade deficit with China, the Government has formulated technical regulations for over 150 products worth \$47 billion of imports.

(Source: The Hindu)

**INTERNATIONAL NEWS**

**Wells Fargo tells new clients they need \$1 million in balances for certain mortgage refinancing:** Wells Fargo has asked its customer to have \$1 million as balance in their account if they want to refinance a jumbo mortgage which has been raised from the previous level of \$2,50,000. The company wants to lower the number of loans which are taken by the customers that is why they are increasing the balance amount. Moreover, the bank has tightened the lending standards of the mortgage business which had a major impact on the house loan. The home mortgage rate was decreased by 5% of the size of the loans that they used to approve.

(Source- CNBC)

**HDFC's Share price falls over 3% after China's Central Bank cuts stake:** The stake price of HDFC falls by 3% to Rs 1877 in intraday as China cuts down its stake. The large-cap has lost 15.32% in one year. The People's Bank of China holds 1.01% stake in HDFC bank which is around 17.5 million shares for the quarter of March. The Mutual fund has also been lowered down to 9.44% in quarter 1. The company is facing problems as they earned more profits in March than June. The FDI has also fallen to 70.17% in mid-June.

(Source- Business Today)

**U.S. small-cap stocks are poised to outperform during the recovery:** After the outbreak of COVID-19, the small-cap stocks of the US are set to outperform the S&P 500. The market capitalization of the small-cap is between \$300 million to \$ 2 billion. It's predicted that the small-caps more broadly tend to either underperform or outperform in S&P 500 in seven years' cycle. Investors have been trading into mega-cap stocks if the benchmark is against the S&P 500. The firms are at the end of the cycle and they predict that small-cap will benefit the economy to recover.

(Source – CNBC)

**Global public debt, fiscal deficits to reach an all-time high in FY21:** IMF told that the global public debt is expected to exceed more than 100% of the GDP in 2020 and overall fiscal deficit is expected to rise to 14% of the GDP in 2020. The reason for that is the rise in the debt in countries like the US, Japan and Europe. The low-income developing countries are facing a high risk of debt even before the crisis. In the initial times, the higher authorities supported the health sector and the most affected firms and households.

(Source: Business Standard)

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*“Invest in yourself. Your career is the engine of your wealth”*

### **WHY IS NASDAQ HITTING NEW HIGHS AMIDST THE PANDEMIC?**

NASDAQ (National Association Securities Dealers Automated Quotations) is a global electronic marketplace for buying and selling securities. It is also a benchmark index for the US stocks. NASDAQ allows investors to trade securities in a speedy and transparent system. NASDAQ is associated with technology stocks. Few of the stocks listed on NASDAQ are Apple, eBay, Google, Microsoft, Netflix, Tesla Motors, Viacom, Yahoo.

#### **Why NASDAQ is rising?**

United States Tech stocks have led the NASDAQ higher. NASDAQ composite is filled with tech companies' stocks such as Amazon, Microsoft, Apple and Facebook. All these stocks and the other NASDAQ composites have hit the higher records as these stocks have higher weightage in NASDAQ. Stocks in NASDAQ are generally more volatile.

Large tech companies such as Facebook, Google and Microsoft have huge cash and products that are higher in demand even in this pandemic which will protect NASDAQ from any downturn. These aspects have helped the tech stocks to rise.

The U.S economy is bouncing back fast which is above the expectation of investors as it is creating a bullish trend in the market. The U.S. economy has added 2.5 million jobs, recovering from April's 20.7 million payrolls drop and putting the unemployment rate down to 13.3%.

Stocks which have bearish trend are generally airline stock which does not have significant weightage in NASDAQ.

*Niyanta Khare*

### **H-1B VISA BAN- HOW WILL IT AFFECT INDIA?**

The US administration said it was extending the 60-day ban on immigration and non-immigrant worker visas till the end of 2020. Popular work visas including the much-coveted H-1B and H-2B, and certain categories of H-4, J, and L visas shall also remain suspended till December 31, the White House said in a press note. This decision was taken to protect the domestic workers who have lost their jobs amidst the pandemic.

H-1B visa is mainly for the high-skilled workers and has a validity of upto 6 years. This visa is for specialised occupation, including fashion models of an equivalent merit, government researchers, etc. H-2B visa is for seasonal and non-agricultural labourers, having a validity of 3 years. Approximately 66,000 such visas are issued per

year. J visa is for cultural and educational exchange of students and their dependents. L visas are for managers and other key employees of MNCs and their dependents.

Most of the individuals affected by the June Ban are technology workers and intra-company transferees all of whom are generally very highly skilled and/or at very senior positions at offshore affiliates of American companies.

The June ban does not have a significant impact in the near future because most U.S. consular posts are closed and visa interview appointments are unavailable unless one can show that there is an emergency. Especially in India, consulates are expected to open only when there is clear guidance from the governments (both central and state) about the lockdown that was initiated in the middle of March and has gone through several extensions.

While about 70% of the H-1B and L-1 visas are granted to Indian nationals, this June ban is unlikely to have a major, immediate impact on Indian IT/ITeS companies as only a relatively small number of H-1B employees will be affected.

*Nishi Sanghvi*

### **GLOBAL CRUDE OIL PRICES NOT REFLECTING INDIAN RETAIL PRICES**

The world economy has been reeling due to the COVID-19 pandemic. Most of the countries have been under the lockdown for restraining the spread of this highly contagious virus which means fewer jets in the air, fewer vehicles on the road, etc.

Thus the demand for oil and petroleum has been falling sharply for the past few months. But on the other hand, the suppliers of oil weren't cutting production or shutting down oil wells as restarting costs are very high. This demand-supply mismatch led to continuous fall in prices of crude oil. As demand continued to fall, OPEC+ countries finally decided to reduce production to stabilize prices.

The situation worsened so much that the WTI crude oil futures traded on NYMEX closed at negative \$37.63/barrel in April.

This means that the suppliers were ready to pay buyers for lifting stocks, but still demand was low as the storage capacity of both suppliers and buyers of oil was exhausted.

It is expected that since restarting production costs are high, it would be done only if prices reach back to pre-crisis levels.

So even if demand revives post-lockdown, the supply would be tightened leading to a reversal in crude oil prices.

India being a large importer of crude oil, low prices are beneficial for the economy as it reduces our import bill thus reducing our fiscal deficit.

Refiners have been filling up all storage units to take benefits of low prices. But the government is not passing down the benefit of low prices to the public as the government's revenues are impacted by COVID-19 and hence they are trying to offset it by increasing the levies on oil and petroleum products.

*Simran Sanan*

## **CHINESE INVESTMENTS IN INDIAN START-UPS**

Chinese tech giant companies and venture capitalists have become the primary vehicle for investments in India largely in tech start-ups over the last five years with an estimate of \$4 billion. Though Chinese FDI in India is \$6.2 billion, its impact is already outsized, given the increasing penetration of tech in India.

Over the last five years, 18 out of India's 30 unicorns are now Chinese-funded. Venture capitalists such as CDH Investments, Hillhouse Capital, SAIF Partners, and Ward Ferry and tech companies such as Alibaba, Tencent and Xiaomi have invested in India.

There are three reasons for China being able to invest in Indian start-ups.

First, there are no major Indian venture capitalists who can invest in start-ups. Second, China provides sufficient capital needed in the initial stage of start-ups though it is loss-making which Indian venture capitalists can't bear. Third, for China, the Indian market has huge opportunities in retail and strategic value, which led Alibaba and Tencent to invest in India.

Talking about Chinese investments, 50% of top app downloads (combined iOS and Google Play Downloads) in India in 2018 included apps with Chinese investments, such as UC Browser, SHAREit, TikTok, Vigo Video, Paytm, One97 Communications Ltd., Snapdeal, etc.

UC Browser has a sizeable market share of 17.09% in the mobile browser market space in India and also leads the mobile phone segment in India with a 21.38% market share.

Investment by mainland China-based tech companies in Indian-start-ups mainly includes three giants:

- 1) Alibaba Group that has an investment in BigBasket, Dailyhunt, Rapido, Snapdeal, Zomato, etc.
- 2) Tencent which has invested in Byju's, Ola, Flipkart, Gaana, Hike, MXPlayer, Swiggy, etc.
- 3) Xiaomi has made investments in City Mall, Rapido, Sharechat, ZestMoney, etc. covering the E-commerce, Search Engine, Media, Social Media & Entertainment,

Logistics, Fintech, Aggregator, Educations, Gaming sectors.

India has 560 million internet subscribers growing at the fastest rate. Chinese investment in the digital ecosystem has data security implications as well. Chinese apps require a vast amount of personal data rising suspicions about cyber-espionage attempts which need to be taken into consideration.

*Rushil Patel*

## **FINANCIAL ZOO OF MARKETS**

We all have heard about bull market and bear market but have you ever heard about the kangaroo market?

Another animal has come to the financial zoo called the Kangaroo market. Let's look at the original animals of the financial market.

### **Bull market and Bear market:**

The market usually performs in either upward trend with 20% rise in the market over a period of time with a characteristic of bull by attacking an opponent by thrusting its horn up in the air which is known as Bull market, in bullish market, there is a high demand in stocks.

Bear market shows a downward trend with over 20% fall in the market, it is synonymous with the characteristic of bear as when bear attacks, the bear swipes their paws down and market crashes down known as bearish market.

In bear market there is a high supply of stock in the market. Bear market is riddled with pessimism, negative sentiment & fear. These trends in the indices subsequently affect the economy of a nation as well.

About the new animal of Financial zoo:

Other than the bull & bear market, in recent time from the early signs of the spread of the pandemic from 25th Feb'20, it has been observed that the markets started showing a new trend.

In the initial phase, the market showed a bearish trend. But later on, the markets did not follow any specific trend. The indices were continuously hopping upwards & downwards without there being any consistency of either bullish or bearish trend.

Such active movements in the indices led to extreme volatility in the indices such as Nifty 50 experienced movement of 400-500 points in a day.

Such a hopping of movements is one of the characteristics of Kangaroo, hence CNBC names this as a Kangaroo Market. The Kangaroo market evokes confusion & frustration among investors of the market.

*Dhruv Dada*



## CREDIT LINKED NOTES

Credit Linked Notes (CLN) are credit derivative instruments that are structured to resemble a bond which is issued either by a high graded financial institution like JP Morgan or via SPV (Special Purpose Vehicle). It has been embedded with Credit Default Swap feature which allows the issuer to transfer credit risk to investors.

These notes have pre-defined maturity and coupon rate just like a bond, but it specifies a reference entity, and if this entity faces a credit event during a life of the note than the note is extinguished and the note holder will only get some defaulted debt obligation from the issuer.

These bonds have got a higher coupon rate because the risk involved is of two entities i.e. i) The CLN issuer and, ii) The reference company.

Suppose JP Morgan issues CLN of principal \$100 with a maturity of 3 years and a coupon rate of 6%, and the reference entity is Alcatel whose bonds have a coupon rate of 5%.

Case 1: If there is no credit event of Alcatel during the life of the note, then the note holder will get regular coupon payments and the principal amount at the end of 3 years.

Case 2: If there is a credit event of Alcatel during the life of the note, then the note holder will not receive any further coupon payments or principal amount, he would only receive some defaulted debt obligation.

An investor would invest in such notes to earn some extra returns by taking additional risk, also it has customized tenure. (Alcatel original bonds' maturity period is 6 years whereas CLN has 3 years' maturity)

An asset manager would buy these notes to get better returns out of his proportion of money to be invested in bonds.

However, investors are earning greater returns on the same amount of money invested on the same reference asset but via a CLN because if the investor directly invests on the reference company bonds and suppose a credit event occurs, he/she will anyway face the default risk.

*Rahul Kejriwal*

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## GLOSSARY

**SPV (Special Purpose Vehicle)** - A SPV is separate legal entity created for specific objective often which is to isolate financial risk.

**Foreign Direct Investment (FDI)** – FDI is an investment in a business by an investor from another country for which the foreign investor has control over the company purchased.

**Venture Capitalist (VC)** – VC are private equity investor that provide capital to companies brand new idea like start-ups, companies exhibiting high growth potential in exchange of equity stake.

**Cyber espionage** - Cyber espionage is the use of computer networks to gain illicit access to confidential information.

**Jumbo Mortgage** – When the mortgage becomes too large to be issued by Fannie Mae and Freddie Mac it becomes a Jumbo Loans or Jumbo Mortgage. The definition of a Jumbo Mortgage differs by location but typically anything over \$424,100 (for 2017, previously \$417,000) for a single-family home is considered “Jumbo”. however, in high cost areas like New York City, Los Angeles and San Francisco where the average home can cost more than \$400,000 the limit can be as high as \$636,150.

**West Texas Intermediate (WTI)** -WTI is a crude oil that serves as one of the main global oil benchmarks. It is sourced primarily from Texas and is one of the highest quality oils in the world, which is easy to refine.

*Falguni Chajjer*

## QUIZ

- 1) \_\_\_\_\_ are credit derivative instruments that are structured to resemble a bond which is issued either by a high graded financial institution or via SPV. (Credit Linked Notes)
- 2) \_\_\_\_\_ visa is for seasonal and non-agricultural labourers, having a validity of 3 years. (H-2B)
- 3) Investment by mainland China-based tech companies in Indian-start-ups mainly includes three giants they are Alibaba Group, Tencent and \_\_\_\_\_. (Xiaomi)
- 4) Stocks which have bearish trend are generally \_\_\_\_\_ which does not have significant weightage in NASDAQ. (Airline stock)
- 5) The \_\_\_\_\_ mismatch led to continuous fall in prices of crude oil. (Demand-supply)

*Falguni Chajjer*