LAXMI CAPITAL MARKET LIMITED

Newsletter for the month of Chaitra 2078

Monthly Nepse Summary

This Month NEPSE made volatility of 308.81 points. NEPSE made a high of 2675.83 and low of 2367.02 within a Month. Index opened at 2673.55 points and closed at 2415.25 points with the loss of 258.30 points.

Exponential Moving Average:

We have used EMA's of 5 days' time period (Blue line), 20 days' time period (red line). At present, NEPSE Index is below Exponential moving average (5 Days EMA and 20 Days index), indicates continuation of down trend.

Relative Strength Index:

The relative strength index (RSI) is a momentum indicator that measures the magnitude of recent price changes to evaluate overbought or oversold conditions in the price of a stock or other asset. The RSI is displayed as an oscillator (a line graph that moves between two extremes) and can have a reading from 0 to 100.

Relative Strength Index is currently at 33. (near to over sold zone)

This Month market statistics:

Index Open-2673.55 points **Index closed**-2415.25 points

Index High- 2675.83 points **Index low**- 2367.02 points

Pivot Points Standard:

A pivot point is a technical analysis indicator, or calculations, used to determine the overall trend of the market over different time frames. The pivot point itself is simply the average of the intraday high and low, and the closing price from the previous trading day. On the subsequent day, trading above the pivot point is thought to indicate ongoing bullish sentiment, while trading below the pivot point indicates bearish sentiment.

The pivot point is the basis for the indicator, but it also includes other support and resistance levels that are projected based on the pivot point calculation. All these levels help traders see where the price could experience support or resistance.

Support and resistance level for according to Pivot Point.

1st Resistance- 2467.45 point **1st support**-2390.98 point

2nd Resistance-2574.50 point **2nd support**-2283.92 point

Current nepse index is 2415.25 level, which is bellow pivot level indicating bearish sentiment.

Islamic Finance at a glance

Islamic finance or Shari'ah-compliant financing (SCF) is one of the fastest-growing segments of the global financial system with an estimated compound annual growth rate of 17% since 2009. Islamic finance bases its principles on Islamic virtues and tenets that specify the need for ethical behavior and fair treatment and within a business context, it would mean maintaining high ethical standards in all business dealings, it would also mean that the enterprise should not capitalize on the misfortune of others or take unfair advantage and should view money as a means of exchange rather than a commodity. The core belief of Islamic finance is that profit creation should be the result of business activity that benefits the society at large and thus dealing in alcohol, pork-related products, armaments, gambling and other socially detrimental activities is not acceptable. These standards followed by Islamic finance and banking share a resemblance with the ESG (Environmental, Social and Governance) principles advocated by the West.

An intriguing fact about Islamic finance is that interest (riba) cannot be paid or received on loans. Thus a major question that arises is how does Islamic finance work and what could be the potential benefits of Islamic finance?

In an Islamic banking arrangement, the money obtained in the form of a deposit is not loaned but is instead channeled into an underlying investment activity that will earn profit. The depositor is rewarded with a share of the profit from the investment activity after a management deduction from the bank. Islamic Banks offer Equity-based and Fixed Income-based financial products. A brief on each type of financial product is as follows:

Equity-Based Financial Products

Equity-based financial products consist of Mudaraba and Musharakha contracts. In equity contracts, the investor and the investee share the profits from a business venture in a pre-determined proportion.

Mudaraba Contract

In a Mudaraba Contract, all the financial losses are solely borne by the investor although there may be provisions to carry forward these losses against future profits. The Mudareb (Company/investment manager) takes the sole responsibility for running the business and in case of a loss the Mudareb would lose their effort and time. In this context, the Mudaraba contract is unique in the sense that it recognizes the occurrence of various forms of capital that is required in a business and agrees to a split of profit while recognizing the efforts of the Mudareb. A similar concept is proposed by the Integrated reporting framework which recognizes 6 distinct but interrelated capitals i.e. social, human, intellectual, natural, financial and manufactured capitals.

The Mudaraba contract, also fosters entrepreneurship as it recognizes the efforts of the founder/venture manager and does not only consider the financial aspect of a business which is a more holistic approach.

Musharaka Contract

In a Musharaka Contract, the financial gains and losses are split between the 2 parties in proportion to their monetary investment or investment in kind. Both the parties would participate in managing and running the venture jointly which would foster accountability, governance and shared responsibility for the business activity. Furthermore, Diminishing Musharaka contracts are a more recent innovation where not only are the profits shared between the 2 parties but the venture owner would pay a greater amount in order

Fixed Income Financial Products

As charging interest is not allowed within Islamic Finance, the fixed income financial products within Islamic Finance have been engineered in a manner to circumvent the use of interest. Different products providing fixed income are available under Islamic Finance which are as follows:

Murabaha Contract

In the context of a Murabaha Contract, the Islamic Financial Institution purchases the assets and sells that asset to a business or individual at a markup along with an application fee. The businesses or individuals pay for the assets in pre-agreed installments over a fixed period of time after which the title of the asset is transferred to the business/ individual. Many argue that this is simply another method of charging interest. However, the difference lies in the structure of the contract. In a Murabaha contract for sale, the bank buys an asset and then sells the asset back to the client with a profit charge which is allowed by Islamic Laws. A key differentiator includes that additional charges are not imposed after the due date which is typically done in traditional banking.

Ijara Contract

Ijara denotes a contract where one party transfers the right to use an item he owns to another party for a specified period in exchange for an agreed consideration. In this aspect, Ijara Contract can be considered to be equivalent to the Operating Leases. The lease payments, the lease period and payment terms are agreed upon at the start of the contract. The lessor is responsible for the maintenance and insurance of the asset which is different from the traditional practice in the other parts of the world. Furthermore, provisions can be made to allow the lessee to purchase the asset for a nominal fee at the end of the contract.

Salam Contracts

Salam contracts are similar to forward contracts, where a commodity (or service) is sold today for future delivery. Cash is received immediately from the Islamic Financial institution and the quantity, quality, and the future date and time of delivery are determined immediately. The sale will probably be at a discount so that the IFI can make a profit. Salam contracts are prohibited for commodities such as gold, silver and other money-type assets. A key difference of Salam Contracts with respect to traditional futures and forward contracts is that the physical delivery of the underlying goods must occur and Salam does not allow for speculation.

Instisna Contract

Istisna contracts are often used for long-term, large construction projects of property and machinery. Here, the Islamic Financial institution funds the construction project for a client that is delivered on completion to the client. The client pays an initial deposit followed by installments, which are pre-determined at the start of the contract.

Key Learnings in the Context of Nepal

Nepal does not have a majority of the Muslim population and thus Islamic Finance is not quite popular and the current banking principles and regulations do not allow for Islamic Banking. Nevertheless, there are a number of key takeaways and learning points which are as follows:

- Ethical treatment of borrowers/customers. For instance, treating customers favorably by not charging fees for delays in payments that puts further pressure on the borrower but taking actions against willful defaulters.

- Partnership and Risk sharing arrangement between the financial institution and investee/borrower that strengthens corporate governance within an organization

- Consideration of a wider range of stakeholders such as the community rather than being focused only on profits (bottom line) and dividends to shareholders

- Long term horizon and discouragement of short-term opportunism. For instance, Salam Contract is similar to futures and forwards but does not allow room for speculation which is considered to be gambling.

- Emphasis on due diligence and in-depth study of the borrower/investee prior to the occurrence of the transactions

Increased emphasis on corporate governance

Although the concepts and core ideas behind Islamic Finance cannot be properly adopted within the banking system due to the lack of adequate laws and regulations, the up and coming alternative funds such as Private Equity and Venture Capital funds could definitely leverage and adopt certain principles and concepts from Islamic finance can be incorporated in the investment philosophy of such funds.

Global Economic Implications of the Russia –Ukraine Conflict

Brief Overview on Russia

Russia or the Russian Federation is a transcontinental country spanning Eastern Europe and Northern Asia. It is the largest country in the world by area, covering over 17,125,191 square kilometres (6,612,073 sq mi), and encompassing one-eighth of Earth's inhabitable landmass. Russia extends across eleven time zones and borders sixteen sovereign nations, the most of any country in the world. It is the ninth-most populous country and the most populous country in Europe, with a population of 145.5 million. The country's capital and largest city, Moscow, is also the largest city entirely within Europe.

Russia's economy is the world's eleventh-largest by nominal GDP and the sixth-largest by GDP (PPP). Russia's extensive mineral and energy resources are the world's largest, and it is among the leading producers of oil and natural gas globally. It is a permanent member of the United Nations Security Council, a member of the G20, the SCO, BRICS, the APEC, the OSCE and the WTO, as well as the leading member of the CIS, the CSTO, and the EAEU.

Brief Overview on Ukraine

Ukraine is located in eastern Europe between Russia, which borders to the east and north-east, and the EU/NATO member states Poland, Slovakia, Hungary to the west, and Romania to the south. Ukraine also has borders with Belarus in the north and Moldova to the south. Ukraine shares a border with Russia significantly. It is the second-largest country by area in Europe after Russia. It spans an area of 603,628 km2 (233,062 sq mi). With a population of 43 million, Ukraine is the eighth-most populous country in Europe. The nation's capital and largest city is Kyiv.

Ukraine is a developing country with a lower-middle income economy. Ukraine is among the poorest countries in Europe. As of 2020 it suffers from low life expectancy and widespread corruption. However, due to its extensive fertile land, Ukraine is one of the largest grain exporters in the world. It is a member of the United Nations, the Council of Europe, the OSCE, the GUAM organization, the Association Trio, and the Lublin Triangle.

Origin of the Conflict

Ukraine and Russia are two independent countries, which emerged with the collapse of the Soviet Union. After the collapse of the Soviet Union in 1991, the successor states' bilateral relations have undergone periods of ties, tensions, and outright hostility.

Ukraine's ambitions to align itself more with Western countries including its publicly stated interest in joining NATO, which itself was founded at least in part to deter Soviet expansion has been met with aggression from Russia. Tensions came to a head in 2014 after Ukrainians ousted a Russia aligned president.

Russia and Ukraine have been embroiled in conflict for the past eight years, after Russia took advantage of political turmoil in the neighboring country to seize and establish military control over Ukraine's southern Crimean Peninsula in 2014. An ensuing war between Ukraine's military and Russian backed rebels and Russian troops in Ukraine's two eastern regions collectively known as the Donbas never formally ended, and to date an estimated 14,000 people have been killed and an estimated 1.5 million displaced.

Global Economic implications of the Russia –Ukraine Conflict

Russia is the world's 3rd oil producer, the 2nd natural gas producer. It is also the largest wheat exporter in the world that account to almost 20% of global trade. Likewise, Ukraine is a key producer of corn (6th largest), wheat (7th), sunflowers (1st), and is amongst the top ten producers for sugar beet, barley, soya and rapeseed.

Russia is also a major producer of several base metals (aluminium, titanium, palladium and nickel), all of which will register price jumps. Following spikes in all of these markets last year, prices will remain at peak levels as long as the conflict continues. This will have a substantial impact on industrial sectors such as the automotive industry across the globe. Prices of agricultural commodities (wheat, maize, barley and rapeseed) will soar. Taken together, Ukraine and Russia account for more than a quarter of the global wheat trade and produce 12% of calories consumed globally.

Countries that have very close economic links with Ukraine and Russia are at particular risk of scarcity and supply disruptions and are most affected by the increasing inflows of refugees. The ongoing war and associated sanctions will also have a severe impact on the global economy. The war will also exacerbate Covid-19 supply-chain backlogs, and the inflation that came along with it. Such disruptions will probably be most acute in western, and central, and eastern Europe as Russia and Ukraine are major suppliers of intermediate goods to those regions.

On February 28th the US unveiled a sanctions package targeting the Central Bank of Russia (CBR). The EU has followed suit. These sanctions will prevent the CBR from accessing about half of the US$643 billion that it holds in foreign exchange reserves by blocking its ability to convert assets held in US dollars and euros into rubles. In addition, the US and the EU have announced that some Russian banks will be cut off from SWIFT, the global payments system. The sanctions on Russia will also have a substantial impact on the global economy and financial markets, with significant spillovers to other countries. Financial sanctions will have an impact on supply chains and trade, as companies will struggle to find financial channels through which to conduct trade with Russia. Due to such sanctions on financial transactions with Russian entities some oil traders are also avoiding Russian oil.

Price shocks will have an impact worldwide, especially on poor households for whom food and fuel are a higher proportion of expenses. In many countries, the crisis is creating an adverse shock to both inflation and activity, amid already elevated price pressures. Commodities prices will remain elevated: The most serious effect of the Russia-Ukraine conflict for the world economy will come in the form of higher commodities prices. Oil prices will remain above US$100/barrel as long as conflict rages in Ukraine. Further, it is expected the Gas prices will escalate.

Sea ports and airports are closed and have been damaged, and many roads and bridges have been damaged or destroyed. Such disruption will compound existing supply-chain issues. Land-based trade routes between Asia and Europe will be disrupted as transit through Russia will become more difficult due to compliance, reputational or safety perspective. This will particularly affect some Chinese companies, which had increased their traffic over land-based routes through Russia (en route to Europe) as an alternative to sea and air freight during the corona virus pandemic. Air ties between Russia and Europe and, in turn, Asia and Europe will be severely hampered following the decision of EU countries to close their airspace to Russian aircraft and cargo, and Russia's reciprocal measure to close its own airspace to European planes. About 35% of global freight was being transported by air prior to the pandemic, about half of which was carried on passenger planes. Sea freight routes through the Black Sea will be cancelled for several weeks following Ukraine's decision to shut down commercial shipping and Turkey's move to restrict transit through the Bosphorus. This situation will have a notable impact on grain shipments transiting through Ukrainian, Russian, and possibly Bulgarian and Romanian ports.

Although the conflict arises between Russia and Ukraine but as its effect the global economic is going to suffer at large. Such battles, destruction, sanctions, or blockaded will prevent these products from reaching global markets, then the world should anticipate higher prices. These ripples will include shortages, supply chain disruptions, higher prices, slower growth, hits to employment, and possibly even global recession.

With economies having to pay more for import of goods due to price escalation, supply chain disruption and financial sanction leading to drying up of dollar reserve. With millions of Ukrainian leaving the country the neighboring country will have it adjust the demand of the goods and services accordingly further leading to increase in price of goods and services.

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Declining condition of SVOD (Streaming Video On Demand) giant Netflix

Netflix booked loss of 200,000 subscribers in recently published 2nd quarter report. This is a huge loss since 2011 as Netflix has only reported sustain growth since then. The company's withdrawal from Russia as a response to the geo political tensions on Russia invasion of Ukraine and related sanctions saw a loss of 700,000 subscribers attributed to the quarter.

The net result, taking into account the Russian loss, was a growth of 500,000 subscribers, a number still short of the expected growth of 2.5 million subscribers. Far worse in the report was Netflix's estimation of a further 2 million subscribers to be lost by the second quarter. On the day results were announced, the stock tumbled as much as 27% to $256 in after-hours trading. The drop extended into Wednesday's trading session as shares fell 35%, recording their biggest drop since 2004. That shaved off $54 billion from the company's market capitalization.

Other reasons being; swiftly growing competitors, Entertainment industry have realized that live video streaming platform as a future. So, they have started to develop such platform on their own. The launches of Disney+ in 2019, HBO Max in 2020, and Paramount+ in 2021 has seen these US-based entertainment companies step into streaming. There are a growing number of players in the market. Every major studio that launches a platform means less content Netflix can distribute when the major studios launch they remove their content from Netflix. The Netflix license for Friends, once one of Netflix's top watched shows, was not renewed by rights holder Warner Brothers Television in 2020. As a result, Friends is disappearing from Netflix markets around the world, instead streaming on Warner Brothers' Discovery platform, HBO Max. Apart from this, Netflix is also being criticized for its subscription amount which is higher than others.

Netflix focuses on a single product and delivery method is by subscription but for its competitor like Disney+ and Apple TV plus, SVOD is just an add ins to its variety of other products. So, in case of failure in the SVOD platform also they can make it up through other products. Regardless of being a successful web series, Netflix stopped continuing shows after 2 or 3 seasons due to high production budget since writers and actors demand for high pay raise.

To alter the negative subscription trajectory and revive business, Netflix is coming up with a lower cost ad supported subscription and prohibit password sharing between households. Also, Netflix signaled cutbacks in content expenditure, cancelling some much anticipated shows and flagged potential cuts to employee numbers and discretionary spending.