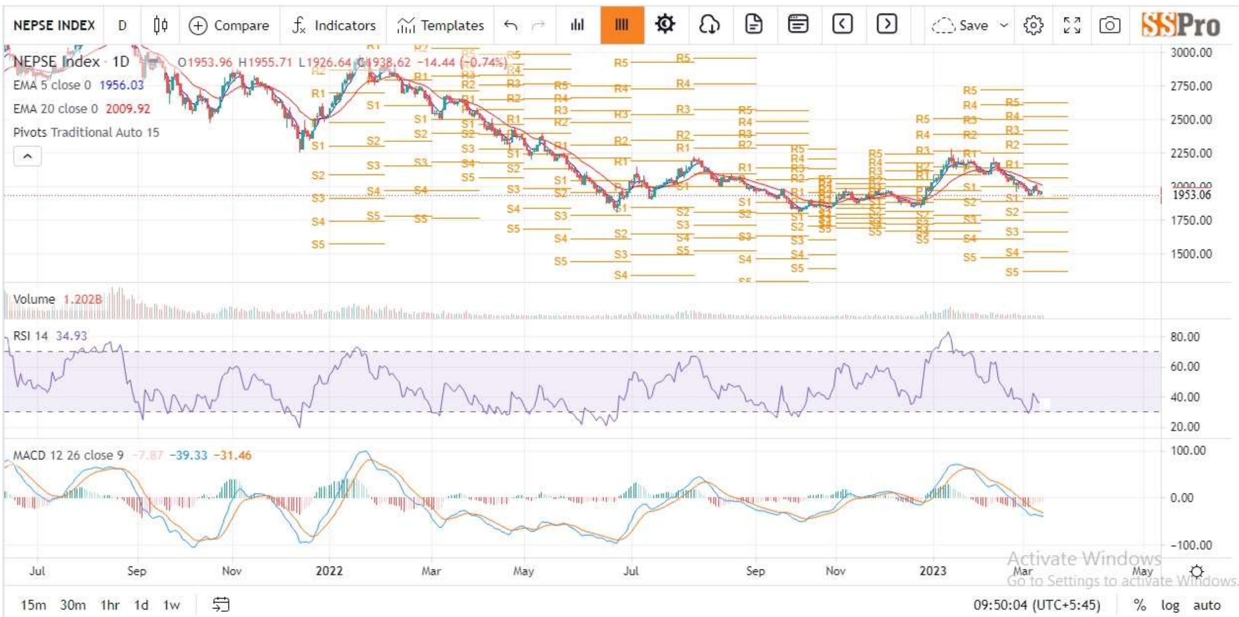
LAXMI CAPITAL MARKET LIMITED

Newsletter for the month of Falgun, 2079

Monthly Nepse Summary

This Month NEPSE made volatility of 186.92 points. NEPSE made a high of 2122.41 and low of 1935.49 within a Month. Index opened at 2122.41 points and closed at 1953.06 points with the Loss of 169.35 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 of 5 Days EMA and 20 Days EMI, indicates 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 36.42 (Near to oversold zone)

This Month market statistics:

Index Open-2122.41 points **Index closed-**1953.06 points

Index High 2122.41 points **Index low-** 1935.49 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- 2065.89 point **1st support-**1915.97 point

2nd Resistance-2168.83 point **2nd support-**1813.04 point

Nepse index is at 1953.06 level, which is bellow pivot level indicating bearish sentiment.

Summary on Collapse of Silicon Valley Bank

Introduction

Silicon Valley Bank (SVB) was established 39 years ago on October 17, 1983. It was headquartered in California, United States. SVB was the 16th-largest bank in the United States holding over $200 billion in assets. Silicon Valley Bank started its banking operation with the sole aim of supporting tech startups and technology companies in Silicon Valley. The parent company of the bank is SVB Financial Group. The bank was regulated by the California Department of Financial Protection and Innovation and was a member of the Federal Reserve System.

Apart from the core banking activities of deposit and lending, the bank operated venture capital and private equity divisions. Silicon Valley Bank provided services extensively in venture capital and private equity firms that invest in technology. The target clientele of the bank were tech startups and their founders. Further, the bank also provided private banking services to high net worth individuals.

Silicon Valley Bank became the largest bank to fail since the 2008 financial crisis after it collapsed on March 10, 2023. SVB Crisis occurred at the time when people across the world are battling macroeconomic and financial problems.

Collapse of Silicon Valley Bank

SVB's customers were largely startups and other tech-centric companies. In 2015, the bank stated that it served 65% of all U.S startups. Companies such as Airbnb, Cisco, Fitbit, Pinterest, and Block, Inc. have been clients of SVB. Venture capital funding boomed during 2019-2021, as the startups were getting huge funding and they were subsequently being deposited at SVB. During the COVID-19 pandemic, the US government rolled out stimulus packages and also printed a lot of money. Because of this, after the pandemic, there was excess money in the market.

The deposits of SVB grew from $75 Billion to $195 Billion in only 3 years. The deposits in SVB grew at a much greater rate than deposits grew in other banks. The rate of average deposit growth for other banks in the US was 37% while the deposits in SVB grew by 200%. This is a massive jump for SVB.

SVB was hit hard as the Federal Reserve's aggressive plan to increase interest rates to combat inflation. The bank bought billions of dollars' worth of bonds over the past couple of years. These investments are typically safe, but the value of those investments fell because they paid lower interest rates than what a comparable bond would pay if issued in today's higher interest rate environment. To fund the redemption, SVB sold $21 billion of bonds in large part at a $1.8 billion loss, it appears many of those bonds were yielding an average of only 1.79 percent which is below the current 10-year Treasury yield of around 3.9%. SVB had to sell safe bonds at a loss and those losses added up to the point that the bank became effectively insolvent. The main problem here is that SVB made investments on long term liabilities to secure short term deposits when interest rates were all time low.

SVB issued a statement stating to sale $21 billion of bonds in large part at a $1.8 billion loss. After this, SVB announced that it would raise funds worth $1.25 Billion from the market against shares to make up for the incurred losses and an additional $500 Million were to be raised from General Atlantic. But the customers of SVB reacted differently.

With the growing interest rate, fears of recession and a slowdown in the market for Initial Public Offerings (IPO) it was getting harder for the SVB's customers (mostly startup companies) to raise more funding. Deposits were going down because there was a funding winter in which startups were not receiving money from investors. Because of this, startups were withdrawing money from their accounts with Silicon Valley Bank to meet the expenses. These companies are in the early stage and requires huge amount of cash burn in their business. The customers started withdrawing their deposits. Initially, this was not a big issue, but the withdrawals started requiring the bank to start selling its own assets to meet customer withdrawal requests.

While some of the customers with high deposit balances were more fearful of a bank failure since their deposits were over $250,000- limit imposed by the US government on deposit insurance. At the end of 2022, 89 percent of its US$175 billion in deposit liabilities exceeded the maximum insured by the Federal Deposit Insurance Corporation.

SVB collapse has its roots in multiple problems arising out of fiscal policy and lack of diversification. On March 10, 2023, SVB failed after a bank run on its deposits. Such bank run would be problem for any bank as they have limited liquid cash at hand at any given time for every account holder to redeem at once.

Let’s Look at a Glance on the Collapse of Silicon Valley Bank

During 2019-2021 deposit from startups of SVB boomed drastically by

SVB started to invest huge portion of their deposits in US treasury bonds that yielded low

In 2022, Federal Reserve, which is the central bank of USA, started to raise interest

This results in the fall of investment by VC to startup business and decreases the

Startup companies required more cash burn. This compel startup to withdraw their cash from SVB,

SVB sold $21 billion of bonds in large part at a $1.8 billion loss to repay their

Costumers with higher deposits also withdrew as US Government insured only

This lead to bank run. Therefore, Federal Reserve declared SVB problematic.

Prepared By Priti Pradhan, PEVC

Microfinance

Micro Finance is a banking service provided to underprivileged individuals and small business owners to assist them in creating opportunities for self-employment and other sources of income. The defining characteristics of microfinance services are its small size loans and regular savings, typically to and from small scale entrepreneurs with straightforward and flexible terms and conditions. A microfinance program's primary goal is to uplift lives of members of the underprivileged population. Several microfinance organizations provide individuals services including direct money transfers, insurances, and savings accounts. Small enterprises, entrepreneurs, and individuals can benefit from microfinance by receiving low-cost insurance and zero-minimum savings accounts. In Nepal, where most of the rural areas are dominated by female population as majority of males have fled abroad, microfinance companies provide financial services to women and the poor so that they can grow their businesses. The current micro finance loan programme launched in Nepal is modeled after the programme of Grameen Bank Bangladesh started by Prof. Muhammad Yunus. As of March 2023, there are 58 micro finance listed in Nepse.

Types of Microfinance in Nepal

In general, the wholesale and retail divisions of the microfinance operations make up this division.

Wholesale Microfinance

Wholesale microfinance provides loan to institutions that provide individual loans to the people deprived of financial support. Banks or wholesale microfinance are used as sources of funding for retail microfinance, which then lends money to people with low incomes. In Nepal, there are four wholesale microfinance which include:

1. First Microfinance Laghubitta Bittiya Sanstha Limited.
2. RMDC Laghubitta Bittiya Sanstha Limited
3. RSDC Laghubitta Bittiya Sanstha Limited
4. Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited

According to Nepal Rastra Bank, wholesale microfinance must have a minimum of Rs. 60 crores in paidup capital.

Retail Microfinance

When providing loans to people with low incomes, retail microfinance uses money from banks or wholesale microfinance. It has already proven in the past that the poor households are bankable and small ticket loans to such clients can be extended in a profitable manner. There are 59 retail microfinance businesses in Nepal.

Microfinance as a source to boost Economy

Microfinance institution plays important role in the development of society as it:

- Provides accessibility: Individuals with little or zero assets often fail to get loans from major banks. For small enterprises with modest earnings, microcredit loans are easily accessible. Many entrepreneurs find it difficult to present an identity document or certificate to conventional banks to obtain a loan. Microfinance makes it easier to get financial support.

- Offers better loan repayment: Microfinance helps businesses and individuals become financially empowered so that they can repay their loans. Many microfinance institutions offer better loan repayment to women entrepreneurs, providing more women with the benefits of microfinance that can directly help in women empowerment.

- Provide education opportunities: Many small families in rural areas depend on farming for their income. Due to this, it can be challenging for them to make significant financial investments in their kids' education. These family could also need males to work on the land. So their children usually work with them. Microfinance may be able to assist families in these situations by allowing them to concentrate on giving their children higher educations.

Current Challenges of Microfinance

Microfinance initiatives have the ability to turn microcredit into microbusinesses and microenterprises by facilitating the effective use of loans. Microfinance, in Nepal, has a number of difficulties, including multiple borrowing, unhealthy competition, excessive interest rates, insufficient financial literacy, and over-indebtedness. The viability of the microfinance industry may be threatened by these difficulties. In Nepal, most microfinance institutions are currently practicing a minimalist approach. To enhance the effectiveness of microcredit programs, the microfinances can collaborate with government and nongovernmental organizations. Rural areas continue to depend on meter-based informal lending arrangements. The need to increase financial services and financial knowledge among the unbanked, especially in rural regions, is highlighted by the large incidence of meter interest cases in Nepal.

Current Crisis in Microfinance Sector

Microfinance seems to have diverted a big chunk of their capital the high margin sectors of real estate and share market. As a result, many microfinance organizations are fighting for their own survival. The situation of savings and credit cooperatives is considerably worse since they are fast losing the trust of their depositors, which has prompted the majority of them to permanently close their doors. The fast expansion of credit in Nepal isn't boosting economic activity; instead, it's being utilized more often in high-margin sectors like the stock market, real estate, and imports—possibly for capital flight. The unwise use of a rise in loan volume portends the beginning of a financial catastrophe. If not addressed appropriately, the impending financial crisis might reach a full-scale explosion.

Conclusion

Microfinance has made financial services available to the underprivileged, assisting in the development of self-employment and income prospects. The loaners are demanding that the loan size should be increased; effective means should be developed to identify the poor and target them for loan, training, and regular follow up should be conducted. The outreach of the institution should be enhanced. Using modern technologies will boost productivity and provide service in off-the-grid locations. Besides its advantages, micro-financing program has been suffering from various other issues such as incidence of overlapping of program location areas, high operating costs, high interest bearing loan and mushrooming of different micro-finance development modules. Unexpectedly, the majority of microfinance initiatives taking place in the nation have substantial operational expenses. The viability of the microfinance program itself has been called into doubt as a result, and if handled improperly or late, might result in higher societal costs for the country.

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