

India Morning Newsletter

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Indian markets saw their sharpest sell-off in two months on Thursday, with the **Nifty 50** down 2.12% while the **Sensex** lost 2.1%, as escalating Middle East tensions weighed on sentiment. **Brokerage stocks** declined after **SEBI** tightened derivatives trading rules, dampening risk appetite. Separately, the **BSE** announced it would discontinue weekly derivative contracts linked to **Bankex** and **Sensex 50** by mid-November, which could affect investor appetite further. According to analysts, concerns over capital outflows to China added to the pressure in the previous session, following China's stimulus announcement. Jefferies' increased allocation to China in its Asia-Pacific portfolio also highlighted a shift in foreign investment. Investors are also expected to tread cautiously as Thursday's strong U.S. **ISM services PMI** data and modest **jobless claims** suggest a resilient American economy. All eyes will be on the **non-farm payrolls** report, due later in the day, which will be critical in determining the size of the anticipated rate cut by the U.S. Federal Reserve in November. Geopolitical tensions also triggered a surge in **Brent crude** prices, which jumped more than 5% on Thursday, marking their biggest rise in a year. The surge weighed on domestic sectors such as paint makers, tyre-makers, and refiners, all heavily dependent on crude as a key raw material. The Middle East conflict also spurred **safe-haven demand** for the **dollar**, pushing the **dollar index** to a six-week high and sending **U.S. Treasury yields** higher. This combination of a stronger dollar and rising yields adds pressure to Asian markets, including India, especially after the **MSCI Asia ex-Japan index** hit its highest level since January 2022 just a day earlier. In India, the rupee saw its worst performance in two months. Looking ahead, investors will focus on **India's HSBC services PMI** for September to gauge the health of the domestic economy. Separately, the Indian government is aiming to raise at least 390 billion rupees through the **sale of bonds**.

FACTORS TO WATCH

- 10:30 am **HSBC Services Business Activity** for Sept: Expected: 58.5; Prior 58.9
- The **National Stock Exchange** added **Granules** and **Manappuram Finance** to its **Futures and Options ban list**, while retaining **Bandhan Bank**, **Birlasoft**, **Hindustan Copper** and **RBL Bank**.

STATE OF THE MARKETS

Indian shares are set to open higher, with investors expected to buy the dip after a slump in the previous session, while market reaction to non-bank lender Bajaj Finance's quarterly pre-earnings update will also be in focus.

India bond yields may edge higher in early trading, tracking the rise in oil prices amid worries over the conflict in the Middle East. The **benchmark 10-year yield** is likely to move between 6.73% and 6.79%, compared with its previous close of 6.7765%.

The **Indian rupee** is likely to remain anchored near its lifetime low due to concerns over the deluge of foreign money pouring of equities and the jump in oil prices on the Middle East conflict.

U.S. stocks finished lower on Thursday ahead of Friday's monthly U.S. payrolls report and as investors kept a watchful eye on the growing conflict in the Middle East.

Asian stocks retreated while oil prices headed for their sharpest weekly gain in more than a year, as escalating tensions in the Middle East kept markets on edge ahead of a U.S. jobs report later in the day.

The **dollar** hung around a six-week high, set for its biggest weekly gain since April due to safe-haven demand on rising Middle East tensions.

U.S. Treasury yields climbed on Thursday after strong services sector data supported forecasts for a smaller interest rate cut at the Federal Reserve's November meeting than in September.

Oil prices inched up in early Asian trading hours, holding on to their strong weekly gains, as investors weighed the Middle East conflict and the potential disruption in crude flows against an amply-supplied global market.

Gold prices edged up but were slightly down for the week, as market focus shifted to a crucial U.S. payrolls report for clearer insight into the Federal Reserve's anticipated interest rate reduction next month.

Markets	Last	Change	YTD change
GIFT Nifty 50	25,432.50	0.01%	-
Nifty volatility	13.17	9.86%	-
Nikkei	38,641.82	0.23%	15.47%
S&P 500 e-mini futures	5,758.50	0.16%	-
CBOE volatility	20.49	8.41%	-
USD/INR	83.97	0.18%	0.91%
Spot gold	\$2,659.25 /oz	0.13%	28.93%
Brent crude	\$77.69 /bbl	0.09%	0.84%
Indian 10-year bond yield	6.7770%	4.50 bps	-39.90 bps
U.S. 10-year Treasury yield	3.8381%	-1.19 bps	-2.19 bps

FII & DII Trading Activity in Equities Oct 3	Buy	Sell	Net
Domestic Institutional Investors (DII) in INR	252.94 bln	123.81 bln	129.14 bln
Foreign Institutional Investors (FII) in INR	173.12 bln	325.55 bln	-152.43 bln

(Source: National Stock Exchange of India Ltd.)

INDIA TOP NEWS

BSE to discontinue weekly options linked to Bankex after new derivatives rules

India's BSE said it will discontinue weekly derivative contracts linked to Bankex and Sensex 50, indicating the stock exchange operator will retain only contracts linked with its benchmark BSE Sensex, an index of 30 bluechip stocks.

POLL-RBI's strong grip set to lock rupee in place

The Indian rupee will hold steady against the U.S. dollar over the coming year as the Reserve Bank of India will use its considerable FX reserves to reduce volatility and keep the currency on a tight leash, a Reuters poll found.

Swiggy gets shareholder nod to use provision to upsize IPO fresh issue, sources say

SoftBank-backed Indian food delivery company Swiggy received shareholders' approval to use a provision that will allow it to increase the size of fresh issue in its IPO to 50 billion rupees from 37.5 billion rupees, people aware of the matter told Reuters on Thursday.

India, US sign pact to cooperate on critical battery mineral supply chains

Indian Trade Minister Piyush Goyal and U.S. Commerce Secretary Gina Raimondo signed an agreement on Thursday to cooperate on strengthening supply chains in the two countries for lithium, cobalt and other critical minerals used in electric vehicles and clean energy applications.

India aims to double edible oil output to trim reliance on imports

India on Thursday approved a 101 billion rupee programme to double edible oil production in the country within seven years, aiming to reduce dependence on costlier imports, the government said in a statement.

GLOBAL TOP STORIES**US discusses possible Israeli strikes on Iran oil sites as Israel presses Lebanon campaign**

The U.S. is discussing strikes on Iran's oil facilities as retaliation for Tehran's missile attack on Israel, President Joe Biden said on Thursday, while Israel's military hit Beirut with new air strikes in its battle against Lebanese armed group Hezbollah.

US port workers and operators reach deal to end East Coast strike immediately

U.S. dock workers and port operators reached a tentative deal that will immediately end a crippling three-day strike that has shut down shipping on the U.S. East Coast and Gulf Coast, the two sides said Thursday.

EU governments face pivotal vote on Chinese EV tariffs

European Union members face a pivotal vote on Friday on whether to impose tariffs of up to 45% on imports of Chinese-made electric vehicles in the bloc's highest profile trade case, which risks retaliation from Beijing.

BREAKINGVIEWS**China and India reveal emerging market mistakes**

Investors often assume stocks in developing countries track economic growth, while valuations are a guide to future returns. The diverging path of Chinese and Indian equities over the past decade shows the flaws in this approach. Better to pay attention to capital efficiency.

PICTURE OF THE DAY



Meenaben Soni makes a red handprint on the wall, on the first day of Navratri during which devotees worship the Hindu goddess Durga, at the old city of Ahmedabad, October 3. REUTERS/Amit Dave

(Compiled by Shreya Sabharwal in Bengaluru)

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