THE ANALYTICS

GARIMA MONTHLY INSIGHT

KARTIK 2081
(17 OCTOBER 2024 - 15 NOVEMBER 2024)
VOL: 3, ISSUE: 4

Macroeconomic Factors

Market Ahead

NEPSE Scanner

Market Scanner

+977-014529149/50, 01-5970175 Kamalpokhari, Kathmandu, Nepal www.garimacapital.com

Market Update:

Market grew by negligible 5.90 points in the review month to 2748.78 and market capitalization increased by mere 0.35%. However, turnover, share volumes and transaction size surged by 82.33%, 63.79% and 54.22% respectively indicating a wave of change in sentiment of investors. The market is hanging around 2700 level and if it falls to the line of 2600, it may weaken investor's morale increasing selling pressure.

The external sector of the economy is in strong state. There has been excess liquidity in the system and interest rate is continuously decreasing. Since the interest rate of fixed deposit is in single digit, the number of people renewing fixed deposits is declining and investors are attracted towards stock market. The investors are awaiting some favorable policy change in the first quarterly review of monetary policy which can perhaps take market to new heights. Market traded for only 17 days only due to the Tihar and Chhath festival.

NRB has released the three-month CME and Financial Situation Report of Nepal up to Ashoj 2081. Additionally, it has published the financial performance of BFIs for the same period. Commercial banks have also announced the revised interest rates for Mangsir. The key highlights of these significant developments are summarized below:

1. Nepal's public debt has augmented by Rs. 136.31 billion in the first three months of current FY to Rs. 2.52 trillion. As of mid-October, the debt-to-GDP ratio stands at 44.23%, the highest since FY 2005/06.

2. The government collected Rs. 586.5 million in Capital Gain Tax (CGT) between mid- September and mid- October, a sharp drop compared to previous two months i.e., Rs. 2.57 billion during mid- August to mid- September and Rs. 4.23 billion from mid- July to mid- August.

3. Nepal's foreign trade declined by 4.35% to Rs. 4.29 Kharba in the first three months of FY 81/82, with imports down by 4.17% to Rs. 3.9 Kharba and exports down by 6.11% to Rs. 38.37 Arba.

4. The Quarter 1 reports of listed companies have been released, with many showing good profitability.

5. Commercial banks have revised their fixed deposit (FD) interest rates for Mangsir, showing a combination of reductions and no change. The average FD rate now stands at 5.97% for individuals and 4.64% for institutions, down from 6.21% and 4.94%, respectively, in the previous month. Among 20 banks, 12 have lowered their rates, 7 have kept them unchanged, and 1 has increased its rate. ADBL and SCB offer the lowest institutional FD rate at 3.25% and 3.50% respectively, while LSL offers the lowest individual FD rate at 5.50%. NICA has the highest institutional and individual FD rate at 5.79% and 6.79% respectively. These reductions indicate an excess of liquidity in the banking sector.

6. NRB has launched the "Nepal Green Finance Taxonomy" to promote environmentally friendly investments by banks in sectors like agriculture and energy.

7. Per the Banking & Financial Statistics, the average CD Ratio of Banking sector (A, B, and C Class) is 78.36 which is lower than 78.80 of earlier month. NPL has increased from 3.86% to 4.42% and CAR has surged to 12.95% from 12.88%. Weighted average interest rate has come down to 5.24% (saving 3.32%, fixed 7.43%) and weighted average rate on credit has fallen to 9.33%.

8. The interview to select the SEBON chairperson is scheduled for Mangsir 9. The shortlisted candidates include Krishna Bahadur Karki, the current CEO of NEPSE; Chiranjibi Chapagain, former Chairman of the Insurance Board; and Dr. Nabaraj Adhikari, Executive Director of SEBON.

9. On the external front of the economy, remittance inflows rose by 11.5% to Rs. 407.31 billion as of mid-October 2024/25, with approximately Rs. 144.17 billion coming in between mid-September and mid-October alone. Exports declined by 6.1%, while imports and the trade deficit also decreased by 4.2% and 4%, respectively. The balance of payments (BOP), current account balance, and gross foreign exchange reserves all grew to Rs. 184.99 billion, Rs. 111.87 billion, and $16.60 billion, respectively. Additionally, 110,654 Nepali workers received their first-time approval for foreign employment, while 59,939 received renewal entry approvals.

10. As per the CME Report, Y-o-Y deposits at BFIs has increased by 12.8% while the private sector credit has increased by just 6.0%. Monetary Policy has targeted the Private Sector Credit growth of 12.5% in FY 2081/82.

11. According to the data from the Nepal Tourism Board (NTB), 124,393 tourists entered Nepal in the month of October i.e., 6.04% higher compared to the same month last year. A total of around 941,000 foreign tourists have visited Nepal in the first 10 months of 2024.

Coda: Market is subject to several forms of risks, especially the fundamentals, and investors have tendencies to be behaviourally biased, leading to making the sub-par investment decisions. It's always important to screen the facts vs opinions. Facts are going to last the market long while opinion can likely make market volatile.

How to Manage Uninsured Deposit Liquidity Risk

Author- Clifford Rossi (PhD)

Liquidity risk management for risk practitioners remains one of the most difficult areas in asset-liability management, complicated by limited data on how certain types of depositors respond to bank event risk.

One simmering problem that has been lurking below the surface of bank balance sheets for some time is how to assess the risk of uninsured deposits as part of a robust liquidity risk management process.

Indeed, uninsured depositors pose a knife-edge problem to banks that few fully appreciate and understand in their liquidity risk management processes. During most times, uninsured deposit risk remains relatively dormant. But at the whiff of problems at a bank, these are the first deposits to go – amplified by the speed of information flows via social media. Compound that with an insufficient liquidity buffer and, well, you have the makings of a bank failure.

The 2023 madness that took down several large regional banks was an excellent example of the impact of such low frequency, high-severity events. Those failures abruptly jolted the financial services industry and the regulatory community out of complacency over how, exactly, to treat uninsured deposit risk.

Greater emphasis on the timing of deposit runs and outflows of uninsured deposits in liquidity stress testing, combined with the use of better definitions of high-quality liquid assets, will help banks mitigate the risk of uninsured deposits.

In a minute, we'll delve into greater detail about the specific steps banks can take to more effectively measure and manage this risk. But first we need to understand the kinds of events that can trigger a bank run, as well as why uninsured deposits present a significant threat.

The GFC vs. 2023: Event Risk and Uninsured Deposits

The more uninsured deposits a bank has, the greater the risk it has from a banking panic. Events that can trigger a bank run include mounting unrealized losses on a bank's balance sheet, subprime mortgage losses and surprise capital hikes.

Diamond and Dybvig's seminal article describing the nature of deposit runs and liquidity risk set the stage for understanding the risk of uninsured deposits. A key tenet of their analysis is that depositors, especially uninsured depositors, are incented to run on a bank whenever there is a real or perceived adverse change in the valuation of deposits relative to assets over time. The crushing impact of accelerating interest rates in 2022 on bank security portfolio values is a good example of this tenet.

For liquidity risk managers, one key question is how to treat deposit outflows of uninsured deposits in their liquidity stress tests. The first insight from the 2023 bank failures is that the timing of deposit runs appears to be quite different from other tumultuous periods, such as the

2008 GFC. Two of the big bank failures of that period, WaMu and Wachovia, had an uninsured deposit to total deposit ratio averaging about 33% – far below the nearly 84% average for Silicon Valley Bank, Signature Bank of New York and First Republic Bank.

Another major difference between the GFC and the 2023 failures was the timing of deposit runs. Wachovia and WaMu saw 4.4% and 10.1% of their deposits, respectively, run off in a matter of a couple of weeks. In contrast, First Republic experienced 57% deposit outflows over a two-week period. Even more startling was the fact that one-day outflows for SVB and SBNY were 25% and 20%, respectively.

Three factors appear to distinguish the banks runs of 2023: the high percent of uninsured deposits, an increased concentration of large depositors and the increased presence of social media. Considering these factors, what should banks be doing to better manage their risk from uninsured deposits going forward?

Measuring and Managing Uninsured Deposit Risk

To better assess and mitigate the risk of uninsured deposits, banks should (1) build liquidity stress scenarios that align with uninsured deposit risk; (2) leverage the definitions of high-quality liquid assets from the liquidity coverage ratio (LCR) requirements to develop adequate liquidity buffers; and (3) consider the use of innovative products, such as reciprocal deposits, to reduce incentives for uninsured deposits to run in the first place.

The second recommendation – to leverage the LCR – can help shape a bank's liquidity profile. While the LCR applies to only the largest banks, the ratio's definition of high-quality liquid assets is especially useful, because it can help banks set clear definitions built on well-established practices.

Regarding the third potential step, banks with uninsured deposit exposures may want to consider strategies to mitigate some of the risk of these deposits by selling them to the reciprocal deposit market. Uninsured deposits can effectively be parceled out into segments of less than $250,000 to other participating banks, reducing the uninsured risk to the depositor and their incentive to run in the future.

There are limits, though, on how much reciprocal deposits can be used. For well-capitalized banks, such deposits must be the lesser of 5% or 20% of the bank's liabilities.

Additional Ideas and Issues

Another recommendation is to align uninsured deposit outflow assumptions in liquidity stress tests to conform with or exceed what was observed from deposit outflows from the 2023 bank runs. Banks with significant exposure to uninsured deposits must have even greater vigilance in building their liquidity risk management infrastructure – and should only take on those deposits after such capabilities are in place.

Banks should also strengthen their understanding of the risk from large depositor concentrations. One way they can achieve this is by imposing realistic risk limits that are closely managed and not just monitored.

Effective interest rate and liquidity risk management also requires the development of analysis built on realistic assessments of a bank's balance sheet. In this area, non-maturity deposits (NMDs) pose one of the biggest analytical risk management challenges.

Since NMDs have no stated maturity, deriving a deposit decay curve can be problematic and fraught with management overlays – including the use of industry practice truncation points that are really nothing more than fudge factors. This lack of sophistication in measuring NMDs is rather appalling, given the importance of this deposit segment in managing bank risk.

It's important to keep in mind that all the practices we've outlined are fraught with a high degree of subjectivity that requires a strong measure of conservatism, especially when uninsured deposits are involved.

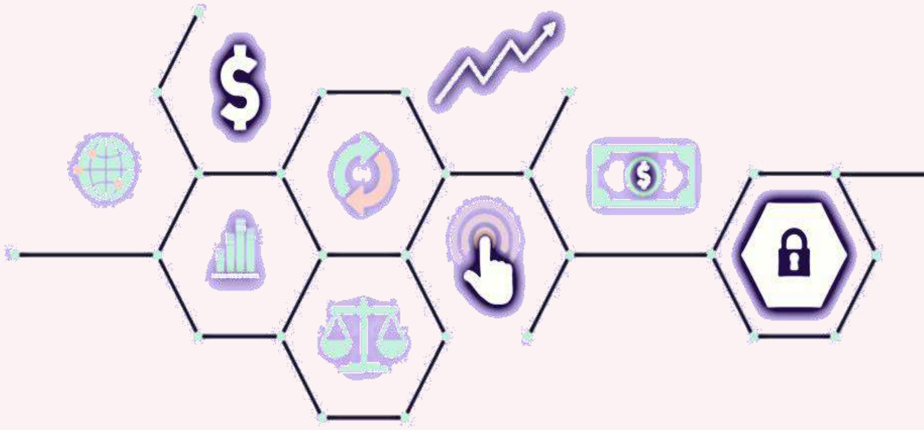
Parting Thoughts

The March 2023 banking crisis put a spotlight on liquidity risk management practices, particularly those used to assess the risk of uninsured deposits. Regardless of what customer relationships exist, uninsured deposits pose significant flight risk to banks.

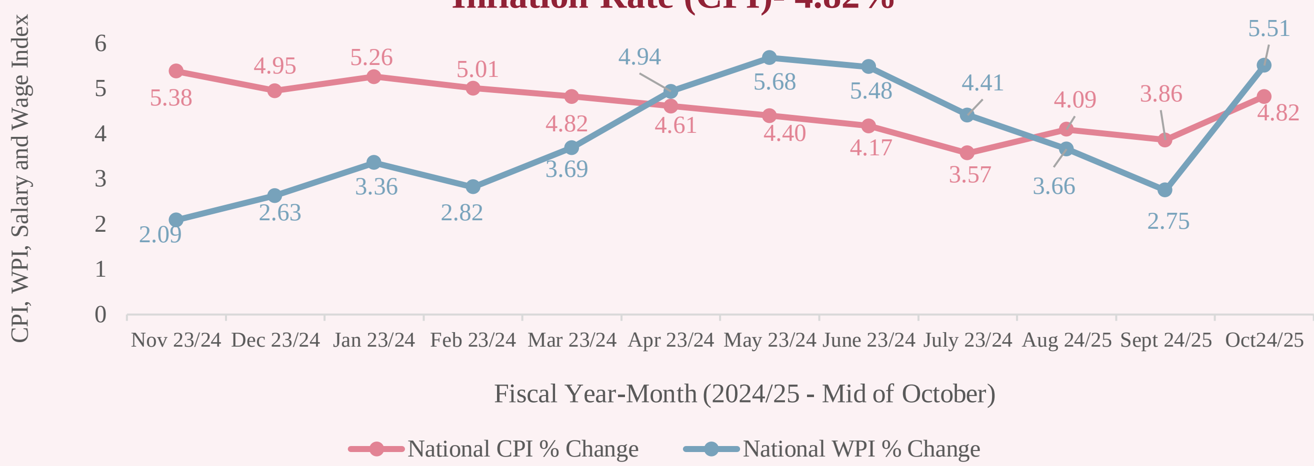
There are, however, steps that banks with large uninsured deposit exposures can take to better manage that risk. Developing liquidity stress test scenarios over multiple time horizons, using severe outflow assumptions on uninsured deposits, is a good first step. Banks also should aggressively manage large depositor concentrations, leverage LCR definitions of high-quality liquid assets and consider the use of reciprocal deposits.

*This article is written by **Clifford Rossi (PhD)** who is the Director of the Smith Enterprise Risk Consortium at the University of Maryland (UMD) and a Professor-of-the-Practice and Executive-in-Residence at UMD's Robert H. Smith School of Business.*

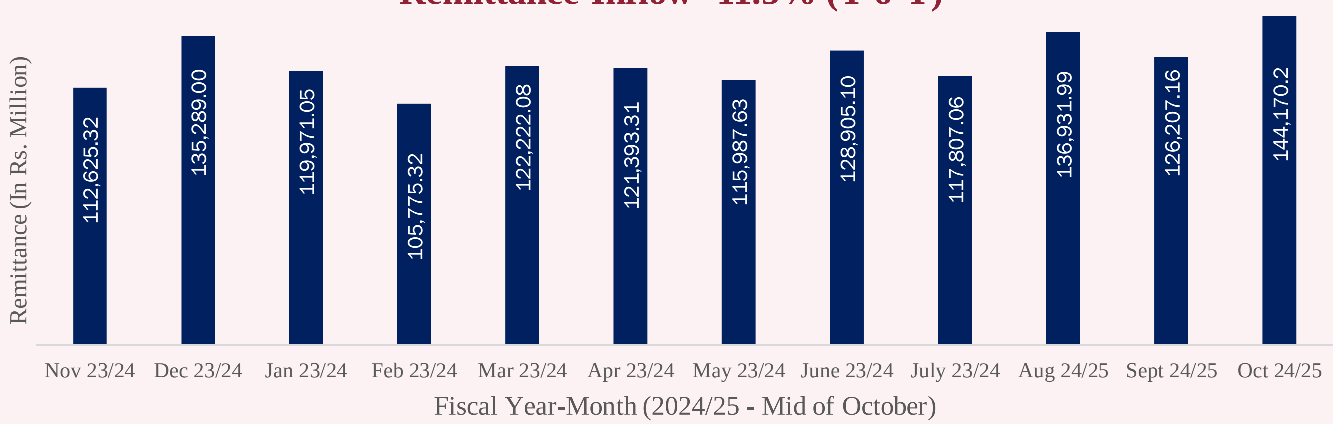
WHERE DO THE FACTORS STAND?



Inflation Rate (CPI)- 4.82%



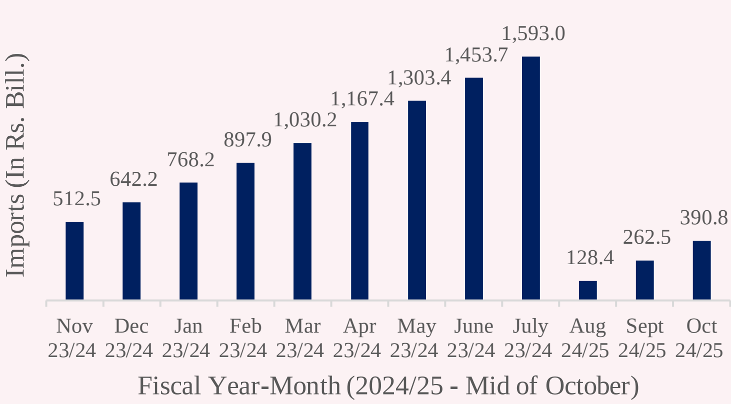
Remittance Inflow- 11.5% (Y-o-Y)



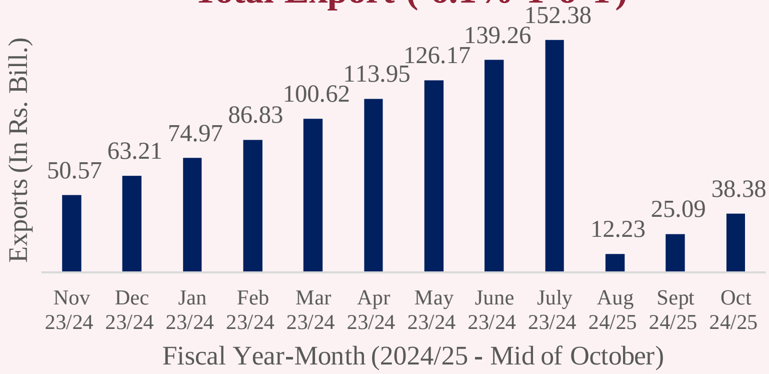
Liquidity Indicators (As on 15th November 2024):

- BFI's Deposits: NPR. 6,640 billion
- BFI's Lending: NPR. 5,287 billion
- CD Ratio: 78.28%
- Inter-bank Intereset Rate: 2.99%

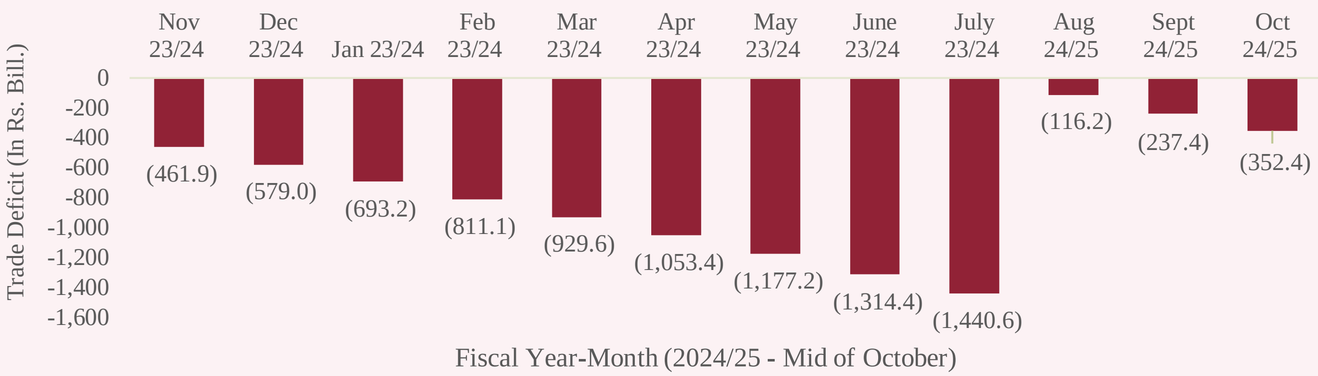
Total Import (-4.2% Y-o-Y)



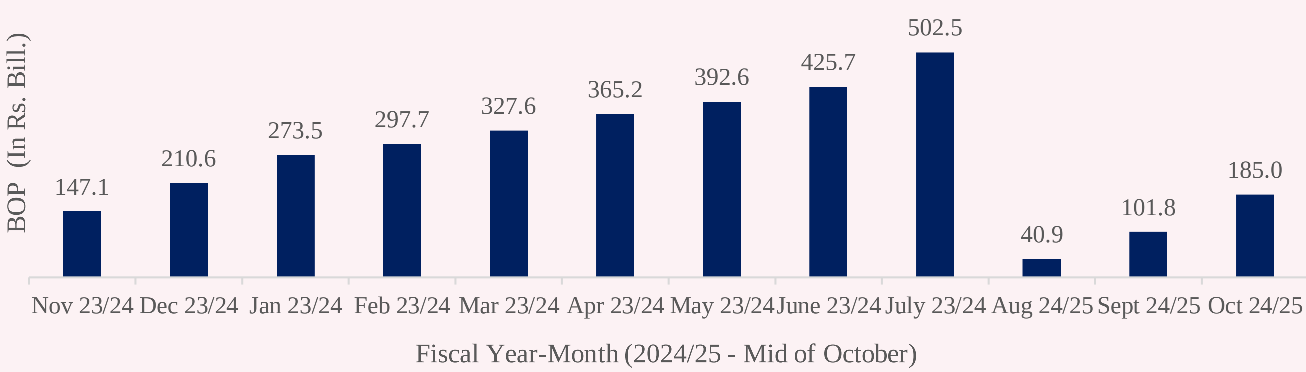
Total Export (-6.1% Y-o-Y)



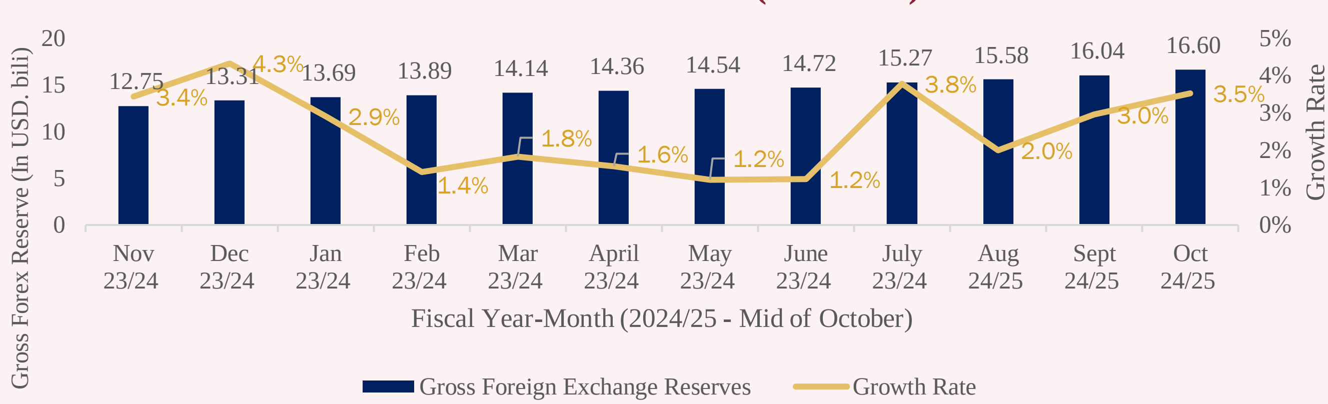
Trade Deficit



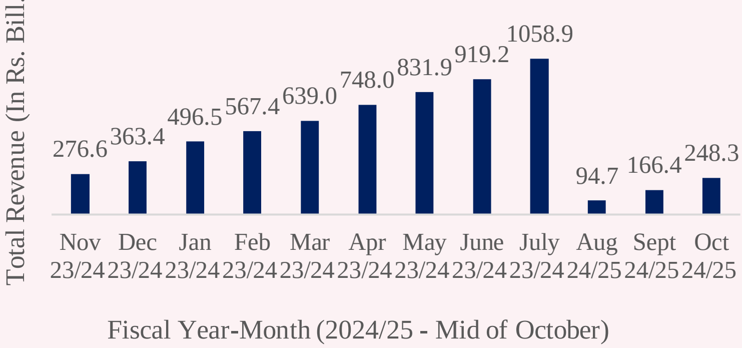
Balance of Payments (Surplus)



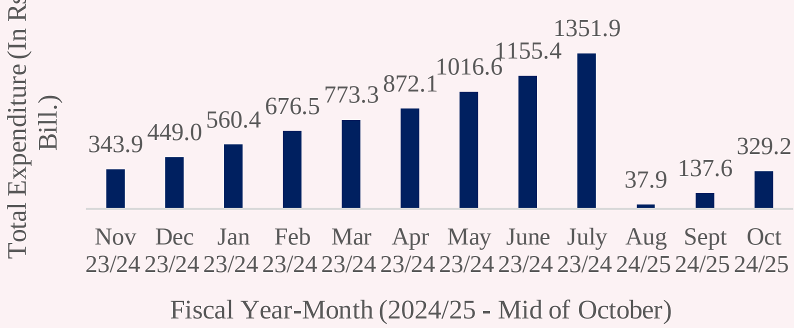
Gross Forex Reserve (+34.63%)



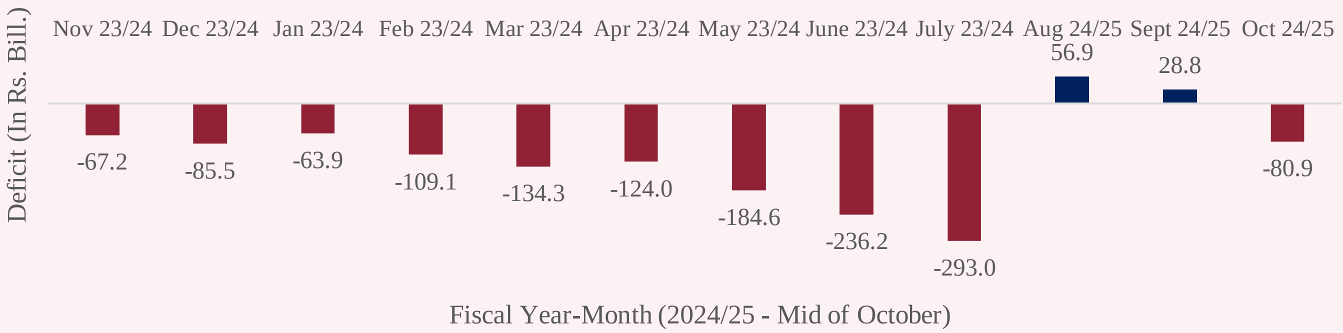
Govt. Revenue



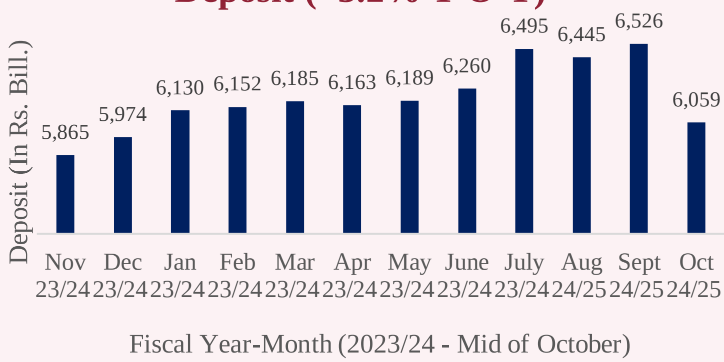
Govt. Expenditure



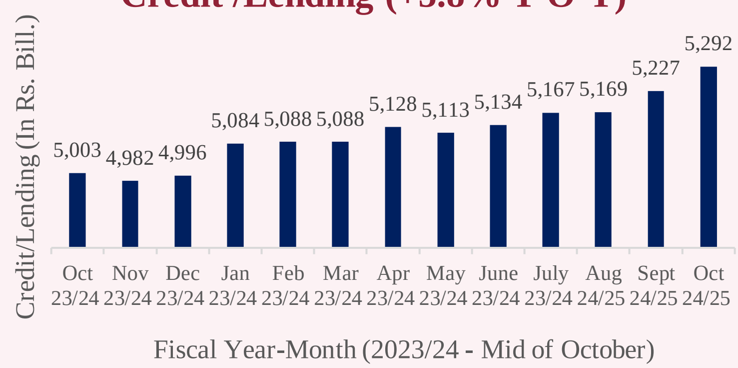
Fiscal Surplus/Deficit



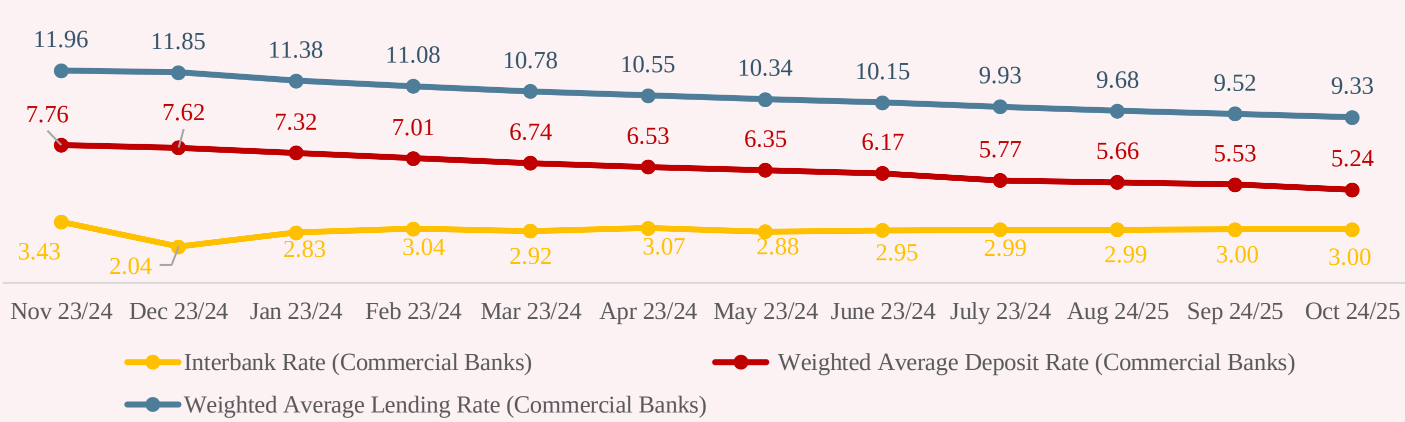
Deposit (+3.2% Y-O-Y)



Credit /Lending (+5.8% Y-O-Y)



Market Interest Rates

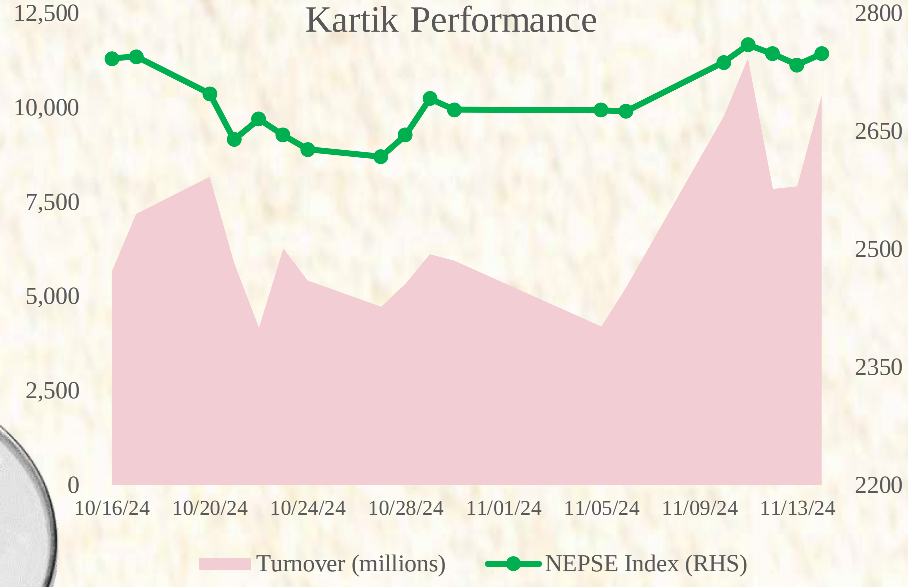


Short-term Interest Rates (As on 19th November 2024):

- 28 days: 2.71%
- 91 days: 2.86%
- 364 days: 2.98%

Market Update:

NEPSE SCANNER



Metrics	14.11.24	16.10.24	Monthly Change
NEPSE	2,748.78	2,742.88	0.22%
Sensitive	486.03	493.98	-1.61%
Float	189.13	189.79	-0.35%
Sensitive Float	160.64	163.82	-1.94%
Turnover (Million)	10,320.33	5,660.24	82.33%
Shares Volumes	21,660,639	13,224,322	63.79%
Total Transactions	101,545	65,845	54.22%
Total Scrips Traded	321	320	0.31%
Market Cap (Rs. Million)	4,376,896.28	4,361,453.21	0.35%
Sensitive Mrkt. Cap (Rs. Mn)	2,168,718.05	2,203,236.65	-1.57%
Float Market Cap (Rs. Mn)	1,545,807.58	1,541,475.41	0.28%
Sens. Float Mrkt. Cap (Rs.M	839,410.27	847,562.05	-0.96%
Average Return	17.59%	17.83%	-0.23%
Std. Deviation	23.72%	23.81%	-0.09%
10 Day 10% VAR	-6.16%	-6.18%	0.02%
Market Cap / GDP Ratio	76.72%	76.45%	0.27%

- NEPSE rose to 2748.78 level from 2,742.88 (previous month end), gaining mere 5.90 points (0.22%); high and low index remained 2,788.35 and 2,610.14 resp. in the review month.
- Sensitive, float and sensitive float index however fell by 1.61%, 0.35% and 1.94% respectively.
- By the Month end, the turnover witnessed the rise of 82.33% and volume by 63.79%. The transactions increased by 54.22% as compared to the previous month end.
- Monthly average of these metrics computes to Rs. 6.82 billion (+29.50%), Rs. 15.39 million (+20.98%), and Rs. 73.24 thousand (+10.35%) respectively.
- Market cap increased by 0.35% to Rs. 4.38 trillion, out of which approx. 35% are only floated. Sensitive market cap which covers A class stocks saw a 1.57% decline, Sensitive float market cap decreased by 0.96% and the size of Float market cap rose 0.28%.

- Avg. market return decreased to 17.59% from 17.83%, Standard Deviation slightly declined to 23.72% and 10-day 10% VAR stood at 6.16%.
- Market is under-valued as per Market Capitalization to GDP ratio (Buffett Indicator) which is 76.72%.
- In the review period, market traded for 17 days. Last month, number of trading days was 16.

Average Turnover
NPR 6.8 Bn
+29.50%

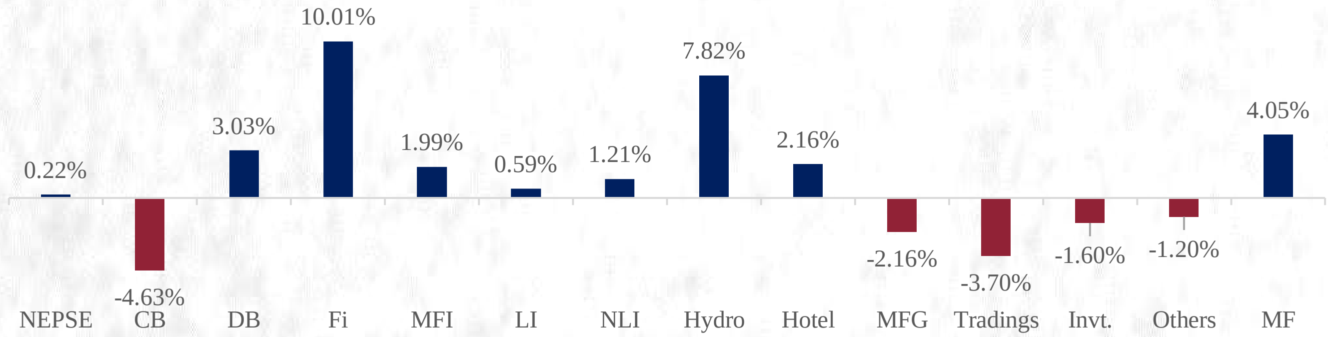
Average Volume
NPR. 15.4 Mn
+20.98%

Average Transaction Size
NPR. 73.2 K
+10.35%

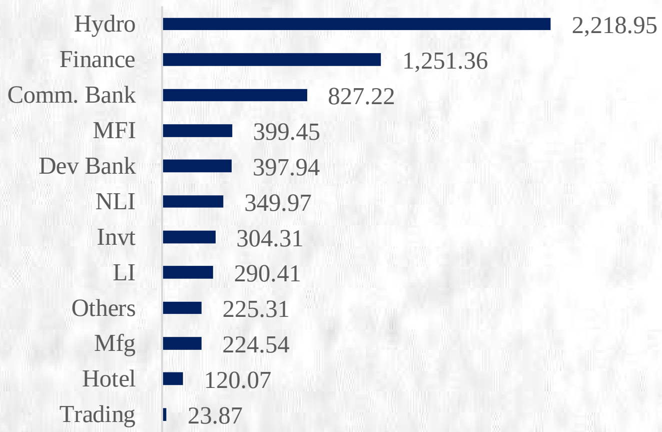
Average Market cap
NPR. 4.28 Tn
+3.84%

SECTOR SCANNER

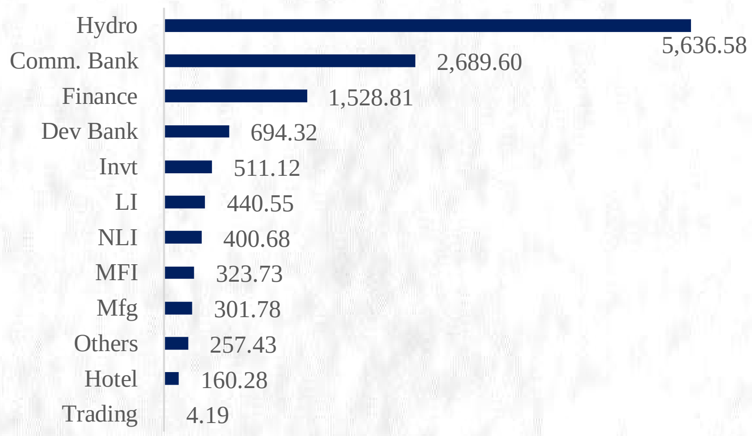
Monthly Sectoral Performance



Kartik Avg. Turnover (Millions)

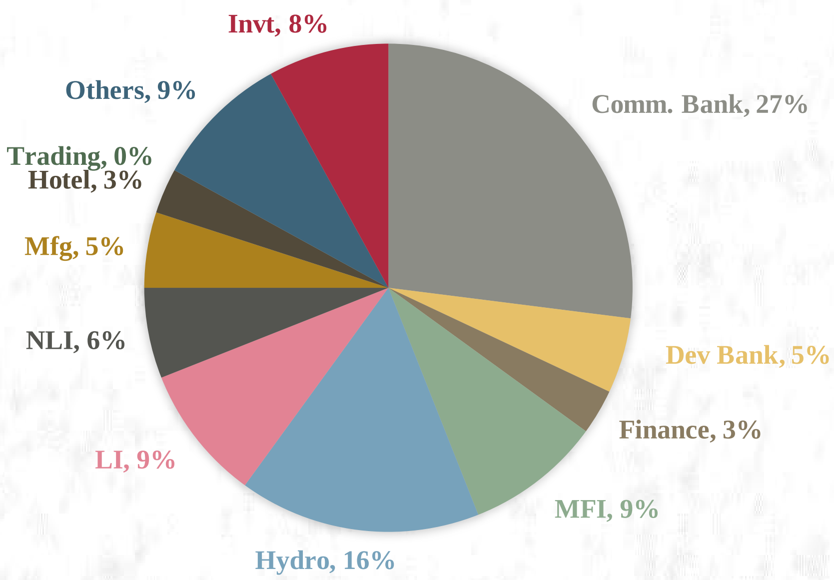


Kartik Avg. Volume ('000)



- 9 sectors witnessed increase in this month while 5 declined. Finance and Hydropower sectors saw a highest growth of 10.01% and 7.82% respectively followed by Mutual Funds (4.05%), and Development Banks (3.03%) in the review period. Sectors that witnessed major decline are Commercial Banks (4.63%), Tradings (3.70%), and Manufacturing (2.16%).
- Hydropower sector recorded the highest Turnover and Transactions size in all trading days of the month making an average of 31.70% and 37.26% respectively. In case of Turnover (volumes), Hydropower sector traded the highest with an average of 35.93%. Both Commercial Banks and Finance sector made the notable Turnover of average 17.46% and 10.38% respectively while their average Transaction size was 12.43% and 13.81% respectively.
- Pie- chart below shows the approximate market capitalization of 12 sectors as on last trading day of Ashoj i.e. Wednesday 30th Ashoj, but excludes Promoter shares, Debentures, and Mutual Funds. BFI sector (A, B, C, D Class) covers approx. 44%, Commercial Bank alone 28%. Hydro and Hotel has 15% and 3% coverage respectively. Insurance sector occupy 15% (Life – 9% and Non-Life – 6%). Trading sector has the least capitalization, *amounting approx. Rs.21.7 billion.*

SECTORAL MARKET CAPITALIZATION

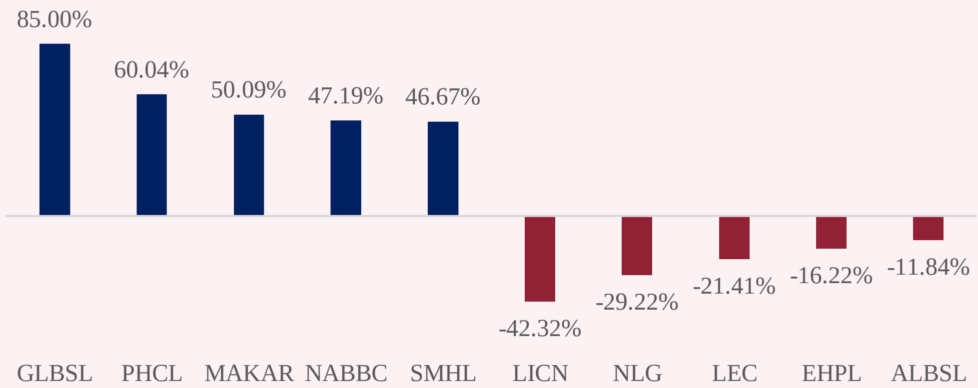


Monthly Terminology: Multi-Bagger Portfolio

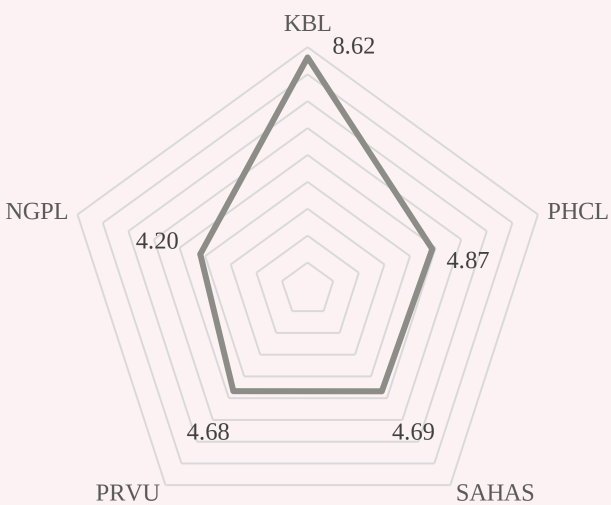
"AA Multi-bagger Portfolio is a collection of investments that have high potential to generate multiple times their initial investment value over the long term. It can be stocks, mutual funds or any other types of financial assets. The term "multibagger" is derived from Peter Lynch's concept in his book One Up on Wall Street, where a "bagger" refers to a stock that has doubled in value. A "10-bagger" would mean a stock that has increased tenfold. Investors aim to build a multi-bagger portfolio by carefully selecting stocks based on various factors such as strong fundamentals, growth potential, and attractive valuations.

STOCK SCANNER

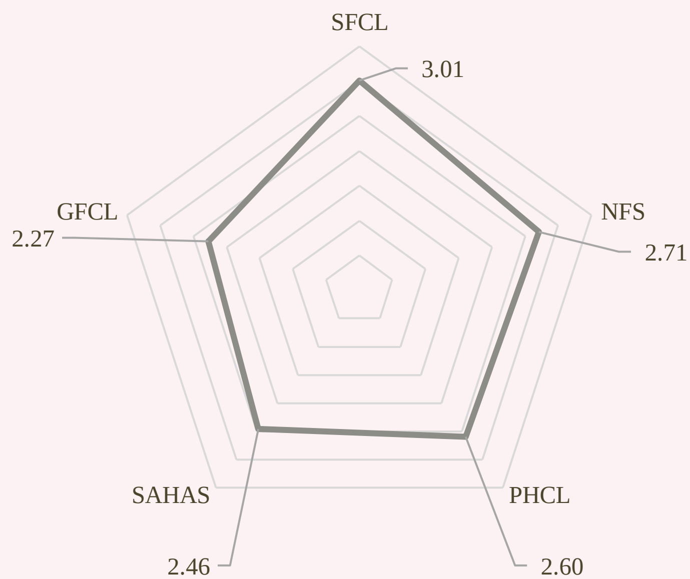
Top 5 Gaining and Losing Stocks/Scrips



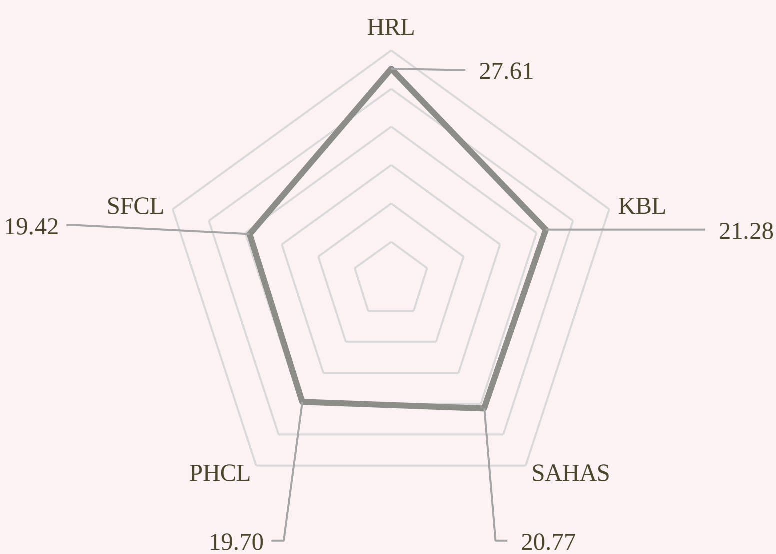
Stocks with Highest Volume (Millions)



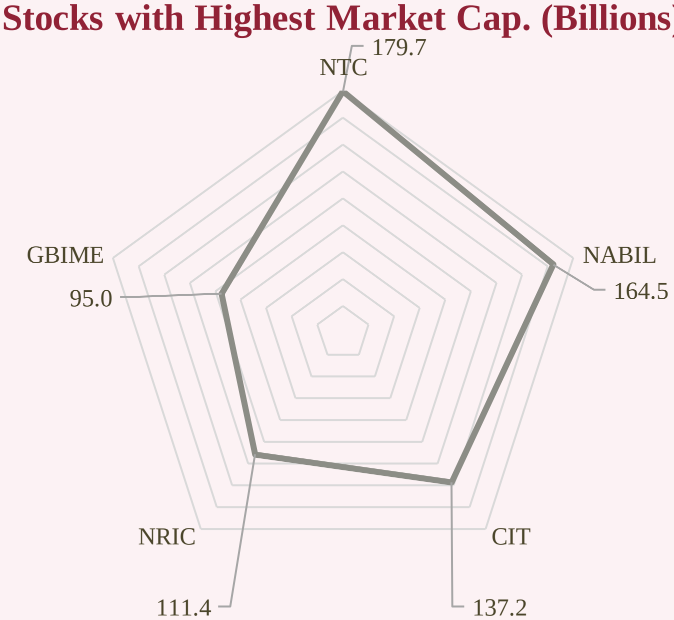
Stocks with Highest Turnover (Billions)



Stocks with Highest Transaction Size ('000)



Stocks with Highest Market Cap. (Billions)



TECHNICAL OUTLOOK…

Technical Indicator (14th Nov.)	Value
RSI	59.15
MACD line	25.39
Signal line	16.30
Bollinger Upper Band	2781.10
Bollinger Middle Band	2692.45
Bollinger Lower Band	2603.79
ADX	20.54
Exp. Moving Avg. (9 Days)	2720.09
Exp. Moving Avg. (26 Days)	2685.12
Exp. Moving Avg. (50 Days)	2650.91
Exp. Moving Avg. (200 Days)	2378.88

Technical Overview:

In the month of Kartik, the market hovered between 2573 and 2755 level with strong resistance at 2755. Once the market is able to break through the resistance, the next target will be 3050. Based on the weekly chart, the bull phase is still present as 50D EMA (2388.39) and 200D EMA (2131.57) is trading below the current level of Rs. 2745.81. Similar scenario can be seen in the daily chart. However, 50D EMA (2658.50) is getting closer to the current level, signaling potential of change in trend in near term.

Short term indicators like MACD line is moving above the Signal line with a gap of 7.14 signaling positiove momentum, while RSI is neutral at 58.55. The width of Bollinger Band is getting narrower showing reduced volatility and market is moving along with Upper Bollinger Band.

Key Bulletins of the Month

1) Commercial Banks have published interest rate for the month of Mangsir; Average FD rate for Institutional Client- 4.64% and for Individual Client- 5.97%.
2) NRB has released the CME report (Three Months till Mid- October); Inflation rate came down to 4.82%, remittances increased to Rs. 407.31 in NPR terms, Balance of Payments is at surplus of Rs. 184.99 billion.
3) NRB has launched the "Nepal Green Finance Taxonomy" to promote environmentally friendly investments by banks in sectors like agriculture and energy.
4) The Nepal Chamber of Commerce (NCC) and Singapore-Indian Chamber of Commerce and Industry (SICCI) have forged an agreement to promote investment in Nepal's hydropower, tourism and mineral sectors.
5) Nepal's public debt has augmented by Rs. 136.31 billion in the first three months of current FY to Rs. 2.52 trillion. As of mid-October, the debt-to-GDP ratio stands at 44.23%, the highest since FY 2005/06.
6) The government collected Rs. 586.5 million in Capital Gain Tax (CGT) between mid- September and mid-October, a sharp drop compared to previous two months i.e., Rs. 2.57 billion during mid- August to mid-September and Rs. 4.23 billion from mid- July to mid- August.
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8) The interview for the selection of SEBON chairperson is scheduled for Mangsir 9. The selected candidates are Krishna Bahadur Karki, current CEO of NEPSE; Chiranjibi Chapagain, former Chairman of the Insurance Board; and Dr. Nabaraj Adhikari, Executive Director of SEBON.
9) The Stock Brokers' Association of Nepal (SBAN) and the Dhitopatra Brokers Association Nepal (DBAN) have signed a merger agreement and will now operate under the unified name, the Stock Brokers Association.
10) The number of stock broker companies authorized to conduct transactions in the secondary stock market has reached 90 compared to 82 in the FY 2080/81.
11) Nepal exported 40 MW of electricity to Bangladesh on 30 Kartik 2081 generated by 25 MW Trishuli and 22 MW Chilime hydropower projects.
12) NRB to print 30 crores Rs. 100 notes featuring a map of Chuchchh, awarding the contract to the Chinese Banknote Printing and Minting Corporation for Rs. 20 crore or Rs. 4.3 per note.
13) Nepal will start importing petrol via the Motihari- Amlekhgunj pipeline in 1.5 months after testing 5,500 kiloliters.
14) NEA has resumed power supply to the defaulting industries following a directive from the Council of Ministers. However, it has warned that if payments are not made within the 15-day deadline, the power supply will be disconnected once again.

Dividend Announced for FY 2080/81 during the Month					
	Company	**Ticker**	**FY**	**Bonus (%)**	**Cash (%)**
1.	Shine Resunga Development Bank	SHINE	2080/81	3	5
2.	Standard Chartered Bank	SCB	2080/81	6.5	19
3.	Soaltee Hotel	SHL	2080/81	10	26.8
4.	Bindhyabasini Hydropower Development Comp. Ltd.	BHDC	2080/81	-	8
5.	Nabil Bank	NABIL	2080/81	-	10
6.	First Micro Finance Development Bank	FMDBL	2080/81	9	0.47
7.	Sagarmatha Jalbidhyut Company Ltd.	SALICO	2080/81	4.75	0.25
8.	National Microfinance Bittiya Sanstha Ltd.	NMFBS	2080/81	14.25	0.75
9.	Prime Commercial Bank	PCBL	2080/81	-	5
10.	Support Microfinance Bittiya Sanstha Ltd.	SMB	2080/81	13.775	0.725
11.	RSDC Laghubitta Bittiya Sanstha Ltd.	RSDC	2080/81	9.5	0.5