

The Pulse

Market Growth, Risks and Outlook

Kartik 2080

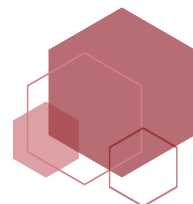
Inside This Edition

Global Markets Overview	1
Currency Market Trends	2
Macroeconomic Overview	3
Monthly Trading Statistics	3
Liquidity Overview	4
Public Debt Subscription	4
Sectoral Movement	5
Major Movers	5
Sectoral Divergence-Turnover	6
Highest Turnover, Volume	6
NEPSE Outlook	7
Scrip Analysis-Standard Chartered Bank Limited (SCB)	9
Issue of the Month – Contrarian Investing	13
Key Dates	17



Himalayan Capital





A Wholly Owned Subsidiary of Himalayan Bank Limited



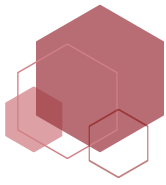
Global Markets Overview

€	1.06 \$ (-0.34%)	S&P 500	4,118.20 (-3.97%)
£	1.21 \$ (-0.62%)	BSE SENSEX	63,831.23 (-2.99%)
₹	83.28* (0.23%)	NIKKEI 225	31,033.41 (-2.55%)
¥	149.77* (0.27%)	FTSE 100	7,294.07 (-4.33%)
A\$	0.63 \$ (-1.45%)	DAX	14,687.41 (-4.54%)
C\$	0.72 \$ (-2.06%)	CAC 40	6,805.51 (-4.78%)
		HANG SENG	17,407.42 (-2.33%)
		SSE COMPOSITE	3,018.50 (-2.98%)

*Values Per 1 \$

	Gold(\$) Per Oz. 1,995.89 (8.00%)		Bitcoin(\$) 34,600.80 (28.29%)
	Brent Crude(\$) Per Barrell 84.19 (-8.56%)		Ethereum(\$) 1,799.41 (7.73%)

#All Changes are in MoM basis.



Currency Market Trends

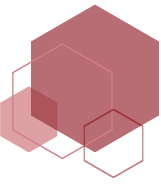
In October, the Nepalese Rupee (NPR) depreciated by 0.15% against the US Dollar compared to September, with the USD/NPR exchange rate reaching 133.50. However, the NPR gained some strength against the Euro (EUR) and the British Pound (GBP) by 0.62% and 0.66%, respectively. Throughout the month, the US Dollar continued to outperform other major currencies like the GBP, EUR, and Japanese Yen (JPY).

The depreciation of NPR against the US Dollar was influenced by ongoing geopolitical conflicts and regional wars, which favored the US Dollar. Globally, the situation remains uncertain and worrisome. Traders were closely monitoring the Federal Reserve's policy decision, which was expected to keep interest rates unchanged in the range of 5.25% to 5.50%.

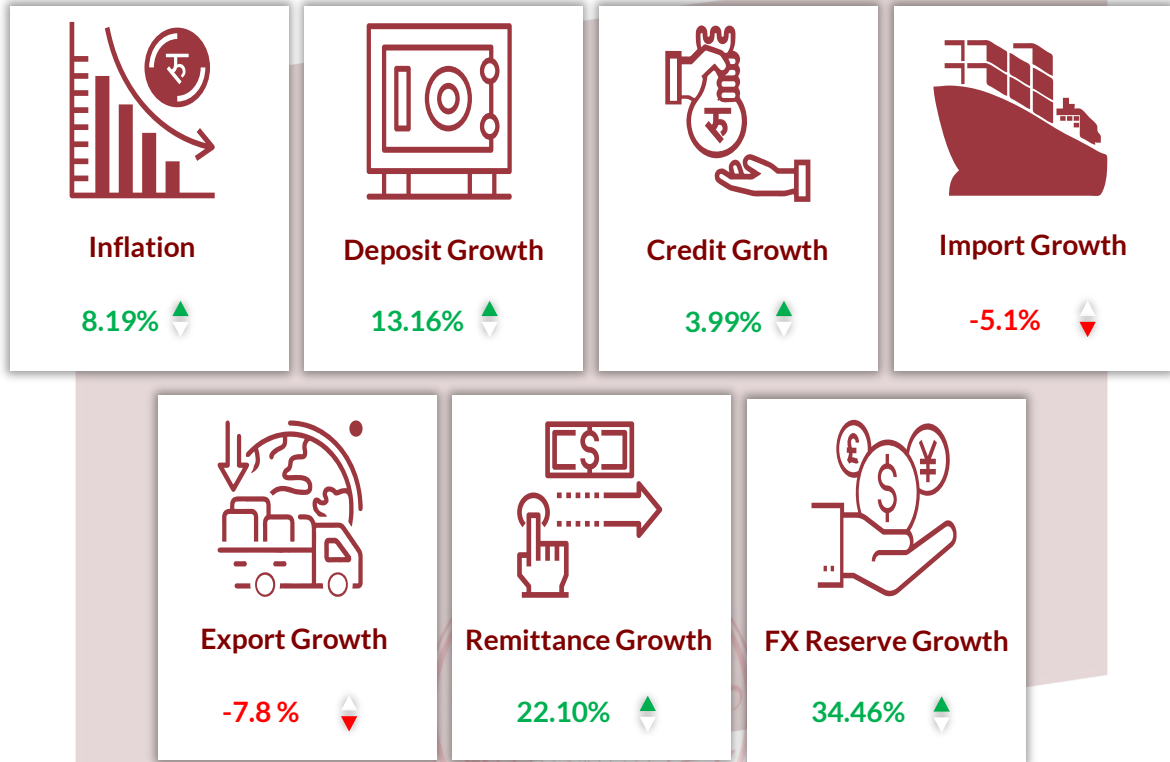
Due to global unrest and uncertainty, the price of gold surged around \$2,000 per ounce, with traders seeking safe-haven investments. Gold's next target is set at \$2,050 per ounce. Throughout October, the USD/Indian Rupee (INR) exchange rate remained stable with sideways movement. In the local market, the price of gold reached an all-time high of NPR 117,000 per tola. Ongoing political and regional unrest raised concerns about affordability for local consumers.

Furthermore, oil prices hovered around \$90 per barrel, primarily due to fears of spillover conflicts in the Middle East, such as the tension between Israel and Hamas. However, instability in the Middle East posed risks to both oil prices and demand.

It is expected that the US Dollar will continue to strengthen against major global currencies. Investors appeared to favor gold as a safe-haven asset due to market uncertainty and unrest. The ongoing conflicts in various regions, including Israel and Hamas, the US/Syria situation, and Russia/Ukraine tensions, are likely to exert pressure on oil prices.



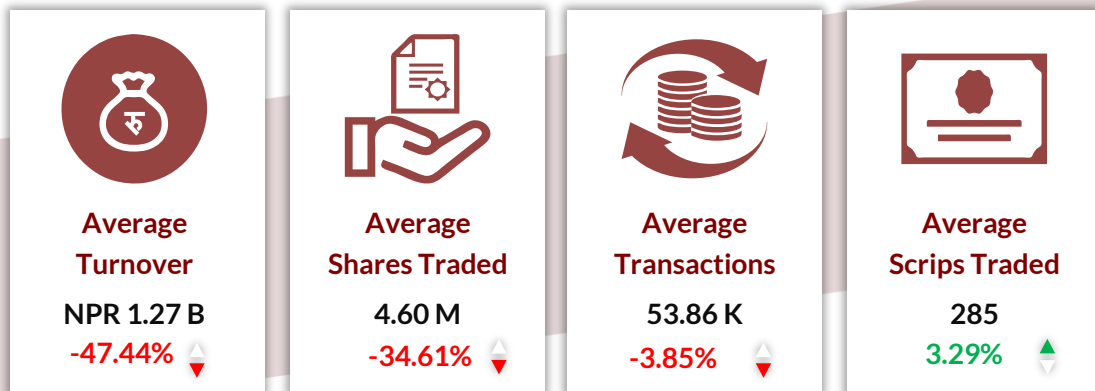
Macroeconomic Overview



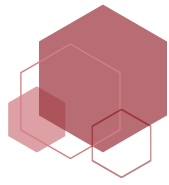
* Growth refers to the change between two months of FY 79/80 and FY 80/81.

* Credit refers to claim on private sector.

Monthly Trading Statistics



* For the period (October-1, 2023) - (October-29, 2023)



Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Bhadra-79	Shrawan-80	Bhadra -80	Kartik 3	Kartik 10	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	8.79	4.16	5.33	2.90	2.87	-3.46	1.17	-0.03
Wt.Avg 91 Days TB rate (%)	9.11	5.92	5.95	4.27	4.38	-3.16	0.03	0.11
Wt.Avg 364 Days TB rate (%)	9.03	6.37	6.44	5.78	5.91	-2.59	0.07	0.13
Wt. Avg Interbank Rate (%)	8.50	5.91	5.86	1.99	1.99	-2.64	-0.05	0.00
CapEx (In Billion NPR)	5.86	0.82	8.16	25.59	25.68	2.30	7.34	0.08

B. Money Market Indicators

Particulars	27-Oct-23	25-Sep-23	% Change	Month High	Month Low
SLF Rate	7.00%	7.00%	0.00%	7.00%	7.00%
Market Excess Liquidity (NPR in Billion)	12.32%	16.08%	-23.38%	27.79	7.51

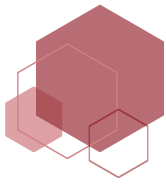
C. BFI Statistics

Description	Value As On					Change		
	Bhadra-79	Shrawan-80	Bhadra -80	Kartik 3	Kartik 10	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	7.81	8.00	8.06	8.00	8.06	0.25	0.06	0.06
Wt. Avg Lending Rate (%)	12.06	12.24	12.23	12.24	12.23	0.17	-0.01	-0.01
Base Rate (%)	10.01	10.11	10.14	10.11	10.14	0.13	0.03	0.03
CD Ratio (%)	87.63	83.57	82.53	81.74	81.74	-5.10	-1.04	0.00
Fixed Deposits/Total Deposits (%)	58.19	60.89	60.70	60.89	60.70	2.51	-0.19	-0.19
Total Liquid Assets/Total Deposits (%)	25.17	25.68	26.48	25.68	26.48	1.31	0.80	0.80

Public Debt Subscription

Category	Issue Date	Offered Amount	Payment By GoN	No. of Participants	No. of Bids	BID Ratio	Allocated Amount	Discount Rate		
								Lowest	Highest	Average
28 Days	Ashwin 16	500.00	0.00	17	81	4.07	500.00	2.69	3.14	2.90
91 Days	Ashwin 30	770.00	-	20	81	2.91	770.00	4.00	4.44	4.27
182 Days	Ashwin 30	500.00	-	16	56	3.30	500.00	4.95	5.22	5.11
364 Days	Ashwin 30	600.00	-	17	62	2.38	600.00	5.48	5.97	5.78

*Figures are in Millions NPR

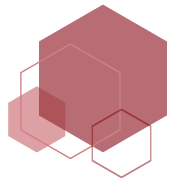


Sectoral Movement

Index	Ashwin 10	Kartik 12	Change
NEPSE	2,004.30	1,875.65	-6.42%
Mutual Fund	18.93	18.53	-2.11%
Commercial Bank	1,252.78	1,200.57	-4.17%
Others	1,452.97	1,385.96	-4.61%
Manufacturing & Processing	5,254.77	5,003.58	-4.78%
Microfinance	3,691.99	3,504.55	-5.08%
Development Bank	3,818.77	3,607.54	-5.53%
Investment	69.12	64.94	-6.05%
Finance Company	1,760.52	1,627.73	-7.54%
Non Life Insurance	10,512.23	9,601.21	-8.67%
Life Insurance	10,758.32	9,781.89	-9.08%
Trading	2,947.24	2,678.88	-9.11%
Hydropower	2,190.00	1,970.78	-10.01%
Hotels & Tourism	5,393.13	4,742.29	-12.07%

Major Movers

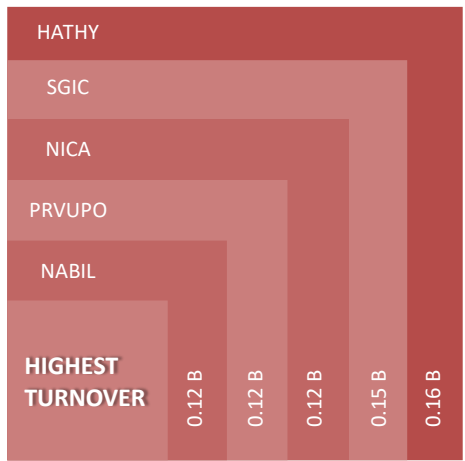
SPHL	26.82%	MEHL	-28.68%
SAMAJ	9.95%	HLBSL	-25.88%
CYCL	8.37%	AHL	-24.82%
SEF	8.07%	SGIC	-22.85%
NIBLGF	7.79%	MHL	-22.22%



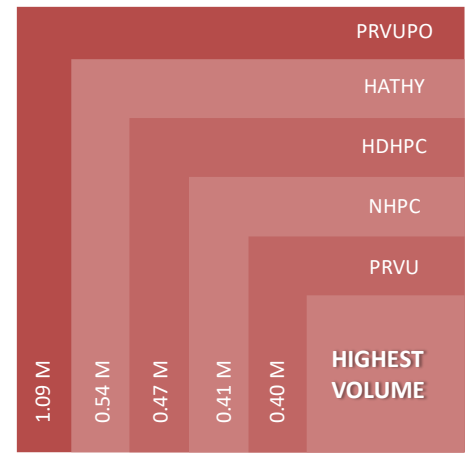
Sectoral Divergence-Turnover

Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	2.41 B	1.27 B	-47.44%
Life Insurance	0.27 B	0.19 B	-31.66%
Hydro Power	0.44 B	0.29 B	-33.90%
Commercial Banks	0.38 B	0.24 B	-37.76%
Tradings	0.02 B	0.01 B	-44.06%
Investment	0.11 B	0.06 B	-46.83%
Microfinance	0.16 B	0.08 B	-49.92%
Development Banks	0.15 B	0.07 B	-55.99%
Non Life Insurance	0.23 B	0.10 B	-58.00%
Manufacturing And Processing	0.19 B	0.08 B	-60.94%
Finance	0.14 B	0.05 B	-66.36%
Others	0.07 B	0.02 B	-66.59%
Hotels And Tourism	0.16 B	0.04 B	-73.37%

Highest Turnover



Highest Volume





NEPSE Outlook

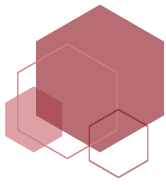
A. Current Overview



On October 29, 2023, the flagship NEPSE index closed at 1,875.65 points, with a monthly average turnover of NPR 1.22 billion. Compared to the previous month's index movement, there was a decrease in the index alongside a drop in the monthly average turnover.

At present, the Relative Strength Index (RSI) stands at 37.83 points, marking a neutral zone. The Moving Average Convergence and Divergence (MACD) indicator indicates a downtrend due to a bearish crossover between the MACD line and the signal line. Correspondingly, the indicator lines are positioned below the baseline, reflecting a negative market sentiment.

Looking forward, the immediate support levels for the NEPSE index are (S1) 1,850, (S2) 1,815, and (S3) 1,750, while the immediate resistance levels are (R1) 1,960, (R2) 2,025, and (R3) 2,085. These support and resistance levels serve as crucial markers for investors when making trading decisions.



B. Long Term Overview



Taking a long-term view, following a significant decline of over 40%, the local stock market appears to be stabilizing in the vicinity of the 1,800-1,900 level, which has previously served as a substantial support zone in past cycles. In light of this historical bull-bear pattern, the 1,800 level can be seen as the bottom of the current cycle, with the potential to ascend to levels as high as 3,800-4,000 in the long term, as indicated by Fibonacci extensions and pitchfork bands.

Moreover, the NEPSE index has immediate support levels at (S1) 1,850, (S2) 1,815, and (S3) 1,750, while immediate resistance levels are situated at (R1) 1,960, (R2) 2,025, and (R3) 2,085. These support and resistance levels are essential reference points for investors when making strategic decisions.



SCRIP ANALYSIS

Standard Chartered Bank Limited

A. Technical Analysis



On October 29, 2023, the closing stock price of SCB stood at NPR 525.60. This price reflected a significant increase of 36.88% from its low point on July 12, 2022.

The Relative Strength Index (RSI) for this stock registers at 43.12 points, placing the stock in a neutral region.

The Moving Average Convergence Divergence (MACD) indicator is indicating a bullish trend as a result of a bullish crossover between the MACD line and the signal line. However, the indicator lines are positioned below the baseline, reflecting a negative sentiment prevailing in the market.

Regarding support and resistance levels, SCB has immediate support at NPR 510.00 (S1), NPR 485.00 (S2), and NPR 425.00 (S3). Correspondingly, resistance levels are marked at NPR 550.00 (R1), NPR 600.00 (R2), and NPR 685.00 (R3). These levels are pivotal considerations for investors in decision-making processes.



B. About the Company

Since its establishment in Nepal in 1987 as a joint-venture operation, Standard Chartered Bank Limited has evolved as a pivotal entity within the Standard Chartered Group, with the group holding a majority ownership of 70.21% while 29.79% of the shares are owned by the Nepalese public. This bank holds the unique distinction of being the sole international bank presently operating within Nepal. Notably, it stands as the sole bank in Nepal accredited with an ICRANP-IR AAA rating by ICRA Nepal, recognized for its steadfast commitment to meeting financial obligations in a timely manner.

With a widespread presence across the country, boasting 14 representative points, and supported by a workforce of over 504 local staff, Standard Chartered Bank Limited caters to its clients through a strategic domestic network. Leveraging the global network of the Standard Chartered Group, the bank can deliver comprehensive international banking services in Nepal. Offering a diverse array of banking products and services, the bank caters to various client segments including individuals, local mid-market corporates, multinationals, large public-sector companies, government corporations, and the developmental organizations sector, encompassing aid agencies, multilateral entities, non-governmental organizations, and international non-governmental organizations.

The bank has been a pioneer in introducing customer-centric products and services and remains dedicated to upholding its position as a leader in the industry. It holds the distinction of being the first bank in Nepal to implement Anti-Money Laundering policies and apply the 'Know Your Customer' procedure to all customer accounts.

I. Comparative Quarterly Performance Visualizations

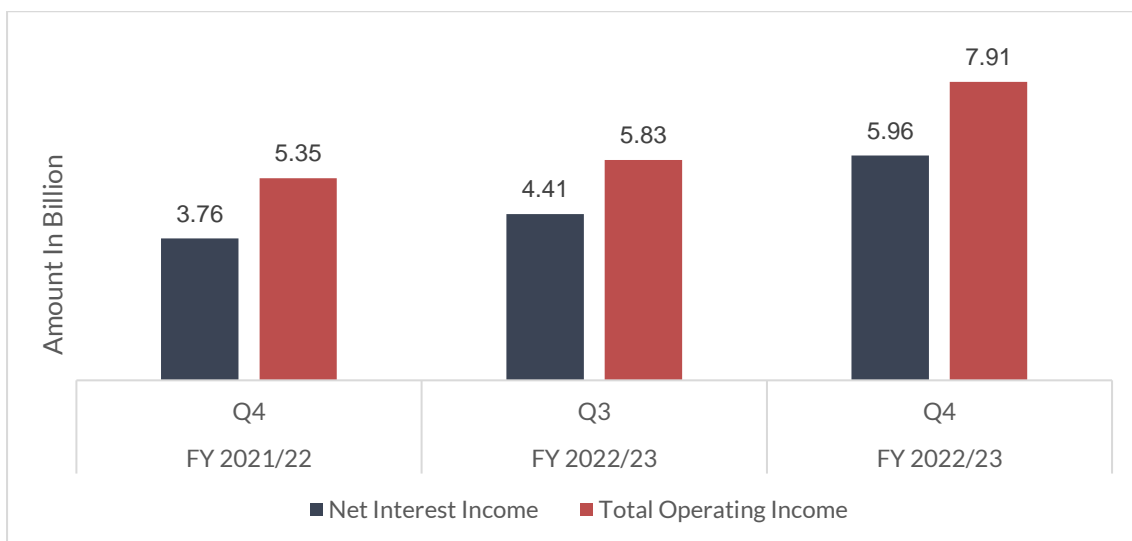


Figure 1: Quarterly comparison of Net Interest Income and Total Operating Income

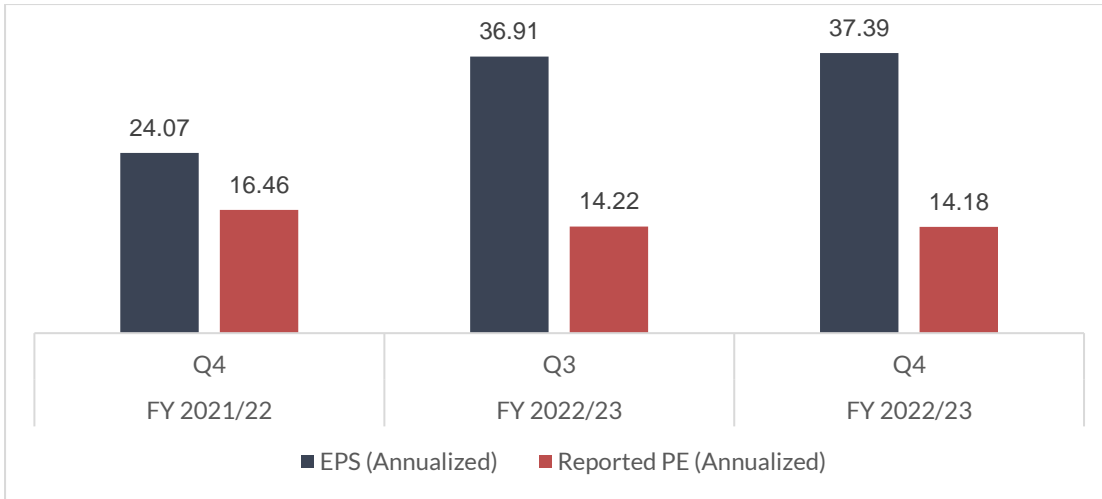
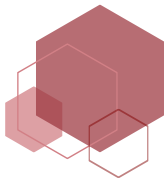


Figure 2: Quarterly Comparison of EPS and PE

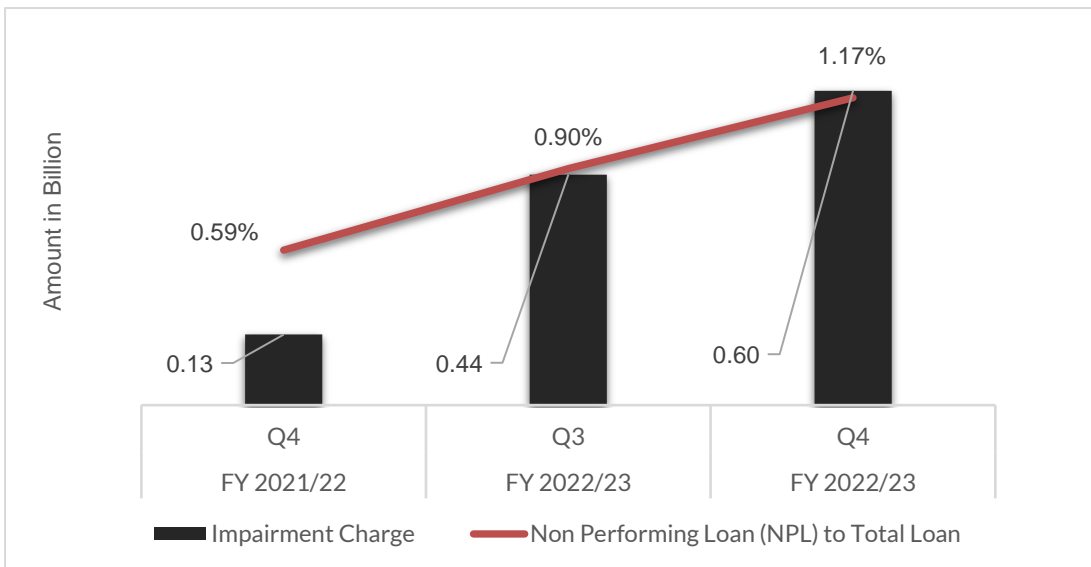


Figure 3: Quarterly Comparison of Impairment Charges and NPL (%)

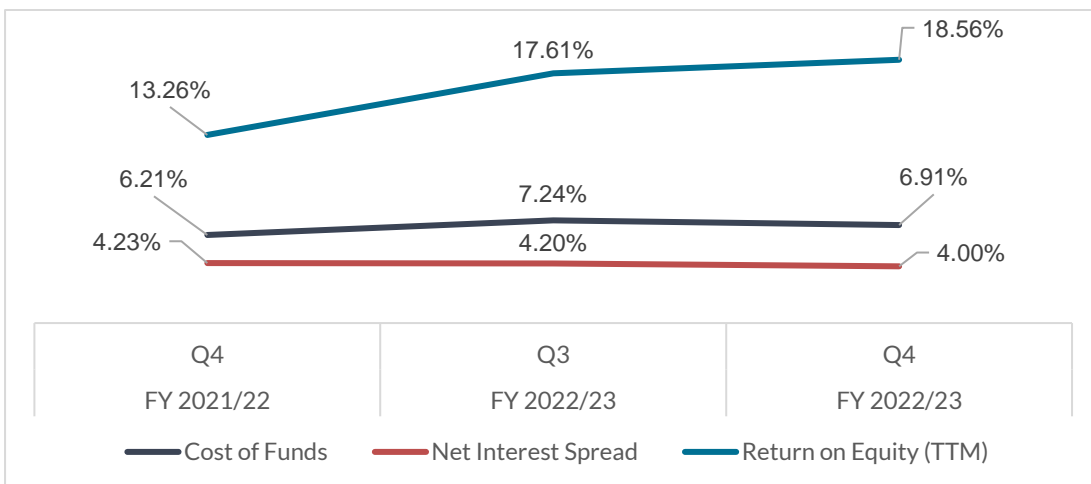
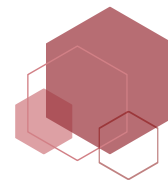


Figure: Quarterly Comparison of Cost of funds, Return on Equity and Net Interest Spread



II. Key Variables used for Valuation and Assumptions:

1. Sustainable Growth Rate for longer period projection to calculate terminal value (Last 5 years GDP growth rate) =4.74%
2. Discount rate using CAPM Model:

$$K_e = R_f + (R_m - R_f) * \beta$$

Specifics	Value
Beta (β)	0.94
Market Return (R_m)	12.23%
Risk Free Rate (R_f)	8.05%
Cost of Equity (K_e)	11.97%

C. Stock Valuation

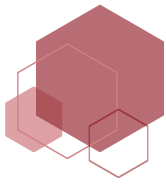
The final average valuation of SCB based on Absolute Approach (viz. Excess Equity Return Method) as well as Relative Approach (viz. P/E Model and P/B Model) has been computed as NPR. 413.31, which has been tabulated below:

Method	Valuation Price
Excess Equity Return Model	493.82
Relative Approach	332.80
Final Average Valuation	413.31

D. Conclusion

After the valuation, the final average value of the company is NPR 413.31. Comparing the final average value with the trading price as on 29th October, 2023, i.e., NPR 525.60, the company's stock price is overvalued by 27.17% of the final average value.

With the publication of 4th quarter report for FY 2079/80, the bank's quarterly performance has increased in terms of core operating income generation. In this quarter, the bank has made NPR 5.96 billion worth of net interest income which increased by 58.49% from the previous F/Y quarter. Similarly, the impairment charges of the bank have also increased to NPR 0.60 billion. Hence, in next quarter report, the



bank's profit might look lucrative as the probability of write back of impairment charges is high in next quarter. However, along with the rise of impairment charges, the Non-Performing Loans (NPL %) has also increased to 1.17% from 0.90%.

Similarly, the current Earnings per Share (EPS) and Price to Earnings (PE ratio) of the company stands at NPR 37.39 and 14.18 times. Now, looking at the other major ratio/indicator, return on Equity (ROE) stands at 18.56%, cost of fund at 6.91% and the net interest spread at 4.00%.

From the technical perspective, the stock is currently hovering at NPR 525.60 as per closing price on 29th October, 2023. Currently, the stock seems bullish in nature as MACD line has crossed signal from above. Similarly, the indicator lines are hovering below the baseline reflecting negative sentiment in the market.

ISSUE OF THE MONTH

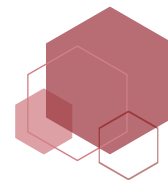
Contrarian Investing

A. What is a Contrarian?

"Contrarian – A trader whose reasons for making trade decisions are based on logic and analysis and not on emotional reaction."

A contrarian investment approach is one that is built on spotting and betting against stock price fluctuations that reflect changes in the majority of investors' views. A contrarian takes judgments for reasons that other traders do not. Most people purchase because they are greedy and sell because they are panicked. As a result, people have a predisposition to make poor judgments. A contrarian does not just behave in opposition to the majority of traders, but also does not follow the majority if indications support the opposite conclusion.

Contrarian investing is thus a market timing approach that may be used in any trading timeframe. Contrarians assume that financial instruments that have been consistently can reverse and begin to decrease, and vice versa. The contrarian trader thus buys a falling item or short-sells a rising one confident in that the trend will reverse in some time based on market indicators.



B. How most traders trade (trading tendencies and market behavior)

Everyone has heard the phrase "buy low, sell high." This appears to be simple, yet most traders tend to do the exact opposite. They tend to purchase high (because of greed) and sell low (due to panic). A contrarian behaves differently and tries to "buy cheap and sell high" by looking for market over-reactions to certain news which underprice or overprice a stock.

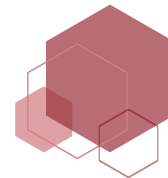
C. How a Contrarian trades:

A contrarian understands that most traders follow the majority, and the majority often tends to be wrong due to excessive greed or fear i.e., As prices rise, a growing number of people tend to buy, and the higher the price, the more buyers enter the market and when prices fall, a growing number of people tend to sell, and the lower the price, the more sellers will try to exit the market creating great buy and sell opportunities in the process. Knowing this, A Contrarian thus attempts to make decisions in spite of what the majority is doing but does not do so on a whim rather making wise decisions more often than not, based on analysis and reading of signals. They tend to buy when prices are depressed, especially if reversal signals indicate a coming uptrend and sell when prices rise to new heights, especially if reversal signals indicate a coming downtrend.

Thus, a Contrarian not only employs logic and analysis, but also times trades based on strong reversal signals found in price patterns, candlestick indicators, volume spikes and momentum oscillators. Contrarians assume the confirmation of reversals, using the same signals and indicators as reversals; and the stronger the confirmation, the more confidence a contrarian will have. A contrarian avoids placing too much capital into any single trade, to minimize losses and to avoid large losses and uses other risk reduction methods such as hedging and diversification

A contrarian will continuously observe market trends and look for reversals in the following indicators to make a contrarian call/trade.

- Traditional price reversal patterns like the head and shoulders, double tops or bottoms, and price gaps – especially when these appear at or near resistance or support
- Volume indicators as well as volume spikes, a one-day or two-day exceptionally high number of trades
- Momentum oscillators, indicators designed to reveal how quickly trends develop, when they begin to slow down, and when a stock is overbought (a bearish signal) or oversold (a bullish signal)



D. Contrarians and the efficient market hypothesis

“Efficient Market Hypothesis – The belief that all current prices are based on the accumulation of all known facts and news about the company, meaning that all prices are currently fair and efficient.”

Contrarians think that prices may be forecast to some extent based on a rational and analytical examination of market behavior and news. This notion is challenged by the efficient market hypothesis (EMH), which holds that the market is efficient, and that all information is integrated into a stock's price.

However, if markets were genuinely efficient, prices would respond uniformly to all news, such as profits or merger announcements. According to EMH, reactions to earnings shocks should be calculated and accurate, and they should not be open to rectification. EMH fails to understand market behavior factors, which might be the most significant feature of stock market investing and trading.

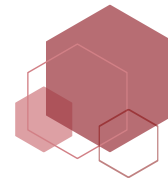
A contrarian has seen how price behaves irrationally and how price tends to overreact to any unexpected news. Contrarians feel the market is highly inefficient under these conditions. If such is the case, then the one-day price change will be overstated. If that is true, then exaggerated one-day price movements present an opportunity to exploit inefficiency.

E. Contrarians and the Random Walk Theory

“Random Walk Theory – A theory about the market stating that it is impossible to predict the direction of price movement, and that any price today has a 50% chance of rising or falling.”

Contrarians also oppose the Random Walk Theory because they believe that price movements may be forecast based on market activity and fundamental analysis. If the random walk hypothesis is correct, all types of analysis are rendered meaningless. For this reason, the contrarian rejects the hypothesis.

It wouldn't matter which stock was chosen if all prices were 50/50 bets; half would increase and half would fall. You must reject the impacts of high sales and profitability in one firm vs low outcomes in another under the random walk. You would also have to discard reputation, competitive success, and outstanding management. All of this would be irrelevant since price movement would occur independently of these variables.



F. Contrarians and the Dow Theory

“Dow Theory – A series of “rules” about market trends and how they are set and reversed. The theory is based on the teachings of Charles Dow, one of the two founders of the Dow Jones company.”

Contrarians accept the basis of the Dow Theory over the long term, while also recognizing that short-term price behavior tends to be chaotic and irrational. The contrarian views the Dow Theory as an organizing principle of technical analysis, while also observing how volatile short-term price movement and market behavior present trading opportunities.

I. The Tenets of the Dow Theory

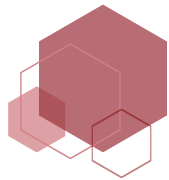
- ✓ The market consists of three movements: primary, secondary, and short-term.
- ✓ Trends consist of three phases: accumulation, public participation, and distribution.
- ✓ The market tends to discount all news very quickly.
- ✓ Stock averages must confirm each other before a reversal is recognized.
- ✓ Volume confirms trends.
- ✓ Trends continue until a contrary signal is recognized and confirmed.

Many have pointed to the tenet that the market discounts news, to support the efficient market hypothesis. It is true that the market behaves in this manner, but it often takes several days for the discounting to go into effect. Contrarians are strong proponents of the Dow Theory over the long term and recognize that the core of trend analysis rests with recognition of reversal and confirmation.

G. Finally

Contrarians although appearing to act in opposition to the majority do not act so on a whim, rather they tend to make decisions for different reasons than others – utilizing reasoning and analysis rather than emotion, which makes them more successful in the long run. Contrarian investing thus is similar to value investing as a contrarian seeks out mispriced stocks and purchases those that appear to be undervalued by the market. Thus Warren Buffett, one of the best-known value investors is also the most well-known example of a contrarian investor. One of his most famous phrases sums up his approach to contrarian investing: "be fearful when others are greedy, and greedy when others are fearful." Thus, recognizing when to be free of the effect of trends, observing changes in market behaviors, and acting on well-founded information become key in making more profitable investments.

**This article was previously published in the Pouch, 2078 edition of The Pulse.*



Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
NWCL	IPO	137,500(O)	2023/10/27 AD 2080/07/10 BS	2023/11/10 AD 2080/07/24 BS	Himalayan Capital
MKCL	IPO	140,000(O)	2023/10/27 AD 2080/07/10 BS	2023/11/10 AD 2080/07/24 BS	NIMB Ace Capital
SPDL	AUCTION	563,261(O)	2023/10/18 AD 2080/07/01 BS	2023/11/01 AD 2080/07/15 BS	Sanima Capital
AKPL	AUCTION	2,014,817(O)	2023/10/17 AD 2080/06/30 BS	2023/10/31 AD 2080/07/14 BS	Nabil Investment Banking
MPFL	AUCTION	60,650(O)	2023/10/16 AD 2080/06/29 BS	2023/10/30 AD 2080/07/13 BS	Muktinath Capital
MPFLPO	AUCTION	82,123(P)	2023/10/16 AD 2080/06/29 BS	2023/10/30 AD 2080/07/13 BS	Muktinath Capital
NRIC	AUCTION	1,979,424(P)	2023/10/11 AD 2080/06/24 BS	2023/11/09 AD 2080/07/23 BS	Prabhu Capital
KBLD90	DEBENTURE	5,000,000(O)	2023/10/19 AD 2080/07/02 BS	2023/10/30 AD 2080/07/13 BS	Nabil Investment Banking

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