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Effect of Ukarine Russian war on Indian stock market

INTRODUCTION TO THE ISSUES BETWEEN RUSSIA – UKRAINE

The Russia-Ukrainian War is an ongoing war between Russia (together with pro-Russian separatist forces) and Ukraine. It began in February 2014 following the Ukrainian Revolution of Dignity, and initially focused on the status of Crimea and the Donbas, internationally recognized as part of Ukraine.

The first eight years of the conflict included the Russian annexation of Crimea (2014) and the war in Donbas (2014–present) between Ukraine and Russian-backed separatists, as well as naval incidents, cyberwarfare, and political tensions. Following a Russian military build-up on the Russia–Ukraine border from late 2021, the conflict expanded significantly when Russia launched a full-scale invasion of Ukraine on 24 February 2022.

The heat between Russia and Ukraine, a former Soviet republic, have existed for a decent amount of time, they began to escalate out of control in early 2021. The invasion has caused Europe's largest refugee crisis since World War II, with more than 5.5 million Ukrainians leaving the country and a quarter of the population displaced. At the start of the war in 2014, Russia annexed Crimea, and Russian-backed separatists seized part of the south-eastern Donbas region of Ukraine, sparking a regional war there.

Following the Euromaidan protests and a revolution resulting in the removal of pro-Russian President Viktor Yanukovych in February 2014, pro-Russian unrest erupted in parts of Ukraine. Russian soldiers without insignia took control of strategic positions and infrastructure in the Ukrainian territory of Crimea and seized the Crimean Parliament. Russia organized a widely criticized referendum, whose outcome was for Crimea to join Russia. It then annexed Crimea. In April 2014, demonstrations by pro-Russian groups in the Donbas region of Ukraine escalated into a war between the Ukrainian military and Russian-backed separatists of the self-declared Donetsk and Luhansk republics.

In August 2014, unmarked Russian military vehicles crossed the border into the Donetsk republic. An undeclared war began between Ukrainian forces on one side, and separatists intermingled with

Russian troops on the other, although Russia attempted to hide its involvement. The war settled into a static conflict, with repeated failed attempts at a ceasefire. In 2015, the Minsk II agreements were signed by Russia and Ukraine, but a number of disputes prevented them being fully implemented. By 2019, 7% of Ukraine was classified by the Ukrainian government as temporarily occupied territories.

In 2021 and early 2022, there was a major Russian military build-up around Ukraine's borders. NATO accused Russia of planning an invasion, which it denied. Russian President Vladimir Putin criticized the enlargement of NATO as a threat to his country and demanded Ukraine be barred from ever joining the military alliance.

He also expressed Russian irredentist views, questioned Ukraine's right to exist, and stated wrongfully that Ukraine was created by Soviet Russia. On 21 February 2022, Russia officially recognized the two self-proclaimed separatist states in the Donbas, and openly sent troops into the territories. Three days later, Russia invaded Ukraine. Much of the international community has condemned Russia for its actions in post-revolutionary Ukraine, accusing it of breaking international law and violating Ukrainian sovereignty. Many countries implemented economic sanctions against Russia, Russian individuals, or companies, especially after the 2022 invasion.

The invasion has been widely condemned internationally as an act of aggression. The United Nations General Assembly adopted a resolution which demanded a full withdrawal of Russian forces. The International Court of Justice ordered Russia to suspend military operations and the Council of Europe expelled Russia. Many countries imposed new sanctions, which have affected the economies of Russia and the world and provided humanitarian and military aid to Ukraine. Protests occurred around the world; those in Russia have been met with mass arrests and increased media censorship, including banning the use of the word’s "war" and "invasion". Numerous companies withdrew their products and services from Russia and Belarus, and Russian state-funded media were banned from broadcasting and removed from online platforms. The International Criminal Court opened an investigation into war crimes that occurred in Ukraine since the 2013–2014 Revolution of Dignity through to war crimes in the 2022 invasion.

Implications Russia – Ukraine crisis have on India

- An invasion by Russia would put pressure on India to choose between the Western alliance and Russia.
- Maintaining strong relations with Russia serves India's national interests. India has to retain a strong strategic alliance with Russia as a result, India cannot join any Western strategy aimed at isolating Russia.
- There is a possibility of CAATSA sanctions on India by the U.S. as a result of the S-400
- A pact between the US and Russia might affect Russia's relations with China. This might allow India to expand on its efforts to re-establish ties with Russia.
- The issue with Ukraine is that the world is becoming increasingly economically and geopolitically interconnected. Any improvement in Russia-China ties has ramifications for India.
- There is also an impact on the strong Indian diaspora present in the region, threatening the lives of thousands of Indian students.

Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, Cuba, Nicaragua, and Venezuela are extending support to the Russian government. The Indian government has called for a diplomatic way out of the ongoing crisis. On March 1, in a telephonic conversation with Charles Michel, President of the European Council, Prime Minister Narendra Modi expressed his anguish over the deteriorating situation and humanitarian crisis in Ukraine. He reiterated India's appeal for cessation of hostilities and a return to dialogue. He also spoke about efforts being made by India to send urgent relief supplies, including medicines, to the affected areas.

IMPACT OF UKRAINE RUSSIA WAR ON INDIAN STOCK MARKET

Russia and Ukraine control a sizable portion of the global commodities market. Russia provides 10% of the world's nickel. It accounts for 29% of global wheat exports, along with Ukraine. Palladium, natural gas, and grain are some of the other goods they supply in large quantities. Gold prices have also risen above $2,000 per ounce in international markets due to the metal's safe-haven status.

The path of the debt market will be determined by inflation figures, outflows of foreign capital, the Indian government's borrowing plans, and the monetary policies of the US Federal Reserve. While growing prices and currency depreciation may reduce business profits, long-term growth estimates remain stable. India's policymaking is on track, and the country now has a sizable domestic investment base. As prices fall down, this could be an exceptional moment to buy the dip.

The Indian large cap IT industry, financials, and capital goods are some of the industries that will benefit from this crisis. For companies looking to proceed the Ukrainian and Eastern European markets, the Indian IT sector could be a viable option. Another area that might give to the crisis is India's agriculture sector, which currently has adequate inventories to maintain growing pace even if Russian supplies are disrupted. The automobile industry is one that could see a decline due to the impact of semiconductor shortages in a palladium supply chain.

IMPACT OF UKRAINE RUSSIA WAR ON INTERNATIONAL MARKET

While tensions between Russia and Ukraine have been rising for years, the current military action raises the possibility of a protracted conflict within Ukraine and raises concerns about the potential impact on financial markets and the global economy. Fortunately, history has shown that while geopolitical crises like the one between Russia and Ukraine can temporarily shake markets, they rarely have long-term consequences for investors. Russia's economy ranks 11th in the world, according to the International Monetary Fund, only one-fifth the size of the United States and one-fifth the size of China, it's maybe not large enough to affect the world. market or economic growth, even if it suffers significant economic damage as a result of US and European sanctions.

Russia is also the source of 10% of the world's energy - and almost 50% of the energy consumed in Europe - the conflict poses risks beyond the borders of the two countries, including high energy prices. and increased volatility in financial markets.

Another factor that is likely to influence the impact of the situation on the economy and markets is how Russia reacts to Western sanctions aimed at its financial interests, as well as limited exports technology used by the Russian military.

In addition to increasing market volatility, the invasion could worsen inflationary pressures by disrupting oil, natural gas and wheat exports from Russia and Ukraine and raising prices. The effects of conflict can vary by geographic region. Europe, and especially countries like the Baltic states and Poland, are likely to face more difficulties than countries less dependent on Russia for energy. Russian gas is a major source of winter heating in Europe, and rising prices have hit European homes and businesses. Western Europe, especially Germany, also does not have an alternative to Russian natural gas.

From an investment perspective, the biggest impact is on Russian stocks, bonds and currencies. Rising oil and gas prices could further benefit North American energy companies, whose stocks have been among the year's best performers. Short-term equity market volatility is also expected to increase. Professional management can help US investors better manage their long-term investments in international stock markets while also managing risk.

Disruptions to Russia's energy exports following the conflict could temporarily contribute to rising global food and energy prices. Crisis of this type tend to have a significant and lasting impact on global financial markets only if they have a lasting macroeconomic impact on the major economies. The Russia-Ukraine conflict is adding uncertainty to the strength of economic expansion in Europe. While this creates some uncertainty for the global outlook, the US economy appears to be relatively isolated from the conflict. For individual investors and consumers in the United States, the effects will most likely take the form of additional inflationary pressures due to higher energy prices. Despite the geopolitical risks, US investors should not lose sight of the long-term opportunities international equities can offer.

WORLD BANK TELLS…

World Bank Chief David Malpass has stated that the struggle fare in Ukraine is a 'monetary catastrophe' for the arena at a time while inflation is already growing, and this could genuinely reduce worldwide monetary growth. He brought that the monetary effect of the struggle fare will bring about the upward thrust in costs of oil and gas, with a purpose to hit the terrible the most.

The grim forecast comes at a time while oil costs are at its maximum in extra than seven years. The Brent crude is already soaring above the USD 112 a barrel mark. Countries, which might be a part of the European Union (EU), are anticipated to be hit badly. However, India will even now no longer be spared from the outcomes of the struggle fare. Supply disruptions have hit worldwide costs of wheat, soybean, fertilizer and metals like copper, metallic and aluminum – elevating concerns approximately costs and monetary recovery.

What is the Approach for India?

Skyrocketing worldwide costs have made Indian wheat exports very aggressive and in a role to at the least partly fill the void left through Russia and Ukraine Wheat from Gujarat, Rajasthan and Uttar Pradesh is now being introduced at Rs 2,400-2,450 in line with quintal, as in opposition to Rs 2,one hundred or so infrequently 15 days ago. This is above the authorities' minimal aid price (MSP) of Rs 2,015/quintal for the brand-new wheat crop so that it will arrive withinside the markets from mid-March. Portion of wheat from western and crucial India can be exported instead of going to the Food Corporation’s go downs, setting strain on public shares. In this type of state of affairs, the authorities wishes to cautiously manipulate each its very own shares and additionally the general home availability role in wheat.

Edible Oil Costs Skyrocketing

Vegetable oils and oilseeds costs are skyrocketing. This consists of sunflower and soybeans oil. Palm oil in Malaysia has additionally hit all-time-high. The state of affairs may also probably advantage the mustard growers in Rajasthan and Uttar Pradesh, who're set to marketplace their crop withinside the coming weeks. At gift the mustard costs are ruling at Rs 6,500-plus in line with quintal, that is once more above the Minimum Support Price (MSP) of Rs 5,050.

Brent Crude Oil Costs

Brent at USD 110-115/barrel is likewise assisting elevate the costs of cotton due to artificial fibers turning into more expensive. Raw substances have come to be more expensive for artificial fabric manufactures because of a pointy boom in crude oil costs. Agri-commodities may be diverted for manufacturing of ethanol (sugar and corn) or biodiesel (palm and soyabean oil).

Prices above MSP and an awesome monsoon can act as an inducement for farmers to increase acreages in the kharif season. This consists of cotton, soyabean, groundnut, sesamum and sunflower for farmers to increase acreages in kharif season. That will serve the reason of crop diversification, in particular weaning farmers far from paddy, if now no longer sugarcane.

Effect Of Battle on Fertilizers

The ongoing anxiety at the Black Sea because of the Russia-Ukraine battle is impacting fertilizer costs as well. India imported almost a 3rd of its MOP from Belarus and Russia out of 5.09 mt in 2020-21. With components chocked, greater portions will be procured from nations like Canada, Jordan and Israel. International costs of different fertilizers like urea, di-ammonium phosphate, complexes have long passed up in a single month. Their uncooked substances/intermediates like ammonia, phosphoric acid, Sulphur and rock phosphate too have long passed up. These commodities basically tune crude and fuel line costs. But the consequences aren't constrained to grease this time.

RUSSIA-UKRAINE WAR: AN ANLAYSIS

Russia Ukraine Crisis: Domestic inventory markets plunged with the aid of using over 3 according to cent these days and joined a worldwide inventory sell-off amid the escalating scenario among Russia and Ukraine.

What Are the Dangers Ahead?

Domestic inventory markets on Thursday morning plunged with the aid of using over 3 according to cent and joined a worldwide inventory sell-off because the escalating scenario among Russia and Ukraine and growing crude oil price hit the sentiment. After crashing with the aid of using over 2,000 factors at one stage, the benchmark Sensex turned into buying and selling 1,668 factors down at 55,563 and the NSE Nifty index 488 factors decrease at 16,574.eighty in intra-day exchange at 10.20 am. Investors reduce their positions concerned over the opportunity of an extended disaster in Ukraine and its effect at the Indian economy.

If the Ukraine disaster escalates similarly, the marketplace is in all likelihood to take similarly beating as oil expenses are anticipated to stay at an extended level. While the US Federal Reserve is likewise assembly subsequent month to take a selection on trekking hobby costs and tightening liquidity, there are expectancies that the Fed might not move in for a steep hike or tightening. Another fear is the effect of growing crude oil expenses at the Indian economic system at a time when inflation is on the six in keeping with cent level, above the RBI’s higher band.

What’s Occurring in Worldwide Markets?

With the Ukraine disaster flaring up, Brent oil crossed the $ one hundred mark and Asia-Pacific stocks fell amid worries over disruption in materials and sanctions. Gold, a secure haven asset in instances of uncertainty, rose one according to cent and remaining traded at $1,932 while Russian President Vladimir Putin stated in a public cope with that, he had authorized an army operation in Ukraine, and NBC News reported explosions have been heard in Kyiv. Stock markets in Japan, Hong Kong, S Korea and Australia have been down with the aid of using up to a few according to cent. Dow Jones fell 1.38 according to cent and Nasdaq misplaced 2.6 according to cent on Wednesday. “The geopolitical pot is boiling. If that isn't always enough, the Fed’s competitive tone on fee hike is preserving marketplace individuals at the edge,” stated an analyst.

How Are Indian Markets Doing?

The Sensex opened for buying and selling with a lack of 1,800 points. All sectoral indices are withinside the purple with IT, telecom, realty, car and metallic shares buying and selling with a lack of as much as 4 in keeping with cent. Tata Motors changed into buying and selling with a lack of 6 in keeping with cent, RIL 3.five in keeping with cent, TCS 2.86 in keeping with cent and HDFC Bank 2.85 in keeping with cent. Small-cap index shed 4.27 in keeping with cent because of heavy losses withinside the category. “The developing situation surrounding the deteriorating Ukraine disaster has driven the inventory markets into correction mode. The close to 20 in keeping with cent decline from the height in NASDAQ is a clean indication of the correction that has set in. Also, the secure haven gold taking pictures to $1913 is a mirrored image of the dangers springing up from the disaster,” stated V K Vijayakumar, leader funding strategist at Geojit Financial Services.

What Must Traders Do?

Analysts stated traders must live invested in the event that they have a long-time period funding plan and mutual fund traders must preserve their SIP plan without breaking the funding. On the alternative hand, the huge correction will provide a possibility to traders to choose up top nice shares at appealing levels. “Investors must wait and watch the unfolding state of affairs earlier than taking over any foremost commitments. Buying must be limited to shares segments which might be pretty valued or have top income visibility,” Vijayakumar stated.

IMPACT OF CONFLICT ON EXPORT AND IMPORT

- The ongoing rivalry has caused the Indian rupee to depreciate further against the US dollar. Exporters will benefit but the import bill will increase.

- On February 24, 2022, Russian President Vladimir Putin announced a 'special military action' in eastern Ukraine. This was considered as an act of war and took everyone by surprise.
- The Indian markets crashed by 4.7 per cent that day. At the inter-bank foreign exchange market, the rupee opened at 75.02 against the US dollar but later dropped to a low of 75.75. This was mainly due to outflow of funds from emerging markets owing to geopolitical uncertainties. The foreign reserves have fallen over 2-3 per cent from its peak.
- As of December 2021, India's exports to Russia stood at Rs 27.114 billion, as per data from the Reserve Bank of India (RBI). This was the highest export trade amount in 30 years (2022-1992). As the news of war hit the public domain, the Indian rupee continued to depreciate further due to panic selling by investors. "Depreciation of the rupee caused by the ongoing conflict between Russia and Ukraine would mean partial relief for Indian exporters who have negotiated contracts in dollars," said Sanjay Bhatia, CEO and Co-founder, Freight Walla, a freight forwarding company.

- A depreciated rupee helps exporters in the short term as they earn more money (rupees) for the goods exported. But this holds true for those exporters too who do not import any raw material for production.

For instance, car manufacturing companies such as Maruti and Mahindra import some electronics parts from other countries (like computer chips from Taiwan), manufacture the car in India and then export it to other countries. But software-exporting companies (TCS, Infosys, etc.) do not need to import anything for rendering services. So, while some exporters may gain from the rupee depreciating, others stand to lose.

- "Businesses prefer a stable currency exchange rate. Exchange rate fluctuations weigh one against the other and the domestic market may not have the appetite to ingest such changes. While in the short term, a depreciated rupee might bring benefits to exporters, a stable currency exchange rate is a far more preferable option to ensure business stability," says Tarun Soni, Chief Financial Officer, Bizongo, a supply chain enablement platform.

- Although India has enough forex reserves to tide over any severe volatility in currency exchange trading, due to the ongoing tensions relating to the Russia-Ukraine war, all emerging market currencies have depreciated against the US dollar. Big exporters have a dedicated treasury department that buys or sells US dollars at regular intervals to hedge their operations. Now, due to currency volatility, their hedges might not work and as a result, their export operations could be impacted.
- "The current exchange rate is not stable, since the fluctuations are in response to a geopolitical crisis. The situation is changing rapidly and so volatility will be a persistent feature. The risks such fluctuations bring are unforeseeable for any business. Companies will need to isolate some capital to hedge the risks of such fluctuations. A stable exchange rate allows a company to plan better and estimate more accurately the demand and supply of goods and services. Most businesses would prefer stability in markets over short-term gains made from exchange rate fluctuations," says Soni.

Bane For Import Sectors in India

Indian importers will now have to pay more money for the same amount of goods and services. Petroleum products, precious metals, and other goods form a bulk of items that India imports. Brent crude spot price has breached $100 a barrel ($102.59 on February 28). And with the Indian rupee depreciating, India will have to pay more for these. "Importers will have to shell out more Rupees for each Dollar, which will have a slightly negative impact. In light of the current inflationary environment, businesses would face added pressure on their margins. Whether they choose to pass this along to the consumer remains to be seen. Thus, currency depreciation also has an impact on inflation," said Soni.

Hit On Margins, Higher Capital Expenditure

According to data from the Oil Ministry, the oil import bill for the April-December 2022 period surged by 99 per cent to $94.3 billion, as per various media sources. Now, this oil import bill is to be paid in US Dollars but since the rupee has depreciated so much against the US Dollar, paying the same bill will mean more money in rupee terms. "Importers are likely to find their landed cost to become dearer, which will have ripple effects throughout India's consumption economy," said Bhatia.

Several manufacturing companies import machinery and tools. For example, all mobile phone manufacturers have to import computer chips and then assemble/manufacture the phone in India. Without these microchips, no phone can be manufactured in India as of now. Due to the depreciated rupee, capital goods importers will have to pay more in rupee terms for the same quantity of goods.

Russia's war in Ukraine has created "immense human suffering", but it is also damaging global trade, the World Trade Organization (WTO) is warning. Disruptions to food supplies could have "potentially dire consequences" for poor countries, it says.

The WTO has downgraded its forecasts for goods imports and exports and is calling on governments and partners to help facilitate trade. New COVID-19 lockdowns in China are also disrupting trade by sea. Russia's invasion of Ukraine has created "immense human suffering", but it is also damaging global trade, which will likely impact low-income countries the most, the World Trade Organization (WTO) is warning. In its Trade Forecast 2022-2023, the WTO says prospects for the global economy have "darkened" since the war started on 24 February. WTO economists have now downgraded their expectations for 2022 growth of merchandise trade volumes – the import and export of goods – from 4.7% to 3%.

"Smaller supplies and higher prices for food mean that the world's poor could be forced to do without," said WTO Director-General Ngozi Okonjo-Iweala.

Sharply rising commodity prices have been the most immediate economic impact of the Ukraine conflict, the WTO says. The war also threatens supplies of essential goods from Russia and Ukraine, including food, energy and fertilizers. The halting of grain shipments through Black Sea ports could have "potentially dire consequences" for food security in poor countries, the WTO warns. New COVID-19 lockdowns in China are also disrupting trade by sea. This could lead to new shortages of raw materials and higher inflation.

Prices for natural gas vary across regions, the WTO explains. Europe saw natural gas prices climb 45% between January and March to $41 per million British thermal units (Btu) – a measure of heat content. In the United States, on the other hand, prices have "remained relatively low," the WTO says, at around $4.9 per million Btu.

"Higher oil prices may reduce real incomes and import demand worldwide, while higher natural gas prices would probably have a greater impact in Europe," the WTO says.

"Europe is now expected to underperform on the import side," the WTO says – along with Africa and the Commonwealth of Independent States (CIS). The CIS is a grouping of governments in Eastern Europe and Asia, including Russia, formed after the dissolution of the Soviet Union in 1991. This group's under-performance is mostly due to sanctions against Russia, the WTO says.

Europe's weakness is deepened by Ukraine being part of its country group. In Africa, low import levels are partly related to "unexpected declines" in trade in the second half of 2021, the WTO says. For the Middle East, higher oil prices are expected to boost export revenues. This will likely increase import volumes too, as Middle East countries are able to import more. The WTO said global trade in commercial services would also be affected by the Ukraine conflict. This includes the transport sector, which covers container shipping and passenger air transport.

THE OPPORTUNITY OF RUSSIA UKRAINE WAR FOR THE INDIAN INVESTORS

In Russia-Ukraine war, the Indian investors can use the low price of equities in their investment. The Ongoing Russia-Ukraine war can benefit the Indian investors if they know how to take advantage of the impact in the stock market. The Sensex index was about 1,500 points lower at

52,842, while in the Nifty 50 index dropped 382 points to close at 15,863 on March 7. The last time there was a big crash like when Indian government announced a total economic shutdown barring a few essential services in March 2020.

The market will remain volatile due to the Russia -Ukraine crisis. Trend in global equities, at the movement of rupee against the dollar and crude oil prices will dictate.

The Indian economy is good in a given underlying assets like balance sheets, improving asset quality of the banks, credit and other government reforms. It was increasing in domestic institutional investors can high level market. In last six months, foreign portfolio investors have sold Rs 1.22 lakh crore worth of equities but in domestic institutional investors have been buying.

Situations like wars are unfortunate but they still provide an opportunity for long term investors. This time will start slowly getting into investment mode.

Due to the intense selling pressure by foreign portfolio investors and also several good qualities. Stock are available in a cheaper rate. The ongoing market sell is triggered by Russia-Ukraine war since foreign portfolio investors were selling before the war. FIIs have been pulling out money from Indian markets regarding valuation, higher inflation, and economic growth . On the contrary, Domestic institutional investors provide support and continue pumping in the money markets. But in the inflow from FII would depend upon softening crude oil prices, interest rates, improving economic growth and better earnings.

- Asset Allocation :

Prices of equities and other asset have softened since the war broke out. Bond yields have gold and other precious metals are trading at premium and equities are getting discount. "Asset allocation is like a football team in which need strikers, midfielders, defenders and goalkeeper. You cannot win a match with only strikers or only defenders. In investing need to have asset that will provide with capital appreciation , inflation protection, regular income and protection against geopolitical events such as war. Based on this understanding one should customize asset allocation based on risk profile, investment horizon and financial goals.

- Systematic Approach:

The market have fall due to uncertain brought by Russia-Ukraine war. The best approach would be to invest in a low-risk debt fund and then use in a systematic withdrawal plan to transfer funds into equity fund at a specified date . For investors with lower risk appetite amongst equity funds that would recommend a large and mid-cap fund in current circumstances. However, the medium-term asset allocation of the investor should be kept in mind

- Stick to the long term:

While the market provide an investing opportunity. it only works if one invests in long term. Geopolitical and market should not be the reason to invest . Like keep it simple and remember there are three pillars of successful in equity investing are discipline, patience and luck. if have the first two luck has no choice but to oblige. so do not make any investment decisions based on market moves or economic or geopolitical events.

CONCLUSION

The Ukraine conflict may contribute to increased short-term market volatility. Disruption of Russian energy exports as a result of the conflict could temporarily contribute to rises in global energy and food prices. While Europe's economy is likely to suffer, the US is relatively insulated

The war has also resulted in disrupting India's edible oil market as the country imports more than 90% of its sunflower oil from Russia and Ukraine combined. How has it impacted global supply chains? Wheat exports from Russia and Ukraine constitute nearly one quarter of the world's total wheat exports.