

With no friend in sight, India stock markets may face further derating



Telcos performance diverging in face of Jio's growth: Fitch

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Indian equity markets have no friend left either domestic or foreign. Domestic investors are miffed about the tax rules, while foreign investors are worried that the latest move on Article 370 will stoke tensions with neighbouring countries. The ongoing trade war between the US and China is making things worse.

On Monday, the Nifty index declined 134.75 points, or 1.23%, in a sea of red that enveloped most emerging markets (EMs). Indian markets have been underperforming the MSCI EM Index so far in 2019 (see chart).

The scrapping of Article 370 notwithstanding, escalating US-China trade tensions have been bogging down markets. "There is no earnings growth. A lack of stimulus and a lack

of direction is a dangerous combination," says veteran market expert Ajay Bagga. "After today, we are expecting some reforms as the focus comes back on the economy."

The more pressing problem has been a lack of earnings, as is evident from the disappointing first quarter results. Barring some consumer goods companies, earnings growth

market. We have lowered the Nifty's earnings by about 7-8% because of an overall slowdown in the economy and corporate earnings," Naveen Kulkarni, head of research at Reliance Securities Ltd, said over phone.

Analysts at Morgan Stanley India Co. Pvt. Ltd noted that the global trade war will lower international growth. "If the US lifts tariffs on all imports from China to 25% for four-six months and China takes countermeasures, we believe we will enter a recession in 3 quarters," said analysts to clients.

The trade war has already hit the exchange rate. The rupee breached the 70-mark against the dollar, and there is a real danger that it could slip further. The risk perception of rupee assets has undergone a change every time geopolitical risks associated with the country's neighbours have resurfaced.

has been poor. Banks, which were supposed to lift earnings, haven't been able to help.

Besides, markets across geographies are under stress because of the escalating tensions between China and the US, and the slowing growth rate in emerging market economies. "This is leading to a derating of the

BETWEEN A ROCK AND A HARD PLACE

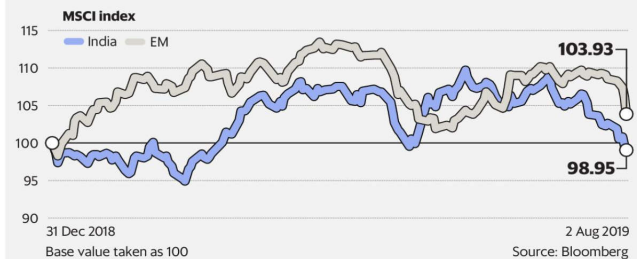
ONGOING tensions over the trade war between the US and China weighed on market sentiment

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MARKETS could benefit once Centre brings focus back on economic slowdown, according to analysts

Taking a hit

The MSCI India Index has been undershooting the emerging markets index in 2019 so far as selling by foreign institutional investors has intensified.



That said, the currency's biggest problems arose because of the Chinese yuan, which dropped past a key level against the dollar. A weaker Chinese currency could hit the competitiveness of Indian goods in international trade. Analysts believe that if these escalations persist, both in the global markets and the domestic geopolitical space, the rupee could weaken beyond 71 to a dollar.

Indian markets are at the receiving end of a barrage of negative news and a positive counter to tip the scales is crucial. Global developments will weigh on sentiments, but what the market needs is a revival in earnings of companies. Some relief is expected from the Reserve Bank of India in the form of a rate cut on Wednesday. A stimulus from the government would not hurt.

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