

SWFs may trim India play

Foreign outflows could accelerate further if oil prices stay low

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The slump in oil prices could curtail overseas money coming into India from some of the wealthy oil producing countries through their sovereign wealth funds (SWFs).

Countries such as Saudi Arabia, Kuwait, Norway, and Canada may bear the brunt of the recent dip in oil prices. These countries invest significantly through SWFs in India. The assets under custody of SWFs in Indian equities totalled ₹1.82 trillion, shows the data from NSDL.

Norway, for instance, depends on oil and gas for more than a third of its exports and reportedly risks slipping into recession for the first time since the 2008 financial crisis. Norway's Government Pension Fund Global, the biggest SWF in the world, has increased its India bets to \$9.4 billion at the end of 2019, reveal annual disclosures.

A steep drop in oil prices can fuel a risk-off sentiment. This can lead to foreign portfolio investor (FPI) outflows. FPIs have sold shares worth nearly ₹33,000 crore in the last 12 sessions; any redemptions from SWFs, which are typically long-term investors, could exacerbate the situation.

Foreign brokerage BofA Securities on Wednesday cut its 2020-21 (FY21) FPI inflow forecast by \$5 billion. The brokerage has cut its FY21 growth forecast for India to 5.4 per cent, with another percentage point drop to 4.4 per cent in case of a global recession.

According to experts, low oil prices could impact the income levels and the fiscal situation of most major oil producing or exporting countries. Consumption could be hit as well, which will impact imports from other countries, including India. In the event of a prolonged slump in oil prices, one cannot rule out the possibility of social unrest in a few countries.

"The surplus that these countries generate for investment into other markets might get impacted, but a sell-off may be some way off," said U R Bhat, director at Dalton Capital Advisors, adding, "The governments worldwide will have to be seen as taking action on the monetary and fiscal front to bring back confidence among foreign investors." According to



Deepak Jasani, head of retail research, HDFC Securities, while lower oil prices may help improve India's macros, including its fiscal situation, inflation, currency and foreign exchange reserves, export demand could be hit if global growth slows down.

"Fresh inflows from SWFs into India may reduce. We could even see redemptions in the event of a prolonged slump in oil prices lasting four to six months," he said, adding countries in West Asia, those part of the Organization of the Petroleum Exporting Countries (Opec), Russia, Norway, Canada, and the US could get impacted by this slump.

Oil prices have been under pressure due to demand growth concerns from the outbreak of COVID-19 in Europe and the US. "The surprise in cooperation between Opec and Russia simply added a supply-side dimension to this pressure. The current level of \$30-40 per barrel would imply an operational loss for many high cost producers around the world, which would eventually reduce supply. This would ultimately bring prices back towards a more sustainable level... Nonetheless, the shock could cause the market to remain risk-averse in the near term," said a note by JPMorgan Asset Management.

Crude oil prices crashed to about \$30

SOVEREIGN FUNDS INVESTING IN INDIA

	Country	Invested amount (₹ cr)**
Govt of Singapore	Singapore	96,761
Govt Pension Fund Global	Norway	24,017
Abu Dhabi Investment Authority	UAE	6,451
CDPQ	Canada	6,411
Carmas Investments	Singapore	2,430

*Data includes holdings greater than 1% in Indian shares
** as on December 31, 2019 Source: nseinfobase.com

per barrel on Monday over disagreement between Opec and Russia to cut oil production by further 1.5 million barrels per day from April-December 2020. Experts believe the weakness in prices will continue for some time.

"With Aramco cutting the official selling price for next month by \$6-8 per barrel to regain market share, the stage is set for all-out war between Opec, Russian, and US producers. We accordingly expect global crude prices to remain weak, pending any agreement between producing nations," a research report by Prabhudas Lilladher observed.

Time to buy into this mkt correction: Analysts

PUNEET WADHWHA

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The sharp correction in markets over the past few sessions on account of global cues and developments back home have put the overall market valuation in an attractive zone. Investors with a long-term view on equities can use this opportunity to buy, say brokerages.

On a YTD basis, the Nifty is down 14 per cent. Last time, it had dropped more during the period under consideration in 2011, when the European debt crisis had dampened investor sentiment. The index is down over 10 per cent, from its record high on January 17.

Analysts at Jefferies say the risk-reward is now favourable for investors to start buying.

They believe India's underperformance to peers is largely driven by domestic factors, such as slowing growth and banking sector issues.

"With valuations much more amenable now, we believe the risk-reward is favourable," wrote Mahesh Nandurkar of Jefferies, in a co-authored report with Abhinav Sinha.