Source : www.livemint.com Date : 2022-02-23

INVESTORS GET THE JITTERS AS GEOPOLITICAL TENSIONS RISE

Relevant for: International Relations | Topic: Effect of policies and politics of developed & developing countries on India's interests

MUMBAI : Russia-Ukraine tensions reverberated on Indian bourses, with the benchmark indices falling for the fifth straight day on Tuesday as investors stayed risk-averse.

Rallying crude oil prices also added to investor woes in a country that’s the world’s third-largest oil importer and consumer.

The BSE Sensex and Nifty 50 fell 0.66% and 0.67%, respectively, mirroring a weakness in stock markets worldwide. Asian markets such as Hang Seng, Nikkei, Taiwan, Shanghai and Jakarta Composite Index ended the day lower by 0.59-2.69%.

Oil prices hit the highest intraday level since September 2014 on Tuesday after Moscow ordered troops into two breakaway regions in Ukraine, adding to an already-tight supply scenario and pushing prices towards $100 a barrel.

Rising oil prices pose a major threat to the Indian economy, which is being reflected in the outlook for Indian equities.

“Rising crude prices will not bode well for India as it is a net importer of crude. This will adversely impact our balance of payments, slow down the overall growth, and be inflationary. This can dampen the equity markets in the short term," said Aishvarya Dadheech, fund manager at Ambit Asset Management.

According to S&P Global Platts Analytics, the risk remains aggravated, and further upside in oil prices cannot be ruled out. It said that if Russia-Ukraine tensions escalate to a level where there is some kind of direct conflict, oil prices can potentially cross $100/barrel levels.

Paul Hickin, director at S&P Global Platts, said that “the global economy can withstand a short-lived price spike, but a spike with a higher peak and longer duration does much greater damage to global oil demand and its recovery to pre-pandemic levels".

Rising oil prices remain the biggest macro headwind for India, experts said. The inflationary consequence will force the Reserve Bank of India (RBI) to abandon its dovish monetary stance, said V.K. Vijayakumar, chief investment strategist, Geojit Financial Services.

Experts said that the impact of supply disruptions due to the ongoing geopolitical tensions could be significant for India as oil prices are already trending higher.

“This will result in heightened inflationary pressure, both PPI (Producer Price Index) and CPI (Consumer Price Index), which when coupled with low/slow economic growth, doesn’t essay well for the capital markets," said Pritam Patnaik, head-commodity, Axis Securities. He added that this could force the RBI to raise rates to control inflation, impacting stocks.

India imports more than 80% of its crude oil requirements. Therefore, any rise in crude prices poses inflationary and fiscal risks to the economy and impacts the current account deficit. Crude oil-related products have a direct share of more than 9% in the Wholesale Price Index (WPI) basket.

Madan Sabnavis, chief economist of Bank of Baroda, said a 10% rise in oil prices would lead to a 90 basis points increase in WPI inflation. One basis point is 0. 01%

Higher prices will further push India's oil import bill, impacting its external position.

The current uncertain scenario could lead foreign institutional investors to continue offloading Indian equities, the experts said.

FIIs have been net sellers of Indian shares totalling 53,112.25 crore in 2022, though domestic institutions have supported well with 40,750 crore worth of purchases.

Amnish Aggarwal, head of research at Prabhudas Lilladher, said that "the confluence of global headwinds and rural slowdown has stopped the one-way march of the past 18 months, resulting in the removal of some froth from the markets. We believe a Fed rate hike, crude prices and global geopolitical risks can result in near-term volatility and correction. In addition, a slowdown in rural demand and rising inflation (led by crude and supply-chain disruptions) are near-term worries".

END