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Crude is going to be the theme which will drive a lot of factors in Indian market: Devina Mehra

Synopsis
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What to your mind is going to be the central market talking point for next couple of months in the month of Jan it was Adani in the month of Feb it was budget, it has been inflation for last one year and it has been the US regional banks for last six weeks, has the puck now moved decisively from these four five factors?

What to my mind is going to be the theme at least for the Indian market which will drive a lot of factors is crude. So compared to last year highs we are down 30-35% and if it sustains there that is going to drive a lot of things in India. If I look at RBI for instance they have paused on the interest rates and to my mind they are waiting for maybe crude to do the difficult part.

So in India that drives a lot of things so if crude remains down it is not just crude, in fact, the part that you are never sure of is whether it will get passed on to the direct fuel - petrol, diesel all of that but it also drives a lot of downstream products.

If those prices come down, that helps of course in inflation control because in earlier rounds whatever inflation coming down we have seen in India has been driven by food which cannot go on forever. Only in this round, we saw some other factors change a bit.

So inflation control. Plus, it therefore can drive demand. As far as sectors are concerned, if input prices go down, that helps a lot of sectors. It is like from FMCG to chemicals, textiles, paints, even large parts of the cement costs are linked to this. So there are a whole bunch of sectors where then companies can take a call that, do we reduce prices and therefore get a demand boost or we let the margins expand or a combination of the two.

If I look at the economy as well as corporate earnings, to my mind, that one theme which can change a lot of things is crude. In the US, it is a different thing. The Fed is talking of something else doing the heavy lifting. You mentioned the banking crisis so that means tightening credit and tightening financial conditions. So Fed is waiting that whether that itself can do a lot of things which are otherwise supposed to be achieved by increasing interest rates and so therefore, they may not increase interest rates that much if those things happen. And in India's case, I think it is a bet on crude.

You continue to remain pretty optimistic then when it comes to the entire capital goods, manufacturing theme. So in light of that, what is it that you are expecting in Q4 by way of numbers, anything in particular that you would be keeping a close eye on?

Q4, you will have a mixed bag. As I said, if the crude remains at lower prices, it is in Q1 that you will start to see that impact overall. And yes, you are right that we have been positive on industrial and capital goods for now over a year and a half, so from October 2021. And that has been a big performer for us because stocks have doubled and tripled also. And we still remain overweight, though I mean, we have been booking profits. So last quarter also we cut a bit. This quarter also we cut a bit. But relative to the index, we are still way overweight. So that is a sector that we continue to like. We have done some reshuffling also from something where it looked like the move was over to something else but that sector still we remain positive.

If let us say in the near term, flows normalize and which is what is happening globally. Money is moving back into emerging markets. Dollar index is weak. Do you think India versus China, actually could work in our favour because the money which has gone into the Chinese stock markets last year and beginning of the year has not given satisfactory returns?

It gave returns for a while. In fact, somebody was asking us that one thing which worked for you globally and that was it. We got into China and Hong Kong at the right time and we got out also at the right time. I mean, we still have China but now it is mostly non-tech China. So the tech part was that.

After that Taiwan was the one which looked good along with semiconductors. So we moved to that.

But as far as these FII flows are concerned, I have said it before also that there is no point spending time focusing on that. And if you look at India versus China, since 2007, the Chinese market is still down so substantially. I do not know what the number would be just now but it is still down way below the 2007 highs in spite of the economy going up six, seven times. It is futile to look at those sorts of things. And as I have said earlier, when we used to track it, we no longer track it, the FII flows versus the market movement has no correlation whatsoever. So I only now track it from the point of view of impact on balance of payments and FX reserves but not from the point of view of markets at all.