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Shankar Sharma steers clear of equity, sees recession warning in oil price crash

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NEW DELHI: Crude oil prices will not slip below $30 a barrel unless a recession is in the works, said market veteran Shankar Sharma.

Sharma said he gave up on equities at least a month back to move to other asset classes. "I moved out of equities in the first week of February. The market outlook is not pretty, and one may see further fall going ahead," Sharma, Joint MD of First Global told ETNOW.

BSE Sensex crashed some 1,500 points and Nifty plunged below 10,700 in early Mumbai trade on Monday amid a brisk selloff in equities globally, after an oil price war broke out in West Asia, which sent crude oil prices plunging 31 per cent.

Saudi Arabia kicked off a price war with Russia by slashing its crude prices after OPEC + talks fell apart. The oil-rich nation pledged to unleash its pent-up supply on to a market reeling from falling demand because of the coronavirus outbreak.

Analysts said this suggests oil players are uncertain about demand for crude oil amid the coronavirus outbreak.

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Sharma said investors must let things play out instead of trying to time the peak of the virus outbreak. “Aggressive stance in this market is not warranted, given how the virus outbreak is unfolding,” he said, adding that it is better to buy 10% higher than moving into the market blindly.

Shankar Sharma said one needs to dial away from equities a bit at this point, if not completely.

While India is usually a winner in case of oil price correction, yet investors sensed trouble.

“Where there is a global economic slowdown or meltdown, India has never been a winner. If oil is going down partly because demand is very weak, that does not help any economy and India is no island,” said Arvind Sanger, Managing Partner at Geosphere Capital Management.

“Asset prices are going lower and obviously interest rates are going lower too. But interest rates and oil prices will not work till we get a sense as to how deep is this economic correction is going to be. This becomes a kind of self-fulfilling and self-feeding slowdown, where destruction in equity value will cause further economic pain and, therefore, further slowdown. We have to see how it goes,” he said.

Sanger said oil prices can go down in the short term till it gets to the marginal cost of oil production. “Some of the costlier producers which would be either some of the heavy oil producers in places like Canada and that could take oil $20 lower before they shut down production,” he added.