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OUT OF THE WOODS? After the severe rout, commodities like copper, tin, aluminium, zinc and iron ore have managed to rally as much as 29% so far this year

Why Shankar Sharma Wants to Go the Whole Hog on Commodities

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ETMarkets.com: I would want to bet on commodities, which is really the space to be in for this year rather than non-commodity or non-cyclical businesses," said Shankar Sharma, the maverick managing director of First Global.

The statement came at a time when almost everyone on Dalal Street has been willing to discard the rally seen in the commodity stocks as just a technical bounce. But Shankar Sharma does not like to go with the consensus.

"We do not like to be seen in places where there is too much consensus, because consensus always goes wrong. I believe what has changed, or at least is in the process of changing, is that the big bear market in commodities is nearing an end, if it has not ended already," he said.

P Phani Sekhar, fund manager, PMS, Karvy Stock Broking, begs to differ. For him, commodity-related stocks may hold promise but they are no way a portfolio investment.

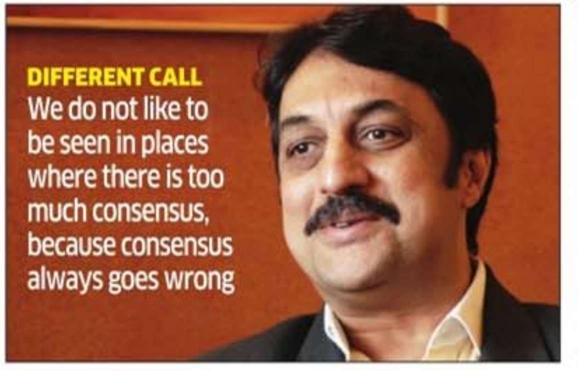
"I do not think you can conclusively say that they have come back. Yes, we have seen a smart bounceback. They might be good for something more. But if you are looking at a three- or five-year typical portfolio investments, then I do not think commodities have reached that point yet," he said.

There is, though, some substance in Shankar Sharma's talk. Brent crude plunged to its 13-year low on January 20, hitting $27.10. Since then it has rebounded 40% to hit the $44 mark.

Commodities like copper, tin, aluminium, zinc and iron ore have managed to rally as much as 29% in the year so far.

During the same period, the BSE Metal index has rebounded 15%. The BSE Oil & Gas index has, too, found its feet with a nearly 7% spurt in March.

Many of the commodity-centric names in India such as Vedanta, Tata Steel and JSW Steel — which had cracked as much as 70% in 2015 — have rebounded smartly. On year-to-date basis, these very names and few others have rallied up to 28%.



Some of that upward move in metal stocks can also be attributed to the imposition of minimum import price on steel imports from China.

"There is a minimum import price, which is helping the steel companies in the short term. But on a longer-term basis, the concerns still linger. Commodity prices are not picking up as expected," said Rahul Dholam, senior equity analyst - metals and mining at Angel Broking.

If one were to take Sharma's words at the face value, it doesn't paint a happy picture for a commodity-consuming country like India.

The steep decline in commodity prices led to a lot of input cost savings for India Inc, which helped them post some profit growth in the past few quarters. If that advantage is taken away, and given the status of the economy in general, things can take a turn for the worse.

Also, with emerging market funds turning bullish on commodity-producing countries on the back of production cuts in China, India could stand to miss out on all those dollar inflows from the west.

"Going forward, we think emerging markets in general will outperform and within that commodity-driven emerging markets such as Russia, Mexico and Brazil are likely to further outperform," said Devina Mehra, global head of research at First Global.