India's robust consumer story makes it attractive in volatile times

By **Stirling Larkin**
Feb 11, 2019 — 9.45am

What global investors want in ambiguous investment times like these is a range of investments that are capital accretive but not dependent on US dollar strength, simply because when the tables turn and developed markets retract, so too will the strength of the dollar.

Global investors traditionally turn to emerging markets opportunities before a predicated downturn to position for capital-accretive opportunities that remain ebullient and are not symmetric with US dollar convertibility.

India is a perennial example of a pre-downturn emerging markets opportunity that deserves reconsideration in a year of foreseeable global markets and geopolitical tumult.

While India is not alone within emerging markets as a US dollar hedge against foreseeable global volatility, it is unique in how it trades internationally and how its sharemarket appreciates domestically. *Supplied.*

Boasting a population of 1.3 billion, most aged under 30, and a GDP forecast by the International Monetary Fund to expand by 7.4 per cent in 2019, India is easily the world's fastest-growing major economy.

With investors betting on a less hawkish Federal Reserve and a weaker US dollar, benchmark EM equity indices have beaten the S&P 500 by 6 per cent since October 3. Against a backdrop of oil prices falling 35 per cent (also since October), net oil importers like India and Turkey have benefited irrespective of the US dollar squeeze.

Gary Sussman of boutique India consultant Knysna Advisory says: "[Prime Minister] Narendra Modi has been an incredibly lucky Indian leader when it comes to oil. His tenure witnessed oil prices collapse from $115 per barrel in June 2014 to $35 in early 2016."

But he adds: "Young Indians need jobs and in the last general election Indian youth wagered on Modi, who vowed to create jobs for them. Unemployment, it appears, is on the rise under Modi's watch."

Political backbone

A key reason to hold Indian risk assets in recent years has been the presence of a strong government willing to incur short-term political pain in return for longer-term economic gain.

In a federal election year to appease this electorate, according to Uday Kotak, founder of India's largest domestic bank, Kotak Mahindra, "three sectors stand to benefit from the 2019 budget — rural, housing and consumer-oriented. The robust Indian consumer story was boosted by the budget and local investors certainly applauded the 2019 budget as the two major indices – the Sensex and Nifty – rallied on a revival led by automakers and agriculture stocks."

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Even though there is increasingly more trade and investment being done outside the US dollar in other currencies, with China internationalising the renminbi and Russia switching more of its foreign reserves into the Chinese currency, it is only India that pays for commodities abroad, such as oil, in local rupees, as was the case in 2018 when purchasing Iranian oil following the embargoes.

Further, two recent events have changed the calculus for investors in India.

First, in late 2018 the ruling BJP took an electoral battering in three heartland states, meaning the result of the general election due in the second quarter this year is no longer a foregone conclusion.

Second, after pressuring the recalcitrant Urjit Patel into quitting as central bank chief, in December the government appointed a less obstinate functionary to do its bidding.

The upshot is that investors can expect looser fiscal and monetary policies as the BJP pulls out the stops to ensure victory.

An interest rate cut is increasingly likely before the election, which will keep up the momentum behind rising bond prices.

As Indian domestic growth accelerates (particularly in the second half of 2019, alongside the US Federal Reserve continuing to hike and Indian domestic food inflation beginning to pick up), the pressure on the Reserve Bank of India, or RBI, to shift back to tightening mode is likely to build, which would rein in rising bonds.

Irrespective of Modi's political fortunes in 2019, as well as any assessment of potential changes with a new government taking office, one thing is unambiguous about India – its capital accretive investment fate is by no means dependent on US dollar strength.

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