# Five reasons why India is hot investment spot among EMs post Fed hike

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NEW DELHI: Janet Yellen's rate move has ushered in some acche din for emerging markets (EMs), and more so for India, feel experts. With the right ingredients such as strong growth, reform push, stable currency, better macros, the India story just gets better, they add.

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Much on expected lines, the US Federal Reserve hiked interest rates by 25 basis points for the first time since late 2008. The dovish stand on further hike was well accepted by other Asian markets, which were trading in green on Thursday.

"The inevitable has happened. The carry trade junkies are trapped and now the cycle has turned in favour of the long-term thoughtful investor and away from the trader. India will continue to be and become the most favoured nation within the emerging markets basket," said Vikas Gupta, Executive Vice President and Chief Investment Officer at ArthVeda Capital.

The hike in US Fed rates nudges all the other discount rates for all asset classes higher. Not only that, it is clear that over next two years there are expectations of a hike of around 100-200 bps, say experts.

Gupta of ArthVeda is of the view that this upward trend in discount rates has to be priced in the markets at a much more accelerated pace since markets anticipate much earlier. There has to be a devaluation of several risky asset classes.

The rate hike could well spell trouble for riskier asset classes, but India could well stand out supported by better macros. The government is confident that India should be able to deal with future rate hikes as well.

"India is not immune to potential general emerging market jitters related to the Fed lift-off, but it is better placed than many of its peers for a number of reasons," said Thomas Rookmaaker, Director, Sovereign Ratings, Fitch Ratings.

The S&P BSE Sensex has plunged over 7 per cent so far in the year 2015, largely weighed down by relentless selling by foreign institutional investors (FIIs) ahead of the Fed event. FIIs have

They have pulled out more than Rs 2,000 crore from the stock markets in the first week of December alone. For the year, FPIs purchased stocks worth Rs 11.22 lakh crore, but sold shares to the tune of Rs 11.07 lakh crore, resulting into net inflows of Rs 15,136 crore (USD 2.8 billion) for 2015.

"While other EMs may see outflows, India will remain an attractive destination for the FIIs. The domestic savings will likely continue to flow in to financial assets (including equities) and that may provide additional support to the markets, we believe (in the form of higher domestic institutional flows)," said Dipen Shah, Senior Vice-President & Head of Private Client Group Research, Kotak Securities.

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"As far as markets are concerned, the major uncertainty has gone by and the focus will now shift to the fundamentals of India, going ahead. While the EM space, as a whole, may look less attractive v/s the US economy, India is likely to stand out," he added.

**We have collated list of five factors which could make India stand out from other EMs:**

**Higher GDP Growth:**

Even though India's second quarter growth failed to impress the Street, analysts are hopeful of a better performance in near future.

"India's favourable economic growth outlook makes India relatively attractive for foreign investors. India's positive economic growth outlook stands out globally," Rookmaaker of Fitch Ratings said in a note.

Fitch forecasts India's real GDP growth to accelerate to 7.5 per cent in the fiscal year ending March 31, 2016 (FY16) and 8.0 per cent in FY17, from 7.3 per cent in FY15. Even the government is confident of hitting 8%-9% mark comfortably in near future.

"India is being seen as a "bright spot" when other major economies have slowed down and this opportunity to realise the full growth potential should be seized," Finance Minister Arun Jaitley said earlier this week.

"It not difficult for India to grow at 8-9 per cent rate. It is not impossible," Jaitley said in the Lok Sabha.

**Lower crude prices:**

India is a net importer of commodities such as crude oil (imports almost 80%) which forms a big component of India's import bill. Oil is now trading at around $35 a barrel, which brings cheer to oil net importers like India, but spells trouble for oil producers.

India is less dependent than several of its peers on commodity exports, and has thus not been negatively affected by the global rout in commodity prices.

According to latest trade data, imports declined over 30 per cent to $29.7 billion from $42.7 billion a year ago, led by low crude oil prices and subdued imports of gold, coal and fertilisers. This helped shrank the trade deficit to $9.7 billion from $16.2 billion.

"For the coming year, we expect India to continue to continue to benefit by low commodity prices (crude), and improve the Government finances further while also keeping inflation in control," said Mihir Vora- Director and Chief Investment Officer, Max Life Insurance.

**India less vulnerable to currency shocks:**

Even with all these positive tailwinds, the Rupee has depreciated around 6% in 2015 against $, although the 36-currency REER has now reached 112.9 (from 109.8 a year ago), reflecting relative INR strength against a basket of currencies.

"Our fixed income strategists think that the Fed has delivered a "neutral hike". In their view, improved investor confidence in risky assets might lead to some near term strength in EM currencies but overall they remain bullish on USD," Citigroup said in a note.

"In this context, we discuss the relative strength and weakness of INR to withstand any major shock from the Fed move. Improved macro fundamentals, positive real interest rates, strong external balance, FX reserve adequacy and low external debt are positives for INR," added the report.

**History suggests upside in offing:**

US Fed raised the interest rate by 25 basis points for the first time nearly in last ten year, as macroeconomic data were showing revival in economic situation.

"If history is something to go by then the long term trend of the Indian market remained intact when US Fed had increased the rate during 2004 and 2006, thus history may repeat itself again," said Rohit Gadia, Founder & CEO, CapitalVia Global Research Ltd. CapitalVia.

"In short term Nifty50 is expected to show a bearish movement, as it would mean ill-liquidity due to pulling out of funds, or reduction in investment ratio by many FIIs. In this case we expect that Nifty50 might breach the support of 7,550," he added.

If Nifty50 sustains below this level, it might show further downside movement up to the levels of 7,200.

Gadia is of the view that for Indian investors this is a great opportunity to enter into the market at the lower levels, it presents a great opportunity to investors to buy some fundamentally strong counters.

**Adequate Forex Reserves:**

From January 2012 onwards, RBI's reserve accretion has been the highest among its peer EM countries in Asia. The import cover has increased to around 11 months from 9 months in Mar 2015, a Citibank report added.

"The ratio of short term debt to FX reserves at 23.7% and ratio of volatile flows to reserves at 91.7% are also much improved. However, the RBI is likely to increase the reserve buffer if the BoP is in substantial surplus," said a Citigroup report.

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