

India is well poised on economic, earnings fronts but will El-Nino play spoilsport?

Synopsis

The last time El Nino hit the world strongly was back to back in 2014 and 2015, with the impact of the second year being stronger. India had 12% lower rains in 2014 which led to almost 5% fall in grain production in 2015 at 252 MT. Interestingly 2013 (F2014) was a record production year for agriculture with the industry producing 265mt, which led to increase in inventory buffer.



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As far as equity markets are concerned, [India](#) has underperformed the [MSCI World Index](#) (up 11%); MSCI EMI (up 5%) and Nasdaq (up 29%) by almost remaining flat and all its outperformance of calendar 2022 has been wiped out. However, we expect India to relatively outperform in 2H2023 largely because

1. The GDP growth increased at the fastest rate amongst its global peers; Up 6.1% YoY in 1Q2023; with [China](#) growing at 4.5% despite significant govt. support and US at 1.3%.

2. The forex reserves of the country have moved close to peak levels of \$ 595 bn and with crude and coal prices having softened, we may see even higher reserves of as much as US\$ 675 bn in the next 12 months.

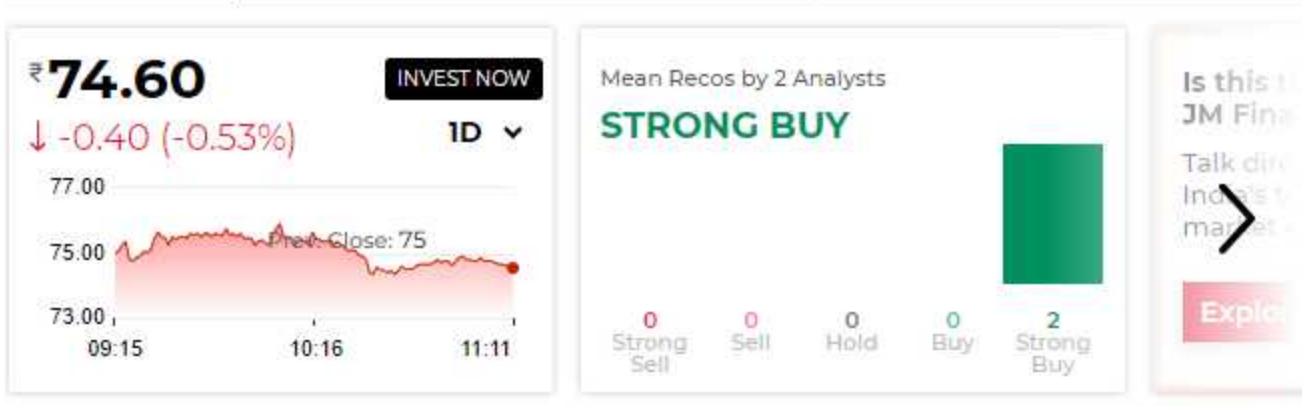
3. India Inc. trajectory of growth is in place, with improving productivity, start of the capex cycle, strong retail demand and sooner than later fall in interest rate environment.

4. Valuations on a 1-year forward basis stands at 20x in line with last five-year average.

Source- Bloomberg, [JM Financial](#)

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There are three key risks which can spoil the party:

- Crude oil prices – Here we are relatively in a sweeter spot than ever before because of India's tie up with Russia which accounts for as much as 40% of India's import.
- Political arena scenario with elections in the next 12 months.
- The looming EL-Nino risk. The Bureau of Meteorology (BOM), Australia has moved El Niño from 'watch' to El Niño 'alert' citing a 70% likelihood of EL-Nino this year.

What is EL-Nino?

EL-Nino is the above-average sea-surface temperatures that periodically develop across the east-central equatorial Pacific. It is accompanied by high air pressure in the western Pacific and low air pressure in the eastern Pacific. It tends to have a wide impact across several countries with “rains slowing down in few countries and higher rains in few”. In Central America, El Niño leads to excessive rainfall along the Caribbean coasts, while the Pacific coasts will remain dry. Rainfall increases on the coasts of Ecuador, the northern part of Peru, and southern zones of Chile. In Ecuador, Peru and Bolivia there could be drought.

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However, in 2015 the world including India witnessed a stronger EL Nino and rainfall was again lower by ~14%, though production was flat. (Source - IMD, Ministry of Finance)

As far as markets are concerned 2014 global markets were largely flat (up only 2%) where India outshined being up 30%, on the back of a strong agricultural growth of 2013 (F2014) amongst other factors. However, in 2015 the world Index fell 4% and India fell even higher at 5%. Most generic agri input providers fell double digit. (Source- Bloomberg)

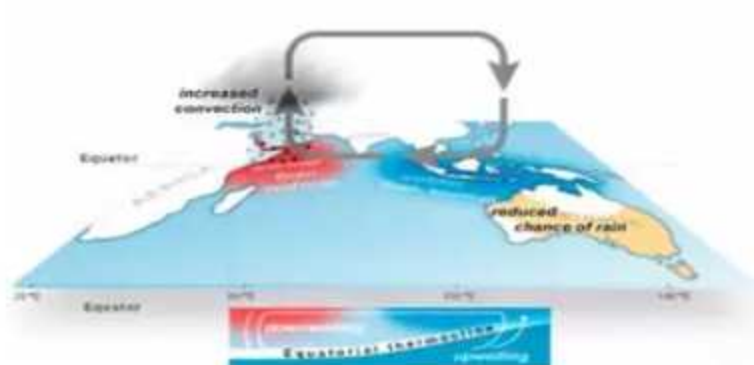
India has 2 advantages this time

The Indian Ocean Dipole Factor [also referred to as Indian Nino- IOD], which is simply a warmer western basin of the Indian Ocean compared to eastern basin, could be more profound this year. So the eastern basin, which is closer to Australia, is relatively cooler in a positive IOD and can partly offset the warm effect of EL No and hence try to pull in a bit more [rain](#) which is the expectation of Indian Meteorological Department as well.

Secondly, India has had two years of record production which now stands at 331 MT. So we believe even if rain were to reduce by ~10% inventory levels should take care of the country for 2023, the issue could aggravate if EL Nino worsens in 2024 and IOD does not play out. (Source- IMD, Ministry of Finance)



Source- NOAA/JPL, JM Financial Research



Source- JM Financial Research

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