

MONEY MATTERS

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CURSE OF FINANCIAL INTEGRATION

They say fall of Wall Street giants will not have a bigger impact on Indian markets. But with a sectorial review things may sound different, says SUNANDA ROY

A humorous Internet one liner says, "Evening news is where they begin with 'Good evening', and then proceed to tell you why it isn't". Well, see any edition of any business news these days and you would get to know how true it is. Moreover, down on its knees the global financial market is providing them more than enough events to further validate the hypothesis mentioned above. Back home in India the domestic stock market too is leaving no stones unturned to help the news channels. But then, blame the modern era of highly integrated financial markets for this, which have ensured a negative impact of the US turmoil on the Indian stock market. Fall of the Wall Street giants, Lehman Brothers, Merrill Lynch and AIG – as if they are exemplifying what the 'Domino effect' is all about – quashed whatever little confidence investors were left with after the mayhem that they witnessed earlier this

year. But the million dollar question is, did it actually impact India enough to draw a prolonged red line on the Dalal Street? Perhaps, that's the priceless answer all investors are looking for at the moment.

So far, the overall reaction is quite soft – nobody has predicted any long term harassment on the Indian capital markets. Going by the words of Sandeep Nayak, Senior VP & Head – PC G dealing, Kotak Securities, "The Indian stock market will suffer from the contagion effect of the global crisis and move in tandem with the American markets for the short term."

But then, how can one forget that the Indian stock market is still a slave to Foreign Institutional Investors (FII). They have always reacted to FII movements, be it when they have pumped in money or when they have sucked out. And currently, the global financial crisis has made them take a flight back from risky emerging assets (equities and commodities) to safe havens like the US treasuries and bullions. Pankaj Pandey, Head of Equity Research, I CICI direct. com avers, "As Indian markets are too FII sensitive, this pullout, as already seen, will continue to suck out liquidity from the Indian stock markets. This year itself, FIIs have pulled out close to \$8 billion from the equity markets and since then the Sensex has corrected by 30%. Hence, one can assess the impact of FII liquidity in the markets." FII pull out will not only keep the downward pressure intact on the bourses, it will also keep them volatile. Chances of

volatility being persistent also increases manifold owing to relatively low volumes, bad market depth and breadth and distress selling by retail investors. It's simply for the fact that absence of foreign money will see the market trade range bound along with some nibbling done by the domestic insurance and asset management companies.

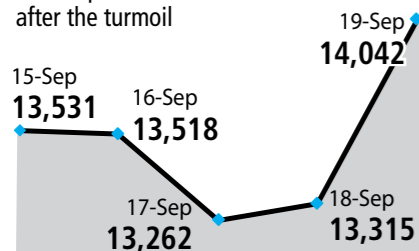
However, the so called 'short-term'



impact is also looking quite heavy on the Indian market as after an unexpected slide on September 24, before the expiry of derivative contracts on September 25, Indian share market turned out to be the second worst performer in Asia. Still, analysts are arguing that the market will not be impacted highly as Indian firms do not have meaningful exposures to sub prime assets. Interesting! Perhaps they are looking deep into various sectors. Analyse the real estate or the banking sector and you will get to know it immediately. True, they are not exposed to sub-prime assets in a direct manner but they are definitely closely related to the

Sad for both Lehman and layman...

Sensex performance after the turmoil



Real estate sector will be hit hard as the investments promised don't seem to materialise in near future

companies who are biting dust under the ongoing crisis.

Sudip Bandyopadhyay, Director & CEO, Reliance Money avers, "The real estate sector will be hit badly since American investment banks in trouble had made commitments for investment to many private players in this sector. And now it doesn't seem to materialise given the present state." In banking too the situation is no different as banks like I CICI Bank (\$80 million), Bank of India (\$30 million including \$20 million in a Lehman Brothers subsidiary) and Bank of Baroda (\$10 million) had some major investment in Lehman Brothers. Now Lehman Brothers' bankruptcy would put some pressure on these banks in terms of additional reserves.

Also the demand slowdown from US financial services companies will dent the top line growth of Indian IT companies. As per Bandyopadhyay, "Few IT and BPO/ K P O companies would get temporarily affected since a significant part of their income is from BFSI segment in US." As another aftereffect we might see is, this credit crunch might put pressure on the big ticket acquisitions. With global meltdown in equity markets, risk appetite would see a huge contraction and there might be a period of lull in the Indian companies' global acquisition spree.

With three of India's sunrise sectors feeling the heat on collapse of Wall Street giants analysts who are still confident that Indian market is insulated enough to escape with little dent may soon need to chew their words. And if that happens investors will have to wait for a longer period before they feel after hearing 'Good evening.'