

RESEARCH
India Strategy | Macro & Micro

No winners in war

SUMMARY
India Strategy: Macro & Micro

- Russia's onslaught on Ukraine has plunged a world only just emerging from Covid-led shocks into renewed uncertainty
- Impact of sanctions on Russia may linger well beyond the war as the West is structurally decoupling from Russian energy
- We expect the stock market to rebound at each step of any future reconciliation despite a wary outlook on the pace of talks

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Daily macro indicators

Indicator	08-Mar	09-Mar	Chg (%)
US 10Y yield (%)	1.85	1.95	11
India 10Y yield (%)	6.9	6.85	(5)
USD/INR	76.91	76.56	0.5
Brent Crude (US\$/bbl)	128	111.1	(13.2)
Dow	32,633	33,286	2.0
Hang Seng	20,766	20,628	(0.7)
Sensex	53,424	54,647	2.3
India FII (US\$ mn)	07-Mar	08-Mar	Chg (\$ mn)
FII-D	(2.1)	(49.7)	(47.6)
FII-E	(1,029.8)	(949.1)	80.7

Source: Bank of Baroda Economics Research

BOBCAPS Research

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 **MACRO & MICRO**

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Uncertainty abounds: Economies globally were just about recovering from pandemic-led shocks. A staggering 6mn people have succumbed to the Covid-19 virus thus far, but cases are now on the decline globally and in India. However, the Russian attack on Ukraine has clouded the global outlook once again. India's stock market is down ~10% since its January peak. Oil will have the most telling impact on India in the event of a full-scale global ban on Russian supply, but we believe the rest of the world can plug this gap over 1-2 years if concerted efforts are made.

Structural decoupling from Russia: The EU, Russia's largest trading partner, has already pledged to reduce two-thirds of its Russian gas imports by Dec'22 and fully phase out all fossil fuel imports from the country before 2030. We expect to see a gradual decline in imports of other commodities as well, leaving Russia to sell to less creditworthy customers. This will also lower Russian leverage over Europe. A part of demand will simply be substituted by renewable energy, leading to permanent demand destruction for fossil fuel well ahead of earlier plans. The US can also use this opportunity to wean Iran and Venezuela away from Russia's influence.

NATO and EU get fresh boost: The attack by Russia has not only reinvigorated NATO after a tenuous period under Donald Trump who demanded a "fair" share of defence spends from Europe, but it has also brought countries in the EU much closer. We expect the EU to now have far more synchronised energy policies.

Impacts on India material near term but manageable over longer term: The spike in oil price is negative for inflation and forex outgo for India, considering oil imports of ~4mbpd, but we believe the economy may not suffer materially in the longer run. Indian refiners and non-ferrous companies may gain near term, but Russia's dominance in metals such as palladium (largest supplier) and nickel (third largest) will likely be adverse for consuming sectors in India such as catalytic converters for automobiles and batteries.

Market likely to rebound on first signs of reconciliation: Valuations are usually forward looking. So, any signs of a possible reconciliation between the warring countries will likely fuel a sharp rebound in the stock market. That said, the war could prove to be a winner's curse for Russia in the form of debilitating and prolonged sanctions.



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Note: Recommendation structure changed with effect from 21 June 2021

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