

‘Be the Bank of Choice for a Transforming India’

FEBRUARY 26, 2019
ISSUE NO:92, FY19

MARKETS LIKELY TO GAIN POST NON MILITARY STRIKES

Indian Air Force today carried out pre-dawn air strikes on terror camps across the Line of Control in the Pakistani side, 12 days after Pulwama terrorist attack in Kashmir. The attacks reflect India's firm determination to weed out terrorism. While the initial response of the financial market has been negative, we believe such attacks are unlikely to have any material impact on the markets.

For example, the Kargil war was fought between India and Pakistan in Kargil during May to July 1999. During the aforesaid period, the leading indices of Indian stock markets showed an initial decline but strong recovery thereafter. The Sensex and Nifty declined by 286 points and 79 points in 3 trading initial days respectively, but recovered strongly thereafter and ended higher by 652 points and 191 points when the conflict ended.

The overall impact of the Kargil war thus was actually market positive. The economy grew at the same pace in 1999-2000 as the year before - a healthy 6.5%.

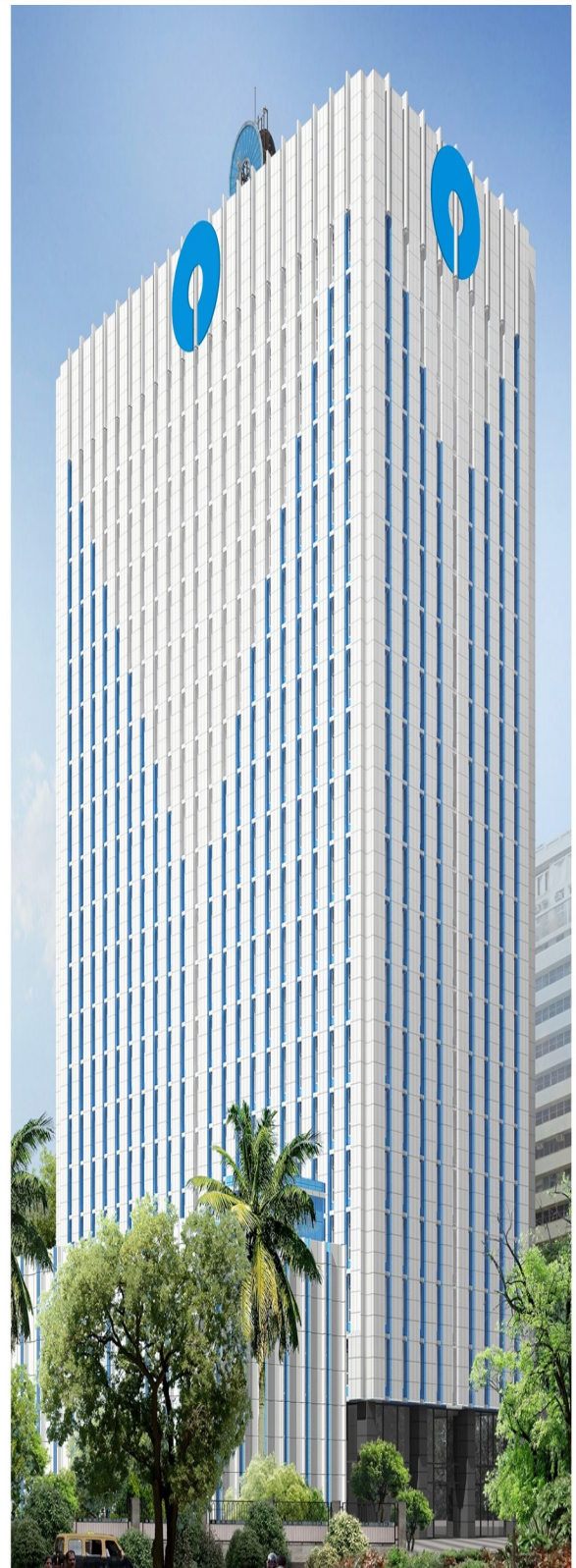
In the similar vein, post the Uri surgical strikes, Indian financial markets gained with the Sensex climbing by more than 100 points and the INR appreciating. From a longer perspective, Indian financial markets, including the stock, currency and even the bond market showed traction. For example, stock markets jumped by 3456 points, while the INR appreciated by 2.4%.

We thus believe that the impact of today's air strikes will have no material impact on the markets as like the Kargil and Uri. For one thing in common, these conflicts are more localized in nature. Also, now that India has clearly reaffirmed that its patience cannot be taken for granted, these strikes in fact act as a positive deterrent for the markets for the decisiveness in India's foreign policy.

Meanwhile, US President's latest tweet on crude oil will have positive impact on oil prices as indicated by past and even data trends. On 20 Sep'18, when President Trump had tweeted that oil prices must go down, oil was hovering at \$80/bbl and in less than 2 months oil declined to \$70/bbl. President Trump again tweeted in Nov'18 and oil prices declined to \$60/bbl. In a span of three months oil prices declined by \$20/bbl.

We now await GDP numbers for Q3. We are firmly of the opinion that with inflation numbers surprising on the downside, RBI will cut rates in April.

Clearly, for India, historical evidence shows that geopolitical risks do not translate into political risks!



ECONOMIC IMPLICATIONS OF AIR STRIKES: HISTORICAL EVIDENCE SHOWS GEO POLITICAL RISKS IN INDIA SELDOM TRANSLATE INTO POLITICAL RISKS

- ◆ Indian Air Force today carried out a pre-dawn air strikes on terror camps across the Line of Control (LOC) in the Pakistani side, 12 days after Pulwama terrorist attack in Kashmir.
- ◆ While the initial response of the financial market has been negative, we believe such attacks are unlikely to have any material impact on the markets. Indian economy is currently on a sound footing with favourable macro numbers. To substantiate our point we analyzed two such past events and their financial impact.

FINANCIAL IMPACT POST KARGIL WAR

- ◆ The Kargil war was fought between India and Pakistan in Kargil, during May to July 1999.
- ◆ During the aforesaid period, the leading indices of Indian stock markets showed an initial decline but recovery thereafter. The Sensex and Nifty had declined by 286 points and 79 points in 3 trading initial days respectively, but recovered thereafter and ended higher by 652 points and 191 points when the conflict ended
- ◆ During the period, Rupee had depreciated by 1.2% against dollar, while there was a minor change of 2 bps in 10-Yr G-secs. It may be noted that India had a fiscal deficit of close to 6% in FY2000. Interestingly, the rupee stayed at the nearly the same level during the rest of the FY2000 indicating that the value of the rupee is more determined by external factors.
- ◆ Overall impact of the Kargil war was actually market positive. The economy grew at the rate of 8% compared to 6.5% growth a year before. (base year: 2004-05)

FINANCIAL IMPACT POST URI SURGICAL STRIKE

- ◆ On 29 Sep 2016, India announced that it conducted "surgical strikes" against militant launch pads across the Line of Control in Pakistani-administered Kashmir, and inflicted significant casualties
- ◆ Post the surgical strike, the leading indices of Indian stock markets showed decline for couple of months but recovered thereafter. The Sensex and Nifty had declined by 1462 points and 491 points respectively in the post 3-months, but recovered thereafter and ended higher by whopping 3456 points and 1198 points respectively in post 1-year. After 1-year, the INR had appreciated by 2.36% against the USD, while 10-Yr G-secs moderated by 20 bps. Overall impact of the Uri surgical strike war was actually positive for the market .
- ◆ We also believe that the impact of today's air strikes will have no material impact on the markets as like the Kargil / Uri conflict. For one thing in common, these conflicts are more localized in nature. Also, now that India has clearly reaffirmed that its patience can't be taken for granted, these will in fact act as a positive for the markets for the decisiveness in India's foreign policy.

| Market Indicators Post URI Surgical Strike | | | | | |
|--|------------|--------------|--------------|-------------|--------------------------|
| | 29-Sep-16 | 29-Oct-16 | 29-Dec-16 | 29-Sep-17 | Change (after 1 year) |
| Indicators | Strike Day | Post 1-month | Post 3-month | Post 1-year | |
| Sensex | 27828 | 27930 | 26366 | 31284 | 3456 |
| Nifty | 8591 | 8626 | 8104 | 9789 | 1198 |
| 10-Yr Gsecs (%) | 6.86 | 6.82 | 6.52 | 6.66 | (-)20 bps |
| Rs/USD | 66.86 | 66.72 | 68.10 | 65.28 | (-)2.36% |
| Source: SBI Research | | | | | |

| Market Indicators during Kargil War | | | |
|-------------------------------------|-----------|-----------|--------|
| Indicators | 26-May-99 | 26-Jul-99 | Change |
| Sensex | 3973 | 4625 | 652 |
| Nifty | 1136 | 1326 | 191 |
| 10-Yr Gsecs (%) | 11.76 | 11.74 | -0.02 |
| Rs/USD | 42.8 | 43.3 | 1.2% |
| Source: SBI Research | | | |

ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of “tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis”.

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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