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'GST, monsoon key triggers for market'

Aggressive rate hikes by the US Federal Reserve could result in a flight of capital from emerging markets like India, says **B GOPKUMAR**, chief executive officer, Reliance Securities. In an interview with **Ashley Coutinho**, he says the push towards digitisation and increasing penetration of mobile banking are likely to boost equity culture in the country. Excerpts:

Q&A

B GOPKUMAR

Chief executive officer, Reliance Securities

What is your market outlook for the next year?

The Nifty has gained more than 15 per cent year-to-date, mainly on hope that the government will remain in power after the 2019 national election and continue with its reforms. The Nifty is trading at about 19 times its projected one-year forward earnings, as against the last nine years' average of 16.8.

At the same time, we understand that low government security yields at 6.45 per cent — a dip from eight per cent levels in January 2015, when the Reserve Bank of India (RBI) started cutting policy rates — has always been good for the equity market. Reduction in interest rates reduces the cost of capital. Our analysis shows that every reduction of 10 per cent in capital cost can result in 8-10 per cent appreciation in equity returns. So, we do not see any steep correction in the near to medium term.

On technical parameters, we expect some sideways movement with profit booking in July 2017. Selling could intensify in case the Nifty breaks 9,400-levels on the downside. Investors can adopt a ratio — put spread strategy at 9,600-9,400 strikes to hedge their portfolios, as markets are near all-time highs.

What are the key triggers for the market?

The goods and services tax's (GST's) impact on the consumer price index and corporate earnings will be factors to watch out for. Apart from GST, progress of the monsoon and the monetary policy (review) in August would be key triggers going forward.

What are the global cues to watch out for?

Oversupply concerns led to a steep decline in the Brent price — down over 20 per cent since January 2017 — despite efforts at a production cut by the Organization of the Petroleum Exporting Countries (Opec). Although unlikely, any meaningful reversal in global crude oil prices could disturb the fiscal deficit target of the government. Apart from this, the US Federal Reserve effecting four 25 basis points rate hikes till 2018 might result in an appreciating dollar and flight of capital from emerging markets such as India.

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