

Twitter Thread by DSP Mutual Fund



DSP Mutual Fund

@dspmf



The July 2021 edition of 'Netra' (our 'Early Warning & Signals' guide through charts) is out now!■

Check out this thread■ for the latest update.

If you want the full document, download it here: <https://t.co/wkwXBkvafQ>



NETRA

Early Warning & Signals Through Charts

July 2021

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Auto & Ancillaries generally outperform Nifty in most upcycles. Can this sector repeat the same? If it does, it will be quite an opportunity!

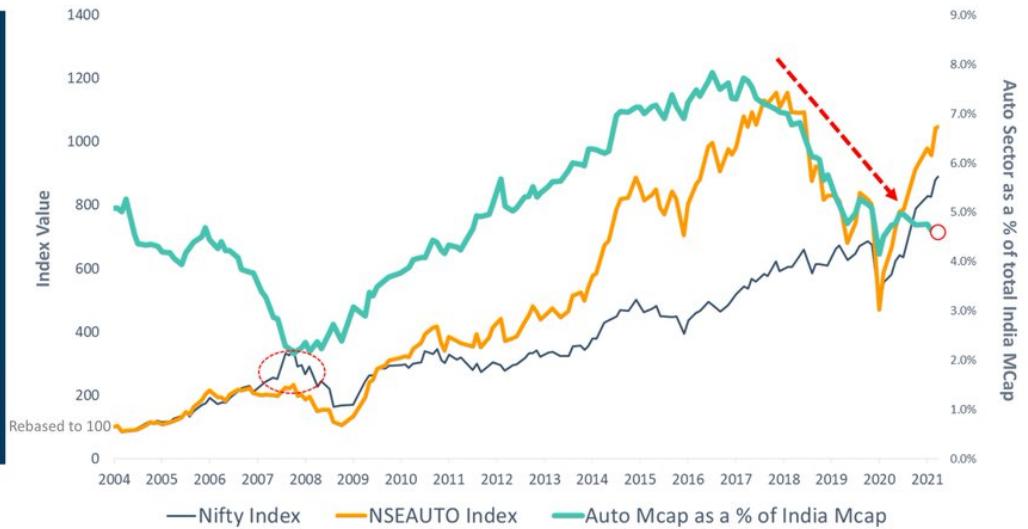
Download full deck: <https://t.co/wkwXBkvafQ>

Auto sector as a % of the broader equity market has been falling for last 5 years.

Auto & ancillary has been an underperformer for 5 years & its market cap share is falling.

Will this trend continue? Can a long bull run in the auto sector (like in 2008-2016) start again? Is it an opportunity or a time to be cautious?

Remember: Reopening, revenge purchases & mobility trends added with the return of discretionary consumption could help the Auto sector score a big win over the next few years!



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Source: Bloomberg. Data till 22 Jun 2021

Higher oil prices may not be all that bad, at least until they aren't 'hurting'.

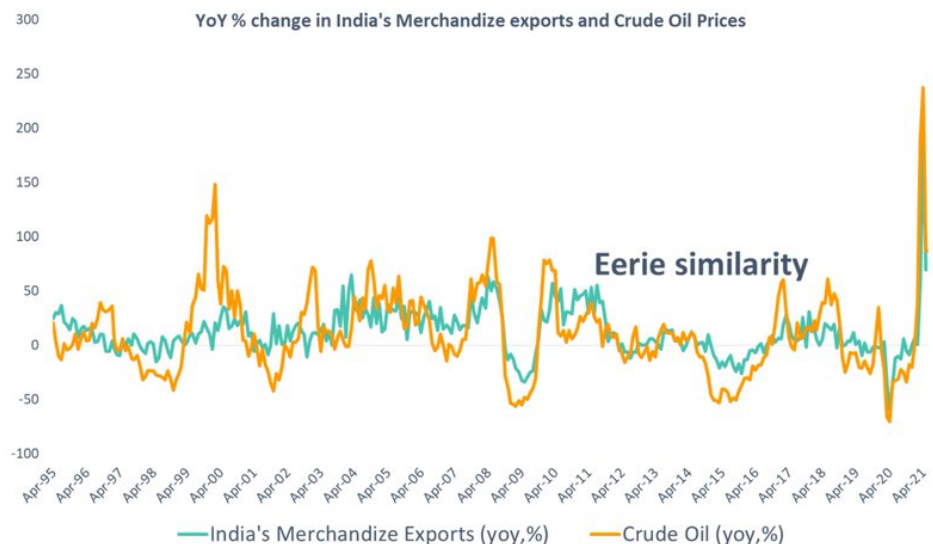
So the next time you see higher prices at the petrol pump, think about higher exports for India as a consolation. ■

Download full deck: <https://t.co/wkwXBkvafQ>

What do we want: Lower oil but higher exports?

The narrative on Oil prices in India is usually static. Higher oil creates a lot of noise about the burden on the consumer. India's fascination for higher exports is also a consistent ask for decades.

The reality is, higher oil prices are consistent with higher exports from India. 'Refined petroleum products' is the highest single-item export for India, as is for more than 2/3rds of the world's nations.



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Source: Bloomberg. Data till 23 Jun 2021

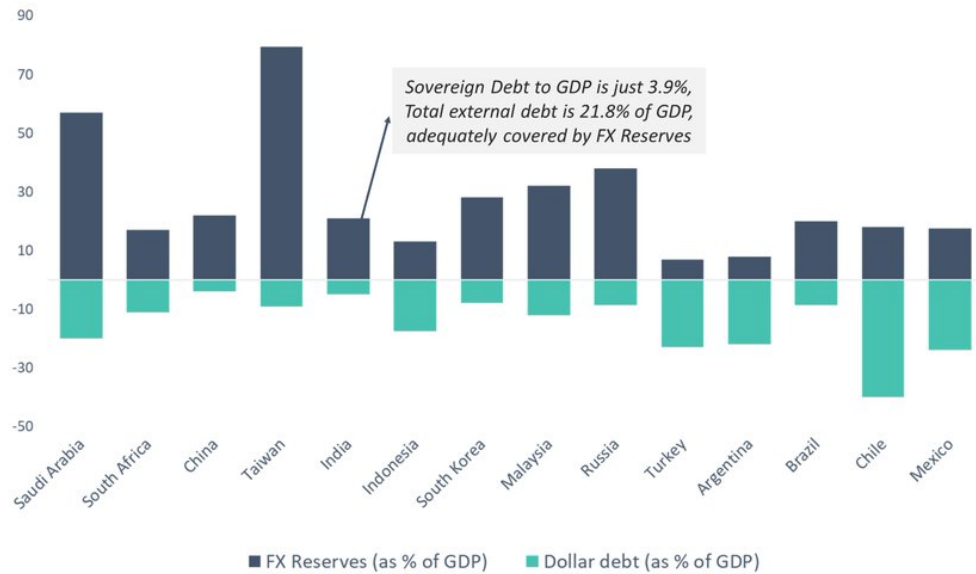
India's FX reserves are higher than its external debt. That makes India better-placed to withstand external vulnerabilities like a 'Taper Tantrum' & makes it a 'Buy the Dip' play on a tantrum.

Download full deck: <https://t.co/wkwXBkvafQ>

Emerging Markets: Some are in a better shape.

Emerging Market debt has been a consistent drag for many nations.

Recently India jumped to the 4th spot with highest FX reserve of \$600bn. India's FX reserve adequately covers its external liability & makes it a net creditor nation.



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Source: BIS Global Liquidity Indicator, IMF Reserve & GDP.

Income-inequality is a sticky & legacy issue in India. Crises causes the weak to become weaker & calls for a policy intervention.

More often than not, the best curve is faster growth, not redistribution!

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Why the Indian economy is hurt but the market isn't?

Only 4% of salaried workers earn more than ₹50,000 a month, as per FY18 periodic labour force survey.

Top 10% of ~3000 listed companies accounted for more than 95% of profits for 9MFY21.

Small firms are under represented on the listed universe both by the way of market cap & profitability, also by social characteristics.

Broader economy needs healing.



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Source: Bloomberg. Data till 28 May 2021

Credit growth has been declining for many quarters. Industrial credit has been contracting.

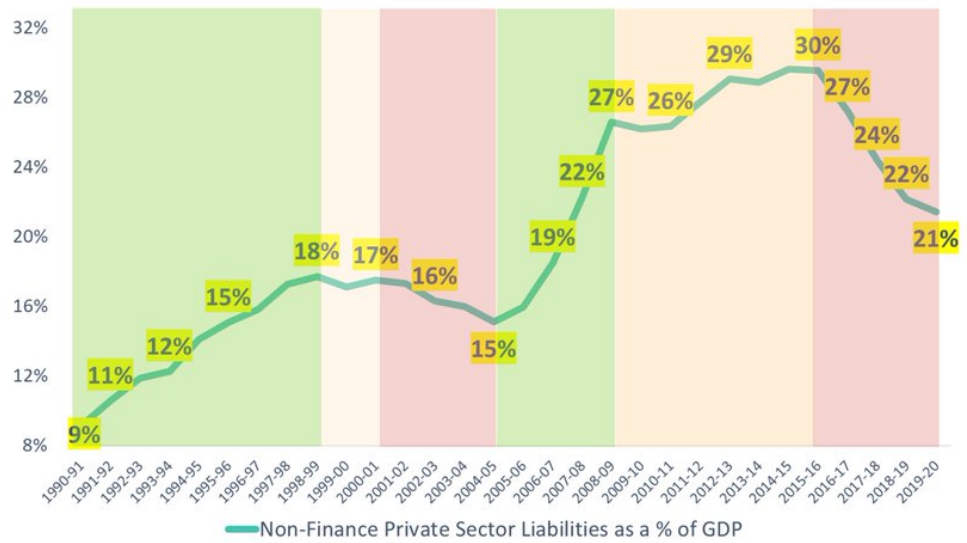
Are we at the cusp of a recovery? If demand recovers, we have a good chance. Financials will benefit immensely from this.

Non-financial private sector: Debt to GDP - Another re-leveraging cycle coming?

India's non-financial private sector has undergone a de-leveraging cycle over the last 5 years.

Balance sheets are healthier than before, interest rates are lowest in decades & a demand recovery is probable in FY22-24.

Are we in for a massive credit led recovery?



Source: Bloomberg. Data till 31 Mar 2020

Inflationists will tell you that bond markets are under the control of central banks. But are they really?

When was the last time the yield on Junk bonds became negative, while inflation & growth were rebounding? Never!

Not just sovereign, but US junk bond real yields have turned negative.

Adjusted for US consumer price inflation, Junk bonds in the US yield negative. That means, you pay from your pocket (adjusted for inflation) for the value of your investments.

Is this the best of times or the most complacent times? Financial conditions are so easy in the US.



Source: Bloomberg, Data as on 31 May 2021

Market-implied measures of inflation are better at indicating inflationary pressures than Central Bank rhetoric or economist consensus readings.

In fact, market participants have missed 3 decades of disinflation in developed markets!

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Inflation? The Market isn't buying that anymore?

Market-implied measures of inflation expectations have peaked & have cooled off. The market measures peaked at levels slightly higher than pre-COVID levels of inflation.

Growth peaking, recovery aging & base effects waning.

Are we amidst the peak of the cycle?



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Source: Bloomberg, Data as on 09 Jun 2021

'Value' & 'Growth' styles have diverged over the last decade and COVID accelerated the trend towards Growth.

This divergence is now at a historic extreme. Buckle up!

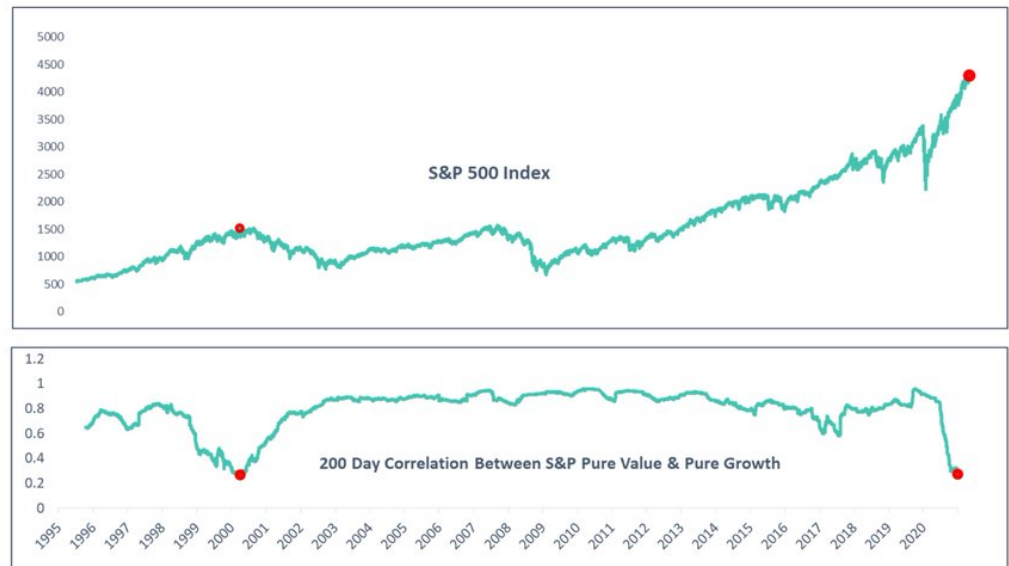
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A trend under threat: Correlation between Growth & Value at an extreme!

The Bi-polarity is hitting extremes!

In the US, the Value and Growth styles are at the most opposite end of the spectrum since 2000.

This is a red flag. ■



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Source: Bloomberg. Data till 28 Jun 2021

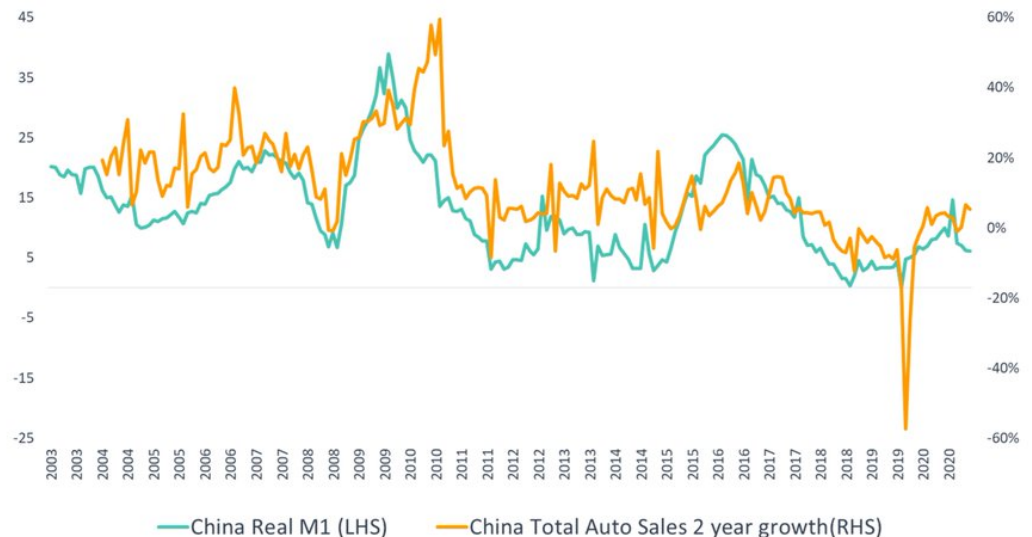
In the wake of the 2008 financial crisis, People Bank of China came out all guns blazing & kept firing for far too long! It is not repeating the same mistake again. This could have negative implications for commodities.

Download full deck: <https://t.co/wkwXBkvafQ>

China: Growth, policy support are slowing

People Bank of China has begun to slow its tightening of policy support somewhat. It is no longer talking about more easing & the money supply M1 peaked in Jan'21.

Its PMIs have slowed & other measures like Auto sales are also slowing down. A soft landing ahead?



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Source: Bloomberg, Data as on 31 May 2021

Shortage of manufacturing labor is a leading driver for 'Robot' demand in China, met by imports from Japan.

Is it an indication of a new era of automation & artificial intelligence, causing unemployment?

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Start of chronic shrinking of migrant worker population in China

Manufacturing labor shortage is the leading driver for ROBOT demand in China, met by imports from Japan.

Is it the indication of a new era of automation & artificial intelligence, causing unemployment?



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Source: China National Bureau of Statistics; Wind; China Chief Economist Forum; Bernstein analysis
Note: The 2025 forecast is made by Caiyi Lin, Deputy Director of the China Chief Economist Forum research institute