

## 'Global markets fatigued by central banks' easy money policies'

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Global risks are looming large over a possible China debt bubble and of course the success of the easy money policies of major central banks in lifting the global economy.

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INDIA

Speaking to *Bloomberg TV India*, Kotak Institutional Equities senior executive director and co-head Sanjeev Prasad says there are signs of fatigue in global markets.

### **We are trying to figure out if markets are going to have a sustained up move from here on, particularly Indian equities. Or are we still going to see a lack of significant near-term cues to make that happen?**

It's a good question in the sense that we are also struggling with the same dynamo. The incremental news flows with the last 2-3 months have been quite positive both for India and globally. Going forward, if you look at India beyond the quarterly results, there is not really much of news for the next few months. A lot of good news — good forecast for a decent monsoon, a reasonable start to the current quarterly season and fair amount of legislative reforms which got done in the Parliament despite all sorts of controversy. So a lot of that is factored in.

If you look at the valuations in the market, it's not cheap at this point of time. On a 17 basis, Nifty is already trading at over 17.3 or 17.4 times. And this is based on still pretty strong earnings growth numbers, which we have for March 2017. So that is a dynamo in the sense you know it looks like the economy is recovering, earnings growth numbers are coming back but a lot of the good news is factored in. Now the one thing which you have to keep an eye on is what is happening globally.

There are two things which worry me a little bit. Some way the markets are becoming a little fatigued by these central banks' action in terms of reducing interest rates — some of them are in negative territory — or these constant bond buyback programmes and the efficacies of these in reviving the economy. A lot of people have started to question that. If economies do not recover, if central banks try and do the same thing, then clearly there is going to be a few issues in the sense that markets will start calling it a bluff. So that's something to keep an eye on.

And the second one is on China. It looks like this economy is growing, but at the cost of a lot of debt expansion. In the last three months, there has some recovery in China but it again seems to be driven by a debt expansion. Some of the numbers, we are hearing, in terms of official credit growth and shadow banking system put together, is going in a range of 20 per cent plus, which I think is a little scary. If anything goes wrong over there, fairly the whole emerging markets

situation is going to be questioned as it happened in January and February. Concerns in China would come back to haunt the markets. So these are the two global factors I would keep an eye on. Other than that, India looks fine actually.

**India is seeing significant changes in the banking sector. Two or three years away, people may be using mobile wallets and there will be a lots of payment banks. RBI is putting banking licence on tap. How do you see the scenario shaping up?**

If you look at the Indian banking system, it is actually fragmented. So we have at least 25 large banks if you add up all the PSU banks and private banks. On top of that, we have NBFC space, which is also quite big. So I don't think India is an oligopolistic market in that sense. Now coming to some of the changes you talked about, one thing is pretty clear, the credit growth will continue to remain strong. Other than that, I am not very sure whether the traditional lending business will be affected in any big way.

(This article was published on May 13, 2016)

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