

Connecting the Dots.....

Hindustan Times Finance Meet

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Presentation by

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Vallum Capital

Agenda

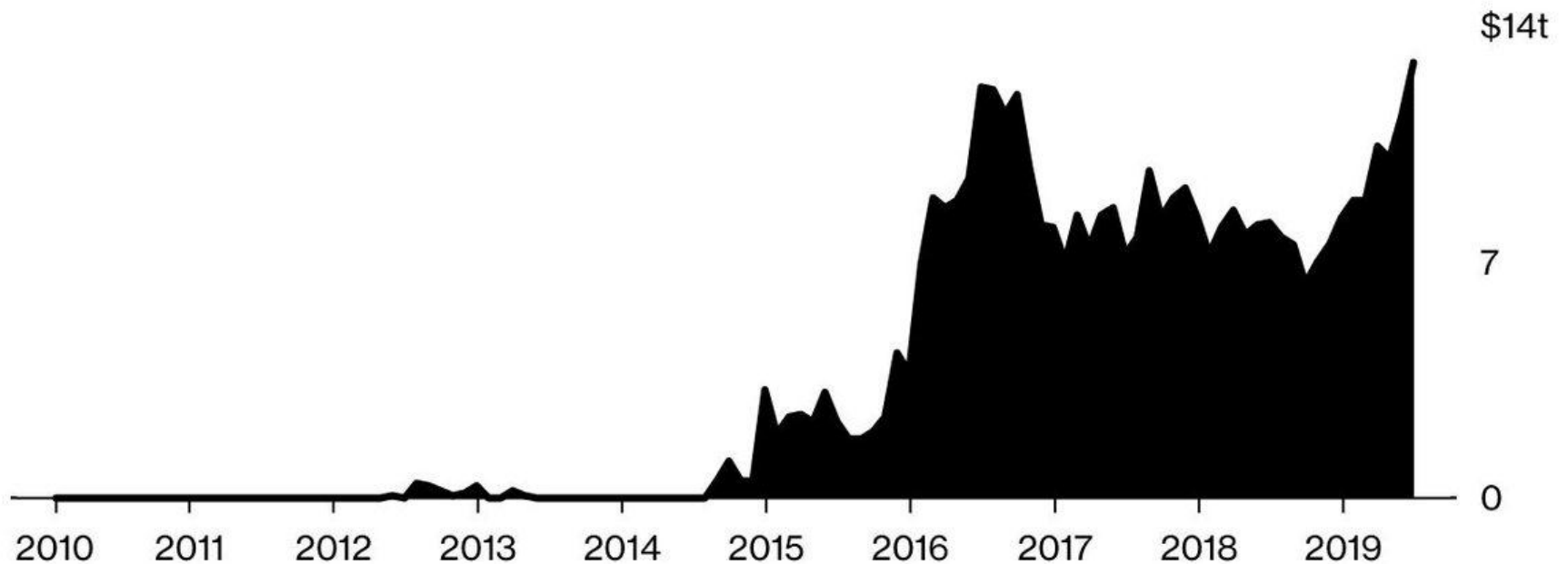
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- Concentration of Global Capital in \$
- US \$ Villain in Making
- Outcomes of US \$ Depreciation
- India Road Ahead

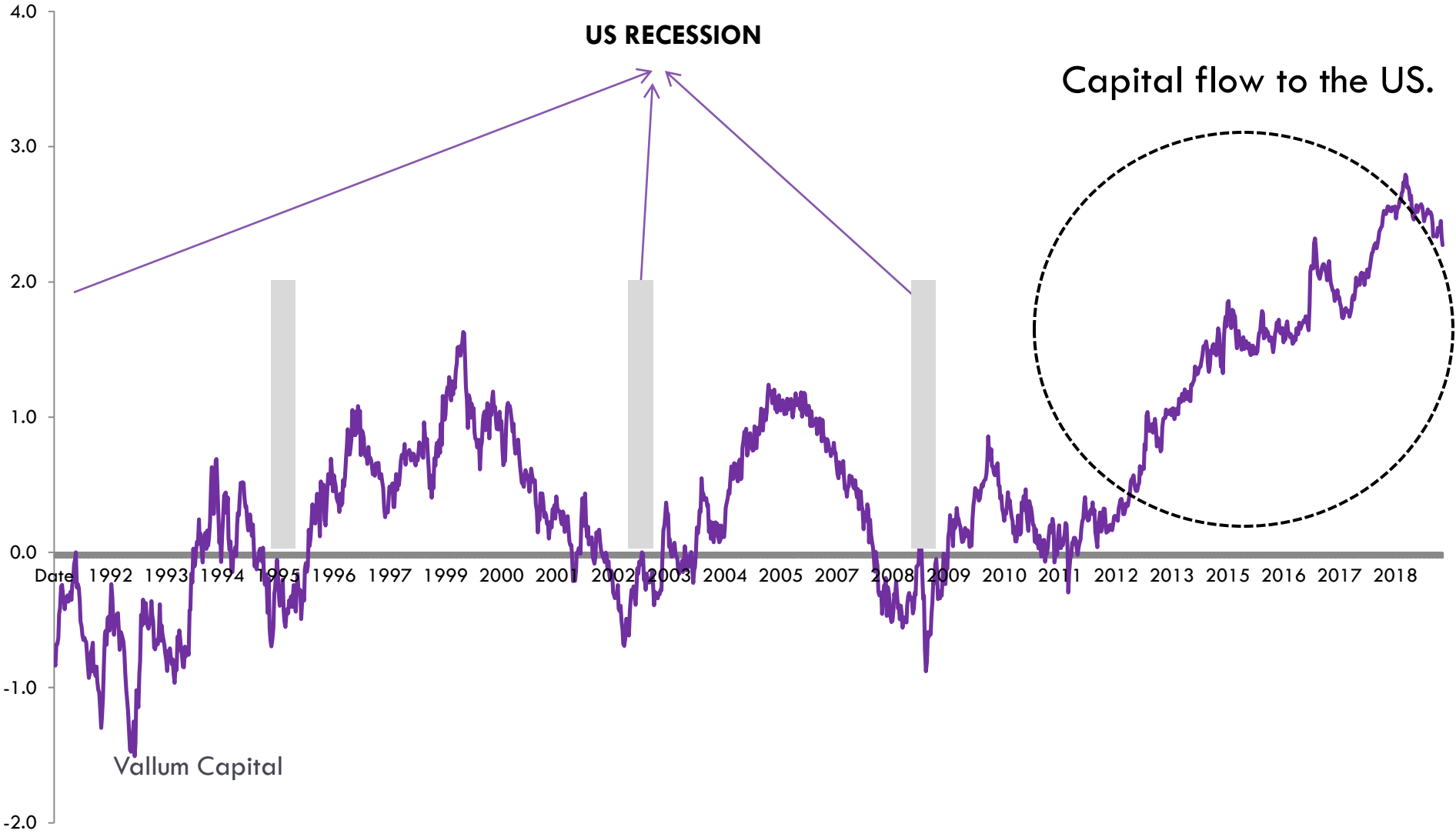
Negative Interest Rate are Infectious

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- \$15 trn out of \$55 trn Debt is negative yield
- This contains 44% of ex US bonds



Positive Difference in the US and German Bond Yield



Impact of Capital Concentration in the US

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Foreigners own

- 35% of \$ 23 trn Stock market
- 36% of US Treasury
- 3% of o/s Housing stock

US has **Negative** NIIP of \$10 trn from \$1 trn in 2008

Weaponisation of US \$

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- Fines on European Banks
- Repeal of Sanctions against IRAN
- Trade War

World is responding to this situation

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- ❑ INSTEX – Initiative by Europe to bypass SWIFT
- ❑ Bilateral Trades/Reg Corp : China/Russia : 18%
- ❑ Belt and Road Initiatives (BRI) tilts Yuan
- ❑ FDI by china down 88% in last two years
- ❑ Key Central Bankers seller of US Treasuries

= Deglobalisation

Outcomes : Once in a generation Event

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- ❑ **Peak of US \$ and start of Depreciation of US Dollar over the next decade**
- + Rise of Gold/Precious Metals
- + Rise of Emerging Markets Currencies/Assets/Inflows
- + Rise of Hard Assets (Oil/Metals/Agri)
- **Global Bond Bubble**

What's Happening in India

Policy measures of FY99-02 set the foundation for a sustained 20-year cycle.

Phase I – Early Cycle

- HH savings pick up
- Govt. borrowings come down
- G-sec yields decline

Ingredients for Capex cycle

Phase II – Mid Cycle

- Corporates add capacity
- It leads to job creation
- Real estate picks up

Capex cycle picks up

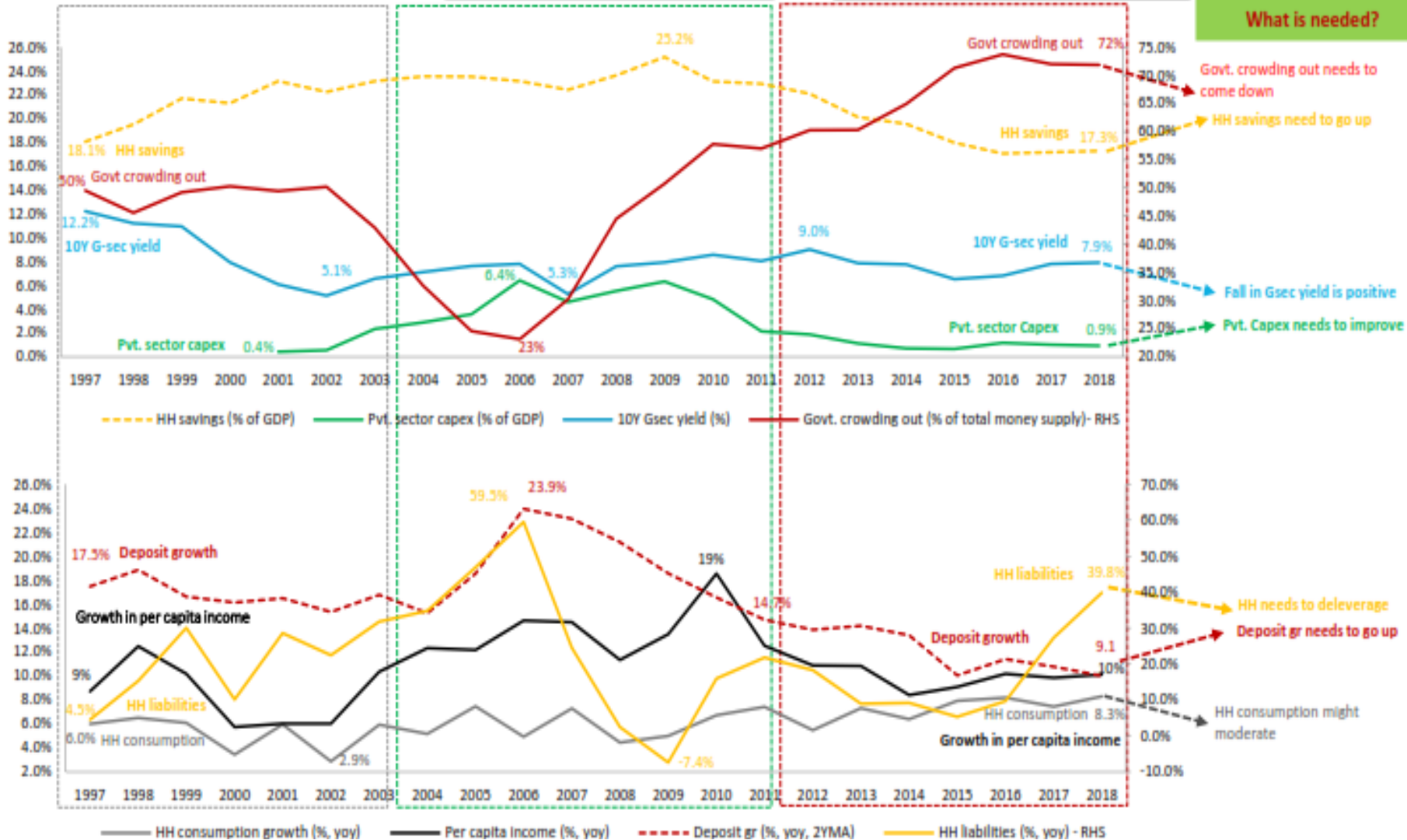
Phase III – Late Cycle

- Consumption picks up
- HH savings come down
- G-sec yields move up

Consumption cycle picks up

Back to Phase I?

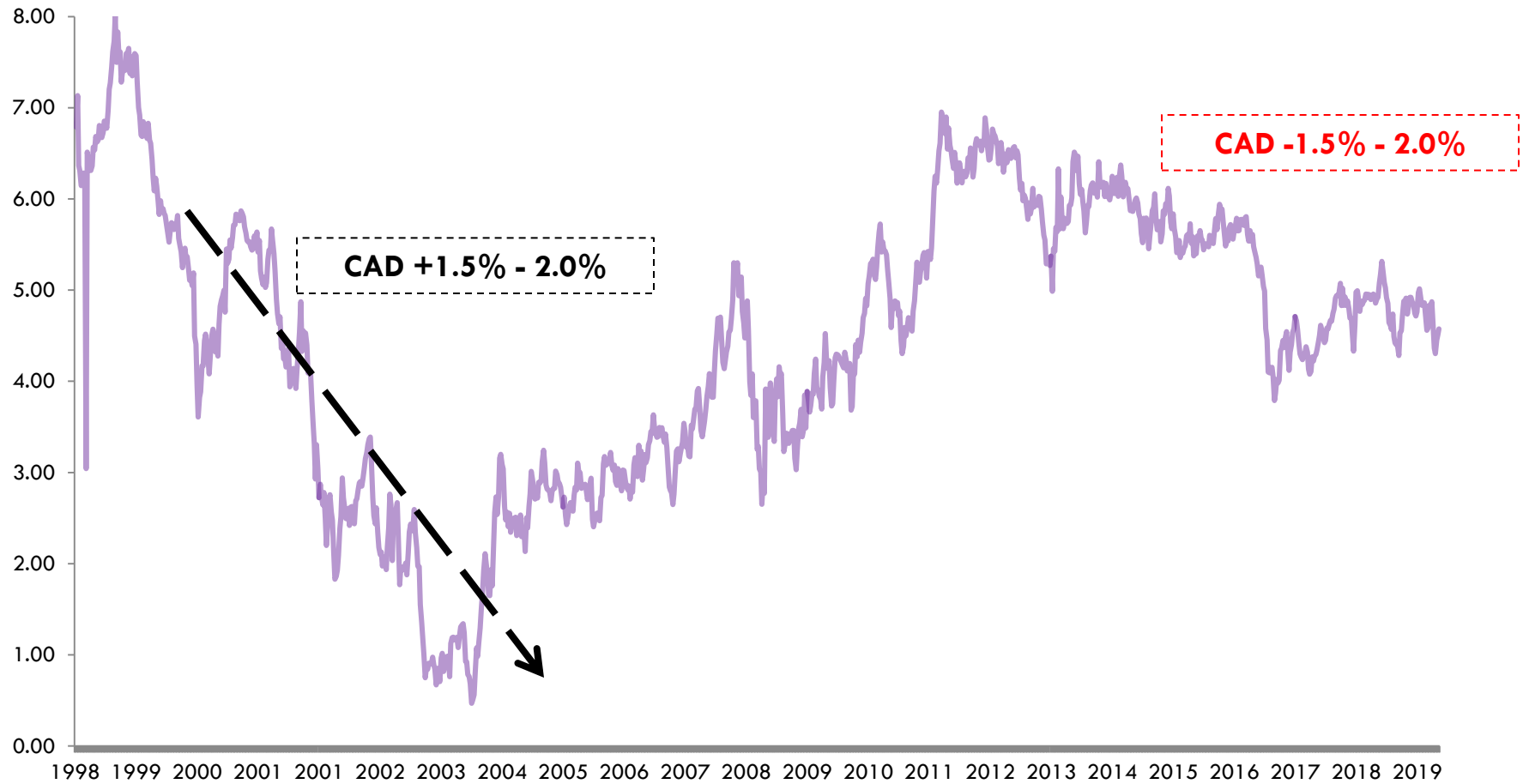
What is needed?



Note: *Govt. crowding out means total borrowings of Govt/quasi Govt + States + UDAY as % of total incremental money supply (M4) in the economy

Spread Between Indian G-Sec - US

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Addressing Factors of Production

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- **Land** : Demonetization | GST | Affordable Housing | Taxing Unsold Inventory
- **Capital** : Sovereign Bonds | ECBs | IBC | Taxation
- **Labour** : Supply side reforms underway | Introduction of NPS etc

Contradictions

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- ❑ Equity cost of capital is at an all time high
- ❑ Taxation remains high
- ❑ Current Account Deficit rests on low Oil prices – future ?
- ❑ Ineffective Transmission of Low Interest Rates
- ❑ Entrepreneurship : Sentiments are at an all time low

VALLUM CAPITAL



The End game of speculation in Indian Real Estate has begun

"We do not care anything for the heaviest storms in these big ships. It is the fog that we fear. The big icebergs that drift into warmer water melt much more rapidly under water than on the surface,"
 -Captain Edward Smith, Commander of Titanic, April 1912
 Age 62, Experience 32 years, Ex commander Majestic, Baltic, Olympic, Adriatic

VALUENOMICS

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The favorable demographics, acute shortage of housing, easy credit condition and high velocity of illicit money in the economy over the last few years has made Real Estate (RE) as one of the most preferred investment in India. A decade of super turbo charged Bull Run has resulted in Real Estate emerging as one of the biggest consensus investment trades in our society. Real Estate has the highest allocation in the household portfolio. This consensus trade is also supported by multitude of other factors like high inflation, negative return in comparison to inflation by Fixed Deposits, chequered performance of equities, and the ease of investing illicit wealth in the Real Estate sector. The crescendo that Real Estate, as an asset class, will generate positive return under any economic condition has grown louder day by day. The discovery of this elixir by Land Baron's has displaced industrialists and even erstwhile Maharajas, in most of the cities of India. Inadvertently, the "soaring property prices" is the key to all the social conversation these days. This unprecedented wealth creation in such a short span of time is baffling and perplexing.

A recent survey by ASSOCHAM has revealed that 82% of Indian youth finds real estate as one of the safest and preferred investments avenue. Today, Indian Real Estate is one of the most expensive pieces of land in comparison to cross country per capita income. The opaqueness in pricing due to fractured approvals, non standardization of products, dispersed buyers and diversion of cash flow as well as loose regulation has devoided these assets, of rationality in pricing. I am bewildered by everyone's growing belief about the infallibility of Real Estate prices in India.

The term "bubble" refers to a situation where excessive future expectations lead to rise in prices. The "amplification mechanisms", whereby, a large increase in asset price is followed by a higher demand, as investors think that further increases in prices will follow. This "super-exponential" acceleration in prices due to a positive feedback (or "pro-cyclical") leads to formation and then maturation of a bubble, which has happened in case of the Real Estate prices in India.

Thank You

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