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Title : Sensex rallies 17% if oil falls 20%

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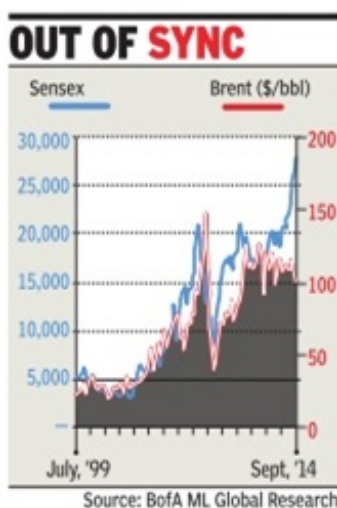
Sensex rallies 17% if oil falls 20%

Crude Slide Has Triggered Rally 8 Out Of 11 Times In Past

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Mumbai: As the crude oil prices fell to a multi-year low, stocks of leading oil marketing companies (OMCs) rallied in Wednesday's market. Combined with the diesel price deregulation last month, investors are now expecting these companies to have lower under recoveries compared to the past few years. Crude prices will also have a positive impact of India's current account deficit, since this is the country's biggest import item and a lower price will help improve the country's fiscal situation, economists said.

Historical data also showed that on an average, Indian benchmark indices rallied about 17% in three months post a 20% or more crash in crude prices.



On Wednesday, Indian Oil rallied 1% to Rs 368 while BPCL closed 2.1% higher at Rs 738 and HPCL rallied 1.9% to close at 546. Upstream oil companies, however, slid in Wednesday's market since the price of crude they pro-

duce and sell is linked to international prices. ONGC closed 0.3% lower at Rs 403 while Oil India lost 1.5% to Rs 623.

In international markets during the day, Brent crude dipped to \$82.3 per barrel, a slide more than 28% from its June high at \$115 while Dubai crude was trading at around the \$79 level again down over 28% from its June top of \$110.

According to Siddhartha Sanyal, chief India economist, Barclays, India's current account deficit goes down by 40-50 basis points for every \$/barrel fall in crude oil prices (100 bps = 1 percentage point). "Given that domestic prices are currently deregulated, this will lead to material help in bringing down inflation and inflation expectations as well," Sanyal said.

Historically too falling

crude prices have had a positive impact on the Indian market. A recent report by Bank of America Merrill Lynch pointed out that India gives positive returns in three months post any sharp correction in crude.

"We have seen Brent correct by more than 20% in three months on 11 occasions since 1991. On 8 of these 11 occasions, markets gave a positive return over the next three months with an average return of nearly 17%," BofA ML report noted. So a 17% rally in the market from the current levels can take the sensex to nearly 33,000 mark by end January. Analysts at the financial major also pointed out that every \$10/barrel fall in the oil price can lead to a fall in the fiscal deficit by roughly 0.1% of GDP.