

On the ground in Uttar Pradesh Who is going to win the Indian Election?

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The Indian General Election is coming up on May 23, 2019. Our base case is that Modi is returned as Prime Minister and the BJP gains a majority of seats, or at least retains power in a coalition with the National Democratic Alliance (NDA). This has been our base case for many months now, but the probability of a favourable outcome for Modi and the BJP has risen in recent weeks in the wake of the skirmish with Pakistan and Modi's assertive handling of the situation.

The table below outlines different scenarios and probabilities.

Outcome	Probability	Comment
BJP/NDA absolute majority	60%	Best outcome for the market. Structural reform continues. Pre-election policy uncertainty removed.
BJP/NDA minority	20%	Decent outcome but makes execution harder for Modi in the second term.
Congress/UPA minority	10%	Negative for market sentiment short term. Concern is that a Congress led government will pander to farmers and twin deficits will re-emerge. Modi's structural reforms will continue to bear fruit.
Congress/UPA majority	<5%	Unlikely. Only listed as a scenario given election surprise in the last few years (Trump, Brexit, Malaysia, Italy, Thailand).
Hung parliament	<5%	No clear winner. Very weak coalitions try to form government. Another election within a year. Uncertainty very negative for the market.

* NDA is the National Democratic Alliance which is the coalition led by the BJP. UPA is the United Progressive Alliance which is the coalition led by Congress (INC).

Last week Deputy Portfolio Manager Fredy Hoh was on the ground in the key swing state of Uttar Pradesh, where he met with politicians from the BJP, Congress and minority parties and also spoke extensively to local residents and business people. Fredy's time on the ground re-enforced our view that Modi will be returned to power and also provided some critical insights into what is going on in Indian politics. These include:

1. The 2014 election was landslide victory for the BJP where the party doubled its number of seats from the previous election. This type of landslide, where a single party won a majority, had not been seen in India for approximately 30 years. Many commentators call the 2014 election the "Presidential election" in India, because it really was all about Modi. The 2019 election is shaping up in the same way.
2. BJP has a clear strategy and vision for India while Congress appears rudderless with very few specific policies or a long term vision. Their campaign is primarily anti-Modi and in the press they consistently play the man (Modi) not the ball (policies). This is a risky strategy because Modi's personal popularity remains relatively high, even in states where Congress gained seats in recent state elections.
3. As seen in recent polls, the India-Pakistan incident a few weeks ago galvanized support for Modi and the BJP. Similarities have been drawn to the Kargil conflict in the late 1990s and the strong win by the NDA in the following election.
4. Rural voters could be a swing factor and/or introduce non-linear outcomes for seat distribution. Ghandi and Congress are contemplating a minimum guaranteed income policy to woo low income rural voters. How they are going to pay for this (estimated to cost INR 3.7 trillion) remains unclear.

Since Prime Minister Modi was elected in 2014 he has made remarkable progress in terms of structural reform. India's GDP growth is among the highest in the world at over 7%, inflation is low, demonetization cracked down on corruption and the GST has been implemented to improve productivity nationwide. The government and the RBI have worked together to clean up the banking sector and the consumption story of the Indian middle class remains strong. No wonder India is one of the best performing markets in the world since 2014.

Global Market Performance since Modi's Election in 2014



Source: Ellerston Asia and Bloomberg.

The Ellerston Asian Investments (EAI) has been overweight India since inception in 2015 and in 2017 we launched the Ellerston India Fund to take advantages of the growth and investment opportunities India has to offer. We can't wait to see what happens on May 23.

Meeting with BJP UP Party President



Meeting with Congress UP Vice President



Vote Modi Campaign Buttons



Rahul and Priyanka Gandhi at Congress HQ



A Voter Contemplates his Choices



Congress Stand in Lucknow



BJP Campaign Train Passing Through a Village



Speaking with Rural Voters



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