

# FIRST LIGHT

## RESEARCH

### BOB Economics Research | Trade

Exports and imports slowing down

### Logistics | Monthly Tracker

Subdued June marks end of tepid Q1FY20

## SUMMARY

### India Economics: Trade

Led by a decline in both exports and imports, India's trade deficit remained steady at US\$ 15.3bn in Jun'19 versus US\$ 15.4bn in May'19. Non-oil-non-gold imports fell sharply to a 35-month low, suggesting a further slowdown in domestic consumption. While some of the decline in exports can be attributed to base effect, exports are unlikely to see much pickup due to worsening global backdrop. Even imports are likely to be muted as oil prices have remained below US\$ 70/bbl. We thus expect CAD to remain steady at 2.1% of GDP in FY20.

[Click here](#) for the full report.

### Logistics: Monthly Tracker

Key trade growth indicators remained soft in Jun'19, led by sluggish industrial activity and weak underlying demand in the economy. Cargo traffic at major ports declined 0.5% YoY while container traffic grew a paltry 0.4% (in tonnes). Container rail appears to have gained market share, but growth has moderated to 3.4% YoY from 7.5% in May'19. Non-oil, non-gold EXIM trade plunged 7% YoY. Most of these industry parameters remained weak in Q1FY20 as well, indicating a muted quarter for logistics companies.

[Click here](#) for the full report.

## TOP PICKS

### LARGE-CAP IDEAS

| Company               | Rating | Target |
|-----------------------|--------|--------|
| <a href="#">Cipla</a> | Buy    | 630    |
| <a href="#">GAIL*</a> | Buy    | 245    |
| <a href="#">ONGC</a>  | Buy    | 230    |
| <a href="#">TCS</a>   | Add    | 2,360  |
| <a href="#">HPCL</a>  | Sell   | 210    |

\*GAIL target price is adjusted for the 1:1 bonus issue

### MID-CAP IDEAS

| Company                             | Rating | Target |
|-------------------------------------|--------|--------|
| <a href="#">Balkrishna Ind</a>      | Buy    | 1,290  |
| <a href="#">Future Supply</a>       | Buy    | 780    |
| <a href="#">Greenply Industries</a> | Buy    | 245    |
| <a href="#">Laurus Labs</a>         | Buy    | 495    |
| <a href="#">PNC Infratech</a>       | Buy    | 235    |

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

| Indicator              | Current | 2D (%)  | 1M (%)   | 12M (%)  |
|------------------------|---------|---------|----------|----------|
| US 10Y yield (%)       | 2.09    | (3bps)  | 1bps     | (77bps)  |
| India 10Y yield (%)    | 6.43    | (5bps)  | (49bps)  | (137bps) |
| USD/INR                | 68.55   | 0.2     | 1.8      | 0        |
| Brent Crude (US\$/bbl) | 66.48   | (0.4)   | 7.2      | (7.5)    |
| Dow                    | 27,359  | 0.1     | 4.9      | 9.2      |
| Shanghai               | 2,942   | 0.4     | 2.1      | 4.6      |
| Sensex                 | 38,897  | 0.4     | (1.4)    | 7.1      |
| India FII (US\$ mn)    | 12 Jul  | MTD     | CYTD     | FYTD     |
| FII-D                  | 95.1    | 1,060.6 | 2,488.8  | 1,944.2  |
| FII-E                  | (105.3) | (742.2) | 10,596.7 | 3,751.5  |

Source: Bank of Baroda Economics Research

## BOBCAPS Research

research@bobcaps.in



## TRADE

16 July 2019

## Exports and imports slowing down

Led by a decline in both exports and imports, India's trade deficit remained steady at US\$ 15.3bn in Jun'19 versus US\$ 15.4bn in May'19. Non-oil-non-gold imports fell sharply to a 35-month low, suggesting a further slowdown in domestic consumption. While some of the decline in exports can be attributed to base effect, exports are unlikely to see much pickup due to worsening global backdrop. Even imports are likely to be muted as oil prices have remained below US\$ 70/bbl. We thus expect CAD to remain steady at 2.1% of GDP in FY20.

Sameer Narang

Aditi Gupta | Sonal Badhan

chief.economist@bankofbaroda.com

### KEY HIGHLIGHTS

- Exports decline by (-) 9.7% in Jun'19 compared with 3.9% in May'19.
- Imports also decline sharply by (-) 9.1% in Jun'19 compared with 4.3% in May'19.
- Trade deficit remained broadly stable at US\$ 15.3bn in Jun'19 versus US\$ 15.4bn in May'19.

**Exports decline sharply:** India's exports fell by (-) 9.7% in Jun'19 versus an increase of 3.9% seen in May'19. This is the sharpest fall since Jan'16 when it fell by (-) 13.2%. The decline is led by (-) 32.8% fall in oil exports. Lower prices and throughput explain this. However, non-oil exports also fell by (-) 5.7% on the back decline in textile exports (-12.6%), agri products (-11.8%) and gems and jewellery exports (-10.7%). During Q1FY20, export growth has been weaker at (-) 1.7% versus 15.3% growth in Q1FY19 and 6.3% in Q4FY19. We are likely to see muted export growth in the near-term on the back of lower realisation of oil exports and dip in volume of non-oil exports as global growth is decelerating.

**Imports also decline:** Imports also declined by (-) 9.1% in Jun'19 versus 4.3% in May'19. Oil imports fell by (-) 13.3% on the back of lower crude prices. Gold imports increased albeit at a slower pace of 13% in Jun'19 versus 37.4% in May'19. Non-oil-non-gold imports also declined steeply by (-) 9%, sharpest decline in 35 months versus (-) 1.3% in May'19. This was led by lower imports of pearls and precious metals (-23.6%), capital goods (-14%) and non-ferrous metals (-12.4%). During Q1FY20, non-oil-non-gold imports have declined by (-) 4.5% versus an increase of 5.8% in Q1FY19. The domestic consumption slowdown implies non-oil-non-gold imports are likely to remain muted.

**CAD at 2.1% of GDP in FY20:** India's trade deficit remained broadly stable at US\$ 15.3bn in Jun'19 as both exports and imports declined. In Q1FY20, trade deficit is stable at US\$ 46bn compared with US\$ 45.2bn last year. Lower oil prices coupled with global and domestic consumption slowdown suggest that imports as well exports are likely to remain muted. We thus expect CAD to remain stable at 2.1% of GDP in FY20. This should support INR at current levels. FII inflows have also remained positive at US\$ 5.7bn in FYTD20. Higher oil prices and global growth slowdown are a key risk to our view.



## Subdued June marks end of tepid Q1FY20

**Key trade growth indicators remained soft in Jun'19, led by sluggish industrial activity and weak underlying demand in the economy. Cargo traffic at major ports declined 0.5% YoY while container traffic grew a paltry 0.4% (in tonnes). Container rail appears to have gained market share, but growth has moderated to 3.4% YoY from 7.5% in May'19. Non-oil, non-gold EXIM trade plunged 7% YoY. Most of these industry parameters remained weak in Q1FY20 as well, indicating a muted quarter for logistics companies.**

Sayan Das Sharma  
 research@bobcaps.in

**Container traffic growth at major ports slows:** After a strong showing in May'19 when container traffic at major ports grew 14% YoY, growth decelerated to a meagre 1% YoY in Jun'19 (in TEU terms). Kandla (+90% YoY from a low base), Kolkata (+6%), and Vizag (+5%) registered growth, whereas Chennai continued to lose market share (-15%). JNPT grew at a tepid 2% YoY, the slowest in a year. Overall cargo volumes at major ports declined marginally by 0.5% YoY in June.

**Container rail volumes remain sedate:** Total container rail volumes grew at a paltry 3.4% YoY in Jun'19. EXIM volumes grew 5% YoY, faster than container traffic growth at major ports (+0.4% YoY in tonnage terms), which indicates possible market share gain for railways in EXIM container trade. Domestic volumes, however, fell 3% YoY. Q1FY20 volumes grew 5.2% YoY; driven by 7% growth in EXIM while domestic dipped 2% YoY. Container Corp (CCRI) reported a volume decline of 0.9% YoY in Q1FY20. Barring a substantial boost to India's EXIM trade, container rail volumes are likely to remain soft in Q2FY20 due to a high base of Q2FY19 (+16% YoY).

**EXIM trade plummets, IIP growth softens:** Merchandise EXIM trade nosedived 9.3% YoY in Jun'19 (US\$ terms) as exports/imports contracted 9.7%/9.1%. Non-oil, non-gold exports/imports tumbled 4.9%/9% YoY. May'19 IIP growth decelerated to 3.1% YoY from 4.3% in Apr'19, with manufacturing output growth slowing to 2.5% YoY (4% in April).

**Tepid quarter on the whole:** Most demand indicators were subdued through Q1FY20 – cargo traffic at major ports grew just 1.5% YoY, container rail volumes increased 5.2%, and non-oil, non-gold EXIM trade growth fell 1%. This points to a likely moderate quarter for our logistics coverage universe.

### KEY RECOMMENDATIONS

| Ticker    | Price | Target | Rating |
|-----------|-------|--------|--------|
| AGLL IN   | 100   | 130    | BUY    |
| CCRI IN   | 552   | 520    | REDUCE |
| FSCS IN   | 594   | 780    | BUY    |
| MAHLOG IN | 457   | 600    | BUY    |
| TCIEXP IN | 623   | 880    | BUY    |
| TRPC IN   | 292   | 365    | BUY    |

Price & Target in Rupees



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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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