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FIRST LIGHT

02 December 2019

RESEARCH

BOB Economics Research | Q2FY20 GDP

Slowdown intensifies as investments slip

Oil & Gas

Expert meeting takeaways

SUMMARY

India Economics: Q2FY20 GDP

India's GDP growth fell to a 26-quarter low at 4.5% in Q2FY20 on the back of deceleration in investment demand to 1%. Consumption improved a tad bit to 5%. GVA growth slipped to 4.3% as industrial activity moderated to 0.5% in Q2 (2.7% in Q1). Services activity was stable as government accelerated its spending to 11.6% in Q2. An investment and industry led slowdown calls for lower interest rates which along with economic measures announced by the government will drive GDP growth to 6.1% in FY21 from 5.1% in FY20.

Click here for the full report.

Oil & Gas

We hosted Kaushik Deb – Research Fellow at KAPSARC (King Abdullah Petroleum Studies and Research Center), Riyadh, for investor meetings in Mumbai. Key excerpts: (1) Light-heavy spreads could remain under pressure. (2) IMO may not fuel GRM surge in immediate future. (3) LNG demand growth could slow. (4) Renegotiation of long-term contracts carries global precedent.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
ONGC	Buy	210
Petronet LNG	Buy	400
Reliance Industries	Buy	1,670
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
PNC Infratech	Buy	245

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.77	0bps	(8bps)	(126bps)
India 10Y yield (%)	6.46	(1bps)	(6bps)	(115bps)
USD/INR	71.62	(0.4)	(1.1)	(2.5)
Brent Crude (US$/bbl)	28,164	0.2	4.0	11.1
Dow	2,890	(0.5)	(3.0)	12.6
Shanghai	41,130	0.3	3.3	13.7
Sensex	63.87	(0.3)	3.7	7.3
India FII (US$ mn)	**27 Nov**	**MTD**	**CYTD**	**FYTD**
FII-D	71.0	(207.9)	4,478.9	3,934.2
FII-E	(147.6)	3,026.7	13,249.5	6,404.3

Source: Bank of Baroda Economics Research

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Q2FY20 GDP

29 November 2019

Slowdown intensifies as investments slip

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GDP growth slips to a 26-quarter low: GDP growth slipped to 4.5% in Q2FY20 compared with 5% in Q1 led by a sharp contraction in investment growth at 1% in Q2FY20 compared with 4% in Q1. Private consumption surprised at 5.1% in Q2FY20 from 3.1% in Q1FY20. Government consumption which inched up to 15.6% in Q2FY20 from 8.8% in Q1FY20 supported growth. Even net exports contributed positively as imports fell by (-) 6.9% in Q2 compared with (-) 0.4% fall in exports.

GVA growth lowest since Q4FY13: GVA growth too decelerated to 4.3% in Q2FY20 (4.9% in Q1). Industrial output increased by only 0.5% in Q2 compared with 2.7% in Q1. All three sub-segments of industry reported a dip led by electricity at 3.6% in Q2 (8.6% in Q1) followed by mining at 0.1% in Q2 (2.7% in Q1). Manufacturing output contracted by (-) 1%. On the other hand, services growth was stable at 6.8%. Within services, private services such as trade, hotels etc. slipped to 4.8% in Q2 compared with 7.1% in Q1. Financial services were stable at 5.8%. Public spending increased to 11.6% from 8.5% in Q1 thus ensuring services growth remained at same level as Q1.

Low growth calls for rate cut: While CPI inflation has increased to 4.6% in Oct'19, the slowdown calls for even lower real rates. Core sector growth has further decelerated to (-) 5.8% in Oct'19 from (-) 5.1% in Sep'19. Given weak global demand and muted credit off-take, we expect a slow U-shaped recovery. The policy prescription calls for lower rates and structural reforms to revive investments. For now, transmission has been ineffective. Surplus liquidity along with effective transmission will over time ensure lower rates in the real economy. Another rate cut will send a signal that growth takes precedence. Lower rates along with measures announced by government will ensure that GDP growth bottoms out at 5.1% in FY20 before it picks up to 6.1% in FY21.

KEY HIGHLIGHTS

- GDP growth falls to a 26-quarter low at 4.5% in Q2FY20 from 5% in Q1FY20.
- GVA growth also dips to 4.3% compared with 4.9% in Q1FY20 led by manufacturing.
- FY20 growth estimated at an 8-year low of 5.1% compared with 6.8% in FY19.

OIL & GAS

29 November 2019

Expert meeting takeaways

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We hosted Kaushik Deb – Research Fellow at KAPSARC (King Abdullah Petroleum Studies and Research Center), Riyadh, for investor meetings in Mumbai. Key excerpts:

Light-heavy spreads could remain under pressure: Refineries across the world are facing shortages in heavy (sour) crude oil supply due to production disruptions in Iran and Venezuela (~3mbpd). On the other hand, more volumes of the light (sweet) crude variant are increasingly becoming available owing to higher tight oil production from the US. This implies that light-heavy crude spreads may remain under pressure. An increase in oil output from Venezuela looks difficult in the near term as political uncertainty has disrupted investments in the sector.

IMO may not fuel GRM surge in immediate future: Most ports globally are likely already compliant with the upcoming IMO 2020 regulations (with some exceptions such as Indonesia and a few African countries). Nevertheless, the expected positive impact of IMO on diesel spreads could be muted in light of the slowdown in global economic growth. Over the long term, LNG is likely to emerge as the preferred fuel for shipping considering its favorable economics versus all liquid fuels, including IMO compliant ones.

LNG demand growth could slow: Over the last two years, gas consumption in China has grown substantially due to government efforts to reduce coal consumption (mostly for power generation) in the country. But China has recently allowed the use of clean coal, albeit with restrictions, for power generation – this could temper growth in LNG consumption.

Renegotiation of long-term contracts carries global precedent: Long-term gas contracts have historically been successfully renegotiated across the world. For instance, RWE – one of the largest power generation companies in Europe – had renegotiated gas prices for the period of 2005-10 with Gazprom, at a time when the latter had lost considerable market share to Norway due to lower regional spot LNG prices. Gazprom had agreed to give discounts at the end of each year (in lieu of lowering long-term prices).

To resolve the pricing differential for India's long-term LNG import contracts (e.g. RasGas, Gorgon), buyers might need to consider using a gas-linked price formula such as Henry Hub, moving away from the current oil-linked formula.

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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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