

FIRST LIGHT

RESEARCH

BOB Economics Research | Wholesale Inflation

WPI slips to 2%

BOB Economics Research | Weekly Wrap

RBI to ease rates

Oil & Gas

Petroleum consumption remains muted in May'19

SUMMARY

India Economics: Wholesale Inflation

WPI inflation eased to 2% in Jun'19 from 2.5% in May'19 led by dip in fuel and power and manufactured inflation. Food inflation was 5% in Jun'19. Pick up in monsoon augurs well for kharif sowing. However, lag in sowing for some crops implies food inflation will remain relatively high. On the other hand, global and domestic slowdown implies inflation will remain moderate. With muted core CPI and lower international commodity prices, RBI has room to reduce rates in Aug'19 as CPI inflation is expected to remain below RBI's target of 4%.

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

India Economics: Weekly Wrap

Whereas China's economy continued to slow down, European industrial production picked and labour conditions strengthened in the US. Fed has indicated a dovish stance in the upcoming policy. Even so US yields went up. Indian 10Y yield fell by 21bps on account of government's adherence to fiscal roadmap and issuance of sovereign bonds in US\$. With CPI inflation continuing below 4%, we expect RBI to reduce rate by 25bps in Aug'19 to spur domestic growth.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	630
GAIL*	Buy	245
ONGC	Buy	230
TCS	Add	2,360
HPCL	Sell	210

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

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,290
Future Supply	Buy	780
Greenply Industries	Buy	245
Laurus Labs	Buy	495
PNC Infratech	Buy	235

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.12	(2bps)	0bps	(72bps)
India 10Y yield (%)	6.49	(1bps)	(53bps)	(129bps)
USD/INR	68.68	(0.4)	1.0	(0.2)
Brent Crude (US\$/bbl)	66.72	0.3	11.3	(10.4)
Dow	27,332	0.9	5.1	9.7
Shanghai	2,931	0.4	0.7	3.3
Sensex	38,736	(0.2)	(2.6)	6.0
India FII (US\$ mn)	11 Jul	MTD	CYTD	FYTD
FII-D	87.9	965.4	2,393.7	1,849.1
FII-E	(25.9)	(636.8)	10,702.0	3,856.8

Source: Bank of Baroda Economics Research

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Oil & Gas

India's total petroleum product consumption remained subdued at 18.6mmt (+1.0% YoY, +4.4% MoM) in May. Petrol consumption growth revived to 11.3% YoY but diesel remained tepid at 3.1% (<5% YoY every month since Feb'19), a clear sign of economic slowdown. LPG consumption growth has slowed significantly to 0.4% YoY (after consistently averaging in double-digits until Mar'19), mostly due to a high base effect. Kerosene offtake continued to decline (-5.3% YoY).

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

WHOLESALE INFLATION

15 July 2019

WPI slips to 2%

WPI inflation eased to 2% in Jun'19 from 2.5% in May'19 led by dip in fuel and power and manufactured inflation. Food inflation was 5% in Jun'19. Pick up in monsoon augurs well for kharif sowing. However, lag in sowing for some crops implies food inflation will remain relatively high. On the other hand, global and domestic slowdown implies inflation will remain moderate. With muted core CPI and lower international commodity prices, RBI has room to reduce rates in Aug'19 as CPI inflation is expected to remain below RBI's target of 4%.

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Food inflation was fairly stable: Food inflation decelerated to 5% in Jun'19 from 5.1% in May'19. However, food grain prices continued to edge up in Jun'19 at 10.2% from 9.6% in May'19 with prices of paddy and pulses rising by 2.9% and 23.1% respectively (2.2% and 18.4% in May'19). Increase in pulses prices is on account of lower sowing. While veggie prices moderated to 24.8% in Jun'19 from 33.2% in May'19, prices of fruits increased by 1.9% from (-) 3.5% in May'19. While monsoon is reviving, the lag in sowing for some crops implies prices will remain high.

Fuel & power prices decline steeply: Fuel and power inflation fell to 33-month low of (-) 2.2% in Jun'19 versus 1% in May'19 led by (-) 16.9% YoY decline in international crude prices in Jun'19. Amongst the sub-indices only coal continued to inch up (0.8% vs 0.5% in May'19). Mineral oil index declined the most at (-) 3.1% vs 3% in May'19. In Jul'19, while oil prices have started to increase marginally, current levels are still far lower than last year. Thus on a YoY basis, (-) 15% dip in oil prices and strengthening INR are likely to keep fuel and power inflation muted in the near term as well.

Core inflation at 31-month low: Both core and manufactured product inflation continued to ease in Jun'19. While core inflation fell to 0.8% in Jun'19 from 1.2% in May'19, manufactured product inflation slipped to 0.9% from 1.3% in May'19. The moderation was led by basic metals, fabricated metal products, electrical equipment and leather and textile products. Only 9 out of 22 items in manufactured products registered an increase as seen in transport equipment, motor vehicles, tobacco and pharma products. International commodity prices too declined by (-) 7.1% in Jun'19 on a YoY basis. In Jul'19 the trend is downward (-) 7%.



WEEKLY WRAP

15 July 2019

RBI to ease rates

Whereas China's economy continued to slow down, European industrial production picked and labour conditions strengthened in the US. Fed has indicated a dovish stance in the upcoming policy. Even so US yields went up. Indian 10Y yield fell by 21bps on account of government's adherence to fiscal roadmap and issuance of sovereign bonds in US\$. With CPI inflation continuing below 4%, we expect RBI to reduce rate by 25bps in Aug'19 to spur domestic growth.

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Markets

- **Bonds:** Barring India and China, global yields closed higher. US 10Y yield rose by 9bps supported by higher inflation print in Jun'19. However, Fed chair indicated dovish stance. Crude prices rose by 3.9% (US\$ 67/bbl) on account of tropical storms in Gulf of Mexico and declining inventories in the US. India's 10Y yield declined the most by 21bps supported by government's fiscal discipline and plan to raise part of domestic borrowing in the overseas market. System liquidity is in surplus of Rs 1.5tn as on 12 Jul 2019 same as last week.
- **Currency:** Apart from INR, other global currencies closed higher as US\$ weakened. DXY fell by (-) 0.5% on the back of expectations of a rate cut by Fed. While AUD rose by 0.6%, GBP and EUR appreciated by 0.4% each. INR depreciated by (-) 0.4% in the week due to rising crude prices (up 3.9%). FII inflows in the week were US\$ 211mn.
- **Equity:** Except Dow, global indices closed the week in red, led by Asian markets. While Dow was supported by Fed Chair's dovish stance, European and Asian markets were hit by China's export data and IMF's call for ECB to support growth. Sensex fell by (-) 2% in the week, led by consumer durables and capital good stocks.
- **Upcoming key events:** Health of global economy will be known with release of US retail sales and industrial production after China's economy slowed down to a 27-year low. Bank of Indonesia will release its policy decision. Germany's ZEW economic sentiment index is also due. On the domestic front, WPI and trade data are scheduled for release this week.



OIL & GAS

15 July 2019

Petroleum consumption remains muted in May'19

Signs of economic slowdown

- India's total petroleum product consumption remained subdued at 18.6mmt (+1.0% YoY, +4.4% MoM) in May.
- Petrol consumption growth revived to 11.3% YoY but diesel remained tepid at 3.1% (<5% YoY every month since Feb'19), a clear sign of economic slowdown.
- LPG consumption growth has slowed significantly to 0.4% YoY (after consistently averaging in double-digits until Mar'19), mostly due to a high base effect. Kerosene offtake continued to decline (-5.3% YoY).
- Petcoke consumption saw a steep drop (-25% YoY), which likely reflects a slowdown in cement production – another key economic indicator. Offtake of lubricants (-5.5%), FO (-4.5% YoY) and bitumen (-8.4% YoY) slipped as well.
- ATF consumption growth has slowed to 2.7% YoY.

Implications

- OMCs' gross marketing margins on petrol and diesel have been trending lower due to the rising oil prices. Coupled with the recent hike in excise duties and volume growth slowdown, the earnings outlook for their marketing business remains cloudy.
- The slowdown in diesel, ATF and other industrial products points towards a sustained economic downturn.
- We prefer IOCL in the energy space considering that it has the lowest exposure to marketing business earnings (<20% of EBITDA).

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KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
IOCL IN	146	205	BUY
BPCL IN	346	285	SELL
HPCL IN	286	210	SELL

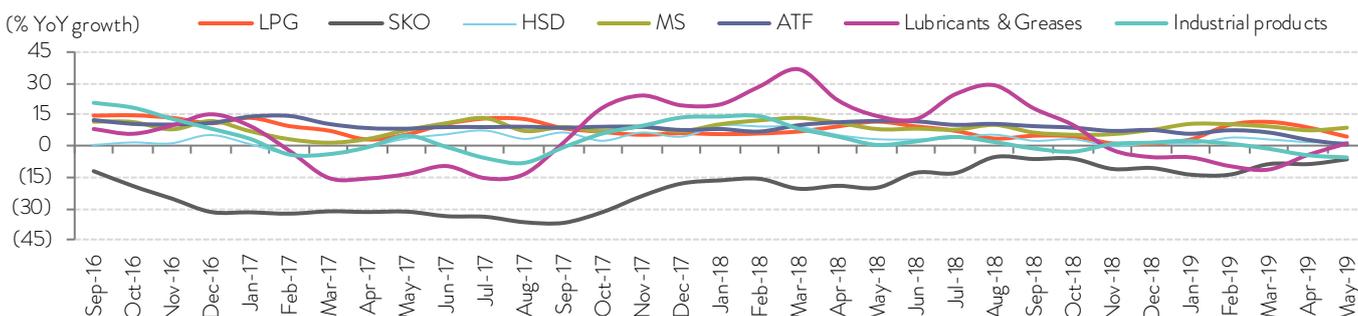
Price & Target in Rupees

PETRO PRODUCT CONSUMPTION

('000 mt)	May'19	YoY (%)	FY19	YoY (%)
LPG	2,058	0.4	24,908	6.7
SKO	268	(5.3)	3,457	(10.1)
HSD	7,781	3.1	83,391	2.9
MS	2,735	11.3	28,285	8.1
Naphtha	1,085	7.7	14,339	11.2
ATF	698	2.7	8,320	9.0
LDO	49	14.4	596	13.8
Lubes & Greases	308	(5.5)	3,959	1.9
FO & LSHS	496	(4.5)	6,512	(3.1)
Bitumen	660	(8.4)	6,747	10.9
Petcoke	1,468	(25.3)	22,086	(13.9)
Others	1,006	21.0	10,189	22.2
Total	18,614	1.0	212,788	3.2

Source: PPAC

FIG 1 – ROLLING QUARTERLY CONSUMPTION GROWTH



Source: PPAC, BOBCAPS Research



Disclaimer

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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