

## RESEARCH

### BOB Economics Research | Wholesale Inflation

Food inflation drives WPI higher

### BOB Economics Research | Weekly Wrap

US-China trade deal lifts sentiments

### Logistics | Monthly Tracker

Container rail volumes tick up in incrementally better month

## SUMMARY

### India Economics: Wholesale Inflation

WPI inflation inched up to 0.6% in Nov'19 from 0.2% in Oct'19 led by food inflation which rose to 9% in Nov'19 (7.6% in Oct'19). Fuel and power index continued to decline, albeit at a slower pace of (-) 7.3% in Nov'19 versus (-) 8.3% in Oct'19. Manufactured product inflation on the other hand remained unchanged (0.8% in Nov'19) while core fell further. High WPI and CPI food inflation implies RBI is unlikely to move on policy rates before Q1FY21 despite economic activity continuing to be below potential.

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

### India Economics: Weekly Wrap

Global economy seems to be in a better shape with exports from Germany and Taiwan improving. US and China agreed on a trade deal (phase-1) and Boris Johnson won the UK election thus paving the way for Brexit. Despite this global yields were mixed as US Fed and ECB maintained rates. India's 10Y yield rose by 12bps as CPI inflation rose to a 40-month high and fiscal concerns remain. INR and Indian equities continue to gain strength, in-line with EM markets and expectations of further measures by the government.

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

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	570
<a href="#">ONGC</a>	Buy	210
<a href="#">Petronet LNG</a>	Buy	400
<a href="#">Reliance Industries</a>	Buy	1,670
<a href="#">TCS</a>	Add	2,230

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,290
<a href="#">Future Supply</a>	Buy	680
<a href="#">Greenply Industries</a>	Buy	210
<a href="#">Laurus Labs</a>	Buy	480
<a href="#">PNC Infratech</a>	Buy	245

Source: BOBCAPS Research

### DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.82	(7bps)	0bps	(107bps)
India 10Y yield (%)	6.79	1bps	27bps	(66bps)
USD/INR	70.81	0	1.8	1.5
Brent Crude (US\$/bbl)	65.22	1.6	5.1	8.2
Dow	28,135	0	1.6	16.7
Shanghai	2,968	1.8	1.8	14.4
Sensex	41,010	1.1	2.2	14.0
India FII (US\$ mn)	12 Dec	MTD	CYTD	FYTD
FII-D	86.1	(146.9)	4,097.9	3,553.3
FII-E	(86.9)	(93.5)	13,278.9	6,433.7

Source: Bank of Baroda Economics Research

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## Logistics: Monthly Tracker

High frequency indicators for the logistics industry remained subdued in Nov'19, but have improved incrementally vis-à-vis the past few months. Container rail volume growth picked up to 7% YoY (vs. 2% in Oct'19) led by higher EXIM volumes (+9%), which bodes well for container rail operators (CCRI and GDPL). Contraction in major port cargo volumes eased to -0.3% YoY vs. -5% in Oct'19. Merchandise EXIM trade also declined at a slightly slower pace (-8.1% YoY vs. -10.6%).

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

## WHOLESALE INFLATION

16 December 2019

### Food inflation drives WPI higher

WPI inflation inched up to 0.6% in Nov'19 from 0.2% in Oct'19 led by food inflation which rose to 9% in Nov'19 (7.6% in Oct'19). Fuel and power index continued to decline, albeit at a slower pace of (-) 7.3% in Nov'19 versus (-) 8.3% in Oct'19. Manufactured product inflation on the other hand remained unchanged (0.8% in Nov'19) while core fell further. High WPI and CPI food inflation implies RBI is unlikely to move on policy rates before Q1FY21 despite economic activity continuing to be below potential.

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**Food prices soars:** WPI food inflation surged to more than 5-year high at 9% in Nov'19 from 7.6% in Oct'19 on the back of uptick in vegetable prices which edged up to 45.3% in Nov'19 from 38.9% in Oct'19. Within vegetables, onion prices accelerate the most at 172.3% in Nov'19 (119.8% in Oct'19) on the back of supply disruptions. In addition, prices of other vegetables such as lady finger rose by 44.7% in Nov'19 from (-) 5.9% in Oct'19. On the other hand, cereal inflation moderated to 7.9% in Nov'19 compared with 8.3% in Oct'19 as price of paddy moderated marginally (4.2% in Nov'19 vs 4.5% in Oct'19). Protein based items continued to inch up at 8.2% in Nov'19 versus 7.6% in Oct'19.

**Fuel inflation still low:** Fuel & power inflation fell by (-) 7.3% in Nov'19 compared with (-) 8.3% in Oct'19. Electricity prices rose by 0.6% vs a decline of (-) 2.1% in Oct'19. Coal prices remained steady in Nov'19 (1.1%). Mineral oil index contracted by (-) 13.2% vs (-) 13.6% in Oct'19 because of 5.2% MoM increase in average international crude prices in Nov'19. In Dec'19 as well, international oil prices remain slightly higher (+1% MTD), indicating build-up of price pressure.

**Deflation in core steepens:** While core inflation dipped further in Nov'19 to (-) 1.9% from (-) 1.6% in Oct'19, manufactured inflation remained unchanged from Oct'19 at (-) 0.8% in Nov'19. Of the 22 commodities, 8 witnessed upward momentum in prices led by motor vehicles, transport equipment and furniture items. Prices of basic metals fell less sharply in Nov'19. On the other hand, prices of paper products, chemicals, rubber and electronic equipment declined steeply. International commodity prices too declined by (-) 6.4% in Nov'19 on a YoY basis. In Dec'19, the YoY trend is again downward at (-) 6.3%.



## WEEKLY WRAP

16 December 2019

**US-China trade deal lifts sentiments**

Global economy seems to be in a better shape with exports from Germany and Taiwan improving. US and China agreed on a trade deal (phase-1) and Boris Johnson won the UK election thus paving the way for Brexit. Despite this global yields were mixed as US Fed and ECB maintained rates. India's 10Y yield rose by 12bps as CPI inflation rose to a 40-month high and fiscal concerns remain. INR and Indian equities continue to gain strength, in-line with EM markets and expectations of further measures by the government.

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**Markets**

- **Bonds:** Global yields closed mixed. US 10Y yield fell by 1bps to 1.82% as US Fed maintained a status quo on rates. Oil prices rose by 1.3% to US\$ 65/bbl on improved demand outlook as US and China agreed on phase-1 of their trade deal. India's 10Y yield rose by 12bps to 6.79% on higher oil prices and re-emergence of fiscal concerns. System liquidity surplus was lower at Rs 2.8tn as on 13 Dec 2019 vs Rs 2.9tn in the previous week.
- **Currency:** Safe-haven JPY (-0.7%) and DXY (-0.5%) fell this week as US and China agreed on a phase-1 trade deal. CNY rose by 0.8%. GBP appreciated by 1.5% after UK PM won a comprehensive majority in UK elections. INR ended the week higher by 0.5% driven by gains in local equity markets.
- **Equity:** Global indices ended the week higher led by positive developments such as Fed's rate decision, US-China trade deal, UK's election mandate and improved exports from Germany. Amongst other indices, Nikkei (2.9%) surged the most, followed by Shanghai Comp (1.9%) and FTSE (1.6%). Sensex (1.4%) too ended in green despite weak macro story (falling non-oil-non-gold imports and higher inflation) on the back of global cues.
- **Upcoming key events:** In the current week, markets await flash manufacturing PMIs of France, Germany, Euro, US, UK and Q3CY19 GDP prints of US, UK and New Zealand. Rate decisions of BoJ, BoE, Taiwan and Hong Kong are also expected. On the domestic front, WPI and MPC minutes will be released.



## Container rail volumes tick up in incrementally better month

High frequency indicators for the logistics industry remained subdued in Nov'19, but have improved incrementally vis-à-vis the past few months.

Container rail volume growth picked up to 7% YoY (vs. 2% in Oct'19) led by higher EXIM volumes (+9%), which bodes well for container rail operators (CCRI and GDPL). Contraction in major port cargo volumes eased to -0.3% YoY vs. -5% in Oct'19. Merchandise EXIM trade also declined at a slightly slower pace (-8.1% YoY vs. -10.6%).

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**Container rail volumes accelerate:** Container rail volumes grew 7% YoY in Nov'19 vs. 2% in Oct'19, aided by a benign base. EXIM volumes rose 9% YoY, the highest since May'19, whereas domestic volumes were flat YoY. Rail container growth outpaced container traffic at major ports (-5% YoY in tonnage terms), indicating market share gains for rail. NTKM growth, however, was lower at 1% YoY (+4%/-5% YoY for EXIM/domestic) as lead distance plunged (-6% YoY).

**Cargo volumes at major ports decline marginally:** Total cargo at major ports decelerated at a slower pace of 0.3% YoY in Nov'19, after a steep drop in Oct'19 (-5%). Kandla (+25% YoY), Vizag (+11%) and Mormugao (+5%) posted the highest growth in cargo volumes. Ennore (-15% YoY), Chennai (-13%) and New Mangalore (-10%) witnessed the steepest drops.

Container traffic at major ports was down 5% YoY in tonnage terms (-0.1% in Oct'19), but increased 8% in TEU terms. JNPT (+18% YoY as per IPA data), and Kolkata (+6% YoY) performed well. Chennai (-19%) continued to report steep volume slippage.

### Core exports resilient, imports sink further; Oct IIP declines again:

Merchandise EXIM trade declined 8% YoY in Nov'19 (US\$ terms). Non-oil, non-gold export growth accelerated to 4.1% YoY (0.6% in Oct'19), but core imports contracted 12% YoY. Oct'19 industrial output declined 3.8% YoY (-4.3% in Sep'19), with manufacturing IIP contracting 2% YoY.

**An incrementally better month:** While most high frequency indicators remain sluggish, Nov'19 has been incrementally better across most parameters versus the past few months. Sustainability of this recovery remains key going ahead. Improvement in container rail volumes augurs well for container rail operators such as Container Corp (CCRI) and Gateway Distriparks (GDPL).

### RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
AGLL IN	94	120	BUY
CCRI IN	573	655	ADD
FSCS IN	502	680	BUY
MAHLOG IN	371	460	BUY
TCIEXP IN	807	855	ADD
TRPC IN	269	365	BUY
VRLIN IN	270	330	BUY

Price & Target in Rupees



## 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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