# FIRST LIGHT

28 September 2022

## RESEARCH

### BOB Economics Research | Monetary Policy Expectations

RBI to hike again

### Oil & Gas

EU Sanctions a plausible upside risk to crude – Breamer

## SUMMARY

### India Economics: Monetary Policy Expectations

In the upcoming credit policy of RBI which is scheduled on 30 Sep 2022, we expect MPC to raise repo rate by another 50bps. We expect rates to increase up till 6-6.25%. We maintain our growth and inflation forecasts. However significant risks to both have emerged. While risks to growth are driven by slowdown in global growth, risks to inflation are more domestic in nature. Deficient/untimely rains is estimated to have impacted output of rice and pulses. While government has announced rice export ban, the final impact on inflation is yet to be seen. Other key developments which will be considered by the RBI will include volatility in the currency and bonds market. To comfort the yields and address the issue of temporary liquidity deficit, RBI may also announce OMO purchase calendar.

Click here **for the full report.**

### Oil & Gas

- Crude price has eased amid the global economic slowdown but implementation of European sanctions poses an upside risk in our view
- We believe gasoil tightness and potentially lower European runs will extend support to refining margin
- Market outlook bullish for dirty tankers tankers as per Breamer; slowdown in crude supply a key risk

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### Daily macro indicators

| Indicator | 23-Sep | 26-Sep | Chg (%) |
|---|---|---|---|
| US 10Y yield (%) | 3.68 | 3.92 | 24bps |
| India 10Y yield (%) | 7.39 | 7.36 | (3bps) |
| USD/INR | 80.99 | 81.63 | (0.8) |
| Brent Crude (US$/bbl) | 86.2 | 84.1 | (2.4) |
| Dow | 29,590 | 29,261 | (1.1) |
| Hang Seng | 17,933 | 17,855 | (0.4) |
| Sensex | 58,099 | 57,145 | (1.6) |
| **India FII (US$ mn)** | **22-Sep** | **23-Sep** | **Chg ($ mn)** |
| FII-D | (57.2) | (29.4) | 27.8 |
| FII-E | (275.9) | (321.3) | (45.4) |

Source: Bank of Baroda Economics Research

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## MONETARY POLICY EXPECTATIONS

27 September 2022

# RBI to hike again

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**In the upcoming credit policy of RBI which is scheduled on 30 Sep 2022, we expect MPC to raise repo rate by another 50bps. We expect rates to increase up till 6-6.25%. We maintain our growth and inflation forecasts. However significant risks to both have emerged. While risks to growth are driven by slowdown in global growth, risks to inflation are more domestic in nature. Deficient/untimely rains is estimated to have impacted output of rice and pulses. While government has announced rice export ban, the final impact on inflation is yet to be seen. Other key developments which will be considered by the RBI will include volatility in the currency and bonds market. To comfort the yields and address the issue of temporary liquidity deficit, RBI may also announce OMO purchase calendar.**

**What has changed since the last policy?:** Since the last policy, RBI will be evaluating changes in oil prices, trends in inflation, monsoon and sowing, movement of high frequency indicators and global developments.

**Oil prices:** At the time of the last policy (5th Aug 2022), international crude oil price was trading at U$ 94.9/bbl, and since then it has come down to US$ 86.2/bbl, thus registering a 9% decline. This decline is despite supply side concerns ranging from lower output from OPEC+, ban on Russian oil imports by G-7 countries, and stalling of Iran nuclear deal. Aggressive rate hikes by major Central Banks to combat inflations has resurfaced fears of global recession, denting oil's demand outlook. In addition, strong US$ is also acting as a drag on dollar denominated oil prices.

**Domestic inflation scenario:** Most recent CPI print shows that retail prices still remain elevated and CPI inched back to 7% from 6.7% in Jul'22. It had remained sticky at 7% even in May-Jun'22. As RBI expects Q2FY23 CPI to be 7.1%, it implies the Central Bank is expecting price pressures to increase in Sep'22. While lower oil and commodity prices remain conducive for both CPI and WPI (fell to 11-month low of 12.4% in Aug'22), food prices remain a cause of worry. Food inflation remains heated at both wholesale (9.9% from9.4% in Jul'22) and retail (7.6% from 6.7%) levels. Apart from higher prices of vegetables, fruits and protein based items, prices of cereals are also adding to the woes. Prices of rice have gone up globally as well. Going ahead, impact of government's supply management (wheat/rice export controls) will be watched closely.

**Monsoon and sowing:** Inflationary pressures have also been aided by trends in monsoon and Kharif sowing. While overall rainfall has been above normal (+7% of LPA) till 26 Sep 2022, there has been deficits in key agricultural states such as UP, Bihar and Jharkhand. Overall sown area of Kharif crops is marginally less than last year. Further, deficient rains have negatively impacted the sown areas of rice (-5.5%) and pulses (-3.9%).

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## OIL & GAS

27 September 2022

# EU Sanctions a plausible upside risk to crude: Breamer

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- **Market outlook bullish for dirty tankers tankers as per Breamer; slowdown in crude supply a key risk**

We attended a discussion on 'Cycles, Conflicts and Carbon' by Anoop Singh, Regional Head of Tanker Research at Breamer ACM Shipbroking (Breamer). Key takeaways:

**Crude demand outlook stronger despite economic slowdown:** Despite the global economic slowdown, IEA's forecast for oil demand growth remains strong at 2mbpd and 2.1mbpd for CY22 and CY23 respectively, supported by higher consumption during winter season (at 700kbpd). China appears to be turning a corner with improvement in retail consumption and infrastructure investment.

**European sanctions a plausible upside risk to crude price:** As key buyers such as China and India have little economic incentive to forego cheaper crude and Russia has better leverage from reduced crude flow and higher prices, the implementation of price caps looks difficult and raises the possibility of tougher EU sanctions from Dec'22. These will prohibit EU insurers from insuring vessels with Russian cargo and pose the risk of a shift in trade to the 'shadow' tanker market. Further, the proposed ban on seaborne imports of Russian crude could open up the risk of losing 1-1.5mbpd of supply, tightening the overall market.

**Refining margin to receive support from gasoil tightness ahead:** Refining margins have softened with a ramp-up of refining runs, ease of demand-pull during shoulder season and the possibility of a material increase in China's export quota in Q4CY22. However, the European diesel market remains tight with the refining system impacted by high natural gas prices and the loss of Russian feed. The tightness could be exacerbated by added sanctions on Russian crude and products as well as the end of US SPR release which reduces the availability of lighter crude.

**Bullish outlook on tanker market:** A long-term chasm between Europe and Russia will make trade inefficient and support the tanker market. After weakness seen over the past two years, dirty tanker utilisation has increased and may reach 2019 levels in 2024. The average haul length for Russian crude exports is likely to more than double once flows are fully redirected. Clean tanker market utilisation has been ramping up well since last year, benefitting LR2s. CII and environmental regulations are not near-term tailwinds in 2023-24 that will impact availability of tankers.

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