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FIRST LIGHT

19 May 2020

RESEARCH

BOB Economics Research | Weekly Wrap

China expands; US, Europe and India yet to see recovery

Market Strategy | Covid-19 Stimulus

Lean fiscal stimulus offers little respite

SUMMARY

India Economics: Weekly Wrap

US yields closed lower due to poor economic data (retail sales, jobless claims, Fed Chair comments). With expanding industrial output, yields in China rose. After announcement of an economic package of Rs 21tn (10.5% of GDP), Indian yields too rose and upward pressure will remain due to large issuances by States. DXY gained due to safe haven demand and equities fell. Oil prices rose as IEA predicts demand to bounce back in H2. India's exports plunged by 60.3%. We see a current account surplus in FY21 which should support INR.

Click here for the full report.

Market Strategy: Covid-19 Stimulus

The Centre's Rs 20tn stimulus package provides impetus to structural reform initiatives that will bear fruit over the long term, but offer little immediate respite. Key measures: (a) liquidity-related – Rs 3.7tn for MSMEs, Rs 3.3tn for farmers/farm-related areas, Rs 0.9tn for discoms, Rs 0.75tn for NBFCs; (b) policy-related – modification of Essential Commodities Act, commercial mining in coal sector, FDI in defence raised to 74%; and (c) fiscal-related – Rs 4tn potential additional borrowings for states, Rs 1.7tn PMGKP spends.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
Eicher Motors	Buy	18,100
GAIL	Buy	140
Petronet LNG	Buy	330

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	145
Laurus Labs	Buy	630
Muthoot Finance	Buy	950
Transport Corp	Buy	255

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.64	2bps	(11bps)	(175bps)
India 10Y yield (%)	6.08	2bps	(42bps)	(128bps)
USD/INR	75.58	0	0.9	(7.6)
Brent Crude (US$/bbl)	32.50	4.4	9.8	(55.0)
Dow	23,685	0.3	(1.1)	(8.1)
Shanghai	2,868	(0.1)	1.5	(0.5)
Sensex	31,098	(0.1)	1.3	(18.0)
India FII (US$ mn)	**14 May**	**MTD**	**CYTD**	**FYTD**
FII-D	(746.5)	(2,190.6)	(13,534.3)	(3,774.8)
FII-E	(314.0)	1,928.0	(4,705.5)	1,897.5

Source: Bank of Baroda Economics Research

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WEEKLY WRAP

18 May 2020

China expands; US, Europe and India yet to see recovery

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Markets

- **Bonds:** Global 10Y yield closed mixed with US yields heading lower on the back of lower than estimated retail sales and comments by Fed Chair on lasting damage of COVID-19 to the economy. Yields in China and India rose. In China, industrial output expanded while in India government upped the stimulus to 10% of GDP. Oil prices rose by 4.9% (US$ 33/bbl) as IEA predicts demand to bounce back in H2. System liquidity surplus was at Rs 5.2tn as on 15 May 2020 compared with Rs 5.4tn in the previous week.

- **Currency:** Global currencies closed lower against the dollar as fears of second wave of COVID-19 infections emerged. DXY edged up by 0.7% on safe-haven demand even as macro data (retail sales, jobless claims) pointed towards a deep contraction in GDP growth in Q2CY20. GBP depreciated the most by 2.4% amidst uncertainty over Brexit deal. INR ended the week flat as government announced a huge fiscal package of Rs 20tn. FII outflows were US$ 2.3bn in the week.

- **Equity:** Led by resurgence in COVID-19 cases and US-China trade dispute, global indices closed lower. Dax (4%) slumped the most, followed by Dow (2.7%). Sensex (1.7%) ended in red as stimulus announcement failed to cheer investors. It was dragged down by banking stocks.

- **Upcoming key events:** In current week, markets await global flash manufacturing PMIs and US FOMC meeting minutes. Apart from this, GDP prints of Japan, Singapore and Thailand and policy decision of Thailand and Indonesia are also scheduled for release. On the domestic front, government reforms will impact markets.

COVID-19 STIMULUS

18 May 2020

Lean fiscal stimulus offers little respite

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Limited fiscal outgo, focus on structural reforms instead: The fiscal spend from the government's Rs 20tn package works out to ~Rs 2.4tn (including ~Rs 1tn from the earlier announced welfare scheme for the poor, PMGKP). The remainder would be based on the proportion of NPAs on loan guarantees for MSMEs and farmers. The package appears to be geared toward long-lasting structural reforms in economic activities that could spur job creation. Most of these liquidity measures will bear fruit once the economic lockdown is lifted.

Slew of key policy changes: (a) In a move that could spur private investments across the agriculture value chain, the Essential Commodities Act has been revised to deregulate foodstuff such as cereals, edible oils and onions. (b) A series of policy changes in mining could significantly boost investments in the sector – these include a composite regime across upstream to downstream mining and removal of captive and non-captive mine distinctions. (c) FDI in defence has been raised from 49% to 74% coupled with a negative list of imports that would be enhanced based on domestic production capacities.

Few sectoral gains as demand-side stimulus missing: Stimulus packages during a crisis are typically skewed towards demand-side measures. While liquidity infusion is always welcome, the need for a demand stimulus is equally critical. But none of the measures in the Rs 20tn package offer an immediate demand push for any industry. We see limited gains for sectors such as metals and mining (Vedanta, Jindal Steel and Power), defence production/infrastructure (Bharat Electronics, L&T), and agriculture (Monsanto, Advanta). Public sector banks – being the obvious source of preferential lending for the government – and NBFCs may continue to struggle. Policy on consolidation of PSUs in strategic sectors (oil & gas, power, defence, etc.) raises cash utilisation concerns for cash rich PSUs in these sectors (Coal India, ONGC, etc.)

STIMULUS BREAKDOWN

Stimulus	(Rs tn)
RBI	**8.01**
Garib Kalyan	**1.92**
Atmanirbhar	
Tranche 1	5.95
Tranche 2	3.10
Tranche 3	1.50
Tranche 4 & 5	0.48
Total Atmanirbhar	**11.03**
Overall (announced by PM)	**20.67**
Off -which fiscal stimulus	**2.43**

Source: RBI, government data

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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