

RESEARCH
BOB Economics Research | Weekly Wrap

RBI decision to guide markets

Automobiles

Jul'20 Auto Sales: Low channel inventory aids wholesale volumes

SUMMARY
India Economics: Weekly Wrap

US yields and US\$ fell in the week after a steep contraction in US GDP, falling consumer confidence and Fed's prediction of weak economic recovery. On the other hand, 10Y yield in China rose as PMI shows economy is recovering from the pandemic. India's manufacturing PMI data for Jul'20 at 46 versus 47.2 in Jun'20 confirmed that economic activity has plateaued. This poses a dilemma for RBI to keep rates on hold as inflation is above its tolerance band or cut to spur growth. We expect 25bps reduction this week.

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

Automobiles

Auto sales improved MoM in July but remained weaker than the year-ago period. Dealer inventory continues to be below-par for most auto OEMs – we thus expect wholesale volumes to trend ahead of retail in the near term as OEMs continue to top up their inventory. Domestic PV industry sales were flattish YoY and 2Ws slumped 4-26% YoY for the month. MHCV volumes continued to be the worst affected, declining 75% YoY for AL. Tractor sales remained resilient and grew at 27%/10 YoY for MM/ESC.

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TOP PICKS
LARGE-CAP IDEAS

| Company | Rating | Target |
|-------------------------------|--------|--------|
| Bajaj Finance | Buy | 4,000 |
| Cipla | Buy | 690 |
| GAIL | Buy | 150 |
| Petronet LNG | Buy | 305 |
| Tech Mahindra | Buy | 780 |

MID-CAP IDEAS

| Company | Rating | Target |
|----------------------------------|--------|--------|
| Alkem Labs | Buy | 2,950 |
| Chola Investment | Buy | 280 |
| Laurus Labs | Buy | 1,200 |
| Transport Corp | Buy | 240 |
| Mahanagar Gas | Sell | 710 |

Source: BOBCAPS Research

DAILY MACRO INDICATORS

| Indicator | Current | 2D (%) | 1M (%) | 12M (%) |
|------------------------|---------|---------|------------|-----------|
| US 10Y yield (%) | 0.53 | (2bps) | (13bps) | (132bps) |
| India 10Y yield (%) | 5.84 | 1bps | (5bps) | (51bps) |
| USD/INR | 74.81 | 0.1 | 0.9 | (7.5) |
| Brent Crude (US\$/bbl) | 43.30 | 0.8 | 5.2 | (30.0) |
| Dow | 26,428 | 0.4 | 2.4 | (0.2) |
| Shanghai | 3,310 | 0.7 | 10.9 | 15.4 |
| Sensex | 37,607 | (0.3) | 7.7 | 1.3 |
| India FII (US\$ mn) | 30 Jul | MTD | CYTD | FYTD |
| FII-D | (94.1) | (328.5) | (14,610.5) | (4,851.0) |
| FII-E | 190.0 | 1,275.7 | (1,165.8) | 5,437.2 |

Source: Bank of Baroda Economics Research

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WEEKLY WRAP

03 August 2020

RBI decision to guide markets

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Markets

- **Bonds:** While 10Y yield rose in China by 11bps, it fell by 6bps in US. Even German yields closed lower. US GDP contracted by 32.9%, consumer confidence fell and durable goods order shrunk. US Fed reiterated that growth will be much lower than pre-COVID levels. Chinese PMI is indicating that economy is again expanding. Oil prices were more or less flat at US\$ 43/bbl. India's 10Y yield rose by 1bps (5.84%). System liquidity surplus was higher at Rs 3.8tn as on 31 Jul 2020 compared with Rs 3tn in the previous week.
- **Currency:** Except INR (flat), other global currencies closed higher against the dollar. DXY fell by 1.1% in the week and is expected to decline further as US economy is likely to take time to recover from the pandemic. EUR on the other hand rose by 1% on the back of EU stimulus and posted its biggest jump in a decade in Jul'20 (5.8%). Equity FII inflows into India continued the upward trajectory at US\$ 180mn in the week.
- **Equity:** Barring Shanghai Comp, other global indices ended lower in the week led by anticipation of weaker than expected recovery due to rising COVID-19 cases. Nikkei (4.6%) declined the most followed by FTSE and Dax. Sensex (1.3%) too snapped its 6- week winning streak and ended in red as the investors shifted focus to RBI's policy meet. It was dragged lower by banking and oil and gas stocks.
- **Upcoming key events:** In current week, markets will await manufacturing and services PMI data of major economies. Apart from this, US jobs report, policy decision of BoE and RBA and China's trade data will be key. On the domestic front, India's PMIs and RBI policy will be released.



AUTOMOBILES

03 August 2020

Jul'20 Auto Sales: Low channel inventory aids wholesale volumes

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PV sales flattish: Domestic sales for Maruti (MSIL) were up 1% YoY to 101.3k units in July while exports fell 27% YoY. The company's mini/UV segments outperformed other categories, rising 49%/27% YoY. PV sales for M&M (MM) and Hyundai Motors declined 35% and 2% YoY respectively, while Tata Motors (TTMT) reported a 43% rise for July.

2Ws decline 4-26% YoY: Hero's (HMCL) wholesale volumes slipped 4% YoY to 515k in July, with motorcycle sales clocking a 2% decline while scooters dropped 22% YoY. 2W sales for Bajaj Auto (BJAUT) declined 26% YoY to 239k, while TVS Motor (TVSL) saw an 8% YoY drop to 244k units with mopeds (+13% YoY) outperforming other segments. 3W sales for TVSL and BJAUT remained weak, falling 35% and 71% respectively. Royal Enfield reported total 2W sales of 40k units (-26% YoY), with exports and the >350cc segment posting sharper declines of 52% and 57% respectively.

CV sales slump continues: Ashok Leyland's (AL) CV sales plunged 56% YoY to 4.8k units. MHCVs were the worst hit, plunging 75% YoY while LCVs were down 27%. Total sales for VECV dropped 46% to 2.2k units in July.

Tractor sales resilient: MM sold 25.4k tractors (+27% YoY) in July. As per the company, the tractor segment faced supply-side challenges during the month due to micro-lockdowns in certain states and Covid-related impact on specific suppliers. Competitor Escorts (ESC) sold 5.3k units (+9% YoY). The company indicated that it faced supply chain challenges which led to just 50% capacity utilisation of plants, resulting in unfulfilled demand.

Positive rural sentiment led by timely and widespread monsoons, higher kharif crop sowing and adequate retail finance are a few factors that bode well for the agriculture sector and should thus aid tractor demand in coming months.



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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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