

## RESEARCH

### BOB Economics Research | Weekly Wrap

US-China tariffs in focus

#### Oil & Gas

Jul'19 natural gas consumption robust

#### Banking

Credit Tracker – July non-food credit growth feeble at 11%

## SUMMARY

### India Economics: Weekly Wrap

Global sovereign yields fell as economic outlook remains weak. China's manufacturing sector contracted fourth month in a row and Germany's GDP contracted. India's growth also slipped to 5%. Against this backdrop, DXY index gained. INR was able to buck the trend as government announced a number of economic measures to improve growth and FDI inflows. Equities ended the week higher after US and China look at negotiating a trade deal. Global markets will be driven by progress on this and macro data this week.

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

#### Oil & Gas

Natural gas consumption in Jul'19 increased 4.8% YoY to 155.1mmscmd, as offtake increased across sectors (with the exception of power) – CGD (30.3mmscmd, +19.6% YoY), other industrials (52.7mmscmd, +5.6% YoY), fertilisers (42mmscmd, +3.7% YoY) and power (30.1mmscmd, -6.6% YoY).

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

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	595
GAIL	Buy	175
ONGC	Buy	175
TCS	Add	2,360
HPCL	Sell	200

### MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,290
Future Supply	Buy	715
Greenply Industries	Buy	195
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

### DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.50	0bps	(35bps)	(136bps)
India 10Y yield (%)	6.56	1bps	(1bps)	(139bps)
USD/INR	71.41	0.5	0.4	(0.6)
Brent Crude (US\$/bbl)	58.66	(2.9)	(5.2)	(24.9)
Dow	26,403	0.2	3.0	1.7
Shanghai	2,924	1.3	2.0	7.5
Sensex	37,333	0.7	1.7	(3.4)
India FII (US\$ mn)	29 Aug	MTD	CYTD	FYTD
FII-D	102.2	1,510.6	4,164.5	3,619.9
FII-E	(87.1)	(2,278.7)	7,126.0	280.8

Source: Bank of Baroda Economics Research

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## Banking

RBI data on sectoral credit deployment indicates that non-food credit growth remained subdued at 11.4% YoY in Jul'19. Retail growth at 17% YoY stayed strong as higher home loans offset ebbing unsecured loan momentum. Lending to the industrial segment, albeit weak, was largely stable at 6% YoY, while growth in agricultural credit declined marginally to 6.8%. After trending down over the past few months, growth in the services sector, revived marginally to 15%.

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## WEEKLY WRAP

03 September 2019

**US-China tariffs in focus**

**Global sovereign yields fell as economic outlook remains weak. China's manufacturing sector contracted fourth month in a row and Germany's GDP contracted. India's growth also slipped to 5%. Against this backdrop, DXY index gained. INR was able to buck the trend as government announced a number of economic measures to improve growth and FDI inflows. Equities ended the week higher after US and China look at negotiating a trade deal. Global markets will be driven by progress on this and macro data this week.**

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**Markets**

- **Bonds:** Global yields closed lower amidst US-China trade talks, political turmoil in Britain and impending fear of recession (inverted US yield curve). US 10Y yield fell by 4bps (1.5%). Major central banks may look at stimulus. Crude prices rose by 1.8% (US\$ 59/bbl) driven by concerns over hurricane Dorian. India's 10Y yield fell by (-) 1bps (6.56%) supported by RBI's higher surplus transfer to government and recent economic measures. System liquidity is in surplus of Rs 1.2tn as on 30 Aug 2019 vs Rs 1tn in the previous week.
- **Currency:** Except INR, other global currencies closed lower against the dollar. DXY edged up by 1.3% in the week as US-China look to restart trade negotiations. GBP depreciated by (-) 0.9% on rising fears of no-deal Brexit. EUR also fell by (-) 1.5% to the lowest since May'17 as growth in the region continues to remain weak. INR snapped its 7-week losing streak to end higher by 0.4% supported by government measures to revive growth.
- **Equity:** Except Nikkei and Shanghai Comp (-0.4%), other global indices closed the week higher as US and China look at restarting talks. Dow surged by 3%, followed by Dax and FTSE at 2.8% and 1.6% respectively. Sensex too gained 1.7% led by capital and consumer durable stocks. In addition, a slew of economic measures announced by government also supported the market.
- **Upcoming key events:** Developments on US-China trade negotiations will remain in focus this week. Apart from this, manufacturing and services PMI of major economies (US, Eurozone, China, India) will also be released. US durable goods orders and jobs data will also be closely watched.



## OIL &amp; GAS

03 September 2019

## Jul'19 natural gas consumption robust

**Gas consumption robust on higher R-LNG demand...:** Natural gas consumption in Jul'19 increased 4.8% YoY to 155.1mmscmd, as offtake increased across sectors (with the exception of power) – CGD (30.3mmscmd, +19.6% YoY), other industrials (52.7mmscmd, +5.6% YoY), fertilisers (42mmscmd, +3.7% YoY) and power (30.1mmscmd, –6.6% YoY).

Price-inelastic sectors such as fertiliser and CGD constitute 47% of total gas consumption. CGD was the biggest swing factor, improving by ~5mmscmd YoY to 30mmscmd (mostly driven by small industrials in Gujarat). Our recent management interactions with Gujarat Gas (GUJGA) and Gujarat State Petronet (GUJS) indicate that these levels may be sustainable over FY20.

**...due to low spot R-LNG prices:** Spot LNG prices remain depressed at ~US\$ 4/mmbtu currently, trending well below long-term LNG contract prices of ~US\$ 8/mmbtu. The availability of new R-LNG capacities at Dahej (from Jun'19) offers more flexibility to LNG buyers for spot imports. The start-up of Mundra (from Sep'19) and restart of Dabhol terminal (post monsoons) could push up LNG volumes in H2FY20 as well.

**Domestic production stays muted:** Gas production increased a mere 0.2% YoY to 87.7mmscmd during Jul'19. Although there was a rise in production from private players/JVs (15mmscmd, +5% YoY) and Oil India (7.6mmscmd, +2.2% YoY), overall output was muted as ONGC saw a decline to 65.3mmscmd (–1.1% YoY).

### GAS CONSUMPTION BREAKDOWN

(mmscmd)	Jul'19	YoY (%)	MoM (%)	Q1FY20	YoY (%)
Fertiliser	42.0	3.7	(0.6)	40.2	(0.8)
Power	30.1	(6.6)	(32.0)	36.7	7.0
CGD	30.3	19.6	14.9	25.8	5.1
Other Industrials:	52.7	5.6	6.9	48.6	(1.3)
Refineries	20.6	4.2	(5.9)	20.8	3.5
Petrochemicals	10.2	2.9	10.8	9.7	8.6
Miscellaneous	21.9	8.1	20.3	18.1	(10.5)
<b>Total</b>	<b>155.1</b>	<b>4.8</b>	<b>(4.4)</b>	<b>151.4</b>	<b>1.8</b>

Source: PPAC, BOBCAPS Research

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### KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
GAIL IN	128	175	BUY
PLNG IN	266	350	BUY
IGL IN	334	425	BUY
MAHGL IN	826	870	ADD
GUJS IN	219	255	BUY
GUJGA IN	176	250	BUY

Price &amp; Target in Rupees

### GAS CONSUMPTION

(mmscmd)	Jul'19	Jul'18	YoY (%)
<b>Fertiliser</b>			
Domestic	16.7	17.0	(1.5)
R-LNG	25.3	23.5	7.5
<b>Total</b>	<b>42.0</b>	<b>40.5</b>	<b>3.7</b>
<b>Power</b>			
Domestic	20.0	24.6	(18.7)
R-LNG	10.1	7.6	32.6
<b>Total</b>	<b>30.1</b>	<b>32.2</b>	<b>(6.6)</b>
<b>CGD</b>			
Domestic	15.9	13.8	14.7
R-LNG	14.4	11.5	25.6
<b>Total</b>	<b>30.3</b>	<b>25.3</b>	<b>19.6</b>
<b>Other Industrials</b>			
Domestic	16.2	12.9	25.8
R-LNG	36.5	37.0	(1.5)
<b>Total</b>	<b>52.7</b>	<b>49.9</b>	<b>5.6</b>
<b>Total Consumption</b>	<b>155.1</b>	<b>148.0</b>	<b>4.8</b>
<b>Total Domestic gas</b>	<b>68.8</b>	<b>68.3</b>	<b>0.7</b>
<b>Total R-LNG</b>	<b>86.3</b>	<b>79.6</b>	<b>8.3</b>

Source: PPAC, BOBCAPS Research



## July non-food credit growth feeble at 11%

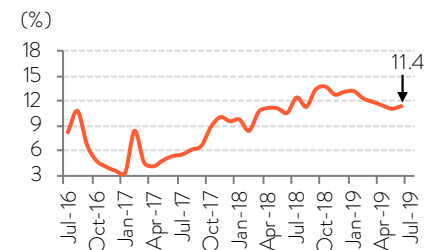
RBI data on sectoral credit deployment indicates that non-food credit growth remained subdued at 11.4% YoY in Jul'19. Retail growth at 17% YoY stayed strong as higher home loans offset ebbing unsecured loan momentum. Lending to the industrial segment, albeit weak, was largely stable at 6% YoY, while growth in agricultural credit declined marginally to 6.8%. After trending down over the past few months, growth in the services sector, revived marginally to 15%.

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**Retail credit strong:** Better growth in home and other personal loans pushed retail credit growth in Jul'19 higher to 17% YoY (vs. 16.6% YoY in Jun'19). Home loans have been a vital driver of retail credit over the past few months, growing 19.2% YoY in Jul'19 vs. 16.5% in Jul'18 and exhibiting steady improvement amid the slowdown in unsecured credit and sharp deceleration in auto loans. Credit card loans shrank >400bps YoY to 26.5%, while loans against shares (-9.3% YoY), education (-1.8%) and consumer durables (-72.5%) all moderated in July.

### NON-FOOD CREDIT GROWTH



Source: RBI, BOBCAPS Research

**Industrial credit growth stable at 6%:** The infrastructure sector that forms ~37% of industrial credit grew 14% YoY in July (vs. 15.2% in June). Chemicals and engineering grew at 6.5% and 7.4% respectively. Within infrastructure, power/telecom/roads/other infrastructure segments grew by 8%/24%/17%/29%. Over the past few months, we have seen a mild uptick in credit growth of large industries (+7.2% YoY), while that of medium/micro & small industries was lacklustre. Metals sector loans, which form ~13% of industrial credit, declined for the 18<sup>th</sup> straight month to 8.6%.

**Services sector perks up:** Credit growth in the services sector, which has been declining since Jan'19, rose to 15.2% in July vs. 13% in Jun'19. This was largely backed by improvement across sectors such as tourism, hotels & restaurants (+10.2%), trade (11%) and commercial real estate (14.8%). On the other hand, agriculture (~13% of credit) grew 6.8% YoY vs. 8.7% in June.

**Expect sub-15% loan growth in FY20:** We do not expect any material improvement in credit growth for FY20. As public sector banks now grapple with the mega consolidation exercise, we believe private banks will be able to step in and augment market share.



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### 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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