FIRST LIGHT

24 March 2023

RESEARCH

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Splitting the petrol pie?

BOB ECONOMICS RESEARCH | GOLD PRICES

The glitter of gold

SUMMARY

INDIA ECONOMICS: FUEL DYNAMICS

Volatility in oil prices raises the question on the redistribution of the revenue to different stakeholders including suppliers, Oil marketing companies (OMCs), Centre and States as prices move in different directions. In simple words, who will bear the burden or enjoy the fruits, in tune with rise/fall in international crude prices. In this short exercise, we have charted out this distribution for certain time periods since Apr'20. The pricing of fuel products in India is still controlled even though the overt subsidy has been phased out. While the consumer has been paying higher prices at most times, after a point there is a tendency to freeze the same. When this happens there is redistribution across the stakeholders.

Click here **for the full report.**

INDIA ECONOMICS: GOLD PRICES

The rupee value of gold touched its record high of Rs 59,233/10gm on 20 Mar 2023 while crossing the Rs 60,000 mark in its intra-day trading. However, some correction was noticed subsequently (eyeing UBS decision to buy Credit Suisse and also Fed policy). In this context, it is interesting to evaluate the factors that have driven gold prices historically. Movement of dollar holds the key. In general, an appreciating dollar puts downward pressure on gold ceteris paribus. In the current context, with dried up liquidity and ongoing banking crisis, DXY is unlikely to trade with an appreciating bias. The Fed has kept its statement cautious indicating that decisions will be data driven. This indeed would push up gold demand with the safe haven factor coming into play. We expect an upside to gold price to persist and touching the US$ 2,000/troy ounce might be likely. All in all, as an asset class, inclination may continue to be towards the 'good old gold'. The shimmer of gold might further pinch the core inflation number going forward.

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Daily macro indicators

Ticker	21-Mar	22-Mar	Chg (%)
US 10Y yield (%)	3.61	3.43	(18bps)
India 10Y yield (%)	7.33	7.33	1bps
USD/INR	82.64	82.67	0.0
Brent Crude (US$/bbl)	75.3	76.7	1.8
Dow	32,561	32,030	(1.6)
Hang Seng	19,259	19,591	1.7
Sensex	58,075	58,215	0.2
India FII (US$ mn)	**17-Mar**	**20-Mar**	**Chg ($ mn)**
FII-D	86.2	26.6	86.2
FII-E	(206.0)	(231.0)	(206.0)

Source: Bank of Baroda Economics Research

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FUEL DYNAMICS

23 March 2023

Splitting the petrol pie?

Volatility in oil prices raises the question on the redistribution of the revenue to different stakeholders including suppliers, Oil marketing companies (OMCs), Centre and States as prices move in different directions. In simple words, who will bear the burden or enjoy the fruits, in tune with rise/fall in international crude prices. In this short exercise, we have charted out this distribution for certain time periods since Apr'20. The pricing of fuel products in India is still controlled even though the overt subsidy has been phased out. While the consumer has been paying higher prices at most times, after a point there is a tendency to freeze the same. When this happens there is redistribution across the stakeholders.

Dipanwita Mazumdar
Economist

The oil suppliers are the exogenous factor which pertains to the price at which it is imported. There is no real control over this price though post Ukraine war, India has negotiated with Russia to buy cheaper oil relative to global prices. The OMCs have had to adjust their returns based on how the retail price gets fixed and the two levels of government view their tax rates.

OMCs' share have fallen in times of rising oil prices, whereas in episodes of falling oil prices, they could recoup some of the losses. This is reflected in their financials as well. However, with oil prices on a downtrend of late, we believe, the base price of OMCs is unlikely to change (seen in earlier episodes as well) as OMCs have to recoup their earlier losses.

Components of Petrol and Diesel price build up:

- To arrive at the retail price of petrol, various components are added. This comprises the base price which is a combination of the exogenously determined supplier's price and the component charged by the OMC. To this is added the freight cost, excise duty of the Centre, the dealer commission and state VAT. For the purpose of this exercise, the price in Delhi has been considered.
- The movement in international oil price of crude and the final consumer price of petrol is reflected in the pass through across components.
- In the Figure below, Apr'20 and Jun'22 have been chosen as these time points demarcated the low and high of international oil price in the chosen time period (Apr'20-till date). It can be seen that with increase in international crude prices from Rs 13.4/lt to Rs 58.8/lt, the base price, or the price charged by OMCs rose to Rs 57.1/lt from Rs 28/lt in the same period.
- Other than the volatility in base price of OMCs, other components especially the centre's tax underwent some degree of change. From Rs 23/lt in Apr'20, the excise duty went down to Rs 19.9/lt, to protect consumers from rising oil prices. States' tax on the other hand went up to Rs 15.7 in Jun'22 from Rs 14.8/lt in Apr'20.

GOLD PRIVES

23 March 2023

The glitter of gold

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How Gold prices fared historically:

We have tracked gold prices since 2006 to see the trend in prices both in Re and US$ terms. It is interesting to note that barring three period especially CY13, CY14 and CY15, gold prices have generally been on an uptrend. Ultra-low US Fed rate (0-0.25%) coupled with stable domestic growth during period in the region of 6.4-7.4% drove investors 'risk on' sentiment.

Notably, years of geopolitical tension and economic crisis had a direct impact on gold prices. For example, post the global financial crisis of CY08, gold prices in Re terms shot up by 31%, whereas in US$ terms it increased by 25%. Also in CY12, post the political turmoil in Egypt, Libya, Yemen, and Bahrain, gold price in Re terms rose by 31% whereas in US$ terms, it increased by 28%. Further post Covid-19 situation, gold prices skyrocketed. In Re terms, the price increased by 33.4% and in US$ terms, the increase was 27%.

In CYTD23 (till 21 Mar'20), again the uptrend is clearly visible. From an average of Rs 50,964/10gm in CY22, the price increased to Rs 56,904/10gm. In dollar terms similar increase is visible as this is the base number that gets converted in rupee terms. Uncertainty with regard to global growth conditions, ongoing banking crisis and its contagion effect, increased the safe haven demand for gold, which is explained in detail in the next section.

The rupee value is based on the dollar price multiplied by prevailing exchange rate plus other miscellaneous charges.

Factors driving gold price:

Demand dynamics: Gold demand firmed up especially the holdings of global central banks increased. Its share in total gold demand rose from 11% in CY21 to 24% in CY22.

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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