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FIRST LIGHT

09 March 2023

RESEARCH

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

Inflation rearing its ugly head again

CONSUMER DURABLES

Consumer appliances yielding higher energy efficiency

METALS & MINING

Aluminium outlook healthy but limited price upside in FY24E

SUMMARY

INDIA ECONOMICS: MONTHLY CHARTBOOK

Globally, prospects of more rate hikes by major central banks have revived fears of impending recession. International commodity prices have come down, while US$ remains strong. Bond yields have risen sharply. Latest remarks by Fed Chair Powell indicate that rate hikes might be more aggressive than earlier anticipated. On the domestic front, high frequency indicators are showing mixed trends. While non-oil-non-gold and electronic imports have moderated, electricity demand and fertilizer sales are showing an uptick. Going ahead, it will be critical to monitor the factors determining monsoon and its impact on food prices. Food prices have been inching up and will remain a key concern for RBI. We expect at least one more rate hike from RBI, before a pause.

Click here **for the full report.**

CONSUMER DURABLES

- India's decadal per capita power consumption grew 3.6% vs. the long-term mean of 6% and ~14% post-liberalisation
- We note a clear correlation between falling per capita power consumption growth and falling energy intensity, even excluding the pandemic period
- Consumer durables accounted for 35% of India's power savings in 2020 spurred by product labelling norms

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Daily macro indicators

Ticker	06-Mar	07-Mar	Chg (%)
US 10Y yield (%)	3.96	3.96	1bps
India 10Y yield (%)	7.40	7.41	1bps
USD/INR	81.97	81.92	0.1
Brent Crude (US$/bbl)	86.2	83.3	(3.4)
Dow	33,431	32,856	(1.7)
Hang Seng	20,603	20,534	(0.3)
Sensex	59,809	60,224	0.7
India FII (US$ mn)	**02-Mar**	**03-Mar**	**Chg ($ mn)**
FII-D	33.0	(122.4)	(155.3)
FII-E	1,543.3	28.8	(1,514.5)

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

METALS & MINING

- Aluminium prices to remain in a tight range of US$ 2,300-2,500/t in H1CY23, as per our global channel checks
- Prices likely to stay range-bound through H2 as well despite the return of demand, as markets regain balance
- Long-term aluminium price outlook soft given potentially lower needs of new primary smelters in China

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Inflation rearing its ugly head again

Globally, prospects of more rate hikes by major central banks have revived fears of impending recession. International commodity prices have come down, while US$ remains strong. Bond yields have risen sharply. Latest remarks by Fed Chair Powell indicate that rate hikes might be more aggressive than earlier anticipated. On the domestic front, high frequency indicators are showing mixed trends. While non-oil-non-gold and electronic imports have moderated, electricity demand and fertilizer sales are showing an uptick. Going ahead, it will be critical to monitor the factors determining monsoon and its impact on food prices. Food prices have been inching up and will remain a key concern for RBI. We expect at least one more rate hike from RBI, before a pause.

Uneven tracks: India's GDP growth for Q3FY23 moderated to 4.4% against a growth of 6.3% in Q2. PFCE growth has also fallen sharply during this period (2.1% against 8.8% in Q2). Consumption demand has been showing uneven recovery as reflected by slowdown in non-oil-non-gold and electronic imports. On other hand, improvement in electricity demand and fertilizer sales is positive. RBI's consumer confidence remains optimistic (84.8 vs 83.5). For rural demand, uptick in two-wheeler and tractor sales bodes well. Agriculture sector remained resilient (3.7% vs 2.4% in Q2) on the back of good kharif crop. Concerns over possible heatwaves casts doubts on wheat crop yield.

Centre's spending regains momentum: Entering into the final quarter of FY23, centre's fiscal deficit as of Jan'23 (12MMA basis) remained unchanged from previous month at 6.9% (of GDP). Spending picked up pace again and total expenditure (Apr-Jan) rose by 12.8% from 11.8% as of Dec'22. This was led by surge in capex (29% versus 25.1%). Revenue expenditure was up only moderately (9.7% versus 9.3%). support to spending was provided by pick up centre's revenue receipts (4.4% versus 2.1%), primarily indirect tax collections (8.5% versus 7.1%). Within indirect taxes, custom duty collections rose, while contraction in excise collections eased. GST collections also remain steady. Centre's direct tax collections however continued to slow (16.8% versus 18%).

India's 10Y yield on an upward trajectory: Global yields edged up in Feb'23 amidst expectations of higher rates by global central banks. 10Y yields in UK, US and Germany rose by 49bps, 41bps and 37bps respectively. India's 10Y yield also rose by 9bps, following global cues. Tighter liquidity conditions and continued inflationary pressures also weighed on domestic yields. It must be noted that domestic price pressures have surfaced again amidst intense heat conditions in some parts of the country. This raises the possibility of another rate hike by RBI. This is also reflected in the upward momentum seen in short-end papers as well as OIS rates. Liquidity deficit is likely to swell amidst maturing of LTROs and TLTROs, putting further pressure on yields.

Pressure on INR: INR depreciated by 0.9% in Feb'23. Possibility of more rate hikes by Fed amidst positive macro data fuelled a rally in DXY. FPI outflows and weakness in domestic equity markets also weighed on the rupee. USD/INR started Mar'23 on a positive note, but has since come under pressure. With the Fed Chairman signalling that more and probably faster rate hikes may be needed to cool inflation, dollar has once again moved upwards. As a result, INR and other currencies have come under pressure. US jobs and CPI report will be key in assessing the Fed's future stance, and hence the trajectory of INR. Even so, we do not see USD/INR to breach the 83/$ mark.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

Economics Research Department
chief.economist@bankofbaroda.com

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CONSUMER DURABLES

08 March 2023

Consumer appliances yielding higher energy efficiency

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- **We note a clear correlation between falling per capita power consumption growth and falling energy intensity, even excluding the pandemic period**
- **Consumer durables accounted for 35% of India's power savings in 2020 spurred by product labelling norms**

Vinod Chari | Nilesh Patil
Tanay Rasal
research@bobcaps.in

Fall in per capita power consumption growth: India has achieved a new high in absolute per capita power consumption, at 1,255kwH in FY22. However, a granular look at the data indicates a fall in growth rate. Per capita power consumption grew at CAGR 3.6% over FY12-FY22 vs. 6% since independence in 1947. If we were to further split the timeline based on the year of India's economic liberalisation, i.e., pre- and post-1992, we note a clear breakout, with the pre-1992 power consumption CAGR of 7% doubling to ~14% over 1992-2022.

Direct correlation with fall in energy intensity: India's energy intensity – measured as megajoules or MJ consumed per rupee of GDP – has reduced by 20% in FY20 from FY13 levels, a CAGR decline of 3%. Going further back to FY07, intensity levels have more than halved, falling at a 5% CAGR. India's FY20 energy intensity is 0.22MJ/INR compared to 0.28MJ/INR in FY13 and 0.47MJ/INR in FY07

Consumer durables sector a key contributor: While renewable energy plays a primary role, India also has alternate routes to reduce energy intensity. Household appliances, for instance, fall under the Bureau of Energy Efficiency (BEE) – a regulatory body tasked with raising energy efficiency in the country. Per India's Central Electricity Authority (CEA), the BEE's Standards and Labelling (S&L) programme accounted for 35% of the energy saved in 2020 (in billion units).

Maintain preference for sector leaders: We continue to prefer consumer durables leaders in their respective categories – viz. **HAVL** (BUY, TP Rs 1,500), **CROMPTON** (BUY, TP Rs 440), and **POLYCAB** (BUY, TP Rs 3,300).

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,023	2,100	HOLD
CROMPTON IN	308	440	BUY
DIXON IN	2,917	4,100	BUY
HAVL IN	1,222	1,500	BUY
KEII IN	1,710	1,900	BUY
ORIENTEL IN	274	290	HOLD
POLYCAB IN	3,092	3,300	BUY
SYRMA IN	284	400	BUY
VGRD IN	249	260	HOLD
VOLT IN	910	910	HOLD

Price & Target in Rupees | Price as of 8 Mar 2023

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METALS & MINING

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- **Prices likely to stay range-bound through H2 as well despite the return of demand, as markets regain balance**
- **Long-term aluminium price outlook soft given potentially lower needs of new primary smelters in China**

Kirtan Mehta, CFA
research@bobcaps.in

We summarise takeaways from our recent interaction with a global aluminium expert.

Price correction sparked by looming risk of global slowdown: Aluminium price has fallen 9% since Jan'23, with industry experts attributing the correction to the need for a more aggressive US Fed and the possibility of higher interest rates for longer.

H1CY23 pricing to be range-bound…: Our channel checks suggest global aluminium prices will remain in a tight range of US$ 2,300-2,500/t amid a continued surplus in China which is facing a sluggish demand recovery and the risk of below-mandated supply cuts. Outside China as well, demand is likely to be under pressure in H1CY23 even as exports from China are likely to fill any supply gaps. The levy of higher import duty on Russian aluminium by the US will not affect market flows much.

…with similar trends through CY23 as markets regain balance: Key drivers for potentially flattish aluminium pricing through CY23 include (a) the return of modest demand growth across both China and the rest of the world, (b) adequate Chinese supply with the likelihood of lower production cuts, (c) slower return of curtailed European production, and (d) easing of energy inflation.

Long-term price expectations softer but still healthy: With demand in China maturing, the need for new primary aluminium capacity beyond the government's mandated production cap of 45mt decreases. The focus is likely to shift to more scrap generation to increase secondary production of aluminium. Outside China as well, new smelters with coal-based power generation sources are unable to arrange financing. Hence, the probability of pricing breakeven for a new smelter from a high-cost existing producer is reducing, lowering the potential price range in the long run.

Implications for Indian aluminium players: With aluminium price movement likely to be limited in the near-to-medium term, we believe margins for Indian aluminium players will be dependent upon domestic coal availability and international coal prices. Given Coal India's concerted efforts to raise coal production and the allocation of coal blocks to producers, the competitive position of Indian aluminium players is likely to improve over the medium term, in our view.

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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