BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

11 December 2018

RESEARCH

BOB Economics Research | Balance of Payment

CAD jumps, but will fall in H2

BOB Economics Research | Weekly Wrap

State poll results to drive markets

SUMMARY

India Economics: Balance of Payment

India's Q2FY19 CAD jumped to US$ 19.1bn from US$ 15.8bn in Q1FY19 led by higher imports at US$ 50bn in Q2 versus US$ 45.7bn in Q1FY19. Inflows on account of remittances and services exports accelerated in Q2 which is a positive sign. FII outflows (US$ 11.5bn) and muted FDI inflows drove US$ 13.2bn decline in FX reserves in H1 (CAD at US$ 35bn). With oil prices falling by 31% from recent highs, India's external outlook has improved. Hence, CAD is expected to moderate to 2.5% of GDP in FY19 from 2.7% in H1FY19.

Click here for the full report.

India Economics: Weekly Wrap

Disappointing macro data from both US and China fuelled concerns over global economic outlook leading to a decline in global yields. US markets fell on uncertainty over future pace of rate hikes and lower than expected job additions. Indian yields fell by 14bps as RBI indicated its willingness to change its stance to neutral if inflation remains subdued. INR depreciated by 1.8% as oil prices rose, especially in the last trading day as OPEC announced a production cut. Equity markets also ended lower. With key state elections results due this week, markets are likely to be volatile.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Axis Bank	Buy	750
Cipla	Buy	615
GAIL	Buy	525
Reliance Industries	Buy	1,340
TCS	Buy	2,360

MID-CAP IDEAS

Company	Rating	Target
Greenply Industries	Buy	250
L&T Infotech	Buy	2,070
Laurus Labs	Buy	495
Mayur Uniquoters	Buy	565
Mphasis	Buy	1,360

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.85	(5bps)	(39bps)	48bps
India 10Y yield (%)	7.46	4bps	(34bps)	41bps
USD/INR	70.81	0.1	3.2	(9.7)
Brent Crude (US$/bbl)	61.67	2.7	(14.4)	(0.9)
Dow	24,389	(2.2)	(6.8)	0.7
Shanghai	2,606	0.0	(1.3)	(20.4)
Sensex	35,673	1.0	1.2	8.3
India FII (US$ mn)	**6 Dec**	**MTD**	**CYTD**	**FYTD**
FII-D	363.0	364.1	(7,208.0)	(7,454.0)
FII-E	(7.5)	(31.7)	(4,921.5)	(7,046.9)

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

Bank of Baroda
India's International Bank

BALANCE OF PAYMENT

10 December 2018

CAD jumps, but will fall in H2

India's Q2FY19 CAD jumped to US$ 19.1bn from US$ 15.8bn in Q1FY19 led by higher imports at US$ 50bn in Q2 versus US$ 45.7bn in Q1FY19. Inflows on account of remittances and services exports accelerated in Q2 which is a positive sign. FII outflows (US$ 11.5bn) and muted FDI inflows drove US$ 13.2bn decline in FX reserves in H1 (CAD at US$ 35bn). With oil prices falling by 31% from recent highs, India's external outlook has improved. Hence, CAD is expected to moderate to 2.5% of GDP in FY19 from 2.7% in H1FY19.

BOB Economics Research
+91 22 6138 9300
research@bobcaps.in

Imports push CAD higher: Led by a trade deficit of US$ 50bn, India's CAD increased to US$ 19.1bn in Q2FY19 from US$ 15.9bn in Q1FY19. Trade deficit in Q2FY19 increased to US$50bn from US$ 45.2bn in Q1FY19. The improvement in global economy, in particular US, drove a 10.2% YoY increase in net services income. Remittances increased by 19.8% on a YoY basis to US$ 20.8 bn in Q2FY19 thus cushioning the pass-through of higher imports to CAD.

FX reserves decline by US$1.9bn in Q2: Compared with US$ 11.3bn decline in Q1, FX reserves declined only by US$ 1.6bn in Q2FY19. FPI outflows were US$ 8.1bn in Q1FY19 compared with US$ 1.9bn in Q2FY19. FII outflows accelerated to US$ 5bn in Oct'18 before reversing to an inflow of US$ 1.8bn in Nov'18. FDI inflows moderated in Q2FY19 to US$ 7.9bn from US$ 9.7bn in Q1FY19. Deposit inflows were relatively stable in both the quarters.

H1 CAD at 2.7%, outlook benign: Given the sharp reduction in international oil prices, India' trade deficit is expected to moderate from US$ 95bn in H1FY19. For the entire year we expect CAD to print at 2.5% of GDP or US$ 67bn. Even FPI inflows are estimated to remain positive in H2FY19. The change in flows is a result of change in view on EM currencies and lower oil prices. Thus INR is expected to show reasonable strength in near-future.

KEY HIGHLIGHTS

- CAD widens to 2.9% of GDP in Q2FY19 from 2.4% in Q1FY19.
- BoP deficit at US$ 1.9bn in Q2FY19 compared with a depletion of of US$ 11.3bn in Q2FY19.
- Lower oil prices to help curtail CAD to 2.4% of GDP in FY19.

WEEKLY WRAP

10 December 2018

State poll results to drive markets

Disappointing macro data from both US and China fuelled concerns over global economic outlook leading to a decline in global yields. US markets fell on uncertainty over future pace of rate hikes and lower than expected job additions. Indian yields fell by 14bps as RBI indicated its willingness to change its stance to neutral if inflation remains subdued. INR depreciated by 1.8% as oil prices rose, especially in the last trading day as OPEC announced a production cut. Equity markets also ended lower. With key state elections results due this week, markets are likely to be volatile.

BOB Economics Research
+91 22 6138 9300
research@bobcaps.in

Markets

- **Bonds:** Global yields closed lower driven by fall in US 10Y yields by 14bps (2.85%) on the back of softer economic data (decline in factory orders, slower pace of hiring). Crude prices jumped up by 5% driven by OPEC's and non-OPEC members' decision of production cut (1.2mbpd). Indian 10Y yields plunged by 14bps (7.46%) as RBI revised inflation projections downward for H2FY19. System liquidity was in deficit of Rs 583bn as on 7 Dec 2018 compared to Rs 714bn in the previous week.

- **Currency:** Weaker economic data from the US, along with declining US10Y yield led to DXY declining by 0.8% in the week. While a temporary trade truce between US & China helped Yuan and Japanese yen (ending the week higher by 1.2% and 0.8% respectively), INR (down 1.8% in the week) was impacted by rising Brent (+5%).

- **Equity:** Barring Shanghai Comp, global indices closed lower on the back of worries over global growth outlook and worries over whether US and China will be able to negotiate a deal in 90 days. Slowdown in global growth may drive a dovish stance by Fed in the upcoming meet which may give a boost to equity markets. Sensex too ended lower as investors remained cautious ahead of state poll results.

- **Upcoming key events:** Investors will closely watch China's industrial production and US CPI data. ECB's policy is also likely to drive the markets this week. Further, focus will also be on the upcoming Brexit vote. On the domestic front, state election results will drive markets this week. Apart from this India's retail & wholesale inflation print, trade and industrial production data also awaited.

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)

General disclaimers

BOB Capital Markets Limited (BOBCAPS) is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance, wealth management and portfolio management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

The BOBCAPS research team hereby certifies that all of the views expressed in this report (1) accurately reflect our personal views about the subject company or companies and its or their securities and (2) no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed in this report.

BOBCAPS generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities —that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.