FIRST LIGHT

13 June 2019

RESEARCH

BOB Economics Research | Monthly Chartbook

Domestic growth moderates

BOB Economics Research | Inflation and IIP

Food inflation rises, core dips

SUMMARY

India Economics: Monthly Chartbook

Domestic consumption continues to moderate. Private services activity too has decelerated with lower PMI, CV sales, tourist arrivals and rail freight. A normal monsoon and rural stimulus (PM-KISAN) will favour a pick-up in domestic demand in H2. With Centre looking at maintaining its fiscal deficit at 3.4%, states may have to step-up spending in FY20. The recent decline in oil prices, change in RBI's stance to accommodative and lower global yields is positive for interest rates. For transmission, liquidity in the banking system has to increase and will improve only gradually.

Click here for the full report.

India Economics: Inflation and IIP

CPI inflation rose to a 7-month high of 3.05% in May'19. IIP growth also recovered to a 6-month high at 3.4% in Apr'19. Food inflation inched by 70bps MoM led by vegetable prices. Core inflation eased to 4.2% driven by across the board decline in all components. While CPI has risen for 4-straight months now, it is still below RBI's target. Also, with oil prices currently at US$ 60/bbl, RBI has room to cut rates further to spur growth. Progress of monsoon and Budget will however dictate the timing of the rate cut.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	630
GAIL	Buy	490
ONGC	Buy	230
TCS	Buy	2,390
HPCL	Sell	210

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,290
Future Supply	Buy	780
Greenply Industries	Buy	245
Laurus Labs	Buy	495
PNC Infratech	Buy	235

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.14	(1bps)	(26bps)	(82bps)
India 10Y yield (%)	7.04	(4bps)	(35bps)	(93bps)
USD/INR	69.45	0.3	1.5	(2.9)
Brent Crude (US$/bbl)	62.29	0	(11.3)	(17.9)
Dow	26,049	(0.1)	2.9	2.9
Shanghai	2,926	2.6	0.8	(5.0)
Sensex	39,950	0.4	7.7	11.9
India FII (US$ mn)	**10 Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	257.1	1,043.8	1,279.5	263.2
FII-E	46.1	122.9	11,312.9	3,018.2

Source: Bank of Baroda Economics Research

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Domestic growth moderates

Domestic consumption continues to moderate. Private services activity too has decelerated with lower PMI, CV sales, tourist arrivals and rail freight. A normal monsoon and rural stimulus (PM-KISAN) will favour a pick-up in domestic demand in H2. With Centre looking at maintaining its fiscal deficit at 3.4%, states may have to step-up spending in FY20. The recent decline in oil prices, change in RBI's stance to accommodative and lower global yields is positive for interest rates. For transmission, liquidity in the banking system has to increase and will improve only gradually.

Scope of revival in rural demand: Consumption demand slowed down considerably in Q4FY19 with PFCE moderating to 7.2% (8.1% in Q3FY19). In May'19, passenger car sales reported further deterioration (-26%). The pace of decline in 2-wheeler sales in May'19 eased from Apr'19 levels. Overall sentiment remains muted with RBI's consumer confidence too softening. A pick-up in monsoon will be positive for rural consumption. PM-KISAN will boost consumption.

Services growth moderating: Services sector PMI eased for the third consecutive month in May'19. Other indicators such as CV sales, rail freight traffic, air passenger traffic, foreign tourist arrivals, diesel consumption, bank credit to services sector and revenue receipts of states are all pointing to a slowdown in Q1. In FY20, we believe, services sector will have to rely on higher spending by government as was the case in Q4FY19.

Yields trajectory, still uncertain: Indian yields have softened by ~40bps in May'19 led by decline in global yields, lower oil prices (11% decline in May'19), RBI's rate cuts of 75bps and now change in stance. In addition, liquidity with the banking system has moved from deficit to surplus (after remaining in deficit since Jun'18). Post RBI policy, 10Y yield fell by 9bps. However, it has increased from the lows on account of uncertainty with regard to government's borrowing in FY20.

Public finance: Centre's tax revenues For FY19 were Rs 1.1tn lower than projections in the interim budget (FY19IB). FY20 projections too will be impacted to this extent and thus would require recalibration of spending. States are likely to step-up spending as there is fiscal room available to increase fiscal deficit from 2.6% as budgeted in FY20.

Worsening global backdrop to put pressure on INR: Despite a steep decline in oil prices (down 11%) and FII inflow of US$ 2bn in May'19, INR depreciated by 0.2% (MSCI EM index fell by 1.2%). FII inflows have continued in Jun'19 as well at US$ 1.2bn. Given the volatility in global markets on the back of trade war between US and China, EM currencies may come under pressure. The same holds true for INR though global backdrop of lower oil prices is favourable for INR.

बैंक ऑफ़ बड़ौदा
Bank of Baroda
India's International Bank

INFLATION AND IIP

12 June 2019

Food inflation rises, core dips

CPI inflation rose to a 7-month high of 3.05% in May'19. IIP growth also recovered to a 6-month high at 3.4% in Apr'19. Food inflation inched by 70bps MoM led by vegetable prices. Core inflation eased to 4.2% driven by across the board decline in all components. While CPI has risen for 4-straight months now, it is still below RBI's target. Also, with oil prices currently at US$ 60/bbl, RBI has room to cut rates further to spur growth. Progress of monsoon and Budget will however dictate the timing of the rate cut.

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IIP growth picks up: Industrial output growth recovered in Apr'19 to a 6-month high of 3.4% from 0.4% in Mar'19. All sectors reported an improvement with electricity output rising by 6%, mining by 5.1% and manufacturing by 2.8% compared to 2.2%, 0.8% and 0.1% respectively in Mar'19. Capital goods rose by 2.5% in Apr'19 after declining for three straight months. Primary, intermediate, FMCG and consumer durables also reported positive traction in Apr'19. However, infrastructure output decelerated to a 19-month low of 1.7%.

CPI jumps to 7-month high: CPI inflation increased to 3.05% in May'19 from 2.99% in Apr'19 led by 70bps increase in food inflation (1.8% in May'19 from 1.1% in Apr'19). This was led by vegetable prices which rose by 5.5% in May'19 compared to 2.9% in Apr'19. Inflation in protein based items such as meat and fish also accelerated to 8.1% in May'19 compared with 7.5% in Apr'19. Pricing pressure was also seen in pulses which reversed its deflation trajectory seen in the past 29-months and increased by 2.1% in May'19. Cereal inflation however remained stable at 1.2%. Stable international prices explain this. Pressure on food inflation is likely to persist.

Lower core provides a respite: Core inflation dipped to a 22-month low of 4.2% in May'19 compared with 4.6% in Apr'19. The decline was broad-based with ~50bps decline coming from miscellaneous items (4.6% in May'19 compared to 5.1% in Apr'19). Sharpest decline was visible in transport and communication at 1.6% in May'19 against 2.5% in Apr'19 with declining oil prices (11% in May'19). Even health and education components of core have come-off considerably and declined by 42bps and 32bps MoM respectively. Falling oil prices (3.4%) in Jun'19 is positive for core in the coming months.

KEY HIGHLIGHTS

- CPI inflation edged up by 3.05% in May'19 vs 2.99% in Apr'19.
- Core inflation moderated to 4.2% vs 4.6% in Apr'19.
- IIP growth rebounds to 3.4% in Apr'19 from 0.4% in Mar'19.

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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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