

16TH INDIA
INTERNATIONAL



CONVENTION

01 - 04 Aug 2019, Radisson, Amritsar

**Key Trends Shaping the World Economy
&
their Impact on Currency Market**

Mr. Rabindra Kumar Das - Consultant - Group Treasury

Adani Group

2nd August 2019



Key Trends

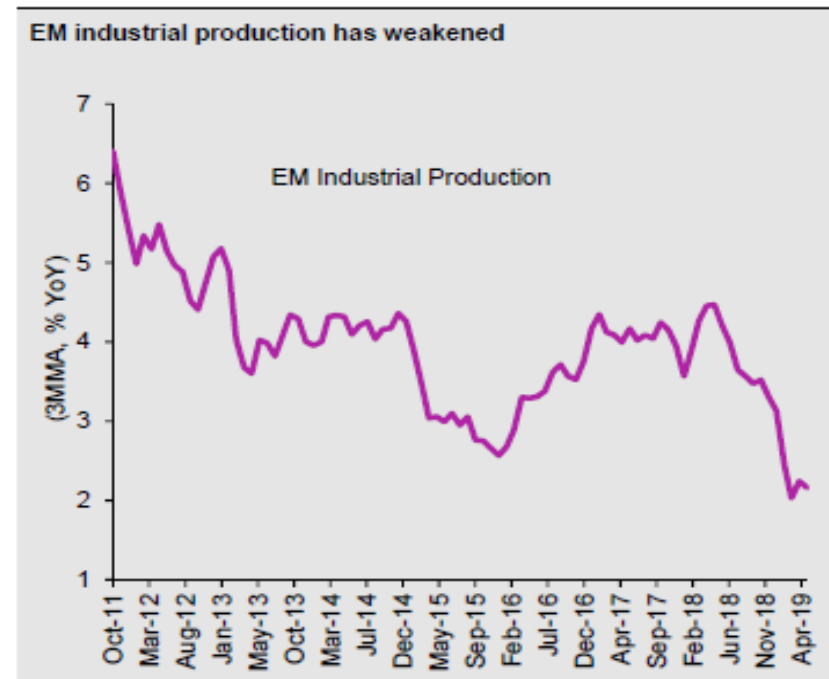
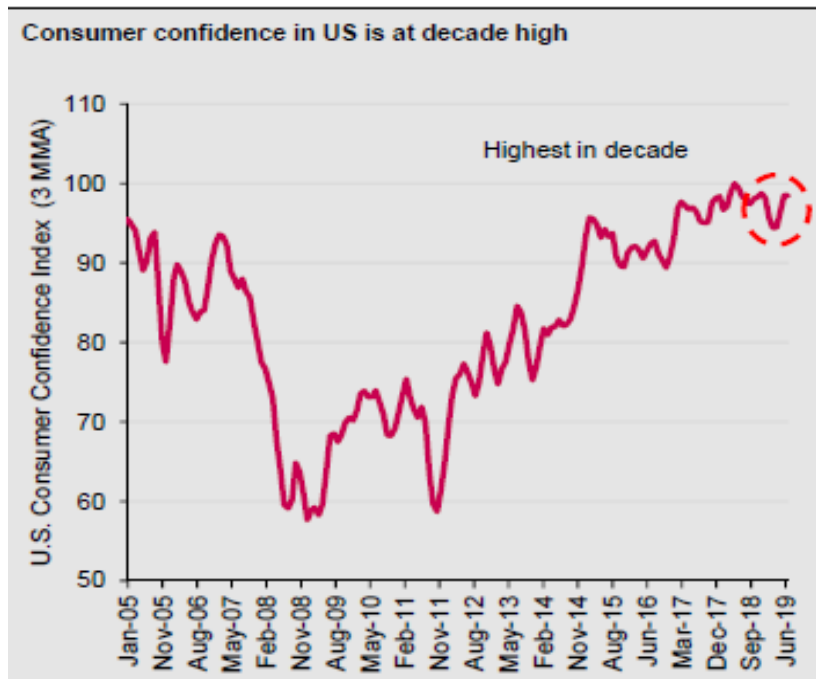
- US Economy & Interest Rate
- ECB Interest Rates
- US-China Trade War
- Indian Economy
- Commodity Prices
- Key Macroeconomic Forecasts

US Economy & Interest Rate

- US Economy witnessing increasing downside economic risks alongside low and declining inflation expectations
- US economy seems likely to decelerate in 2H
- Fed signaled its intention to cut rates either in July or September which pulled USD down
- Risks seem skewed toward -50bp initially - consistent with Fed's proactive approach to easing cycles seen historically
- Market pricing in a 25bp cut in July and total 50bp cut by September
- In 2020, market pricing in between 4 to 5 cuts in 25bp increments
- USD is in the process of turning lower into 2H

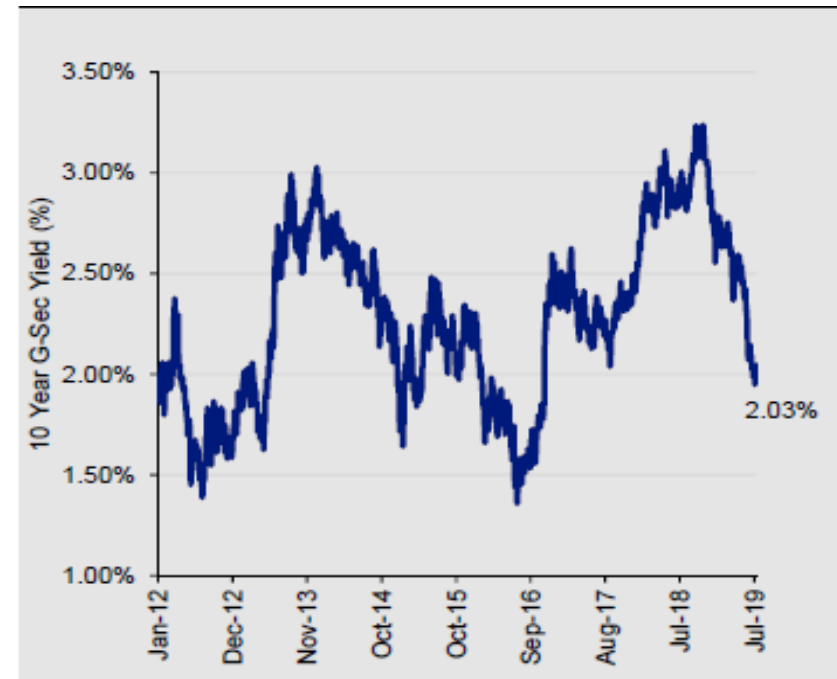
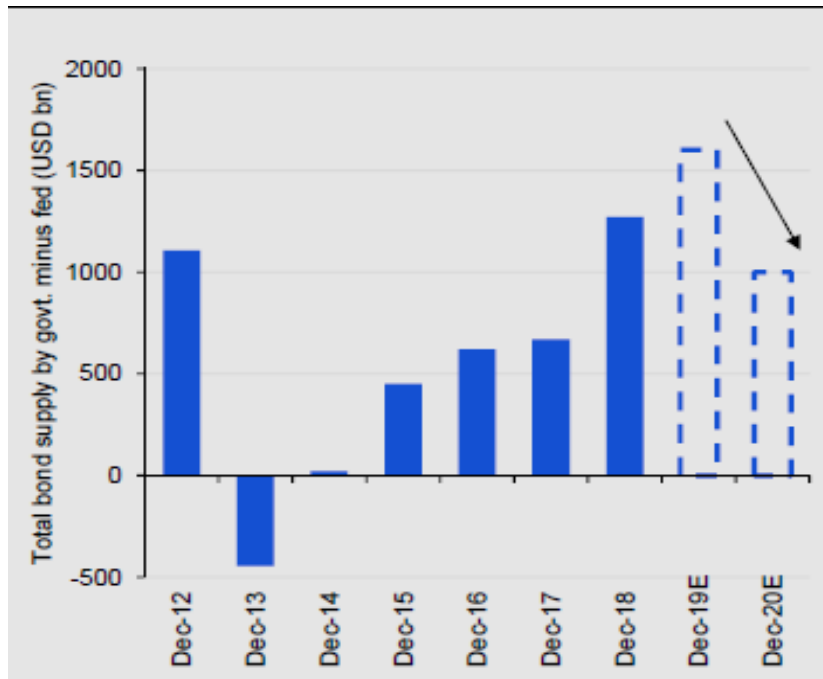
US	2018F	2019F	2020F
Real GDP (% yoy)	2.9	2.4	1.6
CPI (% yoy)	2.4	1.6	1.6
Policy Rate (end of period)	2.38	1.88	1.63
Gen Gov Bal (%/GDP)	-3.8	-4.4	-4.4
CurAct Bal (%/GDP)	-2.4	-2.6	-2.7

US Economy



Source: Edelweiss Securities Research

Recent Change of Fed Stance on Rates & Balance Sheet Reduction Imply Easing Liquidity



Source: Bloomberg, Edelweiss research

Euro: Weak Growth & Lower Interest Rate

- ECB turned dovish in its recent meeting
- It put all options on the table (enhanced forward guidance, rate cuts & asset purchases)
- Two offsetting forces keeping EURUSD in a tight range this year (Dovish Fed is positive for EUR whereas trade war, Brexit is negative for EUR)
- Positive factors are expected to weigh more on EURUSD & it is expected to rise by end of 2019
- Trade tensions are expected to get resolved over a period of time & no-deal Brexit will be avoided

Eurozone	2018F	2019F	2020F
Real GDP (% yoy)	1.8	1.2	1.2
CPI(%yoy)	1.8	1.3	1.4
Policy Rate (end of period)	0.00	0.00	0.00
Gen Gov Bal (%/GDP)	-0.7	-0.8	-0.7
CurAct Bal (%/GDP)	2.9	2.7	2.6

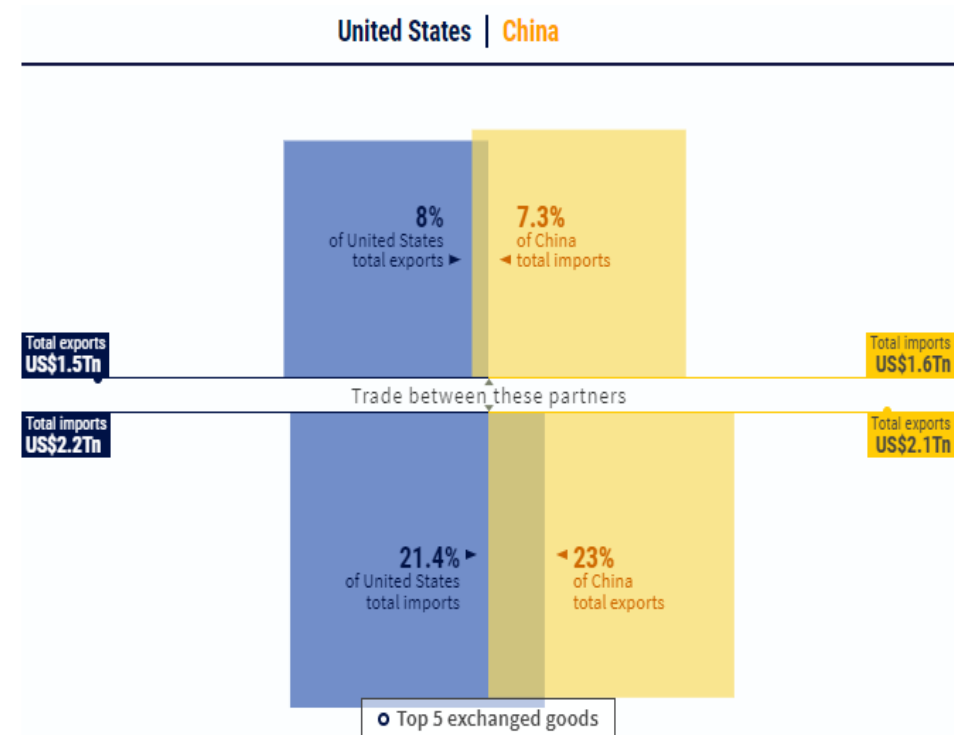
Japan: Lower Growth & Inflation

- BOJ is expected to keep short-term & long-term interest rate targets unchanged in near future (at -0.1% and 0% respectively)
- Growth has been slowing, as evidenced by the decline in exports, PMI, industrial production and Tankan business confidence
- But inflation expectations and labour market indicators have remained largely stable
- Room for monetary easing is relatively limited compared to the Fed and the ECB as JGB yields are already in the negative territory across the 1-10Y tenor and total assets held by the BOJ are equivalent to 100% of GDP

Japan	2018F	2019F	2020F
Real GDP (% yoy)	0.8	0.4	0.2
CPI(%yoy)	1.0	0.4	0.7
Policy Rate (end of period)	-0.10	-0.10	0.00

US-China Trade War & Global Economy

- US-China trade war plays pivotal role in shaping global macro economic fundamentals
- It is likely to weigh on China growth which may prompt it to cut rates
- War is also likely to hamper US economy
- It may escalate geopolitical tensions if Iran-China strengthens their relationship
- Recent development have thrown some positive light in the form of positive talks between US & China
- Trade war impact will hurt China more than US (IMF upgraded its US growth forecast this year from 2.3% to 2.6% but downgraded China from 6.3% to 6.2%)
- Trade war is expected to impact global growth by 0.8% in 2019 & 1.4% in 2020

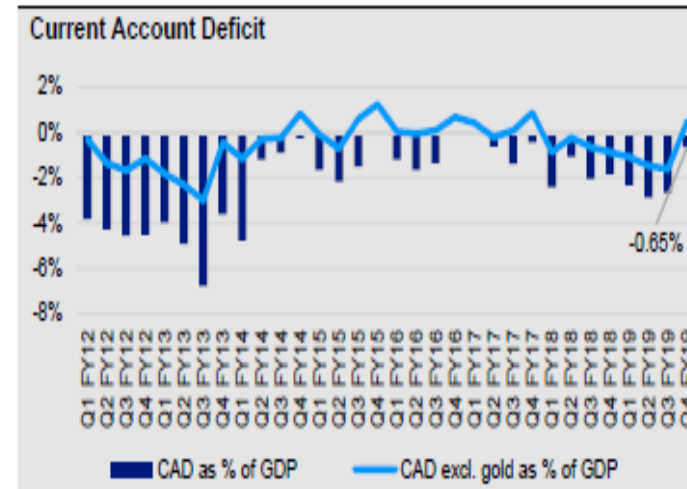


India – Stable Outlook

- India GDP fell sharply from 8.1% in quarter ending Mar-18 to 5.8% in Mar-19
- RBI is expected to cut rates twice by 25 bps in 2019 to promote growth
- GDP is expected to increase to 7% in 2019 & 7.2% in 2020
- CPI inflation risk is muted & is expected to remain around 4%-5% till 2020
- Fiscal deficit is expected to be around 3.5% of GDP in near future
- Current A/c deficit will increase gradually to 2.5% by 2020
- Main risk - below normal rainfall in 2019 (19% deficit)

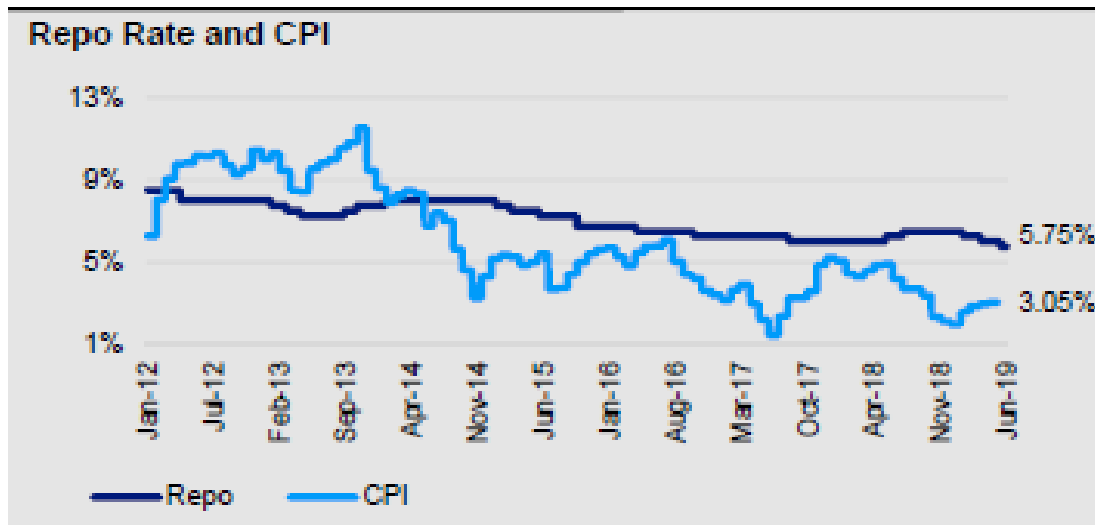
India	2018	2019F	2020F
Real GDP (% yoy)	6.8	7.0	7.2
CPI(%yoy)	3.0	4.5	4.5
Policy Rate (end of period)	6.25	5.25	5.25
FiscalBal (%/GDP)	3.4	3.5	3.5
CurAct Bal (%/GDP)	-2.1	-2.3	-2.5

India's twin deficit Contracting



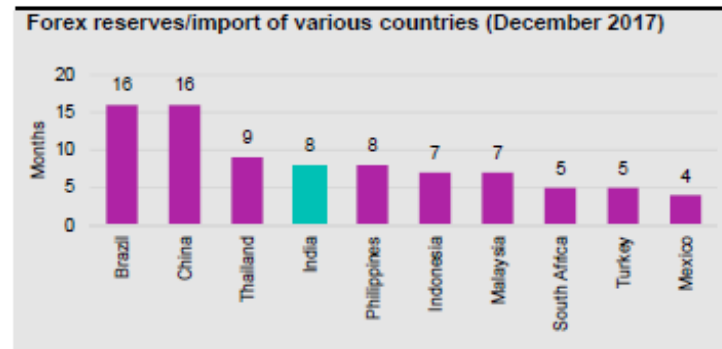
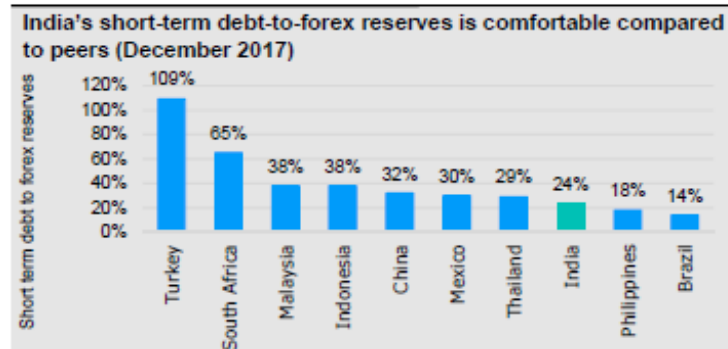
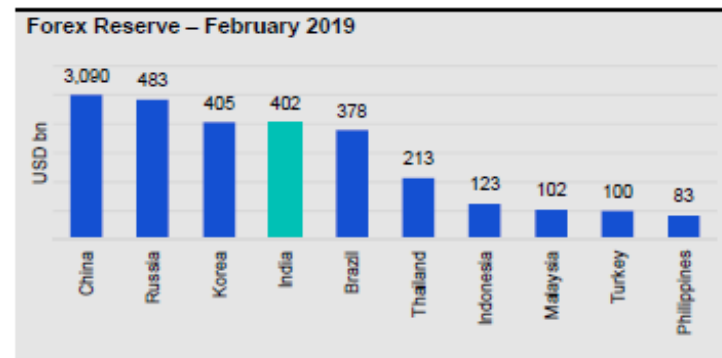
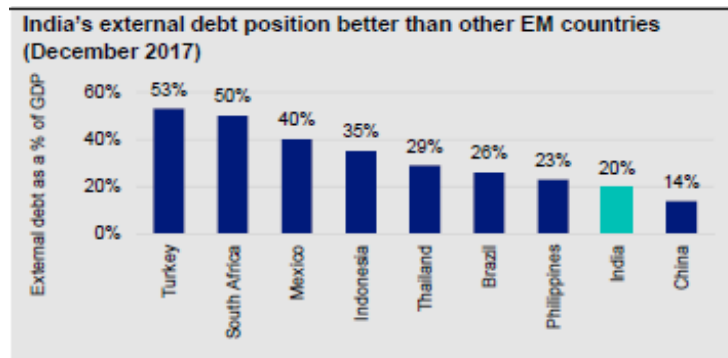
Source: Bloomberg, Morgan Stanley Research Estimates

India Repo Rate Easing with Lower CPI



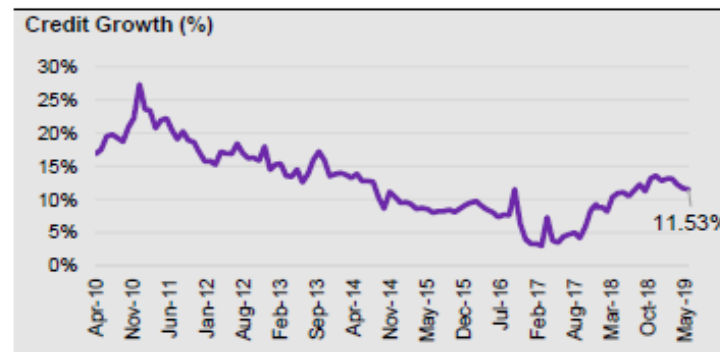
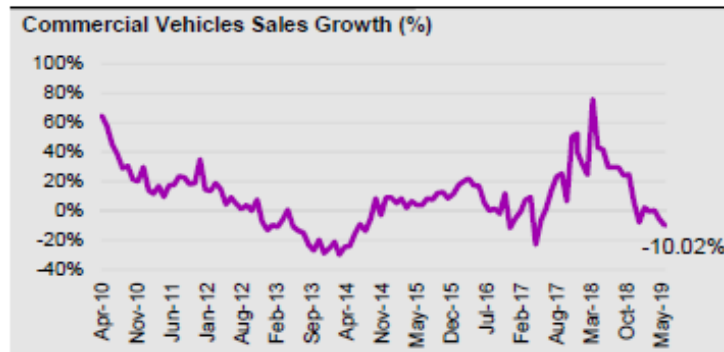
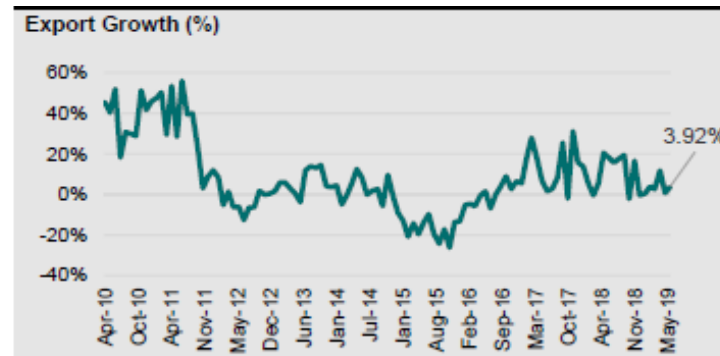
Source: Bloomberg, Morgan Stanley Research Estimates

India's macro well placed among emerging markets



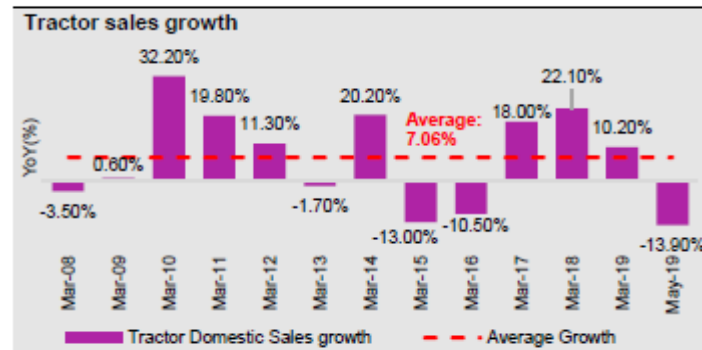
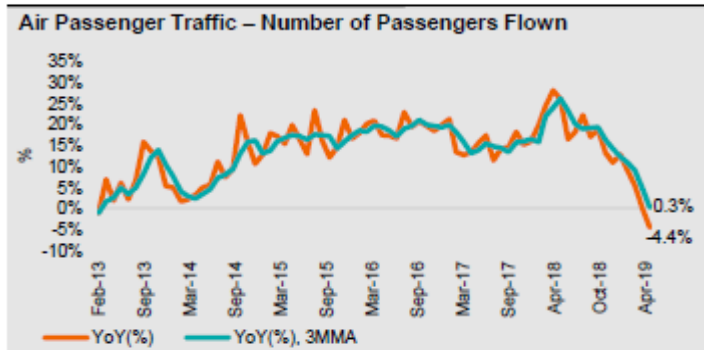
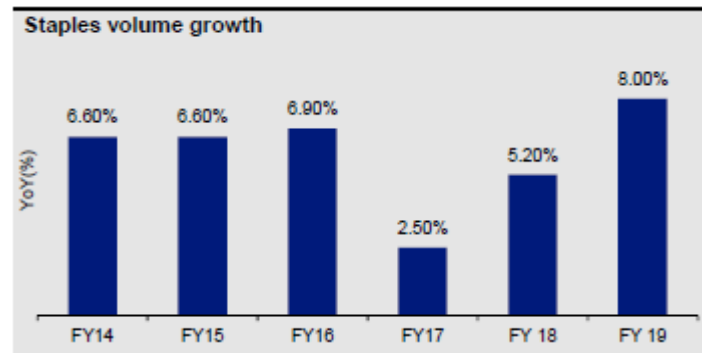
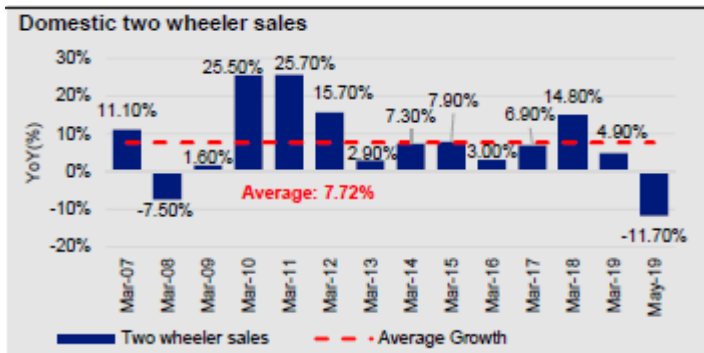
Source: World Bank, Kotak Institutional Equities

Lead indicators suggest weak trends



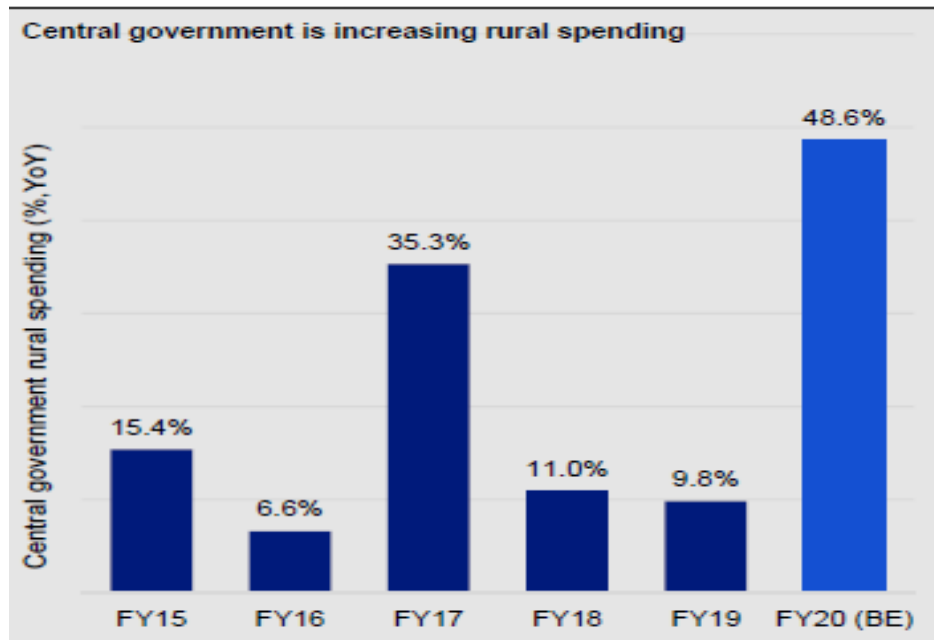
Source: Kotak, Jefierries

Consumption – cyclical slowdown in last few months



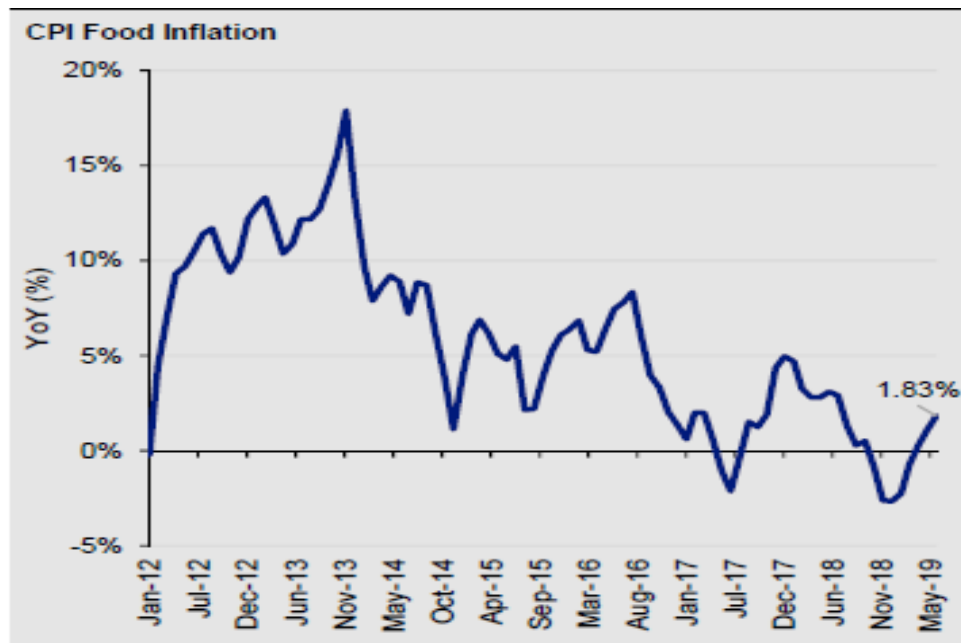
Source: Bloomberg, Morgan Stanley, CEIC, Axis Capital

Improvement in Rural Economy- Silver Lining



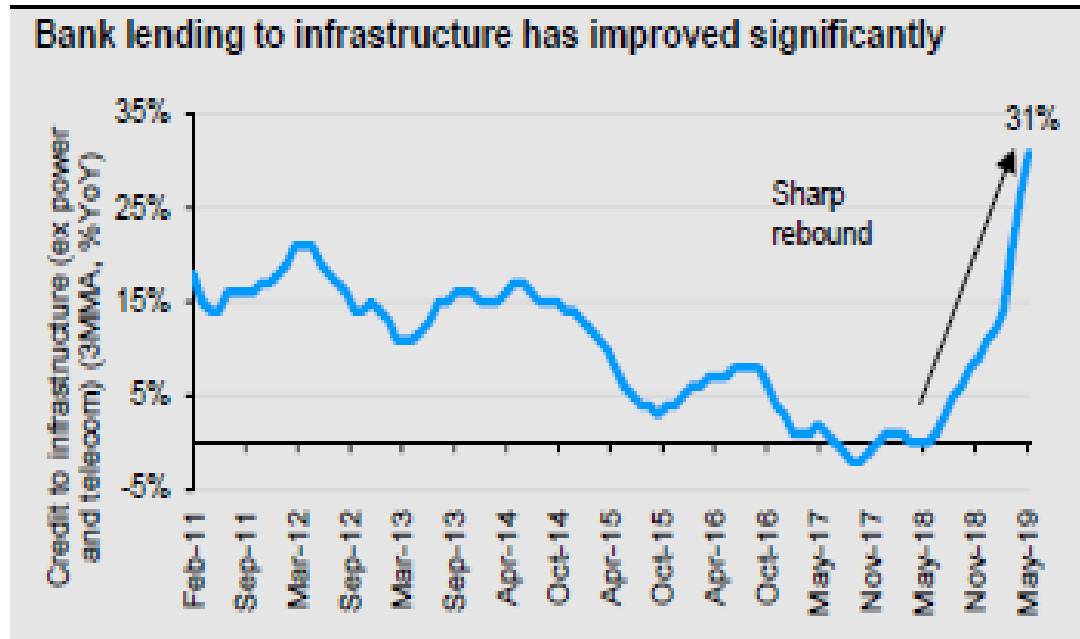
Source: RBI, State budgets, central government budget documents, Edelweiss Research

Low levels of CPI



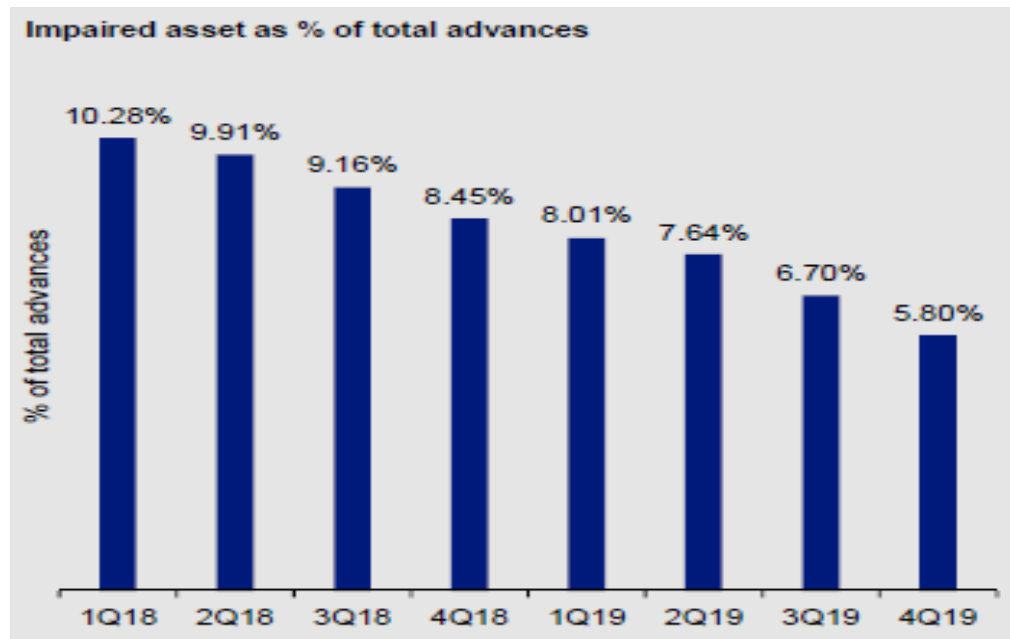
Source: Bloomberg, Edelweiss Research

Improvement in Bank Lending to Infra



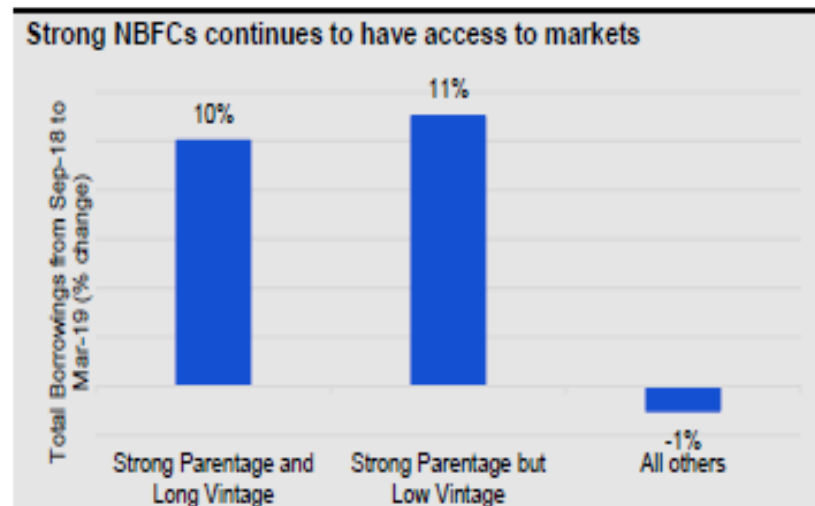
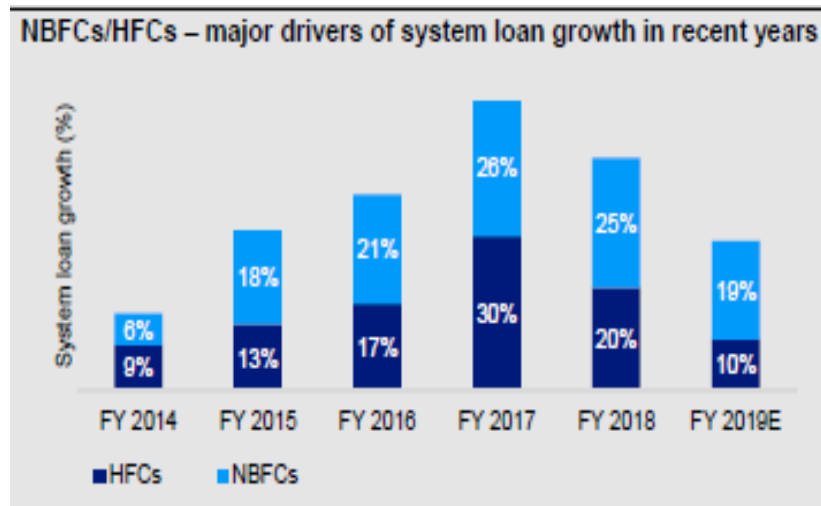
Source: Government Documents, SBICAP securities, Investec Research, Companies, Powergrids, Media Reports, Motilal Oswal Research

Banking Sector – Asset Quality-led Recovery



Source: Invesco Internal Research

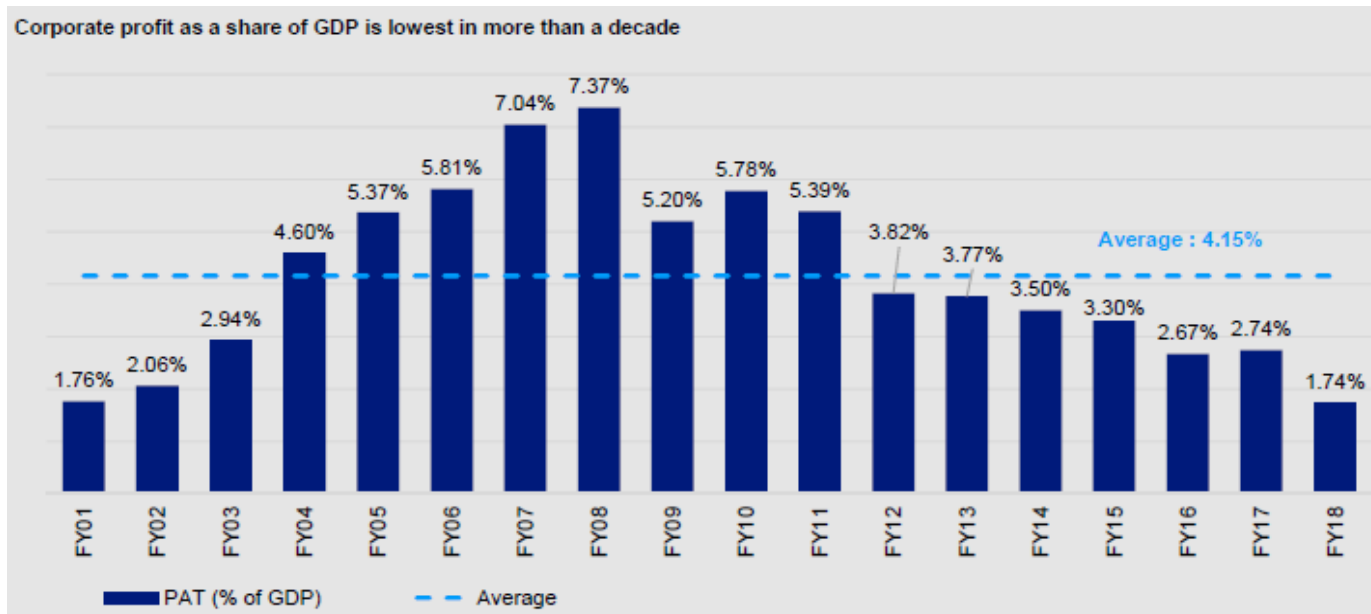
NBFC – Gradual Healing



- **Strong Parentage and Long Vintage companies are:** HDFC, PFC, REC, LICHF, BAJAJ Finance, SHTF, MMFS, Cholamandalam, Sundaram Finance, SCUF, Gruh Finance;
- **Strong Parentage but Low Vintage companies are:** L&T Finance, PNB Housing Finance, Piramal Capital Housing;
- **All others companies are:** IHFL, Edelweiss, IIFL Finance, Muthoot Finance, SREI Equipment, BHAFIN, JM Financial, Magma Fincorp, Manappuram, SREI Infra, Repco Home Finance, Indostar, MAS Financial, Aspire Home Finance, Muthoot Capital

Source: RBI, Company data, Morgan Stanley Research, Credit Suisse

Corporate profit as a % of GDP still significantly below average

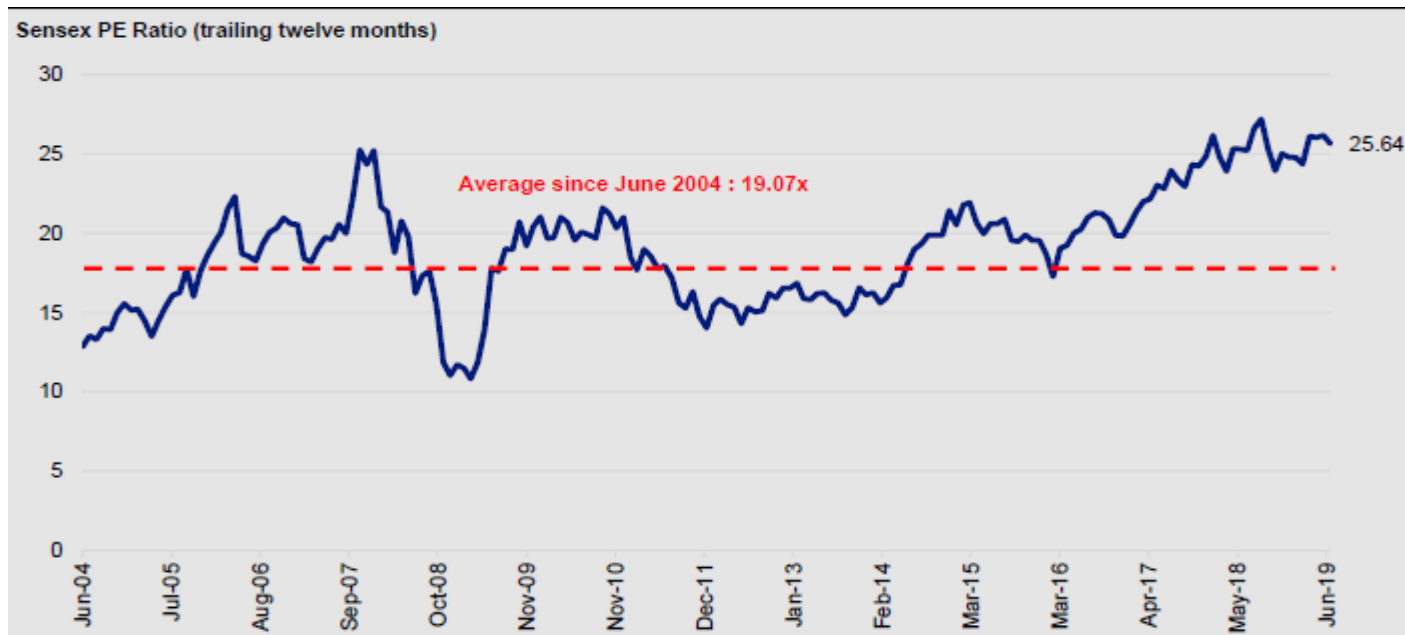


- Sensex trading above the long term average (since June 2004) of 19.07x giving scope for mean reversion

Source: CMIE, IIFL Research

Valuations presently are at a premium to long term average

**16TH INDIA INTERNATIONAL
GOLD CONVENTION**



Source: MOSL, Invesco Asset Management (India) Research, Bloomberg

Indian Economy – On Consolidation Path

Key Points to Track

- Rains in Jul-Aug
 - Rains so far have been disappointing, MET has predicted 96% normal rains in 2019
- Reverse Repo mode till September
 - RBI to sustain reverse repo mode till Sept to ensure sufficient liquidity in Oct-Mar busy industrial season
- Jalan Committee Report
 - Expected to identify Rs 1-3 trn (0.5-1.5% of GDP) of excess RBI capital
 - MoF likely to utilize it to recapitalize PSU banks (fiscal deficit neutral transaction)
- 75 bps FED/PBoC Rate Cut
 - Both FED & PBoC expected to cut rates by 75 bps by early 2020
- Lending Rates
 - RBI MPC expected to cut 25bps on 7th Aug, 2019 & another 25bps in Q420
 - What has changed –
 - RBI shifting its monetary policy stance from accommodative to neutral
 - Money Market switched to reverse repo mode from cash demand
 - MoF & RBI took various steps to ease bank stress

Indian Economy (contd...)

- Overseas Sovereign Bond
 - It can lower yields on government bonds in the domestic market
 - For the current fiscal, the Centre's gross market borrowings are at ₹7.1 lakh crore. Raising part of this overseas can ease oversupply of government bonds in the domestic market.
 - Since interest rates on financial products track the movement in G-Sec yields, this can reduce interest rates on loans and savings.
- RBI capping INR gains
 - Despite much bigger election win, lower oil price & portfolio inflows, INR gain is limited due to persistent intervention by RBI
 - RBI intervention is expected due to 2 seasons
 - To prevent over valuation in INR
 - To replenish reserves
 - INR is expected to continue underperforming its EM peers
- INR Forecasts

	Q3 19	Q4 19	Q1 20	Q2 20
USD-INR	69.00	68.00	67.00	66.00

Commodity Prices – Stable Outlook

- Oil
 - With faltering global GDP, oil prices are expected to adjust lower
 - OPEC is expected to keep cap on oil supply
 - US-China trade war escalation may encourage Iran-China co-operation (China oil import from Iran in April was back up to previous record high)
 - Major factors affecting oil price will be US-China trade war, US-Iran tensions & global GDP
 - Crude Oil Forecasts –

	Q3 19	Q4 19	Q1 20	Q2 20
WTI	56.00	55.00	52.00	56.00
Brent	64.00	62.00	58.00	62.00

Commodity Prices (contd...)

- **Gold**
 - Yellow metal - both simplest & most complex asset class in the world
 - On one hand, it is just a relatively rare periodic element found on the earth's crust
 - On the other hand, gold often reflects movements in other asset classes like FX, rates, commodities or equities
 - Rates & USD Index - most important drivers of Gold price, coupled with oil & volatility index
 - 10Y US real interest rate have outsized influence on Gold price in recent years
 - Gold price is expected remain constructive with risk of trade war de-escalation or more rate cuts from Fed

	Q3 19	Q4 19	Q1 20	Q2 20
Gold	1,310	1,400	1,350	1,450
Silver	15.50	16.50	16.00	17.25

Note: Forecasts are quarterly averages

Key Macroeconomic Forecasts

Particulars	GDP (%)			CPI Inflation			FX (vs USD)		
	2018	2019(F)	2020(F)	2018	2019(F)	2020(F)	2018	2019(F)	2020(F)
Global	3.8%	3.7%	3.3%	2.8%	3.0%	3.2%	-	-	-
US	2.9%	2.4%	1.6%	2.1%	1.7%	1.8%	-	-	-
Euro Area	1.8%	1.2%	1.2%	2.5%	1.3%	1.4%	1.14	1.17	1.25
Japan	0.8%	0.4%	0.2%	1%	0.4%	0.7%	108	101	105
Asia	6.1%	5.7%	5.8%	2.4%	2.7%	2.6%	-	-	-
China	6.6%	6.1%	6.0%	2.1%	2.4%	2.0%	6.88	6.63	6.80
India	6.8%	7.0%	7.2%	3.5%	4.5%	4.5%	69.16	68.00	64.00

References: Bloomberg, BofA Merrill Lynch Global Research, DBS Research .

Thank You

adani

Ahmedabad
Marathon



24th Nov 2019