Firms see 'stark pessimism' in sentiment: RBI survey

ANUP ROY
Mumbai, 3 April

The Reserve Bank of India (RBI) on Friday released the results of a couple of its surveys, conducted before the nation went into lockdown. These show that the general population remains pessimistic about economic and job prospects in the immediate future, even as they expect some improvement in the next year, going by the consumer confidence survey.

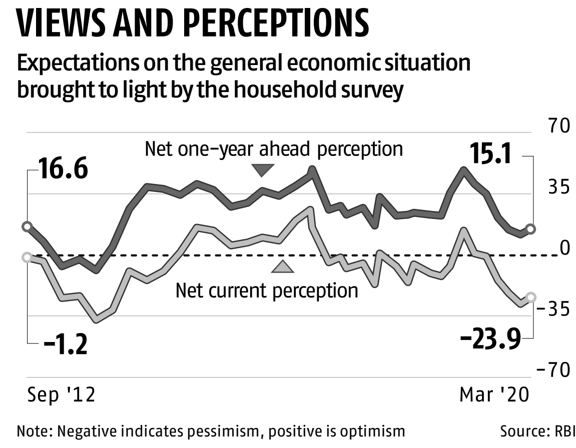
CORONAVIRUS
PANDEMIC

However, a separate 'industrial outlook survey' was repeated a fortnight after the original survey, to capture a possible impact of coronavirus disease (Covid-19). The survey, repeated with 48 companies as against 860 in the original, showed "very sharp deterioration in sentiment across all sectors for Q4FY20, and stark pessimism for Q1FY21, compared to the assessment in the initial round of the survey," the RBI said.

In that survey, conducted from March 18-20, the central bank had found companies to have assessed a deterioration in demand conditions for the manufacturing sector, which also translated into pessimism about the overall business situation for Q4FY20.

Other than the industrial outlook survey, other surveys were not able to capture the economic impact caused by the coronavirus scare, considering that the crucial surveys had ended by March 7. Till March 13, the government didn't see the epidemic as a health emergency, but went on a lockdown the following week.

The March round of the Consumer Confidence Survey, conducted between February 27 and March 7 across 13 major cities, indicated that confidence "remained broadly close to the all-time low, which was recorded in the previous survey round".



Expectations for the year ahead, as gauged by the future expectations index, were largely unchanged from the last round.

However, "sentiment on the general economic situation, employment scenario, and household income remained pessimistic". There was some improvement in expectation for the year ahead. While households perceived some easing in inflation pressure, sentiment on discretionary spending remained in the contraction zone.

The consumer confidence survey was conducted on 5,365 households in Ahmedabad, Bengaluru, Bhopal, Chennai, Delhi, Guwahati, Hyderabad, Jaipur, Kolkata, Lucknow, Mumbai, Patna, and Thiruvananthapuram.

Similarly, in the Inflation Expectations Survey of Households — conducted in 18 major cities among 5,912 urban households — the three-month and one-year median inflation expectations declined by 10 bps and 20 bps, respectively. However, the share of households expecting general inflation to rise in the next three months and one year also declined noticeably, compared to the January 2020 round, the RBI said.

In the Order Books, Inventories and Capacity Utilisation Survey (OBICUS) survey for the December quarter 2019 — covering 704 manufacturing companies — the RBI found that capacity utilisation declined to 68.6 per cent in the Q3FY20, from 69.1 per cent in the previous quarter.

As gas prices crash, ships turn into floating storage

ANNA SHIRYAEVSKAYA & NAUREEN S MALIK
3 April

Liquefied natural gas (LNG) traders are following the latest trend in the oil market by storing huge amounts of the commodity on tankers, hoping prices will rise before the ship docks.

But while crude can sit for months or even years in a tank, super-chilled LNG tends to evaporate even in the specialised vessels that handle it.

That limits the amount of time "floating storage" is feasible.

"Keeping gas frozen is extremely expensive because of the energy cost to maintain the ultra-low minus-265-degree Fahrenheit temperature," said Francisco Blanch, head of global commodities and derivative research for Bank of America in New York.

The number of vessels used for floating storage was 17 late last month, but has now eased to 13 PHOTO: REUTERS

The number of vessels used for floating storage was at 17 late last month, but has now eased to 13 after some unloaded their cargoes in India, according to data intelligence company Kpler. Three vessels have been idle for more than 10 days, Kyriakos Mezopoulos, director for LNG at Affinity, said in a note.

More ships acting like storage tanks might also be a sign the LNG industry is poised to cut production. They're reacting to a crash in prices as demand slowed, the result of two warm winters in a row and the coronavirus, which has shut huge parts of the global economy.

US LNG producer Cheniere Energy is already sourcing cargoes in Europe, with some traders and analysts speculating that this could be ahead of temporary production cuts.

Spot LNG in Asia, the biggest consuming region, slumped to a record this week, and prices in Europe are also testing all-time lows. And unlike in oil, where markets indicate a rebound in prices in the months ahead, a surge in forward rates for LNG is too far off to matter.

"We clearly see floating storage as a safety valve in the next couple of weeks and even in the next couple of months," Jefferson Clarke, managing director for LNG at shipbroker Poten & Partners, said at the webinar.

In the crude oil market, plunging prices triggered a huge contango, where traders anticipate gains in future months and have an incentive to put the commodity into storage for months or years. They've hired tankers because storage sites on land are almost full.

Oil tanker rates in prolonged rally as excess oil seeks storage

The dynamics are different in the gas industry, where gas storage sites on land that should be near empty still have fuel from last year. Also, the "boil-off" rate is a factor for LNG. Between 0.07 per cent to 0.15 per cent on average evaporates from LNG tankers per day for the majority of the global fleet. That means over a 75-day voyage, about 5 per cent to 11 per cent of the original cargo could be lost.

Last fall, some traders loaded cargoes at low prices in August and discharged in early November when rates were rising. A typical journey from Qatar to the UK via Suez Canal, for example, takes about two weeks.

While new vessels have better technology that limits the evaporation rate — Flex LNG has three ships for delivery later this year with a boil-off of about 0.035 per cent — the difficulty containing the gas over long periods means using tankers as storage has a physical limit.

"Floating storage is less about stockpiling, but more about slow-steaming until hopefully the rates pick up," Iain Ross, chief executive officer of shipowner Golar LNG, said at the webinar organized by Capital Link and Citigroup.

While benchmark Asian LNG has lost about half its value this year, the storage trade is a bright spot for vessel owners. They can charge more than 40 per cent more per day for a typical tanker in the Atlantic than at the same time a year ago, according to data from shipbroker Fearnleys.

Unusual trend

The latest trend is unusual for this time of year, said Oystein Kalleklev, chief executive officer of Flex LNG. The company now has six vessels that it rents out. Unlike oil, LNG demand is largely seasonal, with a peak in winter when heating is in demand and another smaller lift in the summer for cooling.

More floating storage may appear in September and October, when tanks on land are full and winter chills have yet to arrive, while price bottom out right before seasonal advances. Demand for vessels later this year is already rising, said Mark Kremin, CEO of shipowner Teekay Gas Group.

Vessels with a very low boil-off make them "perfect" for floating storage play in the second half of the year, and Flex has fixed one of its upcoming vessels with trading house Gunvor Group, Kalleklev said on Friday.

In part, floating storage in LNG now is a result of quarantines, Kalleklev and his peer from Hoegh LNG Holdings, Sveinung Stohle, said in interviews. Other reasons are cargo deferrals and diversions, as the virus-hit demand and delayed unloading, the shipping executives said at the webinar.

Loadings at plants have also slowed because global inventories are so full, Kalleklev said. Also, as the Covid-19 situation eased in China and South Korea, ships are sailing from Europe to Asia, naturally extending voyages and shrinking availability of vessels in the Atlantic, he said.

Indian buyers calling force majeure on cargoes last week has meant volumes needed to find other homes in an oversupplied market, so this involuntary floating storage came amid what looks like distressed cargoes, said Trevor Sikorski, an analyst at Energy Aspects.

"We will see increased inefficiencies with regards to discharge and possible ships having to wait 14 days from loading to discharge," Kalleklev said in an emailed response to questions. BLOOMBERG

Demand, price volatility impacting Indian OMCs

AMRITHA PILLAY
Mumbai, 3 April

Volatility in crude oil prices and uncertain petroleum demand over the past fortnight have come as a cause for concern for oil marketing companies (OMCs).

"Crude prices had rallied 25 per cent on Thursday after Saudi Arabia called an 'urgent meeting' of the OPEC+ alliance and other producers to negotiate an output cut deal. NYMEX front-month crude settled at \$25.32 per barrel, up \$5.01," S&P Platts noted in a report on Friday.

An output cut will put a floor to the falling crude prices, but it may not stabilise demand-supply dynamics

US President Donald Trump had on Thursday indicated a production cut agreement of 10 million barrel per day to 15 million barrel per day. "Despite the sudden jump in crude price on Thursday, after Trump's tweets, oil prices are expected to remain depressed, which works fine for OMCs," said Debasish Mishra, partner at consultancy Deloitte Touche Tohmatsu.

An output cut, at best, will put a floor to the falling crude prices, but it may not stabilise demand-supply dynamics.

"Demand is falling at a faster rate," said an analyst with a domestic brokerage firm. Executives from OMCs have raised similar worries. So far, Indian Oil Corporation (IOC) has already slashed refinery throughput by up to 30 per cent. Bharat Petroleum Corporation (BPCL) has cut throughput by 20 per cent. Both moves are to align with the falling product demand in the country's market. Executives said if the April 15 deadline for the lockdown is extended, refineries may need to take steeper cuts.

"OMCs are used to volatility in crude oil prices. One day's spike or fall does not worry us. If the prices remain steady, we will have to worry about inventory loss or gain. So far, diesel margins are looking better in comparison to other products. In addition, a steady high price will also impact working capital," said an executive with one of the state-run oil companies. Analysts have already factored in huge inventory losses for the March quarter.

"The impact of the current volatility on inventory will reflect in the June quarter numbers," added the analyst. He said OMCs have so far maintained product prices in the marketing segment, which may act as a buffer for any increase in crude oil prices.

Owing to the fall in demand, reports suggest that companies like IOC and HPCL have issued force majeure notices to certain suppliers. Not everyone, however, is convinced the move will help significantly. "The method has its own positives and negatives. It is yet to be legally established if it is an act of god. One needs to weigh if the cost of arbitration is higher than the cost of demurrage for floating your cargo," the oil executive had earlier added.

"In the current volatile price scenario, the force majeure clause will help only to the extent of holding lower inventories for the June quarter and avoiding any inventory loss in the event of prices staying high in April," the analyst had added.

Others are confident of the medium-to-long term prospects for Indian refiners. Vikas Halan, senior vice-president, corporate finance group, Moody's Investors Service, said: " We view the current situation as temporary. The medium-to-long term growth expectation of petroleum product demand in India remains intact and could possibly improve if oil prices remain low. The aviation fuel demand, however, will take longer time to recover."

CERC reduces late payment surcharge on power discoms

SHREYA JAI
New Delhi, 3 April

Central Electricity Regulatory Commission (CERC) reduced the late payment surcharge levied on power distribution companies (discoms) for delayed payment to power generators and transmission companies (transcos).

In an order issued on Friday, CERC lowered the surcharge to 1 per cent per month from 1.5 per cent per month for 45 days till June 30. "The generating companies whose tariff has been determined under Section 63 of the Act by this Commission, relief on the late payment surcharge for payment which become delayed beyond 45 days (from the date of presentation of the bill) during the period from (March 24) to (June 30) may be claimed in terms of the force majeure provisions of the respective power purchase agreements (PPAs)," said the order. It gave similar relief for the payments to be made to transmission companies.

Fitch slashes India growth forecast to 30-year low

Fitch Ratings on Friday said it had slashed India's growth forecast for this fiscal year to a 30-year low of 2 per cent, from 5.1 per cent projected earlier, as economic recession gripped global economy following the lockdown because of the Covid-19 pandemic.

"The initial disruptions to regional manufacturing supply chains from a lockdown in China as the coronavirus spread have now broadened to include local discretionary spending and exports even as parts of China return to work. Fitch now expects a global recession this year and recently cut our GDP growth forecast for India to 2 per cent for the fiscal year ending March 2021 after lowering it to 5.1 per cent previously, which would make it the slowest growth in India over the past 30 years," Fitch said.

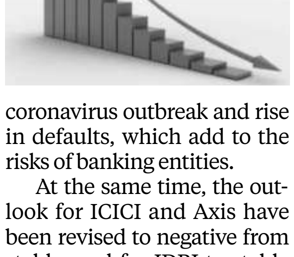
On March 20, Fitch had projected India's GDP growth for 2020-21 at 5.1 per cent, lower than 5.6 per cent estimated in December 2019. Last week, Moody's sharply cut India's growth forecast for calendar 2020 to 2.5 per cent from 5.3 per cent. PTI

India's GDP to slip to 4% in FY21: ADB

The Asian Development Bank (ADB) on Friday said India's economic growth rate will slip to 4 per cent in this fiscal on account of the global health emergency created by the Covid-19 pandemic. At the same time, the multilateral lending agency in its flagship publication Asian Development Outlook (ADO) 2020 said that India will stage a strong recovery in the next financial year on the back of its sound macroeconomic fundamentals. PTI

IndusInd's rating on review for downgrade

Moody's has put private sector lender IndusInd Bank's domestic and foreign currency issuer ratings at "Baa3/P-3", under review for downgrade. It also placed the bank's baseline credit assessment (BCA) at "ba1" and adjusted BCA under review for downgrade.



These rating actions come in the backdrop of downgrading the outlook on the Indian banking system from "stable" to "negative", following which bank shares tanked. This change in outlook is because of the adverse fallout of the coronavirus outbreak and rise in defaults, which add to the risks of banking entities.

At the same time, the outlook for ICICI and Axis have been revised to negative from stable, and for IDBI to stable from positive, Moody's said. It has affirmed the deposit ratings of ICICI Bank and Axis Bank at 'Baa3', and of IDBI Bank at 'Ba2'. Moody's affirmed the BCA and adjusted BCA of ICICI and Axis at ba1. The BCA and adjusted BCA of IDBI has also been affirmed at b2. On Thursday, Moody's had said that disruptions to economic activity from the pandemic will exacerbate a slowdown in India's economic growth. Banks' asset quality will deteriorate across the corporate, SME and retail segments, leading to pressure on profitability. ABHIJIT LELE

Indian expats with expired visas on sticky wicket

SUBHAYAN CHAKRABORTY & NEHA ALAWADHI
New Delhi, 3 April

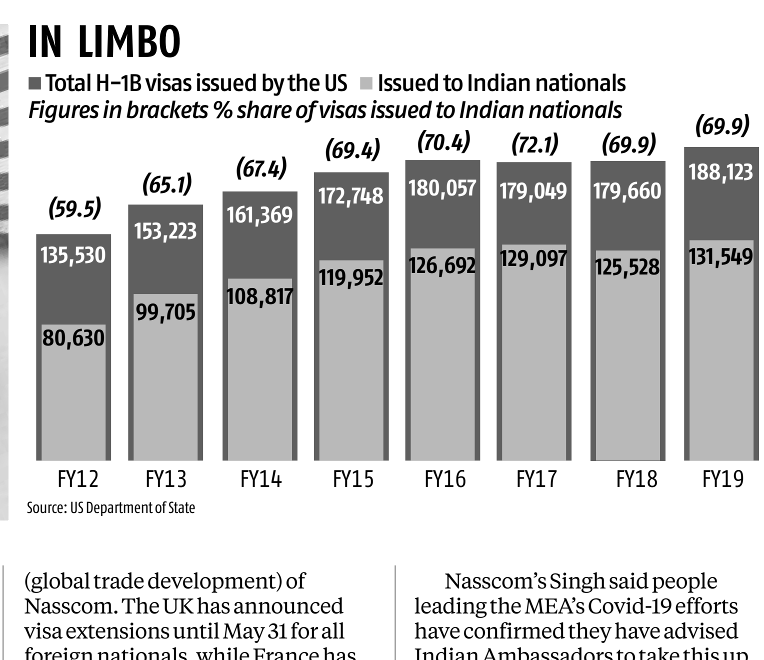
Indian expatriates in the US and other countries, who have lost their jobs or have a work permit that has expired, may not be able to return before the current ban on international flights is lifted, in view of the virus outbreak.

Senior government officials have confirmed that no evacuation flights to the US are on the radar, given the surge in cases to above 245,000 (as of Friday), in the country.

"For all jurisdictions, our first priority is students, tourists, and those on short-term visas. However, India's six diplomatic missions across the US are in touch with affected citizens and preparing a tentative list of possible evacuees once and if evacuations do start," said a senior official in the Ministry of External Affairs.

The ministry's stance is based on the argument that "Indians currently abroad on employment visas like H-1B work in multinational firms, draw significant wages, and in many cases have retrenchment benefits". People in the know said no meetings were scheduled with the US State Department regarding the matter.

On the other hand, those stuck in the US also face no official legal guidance as the US Citizenship and Immigration Services (USCIS) has temporarily suspended routine in-person services since March 18. The USCIS plans to re-open offices on April 7.



The IT sector, a big beneficiary of H-1B visas, has been trying to sort out the issue with US authorities for some time now.

"In the US, we have requested the Departments of Homeland Service, Labor and U.S. Citizenship & Immigration Services for a 90-day grace period for professionals to depart the US following expiry of their H-1B/ L-1 visas. Additionally, we have sought ease of Labor Condition Application (LCA) norms to allow for 'work from home'," said Shivendra Singh, vice-president and head (global trade development) of Nasscom. The UK has announced visa extensions until May 31 for all foreign nationals, while France has also extended visas for three months.

"Many IT professionals in the US are at the risk of being laid off because their employers have lost end-client contracts. Such individuals can remain in the US for up to 60 days, during which they can look for a new job with an employer who can file a new H-1B petition for them. If there is no job in sight, the worker should leave to avoid running the risk of accruing unlawful presence," said Poorvi Chothani, managing partner of LawQuest.

Nasscom's Singh said people leading the MEA's Covid-19 efforts have confirmed they have advised Indian Ambassadors to take this up with foreign governments.

There have been reports of thousands of Indians under similar visa regimes being stuck in Japan, Australia, New Zealand, the UK, South Africa, and the UAE, among other areas.

At present, there is no standard operating procedure in place for airlifting stranded citizens from corona-hit nations, with the External Affairs ministry identifying particularly hit areas such as Iran, China, and South Korea.