

WEEKLY WRAP

17 December 2018

Domestic macros outshines global indicators

Global growth is slowing down with US and China retail sales disappointing. Growth outlook for Europe is no better. Crude prices also declined (US\$ 60/bbl) amidst global growth concerns. On the domestic front, lower inflation and comments by new RBI Governor drove 10Y yields lower. Domestic equity markets went up as RBI indicated it will pursue growth while targeting inflation. INR fell on the back of FII outflows. However, if the decline in oil prices sustain, domestic economic outlook is expected to remain favourable.

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Markets

- **Bonds:** Global yields closed mixed even as US and China's retail sales data disappointed. Industrial output in UK and Japan also showed signs of deceleration. With crude prices declining by 2.3% (US\$ 60/bbl), Indian 10Y yields declined by 2bps (7.44%). CPI inflation was also below consensus estimate and RBI' revised trajectory at 2.3%. System liquidity deficit rose to Rs 1.4tn as on 14 Dec 2018 versus Rs 379bn in the previous week
- **Currency:** All major global currencies ended lower in the week. DXY rose by 1%. Disappointing data in China, Germany and uncertainty around Brexit explains the appreciation bias for US currency. In India's case, FPI outflows accelerated after change in guard at RBI and state election outcome.
- **Equity:** Global indices closed lower led by concerns over global growth. US and China trade negotiations outlook was marred by arrest of Huawei CFO in Canada. European markets ended higher. Sensex ended higher in the week after new RBI Governor indicated that RBI will also look at growth while maintaining inflation target. Equity markets took this as positive indication by RBI to provide adequate liquidity for supporting growth.
- **Upcoming key events:** Markets will closely watch data release of US economy such as GDP for Q3CY18, new home sales data and FOMC Dec'18 policy decision. It is an important policy, setting pace for 2019. On domestic front, RBI minutes will be released.



India macro developments

- ADB in its latest update has retained India's growth projections at 7.3% & 7.6% in FY19 & 20 respectively. This has been on the back of rebounding exports and higher industrial output. Further, it added that lower oil prices would reduce pressure on external balances. Inflation in India has also been projected lower at 4.3% & 4.7% in FY19 & 20 respectively (earlier est: 5%).
- IIP rose to an 11-month high of 8.1% in Oct'18 led by double-digit increase in capital good and consumer durables. CPI inflation on the other hand, was at a 17-month low of 2.3% in Nov'18 led by (-) 2.6% decline in food inflation. Core inflation too moderated to 5.7% from 6.2% as international oil prices fell and INR appreciated. Inflation trajectory in FY20 is pointing to a below 4% print unless oil prices or pass-through of MSPs is seen in food prices. This may call for a change in RBI's stance in Feb/ Apr policy.
- RBI reported that currency in circulation (CIC) increased by Rs 181bn (on a weekly basis) and stood at Rs 20tn as on 3 Dec 2018. Overall reserve money grew by 17.3% on a YoY basis compared to 18.1% a year ago. On FYTD basis, reserve money is growing at a slower pace of 5.3% against 14.3% in the previous year.
- Recent data published by IRDAI showed that the number of life insurance policies sold in Nov'18 declined by (-) 2.2% versus an increase of 0.4% in Oct'18. This was on account of high base (30% growth in Nov'17). Gross direct premium of non-life insurance which comes with a lag, also rose at a moderate pace of 6% in Oct'18 versus 9% in Sep'18.
- Led by shortage of credit from NBFCs and higher loan rates, passenger vehicles sales declined by (-) 3.4% in Nov'18 from 1.6% in Oct'18. The robust pace of growth in commercial vehicles was also hit in Nov'18 as it decelerated by 5.7% (vs 25% in Oct'18). Growth in two-wheeler sales too slowed down as it rose by 7% compared with 17% growth in Oct'18. However, going forward with pickup in consumption demand, auto sales would revive.
- India's trade deficit narrowed to US\$ 16.7bn in Nov'18 from US\$ 17.1bn in Oct'18 on account of sharp decline in imports. Imports slowed on account of base effect and a steep fall in non-oil-non-gold imports (-5.8%). Exports also decelerated (0.8% versus 17.9% in Oct'18), mainly owing to adverse base effect. The continued dip in oil prices (-8% MTD basis in Dec'18) will be positive for external balance. Reversal in FPI inflows however remains a key risk.

Global macro developments

- Japan's Q3CY18 GDP was revised downward from (-) 1.2% to (-) 2.5% on a YoY basis and from (-) 0.3% to (-) 0.6% on a QoQ basis. The downgrade on a quarterly basis was mainly driven by sharp revision in private capex & consumption. While natural disasters mired Q3 output, the outlook for Q4 hinges upon muted global demand, slowing profit growth and trade frictions.
- US CPI remained flat in Nov'18 in line with expectations, after rising by 0.3% in Oct'18 on a MoM basis. This was attributed to a decline in energy prices (-4.2%) which offset the increase in other indices. However, the Core PCE price index, excluding food and energy remained stable at 0.2% in Nov'18.
- US retail sales grew by 0.2% in Nov'18 vs 1.1% in Sep'18 on MoM basis. Retail sales excluding gasoline slowed down to 0.5% in Nov'18 vs 0.9% in Oct'18. Industrial production on the other hand, picked up to 0.6% in Nov'18 vs 0.15 in the previous month. However, manufacturing remained flat. Capacity utilisation rose to 78.5% which is 1.3% points below its long run average.
- Economic sentiment in Germany picked up in Dec'18 to (-) 17.5 from (-) 24.1 in Nov'18 (est., -25). However, the assessment of current economic situation continued to deteriorate and fell to 45.3 from 58.2 in Nov'18. This points to weaker economic growth in Q4CY18 weighed down by uncertainty around Brexit and global trade war.
- ECB in its latest meeting kept policy rates unchanged. It also ended its quantitative easing program which began in Mar'15, thus putting a halt to the € 2.6tn (US\$ 3tn) stimulus. On growth front, ECB president highlighted that downside risks persist with regard to US-China trade war, Brexit issues and Italian government's dispute with Brussels.
- China's macro prints showed signs of cooling. Retail sales in Nov'18 rose at its weakest pace since 2003 (by 8.1% vs 8.6% in Oct'18 & est.: 8.8%), while industrial output cooled to 5.4% in Nov'18 vs 5.9% in Oct'18. Property sales growth also slowed to 1.4% between Jan-Nov'18 vs 2.2% between Jan-Oct'18. The only silver lining was provided by FAI, which rose by 5.8% between Jan-Nov'18 vs 5.7 in Jan-Oct'18, driven by overall infra spending.
- Flash manufacturing PMIs of US, Japan, and Eurozone indicates activity slowing across the board in Dec'18. Within Eurozone the decline was led by France. Manufacturers in all countries reported a decline in new orders, and employment. Their profit margins are also coming under pressure due to sustained rise in input costs. Concerns of global trade, slowing growth and heightened political uncertainty are the key reasons behind a poor show in Q4CY18.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	2.89	4	(24)	(11)	54
UK	1.24	(3)	(27)	(29)	7
Japan	0.04	(2)	(8)	(8)	(2)
Germany	0.25	0	(15)	(20)	(6)
India	7.44	(2)	(29)	(69)	31
China	3.38	6	(6)	(30)	(55)
2Y yields (Δ bps)					
US	2.73	2	(13)	(4)	92
UK	0.72	(1)	(6)	(9)	27
Japan	(0.15)	(1)	(2)	(5)	0
Germany	(0.61)	(1)	(4)	(7)	10
India	6.98	(14)	(36)	(99)	59
China	2.50	(5)	(39)	(35)	(128)
Currencies (Δ %)					
EUR	1.1306	(1)	0	(2.7)	(4.0)
GBP	1.2583	(1.1)	(3.1)	(3.7)	(6.3)
JPY	113.39	(0.6)	0.2	(1.2)	(0.9)
AUD	0.7172	(0.5)	(0.8)	0.3	(6.4)
INR	71.90	(1.5)	0.6	(0.1)	(11.7)
CNY	6.9076	(0.5)	0.6	(0.6)	(4.5)
Equity & Other indices (Δ %)					
Dow	24,101	(1.2)	(3.9)	(7.9)	(1.7)
FTSE	6,845	1.0	(2.7)	(6.3)	(8.1)
DAX	10,866	0.7	(4.8)	(10.4)	(16.9)
NIKKEI	21,375	(1.4)	(2.2)	(7.4)	(5.8)
Shanghai Comp	2,594	(0.5)	(1.5)	(3.3)	(21.2)
SENSEX	35,963	0.8	2.3	(5.6)	8.2
Brent (US\$/bbl)	60.28	(2.3)	(8.8)	(22.8)	(4.8)
Gold (US\$/oz)	1,239	(0.8)	2.3	3.7	(1.1)
CRB Index	415.0	(0.7)	0.2	1.5	(3.4)
Rogers Agri Index	777.2	(0.9)	0.6	1	(2.2)
LIBOR (3M)*	2.77	3	17	44	124
INR 5Y Swap*	7.21	(14)	(37)	(50)	62
India FII data (US\$ mn)					
	13 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	122.5	(309.3)	215.8	(7,356.3)	(7,602.3)
FII-Equity	57.8	(297.8)	343.0	(4,546.8)	(6,672.3)

Source: Bloomberg, Bank of Baroda Research | *Indicates change in level

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
17-Dec	Indonesia exports, % YoY	Nov	4.7%	3.6%	--
	Italy trade balance, € bn	Oct	--	1.27	--
	Euro Area trade balance SA, € bn	Oct	14.0	13.4	--
	Euro Area CPI, % YoY	Nov	2.0%	2.2%	--
18-Dec	RBA Dec. meeting minutes				
	Germany IFO business climate	Dec	101.7	102.0	--
	US housing starts	Nov	12,30,000	12,28,000	--
19-Dec	Japan trade balance, ¥ bn	Nov	(630.0)	(449.3)	--
	Germany PPI, % YoY	Nov	3.1%	3.3%	--
	BoT Benchmark Interest Rate	19-Dec	1.8%	1.5%	--
	UK CPI, % YoY	Nov	2.3%	2.4%	--
	RBI Dec. meeting minutes				
	US current account balance, US\$ bn	Q3CY18	(124.8)	(101.5)	--
	US existing home sales, mn	Nov	5.2	5.2	--
	Thailand customs exports, % YoY	Nov	4.4%	8.7%	--
20-Dec	FOMC Rate Decision (Upper Bound)	20-Dec	2.50%	2.25%	--
	FOMC Rate Decision (Lower Bound)	20-Dec	2.25%	2.00%	--
	Interest Rate on Excess Reserves	20-Dec	2.40%	2.20%	--
	Australia unemployment rate, % YoY	Nov	5.0%	5.0%	--
	Japan industry activity index, % MoM	Oct	2.0%	(0.9%)	--
	Japan machine tool orders, % YoY	Nov	--	(16.8%)	--
	ECB current account SA, € bn	Oct	--	16.9	--
	Italy PPI, % MoM	Nov	--	1.8%	--
	Italy current account balance, € bn	Oct	--	3.2	--
	UK retail sales ex auto fuel, % MoM	Nov	0.2%	(0.4%)	--
	Bank of England bank rate	20-Dec	0.8%	0.8%	--
	US initial jobless claims	13-Dec	2,19,000	2,06,000	--
	Taiwan CBC benchmark interest rate	20-Dec	--	1.4%	--
	Bank of Indonesia 7D reverse repo	20-Dec	6.0%	6.0%	--
BOJ policy balance rate	20-Dec	--	(0.1%)	--	
21-Dec	Japan CPI, % YoY	Nov	0.8%	1.4%	--
	UK GfK consumer confidence	Dec	(14.0)	(13.0)	--
	Germany GfK consumer confidence	Jan	10.3	10.4	--
	France PPI, % YoY	Nov	--	3.9%	--
	France GDP, % QoQ	Q3CY18	0.4%	0.4%	--
	France PPI, % YoY	Nov	--	3.9%	--
	US GDP annualized, % QoQ	Q3CY18	3.5%	3.5%	--
	US durable goods orders, % MoM	Nov	1.7%	(4.3%)	--
	Euro Area consumer confidence	Dec	(4.3)	(3.9)	--

Source: Bloomberg, Bank of Baroda Research

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