

WEEKLY WRAP

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US Fed turns dovish

Global yields fell as crude prices edged below US\$ 60/bbl and US Fed turned dovish. Anticipated positive outcome of the US-China trade talks further supported the markets. Global equity markets went up, but Europe and China under-performed. Notably, Chinese economy slowed down further in the month. Even India's growth moderated to 7.1% in Q2FY19 (8.2% in Q1FY19) as consumers cut down on spending. Manufacturing growth also decelerated. With energy prices falling, growth is likely to remain at Q2FY19 levels in H2. RBI to remain on hold.

BOB Economics Research

+91 22 6698 5713

chief.economist@bankofbaroda.com

Markets

- **Bonds:** Global yields fell for the second consecutive week, supported by lower crude oil prices and Fed chairman's dovish statement that US rates are close to 'neutral'. Weaker than estimated US consumer confidence and home sales also drove yields lower. Indian 10Y yield dipped by 10bps (7.61%) driven by RBI's announcement of OMO purchases of Rs 400bn in Dec'18. Liquidity deficit in the system decreased to Rs 960bn as on 30 Nov 2018 versus Rs 1.1tn in the previous week.
- **Currency:** Despite US 10Y tipping below 3%, DXY index went up by 0.5% in the week as concerns over outcome of trade talks between US and China drove most currencies lower. EUR and GBP were also impacted by uncertainty around Brexit and Italy. AUD and INR appreciated. INR strengthened by 1.6% to close below at 69.58/\$ as oil prices continued to remain below US\$ 60/bbl. Equity FII inflows of US\$ 609mn in the week also lent support.
- **Equity:** Led by dovish stance of US Fed Chairman and hopes of positive outcome from the G20 summit on US-China trade front, global equity indices closed higher. Dow went up by 5.2%, followed by Sensex (3.5%) and Nikkei (3.3%). European and Chinese markets under-performed. Former because of Brexit and Italy, latter because of poor data.
- **Upcoming key events:** This is a data heavy week with release of manufacturing and services PMIs across the world besides US payroll data and German and US factory orders. On the domestic front, India's manufacturing and services PMI and RBI's monetary policy decision are awaited this week.



India macro developments

- India's GDP growth decelerated to 7.1% in Q2FY19 from 8.2% in Q1FY19 led by lower domestic consumption and margin pressure in manufacturing sector. Higher imports too were a drag on growth. However, investment spending accelerated to 12.5% (10% in Q1). Manufacturing margins will improve with lower oil prices. So would consumption. However, growth is likely to be lower in H2 because of fiscal pressures, slowdown in NBFC sector and base effect.
- India's fiscal deficit has reached Rs 6.5tn or 103.9% of BE Rs 6.5tn by Oct'18. On a 12M trailing basis, total expenditure growth dipped to 8.7% in Oct'18 vs 10.5% in Oct'17, led by steeply falling capex (-14.2% vs 38.1% in Oct'17). Revenue receipts were also down (6.3% vs 8% last year), mainly on account of lower tax revenue growth (5.4% in Oct'18 vs 15.3% last year).
- In order to address the liquidity crunch faced by NBFCs, RBI has relaxed the regulations to sell or securitise loan books with more than 5 year maturity. The holding period for these assets are now kept at either 6 monthly instalment or 2 quarterly instalment, instead of 1 year. This will be applicable when NBFCs retain 20% of the book value, thereby raising the MRR (minimum retention requirement) from 10% to 20%, ensuring their stake in securitised asset.
- GDP 2004-05 series has been rebased (2011-12). The methodology broadly remained same as in 2011-12 series. Average growth from FY06 to FY12 under the new series was lower at 6.9% vs 8.2% in the old series. According to the new series, impact of financial crisis was visible profoundly with GDP at constant prices tumbling to 3.1% in FY09 from 3.9% shown in accordance with the 2004-05 series. However, the trajectory remained similar.
- RBI reported that currency in circulation (CIC) declined by Rs 46.8bn (on a weekly basis) and stood at Rs 20tn as on 23 Nov 2018. Overall reserve money grew by 18.4% on a YoY basis compared to 30.4% a year ago. On FYTD basis, reserve money is growing at a slower pace of 5.3% against 13.2% in the previous year.
- In an effort to address durable liquidity needs of the system, RBI continued its OMO purchase announcement worth Rs 400bn in Dec'18. In FYTD19, OMO purchase worth Rs 1.36 tn has already been announced. This has been in the wake of deficit liquidity in the system which as on 27 Nov 2018 swelled to Rs 1tn versus Rs 992bn in the previous month.
- India's forex reserves for the week ending 23 Nov 2018 declined to US\$ 393bn. On a weekly basis, forex reserves declined by US\$ 795mn compared with an increase of US\$ 569mn seen in the previous week. On CYTD basis, reserves are down by US\$ 17bn compared with an accretion of US\$ 40bn in the same period last year.

Global macro developments

- China's official manufacturing PMI index slipped to 50 in Nov'18 from 50.2 in Oct'18. The drop was led by declining new orders (50.4 vs 50.8 in Oct'18), especially continued contraction in new export orders since Jun'18. Output price index, an indicator of profitability, contracted for the first time in 8 months in Nov'18 to 46.4 vs 52 in Oct'18, suggesting deepening economic slowdown.
- US FOMC minutes pointed out strong likelihood of Dec'18 rate hike. Regarding neutral rates, the outlook remains uncertain. Though current economic projections suggest three more rate hike till Dec'19 concern remain about the timings. Elsewhere, US consumer spending rose to its 7-month high in Oct'18. Jobless claims rose to its 6-month high of 234,000 for the week ending 24 Nov 2018.
- New home sales in the US fell by (-) 8.9% in Oct'18 on a MoM basis vs 1% in Sep'18. This was despite second consecutive decline in home sale prices on a YoY basis (-3.1% in Oct'18 & Sep'18). GDP data for Q3CY18 too confirms that residential investment contracted by (-) 2.6% in Q3CY18 vs (-) 1.3% in Q2CY18 as higher cost of borrowing dents the housing market. Second estimates of GDP growth kept Q3CY18 rate unchanged at 3.5%.
- Industrial profits in China slowed for the sixth consecutive month in Oct'18 (3.6%) vs 4.1% in Nov'18. Between Jan-Oct'18 profit growth fell to 13.6% vs 14.7% between Jan-Sep'18. Apart from an unfavourable base, weak domestic demand & high borrowing cost impacted the earnings. Positive contribution were made by steel, oil, building material & chemical industries, as government decided to ease anti-smog restrictions to support growth.
- Driven by weaker expectations for the economy, US consumer confidence dipped to an 18-year low of 135.7 in Nov'18 vs 137.9 in Oct'18. Despite the dip, the confidence remained strong led by sturdy job market as unemployment fell to a 5-year low of 3.7%. The future outlook though is grim on the back of the recent volatility in the stock market and the escalation tensions between US and China.
- Retail inflation in Germany rose by 2.3% in Nov'18 on a YoY basis vs 2.5% in Oct'18. Despite easing prices, inflation continues to remain above ECB's target since Sep'18. Higher energy prices drove the inflation up, while lower prices of food and services helped inflation cooled off.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	2.99	(5)	(16)	13	58
UK	1.36	(2)	(7)	(6)	3
Japan	0.09	(1)	(4)	(2)	5
Germany	0.31	(3)	(7)	(1)	(5)
India	7.61	(10)	(25)	(35)	55
China	3.38	(4)	(16)	(22)	(54)
2Y yields (Δ bps)					
US	2.79	(2)	(8)	16	100
UK	0.78	3	3	5	26
Japan	(0.13)	1	(1)	(2)	3
Germany	(0.60)	(2)	2	1	9
India	7.23	(7)	(34)	(47)	88
China	2.50	(5)	(39)	(35)	(126)
Currencies (Δ %)					
EUR	1.1317	(0.2)	0.0	(2.5)	(4.9)
GBP	1.2749	(0.5)	(0.1)	(1.6)	(5.7)
JPY	113.57	(0.5)	(0.6)	(2.3)	(0.9)
AUD	0.7306	1.0	3.3	1.6	(3.4)
INR	69.58	1.6	5.9	2.0	(8.0)
CNY	6.9605	(0.2)	0.2	(1.9)	(5.3)
Equity & Other indices (Δ %)					
Dow	25,538	5.2	1.7	(1.6)	5.2
FTSE	6,980	0.4	(2.1)	(6.1)	(4.7)
DAX	11,257	0.6	(1.7)	(9.0)	(13.6)
NIKKEI	22,351	3.3	2.0	(2.2)	(1.6)
Shanghai Comp	2,588	0.3	(0.6)	(5.0)	(22.0)
SENSEX	36,194	3.5	5.1	(6.3)	9.2
Brent (US\$/bbl)	58.71	(0.2)	(22.2)	(24.2)	(7.6)
Gold (US\$/oz)	1,221	(0.2)	0.5	1.6	(4.3)
CRB Index	414.2	(0.3)	(0.5)	0.7	(3.5)
Rogers Agri Index	773.6	0.8	0.3	(1.4)	(4.6)
LIBOR (3M)*	2.74	5	20	42	126
INR 5Y Swap*	7.53	0	(19)	10	102
India FII data (US\$ mn)					
	29 Nov	WTD	MTD	CYTD	FYTD
FII-Debt	(75.6)	(157.0)	868.0	(7,593.3)	(7,839.3)
FII-Equity	171.0	609.6	891.1	(4,867.1)	(6,992.6)

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
3-Dec	Japan manufacturing PMI	Nov	--	51.8	--
	South Korea manufacturing PMI	Nov	--	51.0	--
	China manufacturing PMI	Nov	50.1	50.1	--
	Thailand CPI, % YoY	Nov	1.0%	1.2%	--
	Indonesia CPI, % YoY	Nov	3.2%	3.2%	--
	India manufacturing PMI	Nov	--	53.1	--
	Italy manufacturing PMI	Nov	48.9	49.2	--
	France Manufacturing PMI	Nov	50.7	50.7	--
	Germany manufacturing PMI	Nov	51.6	51.6	--
	Eurozone manufacturing PMI	Nov	51.5	51.5	--
	UK manufacturing PMI	Nov	51.7	51.1	--
	US manufacturing PMI	Nov	55.4	55.4	--
	US ISM manufacturing PMI	Nov	57.5	57.7	--
	4-Dec	South Korea GDP, % YoY	Q3CY18	2.0%	2.0%
South Korea CPI, % YoY		Nov	2.0%	2.0%	--
RBA monetary policy decision		Dec-18	1.5%	1.5%	--
Euro area PPI, % YoY		Oct	4.5%	4.5%	--
5-Dec	Japan services PMI	Nov	--	52.4	--
	Australia GDP, % QoQ	3Q	0.6%	0.9%	--
	China services PMI	Nov	50.8	50.8	--
	India services PMI	Nov	--	52.2	--
	France services PMI	Nov	55.0	55.0	--
	Germany services PMI	Nov	53.3	53.3	--
	RBI monetary policy decision	Dec-18	6.5%	6.5%	--
	Eurozone services PMI	Nov	53.1	53.1	--
	UK services PMI	Nov	52.5	52.2	--
	Euro area retail sales, % MoM	Oct	0.2%	0.0%	--
	US services PMI	Nov	54.4	54.4	--
US ISM non-manufacturing index	Nov	59.0	60.3	--	
6-Dec	South Korea current account balance, US\$ bn	Oct	--	10.8	--
	Australia trade balance, AUD bn	Oct	3.0	3.0	--
	Australia retail sales, % MoM	Oct	0.3%	0.2%	--
	Germany factory orders, % MoM	Oct	(0.4%)	0.3%	--
	US trade balance, US\$ bn	Oct	(55.0)	(54.0)	--
	US initial jobless claims	1-Dec	225,000	234,000	--
	US factory orders, % MoM	Oct	(2.0%)	0.7%	--
7-Dec	Germany industrial production, % MoM	Oct	0.3%	0.2%	--
	Euro area GDP SA, % QoQ (Final)	Q3CY18	0.2%	0.2%	--
	US change in nonfarm payrolls	Nov	199,000	250,000	--

Source: Bloomberg, Bank of Baroda Research

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com