WEEKLY WRAP

26 November 2018

Oil drop positive for India

Global yields fell as oil prices slumped by 12% and concerns over slowing global growth emerged. Flash manufacturing PMIs fell across countries corroborating narrative of slowing global growth. US home sales data showed some recovery. Lower yields will help US housing market. Lower oil prices and global yields drove Indian yields lower as well. INR too has appreciated by 1.7% in the week as CAD will be in much better shape. G-20 summit and Fed speak will decide the trajectory of markets this week. India is insulated as lower oil prices bode well for Indian markets.

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Markets

- **Bonds:** Global yields closed lower led by 12% slump in oil prices which closed at more than 1-year low of US$ 59/bbl. Prospects of a weak global economy also drove yields lower. Indian 10Y yield dipped by 11bps (7.71%) in response to falling crude prices. Liquidity deficit in the system swelled to Rs 1.2tn as on 22 Nov 2018 versus Rs 669bn in the previous week.

- **Currency:** Except INR, all major currencies depreciated as dollar strengthened (DXY rose by 0.5%). Concerns over weak global growth supported the dollar. EUR depreciated by 0.7% in the week on the back of weak consumer confidence and PMI data. INR appreciated by 1.7% supported by declining oil prices which fell by 12% in the week to end below US$ 60/bbl.

- **Equity:** Global indices closed lower led by escalated concerns of trade war and worries over slowdown in global growth. Dow was the worst performer amongst other indices as it posted a sharp weekly loss of (-) 4.4%. This was followed by Shanghai Comp (-3.7%) and Dax (-1.3%). Sensex too ended the week in red.

- **Upcoming key events:** Markets will closely watch various macro prints such as US GDP (2nd est.) for Q3CY18, new home sales and consumer confidence data. FOMC minutes and members' speeches along with G-20 meeting will drive markets in the week. On domestic front, GDP data will be released this week.

India macro developments

- RBI's board has advised on a range of issues to provide relief to small business and weak banks. It has decided to constitute a panel with joint membership of government and RBI for examining the capital framework. It has proposed a restructuring scheme for MSME borrowers (credit facilities of up to Rs 250mn). It has also agreed to provide more time to banks for creating capital buffer. As per news reports, this move might cut capital needs of banks by Rs 300-400bn and boost lending by Rs 3.5-4tn.
- RBI reported that currency in circulation (CIC) declined by Rs 69.5bn (on a weekly basis) and stood at Rs 20tn as on 16 Nov 2018. Overall reserve money grew by 17.6% on a YoY basis compared to 15.7% a year ago. On FYTD basis, reserve money is growing at a slightly slower pace of 5.9% against 14.6% in the previous year.
- India's forex reserves for the week ending 16 Nov 2018 rose marginally to US$ 394bn. On a weekly basis, forex reserves increased by US$ 569mn as against a decline of US$ 121mn seen in the previous week. On CYTD basis, reserves are down by US$ 16bn compared with an accretion of US$ 39bn in the same period last year. INR has depreciated by 10% in the same period. However, it started appreciating lately (5% on MTD basis).
- RBI's fortnightly data shows that credit growth as of week ending 9 Nov 2018 rose by 14.9% vs 8.3% during the same period last year and 14.6% in the previous fortnight. Deposit growth also rose, by 9.1% as of week ending 9 Nov 2018, vs 7.6% during the same period last year and 9% in the previous fortnight. Credit deposit ratio also improved by 30bps to 77.1 as on 9 Nov 2018 in comparison to the previous fortnight.
- As per news reports, the government is expected to achieve fiscal deficit of 3.2% in FY19 vs budgeted 3.3% and further reduce it to 3.1% (or less) by FY20. The report also confirms that the budgeted Rs 650bn for bank recapitalization in FY19 is sufficient and no extra amount will be needed. On the economic capital framework of RBI, the report mentions that both RBI and government have reached an agreement to set up an independent committee to review the framework, which will help decide the formula for transferring RBI's surplus to the government.
- As per news reports, GST collections which have reached Rs 5.8tn in H1FY19, will get a boost in H2 owing to better tax compliance (via simplified GST collection form) and lower outward refunds. It is estimated that government refunds ~Rs 50-60bn every month which is expected to come down to ~Rs 30bn. Thus, the government expects monthly GST collections to average around Rs 1tn a month (currently at Rs 959bn) in FY19 and Rs 1.5tn per month in FY20.

Global macro developments

- OECD in its latest Economic Outlook has revised downward global growth projection to 3.5% in 2019 as against earlier estimation of 3.7%. This was primarily due to downside risks persisting from trade disputes and higher global interest rates. Growth forecasts of major economies such as Euro area, Japan, China and India have also been trimmed down.
- Various macro data prints of US showed mixed picture. Durable goods orders marked its biggest decline in the past 15 months and shrank by (-) 4.4% vs (-) 0.1% in Sep'18. Business investment also remained weaker for 3rd month in a row. However, existing home sales posted their first monthly increase in the last 6 months and was at 5.22mn vs 5.15mn in Sep'18. Jobless claims rose to 224,000 in the week ending 17 Nov 2018 vs previous week's level of 221,000.
- Flash manufacturing PMI indicates activity across developed economies (US, Japan, Eurozone, Germany & France) slowed in Nov'18 compared to Oct'18. In Japan and Eurozone, easing new orders, dampened by weak global growth momentum, domestic demand and export growth led to the slowdown. In the US, it was mainly slower rate of inventory accumulation.
- Germany's economy contracted by (-) 0.2% in Q3CY18 on QoQ basis compared with 0.5% in Q2CY18, in line with anticipation. The slowdown was led by weaker exports of goods and services which declined by (-) 0.9% compared with an increase of 0.8% in Q2CY18. Further, fall in the consumption spending from 0.5% to (-) 0.1% owing to the slowdown in auto purchases also contributed to the decline.
- Japan's exports rebounded by 8.2% in Oct'18 after declining by 1.3% in Sep'18 (est. 9% increase). The decline in Sep'18 resulted from a number of natural disasters. Imports also rose by 19.9% in Oct'18 from 7% in Sep'18 due to rising oil prices. As a result, trade deficit rose to ¥ 449bn compared to a surplus of ¥ 278bn in Oct'17.
- Thailand's economy slowed to 3.3% in Q3CY18, much lower than anticipated, from 4.6% in Q2CY18. This was due to the sluggish pace of growth in exports and tourism sector. The adverse effects of trade spat between US and China on outbound shipments, resulted in exports falling to 5.2% in Sep'18 which accounts for over 60% of total GDP.
- Consumer confidence in both Euro Area and EU declined markedly in Nov'18 by 1.2 & 1 points respectively to (3.9) & (3.7) respectively. However, both the indicators remained well above their long run averages.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	3.04	(2)	(6)	23	72
UK	1.38	(3)	(8)	10	13
Japan	0.10	0	(4)	0	8
Germany	0.34	(3)	(6)	0	(1)
India	7.71	(11)	(16)	(16)	72
China	3.42	5	(15)	(22)	(60)
2Y yields (Δ bps)					
US	2.81	1	(2)	19	108
UK	0.74	2	(1)	2	29
Japan	(0.14)	0	(3)	(3)	5
Germany	(0.58)	1	4	2	12
India	7.31	(8)	(27)	(26)	91
China	2.50	(5)	(39)	(35)	(113)
Currencies (Δ %)					
EUR	1.1337	(0.7)	(0.5)	(2.5)	(4.3)
GBP	1.2814	(0.2)	(0.5)	(0.2)	(3.7)
JPY	112.96	(0.1)	(0.6)	(1.5)	(1.6)
AUD	0.7233	(1.4)	2.5	(1.3)	(5.1)
INR	70.70	1.7	3.4	(1.1)	(9.5)
CNY	6.9485	(0.2)	(0.1)	(2.0)	(5.5)
Equity & Other indices (Δ %)					
Dow	24,286	(4.4)	(1.2)	(5.8)	3.2
FTSE	6,953	(0.9)	(0.1)	(8.2)	(6.3)
DAX	11,193	(1.3)	0.0	(9.7)	(14.0)
NIKKEI	21,647	(0.2)	(2.0)	(4.2)	(3.9)
Shanghai Comp	2,579	(3.7)	(0.9)	(5.5)	(23.0)
SENSEX	34,981	(1.3)	2.8	(8.6)	4.1
Brent (US$/bbl)	58.80	(11.9)	(22.8)	(22.4)	(7.5)
Gold (US$/oz)	1,223	0	(0.9)	1.5	(5.3)
CRB Index	416.8	0	0.3	1.1	(3.3)
Rogers Agri Index	767.2	(0.9)	(1.9)	(1.9)	(5.8)
LIBOR (3M)*	2.69	4	18	37	123
INR 5Y Swap*	7.53	(9)	(12)	0	108
India FII data (US$ mn)	**20 Nov**	**WTD**	**MTD**	**CYTD**	**FYTD**
FII-Debt	(5.1)	(14.3)	875.2	(7,586.0)	(7,832.0)
FII-Equity	(679.6)	(533.0)	43.7	(5,714.4)	(7,839.9)

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
26-Nov	Japan manufacturing PMI	Nov	--	52.9	--
	Singapore industrial production, % YoY	Oct	--	(0.2%)	--
	Hong Kong exports, % YoY	Oct	--	4.5%	--
	Germany IFO business climate	Nov	102.5	103	--
27-Nov	China industrial profits, % YoY	Oct	--	4.1%	--
	France consumer confidence	Nov	--	95.0	--
	Italy manufacturing confidence	Nov	--	104.9	--
	US conf. board consumer confidence	Nov	136.0	137.9	--
	Germany retail sales, % MoM	Oct	0.2%	0.1%	--
28-Nov	South Korea business survey manufacturing	Dec	--	72.0	--
	Italy PPI, % YoY	Oct	--	5.6%	--
	Germany GfK consumer confidence	Dec	10.5	10.6	--
	US advance goods trade balance, US$ bn	Oct	(77.0)	(76.0)	--
	US GDP annualized, % QoQ	Q3CY18	3.6%	3.5%	--
	US new home sales	Oct	582,000	553,000	--
29-Nov	Japan retail trade, % YoY	Oct	2.7%	2.1%	--
	France GDP, % QoQ	Q3CY18	--	0.4%	--
	Euro Area economic confidence	Nov	109.0	109.8	--
	Germany CPI, % YoY	Nov	2.4%	2.5%	--
	US personal income	Oct	0.4%	0.2%	--
	US initial jobless claims	24-Nov	--	224,000	--
30-Nov	US FOMC meeting minutes	18-Nov	--	--	--
	South Korea industrial production, % YoY	Oct	--	(8.4%)	--
	Japan jobless rate, %	Oct	2.3%	2.3%	--
	Japan industrial production, % MoM	Oct	1.2%	(0.4%)	--
	UK GfK consumer confidence	Nov	(11.0)	(10.0)	--
	China non-manufacturing PMI	Nov	--	53.9	--
	China manufacturing PMI	Nov	--	50.2	--
	France PPI, % YoY	Oct	--	3.6%	--
	France CPI, % YoY	Nov	--	2.2%	--
	Italy unemployment rate, %	Oct	--	10.1%	--
	Euro area unemployment rate, %	Oct	8.1%	8.1%	--
	Euro Area CPI estimate, % YoY	Nov	2.1%	2.2%	--
	Italy GDP WDA, % QoQ	Q3CY18	--	0.0%	--
	India eight infrastructure industries, % YoY	Oct	--	4.3%	--
	India GDP, % YoY	Q2FY19	7.4%	8.2%	--

Source: Bloomberg, Bank of Baroda Research

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