

**WEEKLY WRAP**

19 November 2018

**US Fed says rates close to neutral**

Global yields closed lower on the back of easing oil prices and rising concerns over global growth outlook. Uncertainty around Brexit also drove yields and equity markets lower. China and India managed to buck the trend. US\$ fell as Fed indicated it is close to neutral rates. Indian yields rose as WPI inflation was higher than estimates. INR appreciated and equity markets rose due to lower oil prices and FPI inflows. Going ahead, FPI inflows (US\$ 1.2bn) and lower oil prices (11.1%) bode well for the markets. RBI board meet will also drive markets this week.

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**Markets**

- **Bonds:** Global yields closed lower due to lower crude prices (down 4.9% at US\$ 67/bbl) amid oversupply in the market. US 10Y yields declined by 12bps (3.06%) amidst growing Brexit concerns and US-China trade spat. US Fed indicating rates are close to neutral also drove rates lower. Indian 10Y yields firmed up by 5bps (7.82%) due to higher than expected rise in WPI. System liquidity is in deficit of Rs 974bn as on 17 Nov 2018 versus Rs 878bn in the previous week.
- **Currency:** Except GBP, all major currencies appreciated on the back of weakening dollar (DXY fell by 1.1%) after Fed officials expressed concerns over global growth outlook and that rates are close to neutral. GBP depreciated by 1.1% led by uncertainty around Brexit. INR appreciated by 0.8% supported by FII inflows of US\$ 816mn in the week. Rebounding exports in Oct'18 along with declining oil prices also lent support.
- **Equity:** Barring India and China, global indices closed lower. Dow posted a sharp weekly loss (-2.2%) largely led by tech stocks. In addition, investors remained cautious on account of uncertainties pertaining to Brexit and worries over slowdown in global growth. On the other hand, Shanghai comp surprised positively and gained by 3.1% after PBOC eased lending pressure on financial institutions. Sensex too ended in green.
- **Upcoming key events:** Investors in the coming week will closely watch Flash PMIs of major economies (US, Eurozone). Apart from this, US home sales and business fixed investment data will also shed some light on underlying growth dynamics. On the domestic front, RBI board meeting will chart market direction.



## India macro developments

- CPI inflation plunged to 13-month low of 3.3% in Oct'18 led by decline in food inflation to (-) 0.9% in Oct'18 vs 0.5% in Sep'18. On the other hand, core inflation went up to 6.3% in Oct'18 from 5.9% in Sep'18. With recent decline in crude prices, CPI inflation is likely to remain below 4% in H2FY19 and we expect RBI to remain on hold. Separately, industrial output eased to 4.5% in Sep'18 vs 4.7% in Aug'18, led by dip in manufacturing sector.
- WPI inflation increased from 5.1% in Sep'18 to 5.3% in Oct'18 led by higher international oil prices and a depreciating currency. Fuel & power inflation rose to 18.4% in Oct'18 from 16.6% in Sep'18. However, food prices remained benign led by decline in vegetable prices.
- RBI remained a net seller of US\$ for the sixth consecutive month and sold US\$ 31mn in Sep'18 in the spot market, down sharply from US\$ 2.3bn in Aug'18. However, RBI's intervention in the forwards market continued at a steady pace and it sold US\$ 7.1bn in Sep'18 vs US\$ 5bn in Aug'18. In CYTD18, RBI's overall FX intervention (cash + forward) is at US\$ 39bn (net sales) while INR has depreciated by 12% in the same period.
- India's exports rose by 17.9% in Oct'18 after a decline of (-) 2.2% in Sep'18. Imports also rose by 17.6% in Oct'18 (10.5% in Sep'18) on the back of higher oil imports (52.6%). As a result, trade deficit widened to US\$ 17.1bn in Oct'18 from US\$ 14bn in Sep'18. For FYTD19, trade deficit is at US\$ 112.8bn. The recent fall in oil prices will ensure that trade deficit does not increase to the extent seen in FYTD19.
- India's FX reserves for the week ending 9 Nov 2018 declined to US\$ 393bn. On a weekly basis, forex reserves declined by US\$ 121mn compared with an increase of US\$ 1.1bn. On CYTD basis, reserves are down by US\$ 16.4bn, compared with an accretion of US\$ 39bn in the same period last year. INR has depreciated by 11.2% in the same period.
- RBI reported that currency in circulation (CIC) increased by Rs 494bn (on a weekly basis) and stood at Rs 20.2tn as on 9 Nov 2018. Overall, reserve money rose by 19% on a YoY basis because of increased currency demand compared with a fall of (-) 5% a year ago. On FYTD basis, reserve money rose by 6% as against 13% in the previous year.
- AMFI data showed that net inflow in mutual funds increased to Rs 355bn in Oct'18 as against outflow of Rs 2302bn in the previous month. This was driven by higher inflow in the equity segment (Rs 131bn in Oct'18 versus Rs 119bn in Sep'18). Whereas in the debt segment, outflow persisted to the tune of Rs 358bn in Oct'18 versus Rs 334 bn in the previous month.

## Global macro developments

- Retail inflation in US rose to its 9-month high on a MoM basis (0.3% in Oct'18 vs 0.1% in Sep'18). This was led by higher cost of gasoline and rent. On an annualised basis, it rose by 2.5% vs 2.3% in Sep'18. This has further fuelled hopes of Fed's fund rate hike along the desired trajectory. Elsewhere in UK and France, CPI remained unchanged at 2.4% and 2.2% respectively.
- Retail sales in US grew by 0.8% on a MoM basis in Oct'18 (est.: 0.5%) vs (-) 0.1% in Sep'18. This was driven by recovery in spending post hurricane Florence and higher gasoline prices. Elsewhere, jobless claims unexpectedly rose to 216,000 for the week ending 10 Nov 2018 vs 214,000 last week.
- CPI inflation in Germany rose to a 10-year high at 2.5% in Oct'18 compared with 2.3% in Sep'18. It was led by an increase in energy prices which rose by 8.9% in Oct'18 vs 7.7% in Sep'18 on a YoY basis. Food prices also edged up by 1.9% in Oct'18. Services inflation however remain muted at 1.8% (vs 3.2% for goods) in the same period.
- Q3CY18 GDP of Japan, Germany and Eurozone indicates an economic slowdown in the developed countries. While GDP in Japan and Germany contracted on a QoQ basis, by (-) 0.3% and (-) 0.2% respectively, growth in Eurozone slowed to 0.2% vs 0.4% in Q2. Weaker exports and slowing domestic consumption impacted both Japan and Germany, but in Japan natural disasters were an additional cause for the declining output.
- China's Oct'18 data points reflect a mixed picture of the economy. While its industrial production (5.9% vs 5.8% in Sep'18) and fixed asset investment quickened (5.7% in Jan-Oct'18 vs 5.4% in Jan-Sep'18), its retail sales (8.6% vs 9.2% in Sep'18) and new home sales (9% vs 11% in Sep'18) fell short of expectations. Fast tracking of infrastructure projects by the government and front loading of exports is supporting the manufacturing sector. However, slowing real estate is effecting domestic consumption.
- Indonesia and Philippines raised their benchmark interest rates by 25bps to 6% and 4.75% respectively, driven by looming Fed rate hike, higher domestic inflation and rising foreign funds outflows. Inflation in Indonesia was at 3.2% in Oct'18 vs targeted 2.5-4.5%, and in Philippines at 6.7% in Oct'18 vs targeted 2-4%. Cumulatively, both Indonesia and Philippines have increased rates by 175bps in CYTD18.
- US industrial production grew sequentially by 0.1% in Oct'18 slightly lower than its estimated growth and previous month's level of 0.2%. Notably, manufacturing sector grew for the 5th consecutive month by 0.3% in Oct'18. Capacity utilization stood at 78.4% which was 1.4% points below its long-run (1972-2017) average.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	3.06	(12)	(14)	20	69
UK	1.41	(8)	(16)	18	10
Japan	0.10	(2)	(4)	1	5
Germany	0.37	(4)	(9)	6	(1)
India	7.82	5	(9)	(4)	75
China	3.36	(13)	(23)	(29)	(58)
<b>2Y yields (Δ bps)</b>					
US	2.80	(12)	(9)	19	109
UK	0.72	(6)	(8)	2	22
Japan	(0.14)	0	(2)	(1)	5
Germany	(0.59)	1	(1)	7	12
India	7.38	(7)	(29)	(18)	103
China	2.55	(12)	(31)	(33)	(108)
<b>Currencies (Δ %)</b>					
EUR	1.1415	0.7	(0.7)	(0.2)	(3.0)
GBP	1.2834	(1.1)	(2.1)	0.7	(2.7)
JPY	112.83	0.9	(0.2)	(2.1)	0.2
AUD	0.7332	1.5	3.1	0.3	(3.4)
INR	71.93	0.8	2.3	(2.5)	(10.1)
CNY	6.9380	0.3	(0.2)	(0.9)	(4.6)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	25,413	(2.2)	(1.1)	(1.0)	8.3
FTSE	7,014	(1.3)	(0.6)	(7.2)	(5.1)
DAX	11,341	(1.6)	(3.2)	(7.1)	(13.1)
NIKKEI	21,680	(2.6)	(5.1)	(2.6)	(3.0)
Shanghai Comp	2,679	3.1	4.6	0.4	(21.2)
SENSEX	35,457	0.8	1.9	(6.6)	7.1
Brent (US\$/bbl)	66.76	(4.9)	(16.6)	(7.1)	8.8
Gold (US\$/oz)	1,223	1.1	0.1	3.3	(4.3)
CRB Index	415.2	0.2	(0.6)	0.4	(3.1)
Rogers Agri Index	774.5	(0.1)	(2.9)	(3.8)	(4.2)
LIBOR (3M)*	2.64	2	19	33	120
INR 5Y Swap*	7.62	(4)	(10)	14	111
<b>India FII data (US\$ mn)</b>					
	<b>15 Nov</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	51.8	69.0	741.1	(7,720.1)	(7,966.1)
FII-Equity	265.2	746.5	457.7	(5,300.4)	(7,425.9)

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
19-Nov	Japan trade balance, ¥ bn	Oct	(70.0)	139.6	--
	Thailand GDP, % YoY	Q3CY18	4.2%	4.6%	--
	Euro Area current account balance, € bn	Sep	--	23.9	--
	Italy current account balance, € mn	Sep	--	4,994	--
20-Nov	South Korea PPI, % YoY	Oct	--	2.7%	--
	France ILO unemployment rate, %	Q3CY18	9.3%	9.1%	--
	Germany PPI, % YoY	Oct	3.3%	3.2%	--
	Taiwan export orders, % YoY	Oct	4.0%	4.2%	--
	Hong Kong CPI, % YoY	Oct	2.7%	2.7%	--
	US housing starts	Oct	1,225,000	1,201,000	--
21-Nov	Thailand customs exports, % YoY	Oct	3.5%	(5.2%)	--
	Japan all industry activity index, % MoM	Sep	(0.9%)	0.5%	--
	Italy economic forecast for 2018 and 2019				
	UK public finances (PSNCR), £ bn	Oct	--	16.0	--
	OECD Economic Forecasts				
	US durable goods orders, % YoY	Oct	(2.5%)	0.7%	--
	US initial jobless claims	17-Nov	215,000	216,000	--
	US existing home sales, mn	Oct	5.20	5.15	--
22-Nov	Japan CPI, % YoY	Oct	1.4%	1.2%	--
	Singapore GDP, % YoY	Q3CY18	2.4%	2.6%	--
	Japan machine tool orders, % YoY	Oct	--	(1.1%)	--
	France business confidence	Nov	104.0	104.0	--
	Taiwan unemployment rate, %	Oct	3.7%	3.7%	--
	Euro Area consumer confidence	Nov	(3.0)	(2.7)	--
23-Nov	Japan manufacturing PMI	Nov	--	52.9	--
	Singapore CPI, % YoY	Oct	0.8%	0.7%	--
	Germany GDP, % QoQ	Q3CY18	(0.2%)	(0.2%)	--
	France manufacturing PMI	Nov	51.2	51.2	--
	France services PMI	Nov	55.0	55.3	--
	Germany manufacturing PMI	Nov	52.2	52.2	--
	Germany services PMI	Nov	54.5	54.7	--
	Eurozone manufacturing PMI	Nov	52.0	52.0	--
	Eurozone services PMI	Nov	53.5	53.7	--
	US manufacturing PMI	Nov	55.8	55.7	--
US services PMI	Nov	55.0	54.8	--	

Source: Bloomberg, Bank of Baroda Research

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