

**WEEKLY WRAP**

12 November 2018

**US politics and oil support lower yields**

Global yields and oil prices fell as worries over global growth emerge. US yields fell as a result of Democrats winning the House which will ensure more prudent US fiscal deficit in the future. While global equity markets went up, Chinese markets fell as domestic demand is falling and trade deal with US is still not in sight. Indian yields fell due to lower oil prices. INR fell despite FPI inflows. With muted inflation, FPI inflows and OMO purchases by RBI, domestic yields are likely to remain favourable for now. Higher global yields and reversal in oil prices remain a risk.

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**Markets**

- **Bonds:** Global yields closed lower led by 3.6% slump in crude prices (US\$ 70/bbl) as OPEC confirmed glut in oil market along with build-up of US inventories. US mid-term elections also supported lower yields as US fiscal deficit may not be as high as the case of Republican controlled House. Indian 10Y yields also closed lower by 2bps (7.76%) supported by lower crude prices. System liquidity is in deficit of Rs 878bn as on 9 Nov 2018 versus Rs 577bn in the previous week.
- **Currency:** Except GBP and AUD, other global currencies ended lower as dollar strengthened (DXY ended higher by 0.7%) with Fed reiterating its stance of gradual rate hikes. EUR fell by 0.5% on the back of forecast of slowdown by European Commission. Despite actual FPI inflows, INR weakened by 0.1% in the week.
- **Equity:** Barring Shanghai Comp, global indices closed higher. Dow gained by 2.8% as US mid-term election outcome was in-line with expectation. Shanghai index declined by 2.9% driven by continued friction in US-Sino trade deal. While trade data is buoyant, housing and auto sales remain weak thus leading to decline in China's equity markets. Sensex registered marginal gain during the Diwali week.
- **Upcoming key events:** Markets will closely watch GDP data of European and Asian economies, retail sales and industrial production data of China and US. Apart from this, Fed Chairman's speech and US inflation data will weigh on bond prices this week. On domestic front, inflation, industrial production and trade data will be released.



## India macro developments

- India's services sector rebounded in Oct'18 as reflected from the PMI data which rose to 52.2 in Oct'18 from 50.9 in Sep'18. This was led by 8th consecutive month of expansion in new orders. Composite PMI also rose to 53 in Oct'18 from 51.6 in Sep'18 driven by upturn in both manufacturing and services activity and indicating a strong start to Q3FY19.
- India's FX reserves for the week ending 2 Nov 2018 improved marginally to US\$ 393bn. On a weekly basis, forex reserves increased by US\$ 1.1bn, registering a marked improvement, compared with a decline of US\$ 1.4bn last week. On CYTD basis, reserves are down by US\$ 16.2bn, versus an accretion of US\$ 38.4bn in the same period last year. Pressure on forex reserves is in line with INR depreciation (12% in CYTD18).
- RBI reported that currency in circulation (CIC) increased by Rs 116bn (on a weekly basis) and stood at Rs 19.7tn as on 2 Nov 2018. Overall, reserve money rose by 17.3% on a YoY basis because of increased currency demand compared with a fall of (-) 4.5% a year ago. On FYTD basis, reserve money rose by 4.4% as against 13.3% in the previous year.
- RBI's fortnightly data shows that credit growth as of week ending 26 Oct 2018 rose by 14.6% vs 6.8% during the same period last year and 14.4% in the previous fortnight. Deposit growth also rose, by 9% as of week ending 26 Oct 2018, vs 8.7% during the same period last year and 8.9% in the previous fortnight. Credit deposit ratio also improved by 45bps to 76.8 as on 26 Oct 2018 in comparison to the previous fortnight.
- Under GST, government has refunded 94% of the claims of exporters to the tune of Rs 827bn as of 31 Oct 2018. Of this, Rs 429bn were IGST refunds with the disposal rate of 93%. In terms of input tax credit claims, the pendency currently stands at Rs 23bn of the total claim of Rs 421bn. This will ease the issue of liquidity crunch, which was lately seen by the exporters.
- The recent fall in crude prices (7% on MTD basis) driven by oversupply in the global market as well as waiver of 8 countries from the Iran sanction list, might be positive for India's macro fundamentals. The retail prices of petrol and diesel which skyrocketed in the past 3-months have also shown moderation lately (Rs 81/lit in Oct'18 and Rs 78.5/lit in the current month till date). This will bode well for India's inflation which is expected to be 3.9% in FY19.

## Global macro developments

- US Fed in its Nov'18 policy meeting has kept fund rate unchanged in the range of 2-2.25 along expected lines. However, it signalled a rate hike in Dec'18 and three more hike in 2019 in line with its mandate of price stability and employment. Elsewhere, US jobless claims remained at its 45-year low and was at 214,000 for the week ending Nov 3, 2018 signalling strengthening labour market conditions.
- US non-manufacturing activity cooled off in Oct'18 from its record pace seen in Sep'18. The index declined to 60.3 in Oct'18 from 61.6 in the previous month. Overall business activity also expanded at a slower pace driven by moderation in new orders. The report highlighted that concerns also persisted with regard to higher tariffs in the near term.
- Industrial production in Germany rose for the 2nd straight month in Sep'18. Overall production rose by 0.2% in Sep'18 against an expected decline of 0.1%. This was driven by faster pace of increase in new orders and capital goods production. Consumer goods production also picked up signalling buoyant domestic demand.
- Japan's core machinery orders, an indicator of capital expenditure of the economy, declined by 18.3% as against growth of 6.8% in the previous month. This was on account of earthquake and flooding which dampened corporate activity. Current account surplus on the other hand, shrank to ¥1822bn versus ¥ 1838bn in the previous month led by 0.9% dip in annual exports and 8% increase in imports.
- China's producer price inflation (PPI) slowed again in Oct'18, to 3.3% vs 3.6% in Sep'18. Subdued price pressures indicate slowing demand on account of lower economic activity. Higher import prices will provide some support to overall PPI. Retail inflation growth too stagnated in Oct'18 at 2.5%, unchanged from the previous month. Rental inflation was down, while that of services was seen building up in Oct'18.
- Beating analysts' estimates, China's exports rose by 15.6% in Oct'18 (est.: 11%) vs 14.5% in Sep'18, while its import growth shot up to 21.4% (est.: 14%) vs 14.3% in Sep'18. These numbers are to be read with caution as Chinese exporters are reported to have front loaded their exports in anticipation of steeper tariff hikes by the US in the coming months (25% in Jan'19 vs current 10%). Exports to countries other than the US rose at an even faster rate in Oct'18. Weaker Yuan is also estimated to have helped overall export growth.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	3.18	(3)	(5)	31	78
UK	1.49	0	(18)	25	15
Japan	0.12	(1)	(3)	2	8
Germany	0.41	(2)	(12)	9	(0)
India	7.76	(2)	(21)	1	81
China	3.49	(6)	(13)	(7)	(44)
<b>2Y yields (Δ bps)</b>					
US	2.92	2	4	32	127
UK	0.78	(2)	(10)	8	30
Japan	(0.14)	(1)	(2)	(2)	4
Germany	(0.60)	2	(5)	4	15
India	7.45	(4)	(30)	(1)	113
China	2.67	(15)	(27)	(11)	(93)
<b>Currencies (Δ %)</b>					
EUR	1.1336	(0.5)	(1.4)	(0.7)	(2.8)
GBP	1.2972	0	(0.9)	1.7	(1.7)
JPY	113.83	(0.6)	(0.5)	(2.7)	(0.3)
AUD	0.7226	0.5	2.1	(1.0)	(5.7)
INR	72.50	(0.1)	2.1	(5.3)	(11.2)
CNY	6.9567	(1.0)	(0.4)	(1.6)	(4.8)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	25,989	2.8	(1.9)	2.7	11.0
FTSE	7,105	0.2	(1.8)	(7.3)	(4.4)
DAX	11,529	0.1	(3.5)	(7.2)	(12.2)
NIKKEI	22,250	0	(5.2)	(0.2)	(1.9)
Shanghai Comp	2,599	(2.9)	(4.3)	(7.0)	(24.3)
SENSEX	35,159	0.4	2.0	(7.2)	5.5
Brent (US\$/bbl)	70.18	(3.6)	(16.4)	(3.6)	10.5
Gold (US\$/oz)	1,210	(1.9)	1.8	(0.1)	(5.1)
CRB Index	414.3	(0.8)	(0.8)	(1.8)	(4.0)
Rogers Agri Index	775.4	(1.4)	(1.6)	(3.0)	(5.1)
LIBOR (3M)*	2.62	3	20	30	121
INR 5Y Swap*	7.66	(1)	(13)	12	126
<b>India FII data (US\$ mn)</b>					
	<b>6 Nov</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	21.0	67.4	721.6	(7,739.7)	(7,985.6)
FII-Equity	(37.2)	(26.0)	82.8	(5,675.3)	(7,800.8)

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
12-Nov	India CPI, %YoY	Oct	3.6%	3.8%	--
	India industrial production, %YoY	Sep	4.3%	4.3%	--
	Japan PPI, %YoY	Oct	2.8%	3.0%	--
	Italy industrial production, %MoM	Sep	(1.0%)	1.7%	--
13-Nov	Germany CPI, %YoY	Oct	1.5%	1.5%	--
	Germany ZEW economic expectation index	Oct	-25.0	-24.7	--
	UK average weekly earnings, 3M/%YoY	Sep	3.0%	2.7%	--
14-Nov	India WPI, %YoY	Oct	4.9%	5.1%	--
	Japan GDP, SA %QoQ	Q3CY18	(0.3%)	0.7%	--
	Germany GDP, SA %QoQ	Q3CY18	(0.1%)	0.5%	--
	Euro Area GDP, SA %QoQ	Q3CY18	0.2%	0.2%	--
	US CPI, %MoM	Oct	0.3%	0.1%	--
	France CPI, %YoY	Oct	2.2%	2.2%	--
	UK CPI, %YoY	Oct	2.5%	2.4%	--
	Euro Area industrial production, %MoM	Sep	(0.2%)	1.0%	--
	Japan industrial production, %YoY	Sep	--	(1.1%)	--
	China industrial production, %YoY	Oct	5.8%	5.8%	--
	China retail sales, %YoY	Oct	9.2%	9.2%	--
	Thailand monetary policy decision	14-Nov	1.5%	1.5%	--
	15-Nov	India exports, %YoY	Oct	--	(2.2%)
US initial jobless claims (in thousand)		10-Nov	--	214	--
US retail sales, %MoM		Oct	0.5%	0.1%	--
UK retail sales, %MoM		Oct	0.2%	(0.8%)	--
Indonesia exports, %YoY		Oct	0.1%	1.7%	--
Indonesia monetary policy decision		15-Nov	5.75%	5.75%	--
Philippines monetary policy decision		15-Nov	4.5%	4.5%	--
16-Nov	US industrial production, %MoM	Oct	0.2%	0.3%	--
	Japan exports, %YoY	Oct	--	(1.3%)	--
	Euro Area CPI, %YoY	Oct	2.2%	2.1%	--
	Hong Kong GDP, %YoY	Q3CY18	3.2%	3.5%	--
	Malaysia GDP, %YoY	Q3CY18	4.7%	4.5%	--
	Thailand GDP, %YoY	Q3CY18	--	4.6%	--

Source: Bloomberg, Bank of Baroda Research

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