

WEEKLY WRAP

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Markets gain as oil prices decline

Even as oil prices fell by 6%, global yields went up led by US which reported better than estimated job additions. Indian yields and INR benefitted from lower oil prices and moderation in FPI outflows. Resumption of trade talks drove global markets higher. Sensex reported the best ever week in 2 years. Going ahead, lower oil prices bode well for India's macroeconomic outlook. OMO purchases by RBI, dip in oil prices and under-shoot of inflation trajectory imply there is room for 10Y yield to dip further. However, rising global yields imply that room for decline is limited.

BOB Economics Research

+91 22 6698 5713

chief.economist@bankofbaroda.com

Markets

- **Bonds:** Except China and India, global yields closed higher. US 10Y yields jumped by 14bps (3.21%) on the back of robust personal spending and job report (250k additions). UK yields went up after BoE said it is considering rate increases. Notably, crude prices declined by 6% (US\$ 73/bbl) in the week which drove Indian 10Y yields lower by 10bps (7.78%) as also RBI's OMO purchases. System liquidity is in deficit of Rs 577bn as on 2 Nov 2018 versus Rs 744bn in the previous week.
- **Currency:** Global currencies closed mixed. DXY posted its third weekly gain (up 0.2%) as strong macroeconomic data pointed towards robust growth momentum in the US. Possibility of a trade deal between US and China led to firm closing for Yuan. BoE's consideration of rate increases led to 1.1% jump in GBP. INR also gained 1.4% in the week as oil prices eased (down 6.2%) as also reversal in FPI outflows towards the end of the week.
- **Equity:** Global indices ended the week in green due to possible resumption of trade talks between US and China. Dow gained 2.8% on the back of sustained earnings, resumption of trade talks with China and robust macroeconomic data. Led by lower oil prices and global risk-on, Sensex (5%), Nikkei (5%) and Shanghai comp (3%) gained the most. Sensex posted the biggest weekly gain in over 2 years.
- **Upcoming key events:** Fed monetary policy decision is due this week. In addition, services PMI of Eurozone, Japan, India, US-ISM is also due. Investors will also keenly await China's exports, CPI and PPI data due this week. Industrial production of Germany, UK and France will also be closely watched.



India macro developments

- India's manufacturing PMI increased from 52.2 in Sep'18 to 53.1 in Oct'18, a 4-month high led by strong order inflow and a pick-up in hiring activity, which rose at the strongest pace since Dec'17. However, vulnerable external conditions resulted in cooling off in export orders. Inflationary pressure broadly remained in line with expectations and even moderated as manufacturers passed some of the burden to clients.
- GST collections for Sep'18 reached Rs 1.01tn vs Rs 944bn in Aug'18. Of this, Rs 165bn was collected as CGST (Rs 153bn in Aug'18), Rs 228bn as SGST (vs Rs 211bn) and Rs 534bn as IGST (vs Rs 501bn). States showing robust tax collection on a MoM basis are: Kerala (44%), Jharkhand (20%), Rajasthan (14%), Uttarakhand (13%) and Maharashtra (11%).
- India's rank notched up by 23 points and stood at 77 in World Bank's ease of doing business report, to become the top ranked country in South Asia. This was driven by improvement in issuing construction permits (rank at 52 vs 181), trading across borders (rank at 80 vs 146) and starting a new business (rank at 137 vs 156). The report reaffirmed India's structural reforms have started shaping favourably.
- India's Infrastructure Index in Sep'18 rose by 4.3% vs 4.7% in Aug'18. This was led by robust growth in coal, refinery products and electricity sectors. Cement sector also maintained its double digit pace (11.8% in Sep'18 vs 14.7% in Aug'18). For H1FY18, growth has been buoyant at 5.5% vs 3.2% in the same period of previous year, suggesting industrial activity is in traction.
- RBI reported that currency in circulation (CIC) decreased by Rs 75bn (on a weekly basis) and stood at Rs 19.6tn as on 26 Oct 2018. Overall, reserve money rose by 17% on a YoY basis because of increased currency demand compared with a fall of (-) 5.1% a year ago. On FYTD basis, reserve money rose by 3.1% as against 12% in the previous year.
- India's FX reserves for the week ending 26 Oct 2018 declined to US\$ 392bn. On a weekly basis, forex reserves declined by US\$ 1.4bn compared with a decline of US\$ 0.9bn last week. On CYTD basis, reserves are down by US\$ 17.3bn, compared with an accretion of US\$ 38.5bn in the same period last year. Pressure on forex reserves is in line with INR depreciation (12.3% in CYTD18).
- According to news reports, the central government is aiming for mergers of CPSEs in the power sector to meet its disinvestment target for FY19. Acquisition of government stake in SJVN by NTPC and merger between PFC and REC, is expected to fetch the government around Rs 210bn. Until Sep'18 government has collected only Rs 99.5bn via disinvestment, against Rs 800bn target for FY19.

Global macro developments

- Consumer spending in US rose for the 7th straight month and grew by 0.4% in Sep'18 on MoM basis vs 0.5% in Aug'18. On YoY basis, PCE grew by 2% against 2.2% in Aug'18. However, disposable personal income recorded its smallest gain since the past 15 months (0.2% in Sep'18 against 0.4% in Aug'18) reflecting moderate wage growth in the economy.
- Japan's retail sales growth eased to 2.1% in Sep'18 vs 2.7% in Aug'18. This was on account of moderating sales of food & beverage, motor vehicles and pharma products. Sales declined on a MoM basis by (-) 0.2% in Sep'18 on a MoM basis vs 0.9% rise seen in Aug'18. This is the first decline in four months and indicates slowing consumer spending.
- Consumer confidence in US rose to its 18-year high in Oct'18. The index stood higher at 137.9 in Oct'18 versus 135.3 in Sep'18. This was driven by optimistic assessment over current business and labour market conditions. The short term outlook for the economy also remained sanguine.
- Growth in the Euro Area slowed to a 4-year low as it rose by 0.2% in Q3CY18 (vs est.: 0.4% & 0.4% in Q2). Separately, Italy's Q3 GDP growth disappointed as it stagnated (0%) led by poor growth in manufacturing sector. This could further escalate tensions around Italian budget deficit. However, France fared much better compared to other countries as it clocked 0.4% growth on the back of robust consumer spending.
- China's official manufacturing PMI declined to 50.2 in Oct'18 (est.: 50.6) from 50.8 in Sep'18 driven by a decline in all its sub-components. Most notably, new orders index and new export orders index contracted for the 5th consecutive month in Oct'18. Input price index on the other hand continued to grow at a faster pace, raising concerns over future profitability.
- BoE kept policy rate unchanged at 0.75% with a unanimous vote from its MPC members. The asset purchase program has also been retained at its current pace. However, it hinted at faster rate hikes contingent on smooth transition towards Brexit. Growth projections were however revised downward (by 10bps) to 1.3 & 1.7% in 2018 & 2019 respectively.
- US unemployment rate remained stable at 3.7% at the lowest level since 1969. The labour force participation rate increased to 62.9% in Oct'18 versus 62.7% in Sep'18. Wages also jumped at its 9-year high of 3.1% in Oct'18 versus 2.7% in the previous month. Elsewhere factory orders in Sep'18 also rose more than expected (0.7% vs est: of 0.3%) in Oct'18 driven by stronger demand for transportation equipment.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	3.21	14	3	26	87
UK	1.49	11	(8)	17	23
Japan	0.13	2	(1)	2	7
Germany	0.43	8	(5)	2	6
India	7.78	(10)	(33)	2	92
China	3.55	0	(7)	9	(33)
2Y yields (Δ bps)					
US	2.90	10	3	26	130
UK	0.80	8	(3)	5	39
Japan	(0.13)	(1)	(2)	(2)	3
Germany	(0.62)	2	(8)	(3)	14
India	7.49	(12)	(42)	0	113
China	2.83	(2)	(14)	6	(82)
Currencies (Δ %)					
EUR	1.1388	(0.1)	(0.8)	(1.6)	(2.3)
GBP	1.2970	1.1	0.2	(0.2)	(0.7)
JPY	113.20	(1.2)	1.2	(1.8)	0.8
AUD	0.7193	1.5	1.3	(2.8)	(6.7)
INR	72.44	1.4	1.2	(5.6)	(12.1)
CNY	6.8907	0.8	(0.3)	(0.9)	(4.3)
Equity & Other indices (Δ %)					
Dow	25,271	2.4	(5.8)	(0.8)	7.5
FTSE	7,094	2.2	(5.5)	(7.4)	(6.1)
DAX	11,519	2.8	(6.3)	(8.7)	(14.3)
NIKKEI	22,244	5.0	(7.7)	(1.2)	(1.3)
Shanghai Comp	2,676	3.0	(5.1)	(2.3)	(20.9)
SENSEX	35,012	5.0	(2.7)	(6.8)	4.3
Brent (US\$/bbl)	72.83	(6.2)	(15.6)	(0.5)	20.1
Gold (US\$/oz)	1,233	(0.1)	3.0	1.5	(3.4)
CRB Index	417.8	0.2	0	(2.3)	(3.2)
Rogers Agri Index	786.8	0.3	1.2	(3.7)	(3.6)
LIBOR (3M)*	2.58	6	17	24	119
INR 5Y Swap*	7.67	3	(4)	4	141
India FII data (US\$ mn)					
	1 Nov	WTD	MTD	CYTD	FYTD
FII-Debt	77.2	170.8	77.2	(8,384.0)	(8,630.0)
FII-Equity	127.4	(381.4)	127.4	(5,630.8)	(7,756.2)

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
5-Nov	Nikkei India Services PMI	Oct	--	50.9	--
	Nikkei Japan Services PMI	Oct	--	50.2	--
	Markit UK services PMI	Oct	53.3	53.9	--
	Markit US services PMI	Oct	54.6	54.7	--
	US ISM non-manufacturing index	Oct	59.1	61.6	--
	China BoP, US\$ bn	Q3CY18	--	5.3	--
	Indonesia GDP, % YoY	Q3CY18	5.2%	5.3%	--
6-Nov	Australia monetary policy decision	6-Nov	1.5%	1.5%	--
	Germany factory orders	Oct	(0.5%)	2.0%	--
	Markit Eurozone services PMI	Oct	53.3	53.3	--
	Markit Germany services PMI	Oct	53.6	53.6	--
	Markit France services PMI	Oct	55.6	55.6	--
	Markit Italy services PMI	Oct	52.0	53.3	--
	Taiwan CPI, % YoY	Oct	--	1.7%	--
	EU PPI, % YoY	Sep	0.4%	0.3%	--
7-Nov	Germany industrial production, % MoM	Sep	(0.1%)	(0.3%)	--
	Taiwan exports, % YoY	Oct	--	2.6%	--
	EU retail sales, % MoM	Sep	0.1%	(0.2%)	--
	Italy retail sales, % MoM	Sep	(0.2%)	0.7%	--
	China forex reserves, US\$ bn	Oct	--	3,087.0	--
8-Nov	US initial jobless claims	3-Nov	214,000	214,000	--
	China exports, % YoY	Oct	--	14.5%	--
	China FDI (CNY), % YoY	Oct	--	8.0%	--
	Malaysia monetary policy decision	7-Nov	3.25%	3.25%	--
	Japan core machine orders, % MoM	Sep	(9.0%)	6.8%	--
	Japan current account balance, ¥ bn	Sep	1,786.5	1,838.4	--
	Germany exports, % MoM	Sep	0.3%	0.1%	--
	France trade balance, € mn	Sep	5,947.0	5,632.0	--
9-Nov	US FOMC rate decision	9-Nov	2.25%	2.25%	--
	China CPI, % YoY	Oct	--	2.5%	--
	China PPI, % YoY	Oct	--	3.6	--
	UK GDP, % QoQ	Q3CY18	0.6%	0.4%	--
	UK industrial production, % MoM	Sep	(0.1%)	0.2%	--
	France industrial production, % MoM	Sep	(0.3%)	0.3%	--

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