

**WEEKLY WRAP**

05 March 2019

**Global markets find some respite**

Economic data in the week pointed to a dip in global growth momentum. Manufacturing activity in both US and China decelerated. Trade talks between US and China and a positive surprise in US growth drove global equity markets higher, especially China. Even as Fed indicated to be “patient” and crude prices edged lower, global yields went up. Indian yields were lower as geo-political tensions eased and GDP growth slowed to a six-quarter low of 6.6%. This may lead RBI to ease again in its next meeting.

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**Markets**

- **Bonds:** Barring India, global yields closed higher. US 10Y yield shot up by 10bps as economic data surprised positively even as Fed chair reiterated a patient approach on future rate hikes. Crude prices declined by 3% (US\$ 65/bbl) on growing concerns of global slowdown. India's 7.17GS2028 yield declined by 4bps (7.56%) on the back of lower oil prices. System liquidity was in deficit of Rs 215bn as on 1 Mar 2019 versus Rs 1.2tn in the previous week.
- **Currency:** Barring JPY and AUD, other global currencies closed higher as progress on US-China trade deal remained in focus. DXY ended the week flat as US macroeconomic data remained weak. GBP rose by 1.1% in the week on growing optimism over delay in Brexit. INR gained 0.3% in the week on the back of lower oil prices (US\$ 65/bbl) and easing geo-political tensions.
- **Equity:** Easing trade tensions between US and China pushed global indices higher with the exception of FTSE. Shanghai Comp surged by 6.8% despite disappointing data print (contraction in manufacturing PMI), followed by Dax (1.3%) and Nikkei (0.8%). Sensex ended in green for the 2nd consecutive week as geo-political tensions eased.
- **Upcoming key events:** In the current week, investors await services PMI for Feb'19, Euro Area's PPI and GDP and China's exports. OECD will also release its interim economic outlook. Apart from this, US housing, jobs and trade data is also due this week. On the domestic front, BoP and services PMI will be released.



## India macro developments

- Led by acceleration in sales and output, India's manufacturing PMI rose to a 14-month high at 54.3 in Feb'19 from 53.9 in Jan'19. Notably, employment levels improved at a steady pace to support the growing demand conditions. On the price front, input cost inflation was muted in Feb'19, though it picked up last month. The upturn in new work orders was boosted by supportive government policies
- Total GST collections for Jan'19 were recorded at Rs 972bn vs Rs 1tn in Dec'18. On a FYTD basis, total CGST collected is at Rs 3.8tn vs Rs 5tn targeted for FY19 (RE). SGST collections on the other hand have already met their FY19BE of Rs 4.9tn. GST cess figures also continue to remain robust at Rs 788bn vs FY19RE of Rs 900bn. Thus it can be expected that government's overall GST target of Rs 6.4tn will be easily met.
- According to Skymet, there is more than 50% chance of India receiving normal monsoon in CY19. This will likely give a boost to the agriculture sector, though much would depend on the spread and distribution of rainfall. Last year, the country received below normal monsoon at 91% of LPA, much lower than Skymet (100%) and IMD's first forecast (97%).
- India's fiscal deficit has reached Rs 7.7tn vs FY19RE of Rs 6.3tn, on a FYTD basis (Apr'18-Jan'19). Overall tax revenue rose by 11.4% vs targeted 19.5%. The miss is largely on account of indirect taxes (6.9% vs 14.3% FY19RE). In order to meet deficit targets, expenditure cuts are being made as its growth has fallen to 8.8% vs FY19RE of 14.7%. Notably, capex growth has declined by (-) 13% vs projected 20.3% rise.
- RBI reported that currency in circulation increased by Rs 17bn (on a weekly basis) and stood at Rs 21tn as on 22 Feb 2019. Overall reserve money grew by only 16% on a YoY basis compared to 39% a year ago. On FYTD basis, reserve money is growing at a slower pace of 10% against 21% in the previous year.
- India's GDP and GVA growth moderated to 6.6% and 6.3% in Q3FY19 from 7% and 6.8% in Q2 as government spending and agriculture production slipped. Investment spending was stable. However, as government reigns in its capex to meet fiscal target and a global trade slowdown bites, GDP growth is projected to slip to 7% from 7.2% in FY18.
- Growth in India's eight core industries moderated to a 19-month low of 1.8% in Jan'19 from 2.7% in Dec'18. This was on the back of the slowdown in output of steel to 8.2% from 12.9% in Dec'18. Electricity output contracted by (-) 0.4% in Jan'19 compared with 4.4% in Dec'18. However, on a cumulative basis, infrastructure index rose to 4.5% in Apr-Jan'19 from 4.1% in the previous year.

## Global macro developments

- Manufacturing activity in the US declined as the ISM manufacturing PMI fell to a 2-year low of 54.2 in Feb'19 (est: 56) vs 56.6 in Jan'19. This was led by broad-based decline in new orders, overall production and employment. Input prices also softened on the back of muted consumption demand.
- US GDP grew at an annualised rate of 2.6% in Q4CY18 (est: 2.5%) vs 3.4% in Q3CY18. The slowdown in the last quarter was attributable to muted consumption demand which grew by 2.8% in Q4CY18 vs 3.5% in Q3. Separately, jobless claims rose by 8,000 to 225,000 as on 23 Feb 2019 compared to the previous week. However, the 4-week moving average fell by 7,000 to 229,000 indicating a buoyant labour market.
- Japan's services PPI (both headline & core) fell by (-) 0.5% in Jan'19 vs (-) 0.1% in Dec'18. The decline in core PPI (ex-international transportation) was broad-based, led by advertising services (-2.6% vs 0.2% in Dec'18), domestic air passenger (-6.9% vs 1.7% in Dec'18) & freight transportation (-2.5% vs 3.3% in Dec'18), and real estate (-0.2% vs 1.4% in Dec'18).
- US wholesale inventories rose to its highest since Oct'13 by 1.1% in Dec'18 vs est. 0.4%. This was followed by a 3rd straight month of decline in sales. Earlier data also showed that retail sales also recorded their biggest drop in 9 years in Dec'18. Thus these data indicate softening demand conditions in the US.
- US housing starts declined to 2-year low of 11.7% in Dec'18, signalling that the market is expected to remain soft despite easing up of mortgage rates. Separately, US consumer confidence rose to 131.4 in Feb'19 from 121.7 in Jan'19. This was the highest reading in 18 years and comes despite the partial government shutdown and increased volatility in financial markets.
- US factory orders rose by 0.1% in Dec'18 on a MoM basis vs (-) 0.5% in Nov'18. The improvement was led by durable goods industries (1.2% vs 0.9% in Nov'18) and transport equipment (3.1% vs -12.4% in Nov'18). However, non-defence capital goods (proxy for business spending) continued to decline, by (-) 1% in Dec'18 vs (-) 1.1% in Nov'18.
- China's official manufacturing PMI declined for the 3rd consecutive month in Feb'19 (to 49.2 vs 49.5 in Jan'19). This was mainly led by new export orders (45.2 vs 46.9 in Jan'19). However, there were some positive signals, with overall new orders index recovering, input prices declining and future sentiment index improving.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	2.75	10	4	(23)	(11)
UK	1.30	14	3	(7)	(18)
Japan	(0.01)	3	(2)	(10)	(8)
Germany	0.18	9	(2)	(13)	(47)
India#	7.56	(4)	3	(5)	(18)
China	3.20	6	7	(18)	(66)
<b>2Y yields (Δ bps)</b>					
US	2.55	6	(2)	(23)	31
UK	0.80	4	2	2	2
Japan	(0.15)	3	1	(2)	1
Germany	(0.51)	6	6	9	4
India	6.71	3	(26)	(53)	(28)
China	2.61	2	(15)	(50)	(97)
<b>Currencies (Δ %)</b>					
EUR	1.1365	0.3	(0.6)	0.4	(7.7)
GBP	1.3202	1.1	1.0	3.6	(4.3)
JPY	111.89	(1.1)	(2.3)	1.5	(5.8)
AUD	0.7079	(0.7)	(1.1)	(3.1)	(8.8)
INR	70.91	0.3	0.3	(1.9)	(8.8)
CNY	6.7062	0.1	0.4	3.7	(5.7)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	26,026	0	5.9	1.9	6.1
FTSE	7,107	(1.0)	4.0	1.8	0.5
DAX	11,602	1.3	3.4	3.1	(2.6)
NIKKEI	21,603	0.8	4.5	(3.3)	2.0
Shanghai Comp	2,994	6.8	15.4	15.7	(8.0)
SENSEX	36,064	0.5	1.3	(0.4)	5.9
Brent (US\$/bbl)	65.07	(3.1)	6.1	10.8	1.1
Gold (US\$/oz)	1,293	(2.7)	(1.4)	6.0	(2.2)
CRB Index	412.8	(0.5)	(0.0)	(0.8)	(7.0)
Rogers Agri Index	750.8	(1.9)	(3.2)	(2.9)	(11.9)
LIBOR (3M)*	2.62	(3)	(13)	(12)	59
INR 5Y Swap*	7.02	(7)	(19)	(51)	4
<b>India FII data (US\$ mn)</b>					
	<b>28 Feb</b>	<b>WTD</b>	<b>Feb'19</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	(470.5)	(930.2)	(1,301)	(1,668.2)	(8,658.8)
FII-Equity	121.4	550.5	2,152.7	2,077.4	(4,605.5)

Source: Bloomberg, Bank of Baroda Research | \*Indicates change in level | #7.17GS2028

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
4-Mar	Taiwan manufacturing PMI	Feb	--	47.5	--
	South Korea manufacturing PMI	Feb	--	48.3	--
	Euro Area PPI, % MoM	Jan	0.3%	(0.8%)	--
	US construction spending, % MoM	Dec	0.2%	0.8%	--
5-Mar	South Korea GDP, % YoY	Q4CY18	--	3.1%	--
	South Korea CPI, % YoY	Feb	--	0.8%	--
	Japan services PMI	Feb	--	51.6	--
	China services PMI	Feb	53.5	53.6	--
	RBA cash rate target	5-Mar	1.5%	1.5%	--
	India services PMI	Feb	--	52.2	--
	Italy services PMI	Feb	49.5	49.7	--
	France services PMI	Feb	49.8	49.8	--
	Germany services PMI	Feb	55.1	55.1	--
	Eurozone services PMI	Feb	52.3	52.3	--
	Italy GDP WDA, % QoQ	Q4CY18	(0.2%)	(0.2%)	--
	UK services PMI	Feb	50.0	50.1	--
	Euro Area retail sales, % MoM	Jan	1.3%	(1.6%)	--
	US services PMI	Feb	56.2	56.2	--
	US ISM non-manufacturing index	Feb	57.3	56.7	--
	US new home sales	Dec	590,000	657,000	--
	India current account balance, US\$ bn	Q3FY19	(16.0)	(19.1)	--
6-Mar	Australia GDP, % YoY	Q4CY18	2.7%	2.8%	--
	OECD interim economic outlook				
	US trade balance, US\$ bn	Dec	(57.8)	(49.3)	--
7-Mar	Australia trade balance, AUD bn	Jan	2.9	3.7	--
	Italy retail sales, % MoM	Jan	--	(0.7%)	--
	Euro Area GDP SA, % QoQ	Q4CY18	0.2%	0.2%	--
	ECB main refinancing rate	7-Mar	0.0%	0.0%	--
	US initial jobless claims	2-Mar	225,000	225,000	--
8-Mar	South Korea current account balance, US\$ bn	Jan	--	4.8	--
	Japan GDP SA, % QoQ	Q4CY18	0.4%	0.3%	--
	Japan current account balance, ¥ bn	Jan	161.0	452.8	--
	Germany factory orders, % MoM	Jan	0.5%	(1.6%)	--
	Italy industrial production, % MoM	Jan	0.2%	(0.8%)	--
	US housing starts	Jan	1,184,000	1,078,000	--
	US change in nonfarm payrolls	Feb	185,000	304,000	--
	US unemployment rate, %	Feb	3.9%	4.0%	--
	US average hourly earnings, % MoM	Feb	0.3%	0.1%	--
China exports, % YoY	Feb	(2.2%)	9.1%	--	

Source: Bloomberg, Bank of Baroda Research

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