

**WEEKLY WRAP**

10 June 2019

**Central banks show readiness to step-in**

**Global yields fell after disappointing manufacturing, durable goods and payroll data from US. Fed Chairman is also open to steering the rates depending on which direction economy takes. US equity markets welcomed lower yields. However, DXY index fell on prospects of lower yields. Indian yields too fell after RBI reduced policy rate by 25bps. INR was stable on the back of FII inflows. Global markets and central banks remain data dependent. So does RBI. In India's case, IIP and CPI will be released later in the week.**

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**Markets**

- **Bonds:** Global yields closed lower as manufacturing PMI data continued to remain soft, in particular for US, China, Japan and Europe. Services PMI was relatively stable to better in US and Europe. With lower durable goods orders and payroll data, US 10Y yield declined by 4bps (2.08%). Fed futures is showing a rate cut in Jul'19. Crude prices fell by (-) 1.9% (US\$ 63/bbl) in the week. India's 10Y yield declined by 6bps (6.97%) supported by rate cut by RBI. System liquidity was in surplus at Rs 676bn as on 7 Jun 2019 vs Rs 20bn in the previous week.
- **Currency:** Except CNY, other global currencies ended the week higher. DXY fell by (-) 1.2% after weak US jobs data raised hopes of a rate cut by the Fed. EUR gained 1.5% after ECB extended its forward guidance policy to keep interest rates steady till H1CY20. INR rose by 0.3% in the week on the back of lower oil prices and FII inflows of US\$ 603mn.
- **Equity:** Barring Shanghai Comp and Sensex, other major indices ended the week higher. Dow jumped 4.7% as poor jobs data increased hopes of a rate cut by Fed in Jul'19. With US shelving tariffs on Mexico, global equity markets are likely to respond positively. Asian markets have opened higher. So has Sensex which fell by (-) 0.2% last week.
- **Upcoming key events:** US and China industrial production and retail sales data will be released and drive markets this week. Apart from this, US CPI will also be released. On domestic front, inflation and industrial production data will be released and set the course for RBI's interest rate trajectory. Progress of monsoon, already delayed, will also be monitored closely.



## India macro developments

- In response to the 12th Feb circular which mandated lenders to start resolution even if there was a one-day default, RBI has come up with a new set of guidelines. It has given lenders 30 day time to review the borrower account upon default (review period). During this period, lenders may decide on the resolution strategy. The move is expected to provide a temporary relief to the ailing sector and stimulate credit demand
- RBI surprised with a change in stance to accommodative from neutral while reducing policy rate by 25bps. It reduced its GDP forecast for FY20 to 7% and retained its FY20 inflation forecast at 3.3%. We expect RBI to further reduce policy rate by another 25bps in Aug'19 or Oct'19 as growth is likely to remain below 7% and inflation below 4%. However, volatile oil prices, below normal monsoon or change in fiscal projections remain key risks.
- As per news reports, government may infuse Rs 400bn in FY20 as part of bank recapitalisation. The announcement is expected in the upcoming budget. This will be in addition to the total quantum of recap of Rs 1.06tn in FY19. The move is likely to improve financial health of the banking sector and would also contribute positively for the credit offtake of the economy
- India's manufacturing PMI rose to a 3-month high to 52.7 in May'19 vs 51.8 in Apr'19. The improvement was led by growth in new orders and higher employment levels. Even the business confidence rose significantly signalling favourable economic conditions in the upcoming months. With relatively muted inflation, likelihood of another rate cut in the upcoming policy meet grows louder.
- India's services PMI fell to 50.2 in May'19 vs 51 in Apr'19. The weaker pace of expansion in services activity may be explained by elections. However, composite PMI remained unchanged at 51.7, led by resilient manufacturing activity. Input cost pressure increased albeit at slowest rate in the past two and a half years. Employment however remained robust.
- World Bank has revised downward India's growth projection at 7.2% in FY19 vs 7.3% earlier driven by muted global growth environment (global growth forecast was revised down by 0.3% at 2.6% in CY19). However, growth projection for FY20 and FY21 has been retained at 7.5% on account of improved confidence, moderate inflation and robust investment.
- RBI reported that currency in circulation decreased by Rs 72bn (on a weekly basis) and stood at Rs 21.9tn as on 31 May 2019. Overall reserve money grew by only 13% on a YoY basis compared to 25% a year ago. On FYTD basis, reserve money grew at a much faster pace of 1.1% vs 2.1% last year.

## Global macro developments

- US unemployment rate remained at 3.6% in May'19 despite slower than estimated rise in non-farm payroll employment, which increased by 75,000 in May'19 vs est.: 175,000 and 224,000 in Apr'19. The decline was broad-based with services sector being the key concern. Professional and business services added only 33,000 jobs in May'19 vs 62,000 in Apr'19. Slow growth in hourly wages (3.1% in May'19 vs 3.2% in Apr'19) is also worrisome.
- Germany's industrial production fell by (-) 1.9% on a MoM basis in Apr'19 vs 0.5% in Mar'19. Production ex energy and construction was down by (-) 2.5%, with capital goods (-3.3%) and intermediate goods (-2.1%) production leading the decline. Along with this, weaker exports (-3.7% in Apr'19 vs est.: -0.9%) led to Bundesbank lowering its growth forecast to 0.6% for CY19 vs 1.6% projected earlier
- Global manufacturing activity remained muted. US ISM manufacturing PMI slowed down to 52.1 in May'19 vs 52.7 in Apr'19 led by decline in overall output. Eurozone PMI fell to 47.7 in May'19 vs 47.9 in Apr'19 led by deterioration in new orders, with sharpest decline seen in Germany. Input cost pressure also remained subdued. Similar trend was visible in Japan as well, whose PMI fell to 49.8 in May'19 vs 50.2 in Apr'19.
- Amidst fears of slowdown in global economy, Eurozone inflation cools off to 1.2% in May'19 from 1.7% in Apr'19, way below ECB's target level and ahead of the policy meet. In addition, Eurozone unemployment rate fell to 7.6% in Apr'19, lowest level since CY08, signalling tighter labor market conditions.
- ECB kept key policy rates unchanged amidst global concerns. Several members also raised the possibility of further rate cut and resuming the asset purchase program that ended in Dec'18. It also revealed the details of quarterly targeted longer-term refinancing operations (TLTRO III) saying that ECB would give banks credit at rates just 10 basis points above its (-) 0.4% deposit rate, thus stimulating lending demand.
- The Reserve Bank of Australia (RBA) reduced its policy rate for the first time in 3 years, to 1.25% from 1.5%, owing to sagging growth. This rate cut was guided by falling home prices (-12% in Sydney and Melbourne in Apr'19), rising unemployment (5.2% in Apr'19 vs 5% earlier) and softening inflationary pressures. However, RBA maintained its growth forecast for CY19 and CY20 at 2.75%.

**FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES**

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	2.08	(4)	(40)	(55)	(87)
UK	0.81	(7)	(32)	(38)	(58)
Japan	(0.12)	(3)	(7)	(9)	(17)
Germany	(0.26)	(6)	(21)	(33)	(71)
India	6.97	(6)	(40)	(39)	(97)
China	3.25	(4)	(9)	11	(40)
<b>2Y yields (Δ bps)</b>					
US	1.85	(7)	(45)	(61)	(65)
UK	0.53	(7)	(21)	(22)	(21)
Japan	(0.20)	(3)	(5)	(5)	(8)
Germany	(0.67)	(1)	(6)	(14)	(2)
India	6.27	(17)	(46)	(39)	(135)
China**	2.53	(6)	(13)	8	(64)
<b>Currencies (Δ %)</b>					
EUR	1.1334	1.5	1.3	0.9	(3.7)
GBP	1.2737	0.9	(2.1)	(2.1)	(5.0)
JPY	108.19	0.1	1.7	2.7	1.2
AUD	0.7001	0.9	0.2	(0.6)	(7.9)
INR	69.47	0.3	0.3	1.0	(2.9)
CNY	6.9096	(0.1)	(1.9)	(2.8)	(7.8)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	25,984	4.7	0.1	2.1	2.6
FTSE	7,332	2.4	0.8	3.2	(4.5)
DAX	12,045	2.7	(1.1)	5.1	(5.6)
NIKKEI	20,885	1.4	(3.3)	(0.7)	(8.0)
Shanghai Comp	2,828	(2.4)	(2.3)	(4.8)	(7.8)
SENSEX	39,616	(0.2)	4.8	8.0	11.8
Brent (US\$/bbl)	63.29	(1.9)	(10.1)	(3.7)	(17.2)
Gold (US\$/oz)	1,341	2.7	4.7	3.3	3.3
CRB Index	409.6	(1.5)	(1.1)	(1.1)	(9.0)
Rogers Agri Index	744.7	(1.0)	5.1	0.4	(11.7)
LIBOR (3M)*	2.45	(5)	(9)	(15)	12
INR 5Y Swap*	6.62	(3)	(51)	(36)	(69)
<b>India FII data (US\$ mn)</b>					
	<b>6 Jun</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	140.7	470.2	470.2	706.0	(310.4)
FII-Equity	(225.9)	132.3	132.3	11,322.3	3,027.6

Source: Bloomberg, Bank of Baroda Research | \*Indicates change in bps, \*\* 1Y yield.

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
10-Jun	Japan BoP current account balance, ₹ tn	Apr	1.5	2.8	--
	Japan GDP SA, % QoQ	Q1CY19	0.6%	0.5%	--
	Italy industrial production, % MoM	Apr	0.2%	(0.9%)	--
	UK industrial production, % MoM	Apr	(0.7%)	0.7%	--
	UK trade balance, £ bn	Apr	(4.7)	(5.4)	--
	China exports, % YoY	May	(3.8%)	(2.7%)	--
11-Jun	Japan machine tool orders, % YoY	May	--	(33.4%)	--
	UK jobless claims change	May	--	24,700	--
	US PPI final demand, % MoM	May	0.1%	0.2%	--
	China FDI CNY, % YoY	May	--	6.3%	--
12-Jun	South Korea unemployment rate SA, %	May	4.1%	4.1%	--
	Japan PPI, % YoY	May	0.7%	1.2%	--
	Japan core machine orders, % MoM	Apr	(0.8%)	3.8%	--
	China CPI, % YoY	May	2.7%	2.5%	--
	India CPI, % YoY	May	3.1%	2.9%	--
	India industrial production, % YoY	Apr	0.7%	(0.1%)	--
	US CPI, % MoM	May	0.1%	0.3%	--
13-Jun	Australia unemployment rate, %	May	5.1%	5.2%	--
	Germany CPI, % YoY	May	1.4%	1.4%	--
	Euro Area industrial production SA, % MoM	Apr	(0.3%)	(0.3%)	--
	US initial jobless claims	8-Jun	--	218,000	--
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14-Jun	China fixed assets ex rural YTD, % YoY	May	6.1%	6.1%	--
	China industrial production, % YoY	May	5.4%	5.4%	--
	China retail sales, % YoY	May	8.0%	7.2%	--
	Japan industrial production, % MoM	Apr	--	0.6%	--
	India WPI, % YoY	May	3.0%	3.1%	--
	France CPI, % YoY	May	1.0%	1.0%	--
	Italy industrial orders, % MoM	Apr	--	2.2%	--
	India exports, % YoY	May	--	0.6%	--
	US advance retail sales, % MoM	May	0.6%	(0.2%)	--
	US industrial production, % MoM	May	0.2%	(0.5%)	--

Source: Bloomberg, Bank of Baroda Research

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