

## WEEKLY WRAP

13 May 2019

## Growth outlook worsens, Central Banks cut rates

Global yields fell as macro data shows continued dim prospects for global economy as seen by muted industrial growth and decline in exports from China. Additional tariffs on China by US have further weakened the growth outlook. Central Banks (Malaysia, New Zealand, Philippines) did reduce rates as a result. On the domestic front, INR depreciated, in-line with other EM currencies, and yields rose marginally. Equity market also closed lower following global cues and uncertainty around election results due next week.

Sameer Narang

+91 22 6698 5713

chief.economist@bankofbaroda.com

Sonal Badhan

sonal.badhan@bankofbaroda.com

## Markets

- Bonds:** Except India, global yields closed lower amid bleaker global growth prospects driven by muted industrial production in Italy and France and declining exports from China. US tariffs on China imply growth concerns will only increase. EMs entered a rate cut cycle led by Malaysia and Philippines. US 10Y yield fell by 6bps (2.47%) and crude prices declined by (-) 0.3% (US\$ 71/8bb). India's 7.17GS2028 yield edged by 1bps (7.51%). System liquidity deficit fell to Rs 218bn as on 10 May 2019 vs Rs 472bn in the previous week.
- Currency:** Except EUR and JPY, other global currencies closed lower as the US ramped up its trade war with China and hiked tariffs on US\$ 200bn of Chinese imports. DXY fell by (-) 0.2% in the week. CNY and GBP fell the most (-1.3%). INR fell by (-) 1.0% in the week as FII inflows remained muted at US\$ 360mn.
- Equity:** Global indices ended lower as US imposed tariffs on Chinese goods worth US\$200bn. Shanghai Comp tumbled by (-) 4.5% followed by Nikkei (-) 4.1%. Sensex too ended the week in red as it fell by (-) 3.9% led by subdued global cues and muted corporate earnings as well as uncertainty around elections.
- Upcoming key events:** In the current week, markets will watch industrial production of US, China and Euro Area. Apart from that, inflation print of Germany, France and Euro Area and GDP print of Germany and Malaysia are also due. On the domestic front, CPI, WPI and trade data will be released this week.



## India macro developments

- India's services PMI fell from 52 in Mar'19 to 51 in Apr'19 (lowest since Sep'18). The decline was led by lower new business, output growth, and clearance of backlog. This was due to delay in client payments, increased competition and ongoing elections. However, marginal expansion was driven by higher new exports orders (10-month high in Apr'19). Future business index shows that conditions are expected to normalise post elections.
- India's tax filing data indicates that the total number of returns filed in FY19 were lower at 66.8mn vs 67.4mn in FY18, as the returns filed for previous assessment years declined in FY19 (1.9mn) vs FY18 (12.7mn). This is after an amendment was made to tax law which now allows revised returns of only the relevant assessment year to be filed (Section 139(5) of IT Act, 1961). However, direct tax collections remain buoyant with e-filing of ITRs for FY19 rising to 64.9mn vs 54.7mn in FY18 (+19% YoY).
- RBI reported that currency in circulation increased by Rs 72bn (on a weekly basis) and stood at Rs 21.8tn as on 3 May 2019. Overall reserve money grew by only 14% on a YoY basis compared to 25% a year ago. On FYTD basis, reserve money is growing at a slower pace of 0.6% against 0.9% in the previous year.
- RBI data showed that bank credit grew by 13% in Apr'19 vs 13.3% in the previous month and 12% in Apr'18. Deposit growth was at 9.7% in Apr'19 vs 10% in Mar'19 & 7.8% in Apr'18. Both demand and time deposits grew at a stable pace. CD ratio was lower by 60bps at 77.1% in Apr'19 vs 77.7% in Mar'19. Credit deposit wedge was higher at 330bps vs 323bps in Mar'19.
- IIP growth slowed down to a 21-month low of (-) 0.1% in Mar'19 led by mining and manufacturing sector. Within manufacturing, consumer and capital goods slowed down the most. Industrial growth has decelerated in FY19 to 3.6% from 4.4% in FY18. The downward trajectory started in Nov'18 as exports cooled-off and has been accentuated with a domestic consumption slowdown.
- Media reports highlighted that Ministry of Corporate Affairs is working on a universal debt relief scheme for small borrowers. This would be applicable for individuals with annual income of Rs 60,000 or less, outstanding loans of Rs 35,000 or less, and assets worth Rs 20,000 or less. The cost is expected to be Rs 200bn. This scheme might be one of the key changes under IBC and would enable faster resolution of debt to SMEs.

## Global macro developments

- Global PMI remained fairly stable. Composite PMI in Eurozone was at 51.5 in Apr'19 vs 51.6 in Mar'19. This was driven by sustained pace of expansion in services sector. Both new orders and employment rose modestly. Manufacturing PMI in Japan also rose to its 3-month high of 50.2 in Apr'19 vs 49.2 in Mar'19, led by increase in employment. China's Caixin services PMI climbed to 54.5 in Apr'19 driven by higher export orders.
- Industrial orders in Germany rose by 0.6% in Mar'19 on a MoM basis vs a decline of (-) 4% in Feb'19 and est.: 1.4% rise. This was led by consumer goods (6.4%) and capital goods (1.1%), while new orders for intermediate goods fell by (-) 1.5%. Despite the rise in new orders, manufacturing sector remains weak due to stricter domestic emission rules as well as trade tensions with US.
- Malaysia's central bank cut rates by 25bps to 3% for the first time in over 3 years to support domestic growth and muted inflation print. It also pointed to downside risks to growth and remained cautious over growing uncertainties in global environment. Malaysia is the second bank after India to cut rates. Separately, Australia's central bank kept its policy rate steady.
- China's trade data shows that trade war concerns and global growth slowdown are impacting its exports (-2.7% in Apr'19 vs est.: +3% and 14.2% in Mar'19). This was led by decline in shipments to the US, Japan and S. Korea. On the other hand, its imports improved by 4% in Apr'19 vs (-) 7.6% in Mar'19. While this could be attributed to higher oil and iron ore prices, it is also possible that the fiscal stimulus program is beginning to show its impact.
- China's PPI rose by 0.9% in Apr'19 vs est.: 0.6% and 0.4% in Mar'19. This was driven by escalation in oil, gas and metal prices. In a bid to support GDP growth, China has fast tracked its big infrastructure projects, thus leading to rise in cost construction material. This has also led to earnings rebound in Q1CY19. Separately, China's CPI also rose in Apr'19, by 2.5% vs 2.3% in Mar'19, owing to supply side disruptions rather than stronger demand.
- US PPI rose by 0.2% in Apr'19 from 0.6% in Mar'19 (est.: 0.2%). However, core PPI rose by 0.4% in Apr'19, the highest since Jan'18 suggesting a pickup in inflationary pressure. Separate data showed that weekly jobless claims fell by only 2,000 to 228,000 (est.: 220,000) for the week ended 4 May indicating that the labour market is losing steam.
- UK's industrial production rose by 0.7% in Mar'19 from 0.6% in Feb'19 led by improvement in both manufacturing and mining & quarrying output. Within manufacturing, 8 out of 13 sub-sectors rose with a sharp uptick in pharmaceutical (4%) and transport equipment (1.4%). Separately, UK's goods trade deficit widened to £43.3bn between Jan-Mar'19 (vs £36.9bn in Oct-Dec'18).

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	2.47	(6)	0	(17)	(50)
UK	1.14	(8)	4	(2)	(30)
Japan	(0.05)	(1)	0	(2)	(10)
Germany	(0.05)	(7)	(2)	(13)	(60)
India #	7.51	1	0	(1)	(20)
China	3.31	(9)	(1)	20	(39)
<b>2Y yields (Δ bps)</b>					
US	2.27	(7)	(6)	(20)	(26)
UK	0.74	(6)	4	3	(5)
Japan	(0.16)	(1)	1	1	(3)
Germany	(0.62)	(3)	(3)	(4)	(4)
India	6.78	1	12	(3)	(73)
China**	2.61	(5)	22	22	(29)
<b>Currencies (Δ %)</b>					
EUR	1.1233	0.3	(0.4)	(0.8)	(5.7)
GBP	1.2998	(1.3)	(0.7)	0.4	(3.9)
JPY	109.95	1.0	1.0	(0.2)	(0.5)
AUD	0.7002	(0.2)	(2.4)	(1.2)	(7.0)
INR	69.90	(1.0)	(1.1)	2.0	(3.8)
CNY	6.8225	(1.3)	(1.6)	(1.1)	(7.5)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	25,942	(2.1)	(0.8)	3.3	4.9
FTSE	7,203	(2.4)	(2.9)	1.9	(6.5)
DAX	12,060	(2.8)	1.0	10.6	(7.4)
NIKKEI	21,345	(4.1)	(1.7)	5.0	(5.1)
Shanghai Comp	2,939	(4.5)	(7.9)	12.3	(7.4)
SENSEX	37,463	(3.9)	(3.0)	2.5	6.3
Brent (US\$/bbl)	70.62	(0.3)	(0.3)	13.7	(8.8)
Gold (US\$/oz)	1,286	0.5	(0.5)	(2.1)	(2.7)
CRB Index	410.1	(2.0)	(3.4)	(0.7)	(7.7)
Rogers Agri Index	698.9	(3.0)	(6.4)	(9.3)	(17.3)
LIBOR (3M)*	2.53	(3)	(7)	(17)	17
INR 5Y Swap*	7.09	(15)	41	3	(11)
<b>India FII data (US\$ mn)</b>					
	<b>9 May</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	(16.4)	99.1	(548.3)	(849.6)	(1,865.9)
FII-Equity	(78.6)	261.0	326.5	10,093.8	1,799.1

Source: Bloomberg, Bank of Baroda Research | \*Indicates change in bps, # 7.17 GS 2028 security, \*\* 1Y yield.

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
13-May	New Zealand food prices, % MoM	Apr	--	(0.5%)	--
	Bank of France industrial sentiment	Apr	--	--	--
	India CPI, %YoY	Apr	3.0%	2.9%	--
14-May	South Korea export index, % YoY	Apr	--	(0.5%)	--
	Japan current account balance, ¥ bn	Mar	3,007.2	2,676.8	--
	Germany CPI, % YoY	Apr	1.0%	1.0%	--
	Germany PPI, % YoY	Apr	--	1.8%	--
	India WPI, %YoY	Apr	3.0%	3.2%	--
	Germany ZEW survey expectations	May	5.0	3.1	--
	Euro Area industrial production SA, % MoM	Mar	(0.3%)	(0.2%)	--
15-May	US export price index, %YoY	Apr	--	0.6%	--
	South Korea unemployment rate, %	Apr	3.8%	3.8%	--
	China industrial production, %YoY	Apr	6.8%	8.5%	--
	China retail sales, % YoY	Apr	8.6%	8.7%	--
	Germany GDP NSA, % YoY	Q1CY19	0.7%	0.9%	--
	France CPI, %YoY	Apr	1.2%	1.2%	--
	Euro Area SA GDP, %YoY	Q1CY19	1.2%	1.2%	--
	US retail sales advance, % MoM	Apr	0.2%	1.6%	--
16-May	US industrial production, %MoM	Apr	0.1%	(0.1%)	--
	India trade balance, US\$ bn	Apr	(13.5)	(10.9)	--
	Japan PPI, % YoY	Apr	1.1%	1.3%	--
	Australia employment change	Apr	15,000	25,700	--
	Malaysia GDP, % YoY	Apr	4.3%	4.7%	--
17-May	US housing starts, thousands	Apr	1,220	1,139	--
	US initial jobless claims, thousands	11-May		228	--
	Hong Kong GDP, % YoY	Q1CY19	0.5%	0.5%	--
	Euro Area CPI, % YoY	Apr	1.7%	1.4%	--

Source: Bloomberg, Bank of Baroda Research

## Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy, completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at [www.bankofbaroda.com](http://www.bankofbaroda.com)



For further details about this publication, please contact:

### **Economics Research Department**

Bank of Baroda

+91 22 6698 5713

[chief.economist@bankofbaroda.com](mailto:chief.economist@bankofbaroda.com)