

## WEEKLY WRAP

18 February 2019

## Yields moved up even as slowdown bites

Even as China's exports surprised positively, most data points show global growth is slowing down. Supply cuts by Saudi Arabia drove oil prices higher. This along with optimism on US- China trade negotiations led to higher global yields. Indian yields also inched up even as retail inflation edged to a 19-month low. Exports continue to underperform as global slowdown bites. Growth will also be muted on account of restricted government spending to meet fiscal targets. This along with benign inflation outlook implies RBI may lower rates. More clarity will emerge with RBI's minutes scheduled to be released this week.

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## Markets

- **Bonds:** Global yields closed higher. This was driven by 7% increase in crude prices (US\$ 66/bbl) on the back of higher than expected supply cut by Saudi Arabia. US 10Y yield also closed higher by 3bps at 2.66%. Indian 10Y yield (7.17%GS2028) edged up by 6bps (7.58%) due to higher oil prices. System liquidity was in deficit of Rs 1tn as on 15 Feb 2019 vs Rs 783bn deficit in the previous week.
- **Currency:** Barring AUD and INR, other global currencies closed lower this week as dollar gained. DXY rose by 0.4% even as macro data remained weak (retail sales, jobless claims, PPI). Apart from this, disappointing macro data from China and Germany, progress on trade talk between US-China and Brexit uncertainty also weighed in on investor sentiments. INR ended the week higher by 0.1% even as oil prices rose by 7%.
- **Equity:** Except Sensex, global indices ended higher amidst optimism over the possible US-China trade deal. China's exports surprised positively. Dow surged by 3.1% (eighth week of gains) even with poor retail sales and higher jobless claims. Dax gained by 3.6%, Nikkei (2.6%) and Shanghai (2.5%). However, Sensex fell by (-) 2% as oil prices rose and domestic concerns impacted markets.
- **Upcoming key events:** In the current week, markets keenly await FOMC minutes, global manufacturing & services PMIs, inflation in Germany, Euro Area & Japan, and Bank of Indonesia's policy decision. On the domestic front, RBI will release minutes of its 7 Feb monetary policy meeting.



## India macro developments

- Central government is scheduled sell 3% of its 9.56% stake in Axis Bank on 13 Feb 2019. This sale is expected to raise Rs 53.2bn towards the disinvestment target of Rs 800bn. As per data from DIPAM, government has raised Rs 355bn till date through disinvestment/buybacks/IPO/ETFs.
- CPI surprised positively at 2.1% vs est.: 2.5%. This was led by 30bps decline in core to 5.4%. It was quite broad-based with major dip seen in transport & communication component. Food prices outlook is benign. IIP growth on the other hand, inched up to 2.4% in Dec'18 led by infra, capital and FMCG sectors. Jan'19 PMI shows the trend may sustain. We thus believe MPC to cut rate by another 25bps in Apr'19.
- RBI made net purchases of US\$ 607mn in the spot market in Dec'18 vs net sales of US\$ 644mn in Nov'18. In the forwards market, RBI sold US\$ 502mn vs net purchase of US\$ 1bn Nov'18. In FYTD19 (Apr-Dec'18), RBI has sold US\$ 25.9bn in spot and US\$ 23.3bn in the forwards market so far while INR has depreciated by 8.4% so far.
- RBI reported that currency in circulation (CIC) rose by Rs 325bn (on a weekly basis) and stood at Rs 21tn as on 8 Feb 2019. Overall reserve money grew by 16.7% on a YoY basis compared to 43.4% a year ago. On FYTD basis, reserve money is growing at a slower pace of 9.2% against 19.1% in the previous year.
- In an effort to provide price support to sugar millers, government has hiked the minimum sale price of sugar by Rs 2/kg to Rs 31/kg. This will help millers in clearing the arrears which have mounted to over Rs 230bn for the season 2017-18. However, earlier fixing of floor price to Rs 29/kg has already helped in reducing this amount by Rs 20bn.
- India's trade deficit widened to US\$ 14.7bn in Jan'19 from US\$ 13.1bn in Dec'18 led by higher oil imports (US\$ 11.2bn in Jan'19 vs US\$ 10.7bn in Dec'18). On a YoY basis, exports picked up marginally (3.7% in Jan'19 vs 0.3% last month) while non-oil-non-gold imports declined (-0.8% vs -1.9% in Dec'18). We don't expect a pick-up in non-oil-non-gold imports as domestic demand is a bit muted. Exports are also unlikely to pick-up as global economy slows.
- Several forward looking surveys of RBI pointed towards optimism. Consumer confidence picked up both with regard to the current situation and future expectations. Capacity utilisation also picked upto 74.8% in Q2FY19, above its long period average. Business expectation index of manufacturing sector also edged up. Inflation expectation of households' FOR both 3-month and 1-year ahead moderated significantly.

## Global macro developments

- US industrial production declined by (-) 0.6% on a MoM basis vs +0.1% in Dec'18. Manufacturing growth declined by (-) 0.9% from 0.8% in Dec'18 led by fall in output of motor vehicles. Mining production moderated to 0.1% in Jan'19 (vs 1.5% in Dec'18) and utilities output rose by 0.4% against (-) 6.9% decline in Dec'18. Capacity utilization fell to 78.2% in Jan'19, 1.6% points lower than the long run average (CY72-CY18).
- US CPI remained unchanged in Jan'19 on MoM basis (est.: 0.1%), as sharp fall in gasoline (-5.5% in Jan'19) offset the increase in food prices (0.2% in Jan'19). On a YoY basis, CPI grew by 1.6%. Core CPI however inched by 0.2% & 2.2% on MoM & YoY basis respectively. UK CPI also declined both on a MoM basis (-1% in Jan'19 vs 0.1% in Dec'18) & YoY basis (1.8% in Jan'19 vs 2% in Dec'18) led by falling fuel prices.
- US retail sales declined by (-) 1.2% in Dec'18 (est.: 0.1%, Nov'18: 0.1%) on a MoM basis, the sharpest decline since Sep'09. US PPI also fell by (-) 0.1% in Jan'19 (est. +0.1%) due to decline in energy and food prices. Separate data also showed that US jobless claims rose by 4,000 to 239,000 for the week ending 9 Feb 2019. While the data may be impacted by government shutdown, it raises fresh concerns over economic growth in the US.
- China's exports rose by 9.1% in Jan'19 (est.: -3.2%) from (-) 4.4% in Dec'18, possibly due to front loading of shipments before lunar holidays. Imports continued to fall, albeit at a slower pace than Dec'18 (-1.5% in Jan'19 vs est.: -10% & -7.6% in Dec'18). Separately, showing signs of sluggish demand, China's PPI in Jan'19 rose by only 0.1% vs est.: 0.2% and 0.9% in Dec'18.
- UK's GDP rose at the slowest pace since CY12, at 1.4% in CY18 vs 1.8% growth seen in the past two years. In Q4CY18, GDP grew by 0.2% vs 0.6% in Q3, on a sequential basis. The lower growth was due to a drag in construction, gross capital formation and trade related activities. Industrial production also remained muted, declining by (-) 0.5% in Dec'18 vs anticipated growth of 0.1%, reflecting a slowdown in manufacturing sector.
- EIA has revised its demand growth & oil price forecast downwards in its report for Feb'19. Global oil consumption is expected to average 101.4mn bbl/day (101.5mn in Jan'19) and 102.9mn bbl/day (103mn bbl/day in Jan'19) in CY19 and CY20 respectively. Brent (US\$62/bbl) prices have also been lowered by US\$3/bbl from last month's estimate.
- Japan's machinery orders rose by 8.3% in Nov'18 on a MoM basis vs 19.5% in Oct'18. The slowdown was led by private sector manufacturing orders, which fell from 12.3% in Oct'18 to (-) 6.4% in Nov'18. Within manufacturing, the decline was most visible in ICE equipment, automobile parts and other transport equipment.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	2.66	3	(6)	(40)	(21)
UK	1.16	1	(15)	(25)	(42)
Japan	(0.02)	1	(3)	(13)	(8)
Germany	0.10	1	(12)	(27)	(61)
India	7.58	6	2	(24)	0
China	3.09	(2)	0	(27)	(80)
<b>2Y yields (Δ bps)</b>					
US	2.51	5	(3)	(29)	32
UK	0.74	3	(9)	1	8
Japan	(0.17)	0	(1)	(3)	(1)
Germany	(0.56)	2	5	3	1
India	6.72	(9)	(31)	(66)	(16)
China	2.61	2	(15)	(50)	(97)
<b>Currencies (Δ %)</b>					
EUR	1.1296	(0.2)	(0.8)	(1.0)	(8.9)
GBP	1.2889	(0.4)	0	0.4	(8.1)
JPY	110.47	(0.7)	(1.3)	2.1	(4.0)
AUD	0.7141	0.7	(0.4)	(2.6)	(9.7)
INR	71.23	0.1	0	1.0	(10.9)
CNY	6.7732	(0.4)	(0.2)	2.4	(6.8)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	25,883	3.1	6.9	1.8	2.6
FTSE	7,237	2.3	5.4	3.2	(0.8)
DAX	11,300	3.6	3.4	(0.4)	(9.3)
NIKKEI	20,901	2.8	2.2	(3.6)	(3.8)
Shanghai Comp	2,682	2.5	4.4	0.1	(16.2)
SENSEX	35,809	(2.0)	(1.4)	1.0	5.3
Brent (US\$/bbl)	66.25	6.7	8.0	(0.8)	2.2
Gold (US\$/oz)	1,322	0.6	2.2	8.1	(1.8)
CRB Index	413.4	0.1	0.3	(0.8)	(6.5)
Rogers Agri Index	763.7	(0.9)	(0.7)	(1)	(7.9)
LIBOR (3M)*	2.69	0	(9)	5	81
INR 5Y Swap*	7.05	(1)	(15)	(56)	(11)
<b>India FII data (US\$ mn)</b>					
	<b>14 Feb</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	(73.7)	58.2	(17.0)	(384.1)	(7,374.7)
FII-Equity	(94.7)	(108.1)	358.7	283.4	(6,399.5)

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

**FIG 2 – DATA RELEASE CALENDAR**

Date	Event	Period	Estimate	Previous	Actual
<b>18-Feb</b>	Japan core machine orders, % MoM	Dec	(1.1%)	0.0%	--
	Thailand GDP, % YoY	Q4CY18	3.6%	3.3%	--
<b>19-Feb</b>	RBA minutes of Feb. policy meeting	19-Feb	--	--	--
	Euro Area current account balance SA, €bn	Dec	--	20.3	--
	Italy industrial orders, % MoM	Dec	--	(0.2%)	--
	UK ILO unemployment rate 3months, %	Dec	4.0%	4.0%	--
	Germany ZEW survey expectations	Feb	(13.7)	(15.0)	--
<b>20-Feb</b>	Japan trade balance, ¥bn	Jan	(1,029.5)	(55.3)	--
	Germany PPI, % MoM	Jan	(0.1%)	(0.4%)	--
	Euro Area consumer confidence	Feb	(7.7)	(7.9)	--
<b>21-Feb</b>	US FOMC meeting minutes	30-Jan	--	--	--
	RBI monetary policy minutes	7-Feb	--	--	--
	Nikkei Japan manufacturing PMI	Feb	--	50.3	--
	Germany CPI, % YoY	Jan	1.4%	1.4%	--
	France CPI, % YoY	Jan	1.2%	1.2%	--
	Markit France manufacturing PMI	Feb	51.0	51.2	--
	Markit France services PMI	Feb	48.5	47.8	--
	Markit Germany manufacturing PMI	Feb	49.9	49.7	--
	Markit Germany services PMI	Feb	52.9	53.0	--
	Markit Eurozone manufacturing PMI	Feb	50.3	50.5	--
	Markit Eurozone services PMI	Feb	51.3	51.2	--
	US initial jobless claims	16-Feb	230,000	239,000	--
	US durable goods orders, % MoM	Dec	1.8%	0.7%	--
	Markit US manufacturing PMI	Feb	55.0	54.9	--
	Markit US services PMI	Feb	54.3	54.2	--
Bank Indonesia 7D reverse repo	19-Feb	6.0%	6.0%	--	
<b>22-Feb</b>	South Korea PPI, % YoY	Jan	--	1.0%	--
	Japan CPI, % YoY	Jan	0.2%	0.3%	--
	China new home prices, % MoM	Jan	--	0.77%	--
	Thailand exports, % YoY	Jan	(1.3%)	(1.7%)	--
	Taiwan export orders, % YoY	Jan	(8.5%)	(10.5%)	--
	Germany IFO business climate	Feb	98.9	99.1	--
	Euro Area CPI, % YoY	Jan	1.4%	1.6%	--

Source: Bloomberg, Bank of Baroda Research

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