

**WEEKLY WRAP**

18 March 2019

**Global growth losing steam**

Slowdown in global economy intensified further, with lower industrial production in US, China & Germany. However, optimism over US-China trade deal, delay in Brexit and anticipation of a pause by US Fed in CY19 led to decline in global yields. Equity markets went up. Despite higher than anticipated CPI, domestic yields were lower. With resurgent FII inflows, Sensex went up and INR rose. The deceleration in IIP and non-oil-non-gold imports is symptomatic of slowing economy and opens room for RBI to reduce policy rate.

**Sameer Narang**

+91 22 6698 5713

chief.economist@bankofbaroda.com

**Sonal Badhan**

sonal.badhan@bankofbaroda.com

**Markets**

- **Bonds:** Global yields closed mixed, driven by slowdown in global growth indicators and delay in Brexit deal. This led US 10Y yield to close near 3-month low of 2.59%. Crude prices, however, rose by 2.2% on expectation of US-China trade deal. India's 7.17GS2028 closed lower by 3bps supported by RBI's durable liquidity measure. System liquidity deficit rose to Rs 969bn as on 15 Mar 2019 vs Rs 25bn in the previous week.
- **Currency:** Barring JPY, other global currencies closed higher on the back of a weaker dollar. DXY fell by (-) 0.7%, registering its biggest weekly loss in CY19 on the back of rising probability that the Fed will leave rates unchanged this year. GBP rose sharply by 2.1% as the prospects of a no-deal Brexit receded. INR rallied by 1.5% this week on the back of strong FII inflows (US\$ 1.8bn) even as oil prices edged up 2.2% in the week.
- **Equity:** Led by hopes of a possible US-China trade deal, global indices closed higher. Dow climbed by 1.6% supported by strong rally in tech stocks. Sensex surged by 3.7%, highest weekly gain since Nov'18 in a pre-election rally. Both European markets & Asian markets closed the week in green with Nikkei and Shanghai Comp gaining by 2% and 1.7% respectively.
- **Upcoming key events:** In the current week, markets keenly await monetary policy meetings of US, UK, Thailand, Philippines, and Taiwan. Apart from this, flash manufacturing and services PMI of advanced economies and export orders of Taiwan will also be watched.



## India macro developments

- As per news reports, government has recently sold its entire stake (73%) in Dredging Corporation to 4 state-owned ports (Visakhapatnam, Paradeep, Jawaharlal Nehru & Deendayal port trusts) for Rs 11bn. DIPAM data suggests this sale takes central government's disinvestment receipts to Rs 575bn vs FY19RE of Rs 800bn. Till now, largest receipts have come from CPSE-exchange traded fund (Rs 170bn) & Bharat 22 ETF (Rs 104bn).
- Industrial growth eased to 1.7% in Jan'19 led by dip in capital, intermediate and consumer goods (durables and FMCG). On the other hand, CPI rose by 2.6% in Feb'19 (2% in Jan'19) led by food inflation. Core inflation remained sticky, though education and health remained elevated. The macro backdrop of slowing global and domestic growth should outweigh the rise in inflation as inflation outlook remains benign.
- In an effort to address durable rupee liquidity needs, RBI has decided to conduct long-term foreign exchange buy/sell swap of US\$ 5bn for a tenor of 3 years on 26 Mar 2019. Under this arrangement, banks can swap their dollars for rupees. This measure is in supplement to the ongoing OMO purchases (Rs 2.99tn already announced in FYTD19).
- WPI increased to 2.9% in Feb'19 from 2.8% in Jan'19 led by food inflation at 3.3% in Feb'19 (1.8% in Jan'19). Fuel and power inflation too rose by 40bps MoM to 2.2% in Feb'19. However, manufactured inflation softened to 2.3% in Feb'19 (2.6% in Jan'19). Weak global growth outlook will support lower commodity prices in coming months. We expect inflation, in particular CPI, to be lower than RBI's target of 4% thus opening up room for easing.
- India's trade deficit narrowed sharply to US\$ 9.6bn in Feb'19 from US\$ 14.7bn in Jan'19 led by decline in imports (-5.4% vs 0.9% in Jan'19). Both oil and non-oil-non-gold imports decelerated. The dip in non-oil-non-gold imports is symptomatic of a slowing domestic economy. Exports have also seen a moderation (2.4% vs 3.7% in Jan'19). With CAD at US\$ 64.5bn and rising FII inflows, we believe INR is likely to benefit from the above scenario.
- As per data released by AMFI, there has been net outflow in the mutual fund segment in Feb'19 to the tune of Rs 201bn vs net inflow of Rs 654bn in the previous month. This was largely led by debt outflow of Rs 49bn vs inflow of Rs 9bn in Jan'19. Equity inflow moderated slightly to Rs 41bn vs Rs 52bn in the previous month.
- RBI made net purchases of US\$ 293mn in the spot market in Jan'19 vs US\$ 607mn in Dec'18. In the forwards market, RBI sold US\$ 606mn vs US\$ 502mn in Dec'18. In FYTD19 (Apr-Jan'19), RBI has sold US\$ 25.6bn in spot and US\$ 23.9bn in the forwards market so far.

## Global macro developments

- US CPI rose for the first time in the past 4 months in line with the estimate of 0.2% in Feb'19. This was driven by modest pace of increase in food and gasoline prices. On an annualised basis, CPI edged down marginally by 1.5% vs 1.6% in Jan'19. Core CPI rose by 2.1% vs 2.2% seen in the past three months.
- US retail sales edged up by 0.2% on MoM basis, in Jan'18 (est.: 0%) vs (-) 1.6% in Dec'18. The higher than expected print has been on the back of buoyant labour market conditions and waning impact of government shutdown which dragged Dec'18 growth rate to its near 9-year low.
- US industrial production edged up marginally by 0.1% in Feb'19 on MoM basis (est.: 0.6%) vs a decline of (-) 0.4% in Jan'19. This was driven by increase in utilities & mining which has offset the second straight monthly drop in manufacturing sector. Capacity utilisation was slightly lower at 78.2 in Feb'19 vs 78.3 in Jan'19.
- Industrial production in Germany fell by (-) 0.8% in Jan'19 (est.: +0.5%) from an upwardly revised 0.8% in Dec'18. Separate data showed that while exports growth was flat in Dec'18 on a MoM basis, imports grew by 1.5%. The data comes after ECB sharply cut its growth forecast for the Euro Area and suggests further weakening in the region's largest economy.
- UK industrial production rose by 0.6% in Jan'19 on a MoM basis, vs (-) 0.5% in Dec'18 and est. 0%. This was led by increase in manufacturing output which rose by 0.8% in Jan'19 vs (-) 0.7% in Dec'18. Within manufacturing, pharma (5.7%) and food, beverages & tobacco (1.3%—strongest since Dec'16) contributed the most to the monthly gain.
- US durable goods orders rose by 0.4% in Jan'19, led by 15.9% rise in orders for aircraft. Core capital orders too rose by 1.4% in Jan'19 from 0.6% in Dec'18, sharpest jump since Jul'18. Separately, PPI rose by 0.1% in Feb'19 (MoM basis) on the back of higher gasoline prices. On a YoY basis, it was up by 1.9% in Feb'19 vs 2% in Jan'19. Core PPI eased to 2.3% in Feb'19 from 2.5% in Jan'19.
- Bank of Japan in its latest meeting kept its policy rate unchanged at (-) 0.1% and also its target of maintaining 10Y government bond yields at around 0%. However, the governor reiterated concerns around slowing global economy hurting their exports and overall growth outlook.
- Chinese economy is off to a weak start in CY19 as visible in falling industrial output in Jan-Feb'19, which slowed to 5.3% from 5.7% in Dec'18—slowest start since CY09. Retail sales growth held steady compared to Dec'18 at 8.2%. On the other hand, FAI growth held ground as it rose by 6.1% vs 5.9 in CY18. This was led by infrastructure investment (4.3% vs 3.8% last year). Private investment however remains lukewarm (7.5% vs 8.7% in CY18).

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	2.59	(4)	(10)	(30)	(26)
UK	1.21	2	3	(3)	(22)
Japan	(0.03)	0	(2)	(7)	(7)
Germany	0.08	2	(5)	(17)	(49)
India #	7.50	(3)	(3)	6	(6)
China	3.15	0	7	(23)	(70)
<b>2Y yields (Δ bps)</b>					
US	2.44	(2)	(7)	(30)	15
UK	0.76	1	3	4	(4)
Japan	(0.15)	(1)	1	0	(1)
Germany	(0.54)	(1)	2	7	5
India	6.59	(8)	(13)	(40)	(30)
China**	2.40	(1)	5	(27)	(91)
<b>Currencies (Δ %)</b>					
EUR	1.1326	0.8	0	0.2	(7.8)
GBP	1.3290	2.1	3.1	5.6	(4.7)
JPY	111.48	(0.3)	(0.9)	1.7	(5.2)
AUD	0.7085	0.6	(0.1)	(1.2)	(8.1)
INR	69.10	1.5	2.2	3.9	(6.4)
CNY	6.7137	0.1	0.9	2.8	(6.0)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	25,849	1.6	1.7	7.3	3.6
FTSE	7,228	1.7	1.3	5.6	0.9
DAX	11,686	2.0	5.0	7.5	(5.7)
NIKKEI	21,451	2.0	2.8	0.4	(1.0)
Shanghai Comp	3,022	1.7	13.1	16.5	(7.6)
SENSEX	38,024	3.7	5.2	5.7	14.6
Brent (US\$/bbl)	67.16	2.2	7.6	11.4	1.4
Gold (US\$/oz)	1,302	0.3	(0.6)	5.1	(0.9)
CRB Index	419.6	1.3	1.9	1.1	(5.4)
Rogers Agri Index	756.5	2.0	(1.5)	(2.7)	(10.0)
LIBOR (3M)*	2.61	2	(8)	(19)	41
INR 5Y Swap*	6.66	(31)	(39)	(54)	(27)
<b>India FII data (US\$ mn)</b>					
	<b>14 Mar</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	227.9	185.4	833.4	(819.2)	(7,809.8)
FII-Equity	279.8	1,602.4	2,435.7	4,731.2	(1,951.7)

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
18-Mar	Japan trade balance, ¥bn	Feb	305.1	(1,415.2)	--
	Singapore non-oil domestic exports, % YoY	Feb	(1.6%)	(10.1%)	--
	Japan industrial production, % MoM	Jan	--	(3.7%)	--
	Euro Area trade balance SA, €bn	Jan	15.0	15.6	--
19-Mar	Italy trade balance, € bn	Jan	--	3.7	--
	UK jobless claims change	Feb	--	142,000	--
	UK ILO unemployment rate 3mths, %	Jan	4.0%	4.0%	--
	Germany ZEW survey expectations	Mar	(11.0)	(13.4)	--
	US durable goods orders, % MoM	Jan	0.4%	0.4%	--
20-Mar	Japan machine tool orders, % YoY	Feb	--	(29.3%)	--
	Germany PPI, % MoM	Feb	0.2%	0.4%	--
	Thailand benchmark interest rate, %	20-Mar	1.8%	1.8%	--
	Taiwan export orders, % YoY	Feb	(5.9%)	(6.0%)	--
	UK CPI, % YoY	Feb	1.8%	1.8%	--
	US FOMC rate decision (upper bound), %	20-Mar	2.50%	2.50%	--
21-Mar	Australia unemployment rate, %	Feb	5.0%	5.0%	--
	Taiwan CBC benchmark interest rate, %	21-Mar	1.38%	1.38%	--
	Philippines BSP overnight borrowing rate, %	21-Mar	4.75%	4.75%	--
	ECB economic bulletin	--	--	--	--
	UK retail sales ex auto fuel, % MoM	Feb	(0.4%)	1.2%	--
	Bank of England bank rate, %	21-Mar	0.75%	0.75%	--
	US initial jobless claims	16-Mar	225,000	229,000	--
	Euro Area consumer confidence	Mar	(7.1)	(7.4)	--
	Thailand customs exports, % YoY	Feb	1.1%	(5.7%)	--
22-Mar	Japan CPI, % YoY	Feb	0.3%	0.2%	--
	Japan manufacturing PMI	Mar	--	48.9	--
	France manufacturing PMI	Mar	51.4	51.5	--
	France services PMI	Mar	50.6	50.2	--
	Germany manufacturing PMI	Mar	48.0	47.6	--
	Germany services PMI	Mar	54.8	55.3	--
	ECB Current Account SA, €bn	Jan	--	16.2	--
	Eurozone manufacturing PMI	Mar	49.5	49.3	--
	Eurozone services PMI	Mar	52.7	52.8	--
	US manufacturing PMI	Mar	53.6	53.0	--
	US services PMI	Mar	55.8	56.0	--
	US wholesale inventories, % MoM	Jan	0.1%	1.1%	--
	US existing home sales, mn	Feb	5.1	4.9	--

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)