

## WEEKLY WRAP

24 September 2018

### Oil on the boil again

US 10Y yield rose ahead of Fed policy meet later this week. US Fed will be raising rates third time this year. Thus global yields have been inching up. Rising oil prices are only adding to upward pressure on yields. EM currencies continue to be under pressure. INR fell by 0.5% in the week while yields were slightly lower. However, Indian yields are likely to move up as oil prices have breached US\$ 80/bbl. Yields may stabilise later in the week if government reduces its gross borrowings in the FY19 to Rs 5.5tn as indicated earlier in the year from budgeted amount of Rs 6tn.

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### Markets

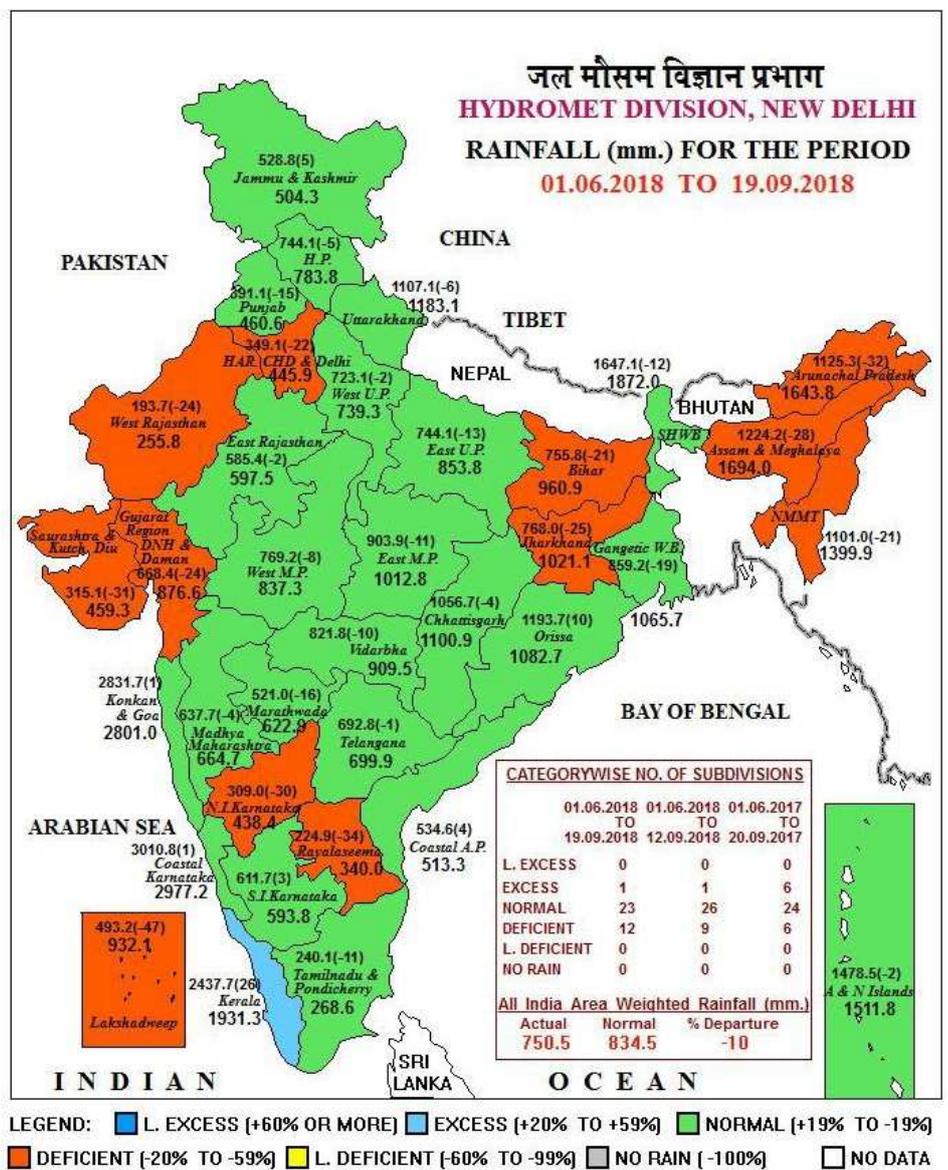
- Bonds:** Barring India, global yields closed higher, owing to rising oil prices (+0.9% at US\$ 78.8/bbl) and higher US yields (7bps) as US Fed is likely to raise rates further later this week. Indian 10Y yield declined by 5bps to close at 8.08% in response to RBI's OMO of Rs 100bn. Net liquidity injection by RBI was Rs 1.36tn as of 21 Sep 2018 vs Rs 251.59bn in the previous week.
- Currency:** Major global currencies closed mixed, with JPY and INR ending lower and others closing higher. DXY was down by 0.7%. EUR gained 1.1% in the week as ECB will be winding down its balance sheet over time. INR continued to depreciate as oil prices continue to rise and are unlikely to come down in the near-term. In addition, measures to boost inflows and curtail imports are likely to play out only in the medium-term.
- Equity:** Except Sensex, global equity markets closed higher and posted solid weekly gains on the back of ebbing trade tensions. Shanghai Comp (4.3%) and Nikkei (3.4%) were the biggest gainers. Indian equity markets were rattled especially on Friday plunging down by (-) 3.3% over the week owing to financial market volatility seen in financial stocks.
- Upcoming key events:** In the current week, markets will keenly await FOMC policy decision, BoJ's minutes of the policy meeting, and Germany's IFO business climate index. Apart from that, China's manufacturing PMI, UK Q2CY18 GDP and industrial production in the Asian economies (Japan, Taiwan, and Hong Kong) will be closely watched. Domestically, investors will keep an eye on oil price movement and central government's H2FY19 borrowing calendar.



### Monsoon tracker

- For the week ending 19 Sep 2018, monsoon rains were 55% below normal. However, for the period 1 Jun 2018 to 19 Sep 2018, monsoon was 10% below LPA compared with 5% below LPA last year. Western Rajasthan, Gujarat, Bihar, Eastern India and parts of Southern peninsula continues to receive deficient rainfall in the aforementioned period.
- Led by improvement in the acreage of rice (2.36%) and oilseeds (3.10%), overall kharif sowing has increased by 0.6% this year as on 20 Sep 2018. Sown area of pulses continued to dip and was lower by (-) 1.11% compared with previous year. However, acreage of sugarcane is much higher this year.

**FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON**



Source: IMD, Bank of Baroda Research

## India macro developments

- OECD revised its growth forecast for India upwards on the back of various structural reforms and stronger exports. India is expected to remain the fastest growing economy, with GDP growth at 7.6% in FY19 (+0.2% from earlier estimate). It is expected to slow down slightly in FY19 to 7.4% in FY20 (-0.1%). Rising oil prices and tighter financial conditions remain a key risk.
- The government has proposed amalgamation of three PSBs-Bank of Baroda, Vijaya and Dena Bank. The consolidated entity will have business of Rs 14.82tn. It will also have stronger financials in terms of PCR, net NPA, CRAR and cost to income ratio. The synergy will also lead to wide spread distribution network.
- Media reports suggested that a committee headed by the cabinet secretary has identified non-essential items for curbing imports. These include steel, furniture, electronic items and consumer durables. This is a part of the move to protect the deteriorating CAD, which was at US\$ 48.7bn (1.9% of GDP) in FY18 compared to US\$ 14.4bn (0.6% of GDP) in FY17.
- In an effort to restore investors' confidence in the economy, SEBI has announced overhaul changes. These include trimming down of listing time of IPOs to just 3 days, allowing NRIs and OCIs to hold non-controlling stake in FPIs and capping MF commissions. It also brought in a framework for large corporates (with outstanding borrowings of Rs 1bn or more and credit rating of AA or better) by mandating 25% of their incremental long term borrowing in a year from the bond market.
- RBI reported that currency in circulation (CIC) increased by Rs 83bn (on a weekly basis) and stood at Rs 19.4tn as on 14 Sep 2018. Overall, reserve money rose by 19% on a YoY basis because of increased currency demand compared with a fall of (-) 4.5% a year ago. On a FYTD basis, reserve money rose by 3.1% as against 10.3% in the previous year.
- India's FX reserves for the week ending 14 Sep 2018 rose to US\$ 400bn. On a weekly basis, forex reserves increased by US\$ 1.2bn compared with a decline of US\$ 0.8bn last week. On CYTD basis, reserves are down by US\$ 8.9bn, compared with an accretion of US\$ 42.2bn in the same period last year. Pressure on forex reserves is in line with INR depreciation (12% in CYTD18).

## Global macro developments

- OECD lowered its global growth forecasts for 2018 and 2019 on the back of rising trade tensions and volatility in financial markets in EMs. Global economy is expected to grow by 3.7% in 2018 and 2019. While forecasts for US, China and Japan were kept unchanged for 2018, growth forecasts for Euro area and UK were revised down.
- Slowdown in exports led to a fall in manufacturing activity in the Euro Zone, Germany and France as reflected in the fall in their manufacturing PMI in Sep'18. On the other hand, manufacturing PMI in the US (55.6 vs 54.7) and Japan (52.9 vs 52.5) rose on the back of increase in new orders. On the services side, while activity strengthened in the Euro Zone, France and Germany, it declined to an 18-month low in the US due to rising costs.
- Euro Area's CPI rose by 2% in Aug'18 on a YoY basis vs 2.1% in Jul'18. Inflation cooled down mainly on account of softening prices of food, alcohol & tobacco (2.4% vs 2.5%), services, (1.3% vs 1.4%) and non-energy industrial goods (0.4% vs 0.5%). Energy prices contributed 0.87pp rise to overall inflation.
- BoJ kept its policy rate unchanged at (-) 0.1%, and reiterated that it would continue to maintain ultra-low rates "for an extended period". Target for 10Y bond yield remains around 0%, but the bank clarified its upper limit to be around 0.2%. Despite low interest rates hurting lending margins of the commercial banks, any rate hike before Apr'19 has been ruled out.
- Industrial orders in Italy declined by 2.3% in Jul'18 compared with a decline of 1.5% in Jun'18 on a MoM basis. This was the biggest fall since Jan'18 when industrial orders fell by 4.7%. The decline was more pronounced in the domestic market where it fell by 2.5% compared with a decline of 1.9% in non-domestic market.
- Retail inflation in UK edged up to a 6-month high of 2.7% in Aug'18 from 2.5% in Jun'18. Estimates including those by BoE expected inflation to cool down to 2.4% in Aug'18. The increase was led by higher prices of transport (6.1% vs 5.7%), recreation and culture (3.6% vs 3.1%) and clothing and footwear (0.4% vs -0.3%).
- France GDP grew at a steady pace of 0.2% in Q2 on a QoQ basis, unchanged from Q1CY18. On the expenditure side, while the household expenditure dropped to (-) 0.1% against 0.2% in Q1, GFCF rebounded and improved by 0.8% compared with 0.1% growth in previous quarter. Owing to growing uncertainty in the external environment, Bank of France had trimmed its growth forecast last week to 1.6% from 1.8% for 2018.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	3.06	7	23	17	79
UK	1.55	2	29	28	19
Japan	0.13	2	5	9	9
Germany	0.46	1	13	13	1
India	8.08	(5)	25	31	140
China	3.70	2	4	9	6
<b>2Y yields (Δ bps)</b>					
US	2.80	2	20	26	136
UK	0.81	(1)	9	8	36
Japan	(0.11)	0	2	3	2
Germany	(0.53)	1	7	14	15
India	7.89	(8)	32	47	157
China	2.98	7	10	(30)	(49)
<b>Currencies (Δ %)</b>					
EUR	1.1749	1.1	1.5	1.2	(1.6)
GBP	1.3072	0.0	1.3	(1.3)	(3.7)
JPY	112.59	(0.5)	(2.1)	(2.4)	(0.1)
AUD	0.7290	1.9	(1.1)	(1.2)	(8.1)
INR	72.21	(0.5)	(3.4)	(6.2)	(11.4)
CNY	6.8571	0.2	(0.1)	(5.6)	(4.1)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	26,744	2.3	3.6	9.3	19.6
FTSE	7,490	2.5	(1.0)	(0.9)	3.1
DAX	12,431	2.5	0.4	(0.6)	(1.3)
NIKKEI	23,870	3.4	7.4	5.2	17.3
Shanghai Comp	2,797	4.3	2.3	(2.7)	(16.7)
SENSEX	36,842	(3.3)	(3.8)	4.0	13.8
Brent (US\$/bbl)	78.80	0.9	8.5	7.9	39.6
Gold (US\$/oz)	1,200	0.4	0.3	(5.3)	(7.1)
CRB Index	413.6	1.2	(0.2)	(6.9)	(3.8)
Rogers Agri Index	770.0	0.1	(3.6)	(4.1)	(5.5)
LIBOR (3M)*	2.37	4	6	4	104
INR 5Y Swap*	7.70	(1)	22	21	177
<b>India FII data (US\$ mn)</b>					
	<b>19 Sep</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	(282.4)	(409.9)	(1,140.1)	(6,789.2)	(7,035.2)
FII-Equity	(300.8)	(440.1)	(533.0)	(1,224.5)	(3,350.0)

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
24-Sep	Singapore CPI, % YoY	Aug	0.7%	0.6%	--
	Germany IFO business climate	Sep	103.2	103.8	--
	ECB's Draghi Speaks at ECON Committee Meeting in Brussels				
25-Sep	BOJ minutes of policy meeting				
	Japan PPI Services, % YoY	Aug	1.1%	1.1%	--
	Germany PPI, % YoY	Aug	--	3.5%	--
	France manufacturing confidence	Sep	109.0	110.0	--
	Taiwan industrial production, % YoY	Aug	0.6%	4.4%	--
	US Conf. Board consumer confidence	Sep	131.5	133.4	--
	India eight infrastructure industries, % YoY	Aug	--	6.6%	--
26-Sep	Singapore industrial production, % YoY	Aug	4.5%	6.0%	--
	Japan machine tool orders, % YoY (Final)	Aug	--	5.3%	--
	France consumer confidence	Sep	97.0	97.0	--
	US new home sales	Aug	6,31,000	6,27,000	--
	US FOMC rate decision	Sep	2.25%-2.00%	2.00%-1.75%	--
27-Sep	Reserve Bank of New Zealand Official Cash Rate	Sep	1.8%	1.8%	--
	China industrial profits, % YoY	Aug	--	16.2%	--
	Germany GfK consumer confidence	Oct	10.5	10.5	--
	Italy manufacturing confidence	Sep	104.8	104.8	--
	Italy PPI, % MoM	Aug	--	0.4%	--
	Euro area consumer confidence	Sep	(2.9)	(2.9)	--
	Germany CPI, % YoY	Sep	2.0%	2.0%	--
	US advance goods trade balance, US\$ bn	Aug	(70.6)	(72.2)	--
	US GDP annualized, % QoQ	Q2CY18	4.3%	4.2%	--
	US durable goods orders, % YoY	Aug	1.7%	(1.7%)	--
	US initial jobless claims	22-Sep	--	2,01,000	--
	Germany retail sales, % MoM	Aug	0.4%	(0.4%)	--
28-Sep	South Korea consumer confidence	Sep	--	99.2	--
	UK GfK consumer confidence	Sep	(8.0)	(7.0)	--
	Japan jobless rate, % YoY	Aug	2.5%	2.5%	--
	Japan industrial production, % MoM	Aug	1.5%	(0.1%)	--
	Japan retail trade, % YoY	Aug	2.1%	1.5%	--
	Caixin China manufacturing PMI	Sep	50.5	50.6	--
	France CPI, % YoY	Sep	2.3%	2.3%	--
	UK current account balance, £ bn	Q2CY18	(19.4)	(17.7)	--
	UK GDP, % QoQ	Q2CY18	0.4%	0.4%	--
	Euro area CPI estimate, % YoY	Sep	2.1%	2.0%	--
	Italy CPI, % MoM	Sep	1.8%	(0.1%)	--
	India fiscal deficit, Rs. Crore	Aug	--	1,11,224.0	--
China current account balance, US\$ bn	Q2CY18	--	5.8	--	

Source: Bloomberg, Bank of Baroda Research

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