

WEEKLY WRAP

25 March 2019

Growth downturn on the horizon

An inverted yield curve is indicating a slowing global economy. US Fed's dovish stance of no rate increase in CY19 led to decline in yields across the world. Equity markets also fell as growth slows. In the above backdrop, Indian yields were flat but INR appreciated as FPI inflows have continued. Indian equity markets also rose. Markets now await RBI policy on 4 April 2019. Given the extent of growth slowdown since the last policy and continued undershooting of inflation from projections, RBI is likely to cut rates again in April.

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Markets

- **Bonds:** Except India, global yields closed lower. UK 10Y yield declined by as much as 20bps even as EU gave an extension on Brexit date to UK. US 10Y yield declined by 15bps on the back of dovish stance by Fed and gloomier growth outlook. Crude prices edged down by (-) 0.2% (US\$ 67/bbl). India's 7.17GS2028 closed stable at 7.5% supported by RBI's durable liquidity measure. System liquidity deficit was at Rs 373bn vs Rs 611bn in the previous week.
- **Currency:** Barring JPY and INR, other global currencies closed lower on the back of a strong dollar. DXY rose by 0.1%, even as Fed indicated a pause in its rate hike cycle in CY19. Uncertainty around Brexit impacted GBP which fell by (-) 0.5%. INR rose by 0.2% this week, supported by strong FII inflows (US\$ 1.7bn) and lower oil prices (-0.2%).
- **Equity:** Led by escalated concerns of slowdown in global economy, global indices closed mixed. Dow fell by (-) 1.3% as recession fears spooked the markets. PMI prints surprised negatively. European markets led the decline with Dax falling by (-) 2.8%. However, Shanghai Comp and Sensex surprised positively and closed the week in green gaining 2.7% and 0.4% respectively.
- **Upcoming key events:** In the current week, markets will look forward to US, UK and France's Q4CY18 GDP prints. Apart from that, US new home sales, China's industrial profits and Germany's IFO business climate index will also be watched. On the domestic front, India's fiscal deficit and BoP data is scheduled to be released this week.



India macro developments

- As per news reports, net direct tax collections have crossed Rs 10tn as of 16 Mar, vs FY19RE of Rs 12tn. Official data shows that on FYTD basis, collection up till Jan'19 stood at Rs 7.8tn. While direct taxes are seen inching closer to the targeted amount, indirect tax collections still remain far at Rs 6.9tn (Apr-Jan) vs FY19RE of Rs 10.4tn.
- Fitch has lowered India's growth forecast for FY20 to 6.8% from previously projected 7%. Even for FY19 the forecast has been downgraded from 7.8% to a more realistic 7.2%. This is said to be on the back of weakening domestic demand and global growth momentum. However, as government undertakes cash transfers for farmers in FY20, oil prices remain benign and higher MSPs pushes food prices up, the rating agency believes it will support growth in FY21. Thereby taking overall GDP growth to 7.1%.
- As per US based NOAA, likelihood of El Nino (60% chance) continues to remain prevalent during Jun-Aug period. Even Australian met has upgraded its forecast to 'alert' from 'watch' as El Nino is expected to gain strength in the coming months. However, Indian Met has maintained that formation of El Nino conditions will remain weak during the monsoon period. Notably, Skymet has also recently forecasted a normal monsoon in CY19.
- RBI reported that currency in circulation declined by Rs 97bn (on a weekly basis) and stood at Rs 21tn as on 15 Mar 2019. Overall reserve money grew by only 19% on a YoY basis compared to 33% a year ago. On FYTD basis, reserve money is growing at a slower pace of 14% vs 23% last year.
- As per data released by PPAC, both petrol and diesel consumption declined in Feb'19 on a YoY basis. While petrol consumption fell from 13.3% in Jan'19 to 8% in Feb'19, diesel consumption fell from 6.3% to 2.8% in the same period. Even compared to last year (Jan-Feb'18 average) diesel consumption has declined sharply from 10.4% to 4.5% this year (Jan-Feb'19 average). This is despite crude prices falling from US\$67/bbl to US\$ 62/bbl in the same period, indicating slowing domestic trade in Q4FY19.
- India's FX reserves for the week ending 15 Mar 2019 rose to US\$ 406bn. On a weekly basis, they increased by US\$ 3.6bn, compared with US\$ 0.3bn last week. In CYTD19, reserves have increased by US\$ 12.2bn while INR has appreciated by 1%. In FYYTD19, reserves are down by US\$ 18.7bn compared with an accretion of US\$ 51.4bn in FYTD18.

Global macro developments

- Flash manufacturing PMIs of major advanced economies indicate activity in Mar'19 contracted across regions. In particular the Eurozone (led by Germany and France) and Japan. Eurozone's manufacturing PMI fell to almost 6 year low of 47.6 vs 49.3 in Feb'19. In Japan the index remained unchanged from Feb'19 at 48.9. Both regions have reported steep decline in new orders, in particular new export orders. Employment too fell.
- US wholesale inventories rose by 1.2% in Jan'19 on a MoM basis vs est.: 0.1% and 1.1% in Dec'18. This is the largest gain since Sep'12 and reflects slowing domestic demand as sales remain muted. Wholesale sales rose by only 0.5% in Jan'19 vs (-) 0.9% in Dec'18. Thus going at this pace it will take sellers 1.34 months to clear their stock vs 1.33 months in Dec'18
- Amidst brewing uncertainty over finalisation of Brexit deal, Bank of England kept the interest rates steady (for 7th straight month). It has taken a wait and watch approach as the economic outlook would heavily depend on the timing and nature the deal. This come in line with Fed's decision to hold interest rates hikes this year on the back of fears of economic slowdown.
- US Fed kept its fund rate unchanged at 2.25-2.5%. However, it signalled a dovish stance by indicating no more rate hikes in CY19 as against its earlier projection of several rate hikes. This has been on the backdrop of muted growth and inflation print whose projection has also been slashed by 20 & 10bps at 2.1% & 1.8% in CY19 respectively. It also indicated a pause in its balance sheet reduction program in Sep'19. In a separate release, US jobless claims fell by 9,000 to 221,000 for the week ending 16 Mar 2019.
- Euro zone's exports from the rest of the world recovered by 2.1% in Jan'19 vs a decline of (-) 3.9% in Dec'18, on a YoY basis. Imports growth on the other hand decelerated to 3.9% from 4.3% in Dec'18. As a result, trade surplus expanded to € 24.9bn in Jan'19 from € 0.7bn in Dec'18. Notably, EU's trade surplus with US expanded to €11.5bn in Jan'19 vs € 10.1bn in Jan'18.
- Japan exports slumped for the third consecutive month in Feb'19, by (-) 1.2% vs (-) 8.4% in Jan'19 on a YoY basis. The drag was led by auto and semi-conductors. Shipment of chip making equipment to S. Korea fell by (-) 60%. Geographically, the slowdown was driven by W.Europe, Middle East and Asia. Overall imports also weakened, to (-) 6.7% in Feb'19 vs (-) 0.6% in Jan'19, taking the trade surplus to ¥339bn vs deficit of ¥1.4tn in Jan'19
- ZEW index of economic sentiment for Germany improved sharply in Mar'19 to (-) 3.6 vs (-) 13.4 in Feb'19. This 9.8 point jump comes after easing trade war tensions between US & China, and postponement of Brexit date. However, the current situation index fell by 3.9 points to 11.1 in Mar'19, pointing towards relatively weak growth in H1CY19.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	2.44	(15)	(21)	(35)	(37)
UK	1.01	(20)	(17)	(31)	(43)
Japan	(0.07)	(4)	(4)	(12)	(9)
Germany	(0.02)	(10)	(12)	(27)	(54)
India #	7.50	0	(5)	22	(6)
China	3.11	(4)	(1)	(22)	(65)
2Y yields (Δ bps)					
US	2.32	(12)	(18)	(32)	6
UK	0.66	(10)	(9)	(11)	(23)
Japan	(0.17)	(2)	1	(3)	(2)
Germany	(0.57)	(2)	0	4	5
India	6.60	1	(9)	(28)	(30)
China**	2.40	(1)	7	(28)	(88)
Currencies (Δ %)					
EUR	1.1293	(0.3)	(0.4)	(0.7)	(8.6)
GBP	1.3217	(0.5)	1.3	4.5	(6.5)
JPY	109.93	1.4	0.8	1.2	(5.0)
AUD	0.7079	(0.1)	(1.2)	0.6	(8.1)
INR	68.99	0.2	3.0	1.7	(6.1)
CNY	6.7182	(0.1)	0.0	2.7	(6.4)
Equity & Other indices (Δ %)					
Dow	25,502	(1.3)	(1.7)	13.6	8.4
FTSE	7,208	(0.3)	(0.3)	7.2	4.1
DAX	11,364	(2.8)	(0.3)	6.9	(4.4)
NIKKEI	21,627	0.8	0.9	7.2	4.9
Shanghai Comp	3,104	2.7	12.4	23.4	(1.5)
SENSEX	38,165	0.4	6.7	6.8	17.1
Brent (US\$/bbl)	67.03	(0.2)	(0.1)	24.5	(4.9)
Gold (US\$/oz)	1,314	0.9	(1.8)	4.5	(2.5)
CRB Index	424.4	1.1	2.5	3.3	(3.3)
Rogers Agri Index	762.3	0.8	0.6	0.1	(7.6)
LIBOR (3M)*	2.61	(2)	(5)	(21)	32
INR 5Y Swap*	6.65	(2)	(39)	(52)	(24)
India FII data (US\$ mn)					
	20 Mar	WTD	MTD	CYTD	FYTD
FII-Debt	258.7	780.9	2,036.8	368.7	(6,622.0)
FII-Equity	196.2	880.1	3,816.1	5,893.5	(789.4)

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
25-Mar	Japan All Industry Activity Index	Jan	(0.4%)	(0.4%)	--
	Germany IFO Business Climate	Mar	98.0	98.5	--
	Taiwan industrial production, % YoY	Feb	(0.0)	(0.0)	--
26-Mar	New Zealand Trade Balance, mn	Feb	(200)	(914)	--
	Japan PPI services, % YoY	Feb	1.2%	1.4%	--
	Germany GfK Consumer Confidence	Apr	10.8	10.8	--
	France GDP, % YoY	Q4CY18	0.9%	0.9%	--
	US housing starts	Feb	1,210,000	1,230,000	--
	US conference board consumer confidence	Mar	132.0	131.4	--
	27-Mar	New Zealand official cash rate	Mar	1.8%	1.8%
China Industrial Profits, YoY		Feb	--	(-1.9%)	--
US trade balance, US\$ bn		Jan	(57.3)	(59.8)	--
US Current account balance, US\$ bn		Q4CY18	(130)	(124)	--
Italy Consumer Confidence Index		Mar	112	112.4	--
Germany retail sales, % MoM		Feb	2.1%	2.6%	--
28-Mar	Spain CPI, % YoY	Mar	--	1.10%	--
	US GDP Annualized, % QoQ	Q4CY18	2.3%	2.6%	--
	US Core PCE, QoQ	Q4CY18	--	1.7%	--
	US Jobless claims	23-Mar	--	221,000.0	--
	Germany CPI YoY	Mar	0.0	0	--
29-Mar	Japan jobless rate, %	Feb	2.50%	2.50%	--
	Japan Industrial Production, % YoY	Feb	(1.3%)	0.3%	--
	Japan Retail Trade	Feb	1%	0.6%	--
	Japan Retail sales, % MoM	Feb	1%	(2.3%)	--
	UK GfK Consumer Confidence	Mar	(14.0)	(13.0)	--
	Thailand BoP Current account Balance, US\$ mn	Feb	--	2,285.0	--
	UK GDP YoY	Q4CY18	1.3%	1.3%	--
	Germany unemployment change (000's)	Mar	(10,000.0)	(21,000.0)	--
	US New Home Sales	Feb	622,000.0	607,000.0	--
	US Personal Spending	Jan	0.3%	-0.5%	--
US personal income	Feb	0.30%	(0.1%)	--	
India Fiscal Deficit, cr	Feb	--	69388	--	
India Eight Infrastructure Industries	Feb	--	1.8%	--	

Source: Bloomberg, Bank of Baroda Research

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