

WEEKLY WRAP

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After a rural budget, RBI may still change stance

As US Fed said it would be “patient” in its rate hikes, yields fell and equities rose. US data was mixed with poor consumer confidence reading but better pay roll and manufacturing data. Macro data in Asia and Europe was much poorer. Even in India, core sector growth slowed down further. But a stimulus to farm economy will push growth higher in FY20. Indian yields rose as government announced an expansionary budget with higher than anticipated borrowing. RBI will be meeting this week and is expected to change its stance.

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Markets

- **Bonds:** Except India, global yields closed lower. US 10Y yield fell by 7bps after Fed signalled a possible pause in its rate hike cycle. Indian 10Y yield shot up by 6bps (7.61%) as the government announced higher gross borrowing in FY19RE (Rs 5.71tn versus Rs 5.35tn earlier) and FY20 (Rs 7.1tn). Liquidity will be supported by Rs 375bn OMO by RBI in Feb'19. For the week, liquidity surplus was Rs 232bn vs deficit of Rs 439bn in the previous week.
- **Currency:** Global currencies were mixed this week. GBP depreciated sharply by (-) 0.9% over uncertainty around Brexit and lower than expected manufacturing PMI. DXY ended lower by (-) 0.2% as the Fed signalled a pause in its rate hike cycle. This drove EUR higher (0.4%) even as macro data remained unfavourable. INR depreciated by (-) 0.1% on the back of higher oil prices.
- **Equity:** Barring Dax, global indices ended higher as Fed signalled a more “patient” approach to rate hikes. Hopes of possible breakthrough in US-China trade talks also lifted stocks. While Dow rose by 1.3% to register its 6th weekly gain, Euro indices also rose led by FTSE (3.1%). Sensex rose by 1.2%, registering its best weekly gain in CY19 after the Budget.
- **Upcoming key events:** Investors will closely watch US trade balance, factory orders and services PMI. Apart from this, policy decision of Thailand, Philippines, Australia and Bank of England are also due. Services PMI of Japan, US and European countries will also be closely watched. On domestic front, services PMI and RBI's policy decision are awaited.



India macro developments

- Interim Budget for FY20 laid emphasis on middle class and farm sector as the government heads into elections, later in the year. Introduction of income support scheme, tax sops to middle class households and announcement of mega pension drive remained key focus areas. These sops are likely to boost consumption sector. Fiscal deficit is estimated at 3.4% of GDP for both FY19/20.
- Eight core sector growth slipped further to 2.6% in Dec'18 from 3.4% in Nov'18. This was on the back of the slowdown in coal (0.9% vs 3.7% in Nov'18), crude oil (-4.3% vs 2.3% in Nov'18) and refinery products (-4.8% vs 2.3% in Nov'18). However, both steel (13.2%) and cement production (11.6%) surprised positively to clock double-digit growth in Dec'18.
- CSO has revised India's GDP growth to 8.2% (7.1% earlier) and 7.2% (6.7% earlier) for FY17 and FY18 respectively. Notably, consumption spending led by durables has been revised upwards for both the years while government and investment spending have been revised up for FY18. With a rural stimulus expected in the upcoming budget, consumption spending is likely to get a boost in FY20 as well.
- GST collections for Dec'18 reached Rs 1.03tn vs Rs 947bn collected for Nov'18. After IGST settlement, while CGST collections rose to Rs 361bn vs Rs 344bn in Nov'18, SGST collection were down to Rs 395bn vs Rs 433bn in Nov'18. This takes the monthly run-rate for CGST to Rs 370bn vs FY19RE of Rs 420bn. On FYTD basis, led by higher IGST and cess, total GST collection has reached Rs 4.4tn vs FY19RE of Rs 6.4tn.
- As per data released by RBI, FDI in India grew by 18% to Rs 28.5tn in FY18 from Rs 23.9tn in FY17. Mauritius remained the largest source of FDI in India with a share of 19.7% of total FDI inflows. Amongst the major sectors, manufacturing received the highest share of FDI inflows. India's OFDI rose by 5% to Rs 5.3tn in FY18, with Singapore being the largest recipient.
- RBI reported that currency in circulation declined by Rs 33bn (on a weekly basis) and stood at Rs 21tn as on 25 Jan 2019. Overall reserve money grew by 16% on a YoY basis compared to 50% a year ago. On FYTD basis, reserve money is growing at a slower pace of 8.1% against 18% in the previous year.

Global macro developments

- US nonfarm payrolls increased more than anticipated by 304,000 against 312,000 earlier and estimation of 163,000. Unemployment rate edged up marginally to 4% in Jan'19 vs 3.9% in Dec'18. The labour force participation rate increased to 63.2% vs 63.1% in Dec'18. Average hourly earnings growth rate was stable at 3.2% in Jan'19 on YoY basis. However, on a MoM basis, earnings growth moderated by 0.1% against 0.4% earlier.
- US consumer confidence fell for the 3rd straight month and stood at 120.2 vs 126.6 in Dec'18 and estimate of 125. Both the present situation and expectation index declined in Jan'19 on the back of pessimism surrounding US government shutdown, concerns over US-China tariff war and bleak global growth prospects.
- Japan's retail sales rose by 1.3% in Dec'18, (est. 0.8%) on a YoY basis vs 1.4% in Nov'18. This was led by higher spending on clothes (4.1%) and appliances (4.4%). The strong sales report is likely to ease concerns of the possible impact of sale tax hike on consumption levels. However, US-Sino trade conflict might result in global slowdown and hence impact Japan's consumption story, as it is one of biggest trading partner.
- China's official manufacturing PMI indicates that activity contracted for the 2nd consecutive month in Jan'19 with PMI at 49.5 vs 49.4 in Dec'18. This was led by continued decline in new orders (46.9 vs 46.6 in Dec'18). As a result employment index too declined. However, apart from weak domestic & global demand, this could also be because business are a shut for a longer period due to Lunar New Year holidays.
- US Fed in its current policy signalled a pause in its rate hike cycle while keeping the policy rate unchanged. The FOMC also said that "it will be patient" with regard to the adjustment in fund rate. This decision has been on the back of cross currents from the global economy and downside risks to inflation. Further, it also highlighted that FOMC would consider adjusting the balance sheet in view of the evolving economic conditions.
- US jobless claims for the week ending 26 Jan 2019 rose to 253,000 against an upwardly revised 200,000 last week. This was the highest weekly increase since Sep'17. However, temporary factors such as a partial government shutdown and extreme cold weather had a bearing on the report. The 4-week moving average of initial claims rose by only 5,000 to 220,250.
- Retail inflation in Germany is estimated to have risen by 1.4% in Jan'19, vs 1.7% in Dec'18 on a YoY basis. HICP is also expected to come below ECB's 2% target at 1.7% in Jan'19. Lower prices mean higher purchasing power, which is expected to boost domestic consumption. However, slowing export growth still remains a big concern for CY19 growth.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	2.68	(7)	6	(53)	(16)
UK	1.25	(6)	4	(25)	(33)
Japan	(0.01)	(1)	(2)	(14)	(10)
Germany	0.17	(3)	0	(26)	(60)
India	7.61	6	26	(17)	5
China	3.11	(3)	(7)	(44)	(81)
2Y yields (Δ bps)					
US	2.50	(10)	3	(40)	36
UK	0.77	(2)	6	(3)	11
Japan	(0.17)	0	(3)	(5)	(5)
Germany	(0.58)	0	3	3	(4)
India	6.99	(1)	17	(51)	6
China	2.61	2	(15)	(50)	(97)
Currencies (Δ %)					
EUR	1.1456	0.4	1.0	0.6	(8.1)
GBP	1.3079	(0.9)	3.7	0.8	(7.4)
JPY	109.50	0	(0.6)	3.3	0.6
AUD	0.7250	1.0	3.8	0.8	(8.6)
INR	71.26	(0.1)	(1.5)	1.6	(11.2)
CNY	6.7454	0	1.7	2.1	(7.0)
Equity & Other indices (Δ %)					
Dow	25,064	1.3	7.4	(0.8)	(1.8)
FTSE	7,020	3.1	4.2	(1.0)	(5.7)
DAX	11,181	(0.9)	5.7	(2.9)	(12.5)
NIKKEI	20,788	0.1	3.9	(6.5)	(10.7)
Shanghai Comp	2,618	0.6	6.2	(2.2)	(24.4)
SENSEX	36,469	1.2	1.6	4.2	4.0
Brent (US\$/bbl)	62.75	1.8	14.3	(13.8)	(8.5)
Gold (US\$/oz)	1,318	1.0	2.6	6.9	(1.2)
CRB Index	412.9	0.3	0.9	(1.2)	(6.9)
Rogers Agri Index	777.0	0	2.6	(1)	(5.5)
LIBOR (3M)*	2.74	(3)	(6)	15	95
INR 5Y Swap*	7.22	4	2	(45)	9
India FII data (US\$ mn)					
	31 Jan	WTD	Jan'19	CYTD	FYTD
FII-Debt	(13.6)	(84.1)	(367.2)	(367.2)	(7,357.8)
FII-Equity	387.9	371.0	(75.3)	(75.3)	(6,758.2)

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
4-Feb	Euro Area PPI, % YoY	Dec	3.1%	4.0%	--
	Italy CPI EU harmonized, % YoY	Jan	0.8%	1.2%	--
	US factory orders	Nov	0.3%	(2.1%)	--
5-Feb	Australia trade balance, AUD bn	Dec	2.2	1.9	--
	Japan services PMI	Jan	--	51.0	--
	Reserve Bank of Australia policy rate	5-Feb	1.50%	1.50%	--
	Nikkei India services PMI	Jan	--	53.2	--
	Markit Italy services PMI	Jan	50.0	50.5	--
	Markit France services PMI	Jan	47.5	47.5	--
	Markit Germany services PMI	Jan	53.1	53.1	--
	Markit Eurozone services PMI	Jan	50.8	50.8	--
	Markit UK services PMI	Jan	51.0	51.2	--
	Euro Area retail sales, % MoM	Dec	(1.6%)	0.6%	--
	Markit US services PMI	Jan	54.2	54.2	--
	US ISM non-manufacturing index	Jan	57.0	57.6	--
	6-Feb	Germany factory orders, % MoM	Dec	0.3%	(1.0%)
Bank of Thailand policy rate		6-Feb	1.75%	1.75%	--
US trade balance, US\$ bn		Nov	(54.0)	(55.5)	--
Indonesia GDP, % YoY		Q4CY18	5.1%	5.2%	--
7-Feb	Germany industrial production SA, % MoM	Dec	0.8%	(1.9%)	--
	France trade balance, € bn	Dec	(4.4)	(5.1)	--
	Philippines policy rate	7-Feb	4.75%	4.75%	--
	RBI policy rate	7-Feb	--	6.50%	--
	Italy retail sales, % MoM	Dec	(0.2%)	0.7%	--
	ECB economic bulletin				
	Bank of England policy rate	7-Feb	0.8%	0.8%	--
8-Feb	US initial jobless claims	2-Feb	223,000	253,000	--
	Japan current account balance, ¥ bn	Dec	458.5	757.2	--
	RBA statement on monetary policy				
	Germany trade balance, € bn	Dec	17.3	20.5	--
	France industrial production, % MoM	Dec	0.6%	(1.3%)	--
Italy industrial production, % MoM	Dec	0.4%	(1.6%)	--	

Source: Bloomberg, Bank of Baroda Research

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