

## WEEKLY WRAP

09 September 2019

**All eyes on ECB**

**Global manufacturing output remained weak while services sector seems to be holding up for now. The mixed economic picture along with hopes of deal between US and China, delay in Brexit and easing of tensions in Hong Kong led to higher global yields. Gold fell and so did US\$. Indian yields rose as GST collections are muted and government is looking at ways to prop growth. On the global front ECB will set the tone. On the domestic front, inflation and growth data ahead of MPC meeting will decide RBI rate trajectory.**

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**Markets**

- **Bonds:** Apart from China, global yields closed higher amidst progress over US-China trade talks, easing tensions in Hong Kong and possibility of avoiding no-deal Brexit. US 10Y yield rose by 6bps (1.56%). Crude prices rose by 1.8% (US\$ 62/bbl). India's 10Y yield rose by 4bps (6.6%) in-line with global cues. GST collections remained below target. System liquidity is in surplus of Rs 1.6tn as on 06 Sep 2019 vs Rs 1.2tn in the previous week.
- **Currency:** Barring JPY and INR, other global currencies closed higher in the week as US-China agreed to hold trade negotiations. Investor sentiment also improved as British parliament voted to pass a bill to block no-deal Brexit and political tensions in Hong Kong receded. DXY ended lower by (-) 0.5%. INR fell by (-) 0.4% in the week on the back of weak growth data. FII outflows were US\$ 337mn.
- **Equity:** Except Sensex, other global indices closed the week higher. While global growth worries continued, equity markets are hoping for a US-China trade deal. In addition, macro data was mixed with services PMIs across major economies holding up. At the same time, manufacturing PMIs were subdued. Domestic growth worries dragged Sensex down by (-) 0.9%.
- **Upcoming key events:** In the current week, ECB's policy rate decision, US CPI, China's trade data and global industrial production prints (UK, Euro Area, France, Japan, and India) will be key to watch. In addition, Japan's Q2CY19 GDP growth and Euro trade data will also be released. On the domestic front, markets await release of CPI, IIP and trade data.





## India macro developments

- In a bid to provide stimulus for road infrastructure, NHAI is expected to address concerns on multiple fronts. 1) Almost Rs 850bn will be raised through ‘asset recycling/restructuring’, in addition to funding raised via banks and markets. 2) To revive private investment, loopholes in BOT scheme will be addressed. 3) Projects will also be considered on corridor level (vs individual stretches) to make them more financially viable.
- India’s eight core industries rose by 2.1% in Jul’19 compared with 0.7% in Jun’19. It was largely led by revival in cement output which was up by 7.9% in Jul’19 from (-) 1.7% in Jun’19. However, on a FYTD basis, the overall pace of growth for eight core has slowed to 3% in Apr-Jul’19 (5.9% in Apr-Jul’18). In addition, manufacturing PMI fell to a 15-month low at 51.4 in Aug’19 from 52.5 in Jul’19 on the back of slower increase in output, employment and sales level.
- Total GST collections for Jul’19 fell to Rs 982bn (+4.5%) from Rs 1tn in Jun’19 (+5.8%). The decline was seen in both CGST (-58.4%) and SGST (-40.3%) collections on a YoY basis. The FYTD average run-rate of CSGT is also running lower (Rs 352bn) compared with last year (Rs 373bn). Though SGST collections are running at par (Rs 475bn vs Rs 479bn last year).
- RBI reported that currency in circulation (CIC) declined by Rs 121bn and stood at Rs 21.7tn for the week ending 30 Aug 2019. Reserve money rose by 13.1% on a YoY basis because of increased currency demand, compared with an increase of 20.3% a year ago. On a FYTD basis, reserve money increased by 0.5% as against 1.7% in the previous year.
- India’s services PMI slipped to 52.4 in Aug’19 from 53.8 in Jul’19. This was largely on account of softer pace of increase in new business inflows, particularly domestic orders. New export orders remained robust and hiring too increased despite rise in input cost (fuel, food & staff). Further, service providers remain optimistic about future business conditions.
- FDI inflows into India rose to US\$ 16.3bn in Q1FY20 (US\$ 10.8bn in Q4FY19), up by 28% on a YoY basis. Sector wise, FDI inflows into telecom sector surged to US\$ 4.2bn while inflows into services sector were also robust at US\$ 2.8bn. Singapore remained the largest source of FDI inflows into India at US\$ 5.3bn followed by Mauritius at US\$ 4.7bn.

## Global macro developments

- US non-farm payroll employment rose by 130,000 vs est.: 150,000 and 159,000 in Jul'19. The weakness was visible in private payrolls (+96,000) which rose at the slowest pace since Feb'19. Services sector (retail trade, transportation and utilities) lost 13,000 jobs in Aug'19 alone. However, Unemployment rate remained unchanged for the 3rd consecutive month at 3.7% in Aug'19. Average hourly earnings increased by 0.4% on a MoM basis vs (-) 0.2% in Jul'19
- GDP growth in the Euro Area halved to 0.2% in Q2CY19 from 0.4% in Q1CY19. The slowdown was led by trade as export growth was flat (0% vs 0.9% in Q1). Amongst member states, growth in Germany contracted by (-) 0.1% in Q2CY19. With industrial production in Germany falling further in Jul'19 (-0.6% vs -1.1% in Jun'19), the outlook for the region looks grim.
- Global manufacturing PMI indicates manufacturing activity continues to remain weak in Eurozone (particularly Germany), Japan and UK. PMI indices continue to remain below 50 on account of flagging external demand, production cutbacks and job cuts. Trade tensions (US-China, Japan-Korea) and subdued global growth are key factors behind this trend.
- US ISM manufacturing PMI fell for the first time in 3 years to 49.1 in Aug'19 vs 51.2 in Jul'19. The sharp fall was led by decline in new orders (47.2 vs 50.8 in Jul'19), in particular new export orders (lowest since Apr'09), and job cuts (47.4 vs 51.7). This indicates manufacturing sector growth continues to remain worrisome, thereby adding fuel to recession woes.
- Reserve Bank of Australia kept its policy rate unchanged at a historic low of 1%, after two consecutive rate cuts (25bps each). Global trade disputes and lower domestic consumption continue to weigh on growth outlook. Separately, GDP growth in Australia slowed to a 10 year low at 1.4% in Q2CY19 on a YoY basis (1.7% in Q1) led by weaker consumer spending.
- Services activity remained buoyant globally. Eurozone PMI rose to 53.5 in Aug'19 vs 53.2 in Jul'19 with Germany and Ireland recording the strongest gain. So was the case with Japan (near 2-year high of 53.3 vs 51.8 in Jul'19) and China (3-month high of 52.1 vs 51.6 in Jul'19). This was led by increase in new work. Despite faltering manufacturing activity, buoyant services activity has provided some respite to the ailing global growth conditions.
- In a relief to worries over slowdown in US economy, factory orders rose by 1.4% on a MoM basis in Jul'19 (0.5% in Jun'19) on the back of improvement in new orders from transportation (aircraft). Both durable and non-durable goods orders rose by 2% and 0.8% in Jul'19. US jobless claims increased marginally by 1,000 to 217,000 for the week ending 31 Aug 2019.

**FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES**

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	1.56	6	(14)	(52)	(138)
UK	0.51	3	(1)	(31)	(95)
Japan	(0.24)	3	(6)	(12)	(35)
Germany	(0.64)	6	(10)	(38)	(103)
India	6.60	4	26	(37)	(143)
China	3.01	(5)	(6)	(24)	(64)
<b>2Y yields (Δ bps)</b>					
US	1.54	4	(31)	(31)	(116)
UK	0.39	(1)	(20)	(14)	(37)
Japan	(0.29)	0	(11)	(10)	(19)
Germany	(0.87)	6	(14)	(20)	(32)
India	5.71	(8)	(41)	(57)	(215)
China#	2.58	(1)	0	6	(26)
<b>Currencies (Δ %)</b>					
EUR	1.1029	0.4	(1.5)	(2.7)	(4.5)
GBP	1.2283	1.0	0.9	(3.6)	(4.9)
JPY	106.92	(0.6)	(0.4)	1.2	3.7
AUD	0.6846	1.7	1.3	(2.2)	(3.7)
INR	71.73	(0.4)	(1.3)	(3.2)	0.0
CNY	7.1164	0.6	(1.3)	(3.0)	(4.0)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	26,797	1.5	3.0	3.1	3.4
FTSE	7,282	1.0	1.5	(0.7)	0.1
DAX	12,192	2.1	5.4	1.2	1.9
NIKKEI	21,200	2.4	3.0	1.5	(5.0)
Shanghai Comp	3,000	3.9	8.0	6.1	11.0
SENSEX	36,982	(0.9)	0	(6.6)	(3.7)
Brent (US\$/bbl)	61.54	1.8	4.4	(2.8)	(19.9)
Gold (US\$/oz)	1,507	(0.9)	2.2	12.4	25.9
CRB Index	388.0	(0.1)	(2.7)	(5.3)	(5.8)
Rogers Agri Index	674.5	(1.2)	(4.4)	(9.4)	(13.1)
LIBOR (3M)*	2.10	(3)	(8)	(35)	(23)
INR 5Y Swap*	6.10	(9)	(32)	(52)	(147)
<b>India FII data (US\$ mn)</b>					
	<b>5 Sep</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	103.8	334.0	334.0	4,581.1	4,036.5
FII-Equity	(57.8)	(670.8)	(670.8)	6,535.3	(309.9)

Source: Bloomberg, Bank of Baroda | \*Indicates change in bps, #1Y yield, As of 30 Aug 2019

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
9-Sep	China exports, % YoY	Aug	2.2%	3.3%	--
	Japan current account balance, ¥ tn	Jul	2.0	1.2	--
	Japan GDP SA, % QoQ	Q2CY19	0.3%	0.4%	--
	Germany exports SA, % MoM	Jul	(0.5%)	(0.1%)	--
	Taiwan exports, % YoY	Aug	0.9%	(0.5%)	--
	UK industrial production, % MoM	Jul	(0.3%)	(0.1%)	--
	China new yuan loans, CNY bn	Aug	1.2	1.1	--
10-Sep	China CPI, % YoY	Aug	2.6%	2.8%	--
	China PPI, % YoY	Aug	(0.9%)	(0.3%)	--
	Japan machine tool orders, % YoY	Aug	--	(33.0%)	--
	France industrial production, % MoM	Jul	0.5%	(2.3%)	--
	UK jobless claims change	Aug	--	28,000	--
11-Sep	US PPI final demand, % MoM	Aug	0.0%	0.2%	--
	China FDI CNY, % YoY	Aug	--	8.7%	--
12-Sep	Japan PPI, % YoY	Aug	(0.8%)	(0.6%)	--
	Japan core machine orders, % MoM	Jul	(9.0%)	13.9%	--
	Germany CPI, % YoY	Aug	1.4%	1.4%	--
	France CPI, % YoY	Aug	1.1%	1.1%	--
	Euro Area industrial production SA, % MoM	Jul	(0.1%)	(1.6%)	--
	ECB policy rate, %	12-Sep	0.0%	0.0%	--
	India CPI, % YoY	Aug	3.4%	3.2%	--
	India industrial production, % YoY	Jul	2.6%	2.0%	--
	US CPI, % MoM	Aug	0.1%	0.3%	--
	US initial jobless claims	7-Sep	215,000	217,000	--
13-Sep	Japan industrial production, % MoM	Jul	--	1.3%	--
	Euro Area trade balance SA, € bn	Jul	17.5	17.9	--
	India exports, % YoY	Aug	--	2.3%	--
	US retail sales advance, % MoM	Aug	0.2%	0.7%	--

Source: Bloomberg, Bank of Baroda

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