

WEEKLY WRAP

06 January 2020

Oil prices to guide Indian markets

US yields edged down as US consumer confidence and ISM manufacturing data was below estimates. China responded with a 50bps RRR cut and signalled continuation of easing monetary policy stance in 2020. However, oil prices rose towards the end of the week on US-Iran tensions. Higher oil prices may limit gains from RBI's announcement to purchase another Rs 100bn of long-end bonds. On the macro front, India's manufacturing PMI edged up to 7-month high and fiscal data showed that revenue collections were muted.

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Markets

- **Bonds:** Except India and China, global yields closed lower driven by falling consumer confidence in the US and muted manufacturing activity globally. US 10Y yield fell by 9bps (1.79%). Oil prices rose towards the end of the week to US\$ 69/bbl amidst tensions between US and Iran. India's 10Y yield rose by 1bps (6.52%) on fiscal concerns. RBI announced third round of Rs 100bn buy (10Y)/sell (short-end) of government bonds. System liquidity surplus rose to Rs 4.1tn as on 3 Jan 2020 vs Rs 2.4tn in the previous week.
- **Currency:** Global currencies closed mixed this week. Heightened geopolitical tensions in the Middle East lifted demand for safe-haven JPY (up 1.2% in the week). However, DXY weakened by (-) 0.1% as US macro data was weaker than expected (consumer confidence, ISM manufacturing). INR depreciated by (-) 0.6% in the week on the back of FII outflows (US\$ 457mn) and higher oil prices (US\$ 69/bbl).
- **Equity:** Global indices ended mixed this week. While European indices ended in red driven by tensions in Middle East, Shanghai Comp on the other hand, surged by 2.6% as PBOC reduced the RRR by 50bps. However, Sensex ended the week in red (-0.3%) on account of subdued global cues.
- **Upcoming key events:** In the current week, markets await services PMIs of Eurozone, China and US and CPI/PPI prints of Euro Area and China. Factory orders of US and Germany along with consumer confidence of Euro Area will also be released. On the domestic front, services PMI, FY20 GDP estimate and industrial production data is scheduled for release.



India macro developments

- State governments in India are expected to borrow Rs 2.1tn in Q4FY20 vs Rs 1.4tn in Q3FY20 (till 23 Dec). This will take total borrowing for FY20 to life-time high of Rs 5.7tn vs Rs 4.7 in FY19. State budgets for FY20 had planned for Rs 6.3tn of total borrowing in view of ~Rs 1.5tn of repayments this year. In FY21 as well, repayments are expected remain around ~Rs 1.5tn, we expect states to continue to rely heavily on market borrowings.
- As per news reports, government may propose a litigation settlement scheme, on the lines of Sabka Vishwas scheme. Under this, companies may be allowed to put an end to legacy tax disputes by paying 40-50% of the tax demanded. As many as 0.5mn cases are pending amounting to Rs 7-8tn. This may boost revenue collections which are at Rs 9.8tn in FYTD20 as against budgeted estimate of Rs 19.6tn.
- RBI reported that currency in circulation (CIC) declined by Rs 17.8bn and stood at Rs 22.7tn for the week ending 27 Dec 2019. Reserve money rose by 10.2% on a YoY basis, compared with 17% a year ago. On a FYTD basis, reserve money increased by 4.1% as against 8.2% last year.
- India's core sector output contracted for the 4th consecutive month to (-) 1.5% in Nov'19 from (-) 5.8% in Oct'19. However, the pace of contraction has decelerated with electricity and coal production dropping only by (-) 5.7% (vs -12.2% in Oct'19) and (-) 2.5% (vs -17.6% in Oct'19) respectively. Output of cement (4.1% vs -7.7% in Oct'19) and petroleum refinery (3.1% vs 0.4% in Oct'19) also improved in Nov'19.
- India's manufacturing PMI rose to a 7-month high of 52.7 in Dec'19 from 51.2 in Nov'19, signalling a possible recovery. This was attributed to new orders rising at its fastest pace since Jul'19 which in turn resulted in higher production and a jump in job creation. Overall, manufacturing output improved at its fastest level in over 10-months.
- India's fiscal deficit has reached 3.7% of GDP in Nov'19 (12M trailing basis) vs BE of 3.4%. On FYTD basis, higher expenditure growth (12.8% vs 9.1% last year) and subdued gross tax revenues (1.6% vs 10.5%) explain the breach. Capex (11.7% vs 4%) has been the key driver of higher spending. To boost spending further, government has also announced Rs 102tn plan for infra spending spread over next 5 years. Centre and States would have 39% share (each) and 22% will be contributed by private sector.
- Total GST collections for Nov'19 remained unchanged from Oct'19 at Rs 1.03tn. After adjusting for IGST, CGST collections rose by 26.9% on a YoY basis vs (-) 22.6% in Oct'19, while SGST collections jumped by 20.1% vs (-) 32.4% in Oct'19. On a FYTD basis, CGST collections are at Rs 3.3tn vs BE of Rs 5.3tn. In comparison, SGST is at Rs 4tn vs BE of Rs 6.1tn.

Global macro developments

- US ISM manufacturing PMI fell to 10-year low of 47.2 in Dec'19 from 48.1 in Nov'19. Decline in new orders index (46.8 vs 47.2), led by new export orders, translated into contraction in production (43.2 vs 49.1) and employment (45.1 vs 46.6). Higher commodity prices and global trade frictions remained key concerns in Dec'19. However, after signing of US-China trade deal (phase 1), future business outlook remains optimistic.
- China's official manufacturing PMI remained unchanged in Dec'19 at 50.2, (est. 50.1) marking this the second consecutive month of expansion. New export orders index reached 50.3 (48.8 in Nov'19) for the first time since Jun'18. On the other hand, non-manufacturing PMI fell to 53.5 in Dec'19 from 54.4 in Nov'19, dragged by construction (56.7 vs 59.6 in Nov'19).
- US consumer confidence print fell more than expected to 126.5 (est.: 128.2) vs 126.8 in Nov'19. This was on account of softening short-term outlook for income and business conditions. Thus expectation index fell to 97.4 vs 100.3 in Nov'19. On the backdrop of muted global growth outlook and especially subdued consumer spending, growth is likely to remain modest in CY20.
- PBOC has reduced the Reserve Requirement Ratio (RRR) by 50bps to 12.5% (for big banks) w.e.f. 6 Jan. This move is expected to pump in 800bn Yuan (US\$ 115bn) worth of liquidity into the system. It is also expected to help reduce pressure on profit margins of firms in view of recent interest rate reforms. From 1 Jan, the existing floating rate loans were moved to new benchmark rate loans, to lower credit cost of borrowers.
- Manufacturing PMIs for Dec'19 indicate while activity continued to decline in UK (47.5 vs 49.1 in Nov'19) and Eurozone (46.3 vs 46.9), it maintained pace in the US (52.4 vs 52.6). Rise in new business, production and employment helped the US manufacturing sector, however future business expectations remained subdued. On the other hand, new orders and production fell steeply in Eurozone and UK. Input prices rose across regions, with UK and US passing the increase in output prices as well.
- US jobless claims for the week ended 28 Dec fell marginally by 2,000 to 222,000 (est. 225,000) suggesting labour market remains buoyant. However, the 4-week moving average of initial claims rose by 4,750 to its highest since Jan'18 due to increased volatility in the holiday season.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.79	(9)	7	26	(88)
UK	0.74	(2)	7	30	(54)
Japan	(0.01)	(1)	1	20	3
Germany	(0.28)	(2)	7	31	(49)
India	6.52	1	5	(17)	(93)
China	3.15	1	(5)	0	1
2Y yields (Δ bps)					
US	1.52	(6)	(1)	12	(97)
UK	0.55	(1)	5	20	(20)
Japan	(0.13)	(1)	2	20	5
Germany	(0.62)	1	1	16	(2)
India	5.75	(7)	39	11	(109)
China	2.28	0	(35)	(27)	(41)
Currencies (Δ %)					
EUR	1.1161	(0.1)	0.7	1.7	(2.1)
GBP	1.3083	0	0.7	6.1	2.8
JPY	108.09	1.2	0.5	(1.1)	0.4
AUD	0.6950	(0.4)	1.5	2.6	(2.3)
INR	71.80	(0.6)	(0.2)	(1.3)	(3.0)
CNY	6.9660	0.4	1.3	2.6	(1.4)
Equity & Other indices (Δ %)					
Dow	28,635	0	4.1	7.8	22.2
FTSE	7,622	(0.3)	6.5	6.5	11.5
DAX	13,219	(0.9)	1.8	10.0	22.8
NIKKEI	23,657	(0.8)	1.2	10.5	20.9
Shanghai Comp	3,084	2.6	6.9	6.1	22.6
SENSEX	41,465	(0.3)	1.9	10.1	16.2
Brent (US\$/bbl)	68.60	0.6	12.8	17.5	20.2
Gold (US\$/oz)	1,552	2.8	5.0	3.2	20.7
CRB Index	401.1	0	4.0	3.2	(2.9)
Rogers Agri Index	753.9	(0.4)	4.3	5.8	(1.8)
LIBOR (3M)*	1.90	(4)	1	(13)	(90)
INR 5Y Swap*	6.63	(12)	29	31	(58)
India FII data (US\$ mn)					
	2 Jan	WTD	MTD	CYTD	FYTD
FII-Debt	(189.1)	(422.4)	(189.3)	(189.3)	2,754.9
FII-Equity	152.5	(34.8)	202.9	202.9	7,592.1

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
6-Jan	Jibun Bank Japan manufacturing PMI	Dec	--	48.8	--
	Caixin China services PMI	Dec	53.2	53.5	--
	Markit India services PMI	Dec	--	52.7	--
	Germany retail sales, % MoM	Nov	1.0%	(1.9%)	--
	Markit Italy services PMI	Dec	50.9	50.4	--
	Markit France services PMI	Dec	52.4	52.4	--
	Markit Germany services PMI	Dec	52.0	52.0	--
	Markit Eurozone services PMI	Dec	52.4	52.4	--
	Markit/CIPS UK services PMI	Dec	49.1	49.0	--
	Euro Area PPI, % YoY	Nov	(1.5%)	(1.9%)	--
	Markit US services PMI	Dec	52.2	52.2	--
7-Jan	Jibun Bank Japan services PMI	Dec	--	50.6	--
	Euro Area retail sales, % MoM	Nov	0.6%	(0.6%)	--
	Italy CPI EU harmonized, % YoY	Dec	0.5%	0.2%	--
	Euro Area CPI, % MoM	Dec	0.3%	(0.3%)	--
	India FY20 GDP first estimate, % YoY	FY20	--	6.8%	--
	US trade balance, US\$ bn	Nov	(43.7)	(47.2)	--
	US ISM non-manufacturing index	Dec	54.5	53.9	--
	US factory orders, % MoM	Nov	(0.7%)	0.3%	--
8-Jan	Germany factory orders, % MoM	Nov	0.2%	(0.4%)	--
	France consumer confidence	Dec	104.0	106.0	--
	Euro Area consumer confidence	Dec	--	(8.1)	--
	US ADP employment change	Dec	160,000	67,000	--
9-Jan	China PPI, % YoY	Dec	(0.4%)	(1.4%)	--
	China CPI, % YoY	Dec	4.7%	4.5%	--
	Germany exports SA, % MoM	Nov	(0.9%)	1.2%	--
	Germany industrial production SA, % MoM	Nov	0.8%	(1.7%)	--
	Euro Area unemployment rate, %	Nov	7.5%	7.5%	--
	US initial jobless claims	4-Jan	220,000	222,000	--
10-Jan	France industrial production, % MoM	Nov	0.1%	0.4%	--
	Italy industrial production, % MoM	Nov	0.0%	(0.3%)	--
	India industrial production, % YoY	Nov	--	(3.8%)	--
	US change in nonfarm payrolls	Dec	162,000	266,000	--
	US unemployment rate, %	Dec	3.5%	3.5%	--
	US avg. hourly earnings, % MoM	Dec	0.3%	0.2%	--

Source: Bloomberg, Bank of Baroda

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