Bank of Baroda

WEEKLY WRAP

18 November 2019

Slowdown led by China and India

Global yields fell due to delay in finalizing US-China trade deal and weaker than estimated industrial output in China, US and UK. Stocks in China sold-off after weak retail sales and investments data. US equity markets rose as retail sales were buoyant. Indian equity markets were resilient even as industrial output fell to (-) 4.3% and retail inflation rose as government is expected to continue the reform process. Yields steepened as RBI is likely to cut rates in Dec'19 to prop growth and fiscal deficit may widen in the year.

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Markets

- **Bonds:** Global yields closed lower on the back of flip-flop on US-China trade deal and weak industrial production in China, US and UK. Retail sales were below estimates in China but surprised positively in US. US 10Y yield fell by (11bps) followed by Germany (7bps). Crude prices rose by 1.3% (US$ 63/bbl) as OPEC reported lower shale oil production in CY20. India's yield curve steepened after IIP growth fell to (-) 4.3% even as CPI inflation rose to 16-month high of 4.6%. System liquidity surplus was at Rs 2.5tn as on 15 Nov 2019 vs Rs 2.4tn in the previous week.

- **Currency:** Global currencies were mixed this week as developments in US-China trade deal dominated. DXY fell by (-) 0.4% in the week as US industrial production fell. CNY ended lower by (-) 0.2% on the back of weak macro prints (industrial production, retail sales). INR depreciated by (-) 0.7% this week on domestic growth and fiscal concerns.

- **Equity:** Global indices closed mixed amidst muted global growth outlook. Shanghai Comp fell the most (-2.5%), followed by FTSE (-0.8%). However, Dow rallied by 1.2% on hope of constructive trade talks between US and China in the coming week. Sensex rose by 0.1%, led by banking, auto and consumer goods stocks.

- **Upcoming key events:** In the current week, markets will closely watch US home sales data, flash PMI print of Eurozone, Germany and UK. Apart from this, US-China trade deal will also be in focus. US FOMC minutes would also give some guidance on future course of rates. On the domestic front, markets will look for any fresh cues on growth.

India macro developments

- RBI bought net US$ 5.6bn in the spot market in Sep'19 vs net sales of US$ 4.1bn in Aug'19. In FYTD20, RBI has purchased US$ 11.4bn in the spot market compared with net sales of US$ 18.7bn last year. In the forwards market, RBI bought US$ 0.4bn in Sep'19 vs US$ 0.8bn in Aug'19. RBI's net forward position stands at (-) US$ 7.5bn.
- CPI inflation in India rose to a 16-month high at 4.6% in Oct'19, breaching MPC's target of 4%, led by food inflation (vegetables at 26%). Muted demand drove core inflation to its lowest in the current series at 3.4%. With growth expected to slip to 4.5% in Q2FY20, MPC members are likely to emphasize on growth and thus cut rates by another 25bps in Dec'19.
- WPI inflation eased to 0.2% in Oct'19 from 0.3% in Sep'19, led by fuel and power index (-8.3% vs -7.1%). Manufactured product inflation too dropped (-0.8% vs -0.4%). However, food inflation edged up to 7.6% in Oct'19 (6% in Sep'19) led by 142% increase in tomato prices. Subdued WPI inflation is symptomatic of current economic slowdown. As reviving growth is a bigger challenge, we believe RBI will cut rates by 25bps in Dec'19.
- India's trade deficit in Oct'19 remained steady at US$ 11.1bn vs US$ 10.9bn in Sep'19. Exports fell by (-) 1.1%. Pharma, gems & jewellery and engineering goods showed maximum positive traction. Led by a decline in both oil and non-oil-non-gold imports, imports fell by (-) 16.3%. Lower oil prices and muted domestic consumption explain this. Hence, trade deficit will be lower at US$ 175bn vs US$ 180bn in FY19. While INR has depreciated by (-) 1.2% MTD, a lower trade deficit and buoyant inflows should provide some support.
- RBI reported that currency in circulation (CIC) rose by Rs 140bn and stood at Rs 22.7tn for the week ending 8 Nov 2019. On a FYTD basis, accretion to CIC was Rs 1.3tn compared to Rs 1.9tn in the same period of last year. Reserve money rose by 12% on a YoY basis, compared with 19.4% a year ago.
- India's forex reserves rose to a new lifetime high at US$ 447.8bn in the week ended 8 Nov 2019. On a weekly basis, forex reserves rose by US$ 1.7bn vs an increase of US$ 3.5bn last week. In FYTD20, forex reserves have risen by US$ 35.9bn vs a decline of (-) 31.3bn last year.

Global macro developments

- Germany's ZEW economic sentiment index rose to (-) 2.1 points in Nov'19 from (-) 22.8 points in Oct'19. The sharp improvement is led by hopes of orderly Brexit, lower probability of imposition of tariffs by the US on EU cars and positive outcome of US-China trade deal.
- US CPI rose by 0.4% in Oct'19 on MoM basis (flat in Sep'19), driven by rise in inflation of healthcare and food items. On an annualised basis, it rose by 1.8% vs 1.7% in Sep'19. Core CPI rose by 2.3% in Oct'19 vs 2.4% in Sep'19. In a separate print, UK CPI inched down to 1.5% in Oct'19 vs 1.7% in Sep'19, due to lower energy prices. CPI print in Germany was stable at 1.1% in Oct'19.
- China's industrial production eased to 4.7% in Oct'19 from 5.8% in Sep'19. Manufacturing output slowed to 4.6% vs 5.6% in Sep'19, while mining growth was down to 3.9% vs 8.1% in Sep'19. In addition, FAI growth too slowed to 23-year low of 5.2% between Jan-Oct'19 from 5.4% in Jan-Sep'19, driven by lower infrastructure investment (4.2% vs 4.5%). Retail sales also cooled off to 7.2% in Oct'19 vs est.: 7.9% and 7.8% in Sep'19.
- US PPI rose at its fastest pace in 6-months by 0.4% on MoM basis vs (-) 0.3% in Sep'19. This was driven by sharp uptick in energy prices. On an annualized basis, PPI rose by 1.1% vs 1.4% in Sep'19. In a separate print, US jobless claims jumped to a 5-month high of 225,000 as on 9 Nov 2019 vs 211,000, on account of seasonality factor ahead of holiday season.
- Japan, Germany and Eurozone have reported muted Q3CY19 GDP prints indicating weakness in global growth. German economy avoided a technical recession by posting a surprise 0.1% growth in Q3 vs (-) 0.2% in Q2 on a QoQ basis, supported by domestic consumption (govt. and private) and exports. Growth in Euro Area remained steady at 0.2% in Q3. Japan's Q3 annualised QoQ GDP growth slowed to 0.2% from 1.8% in Q2, led by sharp dip in exports, private and government consumption.
- US industrial production plunged to its 17-month low of (-) 0.8% in Oct'19 vs (-) 0.3% in Sep'19, on MoM basis. This was attributed to a sharp fall in auto production (-7.1%). Manufacturing and mining output declined by (-) 0.1% and (-) 0.7% respectively, in Oct'19. Capacity utilization decreased by 0.8% to 76.7% in Oct'19. In a separate print, retail sales rose by 0.3% in Oct'19 (est.: 0.2%) vs (-) 0.3% in Sep'19, on MoM basis, driven by higher gasoline prices.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.83	(11)	6	28	(123)
UK	0.73	(6)	4	26	(68)
Japan	(0.07)	(2)	10	16	(17)
Germany	(0.33)	(7)	8	35	(70)
India	6.69	0	1	15	(113)
China	3.24	(3)	8	22	(12)
2Y yields (Δ bps)					
US	1.61	(6)	(1)	13	(119)
UK	0.55	0	2	3	(17)
Japan	(0.19)	(3)	8	8	(6)
Germany	(0.63)	(2)	5	28	(5)
India	5.47	(9)	(14)	(40)	(191)
China#	2.69	0	13	17	13
Currencies (Δ %)					
EUR	1.1051	0.3	0.2	(0.4)	(3.2)
GBP	1.2897	1.0	0.9	6.2	0.5
JPY	108.80	0.4	0.1	(2.3)	3.6
AUD	0.6817	(0.7)	0.9	0.6	(7.0)
INR	71.79	(0.7)	(0.3)	(0.9)	0.2
CNY	7.0081	(0.2)	1.0	0.5	(1.0)
Equity & Other indices (Δ %)					
Dow	28,005	1.2	3.6	8.2	10.2
FTSE	7,303	(0.8)	1.3	2.6	4.1
DAX	13,242	0.1	4.8	14.5	16.8
NIKKEI	23,303	(0.4)	3.7	14.1	7.5
Shanghai Comp	2,891	(2.5)	(3.3)	2.4	7.9
SENSEX	40,357	0.1	4.8	8.0	13.8
Brent (US$/bbl)	63.30	1.3	7.8	7.9	(5.2)
Gold (US$/oz)	1,468	0.6	(0.9)	(3.0)	20.0
CRB Index	391.0	0	(0.6)	(1.8)	(6.2)
Rogers Agri Index	727.1	(0.5)	0.1	4.7	(6.1)
LIBOR (3M)*	1.90	0	(10)	(23)	(74)
INR 5Y Swap*	6.46	(4)	0	17	(115)
India FII data (US$ mn)	**14 Nov**	**WTD**	**MTD**	**CYTD**	**FYTD**
FII-Debt	(14.3)	(102.5)	525.8	5,212.6	4,668.0
FII-Equity	(59.8)	373.2	1,748.7	11,971.4	5,126.2

Source: Bloomberg, Bank of Baroda | *Indicates change in bps, #1Y yield

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
18-Nov	Singapore non-oil domestic exports, % YoY	Oct	(9.7%)	(8.1%)	--
	Thailand GDP, % YoY	Q3CY19	2.7%	2.3%	--
	Singapore GDP, % YoY	Q3CY19	0.3%	0.1%	--
19-Nov	RBA minutes of policy meeting				
	Euro area current account balance, € bn	Sep	--	26.6b	--
	Italy industrial orders, % MoM	Sep	--	1.1%	--
	US housing starts, % MoM	Oct	4.9%	(9.4%)	--
20-Nov	Japan exports, % YoY	Oct	(7.5%)	(5.2%)	--
	Germany PPI, % YoY	Oct	(0.4%)	(0.1%)	--
	Taiwan export orders, % YoY	Oct	(4.5%)	(4.9%)	--
21-Nov	US FOMC meeting minutes	21-Nov	--	--	--
	Thailand customs exports, % YoY	Oct	(3.9%)	(1.4%)	--
	France business confidence	Nov	105	105	--
	Hong Kong CPI composite, % YoY	Oct	3.1%	3.2%	--
	OECD economic outlook				
	US initial jobless claims	16-Nov	--	225,000	--
	Euro area consumer confidence	Nov A	(7.2)	(7.6)	--
	US existing home sales, % MoM	Oct	2.1%	(2.2%)	--
	Indonesia policy rate, %	21-Nov	5.0%	5.0%	--
22-Nov	Japan CPI, % YoY	Oct	0.3%	0.2%	--
	Jibun Bank Japan manufacturing PMI	Nov F	--	48.4	--
	Germany GDP SA, % QoQ	Q3CY19	0.1%	0.1%	--
	Markit France manufacturing PMI	Nov F	50.9	50.7	--
	Markit France services PMI	Nov F	53.1	52.9	--
	Markit/BME Germany manufacturing PMI	Nov F	42.9	42.1	--
	Markit Germany services PMI	Nov F	51.8	51.6	--
	Markit Eurozone manufacturing PMI	Nov F	46.4	45.9	--
	Markit Eurozone services PMI	Nov F	52.4	52.2	--
	Markit UK PMI manufacturing SA	Nov F	--	49.6	--
	Markit/CIPS UK services PMI	Nov F	--	50.0	--
	Markit US services PMI	Nov F	51.2	50.6	--
	Markit US manufacturing PMI	Nov F	51.5	51.3	--

Source: Bloomberg, Bank of Baroda

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