

WEEKLY WRAP

13 August 2019

Global yields fell, India an outlier

Central Banks of Thailand, Philippines and New Zealand reduced policy rates to support growth which supported equity markets. Global yields fell. EM currencies closed lower after Yuan broke the crucial 7/\$ mark. Argentina's surprise election result spooked markets (-30.3% fall in Peso). RBI's unconventional rate cut of 35bps did not led to lower yields as manufacturing sector is looking for fiscal sops. Markets this week will react to developments on US-China trade war, macro data and news on domestic stimulus.

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Markets

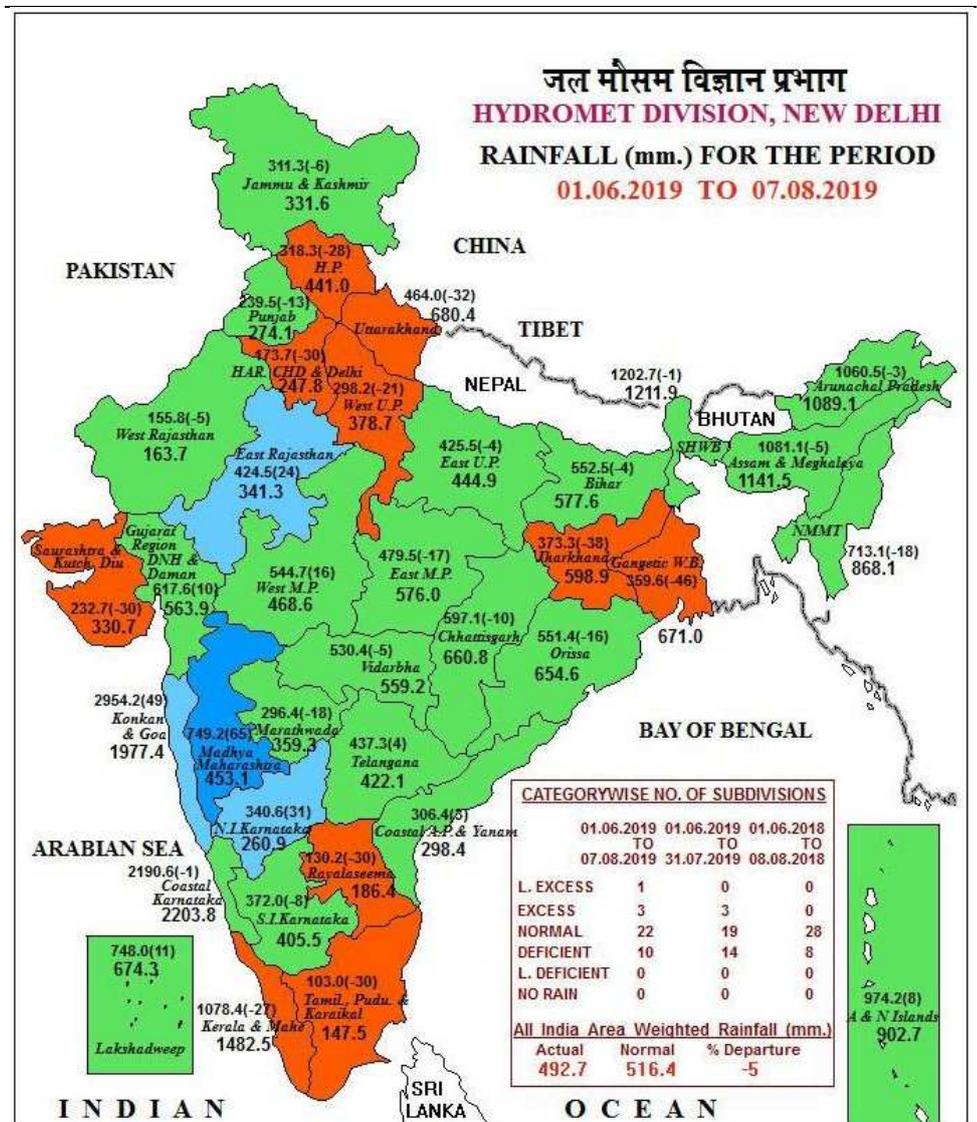
- **Bonds:** Barring India, global yields closed lower led by slowing world economy amidst trade tensions and political turmoil in Hong Kong and Argentina. US 10Y yield fell by 6bps (1.65%). Investors are eying the Fed's Jackson Hole symposium next week. Crude prices fell by 2.1% (US\$ 59/bbl). Central banks of Thailand, Philippines and New Zealand reduced rates. India's 10Y yield rose by 15bps of hopes of fiscal sops. System liquidity is in surplus of Rs 1.6tn as on 9 Aug 2019 vs Rs 2tn in the previous week.
- **Currency:** Apart from EUR and JPY, other global currencies closed lower. DXY fell by (-) 0.1% as US-China trade tensions, weaker Yuan and political tensions in Hong Kong and Argentina negatively impacted investor sentiments. GBP too fell (-0.6%) on the back of Brexit paralysis. FII outflows to the tune of US\$ 628mn led to weakening of INR in the week.
- **Equity:** Global equity markets closed the week mixed with Dow and Dax gaining 0.7% and 0.2% respectively. Amidst concerns of global growth slowdown, trade and political tensions; policy rate cuts by Asian central banks supported equity markets. Positive surprise from China's trade data too helped. Sensex closed the week 1.2% higher led by Telecom and IT.
- **Upcoming key events:** In the current week, markets will closely observe industrial production and retail sales data of major economies (US and China). Euro area and Hong Kong GDP data will also give some signal about global growth momentum. On the domestic front, CPI, WPI and trade data are scheduled for release this week.



Monsoon Tracker

- For the period 1 Jun 2019 to 12 Aug 2019, monsoon now in-line with LPA compared with (-) 10% last year. With the recent revival of monsoon, most of the regions have now been experiencing normal rains with the exception of some regions. These include, parts of Gujarat, Tamil Nadu, Delhi, and West Bengal which have received deficient rains. Eastern Rajasthan, Madhya Maharashtra and parts of Karnataka continue to witness excessive rains.
- Overall Kharif sowing dropped by (-) 5.3% as on 9 Aug 2019 compared with last year led by lower sown area of rice (-) 12.8%, sugarcane (-5.6%) and pulses (-4.9%). However, sown area of cotton has improved by 5.4%.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



LEGEND: ■ L. EXCESS (+60% OR MORE) ■ EXCESS (+20% TO +59%) ■ NORMAL (+19% TO -19%)
 ■ DEFICIENT (-20% TO -59%) ■ L. DEFICIENT (-60% TO -99%) ■ NO RAIN (-100%) ■ NO DATA

Source: IMD, Bank of Baroda Research

India macro developments

- RBI surprised with a 35bps cut in policy rates (4-2 vote) while maintaining an accommodative stance. It has also indicated further rate cuts as it looks at closing the negative output gap. While RBI expects growth at 6.9% in FY20 (6.8% in FY19), recent indicators suggest growth will be lower. Hence, RBI will be in a position to cut repo rate further by 40bps in FY20 to support growth, as inflation outlook remains favourable.
- RBI's data showed consumer confidence dropped to 95.7 in Jul'19 (lowest since Dec'18) vs 97.3 in May'19. The survey signalled consumers' sentiments turned less optimistic on the overall economic situation as well as on the employment situation. This comes at a time when the RBI trimmed its growth forecast for FY20 and concerns of slowdown in global economy remained escalated.
- RBI reported that currency in circulation declined by Rs 46bn (on a weekly basis) and stood at Rs 21.7tn as on 2 Aug 2019. Overall reserve money grew by 12.2% on a YoY basis compared to 20.4% a year ago. On FYTD basis, reserve money has fallen by (-) 0.5% against 1.6% in the previous year.
- Industrial growth edged down to a four month low of 2% in Jun'19 compared with 4.6% in May'19. An unfavourable base coupled with subdued domestic consumption and capex along with muted exports acted as a drag. Electricity and FMCG were the bright spots. Capital goods, durables and infra slowed the most in Jun'19. Even so, industrial growth in Q1FY20 has fared better than Q4FY19. A similar trend will be seen in H2 on the back of base effect. However, underlying drivers of demand remain weak for now.
- India's services PMI jumped back into expansion, rising to a 1-year high at 53.8 in Jul'19 from 49.6 in Jun'19. This was led by new orders which rose at the fastest pace in over 3 years, driven largely by foreign demand. This coupled with rising optimism about new business, resulted in higher employment since Mar'11. Composite PMI also rose to an 8-month high at 53.9 in Jul'19 (50.8 in Jun'19).
- India's forex reserves rose to US\$ 429bn in the week ending 2 Aug 2019. On a weekly basis, forex reserves fell by (-) US\$ 0.7bn same as last week. In CYTD19, forex reserves have increased by US\$ 35.5bn vs a decline of (-) US\$ 6.7bn last year.
- As per news reports, government is aiming to launch new crop insurance scheme which will maximise benefits under Pradhan Mantri Fasal Bima Yojana (PMFBY). A voluntary risk-pooling system will be created where government will have control in deciding the premium and fixing pay outs. Insurance companies would only be restricted to administrative functioning. Centre has also suggested a premium ceiling of 25% (for irrigated area more than 50% of total) & 30% (for irrigated area less than 50%).

Global macro developments

- New loans issued in China fell from 1.7tn Yuan in Jun'19 to 1.1tn Yuan in Jul'19 (est.: 1.3tn Yuan). While seasonality explains part of the decline, weakness in the credit market continues to persist as domestic demand fades and US-China trade war intensifies. Key concerns are household loans, particularly mortgage (511.2bn Yuan in Jul'19 vs 671.7bn Yuan in Jun'19), and corporate loans (297.4bn Yuan vs 910.5bn Yuan in Jun'19).
- China's exports rose for the first time since Mar'19 by 3.3% in Jul'19 vs a decline of (-) 1.3% in Jun'19 and estimate of a (-) 0.2% decline. China's exports to US shrunk by (-) 6.5% while imports also fell by (-) 19.1% amidst heightened trade tensions. Apart from Europe, exports to ASEAN countries picked up in Jul'19 suggesting that China is looking to tap other markets for its products. Imports declined by (-) 5.6% vs (-) 7.3% in Jun'19 (est. -8.3%) as domestic demand remains muted.
- Singapore slashed its growth forecast for CY19 to 0-1% from 1.5-2.5% earlier. This is led by concerns surrounding US-China tariff war, Japan-Korea trade dispute, Brexit, and muted growth in China. GDP in Q2CY19 also rose at a subdued pace of 0.1% vs 1.1% in Q1CY19. On an annualised QoQ basis, GDP contracted by (-) 3.3% vs growth of 3.8% in Q1CY19.
- Central Bank of Philippines reduced policy rate by 25bps to 4.25% in its latest meeting. In CYTD19, it has reduced policy rates by 50bps. This has been on the back of downside risks to growth. The policy also highlighted that inflation would be within the target of 3±1% for 2019 to 2021.
- Central bank of Thailand reduced policy rate by 25bps for the first time since 2015 to 1.5% to support growth and currency. In CYTD19, Baht has appreciated by 5% which has taken a toll on its exports. Globally major central banks (US Fed, Bank of Korea, Russia, Indonesia, Australia and India) are also on an easing cycle to give the desired impetus to growth.
- Reserve Bank of Australia (RBA) left interest rate unchanged at 1% in its latest policy meet after cutting rates by 25bps each in its last two meetings. It however mentioned that against weak growth and unemployment, interest rates are expected to remain low. Separately, Reserve Bank of New Zealand cut its policy rate by 50bps (est. 25bps) to 1% in order to support growth.
- Services activity in the Eurozone signalled expansion albeit at a slower pace of 53.2 in Jul'19 vs 53.6 in Jun'19. This was led by modest expansion in new orders and employment. Similar trend was observed for Japan, with services PMI at 51.8 in Jul'19 vs 51.9 in Jun'19. China's Caixin services PMI recorded its lowest level in the past 5-month at 51.6 in Jul'19, led by weaker pace of expansion in new business activity.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.65	(6)	(48)	(76)	(123)
UK	0.49	(2)	(35)	(61)	(76)
Japan	(0.22)	(3)	(10)	(17)	(32)
Germany	(0.59)	(8)	(38)	(52)	(90)
India	6.50	15	(4)	(92)	(126)
China	3.03	(4)	(13)	(25)	(57)
2Y yields (Δ bps)					
US	1.58	1	(26)	(60)	(103)
UK	0.44	1	(15)	(27)	(26)
Japan	(0.27)	(5)	(9)	(11)	(15)
Germany	(0.88)	(7)	(16)	(25)	(23)
India	5.85	(10)	(36)	(93)	(161)
China	2.52	(3)	(7)	(9)	(27)
Currencies (Δ %)					
EUR	1.1214	0.1	(0.5)	(0.1)	(1.7)
GBP	1.2076	(0.6)	(3.9)	(6.8)	(5.4)
JPY	105.30	0.6	2.4	3.7	4.9
AUD	0.6752	(0.1)	(3.8)	(2.8)	(7.1)
INR	70.79	(1.7)	(3.2)	(1.3)	(2.8)
CNY	7.0578	(0.1)	(2.6)	(2.6)	(2.4)
Equity & Other indices (Δ %)					
Dow	25,898	0.7	(5.2)	2.3	2.8
FTSE	7,227	0	(3.7)	0.9	(5.4)
DAX	11,680	0.2	(5.2)	(1.7)	(5.5)
NIKKEI	20,685	(1.9)	(3.9)	(3.1)	(7.2)
Shanghai Comp	2,815	(0.2)	(3.9)	(3.1)	1.0
SENSEX	37,582	1.2	(2.5)	0.3	(0.8)
Brent (US\$/bbl)	58.57	(2.1)	(12.2)	(16.6)	(19.3)
Gold (US\$/oz)	1,511	3.2	6.7	16.3	26.6
CRB Index	397.8	(0.4)	(1.9)	(2.6)	(5.1)
Rogers Agri Index	697.2	(1.6)	(7.2)	0.2	(11.9)
LIBOR (3M)*	2.18	(6)	(16)	(35)	(14)
INR 5Y Swap*	6.37	(19)	(21)	(72)	(112)
India FII data (US\$ mn)					
	8 Aug	WTD	MTD	CYTD	FYTD
FII-Debt	72.2	166.5	152.0	2,805.9	2,261.3
FII-Equity	(150.4)	(794.7)	(1,380.0)	8,024.6	1,179.4

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
13-Aug	Japan PPI, % YoY	Jul	(0.5%)	(0.1%)	--
	Singapore GDP, % YoY	Q2CY19	0.2%	0.1%	0.1%
	Germany CPI, % YoY	Jul	1.7%	1.7%	--
	Japan machine tool orders, % YoY	Jul	--	(37.9%)	--
	UK jobless claims change	Jul	--	38,000	--
	Germany ZEW survey current situation	Aug	(3.7)	(1.1)	--
	India CPI, % YoY	Jul	3.1%	3.2%	--
	US CPI, % MoM	Jul	0.3%	0.1%	--
14-Aug	South Korea unemployment rate SA, %	Jul	4.1%	4.0%	--
	Japan core machine orders, % MoM	Jun	(1.0%)	(7.8%)	--
	China fixed assets ex rural YTD, % YoY	Jul	5.9%	5.8%	--
	China industrial production, % YoY	Jul	6.0%	6.3%	--
	China retail sales, % YoY	Jul	8.6%	9.8%	--
	Germany GDP SA, % QoQ	Q2CY19	0.0%	0.4%	--
	India WPI, % YoY	Jul	1.9%	2.0%	--
	India exports, % YoY	Jul	--	(9.7%)	--
	France CPI, % YoY	Jul	--	1.1%	--
	UK CPI, % YoY	Jul	1.9%	2.0%	--
	Euro Area industrial production SA, % MoM	Jun	(1.0%)	0.9%	--
	Euro Area GDP SA, % QoQ	Q2CY19	0.2%	0.2%	--
15-Aug	China new home prices, % MoM	Jul	--	0.7%	--
	Australia unemployment rate, %	Jul	5.3%	5.2%	--
	Japan industrial production, % MoM	Jun	--	(3.6%)	--
	UK retail sales inc auto fuel, % MoM	Jul	(0.3%)	1.0%	--
	US retail sales advance, % MoM	Jul	0.2%	0.4%	--
	US initial jobless claims	10-Aug	--	209,000	--
	US industrial production, % MoM	Jul	0.3%	0.0%	--
16-Aug	Singapore non-oil domestic exports, % YoY	Jul	(14.8%)	(17.3%)	--
	Taiwan GDP, % YoY	Q2CY19	2.4%	2.4%	--
	Hong Kong GDP, % YoY	Q2CY19	0.6%	0.6%	--
	Euro Area trade balance SA, € bn	Jun	--	20.2	--
	US housing starts	Jul	1,260,000	1,253,000	--

Source: Bloomberg, Bank of Baroda Research

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