

WEEKLY WRAP

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US-China trade deal lifts sentiment

Global sentiment improved as US and China reached a trade truce. Global equity markets rallied, yields rose and JPY (risk-haven) fell. However, economic data emanating from China was weak as exports fell by (-) 3.2%. World Bank lowered India's growth forecast to 6% as domestic consumer demand remains muted. Industrial output contracted in Aug'19 led by capital goods and durables. This sets the pace for another 25bps rate cut by RBI even as inflation is expected to inch up to 3.6% in Sep'19 (3.2% in Aug'19).

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Markets

- **Bonds:** Global yields closed higher on the back of optimism surrounding US-China trade talks. Developments over Brexit also supported yields. UK 10Y yield rose the most (26bps) followed by US (20bps). Crude prices rose by 3.7% (US\$ 61/bbl) over anticipation of deeper cuts by OPEC and tensions in the Middle East. India's 10Y yield rose by 4bps (6.73%). System liquidity surplus was at Rs 2.2tn as on 11 Oct 2019 vs Rs 2.5tn in the previous week.
- **Currency:** Major global currencies closed higher in the week due to improved risk sentiment as US-China made progress in trade talks. As a result, safe-haven JPY and DXY fell by (-) 1.3% and (-) 0.5% respectively. GBP rose by 2.7% in the week to its highest in over 3-months as Brexit uncertainty subsided. INR depreciated by (-) 0.2% in the week as oil prices rose by 3.7%. FII outflows were US\$ 308mn in the week.
- **Equity:** Driven by optimism around US-China trade deal and Brexit, global indices surged higher. Dax rose by 4.2% followed by Shanghai Comp (2.4%). Following positive global cues, Sensex too ended the week 1.2% higher. This week equity markets will react to Q2FY20 results.
- **Upcoming key events:** In the current week, markets await China's Q3 GDP print, industrial production and PPI data. In addition, industrial production in US, Japan and Euro Area data will also be released. On the domestic front, WPI, CPI, trade data and RBI minutes are scheduled for release.



India macro developments

- World Bank has slashed India's GDP forecast in FY20 to 6% from 7.5% earlier. This was on the back of tepid consumption due to rural distress, weak investment demand and liquidity issues with NBFCs. It noted that recent economic measures announced by the government along with an accommodative monetary policy will support growth. As a result, growth is expected to recover to 6.9% in FY21 and 7.2% in FY22.
- IIP growth slipped to (-) 1.1% in Aug'19 vs 4.6% in Jul'19, lowest in this series. Manufacturing output contracted by (-) 1.2% and electricity by (-) 0.9%. Capital goods and consumer durables slowed down the most at (-) 21% and (-) 9.1% respectively. Even infra/construction sector contracted. On FYTD basis, industrial production has increased by 2.4% vs 5.3% last year. A low base effect will prop growth in H2 along with higher spending by government. However, underlying weakness implies another 25bps cut by RBI in Dec'19
- According to National Bulk Handling Corporation (NHBC), foodgrain production is expected to be higher by 8.4mn tonne (140.57mn tonne in AY20) from its average output in the past 5 years. Widespread rains have boosted the sown area of pulses, cotton, sugarcane along with marginal improvement seen in paddy. However, production for some crops might be lower due to floods in the growing areas.
- In a bid to boost consumption demand, central government has announced 5% hike in Dearness Allowance (DA) from 12% to 17% for ~11.5mn employees and pensioners. The hike will be w.e.f. Jul'19 and will cost the exchequer additional Rs 160bn. In addition, to make payments under PM-KISAN immediately possible, the cabinet has also approved relaxation of mandatory requirement of aadhaar seeding for receiving funds till 30 Nov.
- RBI reported that currency in circulation (CIC) increased by Rs 197bn and stood at Rs 22tn for the week ending 4 Oct 2019. Reserve money rose by 14.3% on a YoY basis, compared with 17.5% a year ago. On a FYTD basis, reserve money increased by 2.3% as against 2.4% last year.
- In order to boost compliance, government has made changes to the input tax credit scheme under GST. Going forward (we.f. from 9 Oct), input tax credit refund will be capped at 20% (of the eligible amount) for the entities whose suppliers have not uploaded relevant invoices in support of the tax credit claim. While this measure is likely to also boost government revenue, it may cause cash flow concerns for companies.

Global macro developments

- China's exports fell more sharply (-3.2%) than anticipated (-2.8%) in Sep'19 vs (-) 1% in Aug'19. The steepest decline since Feb'19 is attributed to continuous trade friction with US and fading of "front-loading" which had cushioned Jul-Aug'19 export print. Imports too fell, by (-) 8.5% vs (-) 5.6% in Aug'19 and est.: 5.2%, driven by lower commodity prices and weak domestic demand.
- Monetary Authority of Singapore (MAS) in its semi-annual review stated that it will reduce the rate of appreciation of S\$ NEER. Width of policy band remains unchanged. Due to global risk sentiment, S\$ NEER fluctuated in the upper half of the policy band, impacting capital inflows. MAS' policy tool is setting of exchange rate rather than interest rate.
- US PPI declined by (-) 0.3% in Sep'19 (est. +0.1%) vs an increase of 0.1% in Aug'19 on a MoM basis. This was led by lower prices for both goods (-0.4%) and services (-0.2%). Core PPI (ex. volatile food, energy and trade services) was unchanged after increasing 0.4% in Aug'19. The data raises hopes of a rate cut by Fed amidst slowing global and domestic growth.
- Germany's industrial production in Aug'19 rose by 0.3% on a MoM basis vs (-) 0.4% in Jul'19. The surprise jump (est.: -0.1%) was driven by manufacturing production (0.7% vs -0.5% in Jul'19), mainly intermediate and capital goods. Core production data (ex-energy and construction) too improved (0.7% vs -0.6%). US-China trade tensions, auto sector crisis and Brexit woes have impacted Germany's industrial sector.
- US FOMC minutes noted the Sep'19 rate cut was to insulate the economy from growing risks emanating from trade uncertainty and concerns surrounding slowdown in global economy. However, the members remained divided as 7 members expects another rate cut by Dec'19, while 5 members do not expect any more rate cuts this year. Likelihood of lower growth in income and consumption driven by weaker investment and business activity, added to the concerns.
- US CPI remained flat in Sep'19 (0%) vs 0.1% in Aug'19 and est.: 0.1%. Core CPI too slowed, from 0.3% in Aug'19 to 0.1% in Sep'19. The softening was driven by decline in prices of apparels, used cars and trucks and medical services. On the other hand, initial jobless claims for the week ending 5 Oct fell by 10,000 from the previous week to 210,000. However, the 4-week moving average rose by 1,000 to 213,750.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.73	20	(4)	(39)	(143)
UK	0.71	26	3	(13)	(93)
Japan	(0.18)	3	3	(7)	(33)
Germany	(0.44)	14	7	(23)	(94)
India	6.73	4	6	24	(125)
China**	3.16	2	7	(0)	(43)
2Y yields (Δ bps)					
US	1.59	19	(13)	(26)	(126)
UK	0.55	20	0	(5)	(29)
Japan	(0.29)	4	(2)	(11)	(18)
Germany	(0.72)	6	0	0	(16)
India	5.67	4	(4)	(51)	(198)
China#**	2.57	2	(1)	0	(29)
Currencies (Δ %)					
EUR	1.1042	0.6	(0.2)	(2.0)	(4.5)
GBP	1.2668	2.7	2.7	0.8	(3.7)
JPY	108.29	(1.3)	(0.2)	(0.4)	3.5
AUD	0.6794	0.3	(1.0)	(3.2)	(4.5)
INR	71.02	(0.2)	0.2	(3.4)	3.5
CNY**	7.0883	0.8	(0.1)	(3.0)	(2.4)
Equity & Other indices (Δ %)					
Dow	26,817	0.9	(1.3)	(1.9)	5.8
FTSE	7,247	1.3	(1.3)	(3.4)	3.6
DAX	12,512	4.2	0.8	1.5	8.6
NIKKEI	21,799	1.8	0.2	0.5	(3.9)
Shanghai Comp**	2,974	2.4	(1.9)	1.5	14.1
SENSEX	38,127	1.2	2.8	(1.6)	9.8
Brent (US\$/bbl)	60.51	3.7	0.2	(9.3)	(24.8)
Gold (US\$/oz)	1,489	(1.0)	(0.7)	5.2	22.3
CRB Index	391.3	0.7	1.7	(3.5)	(6.3)
Rogers Agri Index	725.6	1.9	4.0	(3.4)	(8.2)
LIBOR (3M)*	2.00	(3)	(12)	(32)	(44)
INR 5Y Swap*	6.40	8	14	(19)	(140)
India FII data (US\$ mn)					
	10 Oct	WTD	MTD	CYTD	FYTD
FII-Debt	(111.8)	(148.7)	(131.0)	3,842.4	3,297.8
FII-Equity	(11.2)	(159.1)	(655.9)	7,504.8	659.6

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
14-Oct	Singapore GDP, % YoY	Q3CY19	0.2%	0.1%	--
	India WPI, % YoY	Sep	0.9%	1.1%	--
	Euro Area industrial production SA, % MoM	Aug	0.3%	(0.4%)	--
	India CPI, % YoY	Sep	3.8%	3.2%	--
	China exports, % YoY	Sep	(2.8%)	(1.0%)	--
15-Oct	RBA Oct. meeting minutes				
	China CPI, % YoY	Sep	2.9%	2.8%	--
	China PPI, % YoY	Sep	(1.2%)	(0.8%)	--
	Japan industrial production, % MoM	Aug	--	(1.2%)	--
	France CPI, % YoY	Sep	--	0.9%	--
	UK jobless claims change	Sep	--	28,200	--
	UK ILO unemployment rate 3mths	Aug	3.8%	3.8%	--
	Germany ZEW survey expectations	Oct	(29.2)	(22.5)	--
India exports, % YoY	Sep	--	(6.1%)	--	
16-Oct	BoK 7-day repo rate, %	16-Oct	1.3%	1.5%	--
	Italy industrial orders, % MoM	Aug	--	(2.9%)	--
	UK CPI, % YoY	Sep	1.9%	1.7%	--
	Euro Area CPI, % YoY	Sep	0.9%	1.0%	--
	Italy CPI EU harmonized, % YoY	Sep	--	0.3%	--
	US retail sales advance, % MoM	Sep	0.3%	0.4%	--
17-Oct	Australia unemployment rate, %	Sep	5.3%	5.3%	--
	Singapore non-oil domestic exports, % YoY	Sep	(7.7%)	(8.9%)	--
	UK retail sales inc auto fuel, % MoM	Sep	0.1%	(0.2%)	--
	US housing starts	Sep	1,320,000	1,364,000	--
	US initial jobless claims	12-Oct	--	210,000.0	--
	US industrial production, % MoM	Sep	(0.1%)	0.6%	--
18-Oct	Japan CPI, % YoY	Sep	0.2%	0.3%	--
	China Fixed assets ex rural YTD, % YoY	Sep	5.5%	5.5%	--
	China industrial production, % YoY	Sep	5.0%	4.4%	--
	China retail sales, % YoY	Sep	7.8%	7.5%	--
	China GDP, % YoY	Q3CY19	6.1%	6.2%	--
	Italy current account balance, € bn	Aug	--	8.4	--
	RBI Policy minutes	04-Oct	--	--	--
	ECB current account balance SA, € bn	Aug	--	20.5	--

Source: Bloomberg, Bank of Baroda

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