

WEEKLY WRAP

16 September 2019

Central Banks in focus

Even as ECB lowered its deposit rate by 10bps and announced a bond buying program, global yields inched up as US-China trade tensions eased. Global equity markets went up and Yen and US\$ closed lower. INR appreciated and Indian equities and yields too went up. Government announced new measures to support exports and real estate sector. However, after 10% increase in oil prices today, markets have reversed the gains seen in the previous week. Central bank meetings (US, BoE, BoJ) will drive markets this week.

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Markets

- **Bonds:** Global yields closed higher amidst progress in US-China trade deal and better than expected US retail sales and core CPI. US 10Y yield rose by 34bps (1.9%). Despite rate cut by ECB and restart of QE program, European yields too went up. Crude prices which fell by (-) 2.1% (US\$ 60/bbl) are trading 10% higher today (US\$ 66/bbl) on account of attack on Saudi Arabia's oil field. India's 10Y yield rose by 4bps (6.64%), taking global cues. System liquidity is in surplus of Rs 1.5tn as on 13 Sep 2019 vs Rs 1.6tn in the previous week.
- **Currency:** Barring JPY (down by 1.1%), other global currencies closed higher in the week as US-China trade tensions eased. EUR rose by 0.4% even as ECB announced stimulus measures to revive growth. INR appreciated by 1.1% in the week as oil prices fell by (-) 2.1%. Positive FII inflows at US\$ 520mn also helped. However, it has started the week with a gap down of 0.8% after crude oil prices jumped by 10%.
- **Equity:** Led by ongoing progress over the US-China trade deal and announcement of the stimulus programme by ECB, global equity markers went up in the week. Nikkei surged by 3.7% followed by Dax (2.3%) and Dow (1.6%). Sensex rebounded (1.1%) from last week and ended in green led by auto and banking stocks.
- **Upcoming key events:** In the current week, US Fed's, BoE's, BoJ's and Taiwan's policy rate decision will be closely watched. In addition, Euro Area CPI, Japan CPI, Germany PPI and India's WPI, along with US industrial production and current account balance will also be released.



India macro developments

- FM has announced measures to boost housing demand which includes relaxation of ECB guidelines for PMAY, in consultation with RBI. Interest rate on house building advance given to government employees shall also be linked with 10Y G-Sec yield, for better transmission. Special window shall be provided for last mile financing of non-NPA and non-NCLT projects in affordable and middle income housing category.
- In order to boost exports, government has announced a slew of measures for exporters. 1) Remission of Duties or Taxes on Export Product (RoDTEP) to replace the existing MEIS, 2) implementation of a fully electronic GST refund system to expedite returns, 3) premium incidence for MSMEs has been lowered, and 4) priority sector lending norms for export credit to be re-examined which will release an additional Rs 360-680bn as export credit.
- RBI's panel on housing finance securitisation market has suggested that an intermediary should be set up under NHB, wherein government will have a 51% ownership. Other recommendations are with regard to development of PTC (currently, only a quarter of total volume of securitisation market). The report estimated that 80-100mn additional housing units will be required by 2022, which will cost Rs 100-115tn. Hence financing through this route can be beneficial.
- As per news reports, government will set up a fund to provide guarantees to borrowers with low credit score. This will boost housing demand in the wake of liquidity crisis faced by NBFCs/HFCs. Earlier, RBI had also recommended setting up of a government sponsored intermediary under NHB for penetration of home loan securitisation market. Government has also provided Rs 200bn additional liquidity support to HFCs.
- RBI sold US\$ 93mn in the spot market in Jul'19 vs purchase of US\$ 2.5bn in Jun'19. In the forwards market, RBI purchased US\$ 4.8bn compared with US\$ 4.9bn in Jun'19. Outstanding forward position is at (-) US\$ 8.6bn vs US\$ 10.7bn in Jul'18. In FYTD20, RBI has purchased US\$ 9.8bn in the spot market and US\$ 15bn in the forwards market.
- India's Industrial output in Jul'19 increased by 4.3% compared with 1.2% in Jun'19 on the back of improvement in mining to 4.9% (1.5% in Jun'19) and manufacturing to 4.2% (0.2% in Jun'19). CPI inflation rose to 3.2% in Aug'19 from 3.1% in Jul'19 on account of 60bps jump in food inflation (3% in Aug'19 from 2.4% in Jul'19). Despite higher gold prices, core remained stable at 4.2% with a broad based decline. Given the economic slowdown, core inflation is expected to be benign in the year.

Global macro developments

- China's PPI fell by (-) 0.8% in Aug'19 vs (-) 0.3% in Jul'19, led by falling prices of crude oil and natural gas extraction. CPI on the other hand, remained unchanged from Jul'19 at 2.8% in Aug'19 (est.: 2.6%). The higher than expected increase was driven by food prices (10%), particularly pork prices (46.7%). Core CPI however remained muted at 1.5% vs 1.3% in Jul'19, indicating more monetary easing could be seen in future.
- Amidst worries of slowdown in global economy and ongoing trade tensions, Japan's machine tool orders contracted for the 10th straight month by (-) 37.1% in Aug'19 from (-) 33% in Jul'19. This in turn signals weakness in Japan's economy which is expected to continue over the coming months, till US-China trade deal is finalized.
- US PPI rose by 0.1% in Aug'19 on a MoM basis vs 0.2% in Jul'19. However core PPI rose by 0.4% from (-) 0.1% decline in Jul'19. The surprise jump was led by services sector (0.3% vs -0.1% in Jul'19) wherein prices of travel, insurance and freight and cargo rose the most. However, analysts are viewing this increase as one-off event and believe Fed will cut rates soon.
- New loans growth in China fell by (-) 5.5% in Aug'19 on YoY basis. Outstanding Yuan loan growth (proxy for credit growth) also eased to 12.4% from 12.6% in Jul'19. However, outstanding Total Social Financing growth remained unchanged from last month at 10.7% in Aug'19. This is more likely on account of higher debt issuances by local governments.
- US CPI eased to 0.1% in Aug'19 from 0.3% in Jul'19 on a MoM basis. However core CPI growth remained unchanged for the 3rd consecutive month at 0.3% in Aug'19. Prices of medical and transportation services rose the most. Separately, jobless claims for the week ending 7 Sep 2019 fell to 204,000 from 219,000 in the previous week.
- To boost growth, ECB has slashed interest rate on deposit facility by 10bps to (-) 0.5%. Other policy rates remain unchanged. The quantitative easing programme has also been reinstated with € 20bn of bond purchases each month from Nov'19. For better transmission of rates, a two-tier system for reserve remuneration has started. ECB has also revised its inflation and growth projection downward to 1.2% and 1.1% in CY19 respectively.
- China's industrial output growth slowed to 17.5 year low of 4.4% in Aug'19 vs 4.8% in Jul'19. Retail sales growth also slowed to 7.5% (est.: 7.9%) from 7.6% in Jul'19. Similar weakness was visible in FAI growth which slipped to 5.5% in Jan-Aug'19 vs 5.7% in Jan-Jul'19. The drag was led by private sector investment which rose by 4.9% vs 5.4% in the same period.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.90	34	19	(18)	(110)
UK	0.76	26	27	(9)	(77)
Japan	(0.15)	8	8	(2)	(27)
Germany	(0.45)	19	16	(19)	(90)
India	6.64	4	11	(28)	(149)
China	3.09	8	8	(18)	(59)
2Y yields (Δ bps)					
US	1.80	26	13	(4)	(98)
UK	0.57	18	11	(4)	(24)
Japan	(0.24)	5	4	(4)	(14)
Germany	(0.71)	16	17	(1)	(17)
India	5.72	1	(18)	(50)	(226)
China#	2.58	(1)	0	6	(26)
Currencies (Δ %)					
EUR	1.1073	0.4	(0.9)	(1.2)	(4.7)
GBP	1.2501	1.8	3.7	(0.7)	(4.3)
JPY	108.09	(1.1)	(1.3)	0.4	3.5
AUD	0.6879	0.5	1.2	0.1	(3.8)
INR	70.93	1.1	0.7	(1.6)	1.3
CNY	7.0793	0.5	(0.5)	(2.2)	(3.1)
Equity & Other indices (Δ %)					
Dow	27,220	1.6	3.6	4.3	4.1
FTSE	7,367	1.2	1.6	0.3	0.9
DAX	12,469	2.3	6.1	3.1	2.8
NIKKEI	21,988	3.7	7.5	4.1	(4.8)
Shanghai Comp	3,031	1.1	8.4	5.2	13.0
SENSEX	37,385	1.1	1.2	(5.2)	(1.9)
Brent (US\$/bbl)	60.22	(2.1)	(1.8)	(2.9)	(22.9)
Gold (US\$/oz)	1,489	(1.2)	(0.9)	10.9	24.6
CRB Index	384.6	(0.6)	(3.2)	(6.7)	(5.9)
Rogers Agri Index	700.3	3.8	1.0	(8.4)	(9.0)
LIBOR (3M)*	2.14	1	(2)	(26)	(20)
INR 5Y Swap*	6.31	21	(6)	(48)	(140)
India FII data (US\$ mn)					
	12 Sep	WTD	MTD	CYTD	FYTD
FII-Debt	13.5	31.9	455.6	4,702.8	4,158.1
FII-Equity	365.9	488.1	(357.3)	6,848.8	3.6

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
16-Sep	China fixed assets ex rural YTD, % YoY	Aug	5.7%	5.7%	--
	China industrial production, % YoY	Aug	5.2%	4.8%	--
	China retail sales, % YoY	Aug	7.9%	7.6%	--
	Indonesia exports, % YoY	Aug	(6.7%)	(5.1%)	--
	India WPI, % YoY	Aug	1.0%	1.1%	--
	Italy CPI EU harmonized, % YoY	Aug	0.5%	0.5%	--
17-Sep	Singapore non-oil domestic exports, % YoY	Aug	(10.9%)	(11.2%)	--
	China new home prices, % MoM	Aug	--	0.6%	--
	Germany ZEW survey expectations	Sep	(37.8)	(44.1)	--
	US industrial production, % MoM	Aug	0.2%	(0.2%)	--
18-Sep	Japan exports, % YoY	Aug	(10.1%)	(1.6%)	--
	UK CPI, % YoY	Aug	1.9%	2.1%	--
	Euro Area CPI, % YoY	Aug	1.0%	1.0%	--
	US housing starts, in thousands	Aug	1250	1191	--
	US FOMC policy rate, %	Sep-19	2.0%	2.3%	--
19-Sep	Australia unemployment rate, %	Aug	5.2%	5.2%	--
	Japan all industry activity index, % MoM	Jul	--	(0.8%)	--
	Taiwan CBC policy rate, %	Sep-19	1.4%	1.4%	--
	UK retail sales inc auto fuel, % MoM	Aug	(0.2%)	0.2%	--
	Bank of England policy rate, %	Sep-19	0.8%	0.8%	--
	US current account balance, US\$ bn	Q2CY18	(126.6)	(130.4)	--
	US initial jobless claims, in thousands	14-Sep	--	204	--
	US existing home sales, in mn	Aug	5.4	5.4	--
BOJ policy rate, %	Sep-19	--	(0.1%)	--	
20-Sep	Japan CPI, % YoY	Aug	0.3%	0.5%	--
	Germany PPI, % YoY	Aug	0.8%	1.1%	--
	Taiwan export orders, % YoY	Aug	(2.6%)	(3.0%)	--
	Euro Area consumer confidence	Sep	(7.1)	(7.1)	--
	Thailand customs exports, % YoY	Aug	(2.3%)	4.3%	--

Source: Bloomberg, Bank of Baroda

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