

WEEKLY WRAP

19 August 2019

FOMC and RBI minutes to take centre stage

Global economy is slowing down with weak industrial output in US, China and Japan. Export driven Germany and Hong Kong reported contraction in GDP in Q2CY19. As a result, global yields and equity markets fell. DXY gained after US postponed additional tariff on China. On the domestic front, lower non-oil-non-gold imports signalled weak domestic demand. Government may announce a stimulus/reform package which led to 5bps increase in 10Y bond yield. Global macro data and news on stimulus will drive markets this week.

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Markets

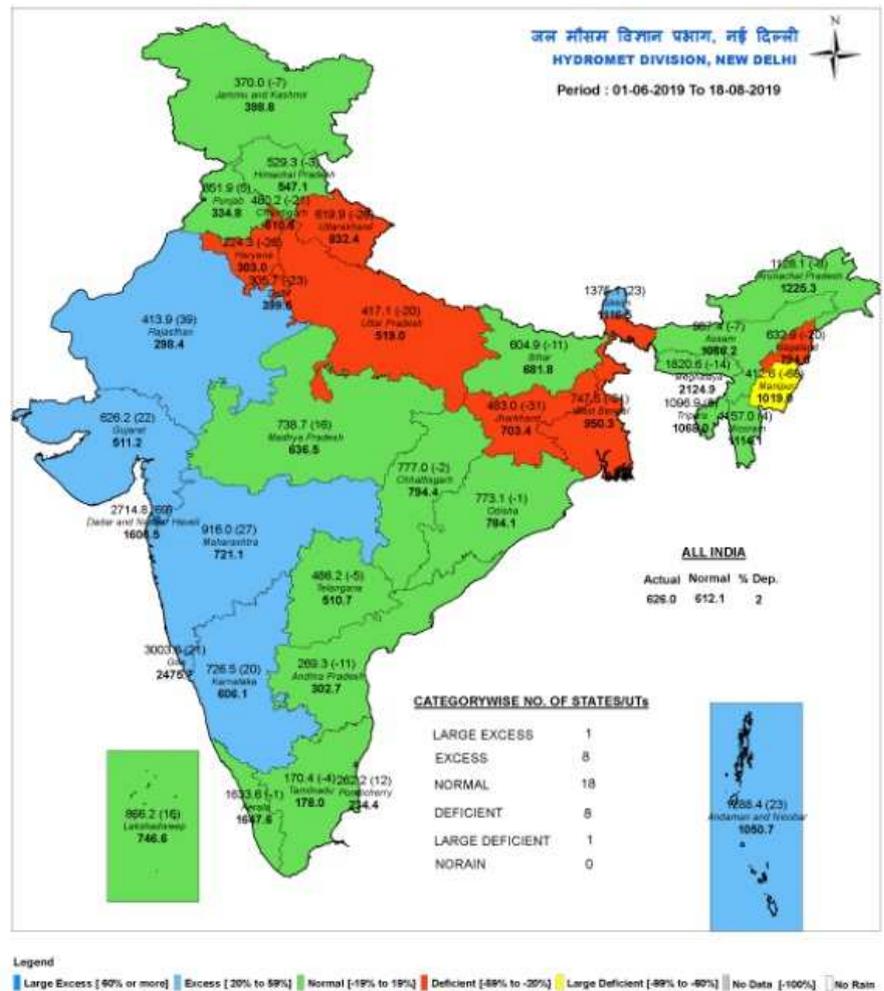
- Bonds:** Except India, global yields closed lower as retail sales and industrial production in China were lower than estimates. Central Banks of Mexico and China announced stimulus/rate cuts. US 10Y yield fell by 19bps (1.55%) as fears of recession increased. Crude prices edged up by 0.2% (US\$ 59/bbl). India's 10Y yield rose by 5bps (6.55%) as government may announce a stimulus package. System liquidity surplus was at Rs 1.3tn as on 16 Aug 2019 compared with Rs 1.6tn in the previous week.
- Currency:** Except GBP and CNY, other global currencies closed lower. DXY rose by 0.7% in the week after US delayed imposing additional 10% tariff on imports from China. Positive US retail sales data also helped. INR fell by (-) 0.2%. FII inflows were US\$ 217mn in the week.
- Equity:** Barring Shanghai Comp, other global indices closed the week lower led by uncertainty over US- China trade relations and fears of recession. FTSE slumped by (-) 1.9% followed by Dow (-1.5%) and Nikkei (-1.3%). Sensex too ended the truncated week in red (-0.6%) on the back of muted earnings and awaiting a possible fiscal stimulus package by government to support growth.
- Upcoming key events:** In the current week, markets will await US FOMC minutes, Bank of Indonesia's policy decision and flash manufacturing & services PMIs of US, Euro Area and Japan. US new home sales, exports of Japan and Thailand will also give some signal about global growth momentum. On the domestic front, news around fiscal stimulus will be closely watched and minutes of Aug'19 MPC meeting will be released.



Monsoon Tracker

- For the period 1 Jun 2019 to 18 Aug 2019, monsoon was 2% above LPA compared with (-) 9% last year. The south-west monsoon has now turned into surplus mode as Rajasthan, Gujarat and Madhya Maharashtra continue to receive incessant rains with other part of country receiving normal rains. However, UP, Uttarakhand, Jharkhand and West Bengal are still receiving deficient rains.
- Overall Kharif sowing dropped by (-) 4.2% as on 16 Aug 2019 compared with last year led by lower sown area of rice (-) 10.9% and pulses (-3.5%). Major decline was also visible in sugarcane (-5.7%). However, sown area of cotton has improved by 5.6%.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Source: IMD, Bank of Baroda Research

India macro developments

- India's CPI slipped to 3.1% in Jul'19 from 3.2% in Jun'19. Sharp decline in fuel and light (LPG) prices was negated by higher food and core inflation. Higher food prices were driven by pulses and spices. Core inflation rose by 4.3% in Jul'19 vs 4.1% in Jun'19, led by transport and communication. With headline inflation expected to remain below RBI's trajectory of 4%, we believe there is room to cut rates to support growth.
- Auto sales in India fell to almost 2 decade low of (-) 18.7% in Jul'19 vs (-) 12.3% in Jun'19. Passenger vehicles registered the sharpest decline (-31% vs -17.5% in Jun'19) followed by CV sales (-25.7% vs -12.3%). While slowing consumption is a reason behind decline in sales, CV sales may have also been impacted by increased freight carrying capacity of trucks.
- RBI purchased US\$ 2.5bn in the spot market in Jun'19, same as in May'19. In the forwards market, RBI purchased US\$ 4.9bn compared with US\$ 0.2bn in May'19. In FYTD20, RBI has purchased US\$ 9.9bn in the spot market (vs US\$ 14.4bn sales last year) while it has purchased US\$ 0.4bn in the forwards market vs net sales of US\$ 10.2bn in FYTD19.
- WPI inflation moderated to 1.1% in Jul'19 from 2% in Jun'19. All three categories of WPI reported a dip. Food inflation fell to 4.5% in Jul'19 (5% in Jun'19). Fuel and power index contracted by (-) 3.6% in Jul'19 (-2.2% in Jun'19) and manufactured product inflation fell to 0.3% in Jul'19 (0.9% in Jun'19). International oil and commodity prices have fallen further in Aug'19. Thus WPI inflation is likely to remain benign in the near-term.
- India's trade deficit declined to US\$ 13.4bn from US\$ 15.3bn in Jun'19 on the back of higher exports and lower imports. The decline in imports was led by gold at (-) 42% followed by oil at (-) 22%. Non-oil-non-gold imports too fell. On the other hand, exports showed a marginal uptick led by pharma and chemicals. Given the muted global and domestic backdrop, this implies lower trade deficit in FY20 and thus a positive outlook for INR.
- RBI reported that currency in circulation increased by Rs 233bn (on a weekly basis) and stood at Rs 21.9tn as on 9 Aug 2019. Overall reserve money grew by 12.5% on a YoY basis compared to 20.3% a year ago. On FYTD basis, reserve money has risen by only 0.1% against 1.9% in the previous year.
- India's forex reserves rose to a lifetime high of US\$ 430.6bn in the week ending 9 Aug 2019. On a weekly basis, forex reserves rose by US\$ 1.6bn compared with a decline of (-) US\$ 0.7bn last week. In FYTD20, forex reserves have increased by US\$ 18.7bn vs decline of (-) US\$ 23.5bn last year.

Global macro developments

- Led by higher prices of gasoline (2.5% in Jul'19 vs -3.6% in Jun'19) and housing (0.3%), US CPI rose by 0.3% on a MoM basis in Jul'19 (0.1% in Jun'19). Core inflation too inched up by 0.3% for the same period. On an annualized basis, core inflation rose by 2.2% and headline inflation increased by 1.8% in Jul'19. While CPI inched up, it is still lower than Fed's target range and raises the likelihood of another rate cut in Sep'19 policy meet.
- US retail sales rose to its 4-month high of 0.7% in Jul'19 (est.: 0.2%) compared to 0.3% in Jun'19. This was driven by surge in online purchases. On the other hand, US industrial production declined by (-) 0.2% in Jul'19 vs +0.2% in Jun'19, led by sharp decline in mining & manufacturing sector. Capacity utilization fell to 77.5% in Jul'19, lowest since Oct'17. US jobless claims increased by 9,000 to 220,000 for the week ending 10 Aug 2019.
- Japan's industrial production fell by (-) 3.8% in Jun'19 on a YoY basis vs (-) 4.1% in May'19. The 5th consecutive decline was led by mining and manufacturing (-3.8% vs -2.1% in May'19). Within this, production of electronic products/machinery, general purpose machinery and motor vehicles fell the most.
- 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.
- In a bid to lower interest rates and stimulate growth, PBOC has announced key changes to its Loan Prime Rate (LPR) mechanism w.e.f 20 Aug 2019. The central bank will ask for LPR quotations from bank, which will have to be based upon rates of open market operations. The new rate will have to be used for setting floating lending rates by banks, thereby effectively lowering the borrowing cost of the economy. Along with 1Y-LPR, 5Y-LPR and longer tenor LPR will also be added.
- Central Bank of Mexico lowered policy rate for the first time in past 5 years by 25bps to 8%. This has been on the back of muted global growth and uncertainty concerning trade war. This move was in consonance with major other central banks such as New Zealand, Philippines and Thailand, to stimulate growth. In CY18, the bank increased policy rate by 100bps, in contrast with its recent move of monetary easing.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.55	(19)	(49)	(84)	(131)
UK	0.47	(2)	(29)	(57)	(77)
Japan	(0.23)	(1)	(11)	(18)	(33)
Germany	(0.69)	(11)	(40)	(58)	(99)
India	6.55	5	20	(82)	(132)
China	3.02	0	(15)	(24)	(63)
2Y yields (Δ bps)					
US	1.48	(17)	(33)	(72)	(113)
UK	0.52	8	(2)	(18)	(19)
Japan	(0.27)	(1)	(9)	(12)	(14)
Germany	(0.91)	(5)	(16)	(27)	(26)
India	5.87	2	(23)	(79)	(169)
China	2.52	(3)	(7)	(9)	(27)
Currencies (Δ %)					
EUR	1.1090	(1.0)	(1.2)	(0.6)	(3.0)
GBP	1.2149	1.0	(2.3)	(4.5)	(4.7)
JPY	106.38	(0.7)	1.5	3.4	3.7
AUD	0.6779	(0.1)	(3.3)	(1.3)	(7.3)
INR	71.16	(0.5)	(3.4)	(1.3)	(1.4)
CNY	7.0428	0.3	(2.5)	(1.8)	(2.4)
Equity & Other indices (Δ %)					
Dow	25,886	(1.5)	(4.9)	0.5	0.8
FTSE	7,117	(1.9)	(5.6)	(3.1)	(5.8)
DAX	11,563	(1.1)	(6.3)	(5.5)	(5.3)
NIKKEI	20,419	(1.3)	(4.9)	(3.9)	(8.3)
Shanghai Comp	2,824	1.8	(3.7)	(2.0)	5.8
SENSEX	37,350	(0.6)	(4.8)	(1.5)	(1.6)
Brent (US\$/bbl)	58.64	0.2	(7.9)	(18.8)	(18.4)
Gold (US\$/oz)	1,514	1.1	6.1	18.5	27.8
CRB Index	398.2	(0.6)	(1.5)	(3.5)	(3.7)
Rogers Agri Index	694.3	(2.7)	(5.8)	(2.6)	(13.8)
LIBOR (3M)*	2.14	(4)	(17)	(39)	(18)
INR 5Y Swap*	6.29	(4)	(17)	(74)	(119)
India FII data (US\$ mn)					
	14 Aug	WTD	MTD	CYTD	FYTD
FII-Debt	64.8	10.8	174.5	2,828.5	2,283.8
FII-Equity	284.8	206.2	(1,279.7)	8,124.9	1,279.7

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
19-Aug	Japan exports, % YoY	Jul	(2.3%)	(6.6%)	--
	Thailand GDP, % YoY	Q2CY19	2.3%	2.8%	--
	Euro Area current account, SA, EUR bn	Jun	--	29.7	--
	Euro Area CPI, % YoY	Jul F	1.1%	1.3%	--
	Philippines balance of payments, US\$ mn	Jul	--	(404)	--
20-Aug	RBA minutes of August policy meeting	--	--	--	--
	Germany PPI, % YoY	Jul	1.10%	1.20%	--
	Taiwan export orders, % YoY	Jul	(6.00%)	(4.50%)	--
	Hong Kong CPI, % YoY	Jul	3.00%	3.30%	--
21-Aug	UK public sector net borrowing, £ bn	Jul	(3.7)	6.5	--
	US existing home sales, in mn	Jul	5.38	5.27	--
	RBI policy minutes	7-Aug	--	--	--
	US FOMC meeting minutes	31-Jul	--	--	--
	Thailand customs exports, % YoY	Jul	(2.20%)	(2.15%)	--
22-Aug	Jibun Bank Japan manufacturing PMI	Aug P	--	49.4	--
	Jibun Bank Japan services PMI	Aug P	--	51.8	--
	Markit France manufacturing PMI	Aug P	--	49.7	--
	Markit France services PMI	Aug P	--	52.6	--
	Markit/BME Germany manufacturing PMI	Aug P	43.0	43.2	--
	Markit Germany services PMI	Aug P	54.0	54.5	--
	Markit Eurozone manufacturing PMI	Aug P	46.5	46.5	--
	Markit Eurozone services PMI	Aug P	52.8	53.2	--
	US initial jobless claims, in thousand	17-Aug	--	220	--
	Markit US manufacturing PMI	Aug P	50.5	50.4	--
	Markit US services PMI	Aug P	52.8	53.0	--
	Euro Area consumer confidence	Aug A	(6.8)	(6.6)	--
	Bank Indonesia 7D reverse repo	22-Aug	5.75%	5.75%	--
	23-Aug	Japan CPI, % YoY	Jul	0.5%	0.7%
Taiwan industrial production, % YoY		Jul	(1.0%)	(0.4%)	--
US new home sales, in thousands		Jul	645	646	--

Source: Bloomberg, Bank of Baroda Research

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