

## WEEKLY WRAP

23 December 2019

**'Operation twist' to guide Indian bonds**

**Global equities went up as macro data continued to be positive with improvement in industrial output in US and China. Consumer sentiment in US and Germany's IFO also improved. UK's GDP was better than estimates but GBP fell by (-) 2.5% on fears of chaotic Brexit. India's 10Y yield fell by 18bps as a result of RBI's special OMO announcement. Indian equities gained, while INR weakened owing to rising oil prices. RBI's minutes indicates MPC awaits Union Budget and easing of inflation before resuming rate cuts.**

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**Markets**

- **Bonds:** Except UK and India, global yields closed higher over likely resolution of Phase 1 US-China trade deal. US 10Y yield rose by 9bps (1.92%) supported by better than expected industrial production and GDP data. Crude prices rose by 1.4% (US\$ 66/bbl) over alleviating demand concerns. India's 10Y yield fell by 18bps (6.6%) supported by RBI's decision to buy long-end bonds and sell short-end ones. System liquidity surplus was at Rs 2.0tn as on 20 Dec 2019 vs Rs 2.8tn in the previous week.
- **Currency:** Global currencies ended mixed this week. DXY rose by 0.5% on the back of strong US macro data (Q3CY19 GDP, housing starts and industrial production) and easing of US-China trade tensions. After rising to its highest level since Mar'19, GBP fell by (-) 2.5% this week as fears of a chaotic Brexit resurfaced. INR depreciated by (-) 0.4% in the week as oil prices rose by 1.4%. FII inflows were US\$ 486mn.
- **Equity:** Barring Nikkei, other global indices ended higher this week led by renewed optimism after the signing of US-china trade deal (Phase-1) and global policy rate decisions. FTSE surged by 3.1%, followed by Sensex (1.6%) and Shanghai Comp (1.3%). Sensex continued its gains for second week in a row pushed up by tech and metal stocks.
- **Upcoming key events:** In a truncated trading week, markets will closely track US durable goods orders and new home sales data, Japan's retail sales and industrial production and China's industrial profits. On the domestic front, markets will await any fresh measures to kick start growth after review by PM.



## India macro developments

- MPC members voted unanimously to keep policy rate and stance unchanged, though they believe the monetary space to cut rate exists. However, MPC remains prudent on account of sharp acceleration in food prices. Union Budget is also keenly awaited to see how growth evolves. Policy easing will again start once inflation projections turn favourable.
- As per news reports, Centre is expected to sell 28% of its 54.03% stake in BEML Ltd in order to inch closer to its Rs 1.05tn FY20BE disinvestment target. Government has raised Rs 174bn through disinvestments as of Oct'19 vs Rs 101bn collected in the same period last year. Recently, Cabinet has also approved sale of equity shares of 5 other PSUs- BPCL, SCI, CCI, THDC and NEEPC.
- WPI inflation rose by 0.6% in Nov'19 from 0.2% in Oct'19 led by food inflation (9% in Nov'19 vs 7.6% in Oct'19). Fuel and power index declined to (-) 7.3% in Nov'19. Manufactured product inflation on the other hand remained unchanged (0.8%) while core fell further. High WPI and CPI food inflation implies RBI is unlikely to move policy rates before Q1FY21.
- As per news reports, Centre's gross tax collections are up by 4.8% in FYTD20 (till 17 Dec) vs BE of 18.3%. The slowdown is led by corporate tax collections at Rs 2.5tn (+1.6%) in FYTD20 vs BE of Rs 7.6tn (15.4%). In Q3FY20 alone, corporate tax collections dipped by (-) 5.2%. Income tax collections rose by 13.6% (FYTD20) vs BE of 23.3%. With refunds up by 26.6%, net tax collections rose by only 0.7% in FYTD20 vs BE of 25.6%.
- GST Council in its meeting decided to keep a uniform tax rate on lottery at 28% and standardise rates on woven and non-woven bags (18%). Concerns were raised regarding delays in compensation cess paid to states. Recently Centre has released Rs 353bn as compensation to states for Aug-Sep'19 period. Dip in revenues of states has also led them to demand 1% (of GDP) relaxation in their fiscal deficit targets to 4%.
- RBI reported that currency in circulation (CIC) increased by Rs 97.8bn and stood at Rs 22.8tn for the week ending 13 Dec 2019. Reserve money rose by 9.7% on a YoY basis, compared with 17.7% a year ago. On a FYTD basis, reserve money increased by 4.2% as against 8.7% last year.
- India's forex reserves rose to a fresh lifetime high of US\$ 454.5bn in the week ended 13 Dec 2019. On a weekly basis, forex reserves rose by US\$ 1.1bn vs an increase of US\$ 2.3bn last week. In FYTD20, forex reserves have risen by US\$ 42.6bn vs a decline of (-) US\$ 31.2bn last year.

## Global macro developments

- US GDP rose by 2.1% in Q3CY19-unrevised from its earlier estimate and compared to 2% in Q2CY19. The moderate pace of expansion was driven by upturn in exports (1% in Q3 vs -5.7% in Q2) and residential fixed investment (4.6% in Q3 vs -3% in Q2) that offset deceleration in personal consumption expenditure (3.2% in Q3 vs 4.6% in Q2) and federal spending (3.3% in Q3 vs 8.3% in Q2).
- Manufacturing activity globally is expected to have slumped again in Dec'19. Eurozone's flash manufacturing PMI is at 2-month low of 45.9 vs 46.9 in Nov'19 led by Germany (43.4 vs 44.1). In Japan as well, flash PMI is lower at 48.8 vs 48.9 in Nov'19 driven by fall in new orders. Input price pressures are also seen building up. Employment remains muted globally.
- US industrial production rose by 1.1% (2-year high) in Nov'19 from (-) 0.9% on a MoM basis. The improvement was led by manufacturing and utilities output rising by 1.1% and 2.9% in Nov'19. Overall industrial production excl motor vehicles, rose by 0.5% in Nov'19. Even capacity utilization inched up to 77.3% in Nov'19 from 76.6% in Oct'19.
- Japan's exports fell by (-) 7.9% in Nov'19 vs (-) 9.2% in Oct'19. The ease in contraction was led by Asia (-5.7% vs -11.2% in Oct'19), in particular China (-5.4% vs -10.3%). However, exports to the US contracted further (-12.9% vs -11.4%) driven by car and car parts and construction machinery. Owing to weakness in domestic demand, Japan's imports also fell in Nov'19 (-15.7%) vs Oct'19 (-14.8%).
- BoJ has voted to keep its policy rate unchanged (0% and -0.1%) and also continue with its asset purchase program. However, BoJ admits external risks to domestic growth as significant. It will also watch the impact of fiscal policy easing on growth and inflation before it decides to act on monetary policy. Recently the government announced fiscal stimulus in its budget for FY starting Apr'20, thus expecting to boost growth to 1.4% next year.
- US existing home sales dropped to 5-month low in Nov'19 to 5.35mn (est.: 5.45mn) vs 5.44mn in Oct'19. Despite lower borrowing costs (30-year fixed mortgage rate is down by 130bps since peak of Nov'18), the sudden dip in sales was on account of falling inventories. In a separate print, jobless claims decreased by 18,000 to 234,000 for the week ending 14 Dec 2019, indicating buoyant labour market conditions.
- Central Banks of England, Indonesia and Taiwan have kept the policy rate steady at 0.75%, 5% and 1.375% respectively. In addition, BoE reduced its growth forecast for Q4CY19 to 0.1% (0.2% earlier). Taiwan increased its GDP forecast for CY20 to 2.57% from 2.34% earlier, owing to signs of revival in global chip industry and telecom manufacturers.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	1.92	9	13	20	(87)
UK	0.78	(1)	5	15	(54)
Japan	0.01	3	9	22	(3)
Germany	(0.25)	4	9	27	(50)
India	6.60	(18)	12	(19)	(68)
China	3.20	0	2	10	(13)
<b>2Y yields (Δ bps)</b>					
US	1.63	3	3	(5)	(101)
UK	0.55	0	(1)	3	(23)
Japan	(0.10)	3	11	20	4
Germany	(0.63)	(2)	0	9	(3)
India	5.88	10	42	8	(99)
China	2.59	0	(6)	5	(9)
<b>Currencies (Δ %)</b>					
EUR	1.1079	(0.4)	0	0.6	(2.6)
GBP	1.2999	(2.5)	0.6	4.2	2.8
JPY	109.44	(0.1)	(0.8)	(1.7)	1.6
AUD	0.6900	0.3	1.1	2.0	(2.0)
INR	71.12	(0.4)	0.8	(0.2)	(1.3)
CNY	7.0066	(0.4)	0.3	1.2	(1.4)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	28,455	1.1	1.9	5.6	26.8
FTSE	7,582	3.1	3.5	3.2	12.8
DAX	13,319	0.3	0.7	6.8	25.3
NIKKEI	23,817	(0.9)	2.2	7.9	18.1
Shanghai Comp	3,005	1.3	2.4	(0.1)	19.4
SENSEX	41,682	1.6	3.0	9.6	16.6
Brent (US\$/bbl)	66.14	1.4	8.6	2.9	22.9
Gold (US\$/oz)	1,482	0.4	0.6	(2.3)	17.9
CRB Index	398.2	0.5	2.4	3.3	(3.1)
Rogers Agri Index	746.9	1.0	2.9	6.9	(1.9)
LIBOR (3M)*	1.93	3	3	(21)	(89)
INR 5Y Swap*	6.63	4	13	29	(54)
<b>India FII data (US\$ mn)</b>					
	<b>19 Dec</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	(204.6)	(185.9)	(546.6)	3,698.2	3,153.6
FII-Equity	117.7	671.9	594.9	13,967.3	7,122.1

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
<b>23-Dec</b>	Thailand customs exports, % YoY	Nov	(4.0%)	(4.5%)	--
	Japan all industry activity index, % MoM	Oct	(4.3%)	1.5%	--
	Singapore CPI, % YoY	Nov	0.6%	0.4%	--
	Taiwan industrial production, % YoY	Nov	0.5%	(2.9%)	--
	US durable goods orders, % MoM	Nov	1.5%	0.5%	--
	US new home sales, in thousands	Nov	730	733	--
<b>24-Dec</b>	CPB world trade monitor	Oct	--	--	--
	Netherlands GDP, % QoQ	Q3CY19	0.4%	0.4%	--
<b>26-Dec</b>	Singapore industrial production, % YoY	Nov	0.1%	4.0%	--
	Japan housing starts, % YoY	Nov	(8.1%)	(7.4%)	--
	US initial jobless claims, in thousands	21-Dec	220	234	--
<b>27-Dec</b>	Japan jobless rate, %	Nov	2.4%	2.4%	--
	Japan retail sales, % YoY	Nov	(1.4%)	(7.1%)	--
	Japan industrial production, % MoM	Nov	(1.1%)	(4.5%)	--
	China industrial profits, % YoY	Nov	--	(9.9%)	--
	ECB economic bulletin	--	--	--	--
	China current account balance, US\$ bn	Q3CY19	--	54.9	--
India current account balance, US\$ bn	Q2FY20	(7.1)	(14.3)	--	

Source: Bloomberg, Bank of Baroda

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