

WEEKLY WRAP

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Spotlight on Fed and ECB

Global yields went up as manufacturing and services PMIs rose led by China. Not so much in US. US\$ depreciated. However, US non-farm payrolls surprised positively. Global equity markets were lower due to uncertainty over US-China trade deal after President Trump announced fresh tariffs on Brazil and Argentina. In India's case, yields went up as RBI kept policy rates on hold contrary to consensus estimate of 25bps cut as inflation has inched up. Next rate cut expected only in Q1FY20 once inflation eases.

Sameer Narang | Jahnavi

chief.economist@bankofbaroda.com

Markets

- **Bonds:** Global yields closed higher this week. US 10Y rose by 6bps (1.84%) after payroll data showed 266k addition, much higher than consensus. Earlier in the week, US manufacturing and services data was soft despite better than expected PMI data in China. Crude prices too rose by 3.1% (US\$ 64/bbl) over expectation of production cut of another 0.5m bbl/day (existing 1.2mn bbl/day) by OPEC+. India's 10Y yield rose the most at 20bps (6.67%) as RBI surprised and kept policy rate on hold. System liquidity surplus was at Rs 2.9tn as on 6 Dec 2019 vs Rs 2.4tn in the previous week.
- **Currency:** Global currencies ended the week higher against the dollar. DXY fell by (-) 0.6% to more than 1-month low as US macro data: ISM manufacturing and non-manufacturing was weaker than anticipated. GBP rose by 1.7% on expectations of a win for the ruling Conservative party. INR appreciated by 0.7% in the week as RBI unexpectedly kept policy rates on hold. FII inflows were muted at US\$ 22mn.
- **Equity:** Barring Nikkei and Shanghai Comp, global indices ended the week lower led by uncertainties around US-China trade agreement. European indices and Sensex (-0.9%) declined the most. Surprise decline in Germany's industrial production and RBI's unchanged policy stance impacted the markets.
- **Upcoming key events:** Markets await rate decisions of Fed, ECB and Philippines this week. In addition, CPI and retail sales in US, CPI and PPI in China, Industrial production from Japan and UK are due for release. In India, CPI, industrial production and trade data will be released.



India macro developments

- India's manufacturing PMI rose marginally to 51.2 in Nov'19 from a 2-year low of 50.6 in Oct'19 on the back of improved business conditions. However, the overall reading remained subdued as both new orders and sales increased at a modest pace. In addition, employment fell for the first time since Mar'18 adding to the concerns.
- ISMA data showed sugar production has fallen by 54% to 1.89mn tonnes as on Nov'19 (4.07mn tonnes as on Nov'18). Earlier, estimate of sugar production for 2019-20 was revised downward to 2.69mn tonnes (3.3mn tonnes earlier) due to excess rainfall. Further, as per news reports exports will be lower at 3.5mn tonnes (targeted 6mn tonnes), which might contain the demand-supply balance. Currently, FRP is at Rs 275/quintal.
- India's services PMI jumped to 52.7 in Nov'19 from 49.2 in Oct'19. The first expansion in 3 months was driven by consumer, I&C, real estate and business services. In Nov'19, domestic new orders increased marginally; new export order growth remained robust. Input prices too rose sharply, while final prices increased only a tad, thereby pressurizing profit margins.
- In an effort to deepen corporate bond market and promote retail investors access, Cabinet has approved the first corporate bond ETF - Bharat Bond, comprising debt of state run companies. All CPSEs, CPSUs and CPFIs will be the issuer of this bond, which will initially be AAA rated. So far, government has allowed only equity ETFs raising nearly Rs 144bn in FY20.
- RBI kept repo rate on hold as it revised its inflation trajectory to 4.9% in H2FY20 from 3.6% in Oct'19. Inflation is likely to fall within RBI's target range only in Q2FY21. While growth is expected to pick-up from 5% in FY20 to 6.1% in H1FY21, it will still be well below potential. Hence, we believe that the rate cut cycle is likely to resume in Q1FY21.
- RBI reported that currency in circulation (CIC) declined by Rs 105.6bn and stood at Rs 22.5tn for the week ending 29 Nov 2019. Reserve money rose by 12.4% on a YoY basis, compared with 17% a year ago. On a FYTD basis, reserve money increased by 3.7% as against 5.7% last year.
- India's consumer confidence dropped to 85.7 (5-year low) in Nov'19 from 89.4 in Sep'19 signaling growing worries over the slowdown in the economy on the back of subdued demand. Consumers' expectations remained pessimistic about the future too as the index slipped to 114.5 in Nov'19 from 118 in Sep'19. On the hand, RBI maintaining status quo on rates as headline inflation spiked.

Global macro developments

- Reserve Bank of Australia kept its policy rate unchanged at 0.75%. However, the board hinted at further easing to support growth as the outlook still remains on the downside. Inflation is expected to be close to 2% in CY20 & CY21 (target 2-3%); growth might pick up to 3% in CY21.
- Global manufacturing PMIs for Nov'19 confirm that activity improved marginally in the Eurozone (46.9 vs 45.9) and Japan (48.9 vs 48.4), while it deteriorated further in UK (48.9 vs 49.6) and US (ISM: 48.1 vs 48.3). In Eurozone and Japan contraction in new orders eased, however, Japan continues to face aggressive downward pressure in export order growth. US witnessed decline in new orders (incl export orders) and inventories.
- US non-farm payroll numbers rose by 266,000 in Nov '19 (est. 188,000) vs 156,000 in Oct'19. Unemployment rate fell to its 50-year low of 3.5%. Labour force participation rate was at 63.2%. Average hourly earnings rose by 3.1% vs 3% in Oct'19, on YoY basis. Thus, buoyant labour market conditions together with modest recovery in few of the macro prints indicate Fed might not recourse to dovish stance in the next policy.
- Australia's GDP growth decelerated to 0.4% in Q3CY19 on a QoQ basis, from 0.6% in Q2 (est; 0.5%). Despite tax cuts, PFCE rose by 0.1% in Q3CY19, slowest pace since Q1CY09. Government spending was the main driver of growth even as business investment and construction output declined. Thus, RBA may cut rates by 25bps in Feb'20 to support growth.
- Services activity in the Eurozone remained modest with PMI reading at 51.9 in Nov'19 vs 52.2 in Oct'19. This was driven by muted increase in new orders especially undermined by fall in services exports. Elsewhere, non-manufacturing activity in the US was at 53.9, lower than 54.7 in Oct'19, driven by fall in overall business activity. However, employment remained robust both in the Eurozone and US and price pressure was also visible.
- US factory orders rebounded for the first time in over 3-months in Oct'19 by 0.3% vs (-) 0.8% in Sep'19, on MoM basis. Orders for non-defence capital goods excl. aircraft rose by 1.1% vs 1.2% in Sep'19. In a separate print, US jobless claims dropped by 10,000 to 203,000 for the week ending 30 Nov 2019 (lowest in 7-months), owing to seasonality trend.
- Germany's factory orders declined unexpectedly in Oct'19 by (-) 0.4% on a MoM basis vs est.: +0.4% and +1.5% in Sep'19. The decline was led by domestic orders (-3.2%), while export orders increased (1.5%). Industry wise, capital goods orders declined (-1.1%), while orders for intermediate (0.7%) and consumer goods (0.3%) rose. With weak manufacturing momentum, Bundesbank expects economy to stagnate in Q4CY19.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.84	6	(2)	28	(101)
UK	0.77	8	0	27	(49)
Japan	(0.01)	7	12	23	(7)
Germany	(0.29)	7	2	35	(54)
India	6.67	20	15	6	(80)
China	3.21	3	(4)	20	(11)
2Y yields (Δ bps)					
US	1.61	0	(1)	7	(110)
UK	0.59	5	1	20	(14)
Japan	(0.14)	3	10	16	1
Germany	(0.63)	0	1	25	(3)
India	5.73	39	20	2	(139)
China	2.61	(2)	(4)	3	11
Currencies (Δ %)					
EUR	1.1060	0.4	(0.1)	0.3	(2.8)
GBP	1.3140	1.7	2.0	7.0	3.3
JPY	108.58	0.8	0.5	(1.6)	3.6
AUD	0.6841	1.2	(0.8)	(0.1)	(5.1)
INR	71.20	0.7	(0.7)	0.7	(0.5)
CNY	7.0350	0	(0.4)	1.1	(2.3)
Equity & Other indices (Δ %)					
Dow	28,015	(0.1)	1.9	4.5	14.9
FTSE	7,240	(1.5)	(2.0)	(0.6)	6.8
DAX	13,167	(0.5)	0.1	8.0	22.0
NIKKEI	23,354	0.3	0.4	10.2	7.7
Shanghai Comp	2,912	1.4	(2.7)	(2.9)	11.7
SENSEX	40,445	(0.9)	0.5	9.4	13.4
Brent (US\$/bbl)	64.39	3.1	2.3	4.6	4.4
Gold (US\$/oz)	1,460	(0.3)	(1.6)	(3.1)	16.9
CRB Index	390.5	1.1	0	0.9	(6.5)
Rogers Agri Index	728.0	(0.1)	(0.5)	7.9	(7.2)
LIBOR (3M)*	1.89	(2)	(1)	(25)	(89)
INR 5Y Swap*	6.50	15	(5)	40	(83)
India FII data (US\$ mn)					
	5 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	(6.1)	172.3	172.3	4,417.0	3,872.4
FII-Equity	61.1	(127.8)	(127.8)	13,244.6	6,399.4

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
9-Dec	Japan GDP, SA, % QoQ (final)	Q3CY19	0.2%	0.1%	--
	Japan BoP current account balance, ¥bn	Oct	1,810.4	1,612.9	--
	China exports	Nov	0.8%	(0.9%)	(1.1%)
	Germany exports, SA, % MoM	Oct	(0.3%)	1.5%	--
	Bank of France industrial sentiment	Nov	--	98.0	--
	Taiwan exports, % YoY	Nov	1.2%	(1.5%)	--
	China new Yuan loans, CNY bn	Nov	1,200	661.3	--
10-Dec	Philippines exports, % YoY	Oct	(2.7%)	(2.6%)	--
	China CPI, % YoY	Nov	4.3%	3.8%	--
	China PPI, % YoY	Nov	(1.5%)	(1.6%)	--
	Japan machine tool orders, % YoY	Nov	--	(37.4%)	--
	France industrial Production, % MoM	Oct	0.3%	0.3%	--
	Italy industrial production, % MoM	Oct	(0.2%)	(0.4%)	--
	UK industrial production, % MoM	Oct	0.3%	(0.3%)	--
	UK trade balance, £mn	Oct	(2,800)	(3,360)	--
Germany ZEW survey expectations	Dec	3.5	(2.1)	--	
11-Dec	Japan PPI, % YoY	Nov	0.0%	(0.4%)	--
	US MBA mortgage applications	6-Dec	--	(9.2%)	--
	US CPI, % MoM	Nov	0.2%	0.4%	--
12-Dec	US FOMC Rate Decision (Upper Bound)	12-Dec	1.8%	1.8%	--
	Japan core machine orders, % MoM	Oct	0.7%	(2.9%)	--
	Germany CPI, % YoY	Nov	1.1%	1.1%	--
	France CPI, % YoY	Nov	--	1.0%	--
	Central Bank of Philippines policy rate decision	12-Dec	4.0%	4.0%	--
	Euro Area industrial production, SA, % MoM	Oct	(0.2%)	0.1%	--
	India CPI, % YoY	Nov	5.2%	4.6%	--
	India industrial production, % YoY	Oct	(4.7%)	(4.3%)	--
	ECB main refinancing rate	12-Dec	0.0%	0.0%	--
	US PPI final demand, % MoM	Nov	0.2%	0.4%	--
	US initial jobless claims, in thousands	7-Dec	--	203	--
India trade balance, \$mn	Nov	(13,250)	(11,010)	--	
13-Dec	Japan industrial production, % MoM	Oct	--	(4.2%)	--
	Spain CPI, % YoY	Nov	--	0.4%	--
	Italy industrial orders, % MoM	Oct	--	1.0%	--
	US retail sales (Advance), % MoM	Nov	0.4%	0.3%	--
	Germany PPI, % MoM	Nov	--	(0.1%)	--

Source: Bloomberg, Bank of Baroda

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com