

**WEEKLY WRAP**

15 July 2019

**RBI to ease rates**

Whereas China's economy continued to slow down, European industrial production picked and labour conditions strengthened in the US. Fed has indicated a dovish stance in the upcoming policy. Even so US yields went up. Indian 10Y yield fell by 21bps on account of government's adherence to fiscal roadmap and issuance of sovereign bonds in US\$. With CPI inflation continuing below 4%, we expect RBI to reduce rate by 25bps in Aug'19 to spur domestic growth.

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**Markets**

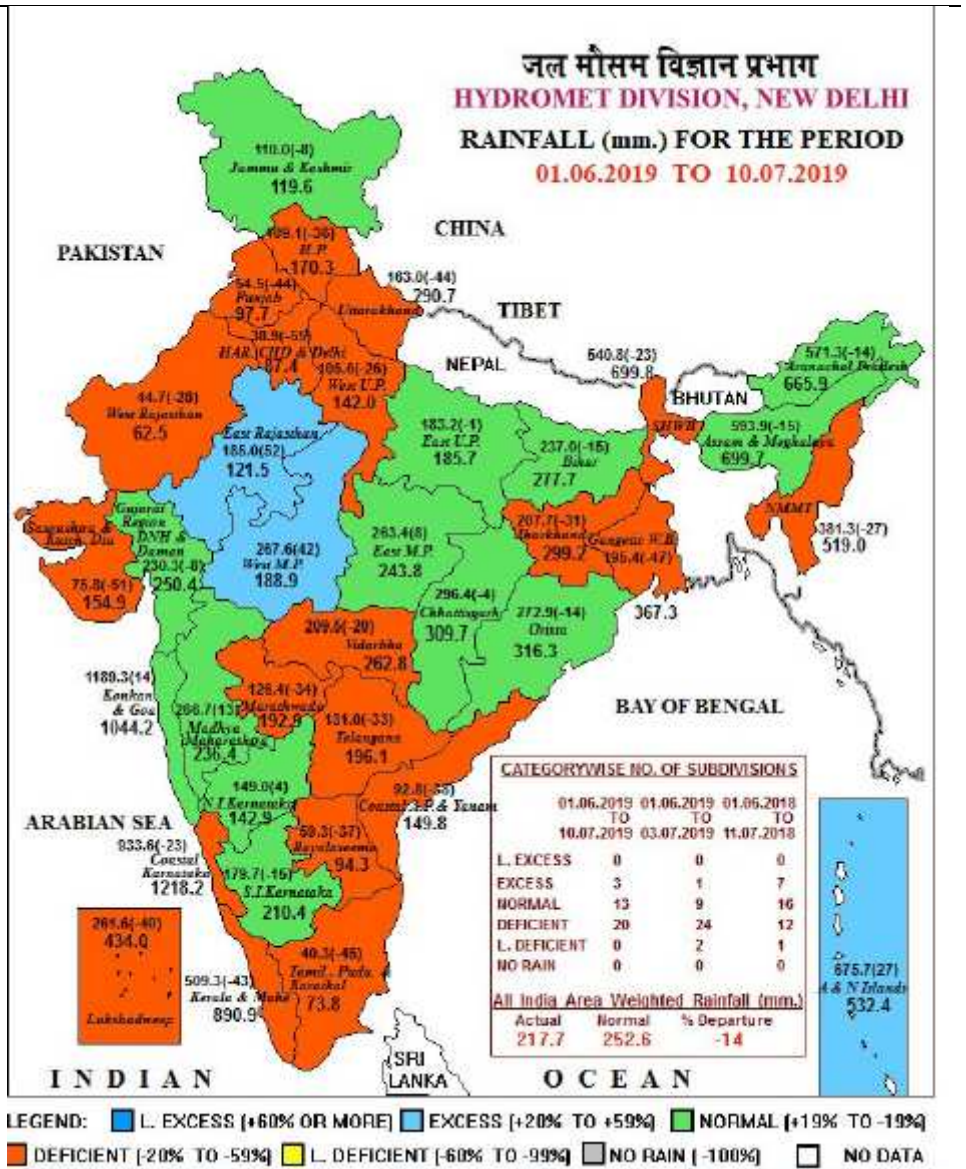
- **Bonds:** Barring India and China, global yields closed higher. US 10Y yield rose by 9bps supported by higher inflation print in Jun'19. However, Fed chair indicated dovish stance. Crude prices rose by 3.9% (US\$ 67/bbl) on account of tropical storms in Gulf of Mexico and declining inventories in the US. India's 10Y yield declined the most by 21bps supported by government's fiscal discipline and plan to raise part of domestic borrowing in the overseas market. System liquidity is in surplus of Rs 1.5tn as on 12 Jul 2019 same as last week.
- **Currency:** Apart from INR, other global currencies closed higher as US\$ weakened. DXY fell by (-) 0.5% on the back of expectations of a rate cut by Fed. While AUD rose by 0.6%, GBP and EUR appreciated by 0.4% each. INR depreciated by (-) 0.4% in the week due to rising crude prices (up 3.9%). FII inflows in the week were US\$ 211mn.
- **Equity:** Except Dow, global indices closed the week in red, led by Asian markets. While Dow was supported by Fed Chair's dovish stance, European and Asian markets were hit by China's export data and IMF's call for ECB to support growth. Sensex fell by (-) 2% in the week, led by consumer durables and capital good stocks.
- **Upcoming key events:** Health of global economy will be known with release of US retail sales and industrial production after China's economy slowed down to a 27-year low. Bank of Indonesia will release its policy decision. Germany's ZEW economic sentiment index is also due. On the domestic front, WPI and trade data are scheduled for release this week.



### Monsoon Tracker

- For the period 1 Jun 2019 to 14 Jul 2019, monsoon is (-) 13% below LPA compared with (-) 8% last year. However rainfall has picked up in recent weeks, with the country receiving 28% above LPA rains in the week ending 10 Jul 2019.
- On the back of improvement in rainfall, sowing area for Kharif has also picked up from last week. Though it is still lower by (-) 8.6% as on 12 Jul 2019 compared with last year. This was led by drop in the sown area of pulses (-25.2%) and rice (-11%), Major decline is also visible in oilseeds (-9.7%) and sugarcane (-4%). However, sown area of cotton has increased by 0.3%.

**FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON**



Source: IMD, Bank of Baroda Research

## India macro developments

- CPI inflation rose to 8-month high of 3.2% in Jun'19 led by food inflation, in particular pulses, meat and fish. Industrial activity, on the other hand, moderated to 3.1% in May'19. With drop in sown area this year, pulses prices and thus food inflation is expected to increase. In FY20, CPI inflation will be within RBI's target of 4%. A slowing global and domestic economy along with fiscal consolidation implies room for further monetary easing with a 25 bps rate cut in Aug'19.
- RBI purchased US\$ 7.4bn in the spot market in May'19 vs US\$ 4.9bn in Apr'19. In the forwards market too, RBI purchased US\$ 224mn compared with net sales of US\$ 4.7bn in Apr'19. In FYTD20, RBI has purchased US\$ 12.3bn in the spot market (vs US\$ 28.6bn last year) while it has sold US\$ 4.5bn in the forwards market (vs net sales of US\$ 9.6bn in FYTD19).
- India's auto sales fell for the 7th consecutive month in Jun'19, by (-) 12.3% vs (-) 8.6% in May'19. All segments reported a decline, most notably commercial vehicle sales (-12.3% vs -10% in May'19) and two-wheeler sales (-11.7% vs -6.7% in May'19), suggesting a slowdown in the services sector activity and rural consumption.
- RBI reported that currency in circulation increased by Rs 81bn (on a weekly basis) and stood at Rs 22tn as on 5 Jul 2019. Overall reserve money grew by 12.3% on a YoY basis compared to 22.6% a year ago. On FYTD basis, reserve money is growing at a slower pace of 0.4% against 2.4% in the previous year.
- As per news reports, the total burden for implementation of PM-KISAN on exchequer is likely to be Rs 870bn vs Rs 750bn earmarked in FY20 budget. The additional cost (Rs 120bn) is because the scheme was expanded to cover all farmers (only small and marginal farmers were covered earlier). It is expected that this will be met through supplementary demand for grants later in the year.
- AMFI data showed that AUMs of MFs declined by 6.5% to Rs 24.3tn in Jun'19 compared with Rs 25.9tn in May'19. This was on account of Rs 1.7tn outflow in the debt segment. Thus, net outflow under MF was Rs 1.6tn in Jun'19 compared with Rs 0.8tn inflow in May'19. Equity inflow was however moderately higher at Rs 77bn in Jun'19 vs Rs 54bn in May'19.
- India's forex reserves rose to a lifetime high of US\$ 429.9bn in the week ending 5 Jul 2019. On a weekly basis, forex reserves rose by US\$ 2.2bn vs an increase of US\$ 1.3bn last week. In CYTD19, forex reserves have increased by US\$ 36.5bn vs a decline of (-) US\$ 3.6bn last year.

## Global macro developments

- China's macro data presents mixed picture of economic growth in Q2CY19. While its GDP growth slowed to 6.2% (27-year low) vs 6.4% in Q1, industrial production (6.3% vs 5% in May'19) and retail sales (9.8% vs 8.6% in May'19) data for Jun'19 surprised positively. FAI growth also improved in Jun'19 (5.8% in H1CY19 vs est.: 5.5%), led by private sector investment (5.7% in H1CY19 vs 5.3% in Jan-May'19). Its export growth however continues to remain a concern as it fell by (-) 1.3% in Jun'19 vs est.: (-) 2%.
- Singapore's GDP growth contracted sharply in Q2CY19 by (-) 3.4% on QoQ annualised basis vs est.: 0.1% and 3.8% in Q1CY19. This was on account of contraction in manufacturing sector (-3.8% vs -0.4% in Q1), led by electronics and precision engineering. Construction activity too slowed (2.2% vs 2.7% in Q1), while services growth remained steady at 1.2%.
- US CPI rose by 0.1% in Jun'19 on MoM basis, same pace as May'19. Core CPI however rose by 0.3%, to its highest since Jan'18 led by sharp gains in prices of apparel, used cars, trucks and household furnishings. On a YoY basis, core CPI rose by 2.1% vs 2% in May'19. Separately, CPI in Germany and France remained stable at 1.6% and 1.2% in Jun'19 respectively.
- Malaysian Central Bank held the policy rate unchanged at 3% in its latest meeting after cutting rate by 25bps in May'19. Growth projections for CY19 were also kept unchanged at 4.3-4.8%, with risks skewed to the downside. As ringgit has been one of the worst performing Asian currencies in CYTD19 (-4.3%), analysts expect Malaysia to cut rates only after Fed now.
- China's PPI (gauge for industrial demand) remained flat (0%) in Jun'19 on a YoY basis vs est.: 0.3% and 0.6% in May'19. With decline in international oil prices, prices for oil and natural gas extraction fell by (-) 1.8%. Seasonal factors impacted construction activity also adding to slowdown in prices. Separately, CPI remained unchanged from May'19 at 2.7% in Jun'19 as well. Elevated prices are mainly on the back of higher food prices (fruits and pork) as seasonal factors and African swine flu have impacted the supply.
- US FOMC in its latest minutes sounded dovish raising the likelihood of a rate cut in the near term. This has been on the back of muted global growth, trade war concerns and US inflation undershooting targeted 2% level. Fed Chair also reiterated these concerns in his testimony before the Congress, signalling lower rates in the near-term.
- Germany's export growth rebounded to 1.1% in May'19 (est.: +0.9%) on a MoM basis, after a decline of (-) 3.4% in Apr'19. Imports declined by (-) 0.5% in May'19 resulting in a higher trade surplus at € 18.7bn vs € 16.9bn. Separate data also showed that industrial production rose by 0.3% (est.: +0.4%) in May'19 following a decline of (-) 2% in Apr'19.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	2.12	9	0	(44)	(72)
UK	0.84	10	(3)	(38)	(45)
Japan	(0.11)	4	(0)	(6)	(15)
Germany	(0.21)	15	3	(27)	(57)
India	6.49	(21)	(53)	(92)	(129)
China	3.16	(2)	(13)	(20)	(37)
<b>2Y yields (Δ bps)</b>					
US	1.85	(1)	(3)	(54)	(74)
UK	0.59	3	(2)	(19)	(15)
Japan	(0.18)	3	1	(2)	(5)
Germany	(0.72)	3	(4)	(16)	(8)
India	6.18	1	(12)	(50)	(140)
China	2.57	0	4	13	(50)
<b>Currencies (Δ %)</b>					
EUR	1.1270	0.4	(0.2)	(0.3)	(3.4)
GBP	1.2572	0.4	(0.9)	(3.8)	(4.8)
JPY	107.91	0.5	0.5	3.7	4.1
AUD	0.7020	0.6	1.3	(2.1)	(5.2)
INR	68.68	(0.4)	1.0	0.7	(0.2)
CNY	6.8808	0.2	0.5	(2.6)	(3.2)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	27,332	1.5	5.1	3.5	9.7
FTSE	7,506	(0.6)	1.9	0.9	(1.9)
DAX	12,323	(2.0)	1.7	2.7	(1.4)
NIKKEI	21,686	(0.3)	2.6	(0.8)	(2.3)
Shanghai Comp	2,931	(2.7)	0.7	(8.1)	3.3
SENSEX	38,736	(2.0)	(2.6)	(0.1)	6.0
Brent (US\$/bbl)	66.72	3.9	11.3	(6.8)	(10.4)
Gold (US\$/oz)	1,416	1.2	6.2	9.7	13.5
CRB Index	405.6	0.4	(1.8)	(4.8)	(7.0)
Rogers Agri Index	751.4	0.7	(0.6)	0.1	(4.6)
LIBOR (3M)*	2.32	1	(11)	(28)	(2)
INR 5Y Swap*	6.58	(4)	(11)	(15)	(115)
<b>India FII data (US\$ mn)</b>					
	<b>4 Jul</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	87.9	479.3	965.4	2,393.7	1,849.1
FII-Equity	(25.9)	(268.5)	(636.8)	10,702.0	3,856.8

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
15-Jul	China new home prices, % MoM	Jun	--	0.7%	0.7%
	China fixed assets ex rural YTD, % YoY	Jun	5.5%	5.6%	5.8%
	China industrial production, % YoY	Jun	5.2%	5.0%	6.3%
	China retail sales, % YoY	Jun	8.5%	8.6%	9.8%
	China GDP, % YoY	2Q	6.2%	6.4%	6.2%
	Indonesia exports, % YoY	Jun	(8.7%)	(9.0%)	--
	India WPI, % YoY	Jun	2.3%	2.5%	--
	India exports, % YoY	Jun	--	3.9%	--
16-Jul	UK jobless claims change	Jun	--	23,200	--
	Euro Area trade balance SA, € bn	May	--	15.3	--
	Germany ZEW survey expectations	Jul	(21.5)	(21.1)	--
	US advance retail sales, % MoM	Jun	0.2%	0.5%	--
	US industrial production, % MoM	Jun	0.1%	0.4%	--
17-Jul	Singapore non-oil domestic exports, % YoY	Jun	(9.1%)	(15.9%)	--
	UK CPI, % YoY	Jun	2.0%	2.0%	--
	Euro Area CPI, % YoY	Jun F	1.2%	1.2%	--
	US housing starts	Jun	1,260,000	1,269,000	--
18-Jul	Japan exports, % YoY	Jun	(5.4%)	(7.8%)	--
	South Korea policy rate, %	18-Jul	1.6%	1.8%	--
	Australia unemployment rate, %	Jun	5.2%	5.2%	--
	UK retail sales inc. auto fuel, % MoM	Jun	(0.3%)	(0.5%)	--
	US initial jobless claims	13-Jul	--	209,000	--
	Hong Kong policy rate, %	Jun	--	0.8%	--
	Indonesia policy rate, %	18-Jul	5.8%	6.0%	--
19-Jul	Japan CPI, % YoY	Jun	0.7%	0.7%	--
	Germany PPI, % YoY	Jun	1.6%	1.9%	--
	Euro Area current account SA, € bn	May	--	20.9	--

Source: Bloomberg, Bank of Baroda Research

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