

WEEKLY WRAP

16 December 2019

US-China trade deal lifts sentiments

Global economy seems to be in a better shape with exports from Germany and Taiwan improving. US and China agreed on a trade deal (phase-1) and Boris Johnson won the UK election thus paving the way for Brexit. Despite this global yields were mixed as US Fed and ECB maintained rates. India's 10Y yield rose by 12bps as CPI inflation rose to a 40-month high and fiscal concerns remain. INR and Indian equities continue to gain strength, in-line with EM markets and expectations of further measures by the government.

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Markets

- **Bonds:** Global yields closed mixed. US 10Y yield fell by 1bps to 1.82% as US Fed maintained a status quo on rates. Oil prices rose by 1.3% to US\$ 65/bbl on improved demand outlook as US and China agreed on phase-1 of their trade deal. India's 10Y yield rose by 12bps to 6.79% on higher oil prices and re-emergence of fiscal concerns. System liquidity surplus was lower at Rs 2.8tn as on 13 Dec 2019 vs Rs 2.9tn in the previous week.
- **Currency:** Safe-haven JPY (-0.7%) and DXY (-0.5%) fell this week as US and China agreed on a phase-1 trade deal. CNY rose by 0.8%. GBP appreciated by 1.5% after UK PM won a comprehensive majority in UK elections. INR ended the week higher by 0.5% driven by gains in local equity markets.
- **Equity:** Global indices ended the week higher led by positive developments such as Fed's rate decision, US-China trade deal, UK's election mandate and improved exports from Germany. Amongst other indices, Nikkei (2.9%) surged the most, followed by Shanghai Comp (1.9%) and FTSE (1.6%). Sensex (1.4%) too ended in green despite weak macro story (falling non-oil-non-gold imports and higher inflation) on the back of global cues.
- **Upcoming key events:** In the current week, markets await flash manufacturing PMIs of France, Germany, Euro, US, UK and Q3CY19 GDP prints of US, UK and New Zealand. Rate decisions of BoJ, BoE, Taiwan and Hong Kong are also expected. On the domestic front, WPI and MPC minutes will be released.



India macro developments

- As per news reports, government may increase the FDI limit for insurance companies to 74% in the Budget from 49% presently. This is expected to boost FDI inflows. Earlier in Sep'19, government had eased FDI limits in several sectors to such as insurance intermediaries, contract manufacturing and mining (sale of coal & coal mining activities) to 100%. FDI inflows in insurance sector were US\$ 992mn in Q1FY20 vs US\$ 254mn in Q1FY19.
- ADB has sharply cut India's growth forecast for FY20 to 5.1% from 6.5% earlier due to stress in the NBFC sector and muted consumption growth. Growth is expected to recover to 6.5% in FY21 (7.2% in Sep'19) supported by both monetary and fiscal support. Growth forecast for China has also been cut to 6.1% (6.2%) and 5.8% (6%) respectively in CY19 and CY20.
- India's auto sales deteriorated further with passenger car sales plunging to (-) 10.8% in Nov'19 after recovering by (-) 6.3% in Oct'19 on the back of festive demand (-33.4% in Sep'19). Two wheeler sales fell by (-14.3%) at the same pace as last month. CV sales declined, albeit at a slower pace of (-) 15% in Nov'19 vs (-) 23.3% in Oct'19. Amidst growing signs of weakness in domestic economy, recovery in auto sector remains difficult.
- Union Cabinet has approved NHAI's proposal to set up an Infrastructure Investment Trust (InvIT) and monetise its completed highway projects. The completed projects will be bundled together to form a SPV. This SPV will then be offered to investors and will also be traded on stock exchange. Returns will be linked to fund's performance in the capital market. FY20's budget had authorised NHAI to raise Rs 750bn from market.
- RBI bought net US\$ 7.1bn in the spot market in Oct'19 vs US\$ 5.6bn in Sep'19. In FYTD20, RBI has purchased US\$ 18.5bn in the spot market vs net sales of US\$ 25.9bn last year. RBI's net forward position remained unchanged at (-) US\$ 7.5bn in Oct'19 (- US\$ 2.9bn in Oct'18).
- India's trade deficit in Nov'19 rose to US\$ 12.1bn vs US\$ 11bn in Oct'19 led by higher gold (6.6% in Nov'19 vs 4.7% in Oct'19) and oil (-18.2% vs -31.7%) imports. Non-oil-non-gold imports contracted at the sharpest pace in 43-months (-12%) due to weak domestic demand. Contraction in India's export growth eased to (-) 0.3% in Nov'19 from (-) 1% in Oct'19 led by increase in pharma products, engineering goods and chemicals.
- RBI reported that currency in circulation (CIC) declined by Rs 182.8bn and stood at Rs 22.7tn for the week ending 6 Dec 2019. Reserve money rose by 13.3% on a YoY basis, compared with 17.3% a year ago. On a FYTD basis, reserve money increased by 4.2% as against 5.3% last year.

Global macro developments

- China's PPI fell by (-) 1.4% in Nov'19 vs (-) 1.6% in Oct'19. The fifth consecutive decline was due to softening prices in mining (oil & gas extraction) and manufacturing (intermediate goods: -2.5%; raw materials: -5%). Separately, CPI rose by 4.5% in Nov'19 (highest since Jan'12) from 3.8% in Oct'19. Continued surge in pork prices (110.2%) kept food inflation elevated (19.1%). Non-food prices rose by only 1% in Nov'19.
- Amidst signs of global slowdown, Germany's exports surprised positively to rise by 1.2% in Oct'19 (est. -0.7%), from 1.5% in Sep'19 on a MoM basis. This was largely driven by strong demand from non-European countries. Imports on the other hand, remained unchanged for the same period. This gives hopes of a better GDP print for Q4CY19.
- Germany's ZEW economic sentiment index rose sharply to 10.1 points in Dec'19 from (-) 2.1 points in Nov'19. This was driven by better than expected trade and labour market data for Germany (Oct'19) and Q3CY19 GDP print of major Eurozone countries. In addition, hopes of positive outcome of US-China trade deal and Brexit talks also helped. The current sentiment also improved (-19.9 points vs -24.7 points).
- US Fed in its latest policy kept fund rate unchanged at 1.5-1.75%. The dot plot indicated mostly status quo in rate in CY20. Median expectation of fund rate has been at 1.6% both in CY19 and CY20. Inflation forecast has been revised to 1.6% vs 1.8% earlier. In a separate print, US CPI rose by 0.3% in Nov'19 (est. 0.2%) vs 0.4% in Oct'19, led by higher gasoline prices. On a YoY basis, CPI rose by 2.1% vs 1.8% in Oct'19. Core CPI was stable at 2.3% in Nov'19.
- China's industrial output rose by 6.2% in Nov'19 vs 4.7% in Oct'19. The 5 month high was driven by electricity, thermal power (6.7%) and high tech manufacturing (8.9%). Overall manufacturing production rose by 6.3% (4.6% in Oct'19). Retail sales growth also surprised positively as it rose by 8% from 7.2% in Oct'19. FAI growth on the other hand remained flat at 5.2% in Jan-Nov'19 unchanged from Jan-Oct'19. Private sector investment rose only marginally to 4.5% from 4.4% in the same period.
- Preliminary data for US retail sales shows that growth eased to 0.2% in Nov'19 on a MoM basis vs est.: 0.5% and 0.4% in Oct'19. Core sales (ex-automobiles, gasoline, building material and food services) also slowed to 0.1% from 0.3% in Nov'19. This was on account of health & personal care (-1.1% vs 0.5% in Oct'19) clothing & accessories (-0.6% vs -0.3%) and miscellaneous items (-0.4% vs 0.9%).

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.82	(1)	0	(7)	(107)
UK	0.79	2	8	3	(45)
Japan	(0.02)	(1)	5	14	(5)
Germany	(0.29)	0	6	16	(54)
India	6.79	12	27	15	(66)
China	3.20	0	(5)	11	(18)
2Y yields (Δ bps)					
US	1.60	(1)	(6)	(20)	(113)
UK	0.55	(5)	(2)	(3)	(18)
Japan	(0.13)	1	3	11	3
Germany	(0.62)	1	1	9	(1)
India	5.78	6	25	7	(120)
China	2.60	(1)	(8)	2	10
Currencies (Δ %)					
EUR	1.1121	0.6	1.0	0.4	(1.6)
GBP	1.3331	1.5	3.8	6.6	5.9
JPY	109.38	(0.7)	(0.3)	(1.2)	3.5
AUD	0.6876	0.5	0.5	(0.0)	(4.1)
INR	70.81	0.5	1.8	0.2	1.5
CNY	6.9763	0.8	0.5	1.5	(1.0)
Equity & Other indices (Δ %)					
Dow	28,135	0.4	1.6	3.4	16.7
FTSE	7,353	1.6	(0.2)	(0.2)	7.4
DAX	13,283	0.9	0	6.5	22.2
NIKKEI	24,023	2.9	2.1	9.3	12.4
Shanghai Comp	2,968	1.9	1.8	(2.1)	14.4
SENSEX	41,010	1.4	2.2	9.7	14.0
Brent (US\$/bbl)	65.22	1.3	5.1	8.3	8.2
Gold (US\$/oz)	1,476	1.1	1.4	(0.8)	19.2
CRB Index	396.2	1.5	1.1	3.0	(4.5)
Rogers Agri Index	739.2	1.5	1.1	5.6	(4.9)
LIBOR (3M)*	1.90	1	(1)	(24)	(90)
INR 5Y Swap*	6.59	9	13	29	(61)
India FII data (US\$ mn)					
	12 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	86.1	(385.4)	(146.9)	4,097.9	3,553.3
FII-Equity	(86.9)	44.7	(93.5)	13,278.9	6,433.7

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
16-Dec	Jibun Bank Japan manufacturing PMI (flash)	Dec	--	48.9	48.8
	Jibun Bank Japan PMI Services (flash)	Dec	--	50.3	50.6
	China new home prices, % MoM	Nov	--	0.5%	0.3%
	China fixed assets ex rural YTD, % YoY	Nov	5.2%	5.2%	5.2%
	China industrial production, % YoY	Nov	5.0%	4.7%	6.2%
	China retail sales, % YoY	Nov	7.6%	7.2%	8.0%
	India WPI, % YoY	Nov	0.82%	0.16%	--
	Markit/BME Germany manufacturing PMI (flash)	Dec	45.0	44.1	--
	Markit Germany services PMI (flash)	Dec	52.0	51.7	--
	Markit Eurozone manufacturing PMI (flash)	Dec	47.4	46.9	--
	Markit Eurozone services PMI (flash)	Dec	52.0	51.9	--
	Markit US manufacturing PMI (flash)	Dec	52.6	52.6	--
	Markit US services PMI (flash)	Dec	52.0	51.6	--
	17-Dec	RBA minutes of policy meeting	Dec		
UK jobless claims change		Nov	--	33,000	--
Euro Area trade balance SA, € bn		Oct	--	18.3	--
US housing starts		Nov	1,340,000	1,314,000	--
US industrial production, % MoM		Nov	0.8%	(0.8%)	--
18-Dec	Japan exports, % YoY	Nov	(8.8%)	(9.2%)	--
	Germany PPI, % YoY	Nov	(0.6%)	(0.6%)	--
	Germany IFO business climate	Dec	95.5	95.0	--
	UK CPI, % YoY	Nov	1.5%	1.5%	--
	Euro Area CPI, % YoY (flash)	Nov	1.0%	0.7%	--
	India RBI meeting minutes	Dec			
19-Dec	New Zealand GDP SA, % QoQ	Q3CY19	0.5%	0.5%	--
	Taiwan policy rate, %	19-Dec	1.38%	1.38%	--
	Bank of England policy rate, %	19-Dec	0.75%	0.75%	--
	US initial jobless claims	14-Dec	--	252,000	--
	US existing home sales, in mn	Nov	5.45	5.46	--
	Hong Kong policy rate, %	Nov	--	1.04%	--
	Bank of Indonesia policy rate, %	19-Dec	5.0%	5.0%	--
	BOJ policy rate, %	19-Dec	--	(0.1%)	--
20-Dec	Japan CPI, % YoY	Nov	0.5%	0.2%	--
	Germany GfK consumer confidence	Jan	9.80	9.70	--
	France PPI, % YoY	Nov	--	(1.4%)	--
	UK GDP, % QoQ	Q3CY19	0.3%	0.3%	--
	US GDP annualized, % QoQ	Q3CY19	2.1%	2.1%	--
	Euro Area consumer confidence (advance)	Dec	(7.2)	(7.2)	--
	US Univ. of Michigan consumer sentiment (flash)	Dec	99.2	99.2	--

Source: Bloomberg, Bank of Baroda

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