

## WEEKLY WRAP

17 February 2020

**Fed, RBI minutes expected to be dovish**

While US macro data was mixed, Euro Area's Q4 GDP growth was at a 7-year low as German economy stagnated and France and Italy's contracted. Euro fell. However, as fears over COVID-19 receded global equities went up. Sensex rose and INR appreciated as inflows (US\$ 0.9bn) continue. Yields fell despite higher than estimated CPI and 5% jump in oil prices, as RBI is expected to ease later in the year. More clarity will come as RBI minutes are released in the week.

Sameer Narang | Sonal Badhan

chief.economist@bankofbaroda.com

**Markets**

- **Bonds:** US 10Y yield closed flat (1.58%) as industrial production and CPI inflation was below estimates but jobs and retail sales were in-line or better. UK yields went up on hope of fiscal stimulus. Oil prices rose by 5.2% to US\$ 57/bbl as fear of COVID-19 slightly receded. India's 10Y yield fell by 7bps (6.37%), supported by RBI's liquidity infusion measures. System liquidity surplus was at Rs 2.9tn as on 14 Feb 2020 vs Rs 3.2tn in the previous week.
- **Currency:** Barring GBP and JPY, other global currencies closed higher this week as concerns over the COVID-19 outbreak eased. DXY rose by 0.4% in the week. GBP rose by 1.2% on expectations of a fiscal stimulus in the upcoming Budget. EUR depreciated by (-) 1.1% as Euro Area industrial production fell more than estimated. INR strengthened by 0.1% on the back of FII inflows (US\$ 895mn).
- **Equity:** Barring Nikkei and FTSE, global indices ended higher this week as investors continue to track corporate earnings. Amongst other indices, Dax (1.7%) rose the most despite weaker macro print (Germany's Q4 GDP). This was followed by Shanghai Comp (1.4%) and Dow (1%). Sensex too ended in green led by gains in tech stocks.
- **Upcoming key events:** In the current week, markets will await flash PMI print of US, Eurozone and Japan. Apart from this, US housing data and FOMC minutes will give some direction to future course of federal funds rate. Germany ZEW index is also due for release. On the domestic front, RBI's minutes will be closely watched on outlook about policy rate.



## India macro developments

- The slowdown in India's auto sales continued in Jan'20 with passenger car sales declining by (-) 8.1% vs (-) 8.4% in Dec'19. Two wheeler sales too continued to disappoint as it fell by (-) 16.1% in Jan'20 vs (-) 16.6% in Dec'19. Even CV sales slumped further to (-) 14% in Jan'20 from (-) 12.3% in Dec'19, signalling ongoing stress in the automobile sector.
- RBI bought net US\$ 4.4bn in the spot market in Dec'19 vs US\$ 6.9bn in Nov'19. In FYTD20, RBI has purchased US\$ 29.7bn in the spot market vs net sales of US\$ 25.9bn last year. In the forwards market, RBI purchased US\$ 4.3bn vs US\$ 1.3bn in Nov'19. In FYTD20, RBI has purchased US\$ 11.9bn in the forwards market. RBI's net outstanding forward position is at (-) US\$ 1.9bn vs (-) 2.4bn in Dec'18.
- India's CPI jumped to 7.6% in Jan'20 from 7.4% in Dec'19 led by increase in pulses, protein and cereal inflation. Core also rose by more than 40bps to 4.2% in Jan'20 and the increase was broad-based, with telecom & communication rising the most. Additionally, IIP surprised negatively at (-) 0.3% in Dec'19 vs 1.8% in Nov'19. Capital goods (-18.2% vs -8.2%) contracted the most followed by consumer durables (-6.7% vs -1.6%).
- RBI reported that currency in circulation (CIC) increased by Rs 265.5bn and stood at Rs 23.3tn for the week ending 7 Feb 2020. Reserve money rose by 11.4% on a YoY basis, compared with 16.7% a year ago. On a FYTD basis, reserve money increased by only 6.3% as against 9.2% last year.
- According to Ministry of Agriculture, India has clocked a record foodgrain production (final estimates) at 285.17mn tonnes in 2018-19 vs 285.01mn tonne in 2017-18. This is largely led by jump in production of both rice (+3%) and wheat (+4%). Sugarcane output is also higher by 7% in 2018-19. However, production of pulses has dropped by (-) 13% for the same period.
- RBI reported that credit growth for the fortnight ending 31 Jan 2020 eased to 7.1% from 7.2% as on 17 Jan 2020 and 14.5% in the same period last year. Deposit growth on the other hand inched up to 9.9% as of 31 Jan 2020 from 9.6% as on 17 Jan 2020 and 9.7% in the same period last year. While demand deposits increased (15.6% vs 9.6%), time deposits eased.
- India's export growth in Jan'20 fell to 4-month low of (-) 1.7% versus (-) 1.6% in Dec'19, led by sharp fall in exports of gems & jewellery, agriculture items and engineering goods. However, imports contracted at a slower pace in Jan'20 at (-) 0.8% vs (-) 8.8% in Dec'19 as oil imports rose (15.3%). Thus trade deficit rose to US\$ 15.2bn from US\$ 11.3bn in Dec'19.

## Global macro developments

- China's PPI rose by 0.1% in Jan'20 on a YoY basis from (-) 0.5% in Dec'19. The rise was mainly led by oil & natural gas extraction (17.5% vs 5.8%) and non-ferrous metal mining (2.4% vs 1.7%). On the other hand, CPI remains elevated at 5.4% in Jan'20 vs 4.5% in Dec'19 on the back of higher food inflation. Apart from coronavirus hitting supply chains (city lockdowns), prices were also impacted by Lunar New Year holiday.
- Japan's current account surplus rose for the first time in two years in CY19 to ¥ 20.1tn vs ¥ 19.2tn in CY18. This was led by services trade which recorded a surplus for the first time in history at ¥ 175.8bn led by travel services. On the other hand, goods surplus shrank to ¥ 553.6bn vs ¥ 1.2tn in CY18 as exports declined by (-) 6.3% amidst slowing global demand.
- UK GDP growth stagnated in Q4CY19 (0%) vs 0.5% in Q3CY19. This was led by sustained contraction in production output (-0.1% vs -0.02%) and slowdown in construction sector (+0.07% vs +0.03%). CY19 growth slowed to 1.4% vs 1.6% in CY18, led by Brexit related risks. Separately, UK's industrial production rebounded to 0.1% in Dec'19 vs (-) 1.1% in Nov'19.
- US retail sales rose by 0.3% in Jan'20 from 0.2% in Dec'19 on MoM basis, led by sales of furniture (0.6% vs -1.6%) and autos (0.2% vs -1.7%). Separately, US industrial production continued to decline by (-) 0.3% in Jan'20 from (-) 0.4% in Dec'19 on the back of unseasonably warm weather which lowered output of utilities. Manufacturing output too slipped into contraction to (-) 0.1% in Jan'20.
- Industrial production in Euro Area fell to 4-year low in Dec'19 to (-) 2.1% (est. -1.7%) from 0% in Nov'19 on a MoM basis. This was led by capital (-4% vs 0.9%) and intermediate goods (-1.7% vs -0.8%). Production declined significantly in all major economies in Dec'19 suggesting that GDP growth in Q4CY19 might be weaker than previously estimated.
- US inflation moderated to 0.1% in Jan'20 vs 0.2% in Dec'19 on a MoM basis led by a dip in gasoline prices (-1.6% vs 3.1%). Core CPI (excl. food and energy) however edged up to 0.2% vs 0.1% as prices of apparel and accommodation rose. Separately, US jobless claims for the week ending 8 Feb 2020 rose less than expected by 2,000 to 205,000 (est. 210,000) suggesting tightening labour market conditions.
- Germany's GDP growth remained flat (0%) in Q4CY19 vs 0.2% increase in Q3 on a QoQ basis. This brings the CY19 growth down to 0.6% from 1.5% in CY18. Weak Q4 reading was led by sharp decline in household and government consumption, equipment investment and exports. Separately, Euro Area Q4 GDP remained unchanged from Q3 at 0.1%, owing to stagnation (Germany) or contraction (France, Italy) in bigger economies.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	1.58	0	(23)	(25)	(108)
UK	0.63	6	(9)	(10)	(53)
Japan	(0.03)	1	(4)	4	(1)
Germany	(0.40)	(2)	(23)	(7)	(50)
India	6.37	(7)	(30)	(15)	(99)
China	2.87	6	(24)	(38)	(22)
<b>2Y yields (Δ bps)</b>					
US	1.43	3	(14)	(18)	(109)
UK	0.54	5	5	(1)	(19)
Japan	(0.13)	1	(1)	6	4
Germany	(0.66)	(1)	(7)	(2)	(10)
India	5.72	(5)	(49)	25	(103)
China	2.23	(5)	(42)	(36)	(19)
<b>Currencies (Δ %)</b>					
EUR	1.0831	(1.1)	(2.7)	(2.0)	(4.1)
GBP	1.3047	1.2	0.2	1.2	1.2
JPY	109.78	0	0.2	(0.9)	0.6
AUD	0.6714	0.6	(2.7)	(1.5)	(6.0)
INR	71.37	0.1	(0.7)	0.6	(0.2)
CNY	6.9872	0.2	(1.5)	0.3	(3.2)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	29,398	1.0	1.6	5.0	13.6
FTSE	7,409	(0.8)	(2.8)	1.5	2.4
DAX	13,744	1.7	2.1	3.8	21.6
NIKKEI	23,688	(0.6)	(1.4)	1.6	13.3
Shanghai Comp	2,917	1.4	(6.1)	0.9	8.7
SENSEX	41,258	0.3	(1.7)	2.2	15.2
Brent (US\$/bbl)	57.32	5.2	(11.1)	(9.4)	(13.5)
Gold (US\$/oz)	1,584	0.9	2.4	7.9	19.8
CRB Index	401.1	(0.2)	(2.3)	2.7	(3.0)
Rogers Agri Index	736.7	(0.3)	(3.8)	1.3	(3.5)
LIBOR (3M)*	1.69	(4)	(15)	(21)	(99)
INR 5Y Swap*	6.38	(7)	(47)	(8)	(67)
<b>India FII data (US\$ mn)</b>					
	<b>13 Feb</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	453.7	663.3	1,789.9	221.0	3,165.1
FII-Equity	92.8	232.1	2,076.3	3,448.9	10,838.1

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
17-Feb	Japan GDP SA, % QoQ	Q4CY19	(1.0%)	0.4%	--
	Singapore GDP, % YoY	Q4CY19	0.8%	0.8%	--
	China new home prices, % MoM	Jan	--	0.4%	--
	Thailand GDP, % YoY	Q4CY19	2.0%	2.4%	--
	Japan industrial production, % MoM	Dec	--	1.3%	--
18-Feb	Reserve Bank of Australia meeting minutes	--	--	--	--
	UK jobless claims change	Jan	--	14,900	--
	UK ILO unemployment rate 3mths, %	Dec	3.8%	3.8%	--
	Germany ZEW survey expectations	Feb	22.0	26.7	--
19-Feb	Japan exports, % YoY	Jan	(7.0%)	(6.3%)	--
	Japan core machine orders, % MoM	Dec	(8.9%)	18.0%	--
	UK CPI, % YoY	Jan	1.6%	1.3%	--
	US housing starts, in mn	Jan	1.4	1.6	--
	US PPI final demand, % MoM	Jan	0.1%	0.1%	--
20-Feb	US FOMC meeting minutes	29-Jan	--	--	--
	South Korea PPI, % YoY	Jan	--	0.7%	--
	Australia unemployment rate, %	Jan	5.2%	5.1%	--
	Germany PPI, % MoM	Jan	0.1%	0.1%	--
	France CPI, % YoY	Jan	1.5%	1.5%	--
	Taiwan export orders, % YoY	Jan	(7.3%)	0.9%	--
	Hong Kong CPI composite, % YoY	Jan	3.1%	2.9%	--
	Reserve Bank of India meeting minutes	06-Feb	--	--	--
	US initial jobless claims, in thousands	15-Feb	210.0	205.0	--
	Euro Area consumer confidence	Feb	(8.2)	(8.1)	--
21-Feb	Japan CPI, % YoY	Jan	0.7%	0.8%	--
	Jibun Bank Japan manufacturing PMI (flash)	Feb	--	48.8	--
	Jibun Bank Japan services PMI (flash)	Feb	--	51.0	--
	Markit France manufacturing PMI (flash)	Feb	50.8	51.1	--
	Markit France services PMII (flash)	Feb	51.3	51.0	--
	Markit/BME Germany manufacturing PMII (flash)	Feb	44.8	45.3	--
	Markit Germany services PMII (flash)	Feb	53.9	54.2	--
	Markit Eurozone manufacturing PMII (flash)	Feb	47.4	47.9	--
	Markit Eurozone services PMII (flash)	Feb	52.3	52.5	--
	Italy industrial orders, % MoM	Dec	--	(0.3%)	--
	Markit UK PMI manufacturing SAI (flash)	Feb	49.7	50.0	--
	Markit/CIPS UK services PMII (flash)	Feb	53.4	53.9	--
	Euro Area CPI, % YoY	Jan	1.4%	1.4%	--
	Markit US manufacturing PMII (flash)	Feb	51.5	51.9	--
	Markit US services PMII (flash)	Feb	53.5	53.4	--
	US existing home sales, in mn	Jan	5.45	5.54	--

Source: Bloomberg, Bank of Baroda

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### **Economics Research Department**

Bank of Baroda

[chief.economist@bankofbaroda.com](mailto:chief.economist@bankofbaroda.com)