

## WEEKLY WRAP

24 February 2020

## Global monetary loosening on the cards

Economic data of Japan, China, Eurozone, Singapore, Taiwan and Thailand shows flagging demand due to impact of COVID-19 or tax hike in Japan. While US housing data was above estimates, yields fell as markets assimilated contagion impact from virus hitting global demand. Gold rose as markets believe further loosening by global central banks. On the domestic front, RBI minutes hinted at further scope for monetary accommodation to close the output gap in the near term as and when inflation ebbs.

Sameer Narang | Dipanwita Mazumdar  
 chief.economist@bankofbaroda.com

## Markets

- Bonds:** Except India, global yields closed lower as concerns remained over spread of COVID-19, which led higher demand for sovereign bonds. Other safe haven assets such as gold (3.7%) also inched up. US 10Y yield fell by 11bps (1.47%). Oil prices rose by 2.1% (US\$ 59/bbl) over supply disruption in Libya and anticipation of output cut by OPEC+. Thus, India's 10Y yield rose by 5bps (6.42%). System liquidity surplus was at Rs 2.3tn as on 20 Feb 2020 vs Rs 2.9tn in the previous week.
- Currency:** Barring EUR, other global currencies closed lower in the week as concerns over the spread of COVID-19 increased with Korea, Japan and Italy reporting spike in cases. DXY rose by 0.1% in the week. In the truncated week, INR fell by (-) 0.4% as oil prices rose by 2.1% and FII outflows were to the tune of US\$ 266mn.
- Equity:** Barring Shanghai Comp, global indices ended lower as concerns remained elevated over spread of COVID-19. Dow fell the most (-1.4%) followed by DAX on account of concerns over economic impact of virus. Shanghai Comp rose by 4.2% as China restarted production after weeks of shutdown due to COVID-19. Sensex fell by (-) 0.2% dragged down by real estate and auto stocks.
- Upcoming key events:** In the current week, markets will closely watch major US macro prints such as Q4CY19 GDP, durable goods orders, consumer confidence and new home sales data. Apart from this, Japan's retail sales and China's manufacturing print will also be released. On the domestic front, markets will closely track Q3FY20 GDP print.



## India macro developments

- According to 2nd advance estimates, India is expected to clock a record foodgrain production which is 2.4% (291.95mn tonne in AY20) higher than last year. This is led by jump in production of both rice and pulses registering above its 5-year average production. Notably, production of both cotton and jute & mesta rebounded by 24.4% and 39.3% respectively. Overall, spike in production is also attributable to south-west monsoon which was 10% higher than LPA.
- Government has suggested changes to incentivise Vivaad se Vishwas scheme to resolve pending tax disputes worth Rs 9.32tn. For appeals made by taxpayers, entire disputed amount have to be paid till 31 Mar 2020, however the penalty and interest will be waived off. If the amount is paid post 31 Mar 2020, an additional 10% of the disputed amount will be levied. If the appeal is made by tax department, 50% of the disputed amount will be paid by the tax payer before the due date and 55% post the due date.
- MPC members noted that economic activity has slowed down since the last policy. While reduction in rates is the most optimal response to dip in growth, the elevated inflation levels imply RBI has to wait for inflation to fall below its target and accordingly reduce policy rate to close output gap. Given the uptick in non-vegetable food inflation, this window is likely to open up only in Q3FY21. In the interim, RBI is likely to take measures to improve transmission such as LTRO, CRR exemption, external linking of rates etc.
- RBI reported that currency in circulation (CIC) increased by Rs 92bn and stood at Rs 23.5tn for the week ending 14 Feb 2020. Reserve money rose by 12% on a YoY basis, compared with 16.6% a year ago. On a FYTD basis, reserve money increased by 7.5% as against 9.9% last year.
- According to DGCA data, air passenger traffic growth eased to 2.2% in Jan'20 from 2.6% in Dec'19 and 9.1% in Jan'19. Apart from weak domestic economy, end of tourist season is also a key reason behind the recent slowdown. In CY19, air passenger traffic growth had eased to 2.3% from 16.1% in CY18.
- India's forex reserves rose to a fresh historic high of US\$ 476.1bn in the week ended 14 Feb 2020. On a weekly basis, forex reserves rose by US\$ 3.1bn vs US\$ 1.7bn last week. In FYTD20, forex reserves have risen by US\$ 64.2bn vs a depletion of US\$ 26.1bn in the same period last year.

## Global macro developments

- US Fed minutes pointed out that current monetary policy stance is appropriate. Further, FOMC signalled to hold rate steady, as growth is likely to continue at a moderate pace. Minutes also discussed use of three inflation range; that would indicate whether Fed would be willing to tolerate a rise above or fall below the target (2%) for a period of time.
- Japan's exports contracted for the 14th straight month by (-) 2.6% in Jan'20 vs (-) 6.3% in Dec'19. Region wise, exports to US (-7.7%) and Asia (-3.2%) fell the most. Imports too declined for the 9th consecutive month by (-) 3.6% vs (-) 4.9%. Separate data showed that core machinery orders fell by (-) 12.5% in Dec'19 on a MoM basis vs 18% in Nov'19.
- China's new home prices rose by 0.2% in Jan'20 vs 0.3% in Dec'19 on MoM basis. The dip was largely owing to COVID-19 outbreak and was most visible in tier 2 and 3 cities. Prices in tier 1 cities rose steadily (0.4% vs 0.2% in Dec'19). On YoY basis, overall prices too eased (6.3% vs 6.6% in Dec'19). It is expected that impact will be pronounced in Feb'20 as new home sales have plummeted more than (-) 90% in the 1st week alone.
- Japan's GDP contracted by (-) 1.6% in Q4CY19 vs 0.1% in Q3CY19. On an annualised basis, the plunge was even deeper at (-) 6.3%, owing to the impact of sales tax hike and Typhoon Hagibis. Thailand's GDP also eased to 1.6% in Q4CY19 vs 2.6% in Q3. In CY19 growth eased to 5-year low of 2.4%. Singapore's GDP forecast has also been downgraded to (-) 0.5-1.5% in CY20 (earlier 0.5-2.5%) due to impact of COVID-19 outbreak.
- Germany's ZEW economic expectations fell sharply in Feb'19 to 8.7 points from 26.7 points in Jan'19. The current situation index also fell significantly, to (-) 15.7 points in Feb'19 from (-) 9.5 points in Jan'19. The report further highlighted downside risks on world trade due to coronavirus epidemic in China.
- US flash manufacturing PMI has hit its 6-month low of 50.8 in Feb'20 vs 51.9 in Jan'20, on account of falling new orders. Eurozone flash manufacturing was also below its 50-mark at 48.4 vs 48 in Jan'20. Japan's flash manufacturing print also continued to be dismal at 47.6 vs 48.8 in Jan'20, largely on account of sales tax hike and typhoon. Across region, employment rose at a weaker pace and input prices also softened.
- Existing home sales in the US fell on a MoM basis, by (-) 1.3% in Jan'20 (est.: -1.8%) from +3.6% in Dec'19. The decline was seen the most in the west (-9.4%), while sales in Northeast remained flat. Higher median prices (+6.8% YoY) and diminishing inventory are also key drivers of the trend. However as construction permits jump (+9.2% in Jan'20), prices and inventories are expected to stabilize overtime.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

| Particulars                             | Current       | 1W         | 1M         | 3M          | 12M         |
|---|---------------|------------|------------|-------------|-------------|
| <b>10Y yields (Δ bps)</b>               |               |            |            |             |             |
| US                                      | 1.47          | (11)       | (26)       | (30)        | (118)       |
| UK                                      | 0.57          | (6)        | (2)        | (13)        | (59)        |
| Japan                                   | (0.06)        | (3)        | (4)        | 2           | (2)         |
| Germany                                 | (0.43)        | (3)        | (12)       | (7)         | (53)        |
| India                                   | 6.42          | 5          | (18)       | (8)         | (100)       |
| China                                   | 2.86          | (1)        | (14)       | (31)        | (29)        |
| <b>2Y yields (Δ bps)</b>                |               |            |            |             |             |
| US                                      | 1.53          | 10         | 2          | (10)        | (96)        |
| UK                                      | 0.43          | (12)       | 0          | (10)        | (33)        |
| Japan                                   | (0.12)        | 1          | 0          | 6           | 5           |
| Germany                                 | (0.58)        | 7          | 2          | 6           | (2)         |
| India                                   | 6.17          | 46         | 4          | 76          | (51)        |
| China                                   | 2.23          | (5)        | (42)       | (36)        | (19)        |
| <b>Currencies (Δ %)</b>                 |               |            |            |             |             |
| EUR                                     | 1.0847        | 0.1        | (1.9)      | (1.6)       | (4.3)       |
| GBP                                     | 1.2964        | (0.6)      | (1.2)      | 1.0         | (0.7)       |
| JPY                                     | 111.61        | (1.7)      | (1.9)      | (2.7)       | (0.8)       |
| AUD                                     | 0.6627        | (1.3)      | (3.2)      | (2.3)       | (7.0)       |
| INR                                     | 71.64         | (0.4)      | (0.5)      | 0.1         | (0.7)       |
| CNY                                     | 7.0278        | (0.6)      | (1.2)      | 0.1         | (4.7)       |
| <b>Equity &amp; Other indices (Δ %)</b> |               |            |            |             |             |
| Dow                                     | 28,992        | (1.4)      | (0.6)      | 4.0         | 11.4        |
| FTSE                                    | 7,404         | (0.1)      | (1.4)      | 1.1         | 3.1         |
| DAX                                     | 13,579        | (1.2)      | 1.4        | 3.2         | 18.5        |
| NIKKEI                                  | 23,387        | (1.3)      | (1.7)      | 1.2         | 9.2         |
| Shanghai Comp                           | 3,040         | 4.2        | 2.1        | 5.4         | 8.4         |
| SENSEX                                  | 41,170        | (0.2)      | (0.5)      | 2.0         | 14.8        |
| Brent (US\$/bbl)                        | 58.50         | 2.1        | (5.7)      | (7.7)       | (12.8)      |
| Gold (US\$/oz)                          | 1,643         | 3.7        | 5.1        | 12.4        | 23.6        |
| CRB Index                               | 402.5         | 0.3        | (1.6)      | 3.9         | (3.0)       |
| Rogers Agri Index                       | 740.9         | 0.6        | (2.8)      | 2.2         | (3.2)       |
| LIBOR (3M)*                             | 1.68          | (1)        | (11)       | (24)        | (97)        |
| INR 5Y Swap*                            | 6.39          | 1          | (36)       | (3)         | (70)        |
| <b>India FII data (US\$ mn)</b>         |               |            |            |             |             |
|   | <b>18 Feb</b> | <b>WTD</b> | <b>MTD</b> | <b>CYTD</b> | <b>FYTD</b> |
| FII-Debt                                | (454.8)       | (471.3)    | 1,503.6    | (65.3)      | 2,878.9     |
| FII-Equity                              | 181.1         | 205.4      | 2,121.7    | 3,494.3     | 10,883.5    |

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

FIG 2 – DATA RELEASE CALENDAR

| Date   | Event                                    | Period | Estimate | Previous | Actual |
|--------|--|--------|----------|----------|--------|
| 24-Feb | Thailand customs exports, % YoY          | Jan    | --       | (1.3%)   | --     |
|        | Singapore CPI, % YoY                     | Jan    | --       | 0.8%     | --     |
|        | Taiwan industrial production, % YoY      | Jan    | (3.2%)   | 6.0%     | --     |
|        | Germany IFO business climate             | Feb    | --       | 95.9     | --     |
| 25-Feb | Germany GDP SA, % QoQ                    | Q4CY19 | --       | 0.0%     | --     |
|        | France manufacturing confidence          | Feb    | --       | 100.0    | --     |
|        | Hong Kong exports, % YoY                 | Jan    | --       | 3.3%     | --     |
|        | CPB world trade monitor                  | Dec    | --       | --       | --     |
| 26-Feb | US conference board consumer confidence  | Feb    | 132.3    | 131.6    | --     |
|        | Hong Kong GDP, % YoY                     | Q4CY19 | --       | (2.9%)   | --     |
|        | Singapore industrial production, % YoY   | Jan    | --       | (0.7%)   | --     |
|        | US new home sales                        | Jan    | 70,900   | 69,400   | --     |
| 27-Feb | Italy manufacturing confidence           | Feb    | --       | 99.9     | --     |
|        | Euro Area consumer confidence            | Feb    | --       | --       | --     |
|        | US GDP annualized, % QoQ                 | Q4CY19 | 2.2%     | 2.1%     | --     |
|        | US durable goods orders, % MoM           | Jan    | (1.5%)   | 2.4%     | --     |
|        | US initial jobless claims                | 22-Feb | --       | --       | --     |
|        | US pending home sales, % MoM             | Jan    | 2.0%     | (4.9%)   | --     |
|        | South Korea policy rate, %               | 27-Feb | --       | 1.3%     | --     |
|        | Germany retail sales, % MoM              | Jan    | --       | (3.3%)   | --     |
| 28-Feb | South Korea industrial production, % YoY | Jan    | --       | 4.2%     | --     |
|        | Japan retail sales, % YoY                | Jan    | --       | (2.6%)   | --     |
|        | Japan industrial production, % MoM       | Jan    | --       | 1.2%     | --     |
|        | Thailand exports, % YoY                  | Jan    | --       | (1.7%)   | --     |
|        | France CPI, % YoY                        | Feb    | --       | --       | --     |
|        | France GDP, % QoQ                        | Q4CY19 | --       | (0.1%)   | --     |
|        | Euro Area CPI, % MoM                     | Feb P  | --       | --       | --     |
|        | India GDP, % YoY                         | Q3FY20 | --       | 4.5%     | --     |
|        | India GDP annual estimate, % YoY         | FY20   | --       | 6.1%     | --     |
|        | Germany CPI, % YoY                       | Feb    | --       | 1.7%     | --     |
|        | US advance goods trade balance, US\$ bn  | Jan    | (68.4)   | (68.3)   | --     |
|        | India fiscal deficit, Rs cr              | Jan    | --       | 1,23,891 | --     |
|        | China manufacturing PMI                  | Feb    | --       | 50.0     | --     |
|        | China non-manufacturing PMI              | Feb    | --       | 54.1     | --     |

Source: Bloomberg, Bank of Baroda

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### **Economics Research Department**

Bank of Baroda

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