

WEEKLY WRAP

27 January 2020

Awaiting a growth oriented Budget

Global yields, equities and commodities fell over impact of spread of Coronavirus on economic growth. Manufacturing activity seems to be improving in the Eurozone and Japan. Home sales improved in US. However, consumer confidence was muted in the Euro area. Despite lower oil prices and FPI inflows, INR weakened because of global risk-off. Domestic yields fell. Apart from global markets, investors will look at Budget to kick start growth. Our fiscal deficit estimate is 3.6% and 3.3% in FY20 and FY21 respectively.

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Markets

- **Bonds:** Global yields closed lower amidst reducing risk appetite over spread of coronavirus. US 10Y yield fell by 14bps (1.68%). Oil prices fell by (-) 6.4% to US\$ 61/bbl due to rising shale production. India's 10Y yield fell by 4bps (6.58%), in-line with global yields. System liquidity surplus was at Rs 2.8tn as on 24 Jan 2020 vs Rs 3.1tn in the previous week.
- **Currency:** Except GBP and JPY, other global currencies closed lower this week. DXY rose by 0.3% in the week as US existing home sales and economic data surprised positively. CNY fell by (-) 0.9% on the back of risks emerging from spread of Coronavirus. INR depreciated by (-) 0.4% in the week even as oil prices fell sharply (-6.4% WoW). FII inflows were US\$ 651mn.
- **Equity:** Barring Dax, global indices ended lower this week led by concerns over the outbreak of Coronavirus. Shanghai Comp dropped the most (-3.2%) followed by Dow (-1.2%) and FTSE (-1.2%). Sensex (-0.8%) too slipped and ended the week in red owing to weak corporate earnings.
- **Upcoming key events:** In the current week, markets will await durable goods orders and GDP data in the US, manufacturing PMI data in China and retail sales print in Japan. Apart from this, Fed and BoE policy are also scheduled. On the domestic front, first revised estimate of GDP, Economic Survey and Union Budget will the guide markets.



India macro developments

- IMF has revised India's growth projection downward sharply to 4.8% in FY20 (6.1% earlier). This was due to muted global growth (global GDP growth revised downward to 3.3% in CY20 vs 3.4% earlier) and subdued domestic demand. However, India's growth is expected to bounce back to 5.8% in FY21 on the back of balanced policy mix and lower oil prices.
- As per news reports, government is seeking Rs 100bn interim dividend from RBI in FY20. This comes in the wake of a likely fiscal slippage due to shortfall in revenues and a lower than expected nominal GDP growth. This is the 3rd consecutive year that government has demanded interim dividend from RBI (Rs 100bn in FY18, Rs 280bn in FY19).
- According to news reports, direct tax collections on FYTD basis (till 15 Jan 2020) are down by (-) 5.2% to Rs 7.3tn vs BE of Rs 13.4tn. This trend is unprecedented as collections were up by 12.5%, 18.6% and 14.9% in the same period in FY17, FY18 and FY19 respectively. While the shortfall is largely driven by lower corporate tax collections, income tax receipts are also seeing a slowdown at 6.5% vs BE of 23.3%.
- RBI reported that currency in circulation (CIC) increased by Rs 68.9bn and stood at Rs 23tn for the week ending 17 Jan 2020. Reserve money rose by 11.4% on a YoY basis, compared with 17.1% a year ago. On a FYTD basis, reserve money increased by 5.6% as against 8.6% last year.
- We believe Union Budget will report a fiscal deficit of 3.6% for FY20 vs BE of 3.3%. While 10bps slippage will be on account of downward revision of nominal GDP (7.5% from BE of 12%), the rest will be largely owing to revenue shortfall. We expect ~Rs 3.1tn (1.5% of GDP) in shortfall in revenues, 0.8% led by direct taxes and 0.7% on account of indirect tax collections. For FY21, we expect fiscal consolidation will again be on the cards with deficit target at 3.3%. Disinvestment will be to the tune of ~Rs 1-1.5tn, as 100% stake sale of Air India is expected to materialise.
- India's forex reserves rose to a fresh lifetime high of US\$ 462.2bn in the week ended 17 Jan 2020. On a weekly basis, forex reserves rose by US\$ 943mn vs US\$ 57mn last week. In FYTD20, forex reserves have risen by US\$ 50.3bn vs a depletion of (-) US\$ 27.7bn in the same period last year.

Global macro developments

- UNCTAD's report showed global FDI fell to US\$ 1.39tn in CY19 vs US\$ 1.41tn in CY18. This was on account of subdued global growth and concerns over protectionist policies. However, outlook for CY20 would improve with fears eventually waning out. India was among the top 10 recipients of FDI with US\$ 49bn inflows in CY19 vs US\$ 42bn in CY18.
- US existing home sales growth rose by 3.6% in Dec'19 (~2 year high) from (-) 1.7% in Nov'19 on MoM basis. The improvement was led by falling interest costs as the 30-year fixed mortgage rate is at 3.65% vs the Nov'18 peak of 4.94%. However, median house price was up by 7.8% on a YoY basis as supply continues to fall short owing to land and labour constraints.
- US initial jobless claims rose by 6,000 to 211,000 (est. 214,000) for the week ending 18 Jan, after declining for 5 straight weeks. However, the 4-week moving average declined by 3,250 to 213,250 to its lowest level since Sep'19. This suggests that the labour market continues to remain strong.
- ECB in its first policy for CY20, kept the interest rates unchanged and launched a strategic review of its monetary policy, a first since CY03. The review will assess the monetary policy tool kit, price stability mechanism economic and monetary analysis and communication practices. The council reiterated their commitment to continue with buying the € 20bn per month, till inflation reaches its mandated level of 2%.
- Manufacturing and services activity improved globally. In the Eurozone, flash manufacturing PMI rose to its 9-month high of 47.8 vs 46.3 in Dec'19. Services PMI print was at 52.2 vs 52.8 in Dec'19. In Japan, as well manufacturing PMI rose to 49.3 vs 48.4 in Dec'19. Services activity also inched up (PMI print at 52.1 vs 49.4 in Dec'19). Employment picked up considerably. Input costs also remained elevated.
- Japan's exports declined for the 13th straight month in Dec'19 by (-) 6.3% (est. -4.2%) vs (-) 7.9% in Nov'19. While exports to US fell by (-) 14.9%, exports to China inched up for the first time in 10 months by 0.8%. Weak exports along with damage by typhoon and sales tax hike have raised the likelihood that the economy contracted in Q4CY19.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.68	(14)	(22)	(11)	(107)
UK	0.56	(7)	(21)	(12)	(74)
Japan	(0.02)	(2)	0	12	(2)
Germany	(0.34)	(12)	(9)	3	(53)
India	6.58	(4)	0	8	(75)
China	3.00	(9)	(16)	(24)	(13)
2Y yields (Δ bps)					
US	1.49	(6)	(13)	(12)	(111)
UK	0.42	1	(14)	(10)	(37)
Japan	(0.13)	1	(1)	10	4
Germany	(0.61)	(2)	1	4	(3)
India	6.10	(7)	28	51	(90)
China	2.23	(5)	(36)	(37)	(19)
Currencies (Δ %)					
EUR	1.1025	(0.6)	(0.6)	(0.5)	(3.3)
GBP	1.3073	0.4	0.9	1.9	(0.9)
JPY	109.28	0.8	0.1	(0.6)	0.2
AUD	0.6832	(0.7)	(1.3)	0.1	(4.8)
INR	71.33	(0.4)	(0.1)	(0.6)	(0.2)
CNY	6.9426	(0.9)	0.9	1.7	(2.3)
Equity & Other indices (Δ %)					
Dow	28,990	(1.2)	1.7	7.5	17.2
FTSE	7,586	(1.2)	(0.6)	3.6	11.4
DAX	13,577	0.4	2.1	5.3	20.3
NIKKEI	23,827	(0.9)	0.2	4.5	14.7
Shanghai Comp	2,977	(3.2)	(0.2)	0.7	14.4
SENSEX	41,613	(0.8)	0.4	6.5	15.5
Brent (US\$/bbl)	60.69	(6.4)	(9.7)	(2.1)	(1.5)
Gold (US\$/oz)	1,572	0.9	4.8	4.4	20.4
CRB Index	408.5	(0.5)	2.4	4.5	(0.8)
Rogers Agri Index	752.3	(1.5)	0.6	3.4	(3.2)
LIBOR (3M)*	1.80	(2)	(17)	(13)	(96)
INR 5Y Swap*	6.69	(9)	3	17	(49)
India FII data (US\$ mn)					
	23 Jan	WTD	MTD	CYTD	FYTD
FII-Debt	35.9	15.7	(1,555.5)	(1,555.5)	1,388.6
FII-Equity	210.1	635.7	2,150.6	2,150.6	9,539.8

Source: Bloomberg, Bank of Baroda | *Indicates change in bps | Markets in China were closed on 24.01.2020

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
27-Jan	Germany IFO business climate	Jan	97	96.3	-
	US new home sales, in thousands	Dec	730	719	-
	Germany retail sales, % MoM	Dec	(0.5%)	2.1%	-
28-Jan	US durable goods orders, % MoM	Dec	1.2%	(2.1%)	-
	US Conference board consumer confidence index	Jan	128	126.5	-
29-Jan	Australia CPI, % QoQ	Q4CY19	0.6%	0.5%	-
	Germany GfK consumer confidence	Feb	9.7	9.6	-
	France consumer confidence	Jan	-	102	-
	Italy manufacturing confidence	Jan	-	99.1	-
	US advance goods trade balance, US\$ bn	Dec	(64.5)	(63.2)	-
	US pending home sales, % MoM	Dec	0.7%	1.2%	-
30-Jan	US Fed policy rate, %	30 Jan	1.8%	1.8%	-
	Hong Kong exports, % YoY	Dec	-	(1.4%)	-
	Euro Area consumer confidence	Jan	-	(8.1)	-
	Euro Area unemployment rate, %	Dec	7.5%	7.5%	-
	BoE policy rate, %	30 Jan	0.8%	0.8%	-
	Germany CPI, % YoY	Jan	1.6%	1.5%	-
	US GDP annualised, % QoQ (Advance estimate)	Q4CY19	2.2%	2.1%	-
	US initial jobless claims, in thousands	24 Jan	-	211	-
31-Jan	South Korea industrial production, % YoY	Dec	1.0%	(0.3%)	-
	Japan jobless rate, %	Dec	2.3%	2.2%	-
	Japan industrial production, % MoM	Dec	0.7%	(1.0%)	-
	Japan retail sales, % YoY	Dec	(1.8%)	(2.1%)	-
	UK GfK consumer confidence	Jan	(9)	(11)	-
	China manufacturing PMI	Jan	50	50.2	-
	China non-manufacturing PMI	Jan	53	53.5	-
	France GDP, % QoQ (Advance estimate)	Q4CY19	0.3%	0.3%	-
	France CPI, % YoY	Jan	-	1.5%	-
	Italy GDP WDA, % QoQ (Advance estimate)	Q4CY19	0.1%	0.1%	-
	Euro Area GDP SA, % QoQ (Advance estimate)	Q4CY19	0.2%	0.2%	-
	Euro Area CPI, % MoM	Jan	-	0.3%	-
	India eight infrastructure industries, % YoY	Dec	-	(1.5%)	-
	India GDP annual estimate, % YoY	FY20	5.0%	5.0%	-
	US University of Michigan sentiment	Jan	99	99.1	-

Source: Bloomberg, Bank of Baroda

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