

WEEKLY WRAP

29 July 2019

Awaiting US Fed stance

ECB held policy rates steady but emphasised that low inflation will call for more accommodation even though recession fear is low. US' Q2 GDP was a tad bit lower at 2.1% vs 3.1% in Q1 led by exports and investment. Consumption held up and US yields went up. On the domestic front, uncertainty over RBI rate cut, sovereign bond issue and rise in oil prices led to 10Y bond yield rising by 16bps. However, yields fell today as FM commented on room for rate cuts and continuation of sovereign bond issue. US Fed will drive markets this week.

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Markets

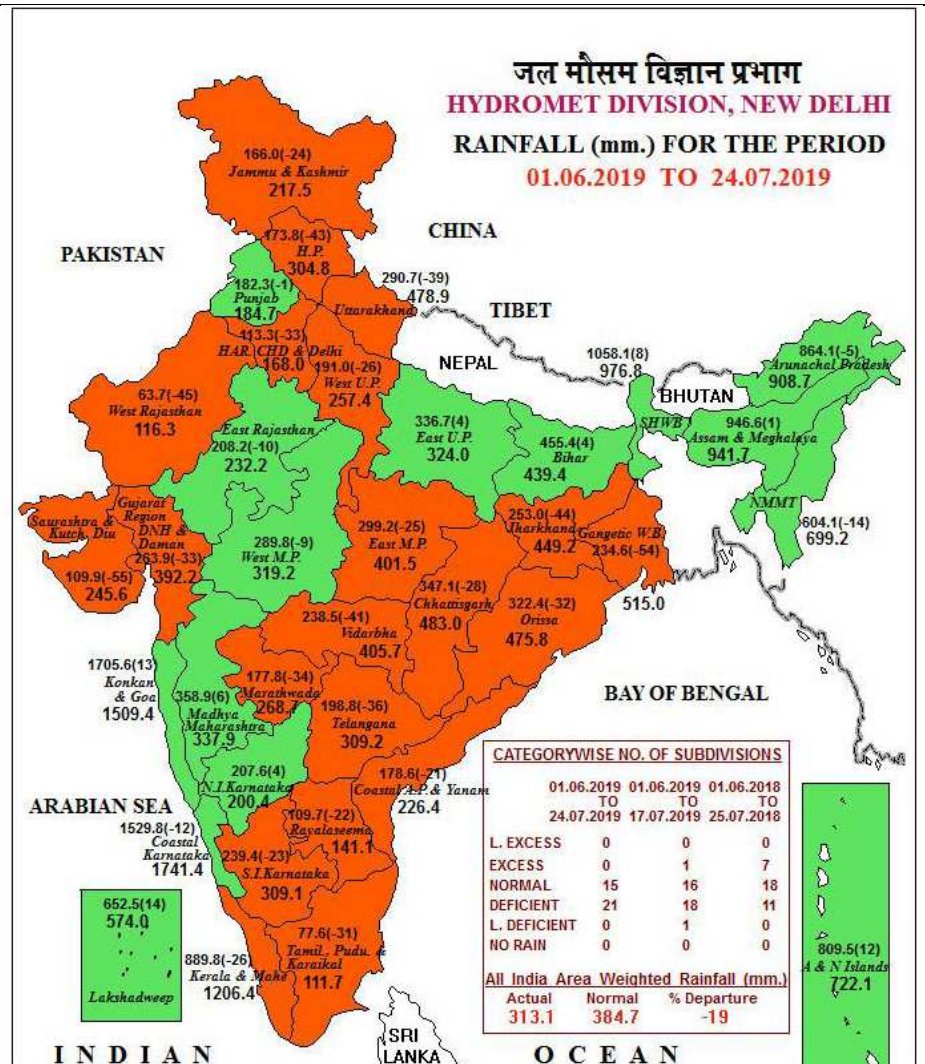
- Bonds:** Global yields closed mixed. US 10Y yield rose by 2bps (2.07%) amidst better than expected GDP, durable goods orders and buoyant labour market conditions. Crude prices rose by 1.6% (US\$ 63/bbl) driven by tensions in Middle East. India's 10Y yield rose by 16bps (6.52%) as uncertainty emerged over sovereign bond issue but started the week on a lower note as FM reaffirmed continuation of the issue and called for rate cut by RBI. System liquidity was in surplus of Rs 1.3tn as on 26 Jul 2019, at the same level as in the previous week.
- Currency:** Except CNY, other global currencies closed lower this week. DXY rose for the second straight week (+0.9%) as US macro data (GDP, durable goods orders and jobless claims) surprised positively. EUR depreciated by (-) 0.9% as flash PMIs signalled a further slowdown in the region. GBP was weighed down by Brexit concerns. INR depreciated by (-) 0.1% in the week led by higher oil prices and FII outflows of US\$ 733mn.
- Equity:** Barring Sensex, other global indices closed the week higher. This was on the back of ECB's dovish stance and the same being expected by US Fed. Dow rose by 0.1% supported by strong corporate earnings. European indices too ended in green. However, Sensex ended the week in red (-1.2%) led by muted corporate earnings and persistent selling by FII.
- Upcoming key events:** In the current week, markets await policy decisions by US Fed, BoE and BoJ. Apart from that, markets will also carefully read global manufacturing PMIs, Euro Area GDP print, US non-farm payroll data, unemployment rate and factory orders. On the domestic front, eight core index and fiscal deficit data are scheduled for release.



Monsoon Tracker

- For the period 1 Jun 2019 to 28 Jul 2019, monsoon was (-) 13% below LPA compared with (-) 3% last year. While Eastern India, parts of Punjab, Eastern UP, Rajasthan, Western MP and Maharashtra continue to receive normal rainfall, other parts of the country are still experiencing deficient rains.
- Overall kharif sowing was down by (-) 6.4% this year as on 26 July 2019 led by fall in sown area of pulses and foodgrains at (-) 18.6% and (-) 10% respectively. Sown area for sugarcane also declined by (-) 5.7% compared to last year. However, cotton sowing was higher by 6.3% over the previous year.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



LEGEND: ■ L. EXCESS (+60% OR MORE) ■ EXCESS (+20% TO +59%) ■ NORMAL (+1% TO -19%)
 ■ DEFICIENT [-20% TO -59%] ■ L. DEFICIENT [-60% TO -99%] ■ NO RAIN [-100%] ■ NO DATA

Source: IMD, Bank of Baroda Research

India macro developments

- IMF has cut India's GDP forecast by 30bps for FY20 and FY21 to 7% and 7.2% respectively. This is on the back of slowing domestic demand. Global GDP is expected to grow by 3.2% in CY19 and 3.5% in CY20, downward revision of 10bps each. Further downside risks to global growth include disorderly Brexit, escalation of trade tensions, sharper than anticipated slowdown in China and heightened geo-political tensions.
- GST council has reduced tax rate for electric vehicles (EV) from 12% to 5% and for EV chargers from 18% to 5%. This additional support comes after announcement was made in the Union Budget to give tax deduction of Rs 0.15mn on interest paid on loans taken for buying EVs. Government has set aside Rs 100bn for phase 2 of the FAME scheme (Faster Adoption and Manufacturing of hybrid and Electric vehicles).
- Indian government has approved creation of sugar buffer stock of 4mn tonne in order to address the bumper crop production and pending cane arrears of over Rs 15.2bn. The move is likely to cost Rs 16.7bn to the exchequer and is expected to not only stabilize sugar prices, but also maintain the demand-supply balance. Last year too, buffer stock of 3mn tonne was created with a cost of Rs 11.7bn.
- Employees' State Insurance Corporation (ESIC) payroll data showed that 1.27mn jobs were created in May'19, higher than 1.12mn in Apr'19. The data is based on various social security schemes run by ESIC. The report also highlighted that 0.99mn new enrolments were recorded with EPFO in May'19 compared to 1.02mn in Apr'19.
- RBI reported that currency in circulation (CIC) decreased by (-) Rs 175bn and stood at Rs 21.8tn for the week ending 19 July 2019. Reserve money only rose by 12.8% on a YoY basis because of lower currency demand, compared with an increase of 22.2% a year ago. On a FYTD basis, reserve money increased marginally by 0.8% as against 2.4% in the previous year.
- India's forex reserves rose to a lifetime high of US\$ 430.4bn in the week ending 19 Jul 2019. On a weekly basis, forex reserves rose by US\$ 1.6bn vs a decline of (-) US\$ 1.1bn last week. In CYTD19, forex reserves have increased by US\$ 37bn vs a decline of (-) US\$ 4.3bn last year.
- Government has kept a target of adding over 13mn new filers in FY20 vs 11mn filers added in FY19. In AY 2018-19, India had over 84.4mn taxpayers. To further widen tax base, government is taking steps such as identification of potential non-filers through centralised non-filer monitoring system. This is in addition to DTAA and Automatic Exchange of Financial Account Information which are already in place to track financials accounts.

Global macro developments

- US GDP growth slowed to 2.1% in Q2CY19 vs 3.1% in Q1CY19 (est. 1.8%). This was led by weaker business investment and exports. Private domestic investment faltered to 5.5%, lowest since Q4CY15. Further, while consumer spending rose by 4.3% in Q2 to over a 6-quarter high, it is unlikely to sustain going forward. Against this backdrop, Fed is likely to reduce rates by only 25bps in the upcoming policy meet.
- Flash manufacturing PMIs show manufacturing activity faltering with US PMI hitting 119th month low in Jul'19 (48.9). Eurozone manufacturing PMI also fell to its 79-month low (46.4 in Jul'19 vs 47.6 in Jun'19). In Japan as well, similar trend was seen on the back of slowdown in global growth, trade war concerns and Brexit woes.
- US new home sales rose by 7% on a MoM basis in Jun'19 vs (-) 8.2% in May'19. However, the data is to be read with caution as numbers for the previous 3 months were revised downward. Apart from this, in Q2CY19 sales have risen by only 0.6% on a YoY basis vs 4.2% rise in Q1, implying real estate sector may pose a drag to Q2 GDP growth.
- US durable goods orders rose by 2% in Jun'19 on a MoM basis vs (-) 2.3% in May'19. This was led by machinery, communication and transportation equipment orders. Core orders too rose by 1.9% vs 0.3% in May'19. However, muted growth throughout Q2 is expected to drag GDP growth to 1.8% in Q2 from 3.1% in Q1. Separately, jobless claims for the week ending 20 Jul fell to 206,000 (est.: 219,000) from 216,000 in the week before.
- ECB in its latest policy meet kept the interest rates unchanged but hinted of monetary easing going ahead. The council also assured of using additional measures to support liquidity conditions. This raises the likelihood of rate cut in Sep'19. ECB has even signalled that it may restart the bond buying program to provide stimulus to economic growth.
- Taiwan's export orders contracted for the 8th straight month in Jun'19 by (-) 4.5% vs (-) 5.8% in May'19. This was led by a sharp decline for machinery (-22.3%) and electronics (-4.3%). While orders from Japan and China continued to contract, those from US rose. Separate data also showed, export growth in S. Korea (-13.6% in MTD-Jul'19) and Thailand (-2.2% in Jun'19) also fell, providing further indication of a slowdown in global growth.
- Euro Area consumer confidence improved to (-) 6.6 in Jul'19 from (-) 7.2 in Jun'19, much higher than anticipated, signalling strong domestic demand. This comes ahead of ECB's policy decision scheduled later today and against the backdrop of strong headwinds impacting global growth.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	2.07	2	2	(43)	(88)
UK	0.69	(5)	(14)	(46)	(59)
Japan	(0.15)	(2)	(1)	(11)	(25)
Germany	(0.38)	(5)	(7)	(35)	(78)
India	6.52	16	(41)	(89)	(126)
China	3.17	1	(8)	(23)	(35)
2Y yields (Δ bps)					
US	1.85	3	8	(43)	(82)
UK	0.49	(2)	(12)	(24)	(27)
Japan	(0.21)	(1)	1	(6)	(10)
Germany	(0.75)	2	(2)	(16)	(15)
India	6.10	4	(19)	(70)	(142)
China	2.58	(1)	(12)	(9)	(36)
Currencies (Δ %)					
EUR	1.1128	(0.8)	(2.1)	(0.2)	(4.5)
GBP	1.2384	(0.9)	(2.4)	(4.1)	(5.5)
JPY	108.68	(0.9)	(0.8)	2.6	2.1
AUD	0.6911	(1.9)	(1.1)	(1.9)	(6.6)
INR	68.90	(0.1)	0.4	1.6	(0.4)
CNY	6.8795	0	0	(2.2)	(1.0)
Equity & Other indices (Δ %)					
Dow	27,192	0.1	2.5	2.4	6.8
FTSE	7,549	0.5	1.8	1.6	(2.0)
DAX	12,420	1.3	1.4	0.9	(3.4)
NIKKEI	21,658	0.9	2.7	(2.7)	(4.6)
Shanghai Comp	2,945	0.7	(1.1)	(4.6)	2.5
SENSEX	37,883	(1.2)	(4.3)	(3.0)	1.5
Brent (US\$/bbl)	63.46	1.6	(4.6)	(12.0)	(14.6)
Gold (US\$/oz)	1,419	(0.5)	0.7	10.3	15.9
CRB Index	406.1	0	(1.0)	(3.9)	(6.2)
Rogers Agri Index	733.9	(0.9)	(3.3)	0.7	(9.0)
LIBOR (3M)*	2.27	1	(6)	(32)	(8)
INR 5Y Swap*	6.62	19	(2)	(50)	(106)
India FII data (US\$ mn)					
	25 Jul	WTD	MTD	CYTD	FYTD
FII-Debt	4.8	76.2	1,274.5	2,702.8	2,158.2
FII-Equity	77.6	(809.6)	(2,005.2)	9,333.7	2,488.5

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual	
29-Jul	Germany retail sales, % MoM	Jun	0.5%	(0.6%)	--	
	Japan retail sales, % YoY	Jun	0.2%	1.2%	--	
	Italy PPI, % MoM	Jun	--	0.0%	--	
30-Jul	Japan industrial production, % MoM	Jun	(1.8%)	2.0%	--	
	France GDP, % QoQ	Q2CY19	0.4%	0.3%	--	
	Germany GfK consumer confidence	Aug	9.7	9.8	--	
	Euro Area economic confidence	Jul	103.0	103.3	--	
	Germany CPI, % YoY	Jul	1.5%	1.6%	--	
	US conference board consumer confidence	Jul	125.0	121.5	--	
	BOJ policy balance rate, %	01-Jul	(0.10%)	(0.10%)	--	
	31-Jul	South Korea industrial production, % YoY	Jun	(1.5%)	(0.2%)	--
		China manufacturing PMI	Jul	49.6	49.4	--
China non-manufacturing PMI		Jul	54.0	54.2	--	
France CPI, % YoY		Jul	--	1.2%	--	
Thailand exports, % YoY		Jun	--	(7.2%)	--	
Hong Kong GDP, % YoY		Q2CY19	1.6%	0.6%	--	
Euro Area GDP SA, % QoQ		Q2CY19	0.2%	0.4%	--	
US FOMC rate decision, %		01-Jul	2.25%	2.50%	--	
India fiscal deficit, Rs crore		Jun	--	209,109	--	
India eight infrastructure industries, % YoY		Jun	--	5.1%	--	
1-Aug	South Korea CPI, % YoY	Jul	0.8%	0.7%	--	
	South Korea exports, % YoY	Jul	(11.8%)	(13.5%)	--	
	Jibun Bank Japan manufacturing PMI	Jul F	--	49.6	--	
	Caixin China manufacturing PMI	Jul	49.7	49.4	--	
	Markit India manufacturing PMI	Jul	--	52.1	--	
	Markit France manufacturing PMI	Jul	--	50.0	--	
	Markit/BME Germany manufacturing PMI	Jul	--	43.1	--	
	Markit Eurozone manufacturing PMI	Jul	--	46.4	--	
	Markit UK PMI manufacturing SA	Jul	48.0	48.0	--	
	Bank of England bank rate, %	01-Aug	0.75%	0.75%	--	
	US initial jobless claims	27-Jul	--	206,000	--	
	Markit US manufacturing PMI	Jul	--	50.0	--	
	US ISM manufacturing	Jul	52.0	51.7	--	
	2-Aug	Euro Area PPI, % YoY	Jun	--	1.6%	--
Euro Area retail sales, % MoM		Jun	--	(0.3%)	--	
US change in nonfarm payrolls		Jul	160,000	224,000	--	
US unemployment rate, %		Jul	3.7%	3.7%	--	
US trade balance, US\$ bn		Jun	(54.2)	(55.5)	--	
US factory orders, % MoM		Jun	0.6%	(0.7%)	--	

Source: Bloomberg, Bank of Baroda Research

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