

WEEKLY WRAP

29 October 2019

Awaiting US Fed and BoJ policy decisions

Growth worries continued with dip in China's industrial profits and decline in US imports. Three month Brexit extension gives some time to UK to get a deal passed through its Parliament. Thus UK yields and GBP fell. US yields and equity markets rose as progress of US-China trade deal is encouraging. Indian equity markets are also rising in sync as Indian government is looking at privatization to meet its fiscal deficit target. Yields were flat to lower. This week is data heavy with PMIs and rate decision by US Fed and BoJ.

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Markets

- Bonds:** US 10Y yield rose by 4bps (1.84%) on the back of improved sentiment over US-China trade deal. Yields in UK fell on account of 3-month extension to Brexit deal. Crude prices rose by 4.4% (US\$ 62/bbl) on account of falling US inventories. India's 10Y yield closed lower by 2bps (6.68%). System liquidity surplus was at Rs 1.5tn as on 25 Oct 2019 vs Rs 1.6tn in the previous week.
- Currency:** With the exception of INR and CNY, other major global currencies depreciated in the week. DXY rose by 0.4% driven by progress on US-China trade deal. GBP depreciated by 0.7% as mechanics of Brexit remain uncertain after 3-month extension by EU. INR appreciated by 0.4% despite FPI outflows of US\$ 296mn in the week.
- Equity:** Barring Sensex, global indices ended the week higher. FTSE (2.3%) and Dax (1.5%) surged the most. Optimism around US-China trade deal, withdrawal of US sanctions on Turkey and extension for Brexit, drove gains in market. However, Sensex fell by (-) 0.6%, dragged by financial, auto and pharma stocks. Notably, US equity markets scaled an all-time high on Monday.
- Upcoming key events:** In the current week, markets keenly await policy decisions of US Fed and BoJ. Apart from that, some major economies (US, Euro Area, France, Spain, Taiwan, Italy and HK) will release advance estimates of their Q3CY19 GDP. Manufacturing PMIs are also due. On the domestic front, eight core index, fiscal deficit and manufacturing PMI scheduled for release this week.



India macro developments

- In the latest round of World Bank's Ease of Doing Business, India's rank notched up 14 places to 63 among 190 countries. This was attributed to the current insolvency regime for which recovery rate of creditors improved from 26.5 cents to 71.6 cents per dollar. Apart from this, substantial progress has also been made in obtaining a building permit which now costs 4% of the warehouse value from 7.5% earlier.
- BJP led alliance is set to be in power in Maharashtra and Haryana with 161 and 40 seats respectively out of 288 and 90 seats. However, the number is a tad lower compared to 2014. Separately, Supreme Court ruling on AGR definition change is set to put pressure on the incumbent telecom players. This will put an additional burden of Rs 920bn to the sector.
- Government announced MSP of Rabi crops for AY20, in a major relief to farmers. MSP of wheat, lentils and safflowers has been revised up by 4.6%, 7.3% and 5.5% respectively to Rs 1,925/quintal, Rs 325/quintal and Rs 270/quintal respectively. The jump in MSP of pulses and oilseeds is a step towards shifting the reliance from food grains and encourage farmers to cultivate other crops. The increase is in line with the principle of fixing the MSPs at a level of at least 1.5 times of the cost of production.
- As per news reports, the Department for Promotion of Industry and Internal Trade (DPIIT) is planning to launch a single window clearance for foreign investors. Earlier as well, government has undertaken slew of measures-100% FDI under the automatic route in contract manufacturing, easing of local sourcing norms for Single Brand Retail etc. to promote FDI (US\$ 16.3bn in Q1FY20 vs US\$ 12.8bn in Q1FY19)
- RBI data shows that credit growth inched up marginally by 8.8% for the fortnight ending 11 Oct 2019 vs 8.7% in Sep'19. However, growth was lower compared to 14.4% in the same period last year. Deposit growth was higher at 9.8% vs 9.4% in Sep'19 and 8.9% in the same period of previous year. Thus, C-D ratio fell by 60bps to 75.7% compared to last year.
- RBI reported that currency in circulation (CIC) fell by Rs 3.5bn and stood at Rs 22.3tn for the week ending 18 Oct 2019. Reserve money rose by 12.8% on a YoY basis, compared with 17% a year ago. On a FYTD basis, reserve money increased by only 3.3% as against 4.9% last year.

Global macro developments

- US durable goods orders declined by (-) 1.1% in Sep'19 (est.: -0.6%) vs 0.3% increase in Aug'19. This has been the sharpest pace of decline since May'19. Proxy for business spending declined by (-) 0.5%. In a separate print, US new home sales also fell by (-) 0.7% to 701,000 units in Sep'19, despite drop in 30-year mortgage rate by more than 125bps since Nov'18.
- Existing home sales in the US fell by (-) 2.2% in Sep'19 vs est.: (-) 0.7% and +1.3% in Aug'19 on a MoM basis. On an annualised basis, drop was most visible in the mid-west region (-3.1%) followed by northeast (-2.8%) and south (-2.1%). Sales declined despite mortgage rate coming down by 125bps (to 3.69%) since the high of Nov'18. A key reason for this could be sharpest appreciation in median prices (5.9% on YoY basis) since Jan'18.
- US trade deficit narrowed in Sep'19 to US\$ 70.4bn from US\$ 73.1bn in Aug'19, driven by both lower imports (-2.3%) and exports (-1.6%). While decline in shipments of soybean and automobile impacted exports, imports were dragged down by capital goods, motor vehicles and consumer goods. Weak data stream continued with retail inventories rising by 0.3% in Sep'19 vs (-) 0.2% fall in Aug'19. As a result, analysts estimate Q3CY19 GDP to come in at 1.7% vs 2% in Q2.
- Flash PMI data indicated worsening outlook for manufacturing activity in the Eurozone with reading at 45.7 in Oct'19. This was driven by 2nd consecutive decrease in new orders. However, services activity is expected to be above the 50 mark at 51.8 in Oct'19 vs 51.6 in Sep'19. Price pressure remained muted. ECB's current policy made no significant change while reflecting a dovish tone in the last press conference of Mario Draghi.
- As per flash PMI data of Japan, both manufacturing and services readings are expected to be lower at 48.5 and 50.3 respectively in Oct'19. This will be on the back of decline in new orders and exports. Further, ongoing global growth slowdown and current consumption tax increase has also impacted economic activity.
- Industrial profits in China fell by (-) 5.3% in Sep'19 (steepest fall in 4 years) vs (-) 2% in Aug'19. On a CYTD basis, profits are down by (-) 2.1%, led by state owned enterprises (-9.6%). Profits of private enterprises on the other hand continue to rise (5.4%). Industry wise, sharpest decline in profits was visible in petroleum & coal (-53.5%), metal processing (-41.8%) and car manufacturing (-16.6%).

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.84	4	16	(22)	(124)
UK	0.72	(3)	22	7	(68)
Japan	(0.12)	0	11	2	(23)
Germany	(0.33)	1	24	6	(71)
India^	6.68	(2)	(6)	27	(113)
China	3.30	8	15	11	(23)
2Y yields (Δ bps)					
US	1.64	2	1	(21)	(117)
UK	0.54	(1)	15	7	(18)
Japan	(0.21)	3	11	0	(9)
Germany	(0.65)	2	13	12	(2)
India	5.58	0	(22)	(46)	(197)
China#	2.63	7	7	5	(21)
Currencies (Δ %)					
EUR	1.1100	(0.4)	1.5	(0.4)	(2.4)
GBP	1.2863	(0.7)	4.6	5.3	0.5
JPY	108.95	(0.3)	(1.0)	(0.2)	3.0
AUD	0.6838	(0.4)	1.1	(0.9)	(3.1)
INR	70.89	0.4	(0.5)	(3.1)	3.5
CNY	7.0683	0.1	0.8	(2.5)	(1.5)
Equity & Other indices (Δ %)					
Dow	27,091	1.0	1.0	(0.5)	10.8
FTSE	7,331	2.3	(1.3)	(4.6)	4.3
DAX	12,942	1.5	4.5	4.2	14.2
NIKKEI	22,867	1.4	4.5	5.8	8.1
Shanghai Comp	2,980	1.4	1.6	1.3	17.2
SENSEX	39,058	(0.6)	0.6	3.6	14.6
Brent (US\$/bbl)	61.57	4.4	(0.5)	(3.4)	(20.4)
Gold (US\$/oz)	1,493	0.5	(0.3)	4.6	21.4
CRB Index	390.9	(0.3)	0.9	(4.0)	(6.1)
Rogers Agri Index	726.1	(0.1)	3.1	(1.3)	(6.5)
LIBOR (3M)*	1.93	(1)	(17)	(33)	(60)
INR 5Y Swap*	6.51	4	14	(6)	(112)
India FII data (US\$ mn)					
	24 Oct	WTD	MTD	CYTD	FYTD
FII-Debt	(54.0)	(96.2)	9.4	3,982.8	3,438.2
FII-Equity	(27.3)	(199.8)	553.9	8,714.6	1,869.4

Source: Bloomberg, Bank of Baroda | ^7.26% GS 2029, #1Y yield, *Indicates change in bps

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
28-Oct	Japan PPI services, % YoY	Sep	0.5%	0.5%	0.5%
	US advance goods trade balance, US\$ bn	Sep	(73.5)	(73.1)	(70.4)
	US wholesale inventories, % MoM	Sep	0.2%	0.0%	(0.3%)
	US retail inventories, % MoM	Sep	0.2%	(0.2%)	0.3%
29-Oct	UK nationwide house price index, % MoM	Oct	0.0%	(0.2%)	--
	US Conf. Board Consumer Confidence	Oct	128.0	125.1	--
30-Oct	Japan retail sales, % YoY	Sep	6.0%	1.8%	--
	Australia CPI, % QoQ	Q3CY19	0.5%	0.6%	--
	France GDP, % QoQ (preliminary)	Q3CY19	0.2%	0.3%	--
	Spain CPI, % YoY	Q3CY19	0.0%	0.1%	--
	Germany unemployment change, in thousands	Oct	3.0	(10.0)	--
	Italy manufacturing confidence index	Oct	98.6	98.8	--
	Euro Area economic confidence index	Oct	101.1	101.7	--
	US GDP, Annualized, % QoQ (advance estimate)	Q3CY19	1.6%	2.0%	--
	Germany CPI, % YoY	Oct	1.0%	1.2%	--
	US FOMC rate decision (upper bound)	30-Oct	1.75%	2.0%	--
31-Oct	Japan industrial production, % MoM	Sep	0.4%	(1.2%)	--
	China official manufacturing PMI	Oct	49.8	49.8	--
	China official non-manufacturing PMI	Oct	53.7	53.7	--
	Germany retail sales, % MoM	Sep	0.2%	(0.1%)	--
	Thailand exports, % YoY	Sep	--	(2.1%)	--
	France CPI, % YoY	Oct	0.9%	0.9%	--
	Taiwan GDP, % YoY (preliminary)	Q3CY19	2.5%	2.4%	--
	Spain GDP, % QoQ (preliminary)	Q3CY19	0.4%	0.4%	--
	Hong Kong GDP, % YoY (preliminary)	Q3CY19	(0.3%)	0.5%	--
	Euro Area GDP, SA, % QoQ (preliminary)	Q3CY19	0.1%	0.2%	--
	Euro Area CPI, % MoM	Oct	0.1%	0.2%	--
	Italy GDP, WDA, % QoQ (preliminary)	Q3CY19	0.0%	0.1%	--
	India eight core index, % YoY	Sep	--	(0.5%)	--
	US initial jobless claims, in thousands	31-Oct	215	212	--
	India fiscal deficit, Rs cr	Sep	--	6,235	--
	BOJ policy rate decision	31-Oct	(0.1%)	(0.1%)	--
	01-Nov	Jibun Bank Japan manufacturing PMI	Oct	--	48.5
Caixin China manufacturing PMI		Oct	51.0	51.4	--
Markit India manufacturing PMI		Oct	--	51.4	--
Markit UK manufacturing PMI		Oct	48.2	48.3	--
US change in non-farm payrolls, in thousands		Oct	85.0	136.0	--
US unemployment rate		Oct	3.6%	3.5%	--
Markit US manufacturing PMI		Oct	51.5	51.5	--
US ISM manufacturing PMI		Oct	49.0	47.8	--

Source: Bloomberg, Bank of Baroda

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