

WEEKLY WRAP

30 December 2019

Indian 10Y yield falls, but oil prices may limit gains

Global equity markets were higher and DXY weakened as risk-sentiment improved. Oil prices too rose by 3.1% in the week as US stockpiles were lower than estimated. While industrial profits in China improved, US durable goods orders, Japan's retail sales and industrial production fell thus implying continuing headwinds for global economy in CY20. India's 10Y yield fell further by 10bps as RBI announced another round of simultaneous OMO purchase/sale. Higher oil prices may limit gains for Indian markets.

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Markets

- **Bonds:** Global yields closed lower led by 4bps (1.88%) fall in US 10Y on account of robust demand for auctions. Crude prices rose by 3.1% (US\$ 68/bbl) over renewed trade deal optimism (US-China and NAFTA) and declining US stockpiles. India's 10Y yield fell by 10bps (6.51%) supported by RBI's special OMO operation. System liquidity surplus was at Rs 2.4tn as on 27 Dec 2019 vs Rs 2.0tn in the previous week.
- **Currency:** Except INR, other global currencies closed higher this week against the dollar. DXY fell by (-) 0.8% in the week as risk sentiment improved due to easing US-China trade tensions. AUD rose by 1.2% on reduced likelihood of a rate cut by RBA in Feb'20. INR depreciated by (-) 0.3% in the week as oil prices rose by 3.1% to US\$ 68/bbl despite FII inflows (US\$ 778mn).
- **Equity:** Apart from Sensex, other global indices ended higher in the truncated week led by optimism over US-China trade deal and improvement in China's industrial profits. FTSE (0.8%) surged the most followed by Dow (0.7%) as it advanced for the 5th straight week. However, Sensex ended the week in red (-0.3%) on account of muted domestic cues.
- **Upcoming key events:** In the current week, markets await manufacturing PMIs of Eurozone, China and US and CPI prints of Indonesia, Thailand, France, Germany and South Korea. On the domestic front, manufacturing PMI, eight-core industry output, fiscal data and current account balance is scheduled for release.



India macro developments

- RBI's report showed that GNPA ratio of SCBs declined to 9.1% in FY19 from 11.2% in FY18. Overall recovery rate improved to 15.5% in FY19 vs 14.9% in FY18. Credit demand in FY19 improved to 13.3% vs 10.4% in FY18. However, challenges persist with regard to stress in the NBFC sector, corporate governance and frauds. CRAR ratio also improved to 14.3% for SCBs vs 13.8% in FY18, driven by Rs 1.06tn capital infusion by government to PSBs.
- As announced in the policy statement of 5 Dec, RBI has introduced a new Prepaid Payment Instrument (PPI) to boost small value digital payments. The instrument can be issued by both bank and non-bank issuers, with a maximum monthly limit of Rs 10,000 (to be loaded or re-loaded only from a bank account). This move is expected to enhance use of digital payments at small merchant locations where transaction failure rates are high.
- In order to balance liquidity mismatches, RBI announced another round of simultaneous OMO purchase (long end securities) and sale (short end) of Rs 100bn each. This will lower the gap between long and short end yields (144bps in Dec'19 vs 132bps in Nov'19). In CYTD19, OMO purchase has been Rs 1.9tn. System liquidity is currently in surplus of Rs 2.3tn.
- RBI reported that currency in circulation (CIC) declined by Rs 128.2bn and stood at Rs 22.7tn for the week ending 20 Dec 2019. Reserve money rose by 13.2% on a YoY basis, compared with 16.9% a year ago. On a FYTD basis, reserve money increased by 5% as against 6.3% last year.
- RBI's FSR highlighted capital adequacy of SCBs has improved after PSB recap. Provision coverage ratio of SCBs has also improved from 60.5% in Mar'19 to 61.5% in Sep'19, signalling banking sector's resilience. However, baseline scenario projects that GNPA ratio might inch up from 9.3% in Sep'19 to 9.9% in Sep'20 on account of marginal increase in slippages, changing macroeconomic scenario and declining credit growth.
- India's forex reserves rose to a fresh lifetime high of US\$ 455bn in the week ended 20 Dec 2019. On a weekly basis, forex reserves rose by US\$ 0.5bn vs an increase of US\$ 1.1bn last week. In FYTD20, forex reserves have risen by US\$ 43bn vs a decline of (-) US\$ 31.1bn last year.

Global macro developments

- US durable goods orders fell by (-) 2% in Nov'19 (est.: 1.5%) vs 0.2% in Oct'19, on MoM basis, due to drop in orders of transportation equipment. Non-defence capital goods excluding aircraft moderated to 0.1% vs 1.1% in Oct'19. In a separate print, US new home sales rose by 1.3% in Nov'19 to 719,000 units vs 710,000 in Oct'19, supported by lower mortgage rates.
- BoJ minutes revealed that members will continue to track the domestic economy as downward risks to global growth persist. Members also emphasized cooperation with government along with monetary policy as it prepares for the possible economic downturn. In its last meeting, BoJ kept interest rates unchanged, but raised the likelihood of monetary easing in the future if the need arises.
- World trade volume declined for the 5th consecutive month in Oct'19 by (-) 2.1% vs (-) 1.1% in Sep'19 as per estimates by CPB Netherlands. The deceleration was more pronounced in emerging Asia (ex-China) at (-) 6.2% vs (-) 3.3% in Sep'19 and Japan (-3.6% vs +3.2%). In CYTD19 (Jan-Oct), world trade volume fell by (-) 0.5% vs +4.2% in CYTD18.
- US jobless claims fell for the second straight week to 222,000 (earlier 235,000) for the week ending 21 Dec 2019. However the print was weaker than expectation of 220,000. Labour market conditions on a sustained basis have remained resilient with unemployment at 3.5% in Nov'19, which has supported modest growth in the US.
- China's industrial profits rose by 5.4% in Nov'19 vs (-) 9.9% in Oct'19 driven by improvement in production and sales and easing contraction in PPI. However, on CYTD basis the trend remains downward with (-) 2.1% decline in profits vs (-) 2.9% between Jan-Oct'19, owing to SoEs (-11.2%). Profits of private firms have increased by 6.5% in Jan-Nov'19.
- Industrial production in Japan declined by (-) 0.9% in Nov'19 (est. -1%) and (-) 4.5% in Oct'19. While production of cars and car engines recovered in Nov'19, machinery and information equipment output contracted. In a separate print, retail sales contracted by (-) 2.1% in Nov'19 vs (-) 7% in Oct'19 after the government raised sales tax. The dismal data raised expectations that GDP growth is likely to contract in Q4CY19.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.88	(4)	11	21	(89)
UK	0.76	(3)	8	27	(55)
Japan	0.00	(1)	11	21	(3)
Germany	(0.26)	0	12	32	(49)
India	6.51	(10)	3	(20)	(77)
China	3.13	(7)	(5)	(1)	(18)
2Y yields (Δ bps)					
US	1.58	(5)	(4)	(4)	(98)
UK	0.57	2	5	20	(21)
Japan	(0.12)	(3)	7	19	0
Germany	(0.63)	0	0	14	(1)
India	5.82	(6)	45	4	(101)
China	2.28	(30)	(35)	(27)	(41)
Currencies (Δ %)					
EUR	1.1177	0.9	1.6	2.6	(2.2)
GBP	1.3078	0.6	1.2	6.4	3.4
JPY	109.44	0	0.1	(1.3)	1.4
AUD	0.6980	1.2	3.0	3.4	(0.8)
INR	71.35	(0.3)	0	(0.7)	(1.4)
CNY	6.9957	0.2	0.5	2.1	(1.9)
Equity & Other indices (Δ %)					
Dow	28,645	0.7	1.7	6.4	23.8
FTSE	7,645	0.8	2.9	3.2	16.1
DAX	13,337	0.1	0.4	7.3	28.5
NIKKEI	23,838	0.1	1.7	9.6	18.7
Shanghai Comp	3,005	0	3.5	3.4	21.0
SENSEX	41,575	(0.3)	1.4	7.5	16.1
Brent (US\$/bbl)	68.16	3.1	6.4	12.1	30.7
Gold (US\$/oz)	1,511	2.2	3.9	2.6	18.4
CRB Index	401.0	0.7	3.6	3.5	(2.2)
Rogers Agri Index	756.8	1.3	4.4	6.2	0.1
LIBOR (3M)*	1.94	1	3	(14)	(86)
INR 5Y Swap*	6.74	11	34	37	(46)
India FII data (US\$ mn)					
	26 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	346.3	446.5	(549.8)	3,694.9	3,150.3
FII-Equity	18.5	332.0	993.3	14,365.7	7,520.5

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
30-Dec	South Korea industrial production, % YoY	Nov	(0.4%)	(2.5%)	(0.3%)
	Thailand exports, % YoY	Nov	--	(5.0%)	--
	Spain GDP, % QoQ	Q3CY19	0.4%	0.4%	--
	Hong Kong exports, % YoY	Nov	(6.2%)	(9.2%)	--
	US advance goods trade balance, US\$ bn	Nov	(68.8)	(66.5)	--
	US pending home sales, % MoM	Nov	1.3%	(1.7%)	--
	India current account balance, US\$ bn	Q3CY19	(7.1)	(14.3)	--
	Germany retail sales, % MoM	Nov	1.0%	(1.9%)	--
31-Dec	South Korea CPI, % YoY	Dec	0.6%	0.2%	--
	China manufacturing PMI	Dec	50.1	50.2	--
	China non-manufacturing PMI	Dec	54.2	54.4	--
	US conference board consumer confidence	Dec	128.2	125.5	--
	India fiscal deficit, Rs cr	Nov	--	68,891	--
	India eight infrastructure industries, % YoY	Nov	--	(5.8%)	--
1-Jan	South Korea exports, % YoY	Dec	(8.6%)	(14.3%)	--
2-Jan	Singapore GDP, % YoY	Q4CY19	0.9%	0.5%	--
	Caixin China manufacturing PMI	Dec	51.6	51.8	--
	Thailand CPI, % YoY	Dec	0.7%	0.2%	--
	Indonesia CPI, % YoY	Dec	--	3.0%	--
	Markit India manufacturing PMI	Dec	--	51.2	--
	Markit Italy manufacturing PMI	Dec	47.2	47.6	--
	Markit France manufacturing PMI	Dec	50.3	50.3	--
	Markit/BME Germany manufacturing PMI	Dec	43.4	43.4	--
	Markit Eurozone manufacturing PMI	Dec	45.9	45.9	--
	US initial jobless claims	28-Dec	222,000	222,000	--
Markit US manufacturing PMI	Dec F	52.5	52.5	--	
3-Jan	France CPI, % YoY	Dec	1.3%	1.0%	--
	Markit/CIPS UK construction PMI	Dec	45.8	45.3	--
	Germany CPI, % YoY	Dec	1.4%	1.1%	--
	US ISM manufacturing PMI	Dec	49.0	48.1	--

Source: Bloomberg, Bank of Baroda

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