

WEEKLY WRAP

04 November 2019

US-China trade deal to remain in focus

Third consecutive rate cut by US Fed and continuation of accommodative stance by BoJ led to decline in global yields. Manufacturing activity contracted in China, US and Japan. Despite this, S&P 500 surged to an all-time high on the back of corporate earnings and hope of US-China trade deal. Sensex too rose to an all-time high backed by corporate earnings after a tax cut and FII inflows. INR too appreciated. Progress on US-China and RCEP trade deals along with services PMI data will drive markets this week.

Sameer Narang | Sonal Badhan

chief.economist@bankofbaroda.com

Markets

- **Bonds:** Except China, global yields closed lower led by US with 10Y yield declining by 8bps (1.71%) on the back of three consecutive rate cuts by the Fed and soft PMI data. Central banks of Hong Kong and Brazil too reduced rates. Crude prices fell by (-) 0.5% (US\$ 62/bbl) on account of higher US inventories. India's 10Y yield fell by 2bps (6.66%), taking global cues. System liquidity surplus was at Rs 2.7tn as on 01 Nov 2019 vs Rs 1.5tn in the previous week.
- **Currency:** Global currencies ended higher this week led by positive developments in US-China trade deal. DXY fell by (-) 0.6% in the week as US Fed delivered its third rate cut in CY19. GBP appreciated by 0.9% as an extension of Brexit deadline helped allay fears of no-deal Brexit. EUR rose by 0.9% as Euro Area Q3CY19 GDP surprised positively. INR appreciated by 0.1% led by robust FII inflows of US\$ 2.1bn in the week.
- **Equity:** Barring FTSE, other global indices ended the week higher led by progress over US-China trade talks, Fed's rate cut decision and positive US jobs print and corporate earnings. Sensex surged by 2.8% with auto and tech stocks outperforming. In addition, positive earnings and the possible realignment of LTCC and DDT also led to Sensex moving to all-time high.
- **Upcoming key events:** In the current week, markets await policy decisions in UK, Australia, Malaysia and Thailand. Apart from that, services PMIs for Oct'19 and China's trade data is scheduled for release this week. On the domestic front services PMI and corporate earnings will dominate the newsflow.



India macro developments

- RBI data shows that credit growth inched up to 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.
- As per news reports, a Committee of Secretaries (CoS) will be formed to look at options for relief package to the telecom sector, in the wake of SC's current ruling on AGR. CoS will consider proposals such as: providing two-year moratorium on spectrum payments-for FY20 & FY21, reduction in USOF component of license fee (5% of AGR) and in spectrum usage charges. This would ensure financial viability of the sector
- RBI reported that currency in circulation (CIC) increased by Rs 308bn and stood at Rs 22tn for the week ending 25 Oct 2019. Reserve money rose by 15.3% on a YoY basis, compared with 17.4% a year ago. On a FYTD basis, reserve money increased by 3.8% as against 3.1% last year.
- Central government's fiscal deficit reached Rs 6.5tn in H1FY20 vs FY20BE of Rs 7tn. Centre's gross tax revenue growth eased to 4.1% vs 10.1% in H1FY19, owing to slowdown in direct tax collections (5.2% vs 16.9%). Expenditure growth however remained robust (14.1% vs 13.5%), driven by both revenue spending (14% vs 13.8%) & capex (15.3% vs 11.1%).
- Output of eight core industries contracted by (-) 5.2% in Sep'19 from 0.1% in Aug'19, as 7 out of 8 sectors witnessed negative growth. Sharpest drop was seen in the output of coal and refinery products at (-) 20.5% (-8.6% in Aug'19) and (-) 6.7% (2.6% in Aug'19) respectively. On a cumulative basis, the index rose at a slower pace by 1.3% in H1FY20 vs 5.5% in H1FY19. Going ahead, we expect a dismal growth in IIP and the weakness is likely to result in lower GDP growth for Q2FY20.
- Total GST collections for Sep'19 rose to Rs 954bn from Rs 919bn in Aug'19. On a MoM basis, SGST and IGST led the increase. However, on a YoY basis, total collections declined by (-5.3%), led by IGST (-12.9%) and cess (-4.9%) collections. Growth in CGST slowed to 6.8% from 8.6% in Aug'19, while SGST growth eased to 3.7% from 7.3% in Aug'19.
- Amidst signs of growing weakness in Indian economy, manufacturing PMI slipped to a 2-year low of 50.6 in Oct'19 from 51.4 in Sep'19. The cool-off was led by softer demand, as both production and factory orders rose at their weakest pace. In addition, job creation also dropped to a 6-month low and business confidence fell to its lowest level in over two and a half years.

Global macro developments

- 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 however continue to rise (5.4%). Industry wise, sharpest decline in profits was visible in petroleum & coal (-53.5%), metal processing (-41.8%) & car manufacturing (-16.6%).
- US nonfarm payroll additions rose more than expected by 128,000 in Oct'19 (est.: 85,000) vs 180,000 in Sep'19. Unemployment rate rose marginally to 3.6% in Oct'19 (3.5% in Sep'19). Average hourly earnings rose by 3% in Oct'19 vs 2.9% in Sep'19 on YoY basis. Separately, manufacturing activity remained weak with ISM print at 48.3 vs 47.8 in Sep'19, driven by contraction in new orders, production and employment.
- US consumer confidence dropped to 125.9 in Oct'19 vs 126.3 in Sep'19 and est.: 128, lowest reading since Jun'19. While the consumers remained confident about the present conditions. Future expectations took a hit led by growing concerns over business conditions and job prospects. This comes ahead of the expectation of rate cut by Fed.
- Retail sales in Japan rose to its highest since CY14 by 9.1% in Sep'19 on YoY basis vs 2% in Aug'19. On a MoM basis as well, retail sales increased at a far higher pace (7.1%) than estimated (3.5%). This was driven by higher sales of cars and household durables, due to front loading of spending before the sales tax increase (10% vs 8% earlier) w.e.f 01 Oct 2019.
- China's official manufacturing PMI fell again in Oct'19 to 49.3 from 49.8 in Sep'19. The 6th consecutive month of contraction in activity was led by decline in new export orders (47 from 48.2 in Sep'19). Employment growth also remained weak (47.3). As domestic demand weakens further, non-manufacturing PMI too eased in Oct'19 to 52.8 from 53.7 in Sep'19 to its lowest since Feb'16. This has raised hopes of policy rate cut by PBOC.
- US fed has cut policy rate for the 3rd time in CYTD19, by another 25bps (1.5-1.75%) on the back of benign growth outlook. However, regarding the future course of action FOMC members sounded less dovish and more data dependent. Other central banks- Hong Kong and Brazil, have also reduced policy rates by 25bps and 50bps respectively, to boost growth.
- BoJ kept its policy rate unchanged at (-) 0.1%, due to uncertainty over inflation remaining below 2% target. Inflation forecast for FY20 was also lowered to 0.5% from 0.8% earlier. BoJ in its forwards guidance has kept space for accommodation to maintain price stability. In a separate print, industrial production rose by 1.4% in Sep'19 vs (-) 1.2% in Aug'19, driven by growth in conveyors and semi-conductor manufacturing equipment.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.71	(8)	8	(13)	(150)
UK	0.66	(2)	19	11	(83)
Japan	(0.18)	(4)	(3)	(1)	(31)
Germany	(0.38)	(2)	18	11	(81)
India^	6.66	(2)	0	31	(112)
China	3.27	3	13	17	(28)
2Y yields (Δ bps)					
US	1.55	(7)	1	(16)	(135)
UK	0.52	0	18	8	(28)
Japan	(0.26)	(3)	2	(6)	(14)
Germany	(0.66)	0	11	13	(4)
India	5.49	(9)	(21)	(47)	(201)
China#	2.68	6	13	14	(15)
Currencies (Δ %)					
EUR	1.1166	0.8	2.1	0.5	(1.9)
GBP	1.2946	0.9	5.2	6.4	(0.2)
JPY	108.19	0.4	(0.4)	(1.5)	4.4
AUD	0.6904	1.2	3.0	1.5	(4.0)
INR	70.81	0.1	0.4	(1.7)	2.3
CNY	7.0370	0.4	1.6	(1.4)	(2.1)
Equity & Other indices (Δ %)					
Dow	27,347	1.4	2.9	3.3	8.2
FTSE	7,302	(0.3)	(0.8)	(1.4)	2.9
DAX	12,961	0.5	5.7	9.2	12.5
NIKKEI	22,851	0.2	4.4	8.4	2.7
Shanghai Comp	2,958	0.1	1.8	3.2	10.5
SENSEX	40,165	2.8	4.9	8.2	14.7
Brent (US\$/bbl)	61.69	(0.5)	4.8	(0.3)	(15.3)
Gold (US\$/oz)	1,514	0.6	2.4	5.1	22.8
CRB Index	389.5	(0.4)	0.5	(2.7)	(6.8)
Rogers Agri Index	732.6	0.6	2.7	3.1	(6.9)
LIBOR (3M)*	1.90	(3)	(19)	(34)	(69)
INR 5Y Swap*	6.51	(1)	13	(5)	(117)
India FII data (US\$ mn)					
	31 Oct	WTD	MTD	CYTD	FYTD
FII-Debt	149.2	501.8	713.4	4,686.8	4,142.2
FII-Equity	281.0	1,565.6	2,062.1	10,222.8	3,377.6

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
4-Nov	Australia retail sales, % MoM	Sep	0.4%	0.4%	--
	Markit Italy manufacturing PMI	Oct	47.7	47.8	--
	Markit France manufacturing PMI	Oct	50.5	50.5	--
	Markit Germany manufacturing PMI	Oct	41.9	41.9	--
	Markit Eurozone manufacturing PMI	Oct	45.7	45.7	--
	US durable goods orders, % MoM	Sep	(1.1%)	(1.1%)	--
5-Nov	Caixin China services PMI	Oct	51.5	51.3	--
	Central Bank of Australia policy rate, %	5-Nov	0.75%	0.75%	--
	Markit India services PMI	Oct	--	48.7	--
	Central Bank of Malaysia policy rate, %	5-Nov	3.0%	3.0%	--
	Euro Area PPI, % YoY	Sep	(1.2%)	(0.8%)	--
	US trade balance, US\$ bn	Sep	(52.5)	(54.9)	--
	Markit US services PMI	Oct	51.0	51.0	--
	US ISM non-manufacturing index	Oct	53.4	52.6	--
6-Nov	South Korea current account balance, US\$ bn	Sep	--	5.3	--
	Jibun Bank Japan services PMI	Oct	--	50.3	--
	Germany factory orders, % MoM	Sep	0.1%	(0.6%)	--
	Central Bank of Thailand policy rate, %	6-Nov	1.25%	1.50%	--
	Markit Italy services PMI	Oct	51.0	51.4	--
	Markit France services PMI	Oct	52.9	52.9	--
	Markit Germany services PMI	Oct	51.2	51.2	--
	Markit Eurozone services PMI	Oct	51.8	51.8	--
	Euro Area retail sales, % MoM	Sep	0.1%	0.3%	--
7-Nov	Philippines GDP, % YoY	Q3CY19	6.0%	5.5%	--
	Germany industrial production SA, % MoM	Sep	(0.3%)	0.3%	--
	Italy retail sales, % MoM	Sep	0.2%	(0.6%)	--
	ECB economic bulletin	--	--	--	--
	EU commission economic forecasts	--	--	--	--
	Bank of England policy rate, %	7-Nov	0.75%	0.75%	--
	US initial jobless claims, in thousands	2-Nov	215	218	--
8-Nov	Germany exports SA, % MoM	Sep	0.3%	(1.8%)	--
	France industrial production, % MoM	Sep	0.3%	(0.9%)	--
	Taiwan exports, % YoY	Oct	(0.4%)	(4.6%)	--
	China BoP current account balance, US\$ bn	Q3CY19	--	46.2	--
	China exports, % YoY	Oct	(3.8%)	(3.2%)	--

Source: Bloomberg, Bank of Baroda

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com