WEEKLY WRAP

07 October 2019

Global activity dips in Sep'19

Global economy has slowed down further in Sep'19 with US ISM manufacturing index at a 10-year low. Yields fell across major economies led by US. Crude oil too fell by (-) 5.7% in the week. Global equity markets also declined, led by FTSE (Brexit), Dax and then Sensex. RBI responded to a slowing domestic economy with a 25bps rate cut and an assurance to be accommodative. While short-end yields fell, curve steepened further due to uncertainty over fiscal deficit and thus the borrowing in H2.

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Markets

- **Bonds:** Apart from Japan, global yields closed lower over concerns of slowing global growth. PMI readings across regions indicate both manufacturing and services activity is seen to be moderating. China's exports shrank for 15th month in a row. US 10Y yield fell by 15bps (1.53%) and crude prices dropped by (-) 5.7% (US$ 58/bbl). India's 10Y yield fell by only 5bps (6.7%) even after 25bps rate cut by RBI as concerns over fiscal deficit remain. System liquidity was in surplus of Rs 2.5tn as on 04 Oct 2019 vs Rs 1.6tn in the previous week.

- **Currency:** Barring CNY and INR, other global currencies closed higher in the week. DXY fell by (-) 0.3% as US macro data disappointed (ISM manufacturing and non-manufacturing PMI). JPY rose by 0.9% on safe-haven demand on heightened fears over global growth. GBP fell by (-) 1.5% as uncertainty over Brexit intensified. INR fell by (-) 0.5% on the back of FII outflows (US$ 553mn) even as oil prices declined by (-) 5.7%.

- **Equity:** Stoked by fears of slowdown in US and uncertainty surrounding Brexit, global indices ended in red this week. FTSE (-3.6%) was the worst performer. This was followed by Dax and Sensex, each falling by (-) 3%. Equity markets are preparing for a slowing economy across regions. RBI lowered FY20 growth projection to 6.1%. Financials and metal stocks fell the most.

- **Upcoming key events:** In the current week, markets will keenly await US FOMC minutes, US CPI and PPI print. In addition, industrial production data for UK, Germany, and France is also scheduled for release. On the domestic front, industrial production data will be released this week.

India macro developments

- India's core sector growth contracted by (-) 0.5% and to a 52-month low in Aug'19 from 2.7% in Jul'19. This was driven by weaker demand. The sharpest contraction amongst all the sectors was seen in coal at (-) 8.7% in Aug'19 (-1.6% in Jul'19). This was followed by crude oil (-5.5% vs 4.4% in Jul'19) and natural gas (-4% vs -0.6% in Jul'19). Going ahead, IIP is likely to fare weaker than expected.
- Centre's gross borrowings for H2FY20 were at Rs 2.68tn as per budgeted vs Rs 4.42tn in H1. Notably, >10 year issuances in H2 are at 75.4% (42% outstanding), implying biasedness for steeper yield curve. To meet revenue shortfall, government announced disinvestment, including 100% stake sale in certain CPSEs. We expect fiscal deficit at 3.5% of GDP in FY20, to support growth.
- Total GST collections for Aug'19 fell to Rs 919bn (-2.7%) vs Rs 982bn in Jul'19 (+4.5%). Major decline was seen in IGST collections (-) Rs 461bn in Aug'19 vs Rs 253bn in Jul'19. However, both CGST (+90.2%) and SGST (7.3%) collections remained robust. The FYTD average run-rate of CGST is running at Rs 419bn, higher than Rs 370bn last year. SGST collections are also higher at Rs 243bn compared with RS 216bn last year.
- RBI reported that currency in circulation (CIC) increased by Rs 12.9bn and stood at Rs 21.8tn for the week ending 27 Sep 2019. Reserve money rose by 12% on a YoY basis, compared with 18.6% a year ago. On a FYTD basis, reserve money increased by only 0.6% as against 3% last year.
- Centre's gross tax collection growth in FYTD20 (Apr-Aug'19) continues to remain soft at 6.4% vs 9% last year. This driven by slowdown in both direct (9.6% vs 16.1% last year) and indirect tax collections (9.6% vs 16.1% last year). However, net revenue collections remain robust (29.8% vs 13.3% last year) owing to higher non-tax revenues and lower transfer to states. On the expenditure front, while revenue expenditure growth is steady, capex continues to remain under stress (3% vs 20% last year).
- India's services PMI index fell sharply in Sep'19 to 48.7 from 52.4 in Aug'19. Weak domestic demand and competitive pressures have impacted pricing power of firms. Business expectation index (12-month ahead) also declined to a two and a half year low. The only positive was uptick seen in new export orders.

Global macro developments

- China's official manufacturing PMI rose to 49.8 in Sep'19 from 49.5 in Aug'19 led by a pickup in demand. However, the index has stayed in the contraction zone for 5-months now as escalating US-China trade war and a weak global outlook impinges on the manufacturing sector. Export orders contracted for 16th straight month as global demand remains muted.
- US ISM manufacturing index plunged to a 10-year low at 47.8 in Sep'19 vs 49.1 in Aug'19. The decline was broad based as seen in dip in production, employment and inventories on the back of US-China trade war. Manufacturing activity in the Eurozone also slowed further as the Markit Eurozone PMI went deeper in the contraction zone at 45.7 vs 47 in Aug'19. The data raised fresh concerns over global growth slowdown.
- Reserve Bank of Australia has reduced the interest rates for the 3rd time in a row by 0.25% to 0.75% to boost growth. RBA also hinted that it may continue with further monetary easing to support employment and move inflation towards the 2-3% target range. It also noted that risks to global growth remain on the back of US-China trade dispute.
- Business activity in the Eurozone slowed further in Sep'19 as the composite PMI fell to 50.1 from 51.9 in Aug'19. Services sector activity which showed some resilience, moderated (services PMI at 51.6 vs 53.5 in Aug'19), with Germany noting a sharp decline (51.4 vs 54.8, 83-month low). Even in the UK, services PMI fell to 6-month low of 49.5 in Sep'19 from 50.6.
- US non-manufacturing ISM indicates services activity is cooling down with index slipping from 56.4 in Aug'19 to 52.6 in Sep'19. The decline was led by dip in new orders and employment. Separately, official data for Aug'19 also confirmed that factory orders in Aug'19 fell by (-) 0.1% vs (-) 0.3% in Jul'19. Core factory orders fell even more steeply (-0.4% vs -0.2% in Jul'19). In addition, US jobless claims for the week ending 28 Sep 2019 rose to 219,000 vs 215,000 in the week before.
- US unemployment rate fell to 3.5% in Sep'19-a 50-year low, after remaining unchanged at 3.7% in the last 3-months. The data offers some support even as manufacturing and services activity moderated in Sep'19. However, non-farm payrolls rose by only 136,000 vs est. 145,000. Manufacturing payrolls declined for the first time in 6-months by (-) 2,000 led by automotive sector. Average weekly hourly earnings remained unchanged in Sep'19 vs an increase of 0.4% in Aug'19.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.53	(15)	7	(50)	(170)
UK	0.44	(6)	4	(30)	(128)
Japan	(0.21)	2	7	(6)	(37)
Germany	(0.59)	(1)	12	(22)	(116)
India	6.69	(5)	17	(1)	(134)
China**	3.14	4	7	(4)	(48)
2Y yields (Δ bps)					
US	1.40	(23)	(5)	(46)	(148)
UK	0.35	(5)	2	(21)	(57)
Japan	(0.33)	(1)	(4)	(12)	(21)
Germany	(0.78)	(1)	13	(3)	(27)
India	5.64	(17)	(4)	(53)	(220)
China#**	2.56	2	(3)	(2)	(41)
Currencies (Δ %)					
EUR	1.0979	0.4	0.0	(2.2)	(4.7)
GBP	1.2331	0.3	2.1	(1.5)	(6.0)
JPY	106.94	0.9	(0.9)	1.4	6.0
AUD	0.6771	0.1	0.2	(3.0)	(4.0)
INR	70.88	(0.5)	2.1	(3.6)	3.9
CNY**	7.1483	(0.4)	0.4	(3.7)	(4.1)
Equity & Other indices (Δ %)					
Dow	26,574	(0.9)	1.7	(1.3)	0.5
FTSE	7,155	(3.6)	(1.6)	(5.3)	(2.2)
DAX	12,013	(3.0)	0.9	(4.4)	(0.8)
NIKKEI	21,410	(2.1)	3.8	(1.5)	(10.0)
Shanghai Comp**	2,905	(0.9)	(0.9)	(3.5)	3.0
SENSEX	37,673	(3.0)	3.0	(4.7)	9.6
Brent (US$/bbl)	58.37	(5.7)	0.2	(9.1)	(30.6)
Gold (US$/oz)	1,505	0.5	(2.7)	7.5	25.0
CRB Index	388.6	0.3	0.6	(3.8)	(6.9)
Rogers Agri Index	712.3	1.1	5.2	(4.5)	(9.3)
LIBOR (3M)*	2.04	(6)	(8)	(27)	(36)
INR 5Y Swap*	6.32	(6)	26	(31)	(148)
India FII data (US$ mn)	**3 Oct**	**WTD**	**MTD**	**CYTD**	**FYTD**
FII-Debt	(12.2)	(137.9)	(91.3)	3,882.1	3,337.4
FII-Equity	(156.4)	(415.3)	(373.0)	7,787.7	942.5

Source: Bloomberg, Bank of Baroda | *Indicates change in bps, #1Y yield, **China's markets are closed since 30.9.2019

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
7-Oct	Germany factory orders, % MoM	Aug	(0.3%)	(2.7%)	--
	Taiwan exports, % YoY	Sep	1.1%	2.6%	--
	US monthly budget statement, US$ bn	Sep	82.5	119.1	--
8-Oct	South Korea BoP current account balance, US$ tn	Aug	--	6.9	--
	Japan BoP current account balance, ¥ tn	Aug	2.1	2.0	--
	Caixin China services PMI	Sep	52.0	52.1	--
	Germany industrial production SA, % MoM	Aug	(0.1%)	(0.6%)	--
	France trade balance, € bn	Aug	--	(4.6)	--
	Italy retail sales, % MoM	Aug	0.1%	(0.5%)	--
	US PPI final demand, % MoM	Sep	0.1%	0.1%	--
	Singapore GDP, % YoY	Q3CY19	0.2%	0.1%	--
9-Oct	Japan machine tool orders, % YoY	Sep	--	(37.0%)	--
	US FOMC meeting minutes	18-Sep	--	--	--
	China new Yuan loans, CNY tn	Sep	1.4	1.2	--
10-Oct	Japan PPI, % YoY	Sep	(1.1%)	(0.9%)	--
	Japan core machine orders, % MoM	Aug	0.0%	(6.6%)	--
	Germany trade balance, € bn	Aug	18.6	21.4	--
	France industrial production, % MoM	Aug	0.3%	0.3%	--
	Italy industrial production, % MoM	Aug	0.1%	(0.7%)	--
	UK industrial production, % MoM	Aug	0.1%	0.1%	--
	US CPI, % MoM	Sep	0.1%	0.1%	--
	US initial jobless claims, in thousands	05-Oct	218	219	--
11-Oct	Germany CPI, % YoY	Sep	1.2%	1.2%	--
	India industrial production, % YoY	Aug	1.8%	4.3%	--
	China FDI, % YoY CNY	Sep	--	3.6%	--

Source: Bloomberg, Bank of Baroda

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