

WEEKLY WRAP

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Global growth shows some hope

Global growth showed signs of respite with manufacturing activity improving in both US and China. It may not last long. Global services PMI also improved in Mar'19. This along with prospects of US-China trade deal and rising crude prices (up 3% to US\$ 70/bbl) led to higher yields. Equity indices also went up. RBI's dovish outlook to boost growth through lower real rates supported domestic markets. INR depreciated amidst FII outflows. RBI's second US\$ 5bn swap will ease domestic liquidity situation and transmit second rate cut by RBI.

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Markets

- Bonds:** Global yields closed higher. This was driven by a buoyant labour market in the US and better than expected manufacturing and services activity in China. US 10Y yield edged up by 9bps even as Fed's dovish outlook persisted. Crude prices inched up by 3% (US\$ 70/bbl) amid progress over US-China trade talks. India's 7.17GS2028 yield rose by 2bps (7.51%) as RBI maintained its neutral stance rather than changing it to accommodative. System liquidity deficit was at Rs 76bn as on 5 Apr 2019 vs Rs 882bn in the previous week, supported by RBI's swap auction.
- Currency:** Global currencies traded in a narrow range as US-China trade talks, Brexit uncertainty and US macro data remained in focus in the week. DXY rose by 0.1% in the week on strong payroll additions and manufacturing PMI. JPY fell by (-) 0.8% as Japanese manufacturing PMI remained in contraction mode. INR declined by (-) 0.1% in the week, on the back of rising oil prices and a resumption in FII outflows.
- Equity:** Led by positive developments surrounding trade negotiations between US and China, global indices closed higher. Shanghai Comp surged by 5% followed by Dax (4.2%). Dow was up by 1.9% posting its second weekly gain led by better than expected jobs data. Sensex too ended in green for seventh week in a row supported by RBI's dovish stance.
- Upcoming key events:** In the current week, markets will look forward to inflation print of US, China and Germany. Apart from that, ECB's policy rate, FOMC minutes and industrial production of UK, France and Italy will also be watched. On the domestic front, India's industrial production and inflation data is scheduled to be released this week.



India macro developments

- RBI delivered two consecutive rate cuts of 25bps each with a 4-2 vote while maintaining a neutral stance. Benign CPI inflation and muted growth spurred the MPC members to cut rates. RBI also revised its inflation and growth forecast for FY20 downwards. With weak global and domestic growth momentum, RBI has room for another rate cut.
- GST collection for Feb'19 rose to Rs 1.1tn vs Rs 972bn in Jan'19. This was driven by Rs 204bn collected as CGST, Rs 275bn as SGST and Rs 504 as IGST. On an average, total collections have recorded a run-rate of Rs 976bn in FYTD19 vs Rs 897bn in FYTD18 (Jul-Feb). Higher collections this year have also helped FYTD CGST collections (Rs 4.1tn) to near FY19RE target of Rs 5tn.
- India's core sector growth improved marginally to 2.1% in Feb'19 from 1.5% in Jan'19. The improvement was largely led by coal sector output which rose by 7.3% in Feb'19 (1.7% in Jan'19) attributable to base effect. However, slowdown in electricity, fertilizers and crude oil continued to dampen any hopes of revival. Going forward, we expect a weaker growth in IIP.
- Manufacturing activity in India moderated as reflected from the PMI data, which fell to its 6-month low of 52.6 in Mar'19 compared to 54.3 in Feb'19. This was driven by slower pace of expansion in new orders, exports and employment on the back of muted global growth. On price front, both input and output charges softened.
- According to Skymet, India is expected to receive below normal monsoon at 93% of LPA. There is 55% likelihood of below normal rains on the back of devolving El Nino, throughout the season. This in turn is likely to negatively impact agriculture growth in FY20.
- RBI reported that currency in circulation declined by (-) Rs 84bn (on a weekly basis) and stood at Rs 21tn as on 29 Mar 2019. Overall reserve money grew at a slower pace of 15% in FY19, compared to 27% a year ago.
- India's forex reserves rose to 10-month high at US\$ 412bn in the week ending 29 Mar 2019. On a weekly basis, forex reserves rose by US\$ 5.2bn, registering the largest weekly gain since May'15. RBI's dollar-rupee swap as well as strong FII inflows, supported the increase. However, in FY19 forex reserves declined by US\$ 12.5bn compared with an accretion of US\$ 54.4bn in FY18.

Global macro developments

- ADB has cut its growth forecast for developing Asia to 5.7% in 2019 (5.9% earlier forecast and 5.8% in 2018) on the back of dip in global demand and trade war concerns. The region is expected to grow by 5.6% in 2020. While growth in China is expected to slow down to 6.3% in 2019 and 6.1% in 2020 (6.6% in 2018), India's growth is expected to pick up to 7.2% in FY20 and 7.3% in FY21 supported by higher domestic demand.
- Manufacturing activity in both China and US improved in Mar'19. While US ISM manufacturing index improved to 55.3 vs 54.2 in Feb'19, China's official manufacturing PMI rebounded from 49.2 in Feb'19 to 50.5 in Mar'19. In both cases, improvement was due to faster expansion in new orders. In China, it was led by hi-tech manufacturing, equipment and consumer goods manufacturing. However, contracting new export orders in China, remains a key cause of concern.
- Services activity in the US showed some moderation as reflected in the ISM non-manufacturing index which was at 56.1 in Mar'19 vs 59.7 in Feb'19. This was driven by fall in new orders and business activity. However, what has been a respite is a pickup in global services PMI to 53.7 vs 53.3 in Feb'19. The strongest growth was seen in Spain and Germany. China services activity also remained robust as Caixin PMI rose to 54.4 vs 51.1 in Feb'19.
- US durable goods order declined unexpectedly by (-) 1.6% in Feb'19 on a MoM basis vs 0.1% in Jan'19 & est.: +0.1%. This is the 3rd consecutive month when orders placed with US factories have remain weak. Muted corporate investment has also led to slowdown in core capital goods orders (-0.1% vs 0.9% in Jan'19).
- Employment in the US remained robust as reflected in the jobs data. The addition to the non-farm payroll was more than expected at 196,000 vs est: 177,000. The Feb'19 figures were also revised upward to 33,000 vs 20,000 earlier. Unemployment rate was stable at 3.8%. Average hourly earnings on YoY basis was at 3.2% vs 3.4% in Feb'19.
- German industrial production rose by 0.7% in Feb'19 on a MoM basis vs est. 5% and flat in Jan'19. The upturn was led by construction sector (6.8%) while manufacturing activity continued to fall (-0.2%). Within manufacturing, auto industry output has declined by 1% in Jan-Feb'19 vs Nov-Dec'18. For Q1CY19, analysts believe that any increase in GDP will be led by construction sector, otherwise GDP growth will remain flat.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	2.50	9	(14)	(20)	(28)
UK	1.12	12	(6)	(14)	(29)
Japan	(0.03)	5	(2)	(2)	(7)
Germany	0.01	8	(6)	(21)	(50)
India #	7.51	2	(7)	0	28
China	3.26	19	9	9	(45)
2Y yields (Δ bps)					
US	2.34	8	(13)	(20)	6
UK	0.72	7	(2)	(4)	(16)
Japan	(0.15)	2	(1)	2	(1)
Germany	(0.57)	3	(2)	2	1
India	6.59	4	(11)	(47)	(19)
China**	2.40	3	(1)	(1)	(85)
Currencies (Δ %)					
EUR	1.1216	0	0.2	(2.2)	(9.0)
GBP	1.3038	0	(0.4)	2.0	(7.7)
JPY	111.73	(0.8)	(0.1)	(2.8)	(4.6)
AUD	0.7105	0.1	1.3	(0.6)	(7.7)
INR	69.23	(0.1)	1.1	0.7	(6.5)
CNY	6.7170	(0.1)	0	2.0	(6.5)
Equity & Other indices (Δ %)					
Dow	26,425	1.9	3.7	12.3	10.2
FTSE	7,447	2.3	4.0	9.3	3.5
DAX	12,010	4.2	4.3	11.7	(2.1)
NIKKEI	21,808	2.8	1.6	8.8	0.6
Shanghai Comp	3,247	5.0	4.5	28.2	3.5
SENSEX	38,862	0.5	5.8	8.4	15.0
Brent (US\$/bbl)	70.34	2.9	6.1	22.7	2.5
Gold (US\$/oz)	1,292	0	0.5	0.2	(3.3)
CRB Index	424.9	(0.4)	2.8	2.7	(3.3)
Rogers Agri Index	751.1	1.0	1.6	(2.6)	(10.9)
LIBOR (3M)*	2.59	(1)	(1)	(20)	25
INR 5Y Swap*	6.36	(11)	(65)	(87)	(44)
India FII data (US\$ mn)					
	04 Apr	WTD	MTD	CYTD	FYTD
FII-Debt	(209.4)	(779.5)	(779.5)	489.0	(779.5)
FII-Equity	(29.7)	(82.6)	(82.6)	8,143.5	(82.6)

Source: Bloomberg, Bank of Baroda Research | *Indicates change in bps, # 7.17 GS 2028 security, ** 1Y yield

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
08-Apr	Japan current account balance, ¥ bn	Feb	2,633.5	600.4	2,676.8
	Germany exports SA, % MoM	Feb	(0.5%)	0.0%	--
	Taiwan exports, % YoY	Mar	(8.3%)	(8.8%)	--
	US durable goods orders, % MoM	Feb F	(1.6%)	(1.6%)	--
09-Apr	Taiwan CPI, % YoY	Mar	0.6%	0.2%	--
	Italy retail sales, % MoM	Feb	(0.2%)	0.5%	--
10-Apr	Japan PPI, % YoY	Mar	1.0%	0.8%	--
	Japan core machine orders, % MoM	Feb	2.8%	(5.4%)	--
	Japan machine tool orders, % YoY	Mar P	--	(29.3%)	--
	France industrial production, % MoM	Feb	(0.5%)	1.3%	--
	Italy industrial production, % MoM	Feb	(0.8%)	1.7%	--
	UK trade balance, £ bn	Feb	(3.8)	(3.8)	--
	UK industrial production, % MoM	Feb	0.1%	0.6%	--
	ECB policy rate, %	10-Apr	0.00%	0.00%	--
	US CPI, % MoM	Mar	0.3%	0.2%	--
	US FOMC meeting minutes	10-Apr	--	--	--
	US monthly budget statement, US\$ bn	Mar	(183.0)	(234.0)	--
11-Apr	China CPI, % YoY	Mar	2.3%	1.5%	--
	China PPI, % YoY	Mar	0.4%	0.1%	--
	Germany CPI, % YoY	Mar F	1.3%	1.3%	--
	France CPI, % YoY	Mar F	1.1%	1.1%	--
	US PPI final demand, % MoM	Mar	0.3%	0.1%	--
	US initial jobless claims	06-Apr	2,10,000	2,02,000	--
	China FDI, % YoY CNY	Mar	--	6.6%	--
12-Apr	Singapore GDP, % YoY	Q1CY19	1.4%	1.9%	--
	Euro Area industrial production SA, % MoM	Feb	(0.6%)	1.4%	--
	India CPI, % YoY	Mar	--	2.6%	--
	India industrial production, % YoY	Feb	--	1.7%	--
	China exports, % YoY	Mar	6.4%	(20.7%)	--

Source: Bloomberg, Bank of Baroda Research

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