

WEEKLY WRAP

15 April 2019

Higher oil prices- a key risk

Despite relatively encouraging global data, IMF reiterated its concerns regarding global economic slowdown and downgraded its growth forecast for CY19 to 3.3% from 3.5% earlier. Similar concerns were raised in both FOMC minutes and ECB rate decision. Better than expected exports from China led to higher global yields and appreciation bias for EM currencies. Indian 10Y yield too rose as oil prices inched up. However, yields are unlikely to go up as lower than expected IIP data means RBI is likely to cut rates to support growth.

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Markets

- Bonds:** Barring Japan, global yields closed higher. This was driven by higher CPI print in China and US. Apart from this, better than expected exports from China lent support to revival in global growth. US 10Y yield rose by 7bps (2.57%). Crude prices also inched up by 2% (US\$ 72/bbl). India's 7.17GS2028 yield rose by 6bps (7.57%). System liquidity deficit was at Rs 121bn vs Rs 12bn in the previous week.
- Currency:** Barring JPY, other global currencies closed higher versus USD. This was on the back of easing global growth concerns as macro data in both US and China surprised positively. DXY fell by (-) 0.4% in the week. AUD (1%) and EUR (0.7%) gained the most. INR was marginally higher by 0.1% in the week, as rising oil prices capped its gains.
- Equity:** Despite relatively better economic data, global indices, other than Nikkei, closed lower over after IMF reduced its global growth forecast. Shanghai Comp lost the most (- 1.8%). Lower than estimated imports added to worries over China's growth. Even European markets underperformed. Dow ended the week on a flat note looking for more cues in the upcoming week ahead of Q1 earnings. Sensex snapped its previous week's gain and ended in red.
- Upcoming key events:** In the current week, markets will focus on flash manufacturing and services PMI of EU & US, China's Q1CY19 GDP, retail sales & industrial production of US & China. On the domestic front, besides WPI, trade and MPC minutes, earnings and election will drive markets.



India macro developments

- SIAM forecasts suggest that car sales in India will remain muted at around 3-5% in FY20 compared to a 5-year low growth of 2.7% in FY19. This will be on the back of subdued rural demand, uncertainty with regard to normal monsoon and liquidity woes of NBFCs. Thus moderate strain on consumption demand might persist till H1FY20.
- As per news reports, India's fiscal deficit is estimated to have met the FY19RE target of 3.4% (of GDP), with the help of lower expenditure and higher borrowings from NSSF. In terms of revenue collections, government is estimating to miss direct tax collection target by Rs 500bn and indirect tax collection by Rs 650bn. However, higher non-tax revenues and capital receipts (disinvestment) are expected to meet the revenue shortfall.
- RBI reported that currency in circulation increased by Rs 86bn (on a weekly basis) and stood at Rs 21tn as on 5 Apr 2019. Overall reserve money grew by only 16% on a YoY basis compared to 29% a year ago. On FYTD basis, reserve money declined by (-) 1.8% vs (-) 2.8% last year.
- RBI made net purchases of US\$ 825mn in the spot market in Feb'19 vs US\$ 293mn in Jan'19. In the forwards market, RBI sold US\$ 1.3bn vs US\$ 606mn in Jan'19. In the period Apr-Feb'19, RBI has sold US\$ 24.8bn in spot and US\$ 25.2bn in the forwards market so far.
- CPI rose to a 5-month high of 2.9% in Mar'19 while IIP fell to a 20-month low of 0.1% in Feb'19. The increase in inflation is attributable to food which accelerated to 0.3% in Mar'19 from (-) 0.7% in Feb'19 led by vegetable prices. Core moderated to 5% led by a broad-based decline. This implies RBI is likely to reduce policy rates further to spur growth. Rise in oil prices and below normal monsoon remains a risk.
- India's forex reserves rose to 11-month high at US\$ 414bn in the week ending 5 Apr 2019. On a weekly basis, forex reserves rose by US\$ 1.9bn vs an increase of US\$ 5.2bn. In CYTD19, forex reserves have increased by US\$ 20.4bn compared with US\$ 15.5bn in the same period last year supported by RBI's dollar-rupee swap as well as strong FII inflows.

Global macro developments

- Signs of global trade weakness are emerging as both Germany and Taiwan have reported decline in their export growth. While Germany's exports declined by (-) 1.3% in Feb'19 on a MoM basis vs est.: (-) 0.5% and 0.1% in Jan'19, Taiwan's exports in Mar'19 declined by (-) 4.4% on a YoY basis vs (-) 8.8% in Feb'19. In both cases, US-China trade deal and cooling down of the Chinese economy has impacted exports.
- IMF has revised its global growth projection downward to 3.3% in CY19 vs 3.5% earlier. This has been on the back of slowing global growth, such as US (2.3% in CY19 vs 2.5% CY18) and Euro Area (1.3% in CY19 vs 1.6% CY18). Uncertainties emanating from trade tensions and Brexit pose significant downside risks. While China's growth projection has been revised upward to 6.3% vs 6.2%, India's has been revised downward to 7.3% from 7.5% earlier.
- US FOMC minutes reflected that Fed fund rates are likely to remain unchanged in CY19. However, based on the underlying inflation and growth environment, room might be open for modest rate hike at the end of the year. The minutes have also come up with a detailed plan of balance sheet normalisation. In a separate print, US CPI increased by 0.4% in Mar'19 vs 0.2% in Feb'19 on MoM basis, driven by higher gasoline prices. On an annualised basis, it increased by 1.9% vs 1.5% in Feb'19.
- ECB kept its policy rates unchanged in line with other central banks and is expected to hold the rates at the current levels throughout CY19. Forward guidance through stimulus programmes (TLTRO) is expected to start in Sep'19.
- US PPI rose at the fastest pace in 5 months in Mar'19, by 0.6% on MoM basis vs 0.1% in Feb'19, mainly on account of higher energy prices (5.6% vs 1.8% in Feb'19). Separately, allaying growth concerns is the labour market data which shows that, jobless claims for the week ending 6 Apr fell by 8,000 to 196,000 (est.: 211,000). The 4-week moving average was at 1,734,500 vs 1,745,500 in the previous week.
- China's PPI in Mar'19 rose by 0.4% on YoY basis vs 0.1% in Feb'19. The first increase in 9 months was driven by jump in oil & gas prices. Mining saw the largest jump, as prices inched up by 4.2% in Mar'19 vs 1.8% in Feb'19. CPI too ticked up, to 2.3% in Mar'19 vs 1.5% in Feb'19. The surge was driven by vegetable and pork prices, Non-food inflation still remains benign at 1.8% vs 1.7% in Feb'19. Core inflation remained unchanged at 1.8% in Mar'19.
- China's exports rose by 14.2% in Mar'19 vs (-) 20.7% in Feb'19, while imports continued to decline (-7.6% vs -5.2% in Feb'19). The rebound in exports is seen temporary by analysts due to base effect (owing to Lunar New Year), making 3% MoM rise in shipments in line with expectations. In Q1CY19, exports were up by 1.4% while imports declined by (-) 4.8%.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	2.57	7	(6)	(14)	(26)
UK	1.21	10	1	(8)	(22)
Japan	(0.06)	(3)	(1)	(7)	(9)
Germany	0.06	5	(1)	(18)	(46)
India #	7.57	6	2	7	14
China	3.36	9	21	24	(36)
2Y yields (Δ bps)					
US	2.39	5	(7)	(15)	3
UK	0.78	7	3	(3)	(12)
Japan	(0.16)	(1)	(1)	(1)	(1)
Germany	(0.56)	1	(1)	3	2
India	6.68	9	(1)	(32)	(22)
China**	2.45	4	2	3	(77)
Currencies (Δ %)					
EUR	1.1299	0.7	(0.2)	(1.5)	(8.4)
GBP	1.3074	0.3	(2.0)	1.8	(8.2)
JPY	112.02	(0.3)	(0.8)	(3.3)	(4.4)
AUD	0.7173	1.0	1.1	(0.6)	(7.6)
INR	69.16	0.1	0.5	1.9	(6.1)
CNY	6.7036	0.2	0.1	0.9	(6.8)
Equity & Other indices (Δ %)					
Dow	26,412	0	2.8	10.1	8.4
FTSE	7,437	(0.1)	3.9	7.5	2.4
DAX	12,000	(0.1)	3.7	10.2	(3.6)
NIKKEI	21,871	0.3	2.7	7.4	0.4
Shanghai Comp	3,189	(1.8)	5.3	24.9	0.9
SENSEX	38,767	(0.2)	2.7	7.7	13.4
Brent (US\$/bbl)	71.55	1.7	5.9	18.3	(1.4)
Gold (US\$/oz)	1,290	(0.1)	(1.4)	0	(4.1)
CRB Index	426.1	0.3	1.6	3.5	(3.1)
Rogers Agri Index	750.5	(0.1)	0.1	(2.7)	(10.5)
LIBOR (3M)*	2.60	1	(1)	(19)	25
INR 5Y Swap*	6.73	37	(22)	(47)	(16)
India FII data (US\$ mn)					
	11 Apr	WTD	MTD	CYTD	FYTD
FII-Debt	(119.4)	(207.9)	(1,047.9)	220.6	(1,047.9)
FII-Equity	147.4	509.7	541.3	8,767.4	541.3

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
15-Apr	Indonesia exports, % YoY	Mar	(11.8%)	(11.3%)	--
	India WPI, % YoY	Mar	3.2%	2.9%	--
	India Exports, % YoY	Mar	--	2.4%	--
	China FDI, % YoY CNY	Mar	--	6.6%	--
16-Apr	China new home prices, % MoM	Mar	--	0.5%	--
	RBA minutes of April policy meeting	1-Apr	--	--	--
	UK jobless claims change	Mar	--	27,000	--
	UK ILO unemployment rate 3mths, %	Feb	4.0%	3.9%	--
	Germany ZEW survey current situation	Apr	8.0	11.1	--
	US industrial production, % MoM	Mar	0.3%	0.1%	--
17-Apr	Japan trade balance, ¥ bn	Mar	367.7	339.0	--
	China fixed assets ex rural YTD, % YoY	Mar	6.3%	6.1%	--
	China industrial production, % YoY	Mar	6.0%	--	--
	China retail sales, % YoY	Mar	8.4%	--	--
	China GDP, % YoY	Q1CY19	6.3%	6.4%	--
	Japan industrial production, % MoM	Feb F	--	1.4%	--
	ECB current account SA, € bn	Feb	--	36.8	--
	UK CPI, % YoY	Mar	2.0%	1.9%	--
	Euro area trade balance SA, € bn	Feb	--	17.0	--
	Euro Area CPI, % YoY	Mar F	1.4%	1.4%	--
	US trade balance, US\$ bn	Feb	(53.6)	(51.1)	--
	18-Apr	Germany PPI, % YoY	Mar	2.7%	2.6%
France manufacturing PMI		Apr P	50.1	49.7	--
Germany manufacturing PMI		Apr P	45.0	44.1	--
Germany services PMI		Apr P	55.0	55.4	--
Eurozone manufacturing PMI		Apr P	47.8	47.5	--
Eurozone services PMI		Apr P	53.1	53.3	--
UK retail sales inc auto fuel, % MoM		Mar	(0.2%)	0.4%	--
US advance retail sales, % MoM		Mar	0.8%	(0.2%)	--
US initial jobless claims		13-Apr	--	196,000	--
US manufacturing PMI		Apr P	53.0	52.4	--
US services PMI		Apr P	55.0	55.3	--
BoK 7-day repo rate		18-Apr	1.75%	1.75%	--
19-Apr		South Korea PPI, % YoY	Mar	--	(0.2%)
	Japan CPI, % YoY	Mar	0.5%	0.2%	--
	Italy consumer confidence index	Apr	--	111.2	--
	US housing starts, thousands	Mar	1,230	1,162	--

Source: Bloomberg, Bank of Baroda Research

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