

WEEKLY WRAP

20 January 2020

Union Budget to take centre-stage

US equity markets surged to new highs on the back of signing of US-China trade deal and positive macro data in US (retail sales, housing starts) and China (GDP, industrial production, investments). However, 10Y yields in UK slipped by 14bps after data surprised negatively (industrial production, inflation). On the domestic front, India's CPI and WPI inched up on the back of food inflation. So did bond yields. In the coming days, focus will be on policy measures to revive growth that could be announced in the Union Budget.

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Markets

- **Bonds:** Global yields closed mixed even after US and China signed Phase 1 trade deal. US 10Y yield closed flat at 1.82%. UK 10Y yield fell by 14bps as economic data disappointed. Oil prices fell by (-) 0.2% due to easing tensions in Middle East. India's 10Y yield rose by 4bps (6.63%) as headline CPI print in Dec'19 rose to a 5-year high of 7.4%. System liquidity surplus was at Rs 3.1tn as on 17 Jan 2020 vs Rs 3.2tn in the previous week.
- **Currency:** Except CNY, other global currencies closed lower this week. DXY rose by 0.3% in the week as US retail sales, jobless claims and housing starts surprised positively. CNY rose by 0.9% to its highest since Jul'19 on the back of signing of US-China trade deal and improved economic data in Dec'19 (exports, retail sales, industrial production and fixed asset investments). INR depreciated by (-) 0.2% in the week even as oil prices eased. FII inflows were US\$ 1.2bn.
- **Equity:** Barring Shanghai Comp (-0.5%), global indices ended higher this week. While investors await more clarity on the phase 1 deal signed between US and China, earnings results and positive macro prints (China GDP, Euro Area inflation, US retail sales) kept the sentiments high in US and Europe. Following global cues, Sensex too ended the week 0.8% higher.
- **Upcoming key events:** In the current week, markets will await policy decisions of major central banks (BoJ, ECB). Apart from this, flash manufacturing data of major economies (US, Germany, France and Japan) will give an idea about manufacturing activity in Jan'20. On the domestic front, markets will await cues on Union Budget.



India macro developments

- CPI in India spiked to 7.4% in Dec'19 from 5.5% in Nov'19, led by sharp acceleration in food prices (14.1%). Within food, vegetable prices rose the most at 60.5% in Dec'19 vs 36.1% in Nov'19. Core CPI too increased, to 3.8% in Dec'19 vs 3.5% in Nov'19, driven by transport & communication (4.8% vs 0.9%). Such high food inflation was last seen in FY14 (9.4%) and has coincided with uptick in global food prices (now at 5-year high).
- As per news reports, government is seeking Rs 190bn as dividend from state oil companies. This would be around 5% higher compared to last year, despite falling profit margins of these companies. Except EIL, all state oil companies have reported a drop in half yearly profits. Dividends and profits of the central government is at Rs 1.58tn (till Nov'19) vs BE of Rs 1.64tn.
- India's trade deficit in Dec'19 narrowed to US\$ 11.3bn from US\$ 12.1bn in Nov'19 as imports fell by (-) 8.8% vs (-) 1.8% decline in exports. Sharp fall in exports was driven by organic chemicals, agriculture items and engineering goods. Weak domestic demand led to (-) 12.2% drop in non-oil-non-gold imports. Capital goods import too fell by (-) 16.5% in Dec'19.
- UN estimates India's GDP growth to slow down to 5.7% in FY20 from 6.8% in FY19 and 7.6% estimated earlier. This is due to weakness in investment and domestic consumption along with muted manufacturing and service sector activity. However, growth is expected to recover to 6.6% in FY21 supported by both monetary and fiscal measures.
- WPI inflation edged up to 7-month high of 2.6% in Dec'19 from 0.6% in Nov'19 led by food inflation which rose to 11% in Dec'19 (9% in Nov'19). At the same time, deflation in fuel and power index and manufactured products eased. Fuel and power inflation fell by (-) 1.5% in Dec'19 vs (-) 7.3% in Nov'19 led by higher oil and coal prices. Deflation in core moderated to (-) 1.5% in Dec'19 from (-) 1.9% in Nov'19. Manufactured inflation dropped to (-) 0.3% in Dec'19 from (-) 0.8% in Nov'19.
- As per news reports, central government has raised tax department's targets for GST collections to Rs 1.15tn for Jan and Feb'20 and to Rs 1.25tn for Mar'20. Collections in Dec'19 were at Rs 1tn, taking the average monthly run-rate for FYTD20 to Rs 993bn. If the Jan-Mar'20 targets are met, total GST collections will fall short of only Rs ~234bn from the budgeted Rs 12.76tn (Centre: Rs 6.63tn; States: Rs 6.13tn).

Global macro developments

- UK industrial production fell by (-) 1.2% in Nov'19 on MoM basis vs 0.1% growth in Oct'19. This was driven by sharp slowdown in manufacturing sector (-1.7% vs 0.2% increase in Oct'19), primarily in chemical products (-4.7% in Nov'19) & transport equipment (-3.4% in Nov'19). Mining & quarrying activities however picked up by 1.3% vs (-) 4.2% in Oct'19.
- US CPI eased to 0.2% in Dec'19 from 0.3% in Nov'19. This was led by decline in prices of used cars & trucks (-0.8% vs 0.6%), airline ticket (-1.6% vs -0.9%) and household furnishing & operations (-0.4% vs 0%). Core CPI too moderated by 0.1% in Dec'19 vs 0.2% in Nov'19. However, on a YoY basis, CPI rose by 2.3% in Dec'19 compared with 2.1% in Nov'19.
- China's exports rose by 7.6% in Dec'19 vs est.: +3.2% and (-) 1.3% drop in Nov'19. This was largely driven by thawing trade tensions between US and China. However, analysts believe this has more to do with base effect and higher prices rather than revival in global demand. China's imports too jumped by 16.3% vs est.: 9.6% and 0.5% in Nov'19. In CY19 export growth remained muted at 0.5% vs 10% in CY18.
- US PPI rose by 0.1% in Dec'19 on a MoM basis after remaining flat (0%) in Nov'19, mainly owing to higher energy prices (1.5% vs 0.6% in Nov'19) and marginal improvement in services PPI (0% vs -0.3%). Core PPI for goods on the other hand eased to 0.1% from 0.2% in Nov'19. In CY19 PPI rose by 1.3% vs 2.6% in CY18. With inflation pressures muted, Fed is likely to keep the rates unchanged this year.
- UK CPI fell to 1.3% in Dec'19 (est. 1.5%) vs 1.5% in Nov'19, its slowest pace since Nov'16. This was led by lower prices of hotels and clothing. Core CPI also fell to 1.4% from 1.7% in Nov'19. The dismal inflation print along with weakness in retail sales, as well as manufacturing and service sector, raised bets of a rate cut by BoE later this month.
- China's GDP rose by 6% in Q4CY19 (unchanged from Q3), taking the overall CY19 growth to 6.1% (6.6% in CY18), lowest in ~ 28 years. Truce between US-China helped industrial production rise by 6.9% in Dec'19 (est.: 5.9%) vs 6.2% in Nov'19. FAI also improved in Dec'19 as CY19 print rose to 5.4% from 5.2% between Jan-Nov'19. Retail sales growth remained unchanged at 8% in Dec'19 and CY19.
- US retail sales rose for the 3rd consecutive month by 0.3% in Dec'19 on MoM basis, in line with estimates. The print for Nov'19 was also revised upwards to 0.3% (0.2% earlier). Core retail sales rose by 0.5% vs (-) 0.2% in Nov'19. The moderate pickup in consumer spending was on the back of buoyant labour market conditions. Jobless claims for the week ending 11 Jan 2020 also fell by 10,000 to 204,000 compared to the previous week.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.82	0	(6)	7	(96)
UK	0.63	(14)	(13)	(8)	(72)
Japan	0.00	0	1	13	(1)
Germany	(0.22)	(2)	8	17	(48)
India	6.63	4	(13)	11	(68)
China	3.09	1	(14)	(10)	(2)
2Y yields (Δ bps)					
US	1.56	(1)	(6)	(1)	(105)
UK	0.42	(11)	(12)	(12)	(40)
Japan	(0.13)	1	(2)	10	4
Germany	(0.59)	1	5	8	(1)
India	6.17	0	34	59	(87)
China	2.30	2	(29)	(26)	(12)
Currencies (Δ %)					
EUR	1.1092	(0.3)	(0.5)	(0.7)	(2.4)
GBP	1.3016	(0.4)	(0.9)	0.2	1.1
JPY	110.14	(0.6)	(0.6)	(1.6)	(0.3)
AUD	0.6879	(0.3)	0.4	0.3	(4.0)
INR	71.08	(0.2)	(0.2)	0.1	0.1
CNY	6.8597	0.9	2.0	3.1	(1.2)
Equity & Other indices (Δ %)					
Dow	29,348	1.8	3.8	9.6	18.8
FTSE	7,675	1.1	2.0	7.3	10.1
DAX	13,526	0.3	1.8	7.1	20.7
NIKKEI	24,041	0.8	(0.1)	6.9	16.3
Shanghai Comp	3,075	(0.5)	1.8	4.7	18.5
SENSEX	41,945	0.8	1.4	6.7	15.3
Brent (US\$/bbl)	64.85	(0.2)	(1.9)	9.1	3.4
Gold (US\$/oz)	1,557	(0.3)	5.5	4.5	21.5
CRB Index	410.6	0.8	2.9	4.8	(0.2)
Rogers Agri Index	764.1	0.3	2.0	4.6	(1.6)
LIBOR (3M)*	1.83	(2)	(8)	(13)	(93)
INR 5Y Swap*	6.78	2	14	31	(42)
India FII data (US\$ mn)					
	16 Jan	WTD	MTD	CYTD	FYTD
FII-Debt	30.1	(194.3)	(1,132.7)	(1,132.7)	1,811.4
FII-Equity	1,372.5	1,351.8	1,714.9	1,714.9	9,104.1

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
20-Jan	Japan industrial production, % MoM	Nov	--	(0.9%)	--
	Germany PPI, % MoM	Dec	0.1%	0.0%	--
	Taiwan export orders, % YoY	Dec	0.2%	(6.6%)	--
21-Jan	South Korea PPI, % YoY	Dec	--	(0.1%)	--
	Taiwan GDP, % YoY	Q4CY19	2.9%	3.0%	--
	UK jobless claims change	Dec	--	28,800	--
	UK ILO unemployment rate, %	Nov	3.8%	3.8%	--
	Germany ZEW survey expectations	Jan	15.0	10.7	--
	Euro Area ZEW survey expectations	Jan	--	11.2	--
	BOJ policy rate, %	21-Jan	(0.1%)	(0.1%)	--
22-Jan	South Korea GDP, % YoY	Q4CY19	2.0%	2.0%	--
	Thailand customs exports, % YoY	Dec	(1.6%)	(7.4%)	--
	France manufacturing confidence	Jan	102	102	--
	Taiwan industrial production, % YoY	Dec	3.0%	2.2%	--
	Taiwan unemployment rate, %	Dec	3.7%	3.7%	--
	Italy industrial orders, % MoM	Nov	--	0.6%	--
	US existing home sales, in mn	Dec	5.43	5.35	--
23-Jan	Japan exports, % YoY	Dec	(4.2%)	(7.9%)	--
	Australia unemployment rate, %	Dec	5.2%	5.2%	--
	Japan all industry activity index, % MoM	Nov	0.4%	(4.3%)	--
	Singapore CPI, % YoY	Dec	0.7%	0.6%	--
	Bank of Indonesia policy rate, %	23-Jan	5.0%	5.0%	--
	ECB policy rate, %	23-Jan	0.0%	0.0%	--
	US initial jobless claims	18-Jan	2,14,000	2,04,000	--
24-Jan	Euro Area consumer confidence (flash)	Jan	(7.8)	(8.1)	--
	Japan CPI, % YoY	Dec	0.7%	0.5%	--
	Jibun Bank Japan manufacturing PMI (flash)	Jan	--	48.4	--
	Jibun Bank Japan services PMI (flash)	Jan	--	49.4	--
	Singapore industrial production, % YoY	Dec	(0.6%)	(9.3%)	--
	Markit France manufacturing PMI (flash)	Jan	50.6	50.4	--
	Markit France services PMI (flash)	Jan	52.2	52.4	--
	Markit/BME Germany manufacturing PMI (flash)	Jan	44.5	43.7	--
	Markit Germany services PMI (flash)	Jan	53.0	52.9	--
	Markit Eurozone manufacturing PMI (flash)	Jan	46.8	46.3	--
	Markit Eurozone services PMI (flash)	Jan	52.8	52.8	--
	Markit UK PMI manufacturing SA (flash)	Jan	48.7	47.5	--
	Markit/CIPS UK services PMI (flash)	Jan	51.0	50.0	--
	Markit US services PMI (flash)	Jan	52.5	52.8	--
Markit US manufacturing PMI (flash)	Jan	52.5	52.4	--	

Source: Bloomberg, Bank of Baroda

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