

## WEEKLY WRAP

29 October 2018

**Global yields dip as growth worries emerge**

US GDP surprised positively at 3.5% in Q3CY18 on the back of robust domestic consumption. However, worries over global growth slowing down are gathering steam as China's growth is moderating. This along with lower oil prices has led to falling global yields. At the same time, ECB plans to curtail its QE by Dec'18. Indian yields also dipped and have fallen further today after RBI's announced OMO purchase of Rs400bn in Nov'18. With decline in global demand and relatively tighter liquidity conditions, even Indian economy may see downside risk to growth.

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**Markets**

- **Bonds:** Global yields closed lower led by 3% drop in crude prices (US\$ 78/bbl) as Saudi Arabia has committed to meet global. US 10Y yield declined by 12bps (3.08%) as housing data disappointed. Indian 10Y yields also declined by 5bps (7.88%) supported by global events and has opened lower today as RBI announced another Rs 400bn tranche of OMOs for Nov'18 taking the total amount of durable liquidity injection to Rs 1.26tn in the current year.
- **Currency:** Except JPY, other global currencies ended lower as dollar strengthened (DXY ended higher by 0.7%). Robust growth in US amidst uncertainty over global growth outlook, in particular China, supported the US\$. Concerns around Brexit and Italy's budget deficit weakened EUR (1%) and GBP (1.9%). INR declined by 0.2% in the week due to weak equity markets and FPI outflows (US\$ 381mn).
- **Equity:** Barring Shanghai Comp, global indices closed lower. Amidst a volatile week Dow ended lower by (-) 3% led by huge sell-off in tech stocks on the back of poor reported earnings. Further, geopolitical tension and fears of slowdown in global economy, in particular China, weighed in on sentiments. Nikkei (6%) and Dax (3.1%) lost the most amongst other indices. Sensex too ended in red (2.8%).
- **Upcoming key events:** Markets will closely watch US jobs report and personal spending data. Final estimates of manufacturing PMIs of US, Japan and China are also due. On domestic front, infrastructure index and manufacturing PMI along with financial results will chart market direction.



## India macro developments

- Central government's fiscal deficit has reached Rs 5.9tn in H1FY19 vs budgeted Rs 6.2tn and Rs 5tn in H1FY18. Its total tax revenues have risen by 8.6% in H1FY19, much slower than 19.9% in H1FY18, mainly dragged down by slower growth of indirect taxes (3.6% vs 7.4%). Total expenditure growth remain robust at 13.5% in H1FY19 vs 11.8% in H1FY18, led by both capex (11.1% vs 8.5%) and revenue expenditure (13.8% vs 12.3%).
- Government data shows that direct tax collection growth in FY18 has been the best in the past 10 years, with growth rate running at 18%, tax-GDP ratio at 5.98% and tax buoyancy factor at 1.81. In FY09, these indicators were at 6.2%, 5.93% and 0.48 respectively. Sharp improvement in tax buoyancy factor is a reflection of efficient revenue mobilization over the years. Tax base was around 68.5mn in FY18 vs 55.7mn in FY17.
- India's crude oil production fell further in Sep'18 by (-) 4.2% on a YoY basis, vs (-) 3.7% in Aug'18. Production of natural gas was also down by (-) 1.4% vs 0.6% rise in Aug'18. On the other hand, crude oil processing continues to grow, albeit at a slower pace (1.3% in Sep'18 vs 4.8% in Aug'18), mainly due to higher international oil prices. Brent averaged US\$ 79.1/bbl (+7.1% MoM) in Sep'18.
- RBI reported that currency in circulation (CIC) increased by Rs 120bn (on a weekly basis) and stood at Rs 19.6tn as on 19 Oct 2018. Overall, reserve money rose by 17% on a YoY basis because of increased currency demand compared with a fall of (-) 2% a year ago. On FYTD basis, reserve money rose by 4.9% as against 14.1% in the previous year.
- India's FX reserves for the week ending 19 Oct 2018 declined to US\$ 393.5bn. On a weekly basis, forex reserves declined by US\$ 0.9bn compared with a decline of US\$ 5.1bn last week. On CYTD basis, reserves are down by US\$ 15.8bn, compared with an accretion of US\$ 39.6bn in the same period last year. Pressure on forex reserves is in line with INR depreciation (13% in CYTD18).
- RBI's fortnightly data shows that credit growth as of week ending 12 Oct 2018 rose by 14.4% vs 7.2% during the same period last year and 12.5% in the previous fortnight. Deposit growth also rose, by 8.9% as of week ending 12 Oct 2018, vs 9.2% during the same period last year and 8.1% in the previous fortnight. On a WoW basis however, both credit and deposit growth slipped, to 0.1% vs 2.1% as of week ending 28 Sep 2018, and to -0.1% vs 2% as of week ending 28 Sep 2018, respectively.

## Global macro developments

- US GDP rose by 3.5% in Q3CY18 on an annualised basis, higher than expectation of 3.4% growth and 2.8% in Q3CY17. This was driven by faster growth in consumer spending (4%, strongest since Q4CY14). Higher growth coupled with robust consumption demand and buoyant labour market conditions will keep Fed on its desired pace of rate hike.
- Global flash PMIs suggest manufacturing activity continued to grow at a solid pace in Oct'18 in the US and Japan, while it slowed considerably in Eurozone. Both new business orders and employment supported growth in the US and Japan, while the same declined in Germany. Apart from Japan, export orders have been a drag for other countries. Sharply rising input cost, owing to higher tariff and oil prices also remained a key concern for all.
- China's industrial profit growth slowed to 4.1% in Sep'18 vs 9.2% in Aug'18 as new order growth slowed. On a CYTD basis, profit of the firms are up by 14.7% (16.2% between Jan-Aug'18), led by steel, construction and oil companies. To ease liquidity, PBOC has announced support of 10bn Yuan to private firms' bond issuance. However, softer infrastructure investment growth, despite government support, remains a key concern.
- ECB in its latest meeting has kept policy rates unchanged. On asset purchase front, it will continue with its new monthly pace of € 15bn till Dec'18. After which, it has reaffirmed its plan to exit monetary easing; assessing the medium term inflation outlook.
- US trade deficit widened to US\$ 76bn in Sep'18 compared with US\$ 75.5bn in Aug'18 as imports grew at a faster pace than exports. Separately, data showed that orders for non-defense capital goods excluding aircraft, a proxy for business spending plans, dipped 0.1% in Sep'18 (-0.2% in Aug'18), signalling softer GDP growth in Q3CY18. Separate data also showed that initial jobless claims increased by 5,000 to 215,000 for the week ended 20 Oct reflecting the impact of seasonal factors such as hurricanes.
- Consumer confidence in both Euro area and EU rebounded in Oct '18 and was well above their long period averages. In Euro area & EU, it went up by 0.2 & 0.1 points respectively. Elsewhere, producer prices in Germany shot up by 3.2% slightly higher than est. of 3% and 3.1% in Aug'18. This was driven by higher energy prices.
- Economic growth in Germany is expected to slowdown in Q3CY18 due to fall in automobile production, as per the latest monthly economic report by Bundesbank. Pace of expansion in the construction sector was also lower while retail sales were subdued. However, growth is expected to pickup in Q4CY18 as auto sector is expected to rebound.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	3.08	(12)	3	12	67
UK	1.38	(19)	(21)	10	4
Japan	0.11	(4)	(1)	1	4
Germany	0.35	(11)	(17)	(5)	(3)
India	7.88	(5)	(20)	10	107
China	3.55	(2)	(11)	3	(29)
<b>2Y yields (Δ bps)</b>					
US	2.81	(10)	(1)	14	122
UK	0.72	(8)	(9)	(4)	26
Japan	(0.12)	(0)	(1)	(1)	3
Germany	(0.63)	(5)	(13)	(3)	14
India	7.61	(2)	(28)	10	127
China	2.85	(3)	(15)	(9)	(74)
<b>Currencies (Δ %)</b>					
EUR	1.1403	(1.0)	(2.9)	(2.2)	(1.8)
GBP	1.2828	(1.9)	(2.6)	(2.1)	(2.3)
JPY	111.91	0.6	0.7	(0.8)	1.5
AUD	0.7090	(0.4)	(2.3)	(4.2)	(7.6)
INR	73.47	(0.2)	(1.2)	(7.0)	(12.9)
CNY	6.9435	(0.2)	(0.9)	(1.9)	(4.4)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	24,688	(3.0)	(6.4)	(3.0)	5.4
FTSE	6,940	(1.6)	(7.6)	(9.9)	(7.5)
DAX	11,201	(3.1)	(9.6)	(12.9)	(15.3)
NIKKEI	21,185	(6.0)	(11.9)	(6.7)	(3.7)
Shanghai Comp	2,599	1.9	(7.4)	(9.6)	(23.9)
SENSEX	33,349	(2.8)	(8.7)	(10.7)	0.6
Brent (US\$/bbl)	77.62	(2.7)	(4.6)	4.5	28.4
Gold (US\$/oz)	1,234	0.6	3.3	0.8	(3.1)
CRB Index	416.8	0.0	0.1	(3.7)	(2.7)
Rogers Agri Index	784.2	(0.5)	1.8	(2.7)	(3.6)
LIBOR (3M)*	2.52	4	13	18	114
INR 5Y Swap*	7.64	(6)	(19)	(4)	145
<b>India FII data (US\$ mn)</b>					
	<b>25 Oct</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	168.7	126.0	(1,450.0)	(8,559.7)	(8,805.6)
FII-Equity	(181.9)	(506.9)	(3,053.7)	(5,059.4)	(7,184.9)

Source: Bloomberg, Bank of Baroda Research | \*Indicates change in level

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
29-Oct	US personal spending, % MoM	Sep	0.4%	0.3%	--
	Japan retail sales, % MoM	Sep	(0.2%)	0.9%	--
	UK mortgage approvals (in thousands)	Sep	64.8	66.4	--
31-Oct	Euro Area Q3 GDP, % QoQ	Q3CY18	0.4%	0.4%	--
	France Q3 GDP, % QoQ	Q3CY18	0.4%	0.2%	--
	Italy Q3 GDP, % QoQ	Q3CY18	0.2%	0.2%	--
	Germany CPI, % YoY	Oct	2.4%	2.3%	--
	Spain CPI, % YoY	Oct	2.2%	2.3%	--
	Euro Area economic confidence index	Oct	110.1	110.9	--
	US conference board consumer confidence index	Oct	136.2	138.4	--
31-Oct	India eight infrastructure industries, % YoY	Sep	--	4.2%	--
	BoJ monetary policy decision	31-Oct	(0.1%)	(0.1%)	--
	China manufacturing PMI	Oct	50.6	50.8	--
	China non-manufacturing PMI	Oct	54.9	54.9	--
	Euro Area CPI, % YoY	Oct	2.1%	2.1%	--
	France CPI, % YoY	Oct	2.3%	2.2%	--
	Euro Area unemployment rate	Oct	8.1%	8.1%	--
	Spain Q3 GDP, % QoQ	Oct	0.6%	0.6%	--
	Taiwan Q3 GDP, % QoQ	Oct	2.3%	3.3%	--
	Thailand Exports, %YoY	Oct	--	5.8%	--
1-Nov	Nikkei India manufacturing PMI	Oct	--	52.2	--
	Nikkei Japan manufacturing PMI	Oct	--	53.1	--
	Caixin China manufacturing PMI	Oct	50.0	50.0	--
	Markit US manufacturing PMI	Oct	55.8	55.9	--
	ISM US manufacturing PMI	Oct	59.4	59.8	--
	Markit UK manufacturing PMI	Oct	53.0	53.8	--
	Bank of England monetary policy decision	1-Nov	0.75%	0.75%	--
	US initial jobless claims (in thousands)	27-Oct	212	215.0	--
	Indonesia CPI, % YoY	Oct	--	2.88%	--
	Thailand CPI, % YoY	Oct	1.34%	1.33%	--
2-Nov	US factory orders, % MoM	Sep	0.3%	2.3%	--
	US unemployment rate	Oct	3.7%	3.7%	--
	Markit Eurozone manufacturing PMI	Oct	52.1	52.1	--
	Markit Germany manufacturing PMI	Oct	52.3	52.3	--
	Markit France manufacturing PMI	Oct	51.2	51.2	--
	Markit Italy manufacturing PMI	Oct	50.0	50.0	--
	Markit Spain manufacturing PMI	Oct	50.9	51.4	--

Source: Bloomberg, Bank of Baroda Research

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