

WEEKLY WRAP

02 December 2019

RBI to cut rates to prop growth

Global macro data showed a mix picture. While US (GDP, durable goods orders) and Europe (consumer confidence) data surprised positively, China's industrial profits surprised negatively. In addition, US President signed a bill for annual review of US-Hong Kong trade relationship which may delay US-China trade deal. Global yields and currencies closed mixed. On the domestic front, Q2FY20 GDP print touched 6-year low led by investment slowdown. Core sector growth slipped further in Oct'19. We expect 25bps rate cut.

Sameer Narang

+91 22 6698 5713

chief.economist@bankofbaroda.com

Sonal Badhan

sonal.badhan@bankofbaroda.com

Markets

- **Bonds:** Global yields closed mixed as US consumer confidence was lower than estimates but new home sales surprised positively. Japan's industrial production and China's industrial profits fell. US President approved a bill for annual review of US-Hong Kong trade relationship, implying a potential delay in US-China trade deal. US 10Y yield rose by 1bps (1.78%). Crude prices fell by (-) 1.5% (US\$ 62/bbl). India's 10Y yield fell by 3bps (6.47%) amidst hopes of RBI's rate cut decision. System liquidity surplus was higher at Rs 2.4tn as on 29 Nov 2019 vs Rs 2.1tn in the previous week.
- **Currency:** Global currencies ended mixed in the week. DXY ended flat even as US macro data surprised positively (GDP, new home sales, durable goods orders). GBP rose by 0.7% as exit polls predict a majority for the ruling Conservative party ensuring an orderly Brexit. JPY depreciated by (-) 0.8%. INR ended flat despite lower oil prices (-1.5%) and FII inflows (US\$ 577mn) as growth concerns linger.
- **Equity:** Barring Shanghai Comp, global indices ended the week higher driven by upward revision of US GDP, stronger durables goods data, better than expected Euro Area economic sentiment and Germany's IFO business climate. Sensex surged the most (1.1%) reaching record high this week, pushed up by metal, banking and real estate stocks.
- **Upcoming key events:** Markets will closely watch manufacturing and services PMI print of US, Eurozone, Japan, China and India. Apart from this, US employment data will also shed some light on labour market scenario and future course of Fed rates. On the domestic front, highly anticipated rate cut by RBI will set the tone for markets.



India macro developments

- In view of surging onion prices, MMTC has been contracted to import 6,090 tons of onion, in response to government's decision to import 0.12mn tons. Retail prices of onion have been increasing since Apr'19 and risen by 34% MoM in Nov'19 (till date). With 0.64% weight in CPI, higher onion prices may exert pressure on the already spiraling vegetable prices.
- In continuation with its disinvestment efforts, government has collected Rs 7.3bn from divestment of 10% stake in RITES Ltd, through the OFS route. Earlier, government had announced strategic disinvestment of 5 PSUs, which is expected to fetch around Rs 784bn to the exchequer. These efforts will help in achieving the disinvestment target of Rs 1.05tn in FY20BE vs Rs 173.6bn have been collected so far (Apr-Nov'19).
- RBI reported that currency in circulation (CIC) declined by Rs 18.6bn and stood at Rs 22.6tn for the week ending 22 Nov 2019. Reserve money rose by 12.1% on a YoY basis, compared with 18.4% a year ago. On a FYTD basis, reserve money increased by 3.1% as against 5.3% last year.
- Central government presented bill for additional spending of Rs 212bn in the parliament. Of this, Rs 88.2bn has been sought for grants to J&K and Ladakh; Rs 45.6bn for infusion into IDBI through recap bonds; and Rs 33.9bn for expenditure on police. For FY20 government had budgeted Rs 27.9tn as total expenditure, of which Rs 14.9tn has been spent in H1FY20.
- India's core industry growth declined further by (-) 5.8% in Oct'19 vs (-) 5.1% in Sep'19. This was led by electricity and cement production plunging by (-) 12.4% (2.6% in Sep'19) and (-) 7.7% (-2% in Sep'19) respectively in Oct'19. While output of coal, crude oil and natural gas continued to contract, fertilizers output surprised positively (11.8% in Oct'19).
- Central government's fiscal deficit has reached 102.4% of budgeted target for FY20 in Oct'19 on FYTD basis. Centre's gross tax collection rose by only 1.6% in Oct'19, led by slower corporate tax collections (0.9% vs FY20BE: 15.4%). Indirect tax collections have declined by (-) 0.4% vs budgeted 17.2% increase. On the other hand, to boost growth, government spending has been maintained at a steady pace 13.6% vs 12.7% last year.
- GST collections for the month of Oct'19 reached Rs 1.03tn from Rs 954bn in Sep'19. The unadjusted figures show, the MoM rise was driven by 14.7% increase in SGST (4.8% in Sep'19) to Rs 271bn and 11.4% increase in CGST (5.7% in Sep'19) to Rs 196bn. On YoY basis too, total collections have recorded a 6% jump vs (-) 5.3% decline in Sep'19.

Global macro developments

- Germany's Ifo business climate index rose to 95 in Nov'19 from 94.7 in Oct'19. The third monthly increase in the index raises hopes that the economy will grow at a faster pace of 0.2% in Q4CY19 from 0.1% in Q3CY19. Businesses' assessment of both the current situation and future expectations rose. However, manufacturing continues to remain in recession while trade as well as services sector have shown resilience.
- China's industrial profits recorded their steepest decline in 8 years in Oct'19 at (-) 9.9% vs (-) 5.3% in Sep'19. On a CYTD basis profits were down by (-) 2.9% vs (-) 2.1% between Jan-Sep'19. The drag was led by SOEs where profits have fallen by (-) 12.1% vs (-) 9.6% in Jan-Sep'19. Manufacturing sector profits have dropped by (-) 4.9% vs (-) 3.9%.
- US consumer confidence dropped for the 4th straight month to 125.5 in Nov'19 from 126.1 in Oct'19. However, ahead of the holiday season, future (6-months) consumer expectations index remained upbeat (97.9 vs 94.5). Separately, trade deficit narrowed to a 17-month low of US\$ 66.5bn in Oct'19 led by sharper drop in imports (-2.4% vs -2.1%). Exports on the other hand fell by (-) 0.7% vs (-) 1.3% in Sep'19.
- US GDP rose by 2.1% in Q3CY19 (est.: 1.9%) on an annualized basis driven by faster pace of inventory accumulation. Consumer spending was stable at 2.9% in Q3CY19. US durable goods orders also rebounded in Oct'19 (0.6% vs -1.4% in Sep'19). Core capital orders picked up by 1.2%. Jobless claims fell by 15,000 to 213,000 for the week ending 23 Nov 2019, reflecting buoyant labour market conditions.
- Bank of Korea has kept the policy rate unchanged at 1.25%, after two consecutive rate cuts earlier. It also expects growth to remain muted in the remaining part of CY19 and CY20 with GDP expected around 2% vs 2.2% and 2.5% (earlier) respectively. Analysts expect BoK to remain on hold until early next year to see the impact of 50bps rate cut on growth and household debt and US-China trade deal progress.
- China's manufacturing PMI registered surprised growth in Nov'19 as the index inched up to 50.2 from 49.3 in Oct'19. New orders index rose to 51.3 vs 49.6 in Oct'19 led by new export orders (48.8 vs 47 in Oct'19). The overall improvement could be attributed to delayed tariff hike by the US and stimulus measures announced by the government (front loading of 1tn Yuan of 2020 local government bonds to boost infrastructure investment).

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.78	1	(6)	28	(121)
UK	0.70	(1)	(1)	22	(67)
Japan	(0.07)	0	3	20	(17)
Germany	(0.36)	0	(1)	34	(67)
India	6.47	(3)	(5)	(9)	(114)
China	3.18	0	(14)	11	(21)
2Y yields (Δ bps)					
US	1.61	(2)	(3)	11	(117)
UK	0.54	1	0	14	(23)
Japan	(0.17)	1	3	13	(4)
Germany	(0.63)	1	0	30	(3)
India	5.34	(8)	(20)	(44)	(190)
China#	2.64	1	0	5	13
Currencies (Δ %)					
EUR	1.1018	0	(0.8)	0.3	(2.6)
GBP	1.2925	0.7	0.5	6.3	1.4
JPY	109.49	(0.8)	(0.6)	(3.0)	3.6
AUD	0.6763	(0.3)	(1.5)	0.4	(7.4)
INR	71.74	0	(1.3)	(0.5)	(3.1)
CNY	7.0324	0.1	0.5	1.7	(1.0)
Equity & Other indices (Δ %)					
Dow	28,051	0.6	3.6	6.2	9.8
FTSE	7,347	0.3	0.6	1.9	5.2
DAX	13,236	0.6	2.3	10.9	17.6
NIKKEI	23,294	0.8	1.4	12.5	4.2
Shanghai Comp	2,872	(0.5)	(2.8)	(0.5)	11.0
SENSEX	40,794	1.1	2.4	9.3	12.7
Brent (US\$/bbl)	62.43	(1.5)	1.4	3.3	6.3
Gold (US\$/oz)	1,464	0.1	(1.6)	(3.7)	19.9
CRB Index	386.4	(0.3)	(1.3)	(0.2)	(7.1)
Rogers Agri Index	728.9	0.6	0.3	6.8	(5.8)
LIBOR (3M)*	1.91	(1)	(2)	(23)	(83)
INR 5Y Swap*	6.35	(7)	(18)	16	(118)
India FII data (US\$ mn)					
	28 Nov	WTD	MTD	CYTD	FYTD
FII-Debt	(260.8)	(410.9)	(468.7)	4,218.1	3,673.5
FII-Equity	227.6	988.0	3,254.3	13,477.1	6,631.9

Source: Bloomberg, Bank of Baroda | *Indicates change in bps, #1Y yield

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
2-Dec	China manufacturing PMI	Nov	49.5	49.3	50.2
	China non-manufacturing PMI	Nov	53.1	52.8	54.4
	Jibun Bank Japan manufacturing PMI	Nov	--	48.4	48.9
	Caixin China manufacturing PMI	Nov	51.5	51.7	51.8
	Markit India manufacturing PMI	Nov	--	50.6	--
	Markit France manufacturing PMI	Nov	51.6	51.6	--
	Markit Germany manufacturing PMI	Nov	43.8	43.8	--
	Markit Eurozone manufacturing PMI	Nov	46.6	46.6	--
	Markit UK PMI manufacturing SA	Nov	48.3	48.3	--
	Markit US manufacturing PMI	Nov	52.2	52.2	--
	US ISM manufacturing	Nov	49.2	48.3	--
3-Dec	South Korea GDP, % YoY	Q3CY19	2.0%	2.0%	--
	RBA policy rate, %	03-Dec	0.75%	0.75%	--
	Euro Area PPI, % YoY	Oct	(1.8%)	(1.2%)	--
	South Korea GDP, % YoY	Q3CY19	2.0%	2.0%	--
4-Dec	Australia GDP SA, % QoQ	Q3CY19	0.5%	0.5%	--
	Jibun Bank Japan services PMI	Nov	--	50.4	--
	Caixin China services PMI	Nov	51.2	51.1	--
	Markit India services PMI	Nov	--	49.2	--
	Markit France services PMI	Nov	52.9	52.9	--
	Markit Germany services PMI	Nov	51.3	51.3	--
	Markit Eurozone services PMI	Nov	51.5	51.5	--
	Markit UK services PMI	Nov	48.6	48.6	--
	US ADP employment change, in thousands	Nov	140	125	--
	Markit US services PMI	Nov	51.6	51.6	--
	US ISM non-manufacturing index	Nov	54.5	54.7	--
5-Dec	RBI policy rate, %	05-Dec	4.90%	5.15%	--
	Germany factory orders, % MoM	Oct	0.5%	1.3%	--
	Euro Area GDP SA, % QoQ	Q3CY19	0.2%	0.2%	--
	US initial jobless claims, in thousands	30-Nov	215	213	--
	US trade balance, US\$ bn	Oct	(48.7)	(52.5)	--
	US factory orders, % MoM	Oct	0.3%	(0.6%)	--
	US durable goods orders, % MoM	Oct	--	0.6%	--
6-Dec	Germany industrial production SA, % MoM	Oct	0.2%	(0.6%)	--
	Italy retail sales, % MoM	Oct	--	0.7%	--
	US change in nonfarm payrolls, in thousands	Nov	188	128	--
	US unemployment rate, %	Nov	3.6%	3.6%	--
	US average hourly earnings, % MoM	Nov	0.3%	0.2%	--
	US University of Michigan sentiment	Dec	97.0	96.8	--

Source: Bloomberg, Bank of Baroda

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com