

## WEEKLY WRAP

10 February 2020

**RBI policy lifts sentiment**

While global yields inched up in US and Euro Area, yields were lower in China and India on the back of measures by PBoC and RBI. US economy continues to report higher than estimated manufacturing and services activity. Payroll additions are also robust. In India's case, RBI took measures to inject long-term liquidity of Rs 1tn to signal banks to lend, amongst other measures. As a result, 10Y yield fell by 16bps and Sensex gained by 3.5%. PMIs also showed improvement. FII inflows were robust at US\$ 1.1bn giving strength to INR.

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**Markets**

- **Bonds:** Except India and China, global yields closed higher. US 10Y yield rose the most by 8bps (1.58%) amidst better macro prints (manufacturing PMI, factory orders and jobs data). Oil prices fell by (-) 6.3% to US\$ 54/bbl. India's 10Y yield fell by 16bps (6.44%) supported by lower oil prices and RBI's liquidity infusion measures. System liquidity surplus fell to Rs 3.2tn as on 7 Feb 2020 vs Rs 3.4tn in the previous week.
- **Currency:** Global currencies closed lower this week on concerns over the economic fallout of the coronavirus outbreak in China. CNY fell by (-) 0.9%. However, DXY rose by 1.3% in the week to a near 4-month high as US macro data remained robust (US ISM manufacturing and non-manufacturing index, payroll additions). GBP depreciated sharply by (-) 2.4% as investors await the crucial trade negotiations between EU and UK. INR fell by (-) 0.1%. FII inflows were US\$ 1.1bn in the week.
- **Equity:** Barring Shanghai Comp, global indices ended the week in green led by strong global manufacturing and services PMI print. Dax (4.1%) surged the most. Dow rose by 3% supported by better than expected US jobs data. Sensex (3.5%) too ended higher after RBI took measures to support credit growth, while keeping rates unchanged.
- **Upcoming key events:** In the current week, markets await preliminary estimates of Q4CY19 GDP prints for UK, Taiwan, Germany and Euro Area. In addition, US CPI, industrial production and retail sales will also guide markets. On the domestic front, India's CPI, WPI, IIP and trade data are scheduled for release this week.



## India macro developments

- India's manufacturing PMI rose to a near 8-year high of 55.3 in Jan'20 from 52.7 in Dec'19. This was on the back of sharp rise in new orders and strengthening demand from external markets. Employment activity too rose to a 7.5-year high. With lowering of input costs, overall margins are likely to improve. Against this backdrop, businesses remained optimistic for higher demand and capacity expansion in the year-ahead.
- As per news reports, India may issue US\$ 5bn bonds in FY21, with no cap on foreign investment. The rupee denominated bonds would be issued in several tranches of US\$ 400mn each. Inclusion of these bonds on global indices will attract more foreign investment thus reducing reliance on domestic market. Union Budget has pegged only a slight increase of Rs 700bn in gross borrowings to Rs 7.8tn in the domestic market for FY21.
- India's services PMI rose to a 7-year high of 55.5 in Jan'20 from 53.3 in Dec'19. This was led by improvement in domestic demand as new orders rose sharply. However, new export orders declined. Employment increased in all sub-sectors except finance & insurance. Output prices rose to their highest since Feb'18 as input prices jumped to 66-month high in Jan'20.
- RBI's MPC members kept policy rate and stance unchanged and reiterated room for further rate cuts. More importantly, it withdrew the 1% ceiling on banks' borrowing from RBI and introduced LTROs. It also incentivised banks to deduct auto, mortgage and MSME loans from CRR computation and extended sops to commercial real estate projects. We believe these measures are structurally positive and send signal to banks to lend.
- India's forex reserves rose to a fresh historic high of US\$ 471.3bn in the week ended 31 Jan 2020. On a weekly basis, forex reserves rose by US\$ 4.6bn vs US\$ 4.5bn last week. In FYTD20, forex reserves have risen by US\$ 59.4bn vs a depletion of US\$ 24.1bn in the same period last year.
- RBI reported that currency in circulation (CIC) increased by Rs 37.3bn and stood at Rs 23.1tn for the week ending 31 Jan 2020. Reserve money rose by 12.1% on a YoY basis, compared with 17.3% a year ago. On a FYTD basis, reserve money increased by only 6% as against 8.4% last year.

## Global macro developments

- Manufacturing activity in Eurozone and Japan contracted at a slower pace in Jan'20. Eurozone PMI reached 47.9 from 46.3 in Dec'19, due to slower decline in Germany (45.3 vs 43.7) and improvement in France (51.1 vs 50.4). In Japan too, PMI rose to 48.8 vs 48.4. In both regions, easing was led by slowdown in fall of new orders, in particular new export orders.
- US ISM manufacturing PMI increased to its highest since Jul'19 at 50.9 in Jan'20 vs 47.8 in Dec'19. This was the first expansion in 6-months and was led by a jump in new orders (52 vs 47.6) and production (54.3 vs 44.8). Businesses were optimistic as US-China trade tensions subsided. However, the coronavirus outbreak weighs heavily on the outlook for the sector.
- Services activity improved globally in Jan'20. US ISM non-manufacturing PMI was higher at 55.5 vs 54.9 in Dec'19. Eurozone services PMI was at 52.5 in Jan'20 vs 52.8, led by sharp pickup in business activity growth in Germany (5-month high). In Japan as well, services PMI rose to 51 vs 49.4 in Dec'19, led by considerable rise in new orders, employment and output.
- Bank of Thailand (BoT) has reduced the key policy rate by 25bps to 1% (record low) in its latest meeting. The decision was on account of lower growth projected in CY20 (2.8% vs 3.3% earlier) owing to coronavirus and budget delays. Growth in Q1CY20, led by dip in foreign tourist arrivals (mainly from China), is estimated to be at 2% vs est.: 2.5% in Q4CY19.
- US nonfarm payroll surged to 225,000 in Jan'20 much higher than anticipated (160,000) and from 145,000 in Dec'19, signalling strong labour market conditions. This was driven by construction sector (44,000) which added most jobs. Average hourly earnings increased by 3.1% in Jan'20 vs 3% in Dec'19 while unemployment rate rose to 3.6% from 3.5%.
- Germany's industrial production slumped by (-) 3.5% in Dec'19 on a MoM basis vs est. (-) 0.2% and +1.2% in Nov'19. The sharpest decline since Jan'09 was led by construction (-8.7% vs +2.4%) and manufacturing industries (-2.9% vs +1%). Separately, Germany's exports rose by 0.8% in CY19 vs 3% in CY18 while imports rose by 1.4% vs 5.7% in CY18.
- US durable goods orders rose by 1.8% in Dec'19 on MoM basis (est. +1.5%) from (-) 1.2% in Nov'19. This was led by durable goods orders (2.4% vs -3.1% in Nov'19), in particular higher military spending. Excluding defence, factory orders fell by (-) 0.6% in Dec'19 from 0.1% in Nov'19.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

| Particulars                             | Current      | 1W         | 1M         | 3M          | 12M         |
|---|--------------|------------|------------|-------------|-------------|
| <b>10Y yields (Δ bps)</b>               |              |            |            |             |             |
| US                                      | 1.58         | 8          | (27)       | (36)        | (107)       |
| UK                                      | 0.57         | 5          | (25)       | (24)        | (61)        |
| Japan                                   | (0.04)       | 3          | (5)        | 3           | (1)         |
| Germany                                 | (0.39)       | 5          | (21)       | (14)        | (51)        |
| India                                   | 6.44         | (16)       | (9)        | (13)        | (91)        |
| China                                   | 2.81         | (20)       | (32)       | (41)        | (27)        |
| <b>2Y yields (Δ bps)</b>                |              |            |            |             |             |
| US                                      | 1.40         | 9          | (18)       | (27)        | (108)       |
| UK                                      | 0.49         | (1)        | (9)        | (8)         | (24)        |
| Japan                                   | (0.15)       | 0          | (2)        | 5           | 2           |
| Germany                                 | (0.64)       | 3          | (5)        | (3)         | (7)         |
| India                                   | 5.77         | (30)       | (39)       | 21          | (97)        |
| China                                   | 2.23         | (5)        | (42)       | (46)        | (18)        |
| <b>Currencies (Δ %)</b>                 |              |            |            |             |             |
| EUR                                     | 1.0946       | (1.3)      | (1.4)      | (0.8)       | (2.9)       |
| GBP                                     | 1.2892       | (2.4)      | (1.3)      | 0.3         | 0.3         |
| JPY                                     | 109.75       | (1.3)      | (0.2)      | (0.6)       | 0.6         |
| AUD                                     | 0.6673       | (0.3)      | (2.7)      | (2.6)       | (5.5)       |
| INR                                     | 71.41        | (0.1)      | (0.3)      | 0.1         | (0.3)       |
| CNY                                     | 7.0025       | (0.9)      | (1.0)      | 0.1         | (3.1)       |
| <b>Equity &amp; Other indices (Δ %)</b> |              |            |            |             |             |
| Dow                                     | 29,103       | 3.0        | 0.5        | 5.1         | 16.2        |
| FTSE                                    | 7,467        | 2.5        | (1.7)      | 1.9         | 4.7         |
| DAX                                     | 13,514       | 4.1        | 0.1        | 2.4         | 22.7        |
| NIKKEI                                  | 23,828       | 2.7        | 0.4        | 2.1         | 14.2        |
| Shanghai Comp                           | 2,876        | (3.4)      | (7.1)      | (1.2)       | 8.4         |
| SENSEX                                  | 41,142       | 3.5        | (0.7)      | 2.0         | 13.0        |
| Brent (US\$/bbl)                        | 54.47        | (6.3)      | (16.7)     | (12.4)      | (11.4)      |
| Gold (US\$/oz)                          | 1,570        | (1.2)      | 1.2        | 7.9         | 20.1        |
| CRB Index                               | 401.8        | (0.6)      | (1.5)      | 2.7         | (2.4)       |
| Rogers Agri Index                       | 738.8        | 0.5        | (2.4)      | 1.7         | (3.3)       |
| LIBOR (3M)*                             | 1.73         | (2)        | (12)       | (17)        | (96)        |
| INR 5Y Swap*                            | 6.45         | (23)       | (32)       | (3)         | (61)        |
| <b>India FII data (US\$ mn)</b>         |              |            |            |             |             |
|   | <b>6 Feb</b> | <b>WTD</b> | <b>MTD</b> | <b>CYTD</b> | <b>FYTD</b> |
| FII-Debt                                | 817.2        | 610.6      | 610.6      | (958.3)     | 1,985.8     |
| FII-Equity                              | (14.2)       | 448.5      | 448.5      | 1,821.2     | 9,210.4     |

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

FIG 2 – DATA RELEASE CALENDAR

| Date   | Event                                      | Period | Estimate | Previous | Actual |
|--------|--|--------|----------|----------|--------|
| 10-Feb | Japan current account balance, ¥ bn        | Dec    | 464.7    | 1,436.8  | 524.0  |
|        | China PPI, % YoY                           | Jan    | 0.0%     | (0.5%)   | 0.1%   |
|        | China CPI, % YoY                           | Jan    | 4.9%     | 4.5%     | 5.4%   |
|        | Italy industrial production, % MoM         | Dec    | (0.6%)   | 0.1%     | --     |
|        | China new yuan loans, CNY bn               | Jan    | 3100     | 1140     | --     |
| 11-Feb | UK GDP, % QoQ                              | Q4CY19 | 0.0%     | 0.4%     | --     |
|        | UK industrial production, % MoM            | Dec    | 0.3%     | (1.2%)   | --     |
|        | UK trade balance, £ mn                     | Dec    | (350.0)  | 4,031.0  | --     |
| 12-Feb | Reserve bank of New Zealand policy rate, % | 12-Feb | 1.0%     | 1.0%     | --     |
|        | Singapore retail sales, % YoY              | Dec    | (2.5%)   | (4.0%)   | --     |
|        | Japan machine tool orders, % YoY           | Jan P  | --       | (33.5%)  | --     |
|        | Taiwan GDP, % YoY                          | Q4CY19 | 3.4%     | 3.4%     | --     |
|        | Euro Area industrial production SA, % MoM  | Dec    | (1.7%)   | 0.2%     | --     |
|        | US MBA mortgage applications               | 7-Feb  | --       | 5.0%     | --     |
|        | India CPI, % YoY                           | Jan    | 7.4%     | 7.4%     | --     |
|        | India industrial production, % YoY         | Dec    | 1.7%     | 1.8%     | --     |
| 13-Feb | Japan PPI, % YoY                           | Jan    | 1.5%     | 0.9%     | --     |
|        | Germany CPI, % YoY                         | Jan    | 1.7%     | 1.7%     | --     |
|        | US CPI, % MoM                              | Jan    | 0.2%     | 0.2%     | --     |
|        | US initial jobless claims                  | 8-Feb  | 211,000  | 202,000  | --     |
| 14-Feb | India WPI, % YoY                           | Jan    | 2.9%     | 2.6%     | --     |
|        | India exports, % YoY                       | Jan    | --       | (1.8%)   | --     |
|        | Germany GDP SA, % QoQ                      | Q4CY19 | 0.1%     | 0.1%     | --     |
|        | Euro Area trade balance SA, € bn           | Dec    | 19.0b    | 19.2b    | --     |
|        | Euro Area GDP SA, % QoQ                    | Q4CY19 | 0.1%     | 0.1%     | --     |
|        | US retail sales advance, % MoM             | Jan    | 0.3%     | 0.3%     | --     |
|        | US industrial production, % MoM            | Jan    | (0.2%)   | (0.3%)   | --     |

Source: Bloomberg, Bank of Baroda

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