

WEEKLY WRAP

22 April 2019

Can the global recovery sustain?

Global yields went up after China reported better than expected GDP growth and retail sales. US retail sales were also higher than anticipated. This along with better than estimated earnings drove global equity markets and US\$ higher. Indian yields also rose. Higher crude prices (2%) added to pressure on Indian yields and INR fell by (-) 0.6%. RBI minutes showed concern over loss of growth momentum but higher oil prices confound the outlook. With Eurozone PMI inching lower, sustainability of global growth is questionable.

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Markets

- **Bonds:** Global yields closed higher led by higher than expected GDP growth in China. 10Y yield for Chinese government bonds increased by 10bps. Better than expected retail sales in US also drove its 10Y yield up by 6bps (2.56%). Crude prices also rose by 2% (US\$ 72/bbl). As a result, yield on India's 7.17GS2028 bond rose by 4bps (7.56%). System liquidity deficit rose to Rs 734bn as on 19 Apr 2019 vs Rs 121bn in the previous week.
- **Currency:** Barring JPY and CNY, other global currencies closed lower against USD. DXY rose by 0.4% in the week led by robust US retail sales data. EUR fell by (-) 0.5% on weak Euro Zone manufacturing PMI. INR depreciated by (-) 0.6% in the week, on the back of rising oil prices and muted FII inflows.
- **Equity:** Global indices ended the holiday-shortened week in green on the back of stronger than expected economic data from China and growing optimism over trade talks. Shanghai Comp soared by 2.5% followed by Dax (2.4%) and Nikkei (2.3%). Dow and Sensex too ended the week in green gaining by 1.6% and 1.4% respectively.
- **Upcoming key events:** In the current week, markets will look forward to industrial production from Taiwan, Japan and Singapore. Inflation print of Singapore, Australia and Hong Kong is scheduled to release this week. Apart from that, US GDP print, new home sales, jobless claims, durable goods orders and BOJ's as well as Indonesia's policy rate will also be watched.



India macro developments

- The downward revision in growth and inflation trajectory prompted MPC members to reduce rates by another 25bps in April. Stance was maintained given the uncertain growth and inflation outlook. The deviation from RBI's growth and inflation trajectory will decide the future course of policy rates. The recent increase in oil prices confounds the outlook. Benign food inflation is likely to continue led by cereal inflation as vegetable prices increase. We believe muted growth and dovish outlook of global central banks is likely to open up room for another cut in H1.
- India's WPI rose to 3.2% in Mar'19 from 2.9% in Feb'19 led by higher international oil prices which drove fuel and power inflation to 5.4% in Mar'19 (2.2% in Feb'19). Food inflation too rose by 3.9% in Mar'19 (3.3% in Feb'19) led by veggie prices. However, manufactured inflation softened to 2.2% in Mar'19 (2.3% in Feb'19). WPI is likely to average at 3% in FY20 on the back of favourable base effect for crude prices.
- India's trade deficit widened to US\$ 10.9bn in Mar'19 (US\$ 9.6bn in Feb'19) as gold and oil imports increased. Trade deficit for FY19 too increased to US\$ 176bn from US\$ 162bn in FY18 led by higher oil prices. However, non-oil-non-gold imports were lukewarm in FY19 as domestic economy slowed. With a forecast of near-normal monsoon, a stable CAD/GDP ratio is likely in FY20.
- According to National Bulk Handling Corporation (NBHC), sowing of Rabi crops in AY19 is expected to be much lower than previous estimates. This is attributable to below normal monsoon (91% of LPA) and was further intensified by deficient winter rains. Thereby the production of wheat, pulses and oilseeds this year, are likely to dip by 4.4%, 10.1% and 3.8% respectively on a YoY basis.
- India's forex reserves rose to 11-month high at US\$ 415bn in the week ending 12 Apr 2019. On a weekly basis, forex reserves rose by US\$ 1.1bn, slower compared to an increase of US\$ 1.9bn last week. In CYTD19, forex reserves have increased by US\$ 21.5bn compared with US\$ 16.7bn in the same period last year supported by RBI's dollar-rupee swap as well as strong FII inflows.

Global macro developments

- Flash manufacturing PMIs for Europe and Japan suggest that activity growth continued to contract in Apr'19 as PMI registered at 47.8 and 49.5 respectively. In Eurozone the drag was led by France (49.6 vs 49.7 in Mar'19) & Germany (44.5 vs 44.1 in Mar'19). In both Eurozone & Japan, new orders (particularly export orders) continued to decline and input buying has also eased. Employment in Eurozone is showing stagnation.
- Retail inflation in Japan rose by 0.8% on YoY basis in Mar'19 vs xx% in Feb'19. The more than estimated (0.7%) increase was led by higher fuel, light & water charges (5.1%), furniture items (1.5%) and medical care (1.3%). Core inflation (ex-energy & food) growth remained unchanged in mar'19 at 0.4%. The stickiness in inflation implies BoJ will have to continue with its loose monetary policy for the time being.
- Indonesia's exports continued to decline for the 5th consecutive month by (-) 10% in Mar'19 vs (-) 11.2% in the previous month. Imports declined at a slower pace of (-) 6.8% in Mar'19 vs (-) 13.8% in Feb'19. Thus, trade surplus widened to US\$ 540mn vs US\$ 330mn in Feb'19.
- US industrial production fell by (-) 0.1% in Mar'19 vs 0.1% rise in Feb'19 (est., 0.3% increase). The decline was led by mining output which fell by (-) 0.8% in Mar'19. For Q1CY19, industrial production fell by (-) 0.3% following an increase of 4% in Q4CY18 amidst rising trade tensions with China and fading effects of the fiscal stimulus.
- China's GDP in Q1CY19 rose by 6.4% vs est.: 6.3% and 6.4% in Q4CY18. Despite weaker exports, economy is holding ground as fiscal (tax cuts) & monetary (more liquidity & loosened credit standards) stimulus seem to be taking effect. FAI-infra jumped by 4.4% in Q1CY19 vs 3.8% in Q4CY18. Stimulus has also resulted in better than expected industrial production (8.5% vs est. 5.9%) and retail sales (8.7% vs est. 8.4%) growth in Mar'19.
- US retail sales jumped to one and a half year high of 1.6% in Mar'19 vs a decline of (-) 0.2% in Feb'19 on MoM basis. This was driven by higher sales in motor vehicles, petrol and clothing signalling pickup in consumption demand. US jobless claims also dropped to its lowest in 50 years, declining by 5,000 to 192,000 for the week ending 13 Apr 2019. However, in a separate print, US housing starts fell to its lowest since May'17 suggesting ailing housing market despite falling mortgage rates.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	2.56	(1)	(4)	(22)	(40)
UK	1.20	(1)	0	(16)	(28)
Japan	(0.03)	3	1	(5)	(9)
Germany	0.03	(3)	(6)	(24)	(57)
India #	7.56	4	8	(4)	(16)
China	3.38	2	24	27	(17)
2Y yields (Δ bps)					
US	2.38	(1)	(7)	(23)	(8)
UK	0.77	(2)	1	(5)	(6)
Japan	(0.15)	1	0	2	(3)
Germany	(0.57)	(1)	(4)	1	(1)
India	6.69	4	11	(35)	(42)
China**	2.68	23	27	26	(30)
Currencies (Δ %)					
EUR	1.1245	(0.5)	(0.8)	(1.0)	(8.5)
GBP	1.2993	(0.6)	(2.0)	0.9	(7.2)
JPY	111.92	0.1	(0.4)	(1.9)	(4.0)
AUD	0.7152	(0.3)	0.7	(0.2)	(6.8)
INR	69.35	(0.6)	(1.2)	2.6	(4.9)
CNY	6.7042	0	0.1	1.1	(6.5)
Equity & Other indices (Δ %)					
Dow	26,560	1.6	2.5	7.5	8.6
FTSE	7,460	0.6	2.2	7.1	1.2
DAX	12,222	2.4	4.8	9.1	(2.5)
NIKKEI	22,201	2.3	2.9	7.4	0.2
Shanghai Comp	3,271	2.5	5.6	26.0	6.5
SENSEX	39,140	1.4	2.7	7.6	13.7
Brent (US\$/bbl)	71.97	1.6	6.6	14.8	(2.8)
Gold (US\$/oz)	1,276	(1.3)	(2.2)	(0.5)	(4.6)
CRB Index	425.1	0.1	1.2	3.4	(4.6)
Rogers Agri Index	742.3	(0.6)	(1.9)	(4.4)	(10.9)
LIBOR (3M)*	2.58	(2)	(5)	(18)	22
INR 5Y Swap*	6.68	0	5	(52)	(43)
India FII data (US\$ mn)					
	16 Apr	WTD	MTD	CYTD	FYTD
FII-Debt	48.6	47.2	(1,154.5)	114.0	(1,154.5)
FII-Equity	145.4	201.1	829.7	9,055.8	829.7

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
22-Apr	Taiwan export orders, % YoY	Mar	(5.0%)	(10.9%)	--
	Taiwan unemployment rate, %	Mar	3.7%	3.7%	--
	US existing home sales, mn	Mar	5.30	5.51	--
	Thailand customs exports, % YoY	Mar	(4.0%)	5.9%	--
23-Apr	Singapore CPI, % YoY	Mar	0.7%	0.5%	--
	Japan machine tool orders, % YoY	Mar	--	(28.5%)	--
	Taiwan industrial production, % YoY	Mar	(1.4%)	(1.8%)	--
	Hong Kong CPI composite, % YoY	Mar	2.2%	2.1%	--
	Euro Area consumer confidence	Apr	(7.0)	(7.2)	--
24-Apr	US new home sales	Mar	649,000	667,000	--
	Japan PPI services, % YoY	Mar	1.1%	1.1%	--
	Australia CPI, % YoY	Q1CY19	1.5%	1.8%	--
	Japan all industry activity index, % MoM	Feb	(0.3%)	(0.2%)	--
	France manufacturing confidence	Apr	102	102	--
	Germany IFO business climate	Apr	99.9	99.6	--
25-Apr	ECB economic bulletin				
	South Korea GDP, % YoY	Q1CY19	2.5%	3.1%	--
	US durable goods orders, % MoM	Mar	0.7%	(1.6%)	--
	US initial jobless claims	20-Apr	200,000	192,000	--
	BOJ policy rate	25-Apr	--	(0.1%)	--
26-Apr	Bank Indonesia policy rate	25-Apr	6.0%	6.0%	--
	Japan jobless rate	Mar	2.4%	2.3%	--
	Japan industrial production, % MoM	Mar	0.1%	0.7%	--
	Japan retail sales, % YoY	Mar	0.8%	0.4%	--
	Singapore industrial production, % YoY	Mar	(5.0%)	0.7%	--
	France consumer confidence	Apr	97.0	96.0	--
US GDP annualized, % QoQ	Q1CY19	2.2%	2.2%	--	

Source: Bloomberg, Bank of Baroda Research

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