

**WEEKLY WRAP**

22 July 2019

**Global easing cycle gains steam**

With growth slowing down, EM central banks such as South Korea and Indonesia reduced policy rates. ECB and US Fed may do the same soon. Thus, global yields fell with Indian 10Y yield declining the most (12bps). Oil prices too fell. US housing data and Germany's economic sentiment index were also weaker than expected. However, China's retail sales did hold up. INR fell against US\$ due to FII outflows. Indian yields are likely to fall further as RBI is likely to continue to reduce rates to support growth.

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**Markets**

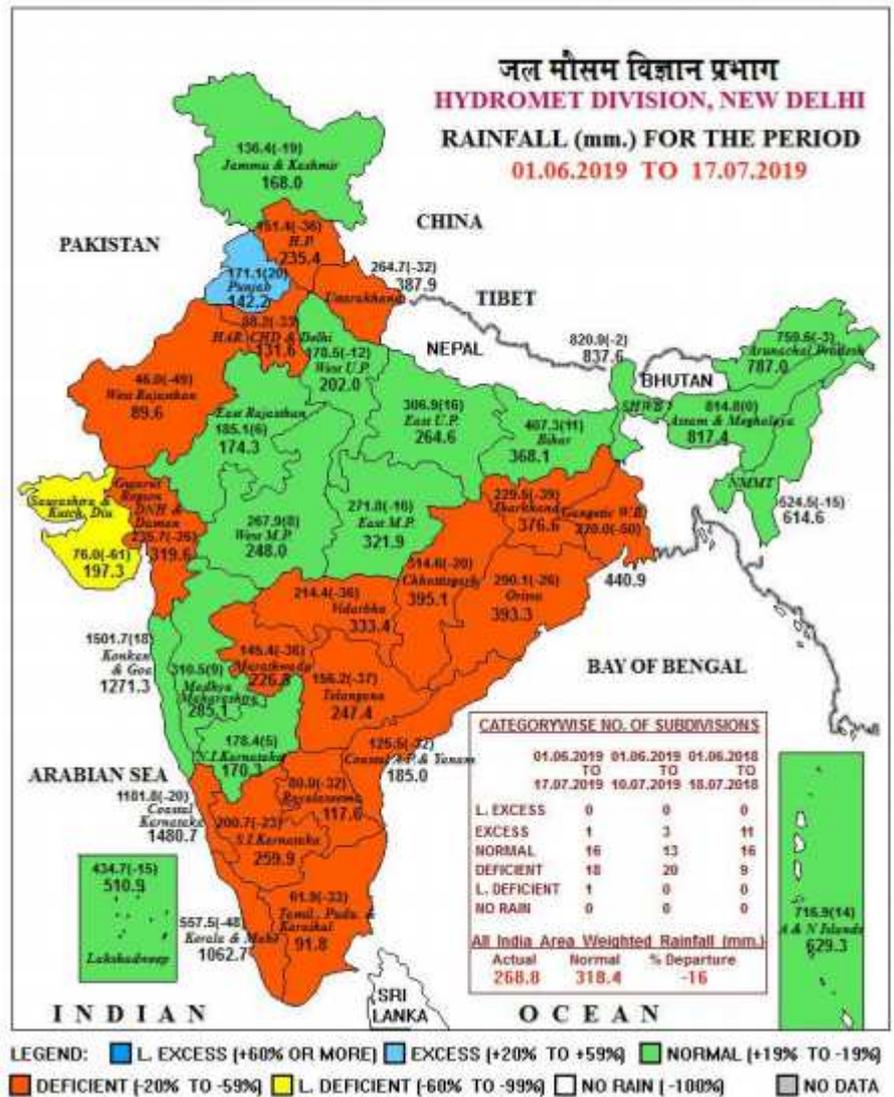
- **Bonds:** Barring China, global yields closed lower. US 10Y yield fell by 7bps (2.06%) as New York Fed president hinted at pre-emptive rate cut to support growth. Korea and Indonesia delivered a rate cut. Crude prices declined by (-) 6.4% (US\$ 62/bbl). India's 10Y yield declined the most by 12bps (6.36%) as investors are anticipating another rate cut by RBI in Aug'19. System liquidity is in surplus of Rs 1.3tn as on 19 Jul 2019 vs Rs 1.5tn last week.
- **Currency:** Global currencies closed mixed this week. DXY rose by 0.4% on fading fears of an aggressive rate cut by Fed in its July meet. EUR fell by (-) 0.4% ahead of the ECB policy meet next week. GBP also fell by (-) 0.6% on growing fears of a no-deal Brexit. INR depreciated by (-) 0.2% in the week on the back of FII outflows of US\$ 264mn.
- **Equity:** Except FTSE which closed flat, other global indices closed the week lower led by uncertainty over US- China trade relations and weaker corporate earnings. Both Nikkei and Sensex fell by (-) 1% in the week followed by Dow (-0.7%). Sensex ended in red led by continuous selling by foreign investors. Auto and capital good stocks fell the most.
- **Upcoming key events:** In the current week, markets will closely watch flash PMI data of major economies such as Eurozone and US for global growth developments. US GDP, new home sales data and ECB policy decision are also scheduled in the current week. On the domestic front, oil price movement and global cues will impact markets.



### Monsoon Tracker

- For the period 1 Jun 2019 to 21 Jul 2019, monsoon was (-) 18.3% below LPA compared with (-) 3% last year. South-West monsoon has engulfed the entire country now, running four day behind the normal date of 15 July. Some of the regions such as Western Rajasthan, Tamil Nadu, Telangana and Odisha are still experiencing deficient rains.
- Led by drop in sowing area of pulses (-) 15.9% and foodgrains (-10.2%), overall kharif acreage was down by (-) 6.8% as on 19 July 2019 compared with last year. Major decline was also visible in oilseeds (-7.1%) and Jute & Mesta (-4.9%).

**FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON**



Source: IMD, Bank of Baroda Research

## India macro developments

- ADB has revised India's growth projection downward to 7% in FY20 (7.2% earlier), on account of slowdown in consumption and investment demand. However, growth momentum is expected to pick up to 7.2% in FY21. The report further stated that US decision to end preferential trade treatment to India under its GSP would have minimal impact on India's exports.
- WPI inflation eased to 2% in Jun'19 from 2.5% in May'19 led by dip in fuel and power and manufactured inflation. Food inflation was at 5% in Jun'19. Pick up in monsoon augurs well for kharif sowing. However, lag in sowing for some crops implies food inflation will remain relatively high. On the other hand, global and domestic slowdown implies inflation will remain moderate.
- India's export growth fell sharply by (-) 9.7% in Jun'19 from 3.9% in May'19, lowest since Jan'16. Barring drugs and pharmaceuticals, exports declined under all segments. Imports too declined by (-) 9.1% in Jun'19, a 41-month low, vs 4.3% in May'19, led by pearls and precious metals (-23.6% in Jun'19) and oil (-13.3%). However, trade deficit remained broadly stable at US\$ 15.3bn in Jun'19. Even in Q1FY20, trade deficit is stable at US\$ 46bn compared with US\$ 45.2bn last year.
- RBI's fortnightly data shows credit growth as on 5 Jul 2019 rose by 12% on YoY basis, unchanged from Jun'19. Deposit growth on the other hand rose marginally to 10.3% from 10% in Jun'19. In FYTD20, credit growth has remained steady at 12.7% vs 12.4% in the same period last year, while deposit growth has picked up significantly (10.1% vs 7.8% last year).
- RBI reported that currency in circulation increased by Rs 74bn (on a weekly basis) and stood at Rs 22tn as on 12 Jul 2019. Overall reserve money rose by 12.6% on a YoY basis, compared with 21.6% a year ago. On FYTD basis, reserve money is increasing at a slower pace of 0.6% against 2.3% in the previous year.
- In a major relief to IT and ITES sector, government has announced that select BPO services will qualify as exports and would not be subject to GST. Previously, Appellate Authority has categorised this sector as intermediary services, liable to 18% GST. However, CBIC has clarified that this will not be considered as intermediary services as long as provision of service is on its own account. This move will provide a thrust to India's software exports which grew by 18% (US\$ 205bn) in FY19 compared to 9% (US\$ 175bn) in FY18.

## Global macro developments

- Retail sales in the US rose more than anticipated by 0.4% (est.:0.2%) in Jun'19 on MoM basis, unchanged from May'19. Core retail sales (excl. motor vehicles and gasoline), a broad gauge for consumer spending also rose by 0.7% in Jun'19 vs 0.5% in May'19. In a separate print, industrial production remained flat in Jun'19 vs increase of 0.4% in May'19.
- CPI inflation in the Euro Area edged up by 1.3% in Jun'19 from 1.2% in May'19 on YoY basis. This was led by services (1.6% vs 1%). Core inflation excl. volatile food and energy rose to 1.3% in Jun'19 vs 1% in May'19. Separately, CPI inflation in UK was steady at 2% in Jun'19 as decline in prices of energy and housing utilities were offset by higher food and clothing prices.
- Germany's ZEW economic sentiment indicator declined to (-) 24.5 in Jul'19 vs (-) 21.1 in Jun'19 (est.: -21.5) led by a continued fall in incoming orders. The current situations indicator also fell to (-) 1.1, lowest since Jan'10. Apart from the ongoing US-China trade war, Iran conflict and uncertainty around Brexit have impacted German exports and growth.
- Japan's exports fell for the 7th consecutive month in Jun'19, by (-) 6.7% on YoY basis vs (-) 7.8% in May'19. Exports to China continue to weaken as they fell by (-) 10.1% in Jun'19 vs (-) 9.7% in May'19, in particular car parts and steel pipes. Exports to W. Europe also remain a concern (-9.4% vs -9.5% in May'19). As a sign of weaker domestic growth, imports too fell sharply in Jun'19 (-5.2% vs -1.5% in May'19).
- Bank of Korea (BoK) delivered a surprise rate cut (a first in 3 years) in its policy meet today. The 7-day repo rate now stands at 1.5% vs 1.75% earlier. This decision comes in the wake of slowing exports to China and growing trade frictions with Japan. Japan has imposed export restrictions on chemicals exported to S. Korea, mainly impacting their semiconductor business. As a result, BoK has also lowered its growth forecast for CY19 from 2.5% to 2.2%.
- In line with market expectations, Bank of Indonesia (BI) has cut its policy rate by 25bps to 5.75%. This is a first in 2 years and comes after BI had increased rates 6 times in CY18 (175ps) to support Rupiah. The latest move pre-empts Fed's rate cut decision and also takes into account domestic factors such as muted inflationary pressures and lower GDP growth. BI expects growth to continue to hover around 5% in CY19.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

| Particulars                             | Current       | 1W         | 1M         | 3M          | 12M         |
|---|---------------|------------|------------|-------------|-------------|
| <b>10Y yields (Δ bps)</b>               |               |            |            |             |             |
| US                                      | 2.06          | (7)        | 0          | (50)        | (84)        |
| UK                                      | 0.73          | (10)       | (7)        | (46)        | (50)        |
| Japan                                   | (0.13)        | (2)        | (1)        | (10)        | (17)        |
| Germany                                 | (0.32)        | (11)       | 0          | (35)        | (69)        |
| India                                   | 6.36          | (12)       | (44)       | (106)       | (142)       |
| China                                   | 3.16          | 0          | (9)        | (22)        | (36)        |
| <b>2Y yields (Δ bps)</b>                |               |            |            |             |             |
| US                                      | 1.82          | (3)        | (5)        | (56)        | (77)        |
| UK                                      | 0.52          | (8)        | (7)        | (25)        | (22)        |
| Japan                                   | (0.20)        | (2)        | 0          | (5)         | (8)         |
| Germany                                 | (0.77)        | (5)        | (1)        | (19)        | (15)        |
| India                                   | 6.06          | (12)       | (15)       | (63)        | (148)       |
| China                                   | 2.58          | (1)        | 5          | (10)        | (56)        |
| <b>Currencies (Δ %)</b>                 |               |            |            |             |             |
| EUR                                     | 1.1221        | (0.4)      | 0.2        | (0.2)       | (4.3)       |
| GBP                                     | 1.2502        | (0.6)      | (0.4)      | (3.8)       | (4.8)       |
| JPY                                     | 107.71        | 0.2        | 0.7        | 3.8         | 3.3         |
| AUD                                     | 0.7042        | 0.3        | 2.4        | (1.5)       | (5.0)       |
| INR                                     | 68.81         | (0.2)      | 1.3        | 0.8         | 0.1         |
| CNY                                     | 6.8821        | 0          | 0.3        | (2.7)       | (1.7)       |
| <b>Equity &amp; Other indices (Δ %)</b> |               |            |            |             |             |
| Dow                                     | 27,154        | (0.7)      | 2.6        | 2.2         | 8.4         |
| FTSE                                    | 7,509         | 0          | 0.9        | 0.7         | (2.2)       |
| DAX                                     | 12,260        | (0.5)      | (0.6)      | 0.3         | (2.4)       |
| NIKKEI                                  | 21,467        | (1.0)      | 2.4        | (3.3)       | (5.4)       |
| Shanghai Comp                           | 2,924         | (0.2)      | 1.2        | (10.6)      | 3.4         |
| SENSEX                                  | 38,337        | (1.0)      | (1.8)      | (2.1)       | 5.0         |
| Brent (US\$/bbl)                        | 62.47         | (6.4)      | 0.5        | (13.2)      | (14.5)      |
| Gold (US\$/oz)                          | 1,425         | 0.7        | 5.8        | 11.7        | 15.9        |
| CRB Index                               | 405.8         | 0          | (1.5)      | (4.5)       | (6.1)       |
| Rogers Agri Index                       | 740.5         | (1.4)      | (3.3)      | (0.2)       | (7.1)       |
| LIBOR (3M)*                             | 2.28          | (3)        | (11)       | (30)        | (6)         |
| INR 5Y Swap*                            | 6.43          | (15)       | (34)       | (25)        | (125)       |
| <b>India FII data (US\$ mn)</b>         |               |            |            |             |             |
|   | <b>18 Jul</b> | <b>WTD</b> | <b>MTD</b> | <b>CYTD</b> | <b>FYTD</b> |
| FII-Debt                                | (147.3)       | 32.1       | 1,092.7    | 2,520.9     | 1,976.3     |
| FII-Equity                              | (203.5)       | (295.9)    | (1,038.1)  | 10,300.7    | 3,455.5     |

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

FIG 3 – DATA RELEASE CALENDAR

| Date              | Event                                  | Period   | Estimate | Previous | Actual |
|-------------------|--|----------|----------|----------|--------|
| 22-Jul            | Thailand exports, % YoY                | Jun      | (5.0%)   | (5.8%)   | --     |
|                   | Taiwan export orders, % YoY            | Jun      | (1.6%)   | (5.8%)   | --     |
|                   | Hong Kong CPI composite, % YoY         | Jun      | 2.6%     | 2.8%     | --     |
| 23-Jul            | Singapore CPI, % YoY                   | Jun      | 0.8%     | 0.9%     | --     |
|                   | Japan machine tool orders, % YoY       | Jun      | --       | (38.0%)  | --     |
|                   | Taiwan industrial production, % YoY    | Jun      | (0.3%)   | (3.1%)   | --     |
|                   | Euro Area consumer confidence          | Jul      | (7)      | (7.2)    | --     |
|                   | US existing home sales, in mn          | Jun      | 5.33     | 5.34     | --     |
| 24-Jul            | Jibun Bank Japan manufacturing PMI     | Jul      | --       | 49.3     | --     |
|                   | Jibun Bank Japan services PMI          | Jul      | --       | 51.9     | --     |
|                   | Markit France manufacturing PMI        | Jul      | 52       | 51.9     | --     |
|                   | Markit France services PMI             | Jul      | 53       | 52.9     | --     |
|                   | Markit/BME Germany manufacturing PMI   | Jul      | 45       | 45.0     | --     |
|                   | Markit Germany services PMI            | Jul      | 55       | 55.8     | --     |
|                   | Markit Eurozone manufacturing PMI      | Jul      | 48       | 47.6     | --     |
|                   | Markit Eurozone services PMI           | Jul      | 53       | 53.6     | --     |
|                   | Markit US manufacturing PMI            | Jul      | 51       | 50.6     | --     |
|                   | Markit US services PMI                 | Jul      | 52       | 51.5     | --     |
| US new home sales | Jun                                    | 6,60,000 | 6,26,000 | --       |        |
| 25-Jul            | South Korea GDP, % YoY                 | Q2CY19   | 1.9%     | 1.7%     | --     |
|                   | Japan services PPI, % YoY              | Jun      | 0.8%     | 0.8%     | --     |
|                   | Germany IFO business climate           | Jul      | 97.0     | 97.4     | --     |
|                   | Hong Kong exports, % YoY               | Jun      | (2.3%)   | (2.4%)   | --     |
|                   | ECB policy rate, %                     | 25-Jul   | 0.0%     | 0.0%     | --     |
|                   | US durable goods orders, % MoM         | Jun      | 0.7%     | (1.3%)   | --     |
|                   | US initial jobless claims              | 20-Jul   | 2,19,000 | 2,16,000 | --     |
| 26-Jul            | Singapore industrial production, % YoY | Jun      | (8.5%)   | (2.4%)   | --     |
|                   | France consumer confidence             | Jul      | 101.0    | 101.0    | --     |
|                   | France PPI, % YoY                      | Jun      | --       | 0.8%     | --     |
|                   | Italy consumer confidence index        | Jul      | 109.6    | 109.6    | --     |
|                   | US GDP annualized, % QoQ               | Q2CY19   | 1.8%     | 3.1%     | --     |
|                   | China industrial profits, % YoY        | Jun      | --       | 1.1%     | --     |
|                   | Germany retail sales, % MoM            | Jun      | 0.4%     | (0.6%)   | --     |

Source: Bloomberg, Bank of Baroda Research

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