

## WEEKLY WRAP

23 September 2019

**India corporate tax cut to boost investments**

**Global economy seems to have slowed down further led by dip in China's retail sales and fixed asset investments. A divided Fed delivered rate cut but future path is uncertain. While crude prices did go up, global yields were lower amidst uncertainties around US-China trade talks. Indian yields went up after government announced a US\$ 20bn stimulus for boosting investments. INR was stable and equity markets went up. Fixed income investors now await the borrowing calendar to be released this week.**

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**Markets**

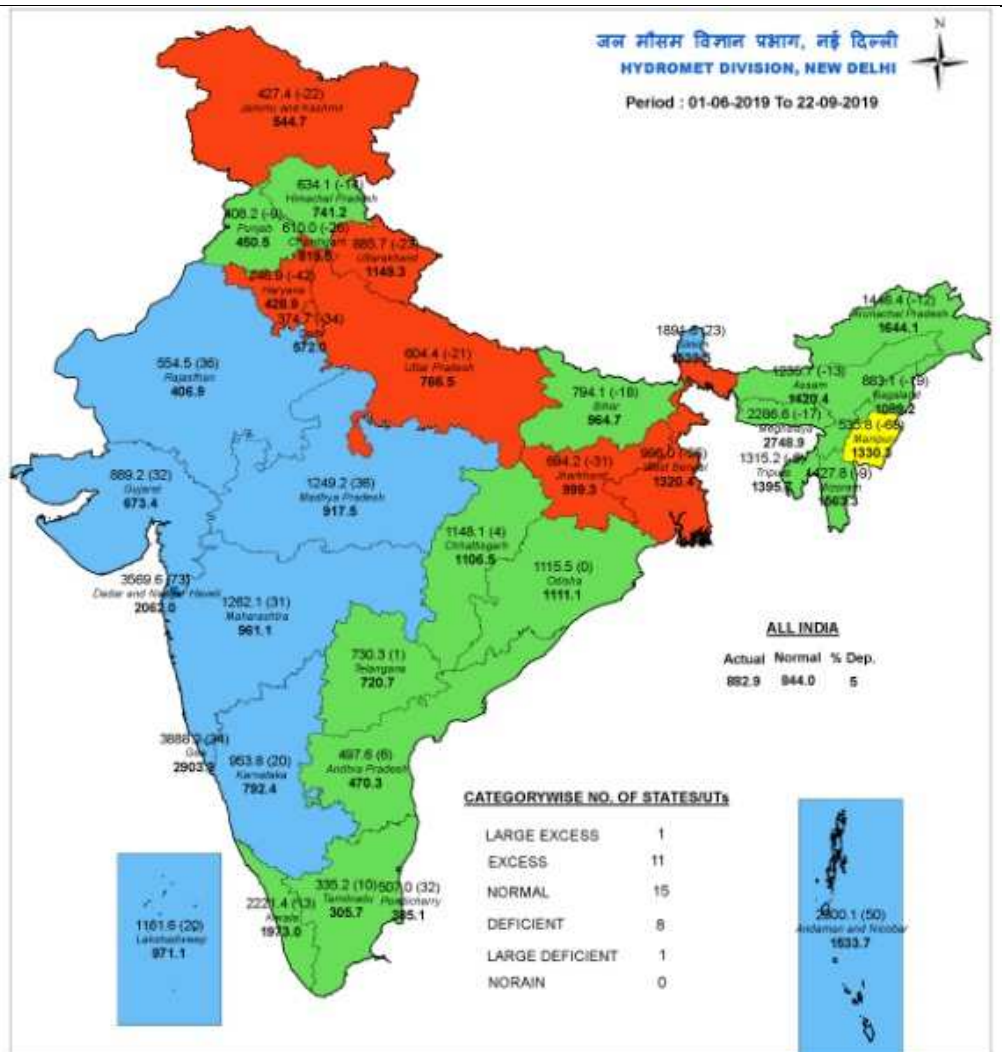
- **Bonds:** Apart from India and China, global yields closed lower. US 10Y yield fell by 17bps (1.72%) as Fed reduced rates for the second consecutive time to boost growth and delay in US-China trade talks. Crude prices rose by 6.7% (US\$ 64/bbl) on account of supply disruption in Saudi Arabia. With higher oil prices and corporate tax reduction of US\$ 20bn (0.7% of GDP), India's 10Y yield rose by 15bps (6.6%). System liquidity surplus fell to Rs 324bn as on 20 Sep 2019 vs Rs 1.5tn in the previous week.
- **Currency:** Barring JPY (+0.5%) and INR (flat), other global currencies closed lower in the week. Uncertainty over US-China trade talks and US Fed's future stance along with sharp jump in oil prices meant most global currencies were weaker against US\$. INR closed flat after government stimulus to boost the economy was announced.
- **Equity:** Fed's rate cut decision was overshadowed by trade war worries and resulted in global stocks ending mixed this week. Dow fell the most (-1%), followed by Shanghai Comp (-0.8%). Sensex ended the week in green gaining by 1.7% on the back of government's recent announcements to kick start investment cycle by reducing corporate tax rate.
- **Upcoming key events:** In the current week, flash PMIs of major economies (Germany, France, US and Japan) are scheduled to be released. Apart from this, US GDP, new home sales and consumer confidence print will be closely watched. In light of change in government's fiscal arithmetic, all eyes will be on H2 borrowing calendar.



### Monsoon Tracker

- For the period 1 Jun 2019 to 22 Sep 2019, monsoon was 5% above LPA compared with (-) 10% last year. While, incessant rains continue to impact Rajasthan, Maharashtra, Gujarat, Madhya Pradesh and Karnataka; Uttarakhand, Haryana, U.P, Jharkhand and West Bengal are still receiving deficient rains.
- Led by above normal monsoon, overall kharif sowing is only lower by (-) 0.2% as on 20 Sep 2019 compared with last year. This was on the back of drop in sown area of sugarcane (-5.5%), pulses (-1.8%) and rice (-1.4%). Major decline was also visible in jute & mesta (-) 5%. However, sown area of cotton continues to improve by 5.3%.

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



Source: IMD, Bank of Baroda Research

## India macro developments

- In order to address the current economic slowdown, the government has reduced the effective corporate tax rate to 25.2% from 29.5% currently (26.9% in AY 2017-18). MAT has also been reduced from 18.5% to 15%. The measure will benefit smaller firms and services sector the most. Fresh investments will be taxed at 17% thus leading to a much improved RoE. The aggregate impact of these measures will result in Rs 1.45tn reduction in tax revenue (0.7% of GDP).
- Government has announced measures to boost credit disbursement. It has asked state run banks to hold open meetings in 400 districts (200 districts will be covered by 29 Sep 2019) along with the NBFCs to focus on MSMEs and retail customers. Stressed MSME loans shall also not be declared NPAs till 31 Mar 2020. Banks have already acquired Rs 92bn of pooled assets of NBFCs/HFCs under the partial credit guarantee scheme, another Rs 320bn is in the pipeline to mitigate liquidity issues.
- According to news reports, government is expected to increase the allocation of subsidised foodgrain by additional 2kg from the current 5kg of grains provided each month, under NFSA. This will enable the government to offload excess grains, solving the storage issues due to record production, ahead of the upcoming procurement season. The government is already managing an excess pile of stock at 71.1mn ton of foodgrains against the minimum requirement of 30.7mn tn.
- India's WPI inflation remained unchanged at 1.1% in Aug'19. Food inflation rose to 5.8% in Aug'19 (4.5% in Jul'19), and its effect on headline WPI was offset by dip in fuel and power inflation at (-) 4% and lower manufactured product inflation. With recent pick-up in monsoon, food inflation is likely to ebb in the coming months. However, recent jump in oil prices if sustained will pose a risk to inflation going ahead.
- RBI reported that currency in circulation (CIC) increased by Rs 111.5bn and stood at Rs 22tn for the week ending 13 Sep 2019. Reserve money rose by 11.9% on a YoY basis, compared with 19% a year ago. On a FYTD basis, reserve money increased by 0.7% as against 3.1% in the previous year.

## Global macro developments

- US Fed has cut its policy rate for the 2nd time by 25bps in the range of 1.75-2% with a 7-3 vote. This was on the back of slowdown in global growth and ongoing trade dispute. It has lowered the interest rate paid on excess reserve balances of banks by 20bps to 1.8%. Fed projects real GDP to lower by 10bps (2.1%) in 2019, inflation is expected to be at 1.8%. However on future rate, FOMC will be data dependent.
- US industrial production rebounds at a much faster pace than anticipated (est.: 0.2%) at 0.6% in Aug'19 on a MoM basis from (-) 0.1% in Jul'19. This was driven by jump in manufacturing and mining output at 0.5% and 1.4% respectively in Aug'19. Capacity utilization too rose to 75.7% in Aug'19 from 75.4% in Jul'19, higher than its long run average by 2.6% points.
- US existing home sales rose to a 17-month high in Aug'19 by 1.3% on MoM basis to 5.49mn in Aug'19 vs 5.42mn in Jul'19 (est.: 5.38mn). This was on the back of lower mortgage rates-30year fixed mortgage rate has dropped to 3.5%, from 7-year high of 4.9% in Nov'18. In a separate print, US jobless claims rose by 2,000 to 208,000 for the week ending 14 Sep 2019.
- BoE kept policy rate unchanged at 0.75%. It was however cautious on growth due to political uncertainty surrounding Brexit. Growth forecast was revised downward for Q3CY19 from 0.3% to 0.2%. Separately, Central Bank of Taiwan, too kept its policy rate unchanged at 1.375%. However, it revised its growth forecast upwards to 2.4% for CY19.
- China's new home prices rose by 0.5% in Aug'19 on a MoM basis vs 0.6% in Jul'19. The dip was mainly seen in tier-2 cities where price growth slowed to 0.5% from 0.7% in Jul'19. In tier-1 & 3 cities, growth remained unchanged from the previous month at 0.3% and 0.7% respectively. Prices are unlikely to see a huge jump in the coming months as government has clarified that it will not use real estate market for short-term stimulus.
- Japan's exports fell for the 9th consecutive month in Aug'19, by (-) 8.2% vs (-) 1.5% in Jul'19 on a YoY basis. While a part of the decline can be attributed to stronger Yen (+4.5% in Aug'19 vs -1.1% in Aug'18), the other reason is continued slowdown in exports to Asia (-10.9% vs -8.3%), especially China (-12.1% vs 9.3%). Japan's imports too fell sharply in Aug'19 (-12% vs -1.2% in Jul'19). Separately, BoJ in its latest policy meet has kept all the rates unchanged but has signalled policy easing in Oct'19.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	1.72	(17)	17	(33)	(134)
UK	0.63	(13)	18	(22)	(93)
Japan	(0.21)	(5)	3	(5)	(34)
Germany	(0.52)	(7)	17	(24)	(98)
India	6.79	15	20	(7)	(129)
China	3.10	1	7	(16)	(60)
<b>2Y yields (Δ bps)</b>					
US	1.68	(12)	17	(8)	(112)
UK	0.52	(5)	3	(9)	(29)
Japan	(0.29)	(5)	0	(6)	(19)
Germany	(0.72)	(1)	18	2	(19)
India	5.80	9	(4)	(42)	(209)
China#	2.53	(5)	(5)	1	(37)
<b>Currencies (Δ %)</b>					
EUR	1.1017	(0.5)	(0.7)	(3.1)	(6.2)
GBP	1.2478	(0.2)	2.5	(2.0)	(4.5)
JPY	107.56	0.5	(1.3)	(0.2)	4.5
AUD	0.6766	(1.6)	(0.2)	(2.3)	(7.2)
INR	70.95	0	1.1	(2.0)	1.7
CNY	7.0916	(0.2)	(0.4)	(3.2)	(3.4)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	26,935	(1.0)	3.7	0.8	0.7
FTSE	7,345	(0.3)	3.1	(0.8)	(1.9)
DAX	12,468	0	7.0	1.0	0.3
NIKKEI	22,079	0.4	6.8	3.9	(7.5)
Shanghai Comp	3,006	(0.8)	4.4	0.1	7.5
SENSEX	38,015	1.7	1.8	(3.0)	3.2
Brent (US\$/bbl)	64.28	6.7	7.1	(1.4)	(18.4)
Gold (US\$/oz)	1,517	1.9	0.6	8.4	26.4
CRB Index	385.5	0.2	(2.5)	(6.3)	(7.0)
Rogers Agri Index	698.5	(0.3)	1.8	(7.8)	(9.3)
LIBOR (3M)*	2.16	2	1	(19)	(21)
INR 5Y Swap*	6.35	4	-	(18)	(136)
<b>India FII data (US\$ mn)</b>					
	<b>19 Sep</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	41.1	(298.3)	107.9	4,355.1	3,810.5
FII-Equity	(104.7)	(440.9)	(854.2)	6,351.9	(493.3)

Source: Bloomberg, Bank of Baroda | \*Indicates change in bps, #1Y yield, as on 17 Sep 2019

**FIG 3 – DATA RELEASE CALENDAR**

Date	Event	Period	Estimate	Previous	Actual
<b>23-Sep</b>	Markit France manufacturing PMI	Sep	51.2	51.1	--
	Markit France services PMI	Sep	53.2	53.4	--
	Markit/BME Germany manufacturing PMI	Sep	44.0	43.5	--
	Markit Germany services PMI	Sep	54.3	54.8	--
	Markit Eurozone manufacturing PMI	Sep	47.3	47.0	--
	Markit Eurozone services PMI	Sep	53.3	53.5	--
	Taiwan industrial production, % YoY	Aug	1.6%	3.0%	--
	Markit US manufacturing PMI	Sep	50.4	50.3	--
	Markit US services PMI	Sep	51.5	50.7	--
<b>24-Sep</b>	Jibun Bank Japan manufacturing PMI	Sep	--	49.3	--
	Jibun Bank Japan services PMI	Sep	--	53.3	--
	Germany IFO business climate	Sep	94.5	94.3	--
	US conf. board consumer confidence	Sep	133.0	135.1	--
<b>25-Sep</b>	Central Bank of New Zealand monetary policy decision	25-Sep	1.0%	1.0%	--
	Bank of Thailand monetary policy decision	25-Sep	1.5%	1.5%	--
	US new home sales, in thousands	Aug	656	635	--
<b>26-Sep</b>	Central Bank of Philippines monetary policy decision	25-Sep	3.5%	3.8%	--
	US GDP annualized, % QoQ	Q2CY19	2.0%	2.0%	--
	US initial jobless claims	21-Sep	211	208	--
<b>27-Sep</b>	China industrial profits, % YoY	Aug	--	2.6%	--
	France CPI, % YoY	Sep	1.0%	1.0%	--
	Italy manufacturing confidence	Sep	100.0	99.7	--
	US durable goods orders, % MoM	Aug	(1.2%)	2.0%	--
	China BoP current account balance, US\$bn	Q2CY19	--	57.0	--

Source: Bloomberg, Bank of Baroda

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