

WEEKLY WRAP

06 May 2019

US growth surprises positively

US & UK yields rose as US GDP, payroll and consumer confidence data surprised positively and BoE delivered hawkish comments. Crude prices fell after US inventories rose. Global currencies appreciated against the US\$ and equity markets were stable. However, volatility to markets might return as US may impose tariffs on US\$ 200bn worth of Chinese imports. Indian equity markets fell led by consumer, auto and IT stocks. Consumer firms reported sharp deceleration in rural volume. We expect muted growth in H1FY20.

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Markets

- **Bonds:** US 10Y yield rose by 3bps (2.53%) in the week on the back of labour market and consumer confidence. BoE's hawkish comments led to 8bps increase in UK 10Y yield now at 1.22%. German 10Y yield also closed higher by 5bps as CPI inflation rose higher than estimates. However, the buoyancy in economic data did not reflect in crude prices which were lower by (-) 1.8% (US\$ 71/bbl) due to higher than estimated US crude inventory which led to decline in Indian yields. System liquidity deficit rose to Rs 804bn as on 3 May 2019 vs 674bn in the previous week.
- **Currency:** Except AUD and CNY, other global currencies closed higher as dollar weakened. DXY fell by (-) 0.5% in the week as Fed expressed concerns over low inflation along with a weak services PMI reading. GBP (up 2%) gained the most this week, after BoE revised its growth projections upwards. INR rose by 1.1% in the week as oil prices eased (-1.8%).
- **Equity:** Barring Dax, global indices closed lower as both Fed and BoE held rates. Shanghai Comp declined the most (-3.8%) led by poor manufacturing PMI. Dow was largely flat with US reporting stronger than expected payroll data. Sensex too ended the week in red declining by (-) 0.3% due to pressure on consumer, auto and IT stocks.
- **Upcoming key events:** In the current week, markets will keenly watch rate decisions by Australia, Malaysia, Thailand and Philippines. Apart from that, Q1 GDP print for UK & Indonesia, global services PMIs, China's trade data and Germany's industrial production data will also be released. On the domestic front, IIP data is awaited on Friday.



India macro developments

- In Total GST collections for Mar'19 reached Rs 1,139bn vs Rs 1,066bn in Feb'19, with CGST at Rs 475bn & SGST at Rs 508bn (post IGST settlement). Overall, this takes centre's GST collections in FY19 to Rs 5.9tn vs FY19RE of Rs 6.4tn. The shortfall is mainly on account of CGST (Rs 4.6tn vs FY19RE Rs 5tn) & IGST (Rs 330bn vs FY19RE Rs 500bn). Cess collected has exceeded the targeted amount (Rs 961bn vs Rs 900bn).
- RBI reported that currency in circulation declined by Rs 81bn (on a weekly basis) and stood at Rs 21.8tn as on 26 Apr 2019. Overall reserve money grew by only 13% on a YoY basis compared to 27% a year ago. On FYTD basis, reserve money fell by (-) 0.1% vs (-) 1.3% last year.
- India's manufacturing PMI eased to an 8-month low of 51.8 in Apr'19 from 52.6 in Mar'19. The drop was attributable to softer pace of increase in new orders and employment on the back of the ongoing general election which curbed the overall business activity. However, this slowdown was offset by expansion in exports orders which rose at a solid pace.
- India's forex reserves rose to the highest in a year at US\$ 418.5bn in the week ended 26 Apr 2019. On a weekly basis, forex reserves rose by US\$ 4.4bn compared to a decline of US\$ 739mn last week. In CYTD19, forex reserves have increased by US\$ 25.1bn compared with US\$ 11bn in the same period last year supported by RBI's dollar-rupee swap as well as strong FII inflows.
- RBI's data showed that gross bank credit grew at a faster pace of 12.2% in FY19 vs 8.2% in the previous year. This was driven by higher credit offtake in industry (6.9% in FY19 vs 0.7% in FY18) and services Sector (17.8% in FY19 vs 13.8% in FY18). Credit to housing also rose at a faster pace of 19% vs 13.3% in the previous year, indicating recovery in demand conditions.
- India's eight core industries rose to a 5-month high to 4.7% in Mar'19 from 2.2% in Feb'19. This was on the back of the improvement in coal sector which was up by 9.1% from 7.4% in Feb'19. Within construction, both steel and cement output noted a sharp uptick rising by 6.7% and 15.7% respectively. Overall, eight core industries grew at the same pace as last year at 4.3% in FY19.

Global macro developments

- US consumer spending surged by 0.9% in Mar'19 compared with 0.1% gain in Feb'19. This was the biggest gain in over a decade driven by uptick in purchases of motor vehicles. With income rising by 0.1% in Mar'19, price pressure continued to remain muted as reflected by core PCE. On a YoY basis, it was up by 1.6% far below the Fed estimate of 2%.
- China's manufacturing PMI eased to 50.1 in Apr'19 from 50.5 in Mar'19. Though the factory activity expanded for a second straight month; albeit at a much slower pace than anticipated. Thereby, signalling concerns about health of the economy. Even construction activity fell despite government's efforts of boosting the infrastructure space by providing the requisite fiscal stimulus.
- US Fed in its latest policy kept fund rates unchanged at 2.25-2.5%. FOMC clarified that its approach will be patient on the back of muted inflation despite tightening labour market conditions. Fed has also reduced interest paid on excess reserves of banks to 2.35% (2.4% earlier). US ISM manufacturing index slipped to 52.8% in Apr'19 vs 55.3% in Mar'19 reflecting some slowdown in growth.
- South Korea's exports declined for the 5th consecutive month in Apr'19 by (-) 2% vs (-) 8.2% in Mar'19 (est.: -6%). The decline was led by a (-) 13.5% fall in exports of memory chips, as slowing Chinese growth along with US-China trade dispute resulted in weaker demand. Further, while exports to China contracted by (-) 4.5%, exports to US rose by 3.9% in Apr'19. Imports grew by 2.4% in Apr'19.
- BoE in its latest policy kept bank rate unchanged at 0.75%. However, it sounded bit hawkish as its Governor signalled interest rate increases over the next three years with evolution of favourable growth & inflation dynamics and resolution of Brexit impasse. BoE has also raised its growth forecast to 1.5% in CY19 vs 1.2% earlier.
- Eurozone's manufacturing PMI activity contracted for the 3rd straight month in Apr'19 (47.9 vs 47.5 in Mar'19, 6-year low). The decline was led by Germany (44.4 in Apr'19 vs 44.1 in Mar'19) as new orders declined for the 7th successive month. However the pace of contraction is seen easing in Germany, France and Italy in Apr'19.
- US reported strong non-farm payroll additions in Apr'19 (263,000 vs 189,000 in Mar'19), leading to 49 year low unemployment rate of 3.6% in Apr'19 vs 3.8% in Mar'19. This was additionally supported by easing labour force participation rate (62.8% vs 63% in Mar'19). Average hourly wages continued to rise by 3.2% in Apr'19 on a YoY basis, unchanged from Mar'19. This eases fears of hard landing of the US economy and thus hopes of any rate cut in CY19.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	2.53	3	5	(16)	(42)
UK	1.22	8	22	(3)	(18)
Japan	(0.04)	0	2	(3)	(9)
Germany	0.03	5	7	(14)	(52)
India #	7.50	(3)	8	(11)	(23)
China	3.40	0	33	29	(24)
2Y yields (Δ bps)					
US	2.33	5	3	(17)	(16)
UK	0.80	7	16	2	2
Japan	(0.15)	0	1	2	(2)
Germany	(0.59)	1	2	(1)	(1)
India	6.77	(3)	25	(22)	(61)
China**	2.66	(3)	29	27	(26)
Currencies (Δ %)					
EUR	1.1198	0.4	(0.1)	(2.3)	(6.4)
GBP	1.3173	2.0	0.3	0.7	(2.6)
JPY	111.10	0.4	0.2	(1.5)	(1.8)
AUD	0.7018	(0.3)	(0.7)	(3.2)	(6.9)
INR	69.22	1.1	(0.7)	2.9	(3.5)
CNY	6.7349	(0.1)	(0.2)	0.2	(5.8)
Equity & Other indices (Δ %)					
Dow	26,505	(0.1)	2.2	5.7	9.2
FTSE	7,381	(0.6)	1.4	5.1	(2.5)
DAX	12,413	0.8	7.7	11.0	(3.2)
NIKKEI	21,505	0.4	1.4	3.4	(4.3)
Shanghai Comp	3,078	(3.8)	(0.4)	17.6	(0.4)
SENSEX	38,963	(0.3)	0.8	6.8	11.6
Brent (US\$/bbl)	70.85	(1.8)	3.6	12.9	(5.4)
Gold (US\$/oz)	1,279	(0.5)	(1.0)	(2.9)	(2.7)
CRB Index	418.6	(0.9)	(1.9)	1.4	(6.2)
Rogers Agri Index	720.4	(1.1)	(3.1)	(7.3)	(15.8)
LIBOR (3M)*	2.58	0	(2)	(16)	21
INR 5Y Swap*	7.24	12	77	2	16
India FII data (US\$ mn)					
	2 May	WTD	MTD	CYTD	FYTD
FII-Debt	(18.8)	(127.3)	(18.8)	(320.1)	(1,336.5)
FII-Equity	78.4	(52.3)	78.4	9,845.7	1,551.0

Source: Bloomberg, Bank of Baroda Research | *Indicates change in bps, # 7.17 GS 2028 security, ** 1Y yield. For most of equity market weekly comparison is done with 18.04.19.

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
6-May	Caixin China Services PMI	Apr	54.2	54.4	--
	Nikkei India Services PMI	Apr	--	52.0	--
	France survey of industrial investment	--	--	--	--
	Markit Spain Services PMI	Apr	55.1	56.8	--
	Markit/ADACI Italy Services PMI	Apr	51.8	53.1	--
	Markit France Services PMI	Apr F	50.5	50.5	--
	Markit Germany Services PMI	Apr F	55.6	55.6	--
	Markit Eurozone Services PMI	Apr F	52.5	52.5	--
	Eurozone retail Sales, % MoM	Mar	(0.1%)	0.4%	--
	Indonesia GDP, % YoY	Q1CY19	5.2%	5.2%	--
7-May	Nikkei Japan manufacturing PMI	Apr F	--	49.5	--
	Australia trade balance, AUD mn	Mar	4,490	4,801	--
	RBA cash rate target	7-May	1.3%	1.5%	--
	Germany factory orders, % MoM	Mar	1.4%	(4.2%)	--
	France trade balance, EUR mn	Mar	(4,500)	(4,002)	--
	BNM Overnight Policy Rate	7-May	3.0%	3.3%	--
	Taiwan CPI, % YoY	Apr	0.5%	0.6%	--
	Taiwan exports, % YoY	Apr	(3.3%)	(4.4%)	--
China foreign reserves, US\$ bn	Apr	3,102	3,099	--	
8-May	South Korea BoP Current Account Balance, US\$ mn	Mar	--	3,602	--
	Nikkei Japan services PMI	Apr	--	52.0	--
	RBNZ official cash rate	8-May	1.50%	1.75%	--
	Germany industrial production, SA, % MoM	Mar	(0.5%)	0.7%	--
	BoT benchmark interest rate	8-May	1.75%	1.75%	--
	China exports, % YoY	Apr	3.0%	14.2%	--
9-May	China CPI, % YoY	Apr	2.5%	2.3%	--
	China PPI, % YoY	Apr	0.6%	0.4%	--
	Philippines GDP, % YoY	1QCY19	6.0%	6.1%	--
	BSP Overnight Borrowing Rate	9-May	4.5%	4.75%	--
	US PPI final demand, % MoM	Apr	0.2%	0.6%	--
	US initial jobless claims, thousands	4-May	220	230	--
10-May	Germany exports, SA % MoM	Mar	(0.4%)	(1.3%)	--
	France industrial production, % MoM	Mar	(0.5%)	0.4%	--
	Italy industrial Production, % MoM	Mar	(0.7%)	0.8%	--
	UK GDP, % QoQ	Q1CY19 P	0.5%	0.2%	--
	UK industrial production, % MoM	Mar	0.1%	0.6%	--
	India industrial production, % YoY	Mar	--	0.1%	--
	US CPI, % MoM	Apr	0.4%	0.4%	--
	China aggregate financing, CNY bn	Apr	1,650	2,860	--
	China new Yuan loans, CNY bn	Apr	1,175	1,690	--

Source: Bloomberg, Bank of Baroda Research

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