

WEEKLY WRAP

03 February 2020

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Global yields fell led by US over concerns of economic impact of coronavirus. US consumer confidence remains buoyant. Equity markets and oil prices too fell in the week. Both US Fed and BoE started the year by keeping rates on hold. India's FM presented a counter cyclical budget to stem an investment and consumption led slowdown. Fiscal deficit was expanded to 3.8% of GDP in FY20 and 3.5% in FY21. Gross borrowing was unchanged in FY20 and increased by only Rs700bn in FY21 which cheered bond markets.

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Markets

- **Bonds:** Except India, global yields closed lower as concerns over spread of coronavirus escalated. US 10Y yield fell the most by 18bps (1.5%) in the week. Oil prices fell by (-) 4.2% to US\$ 58/bbl. India's 10Y yield rose by 2bps (6.6%). However it opened 10bps lower today as gross borrowing for FY20 was unchanged at Rs 7.1tn and increased by only Rs 700bn in FY21. System liquidity surplus rose to Rs 3.4tn as on 31 Jan 2020 vs Rs 2.8tn in the previous week.
- **Currency:** Global currencies closed mixed this week as fears over the spread of coronavirus outbreak in China and its economic impact remained in focus. AUD fell by (-) 2% and CNY fell by (-) 0.9%. DXY also fell by (-) 0.5% in the week as US GDP grew at its weakest pace in 3-years in CY19. GBP rose by 1% after BoE kept its policy rate steady. INR closed stable even as oil prices fell. FII outflows were US\$ 361mn.
- **Equity:** Global indices ended lower this week as concerns over spread of coronavirus continued to weigh-in. European indices ended in red led by lower than expected GDP estimate for Q4CY19 and dovish tone of BoE as it trimmed growth forecast for CY20. Amongst other indices, Sensex (-4.5%) had the biggest fall as the budget failed to cheer investors. Chinese markets were closed and opened today (-) 9%.
- **Upcoming key events:** In the current week, markets will await manufacturing and services PMI of Eurozone, China and US. Apart from this, RBI, RBA, Philippines and BoT policy is also scheduled. Additionally, China's and Germany's exports data is also awaited.



India macro developments

- According to first advance estimates for 2019-20, horticulture output is expected to rise by 0.8% to 313.3mn tn (2019-20) compared with last year. This will largely be driven by increase in the production of vegetables, aromatics and medicinal plantations. Within vegetables, production of onion, potato and tomato is expected to surge by 7.1%, 3.5% and 1.7% respectively in 2019-20 on a YoY basis.
- In an effort to boost alternate sources of infra funding, NHAI has planned to raise Rs 150-200bn through its maiden InvIT offer. Earlier only two private sector developers had raised money through InvIT. Government's focus towards infra gained momentum with allocation to Ministry of Road Transport and Highways rising by 12% to Rs 1.1tn in FY20BE. Recent announcement of Rs 102tn NIP is also a step towards the same.
- According to news reports, the government has collected over Rs 380bn in taxes under the Sabka Vishwas scheme (legacy dispute resolution) vs target of Rs 350 bn. The tax amnesty scheme announced in the FY19 budget is expected to help taxpayers clear disputes under legacy taxes (service and central excise) which has now been subsumed under GST.
- CSO has revised FY18 and FY19 GDP growth lower by 20bps and 70bps respectively. The downward revision in FY18 is led by public (7.8% lower than earlier) and private (8.9% lower) investment and in FY19 by private consumption (1.1% lower). The dip in investments and household financial savings calls for policy response through higher government spending and incentivising financial savings.
- Total GST collections for Dec'19 reached Rs 1.1tn (+8% on YoY basis) from Rs 1tn in Nov'19 (+8.9%). After adjusting for IGST, while CGST collections eased (Rs 405bn vs Rs 437bn in Nov'19), SGST collections jumped sharply (Rs 641bn vs Rs 520bn). In the latest budget, CGST collections have been revised to Rs 5.1tn from Rs 5.3tn earlier. With FYTD collections at Rs 3.7tn, we believe centre will be able to meet its revised targets.
- Growth in India's eight core industries rebounded to 1.3% in Dec'19 from (-) 0.6% in Nov'19. This was attributed to improvement in coal production which rose to a 9-month at 6.1% in Dec'19 vs (-) 2.5% in Nov'19. Steel and cement output also inched up by 1.9% and 5.4% respectively in Dec'19. Hence, IIP growth is also expected to be marginally higher in Dec'19.

Global macro developments

- US GDP grew by 2.1% in Q4CY19, same as Q3 in line with estimates supported by both personal and government spending and lower imports. GDP grew at its slowest pace in 3-years in CY19 at 2.3% (2.9% in CY18), despite tax cuts worth US\$ 1.5tn unveiled by the government to lift growth. Separately, jobless claims (25 Jan) fell sharply by 7,000 to 216,000 suggesting continued labour market strength.
- US Fed in its first meeting for CY20 kept the policy rates on hold. The Board stated it was “appropriate” to support the current economic expansion, as well as to support “inflation returning to the 2% objective”. However, they approved the 5bps increase in the interest rate on excess reserves to 1.6% and also extended the term repos and overnight repos till Apr’20 as it previously committed.
- US durable goods rebounded to 2.4% in Dec’19 (est. 1.2%) vs (-) 3.1% in Nov’19 on a MoM basis. This was driven by orders of transportation equipment surging to 7.6% vs (-) 8.3%. US consumer confidence jumped to a 5-month high of 131.6 in Jan’20 from 126.5 in Dec’19 as consumers remained optimistic about the improved economic outlook.
- China’s industrial profits in CY19 fell for the first time in four years to (-) 3.3% vs (-) 2.9 dip between Jan-Nov’19. This was led by SoEs with (-) 12% decline in profits. Profits of private firms increased 2.2%. Industry-wise, steel, petrochemicals and automobiles declined the most. Growth is expected to remain muted in H1CY20 as well, due to coronavirus outbreak.
- US new home sales declined for the 3rd straight month by (-) 0.4 % on MoM basis to 694,000 in Dec’19 (est.: 730,000) vs 697,000 in Nov’19. This was on account of lack of supply of affordable homes due to land and labour shortage. Thus the median new house price rose by 0.5% in Dec’19 on YoY basis to US\$ 0.3m.
- Business confidence in Germany remained muted with IFO index at 95.9 (est.: 97) in Jan’19 weaker than 96.3 in Dec’19. The expectation index was lower at 92.9 for Jan’19, down from previous month’s 93.8. The macro print was in line with a benign growth outlook in Germany (0.6% growth recorded in CY19, weakest since CY13).
- In line with US Fed, Bank of England too in its first policy meet for CY20 kept rates unchanged. However, the Board trimmed its growth forecast from 1.3% in CY20 to 0.8% and inching back to 1.5% in CY21. Uncertainty over the future business investment in the wake of Brexit and lower immigration will continue to weigh in on growth.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.51	(18)	(41)	(20)	(118)
UK	0.52	(4)	(30)	(14)	(72)
Japan	(0.07)	(5)	(6)	11	(5)
Germany	(0.43)	(10)	(25)	(5)	(60)
India	6.60	2	5	15	(77)
China	3.00	(9)	(14)	(27)	(11)
2Y yields (Δ bps)					
US	1.31	(18)	(26)	(24)	(119)
UK	0.50	8	(4)	(2)	(27)
Japan	(0.14)	(2)	(1)	12	3
Germany	(0.67)	(6)	(7)	(1)	(9)
India	6.07	(3)	30	58	(92)
China	2.23	(5)	(42)	(45)	(17)
Currencies (Δ %)					
EUR	1.1093	0.6	(1.1)	(0.7)	(3.2)
GBP	1.3206	1.0	(0.4)	2.0	1.0
JPY	108.35	0.9	0.2	(0.1)	1.1
AUD	0.6692	(2.0)	(4.7)	(3.1)	(7.7)
INR	71.35	0	0	(0.8)	(0.1)
CNY	6.9426	(0.9)	0.3	1.3	(2.9)
Equity & Other indices (Δ %)					
Dow	28,256	(2.5)	(1.0)	3.3	12.7
FTSE	7,286	(4.0)	(3.4)	(0.2)	3.8
DAX	12,982	(4.4)	(3.0)	0.2	16.1
NIKKEI	23,205	(2.6)	0	1.6	11.6
Shanghai Comp	2,977	(3.2)	(2.4)	0.6	13.7
SENSEX	39,736	(4.5)	(3.7)	(1.1)	9.0
Brent (US\$/bbl)	58.16	(4.2)	(11.9)	(5.7)	(7.3)
Gold (US\$/oz)	1,589	1.1	4.7	4.9	20.6
CRB Index	404.2	(1.1)	0.6	3.7	(2.1)
Rogers Agri Index	735.2	(2.3)	(3.1)	0.5	(5.4)
LIBOR (3M)*	1.77	(4)	(14)	(12)	(96)
INR 5Y Swap*	6.68	(1)	(4)	17	(55)
India FII data (US\$ mn)					
	30 Jan	WTD	MTD	CYTD	FYTD
FII-Debt	43.2	(111.3)	(1,553.5)	(1,553.5)	1,390.6
FII-Equity	87.6	(249.6)	1,984.5	1,984.5	9,373.7

Source: Bloomberg, Bank of Baroda | *Indicates change in bps | Markets in China were closed on 24.01.2020

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
3-Feb	Jibun Bank Japan manufacturing PMI	Jan F	--	49.3	--
	China industrial profits, % YoY	Dec	--	5.4%	--
	Caixin China manufacturing PMI	Jan	51.0	51.5	--
	Markit India manufacturing PMI	Jan	--	52.7	--
	Markit Italy manufacturing PMI	Jan	--	46.2	--
	Markit France manufacturing PMI	Jan	--	51.0	--
	Markit Germany manufacturing PMI	Jan	45.2	45.2	--
	Markit Eurozone manufacturing PMI	Jan	47.8	47.8	--
	Markit US manufacturing PMI	Jan	51.7	51.7	--
	US ISM manufacturing PMI	Jan	48.4	47.2	--
4-Feb	South Korea CPI, % YoY	Jan	0.9%	0.7%	--
	Reserve Bank of Australia policy rate, %	1-Feb	0.75%	0.75%	--
	US factory orders, %	Dec	0.7%	(0.7%)	--
5-Feb	Caixin China services PMI	Jan	52.0	52.5	--
	Markit India services PMI	Jan	--	53.3	--
	Bank of Thailand policy rate, %	5-Feb	1.25%	1.25%	--
	Markit Italy services PMI	Jan	--	51.1	--
	Markit France services PMI	Jan	--	51.7	--
	Markit Germany services PMI	Jan	54.2	54.2	--
	Markit Eurozone services PMI	Jan	52.2	52.2	--
	Markit UK services PMI	Jan	52.9	52.9	--
	US trade balance, US\$ bn	Dec	(47.4)	(43.1)	--
	Markit US services PMI	Jan	53.2	53.2	--
US ISM non-manufacturing index	Jan	55.1	55.0	--	
6-Feb	South Korea current account balance, US\$ bn	Dec	--	6.0	--
	Australia retail sales, % MoM	Dec	(0.2%)	0.9%	--
	Thailand CPI, % YoY	Jan	1.0%	0.9%	--
	Reserve Bank of India policy rate, %	6-Feb	5.15%	5.15%	--
	Germany factory orders, % MoM	Dec	0.5%	(1.3%)	--
	Philippines policy rate, %	6-Feb	3.75%	4.00%	--
	US initial jobless claims	1-Feb	--	216,000	--
7-Feb	Germany exports SA, % MoM	Dec	0.3%	(2.3%)	--
	Germany industrial production SA, % MoM	Dec	(0.2%)	1.1%	--
	France industrial production, % MoM	Dec	--	0.3%	--
	Italy retail sales, % MoM	Dec	--	(0.2%)	--
	US change in nonfarm payrolls	Jan	160,000	145,000	--
	US unemployment rate, %	Jan	3.5%	3.5%	--
	US average hourly earnings, % MoM	Jan	0.3%	0.1%	--
	China exports, % YoY	Jan	(4.5%)	7.6%	--
Germany exports SA, % MoM	Dec	0.3%	(2.3%)	--	

Source: Bloomberg, Bank of Baroda

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