WEEKLY WRAP

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Markets await Q2 growth print

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US existing home sales rose at its fastest pace in 2-years. Even flash manufacturing PMIs for US and Eurozone edged up marginally in Nov'19. However, led by China, Japan's exports fell more than estimated. Global yields fell as US-China trade deal remains a mystery. On the domestic front, markets await Q2FY20 GDP data which is likely to drive another 25bps rate cut by RBI. Yields fell as a result, even as government revenues remain lackluster. Strategic disinvestment will have to fill in the gap.

Markets

- **Bonds:** Global yields closed lower over political turmoil in Hong Kong and uncertainty over US-China trade deal. China 10Y yield fell the most (7bps) followed by US (6bps). US Fed and ECB will be data dependent, minutes suggest. Crude prices rose by 0.1% (US$ 63/bbl) over anticipation of extension in OPEC production cuts upto Mar'20. India's 10Y yield fell by 2bps (6.5%) amidst expectation of rate cut by RBI. System liquidity surplus was at Rs 2.1tn as on 25 Nov 2019 vs Rs 2.5tn in the previous week.

- **Currency:** Global currencies closed mixed this week. Apart from progress in US-China trade deal, flash PMIs of major economies drove currency movements. DXY rose by 0.3% as US manufacturing and services PMI rose more than expected. However, EUR fell as services activity decelerated in Oct'19. Weak UK manufacturing PMI led to a weaker GBP (-0.5%). INR rose by 0.1% as investors await Q2FY20 GDP print.

- **Equity:** Concern over possible outcome of US-China trade deal and Fed minutes pushed the global equity markets lower in the week. Nikkei dropped the most (-0.8%) followed by Dax (-0.6%). Dow (-0.5%) broke its 4-week winning streak. Sensex on the other hand ended flat in absence of any fresh triggers.

- **Upcoming key events:** Markets will closely read macro prints from the US- second estimate of Q3 GDP, wholesale inventories, durable goods orders and new home sales. Apart from that, BoK's monetary policy decision and France and Italy's final GDP print for Q3 is also due. On the domestic front, GDP, eight core index and fiscal data are keenly awaited.

India macro developments

- OECD has cut India's GDP forecast to 5.8% in FY20 from 5.9% earlier and 6.8% in FY19. Stress in NBFCs, dwindling consumer confidence and stress in construction sector and industrial production have all contributed to the slowdown. However, growth is expected to pick up to 6.2% in FY21 and 6.4% in FY22 on the back of accommodative monetary and fiscal policies. Global GDP is expected to grow by 2.9% in CY19, a 10-year low.
- In a relief to the telecom sector, Cabinet has allowed a 2-year moratorium on spectrum related dues. Currently, the sector owes the government Rs 926bn as license fee and Rs 551bn as SUC. In a separate decision, Cabinet approved strategic disinvestment of 5 PSUs-BPCL, SCI, Concor, Tehri Hydro and Neepco. As per news reports, this might bring around Rs 784bn to the exchequer, based on current market prices.
- Government has reaffirmed that it will be able to meet its FD target of 3.3% for FY20, with expenditure on track. In H1FY20, ministries have spent 53.4% of BE with agriculture, chemicals and petroleum taking the lead. However, with revenues falling short of BEs (Direct taxes: 5.2% vs 18.6% BE and indirect taxes: 2.8% vs 17.2% BE), we believe meeting the FD target will be possible via higher disinvestments and non-tax revenues.
- Air passenger traffic has bounced back in Oct'19 supported by festive demand. Over 12.3mn passengers were carried in Oct'19 vs 11.5mn in Sep'19 and over 4% higher than last year. On a FYTD basis, domestic passenger traffic rose by 3.1% in Jan-Oct'19 compared with same period of previous year. As per DGCA, air traffic growth is likely to jump back to double digits in the near term with the addition of more fleet.
- RBI data showed that credit demand edged down to 8.1% for the fortnight ending 8 Nov 2019 vs 8.9% in the previous fortnight. Even deposit growth was lower at 9.9% vs 10.3% in the previous fortnight, led by moderation in both demand and time deposits. CD ratio was at 75.8%.
- As per news reports, government may amend the IBC in the winter session of the parliament. This amendment is likely to protect companies from prosecution of financial crimes committed by erstwhile promoters. Thus, making it more attractive for bidders and enabling faster resolution process. Recovery rate under IBC has risen to 46.1% in H1FY19 vs 12.4% in FY15.

Global macro developments

- WTO expects global goods trade to weaken further in Q4CY19. While WTO's latest goods trade barometer rose marginally to 96.6 from 95.7 in Aug'19, it remains below 100 signaling subdued growth. Marked contraction was seen in electronic components as a result of tariff hikes. Further, slowing global growth and Brexit uncertainty in developed countries impinges on global trade growth.
- Fed minutes offered little guidance towards future course of interest rates. This came after 8-2 members voted for a 25bps reduction, 3rd rate cut in CYTD19. Members expect the reduction is likely to support domestic growth, strengthen labour market and is in line with its inflation objective. In addition, in the wake of disturbance in the short-term money markets, there is a likelihood of setting up a standing repo facility too.
- US existing home sales rose at its fastest pace in more than 2-years by 1.9% to 5.46mn units vs 5.36mn units in Sep'19. This was on the back of lower mortgage rates (30-year mortgage rate fell by 130bps since Nov'18 peak) and shortage of properties for sale (median housing prices rose by 6.2%, strongest increase since Jun'17). In a separate print, jobless claims were flat at 227,000 for the week ending 16 Nov 2019.
- ECB minutes signaled a hawkish tone and supported a more 'wait and see' approach. Members noted that impact of introducing the new euro short term rate and the two-tier remuneration system will curb the excess reserves. In addition, due to rising uncertainty and protectionism, outlook to growth will be on the downside. Separately, Eurozone flash consumer confidence improved marginally to (-) 7.2 in Nov'19 from (-) 7.6 in Oct'19.
- China's PBOC after lowering the 7D-reverse repo and MLF rate by 5bps, has also reduced its Loan Prime Rate. The LPR which is linked to MLF, now stands at 4.15% vs 4.2% earlier. To lower the borrowing costs for MSEs, this is the 3rd rate cut since the inception of LPR in Aug'19. Central Bank governor also acknowledged that downward pressure on growth exists, thus reaffirming PBOC's commitment to maintain steady credit conditions.
- Flash manufacturing PMIs for the US, Eurozone and Japan indicate activity improved marginally in Nov'19. While PMIs in Germany (43.8 vs 42.1 in Oct'19) and Japan (48.6 vs 48.4) continue to remain in contraction, pace of deceleration slowed. France (51.6 vs 50.7) and US (52.2 vs 51.3) saw steady expansion of activity in Nov'19. In case of services activity, while Eurozone is seeing a slowdown, US and Japan saw moderate expansion.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.77	(6)	1	24	(127)
UK	0.71	(2)	2	22	(68)
Japan	(0.07)	(1)	6	16	(17)
Germany	(0.36)	(3)	4	32	(70)
India	6.50	(2)	(1)	(7)	(121)
China	3.17	(7)	(4)	10	(25)
2Y yields (Δ bps)					
US	1.63	2	5	9	(118)
UK	0.53	(2)	0	8	(21)
Japan	(0.18)	1	6	11	(4)
Germany	(0.64)	0	2	26	(6)
India	5.41	(5)	(13)	(39)	(189)
China#	2.63	(6)	3	3	12
Currencies (Δ %)					
EUR	1.1021	(0.3)	(1.0)	(1.1)	(2.8)
GBP	1.2834	(0.5)	(0.6)	4.6	0.2
JPY	108.66	0.1	0	(3.1)	3.8
AUD	0.6786	(0.5)	(1.0)	0.4	(6.2)
INR	71.72	0.1	(1.1)	(0.1)	(1.4)
CNY	7.0383	(0.4)	0.4	0.8	(1.3)
Equity & Other indices (Δ %)					
Dow	27,876	(0.5)	3.9	8.8	14.8
FTSE	7,327	0.3	0.9	3.3	5.4
DAX	13,164	(0.6)	2.9	13.4	17.6
NIKKEI	23,113	(0.8)	2.2	11.6	6.8
Shanghai Comp	2,885	(0.2)	(1.9)	(0.4)	11.9
SENSEX	40,359	0	3.3	10.0	15.4
Brent (US$/bbl)	63.39	0.1	3.6	6.8	7.8
Gold (US$/oz)	1,462	(0.4)	(2.0)	(4.3)	19.5
CRB Index	387.5	(0.8)	(1.1)	(1.3)	(6.7)
Rogers Agri Index	724.8	(0.3)	(0.5)	6.3	(5.5)
LIBOR (3M)*	1.92	1	(2)	(23)	(77)
INR 5Y Swap*	6.42	(4)	(21)	15	(112)
India FII data (US$ mn)	**21 Nov**	**WTD**	**MTD**	**CYTD**	**FYTD**
FII-Debt	(44.9)	(560.9)	(114.6)	4,572.2	4,027.6
FII-Equity	697.2	596.0	2,181.9	12,404.7	5,559.5

Source: Bloomberg, Bank of Baroda | *Indicates change in bps, #1Y yield

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
25-Nov	Taiwan industrial production, % YoY	Oct	(1.7%)	(0.8%)	--
	Germany IFO business climate index	Nov	95.0	94.6	--
26-Nov	Germany GfK consumer confidence index	Dec	9.6	9.6	--
	Hong Kong exports, %YoY	Oct	(8.4%)	(7.3%)	--
	US advance goods trade balance, US$ bn	Oct	(71.2)	(70.4)	--
	US wholesale inventories, % MoM	Oct	0.1%	(0.4%)	--
	US new home sales, in thousands	Oct	708	701	--
	US conf. board consumer confidence index	Nov	127.0	125.9	--
27-Nov	New Zealand trade balance, NZD mn	Oct	(1,000)	(1,242)	--
	China industrial profits, % YoY	Oct	--	(5.3%)	--
	Franc consumer confidence index	Nov	103.0	104.0	--
	US MBA mortgage applications	22-Nov	--	(2.2%)	--
	US GDP annualized, % QoQ (second estimate)	Q3CY19	1.9%	1.9%	--
	US durable goods orders, % MoM	Oct	(0.8%)	(1.2%)	--
	US initial jobless claims, in thousands	23-Nov	221	227	--
28-Nov	Japan retail sales, % YoY	Oct	(3.8%)	9.2%	--
	Switzerland GDP, % QoQ	3Q	0.2%	0.3%	--
	Spain CPI, % YoY	Nov	0.4%	0.1%	--
	Euro Area economic confidence index	Nov	101.0	100.8	--
	Germany CPI, % YoY	Nov	1.2%	1.1%	--
29-Nov	Japan industrial production, % MoM	Oct	(2.0%)	1.7%	--
	Bank of Korea 7-Day repo rate	29-Nov	1.3%	1.3%	--
	Thailand exports, % YoY	Oct	--	(1.5%)	--
	France CPI, % YoY	Nov	0.9%	0.8%	--
	France GDP, % QoQ (final estimate)	Q3CY19	0.3%	0.3%	--
	Euro Area CPI, % MoM	Nov	(0.4%)	0.1%	--
	Italy GDP, WDA, % QoQ (final estimate)	Q3CY19	0.1%	0.1%	--
	India GDP, % YoY	Q2FY20	4.6%	5.0%	--
	India fiscal deficit, Rs crore	Oct	--	97,714	--
	India eight infrastructure industries, %YoY	Oct	--	(5.2%)	--

Source: Bloomberg, Bank of Baroda

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