

## WEEKLY WRAP

03 May 2021

**Rising Covid-19 cases a risk to recovery**

**Global yields inched up on the back of rising US consumer confidence and easing of restrictions in UK. EUR fell as Europe entered a technical recession on the back of mobility restrictions. While global commodity prices rose, equity markets were weak given rising Covid-19 cases. INR rose by 1.2% and Sensex rose by 1.9% led by metal stocks. While PMI data for Apr'21 was unchanged MoM, mobility data shows reduction in economic activity in coming weeks as a number of states have imposed restrictions on movement.**

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**Markets**

- **Bonds:** Global yields closed higher, apart from China and India. UK's 10Y yield rose the most at 10bps (0.84%) as economy rebounds from the pandemic. US 10Y yield rose by 7bps (1.63%) supported by rising consumer confidence. India's 10Y yield fell by 1bps (6.03%). Crude prices rose by 1.7% supported by demand in US and Europe. System liquidity surplus fell to Rs 5.1tn as on 30 Apr 2020 from Rs 5.9tn in previous week.
- **Currency:** Except INR and CNY, other global currencies closed lower. US Fed reaffirmed its dovish stance. EUR fell by 0.3% as Euro Area entered technical recession. INR rose by 1.2% even as oil prices rose. FII outflows were US\$ 93mn in the week.
- **Equity:** Global equity markets were weak in the week apart from FTSE and Sensex. Rising global Covid-19 cases is a dampener. Dax (0.9%) dropped the most as Eurozone registered its second technical recession in a year. However, Sensex rose by 1.9% driven by strong gains in metal stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 5.7mn this week versus 5.6mn WoW led by India, which added 2.5mn cases versus 2mn WoW. Mobility data shows activity in India has seen a downtick (retail at -10% WoW, workplace -9% WoW). Israel has vaccinated 63% of its population (single dose), UK at 51% and US at 44%. India is now at 9.2%.
- **Upcoming key events:** Markets await PMIs of major economies, US employment and factory orders data. RBA and BoE meetings are scheduled. On the domestic front, markets will monitor Covid-19 cases, progress of vaccination and corporate earnings.



## India macro developments

- As per preliminary data, India's exports rose by 197% in Apr'21 (60% in Mar'21). All major commodities of exports recorded positive growth led by gems and jewellery (9159%) and engineering goods (235%). Imports rose by 166% in Apr'21 from 54%. Oil imports rose to 132% from 2%. Non-oil-non-gold imports rose to 129% from 47%. India's trade deficit widened for the 3rd straight month to US\$ 15.2bn from US\$ 14.1bn.
- Total GST collections in Apr'21 hit a record high of Rs 1.4tn from Rs 1.2tn in Mar'20 (14% MoM increase). Unadjusted CGST collections rose to Rs 278bn in Apr'21 from Rs 230bn in Mar'21 (21% MoM increase). Unadjusted SGST collections also rose to Rs 356bn from Rs 293bn (22% MoM increase). IGST collections inched up to Rs 685bn from Rs 628bn.
- India's eight core index rose by 6.8% in Mar'21 from 3.8% contraction in Feb'21. This was led by favourable base. Sectors such as cement (32.5% in Mar'21 from 5.6% decline in Feb'21), steel (23% from 1.3%) and electricity (21.6% from 0.2%) showed considerable pickup. Even on MoM basis, these sectors fared well. Going forward, rising Covid-19 cases is a key risk.
- As per CMIE report, India's unemployment rate is expected to jump to 8% in Apr'21 from 6.5% in Mar'21. This will be the 3rd consecutive month of deterioration in labour statistic indicator due to rising Covid-19 cases. Labour force participation rate which was at 40.8% till 15 Apr 2021 has also started falling due to lockdown restriction.
- With localised lockdowns in India, rail freight activity has taken a hit in Apr'21 (upto 27 Apr) as activity is down by 7% (MoM), compared with 0.4% increase in Mar'21. This is also weaker than 3.3% drop registered in the first half of Apr'21. Similarly, even e-way bills generated are down in Apr'21 so far (upto 25Apr) by ~24% (MoM) versus 0.8% dip in Mar'21.
- RBI reported that currency in circulation (CIC) increased by Rs 73.5bn and stood at Rs 29tn for the week ending 23 Apr 2021. Reserve money rose by 17.5% on a YoY basis, compared with 9.1% a year ago. On FYTD basis, reserve money increased by 1.7% as against a decline of 0.3% a year ago.
- RBI sold net US\$ 1.2bn in the spot market in Feb'21 for the first time in 9-months, compared with net purchase of US\$ 2.9bn in Jan'21. In FY21 (Apr-Feb'21), RBI has bought US\$ 74bn in the spot market versus US\$ 49.2bn in the same period last year. In the forwards market, RBI bought US\$ 25.8bn in Feb'21 versus US\$ 7.6bn in Jan'21. RBI's outstanding forward position stands at US\$ 73.2bn as of Feb'21.

## Global macro developments

- Flash estimate showed GDP in both the Euro area and EU would contract by 0.6% and 0.4% respectively in Q1CY21 against decline of 0.7% and 0.5% in Q4, on QoQ basis. In a separate print, flash estimate of Euro area inflation is higher at 1.6% in Apr'21 from 1.3% in Mar'21, led by energy prices. Unemployment on the other hand showed moderation in both the Euro area and EU to 8.1% in Mar'21 (from 8.2%) and 7.3% (from 7.4%) respectively.
- China's manufacturing PMI moderated to 51.1 in Apr'21 from 51.9 in Mar'21, signally slower pace of recovery. This was led by drop in export orders (50.4 in Apr from 51.2 in Mar'21) along with chip shortages. Non-manufacturing PMI too eased to 54.9 in Apr'21 from 56.3 in Mar'21. This was led by slowdown in real estate activity due to tighter restrictions imposed on home buying.
- US GDP growth rose to 6.4% in Q1CY21 from 4.3% in Q4CY20 on an annualised basis, led by personal consumption (10.7% versus 2.3% in Q4). Government expenditure also rose by 6.3% from a decline of 0.8% in Q4. Further, while imports rose by 5.7% exports fell by 1.1%. Separately, US jobless claims for the week ended 24 Apr 2021 fell to 553,000 from 566,000 last week.
- Germany's Gfk consumer sentiment index fell to (-) 8.8 in May'21 from (-) 6.1 in Apr'21. Sharp drop was seen in consumers' income expectations (down by 13pts) and economic outlook (down by 10.4pts) due to a resurgence of Covid-19 cases and slow pace of vaccination. The dismal reading supports the view that private consumption is likely to remain weak in CY21 as well.
- US Fed in its latest meeting kept policy rate unchanged and maintained its monthly asset program (US\$ 120bn). It however noted that economic activity and employment scenario have strengthened with recent policy support and rapid pace of vaccination. It also reiterated that the stance of monetary policy may be adjusted as and when appropriate, if risks emerge to the fulfillment of policy goals.
- US Conference Board consumer confidence index rose to 121.7 in Apr'21 (est.:112) from 109 in Mar'21. Both the present situation and expectation index soared in Apr'21. This was due to rapid vaccination drive (42% of population vaccinated) and fiscal stimulus lending support to income and demand outlook.
- China' industrial profits jumped by 92.3% in Mar'21 (34.9% drop in Mar'20) largely owing to favourable base. However, this was slower than 179%rise seen in Jan-Feb'21 (38.3% decline last year). Higher profits were led by industries for raw materials for manufacturing and processing. Within this, metal and petroleum industries gained the most as demand picked up. Liabilities of industrial firms rose by 9% in Mar'21 versus 9.4% in Jan-Feb'21.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	1.63	7	(4)	56	99
UK	0.84	10	5	52	61
Japan	0.10	3	(2)	4	13
Germany	(0.20)	6	13	32	38
India	6.03	(1)	(14)	12	(8)
China	3.16	(2)	(4)	(3)	64
<b>2Y yields (Δ bps)</b>					
US	0.16	0	(0)	5	(4)
UK	0.08	4	0	19	6
Japan	(0.12)	1	(1)	(1)	5
Germany	(0.68)	1	3	5	8
India	4.46	(4)	(21)	(1)	(10)
China**	2.40	0	(12)	(29)	128
<b>Currencies (Δ %)</b>					
EUR	1.2020	(0.6)	2.1	(1.0)	9.7
GBP	1.3822	(0.4)	(0.1)	0.8	9.8
JPY	109.31	(1.3)	1.2	(4.4)	(2.0)
AUD	0.7716	(0.3)	1.3	0.9	18.5
INR	74.09	1.2	(1.3)	(1.6)	1.3
CNY	6.4749	0.3	1.4	(0.7)	8.3
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	33,875	(0.5)	2.2	13.0	39.1
FTSE	6,970	0.5	3.5	8.8	18.1
DAX	15,136	(0.9)	0.2	12.7	39.4
NIKKEI	28,813	(0.7)	(2.0)	4.2	42.7
Shanghai Comp	3,447	(0.8)	(0.6)	(1.0)	20.5
SENSEX	48,782	1.9	(1.5)	5.4	44.7
Brent (US\$/bbl)	67.25	1.7	3.7	20.3	166.1
Gold (US\$/oz)	1,769	(0.5)	2.3	(4.2)	4.9
CRB Index	532.1	1.4	5.4	16.1	50.6
Rogers Agri Index	1,069.3	2.4	13.7	15.2	63.3
LIBOR (3M)*	0.18	(1)	(2)	(3)	(38)
INR 5Y Swap*	5.64	12	(20)	7	42
<b>India FII data (US\$ mn)</b>					
	<b>29 Apr</b>	<b>WTD</b>	<b>Mar-21</b>	<b>CYTD</b>	<b>FYTD22</b>
FII-Debt	(112.7)	(120.8)	(242.8)	(2,270.0)	(242.8)
FII-Equity	122.7	27.6	(1,063.5)	6,262.8	(1,063.5)

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
3-May	Markit India manufacturing PMI	Apr	--	55.4	55.5
	Germany retail sales, % MoM	Mar	3.0%	1.2%	--
	Markit Italy manufacturing PMI	Apr	61.0	59.8	--
	Markit France manufacturing PMI	Apr	59.2	59.2	--
	Markit/BME Germany manufacturing PMI	Apr	66.4	66.4	--
	Markit Eurozone manufacturing PMI	Apr	63.3	63.3	--
	Hong Kong GDP, % YoY	Q1CY21	3.7%	(3.0%)	--
	Markit US manufacturing PMI	Apr	60.7	60.6	--
	US ISM manufacturing PMI	Apr	65.0	64.7	--
4-May	Australia trade balance, AUD bn	Mar	8.2	7.5	--
	RBA cash rate target, %	4-May	0.1%	0.1%	--
	Markit UK manufacturing PMI SA	Apr	60.7	60.7	--
	US trade balance, US\$ bn	Mar	(74.3)	(71.1)	--
	US factory orders, % MoM	Mar	1.3%	(0.8%)	--
5-May	Indonesia GDP, % YoY	Q1CY21	(0.7%)	(2.2%)	--
	Markit India services PMI	Apr	--	54.6	--
	Singapore retail sales, % YoY	Mar	7.1%	5.2%	--
	BoT benchmark interest rate, %	5-May	0.5%	0.5%	--
	Markit Italy services PMI	Apr	50.0	48.6	--
	Markit France services PMI	Apr	50.4	50.4	--
	Markit Germany services PMI	Apr	50.1	50.1	--
	Markit Eurozone services PMI	Apr	50.3	50.3	--
	Euro Area PPI, % YoY	Mar	4.2%	1.5%	--
	Markit US services PMI	Apr	63.1	63.1	--
US ISM services PMI	Apr	64.1	63.7	--	
6-May	Germany factory orders, % MoM	Mar	1.5%	1.2%	--
	BNM Malaysia overnight policy rate, %	6-May	1.75%	1.75%	--
	Markit/CIPS UK services PMI	Apr	60.1	60.1	--
	Euro Area retail sales, % MoM	Mar	1.5%	3.0%	--
	BoE bank rate, %	6-May	0.1%	0.1%	--
	US initial jobless claims, in thousands	1-May	540.0	553.0	--
7-May	China exports, % YoY	Apr	25.0%	30.6%	--
	South Korea current account balance, US\$ bn	Mar	--	8.0	--
	RBA statement on monetary policy				
	Caixin China services PMI	Apr	54.3	54.3	--
	Germany industrial production SA, % MoM	Mar	2.0%	(1.6%)	--
	Germany exports SA, % MoM	Mar	0.5%	0.9%	--
	Italy retail sales, % MoM	Mar	(0.6%)	6.6%	--
	US change in nonfarm payrolls, in thousands	Apr	978.0	916.0	--
	US unemployment rate, %	Apr	5.7%	6.0%	--

Source: Bloomberg, Bank of Baroda

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