

WEEKLY WRAP

10 August 2020

Global recovery continues

Global yields rose with macro data surprising positively. Rising exports from China and Germany and expanding global PMIs point to sustained recovery. However, India's recovery has plateaued for now. Global equity markets went up. So was the case for India as FII equity inflows continued. RBI did keep rates on hold with inflation remaining above its tolerance band of 6%. This month too inflation is estimated at 6.2%. Given limited room for easing, RBI did allow dispensation to borrowers to restructure loans.

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Markets

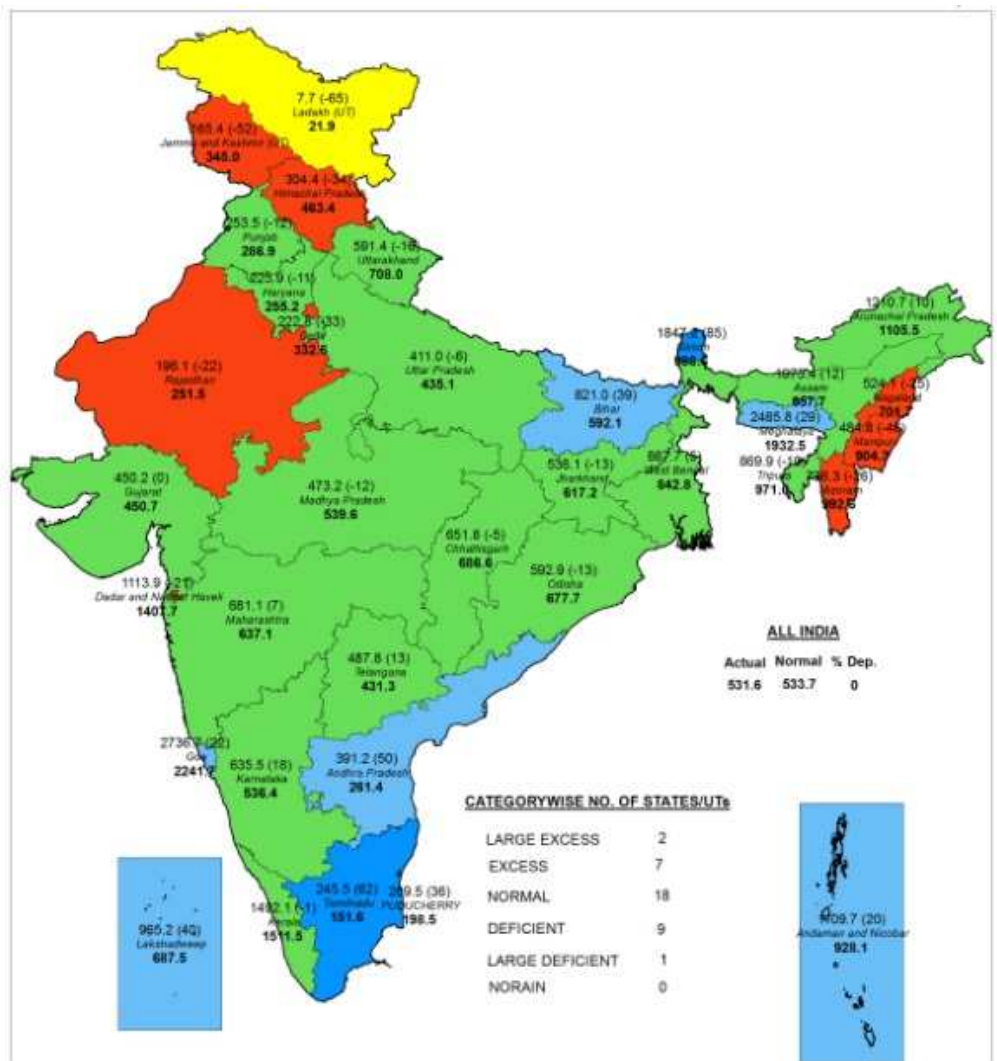
- **Bonds:** Global long end yields closed higher. US 10Y yield increased by 4bps (0.56%) supported by an improving economy with higher job additions and better manufacturing and services data. UK 10Y yield also rose by 4bps as BoE estimates showed that GDP is expected to contract at a less sharp pace (9% in CY20, 14% projected earlier). Oil prices also rose by 2.5% (US\$ 44/bbl). India's 10Y yield rose the most by 5bps (5.89%) as RBI's concern of future inflation trajectory left little room for rate cut in the near term. System liquidity surplus was at Rs 3.8tn as on 7 Aug 2020; same as previous week.
- **Currency:** Global currencies closed mixed in the week on the back of escalation in US-China trade tensions. DXY rose by 0.1% in the week after falling to a 2-year low as US non-farm payrolls rose more than expected in Jun'20. GBP depreciated by 0.3% amidst Brexit uncertainty and expectations of negative rates. INR depreciated by 0.2% as oil prices increased. FII inflows were US\$ 1.1bn in the week
- **Equity:** Global equity indices went up with encouraging economic data. Dow surged by 3.8%, its biggest gain since Jun'20, followed by both Dax and Nikkei climbing by 2.9% each. Sensex (1.2%) too ended in green as RBI announced regulatory dispensation for restructuring loans while keeping rates on hold. Metal and auto stocks advanced the most.
- **Upcoming key events:** In the current week, markets await key data prints from the US (CPI, industrial production retail sales), China (industrial production FAI, retail sales) and UK (Q2 GDP). On the domestic front, India's CPI, WPI, industrial production and trade data are due.



Monsoon tracker

- For the period 1 Jun 2020 to 9 Aug 2020, monsoon is now at the LPA. Last year, it was (-) 5% below LPA. While North Eastern region and central parts of the country continue to receive normal rainfall, states like Bihar, Tamil Nadu and Andhra Pradesh have been receiving heavy rainfall. On the other hand, Rajasthan, Himachal Pradesh, Manipur and parts of J&K have received deficient rainfall.
- With the widespread distribution of rainfall, overall Kharif sowing is higher by 10.3% compared with last year. The improvement is largely led by higher sowing for rice (17.4%) and pulses (4.2%). Sowing area of oilseeds and cotton continues to inch up by 15.5% and 4.1% respectively.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



India macro developments

- RBI voted to keep policy rate unchanged and maintained accommodative stance. RBI would like to wait for inflation to fall before reducing rates any further. It allowed one-time restructuring for corporates and households impacted by pandemic. Additionally, liquidity of Rs 100bn has been provided for NABARD and NHB. LTV ratio of gold loans has also been increased to 90% from 75% earlier.
- India's manufacturing PMI contracted for the 4th straight month to 46 in Jul'20 from 47.2 in Jun'20. The downturn was on the back of subdued demand as localised lockdown continued across states. This was further exacerbated by lower demand from international markets thereby deteriorating sales trend. However, the 12-month business outlook improved as manufacturers remained optimistic about future activity.
- India's services activity still remained muted with PMI print at 34.2 in Jul'20 against 33.7 in Jun'20; remaining far below the 50-mark. This was driven by sharp drop in sales and new business activity. The 12-month outlook for output was also negative for the 3rd successive month. Employment index fell sharply. Input costs increased for the first time since Mar'20 amid reports of greater fuel and cargo costs.
- Government of India recently launched the Agriculture Infrastructure Fund worth Rs 1tn to provide support to FPOs, PACs and farmers so as to build community farming assets and post-harvest infrastructure. Through the fund, over Rs 10bn was provided to 2,200 farmer societies. Further, Rs 170bn was also released as the 6th installment under the PM-KISAN scheme, taking the total disbursement to Rs 900bn.
- As per FCI, a total of 75.9mn MT of foodgrain stock is available; of this 9.5mn MT is required each month under NFSA, PMGKAY and other schemes. Under PMGKAY-1 (Apr-Jun'20), total of 11.7mn MT have been distributed and 20.1mn MT is expected to be distributed under PMGKAY-2 (Jul-Nov'20). Under the Atma Nirbhar Bharat Scheme over 0.8mn MT foodgrain will be given to 80mn migrant labours who have not been included under NFSA/state scheme. This is expected to cost over Rs 31.1bn for foodgrains and Rs 2.8bn for gram.
- RBI reported that currency in circulation (CIC) increased by Rs 14.6bn and stood at Rs 26.7tn for the week ending 31 Jul 2020. Reserve money rose by 15.4% on a YoY basis, compared with 12.2% a year ago. On a FYTD basis, reserve money increased by 5% as against a decrease of 0.5% last year.

Global macro developments

- US factory orders rose by 6.2% in Jun'20 against estimation of 5% and 7.7% growth in May'20 on MoM basis. This was led by increase in orders for motor vehicles and parts and transportation equipment. Core capital goods orders also increased by 3.4% in Jun'20 against 3.3% in May'20.
- US jobless claims fell by 249,000 to 1.19mn for the week ending 1 Aug 2020. This was the lowest level since 14 Mar 2020; just when the COVID-19 pandemic began. Thus, sudden drop in jobless claims following two successive weeks of increase, signals improvement in the employment scenario.
- Non-farm payroll data for US shows that 1.8mn jobs were added in Jul'20 versus est.: 1.5mn and 4.8mn in Jun'20. Most gains were seen in leisure and hospitality, government and retail trade. With this 9.3mn jobs have been added since May'20. Unemployment rate is also down to 10.2% from 11.1% in Jun'20. However, with 16.3mn still unemployed, recovery has a long way to go.
- Manufacturing activity improved globally. In the Eurozone, PMI rose to 51.8 in Jul'20 from 47.4 in Jun'20, led by increase in new orders. In China as well, it rose to 52.8 in Jul'20 from 51.2 in Jun'20. In Japan, though it remained below the 50-mark yet improvement was visible as it rose to 45.2 from 40.1 in Jun'20. However, employment scenario remained bleak.
- Global services PMI rose to 50.5 in Jul'20 from 48 in Jun'20. Improvement was visible across regions with Eurozone PMI at 54.7 versus 48.3 in Jun'20, led by France (57.3) and Germany (55.3). UK PMI jumped to 56.5 from 47.1 in Jun'20. US ISM services PMI inched up to 58.1 from 57.1. Across countries, growth was driven by higher domestic orders. Employment too rose as previously shut sectors opened up.
- Germany's industrial production and trade data for Jun'20 showed rebound in activity. While industrial production rose by 8.9% on MoM basis from 7.4% in May'20, exports were up by 14.9% versus 9% in May'20. Production growth was supported by 54.7% jump in auto industry and 7.3% rise in consumer goods.
- China's exports surprised positively rising by 7.2% in Jul'20 versus 0.5% in Jun'20 and est.: 0.6% decline. The surge is associated with re-opening of manufacturing and services sectors globally, implying higher demand for Chinese products. On the other hand, imports fell by 1.4% versus 2.7% increase in Jun'20 and est. 0.9% rise, indicating weak domestic demand.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.56	4	(10)	(12)	(115)
UK	0.14	4	(4)	(10)	(38)
Japan	0.01	(1)	(2)	1	21
Germany	(0.51)	2	(7)	3	5
India	5.89	5	11	(8)	(51)
China	2.99	1	(8)	38	(6)
2Y yields (Δ bps)					
US	0.13	2	(3)	(3)	(149)
UK	(0.02)	4	5	(2)	(50)
Japan	(0.12)	0	1	4	12
Germany	(0.68)	3	(2)	10	17
India	4.22	3	10	(15)	(163)
China**	2.23	(2)	12	104	(29)
Currencies (Δ %)					
EUR	1.1787	0.1	4.0	8.7	5.4
GBP	1.3052	(0.3)	3.5	5.2	7.6
JPY	105.9200	(0.1)	1.2	0.7	0.1
AUD	0.7157	0.2	2.5	9.6	5.2
INR	74.9350	(0.2)	0.1	0.8	(6.0)
CNY	6.9680	0.1	0.5	1.5	1.1
Equity & Other indices (Δ %)					
Dow	27,433	3.8	5.2	12.7	4.0
FTSE	6,032	2.3	(2.0)	1.6	(17.2)
DAX	12,675	2.9	1.4	16.2	7.0
NIKKEI	22,330	2.9	(0.5)	10.7	8.4
Shanghai Comp	3,354	1.3	(1.5)	15.8	20.0
SENSEX	38,041	1.2	4.7	20.2	1.9
Brent (US\$/bbl)	44.40	2.5	2.6	43.4	(22.6)
Gold (US\$/oz)	2,036	3.0	12.5	19.5	35.6
CRB Index	378.5	0.2	4.3	4.9	(5.6)
Rogers Agri Index	691.0	(1.2)	(0.1)	4.6	(3.1)
LIBOR (3M)*	0.25	0	(2)	(18)	(193)
INR 5Y Swap*	5.23	9	(7)	(1)	(105)
India FII data (US\$ mn)					
	6 Aug	WTD	MTD	CYTD	FYTD
FII-Debt	(61.0)	(115.7)	(115.7)	(14,643.3)	(4,883.8)
FII-Equity	76.9	1,167.8	1,167.8	(120.3)	6,482.6

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
10-Aug	China PPI, % YoY	Jul	(2.5%)	(3.0%)	(2.4%)
	China CPI, % YoY	Jul	2.6%	2.5%	2.7%
	China FDI CNY, % YoY	Jul	--	7.1%	--
11-Aug	Japan current account balance, ¥ bn	Jun	132.6	1,176.8	--
	Singapore GDP, % YoY	Q2CY20	(12.9%)	(12.6%)	--
	UK jobless claims change	Jul	--	(28,100)	--
	UK ILO unemployment rate 3Mths, %	Jun	4.2%	3.9%	--
	Germany ZEW survey expectations	Aug	55.6	59.3	--
	India industrial production, % YoY	Jun	(21.5%)	--	--
	US PPI final demand, % MoM	Jul	0.3%	(0.2%)	--
12-Aug	South Korea unemployment rate SA, %	Jul	4.3%	4.3%	--
	RBNZ official cash rate, %	12-Aug	0.3%	0.3%	--
	UK industrial production, % MoM	Jun	9.0%	6.0%	--
	Japan machine tool orders, % YoY	Jul P	--	(32.1%)	--
	UK GDP, % QoQ	Q2CY20	(20.5%)	(2.2%)	--
	Italy CPI EU harmonized, % YoY	Jul	0.9%	0.9%	--
	Euro Area industrial production SA, % MoM	Jun	10.0%	12.4%	--
	India CPI, % YoY	Jul	6.3%	6.1%	--
13-Aug	US CPI, % MoM	Jul	0.3%	0.6%	--
	Japan PPI, % YoY	Jul	(1.1%)	(1.6%)	--
	Australia unemployment rate, %	Jul	7.8%	7.4%	--
	France ILO unemployment rate, %	Q2CY20	8.6%	7.8%	--
	Germany CPI, % YoY	Jul	(0.1%)	(0.1%)	--
14-Aug	US initial jobless claims, in mn	08-Aug	1.1	1.2	--
	China new home prices, % MoM	Jul	--	0.6%	--
	China industrial production, % YoY	Jul	5.2%	4.8%	--
	China retail sales, % YoY	Jul	0.1%	(1.8%)	--
	India WPI, % YoY	Jul	(1.0%)	(1.8%)	--
	Taiwan GDP, % YoY	Q2CY20	--	(0.7%)	--
	Hong Kong GDP, % YoY	Q2CY20	(9.0%)	(9.0%)	--
	Euro Area GDP SA, % QoQ	Q2CY20	(12.1%)	(12.1%)	--
	India exports, % YoY	Jul	--	(12.4%)	--
	US retail sales advance, % MoM	Jul	1.9%	7.5%	--
US industrial production, % MoM	Jul	3.0%	5.4%	--	

Source: Bloomberg, Bank of Baroda

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