

## WEEKLY WRAP

15 March 2021

## Global equities and yields inch up

Global equities continued to move higher on the back of US stimulus, global vaccination drive and economic recovery. US 10Y yield rose by 6bps and is now at 1.62%. Central banks will be in focus this week with policy meetings of Fed, BoE and BoJ this week. On the domestic front, CPI inflation breached 5% led by rising food and core inflation. On the other hand, industrial production contracted by 1.6% dragged down by capital goods and FMCG. Higher oil prices, rising inflation and falling IIP makes RBI's task difficult.

Sameer Narang

+91 22 6698 5713

chief.economist@bankofbaroda.com

Dipanwita Mazumdar

dipanwita.mazumdar@bankofbaroda.com

## Markets

- Bonds:** Globally, 10Y yields closed higher. UK 10Y yield rose the most (by 7bps), followed by US (by 6bps). High vaccination rates (35% in UK and 21% in US) along with passage of US fiscal stimulus explain the upward momentum. Crude prices fell by 0.2% (US\$ 69/bbl). India's 10Y yield closed flat at 6.23%. However, 2Y yield went up by 10bps. System liquidity surplus was at Rs 5.7tn versus Rs 5.8tn in the previous week.
- Currency:** Global currencies closed higher amidst an improvement in risk-sentiment as US fiscal stimulus bill was passed. Safe-haven JPY and DXY fell by 0.7% and 0.3% respectively. EUR rose by 0.3% as industrial production rose more than expected in Jan'21. INR appreciated by 0.3% as oil prices fell. FII outflows were US\$ 120mn versus US\$ 15mn last week.
- Equity:** US markets continued their upward climb led by global inflows into US equity markets. Apart from China, other Asian and European markets also moved higher in-line with US. Sensex rose by 0.8% supported by real estate and auto stocks.
- Covid-19 tracker:** Global cases rose by 2.63mn in the week, higher than 2.42mn last week led by France and Germany. India added 130k cases in the week versus 98k last week. Israel has managed to vaccinate a majority of its population followed by UAE and UK.
- Upcoming key events:** Globally, policy decisions of Fed, BoE and BoJ will be in focus this week. US industrial production and retail sales data is also due. In India, trade data will be released.



## India macro developments

- As per news reports, government has received over 0.13mn declarations under Vivad se Vishwas scheme involving a disputed tax of Rs 983bn. Out of this amount, Rs 533bn has been realised, which include Rs 277bn payment by central PSUs, Rs 10bn by state PSUs and Rs 246bn by others. In FYTD21 (Apr-Jan'21), direct tax collections have reached Rs 6.7tn against revised estimate of Rs 9.05tn.
- OECD has revised India's growth forecast for FY22 higher to 12.6% from 7.9% estimated earlier and a contraction of 7.4% in FY21. Growth in FY22 will be supported by fiscal measures announced by the government. In FY23, GDP growth is pegged at 5.4% compared with 4.8% estimated earlier. Global growth estimates have also been revised upwards to 5.6% in CY21 (from 4.2% earlier) and 4% in CY22 (from 3.7% earlier).
- India's fuel consumption fell for the 2nd straight month in Feb'21 to its lowest since Sep'20 by 4.6% (MoM basis) to 17.2mn tonnes. Even diesel consumption fell by 3.8% (MoM basis) to 6.6mn tonnes. This was on the back of higher petrol and diesel prices which rose to their highest at Rs 91.3/ltr and Rs 83/ltr respectively in Feb'21.
- India's forex reserves declined to US\$ 580.3bn in the week ended 5 Mar 2021. On a weekly basis, forex reserves declined by US\$ 4.3bn compared with an increase of US\$ 0.7bn last week. In FYTD21, forex reserves have increased by US\$ 104.7bn versus an accretion of US\$ 75.3bn in the same period last year. Despite the decline, India has the 4th largest forex reserves in the world after China, Japan and Switzerland.
- Industrial output fell by 1.6% in Jan'21 (+1.6% in Dec'20) led by drop in capital goods and consumer non-durables. CPI inflation inched up to 5% in Feb'21 from 4.1% in Jan'21 led by jump in food inflation to 3.9% (2% in Jan'21). Core inflation too edged up to 6% in Feb'21. We expect CPI inflation at 4.6% in FY22 (6.2% in FY21). However, upside risk from higher global commodity prices and domestic core inflation are not ruled out. Food inflation is likely to be benign on the back of ample cereals stock and normal monsoon.

## Global macro developments

- Industrial production in Germany plunged by 2.5% in Jan'21 on a MoM basis, versus an increase of 1.9% in Dec'20 and estimate of a 0.4% decline. Output in construction sector fell sharply by 12.2%. Within industry, production of consumer goods (down by 3%) and capital goods (down by 0.8%) declined. Industrial production is 4.2% lower in Jan'21 since pre pandemic period.
- Japan's GDP (annualised) for Q4CY20 was revised downwards from 12.7% to 11.7% in its final reading. This was on the back of lower than expected growth in both domestic and private demand (1.7% versus 2% previously, each). In a separate print, household spending also dropped by 6.1% against an estimate of 2.1% decline in Jan'21, adding to concerns of prolonged delay in recovery.
- Euro Area's GDP contracted more than anticipated by 4.9% in Q4CY20 from a decline of 4.2% in Q3CY20. This was on the back of sharp contraction in both household final consumption expenditure (7.6% decline versus 4.6% fall) and investment demand (8.7% decline versus 4.6% fall). Separately, employment growth slowed down to 0.3% in Q4CY20 from 1% on QoQ basis led by Covid-19 restrictions.
- China's CPI print improved from a decline of 0.3% in Jan'21 to a decline of 0.2% in Feb'21, on YoY basis (est.: 0.3% decline). Core CPI remained flat against decline of 0.3% in Jan'21. PPI rose considerably to a 15-month high of 1.7% (est.: 1.4%) from 0.3% in Jan'21. Going forward, rising energy prices and unfavourable base in pork price will pose upside risk to inflation.
- US jobless claims for the week ended 6 Mar 2021 fell by 42,000 to 712,000, a 4-month low, as against estimate of 725,000. This was on the back of a decline in Covid-19 cases and increased vaccination which allowed more businesses to open. The 4-week moving average also dipped by 34,000 to 759,000 suggesting a steady recovery in labour market.
- ECB in its policy meet kept the rates on hold at historically low levels. Further, in order to accelerate credit flow and encourage investment as well as spending, ECB will increase its bond purchasing program in the next quarter. This is based on its assessment of financing conditions and inflation outlook. This move in turn is expected to keep the borrowing costs lower. It also warned of contraction in Q1CY21 and continuing uncertainty in the near future.
- Industrial production in China rose sharply by 35.1% in Jan-Feb'21 (est.: 32.2%) and 7.3% in Dec'20 amidst a revival in global demand. Retail sales also accelerated to 33.8% in Jan-Feb'21 (est.: 32%) and 4.6% in Dec'20. Fixed asset investment jumped by 35% in Jan-Feb'21 (est.: 40.9%) compared with a decline of 24.5% in the same period last year. While a part of the increase can be attributed to base effect, underlying growth momentum continues to remain strong.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

| Particulars                             | Current       | 1W         | 1M         | 3M          | 12M         |
|---|---------------|------------|------------|-------------|-------------|
| <b>10Y yields (Δ bps)</b>               |               |            |            |             |             |
| US                                      | 1.62          | 6          | 46         | 73          | 82          |
| UK                                      | 0.82          | 7          | 35         | 65          | 56          |
| Japan                                   | 0.12          | 3          | 4          | 11          | 18          |
| Germany                                 | (0.31)        | 0          | 15         | 33          | 44          |
| India                                   | 6.23          | 0          | 27         | 33          | 0           |
| China                                   | 3.26          | 1          | 2          | (5)         | 63          |
| <b>2Y yields (Δ bps)</b>                |               |            |            |             |             |
| US                                      | 0.15          | 1          | 4          | 3           | (33)        |
| UK                                      | 0.10          | 0          | 13         | 21          | (10)        |
| Japan                                   | (0.13)        | 0          | (2)        | 1           | 10          |
| Germany                                 | (0.69)        | 0          | 3          | 10          | 25          |
| India                                   | 4.94          | 10         | 30         | 102         | (48)        |
| China**                                 | 2.57          | 1          | (8)        | (26)        | 64          |
| <b>Currencies (Δ %)</b>                 |               |            |            |             |             |
| EUR                                     | 1.1953        | 0.3        | (1.5)      | (1.3)       | 6.9         |
| GBP                                     | 1.3924        | 0.6        | 0.8        | 5.3         | 10.8        |
| JPY                                     | 109.03        | (0.7)      | (4.1)      | (4.8)       | (4.2)       |
| AUD                                     | 0.7764        | 1.0        | 0.2        | 3.1         | 24.5        |
| INR                                     | 72.79         | 0.3        | 0.1        | 1.2         | 1.9         |
| CNY                                     | 6.5085        | (0.2)      | (0.8)      | 0.6         | 7.4         |
| <b>Equity &amp; Other indices (Δ %)</b> |               |            |            |             |             |
| Dow                                     | 32,779        | 4.1        | 4.3        | 9.1         | 54.6        |
| FTSE                                    | 6,761         | 2.0        | 3.6        | 3.3         | 29.1        |
| DAX                                     | 14,502        | 4.2        | 3.3        | 10.6        | 58.3        |
| NIKKEI                                  | 29,718        | 3.0        | 0.5        | 11.5        | 60.1        |
| Shanghai Comp                           | 3,453         | (1.4)      | (5.5)      | 3.2         | 18.1        |
| SENSEX                                  | 50,792        | 0.8        | (1.4)      | 10.2        | 55.0        |
| Brent (US\$/bbl)                        | 69.22         | (0.2)      | 13.2       | 38.5        | 108.4       |
| Gold (US\$/oz)                          | 1,727         | 1.6        | (5.4)      | (6.1)       | 9.6         |
| CRB Index                               | 496.5         | 1.0        | 6.3        | 13.9        | 25.4        |
| Rogers Agri Index                       | 967.9         | (0.1)      | 3.1        | 16.5        | 43.8        |
| LIBOR (3M)*                             | 0.19          | 0          | (1)        | (3)         | (55)        |
| INR 5Y Swap*                            | 5.91          | (8)        | (4)        | 68          | 30          |
| <b>India FII data (US\$ mn)</b>         |               |            |            |             |             |
|   | <b>10 Mar</b> | <b>WTD</b> | <b>MTD</b> | <b>CYTD</b> | <b>FYTD</b> |
| FII-Debt                                | (65.2)        | (413.6)    | (1,178.6)  | (2,662.8)   | (6,756.4)   |
| FII-Equity                              | 92.9          | 293.5      | 1,043.5    | 6,037.3     | 36,013.1    |

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

FIG 2 – DATA RELEASE CALENDAR

| Date   | Event                                     | Period | Estimate | Previous | Actual |
|--------|---|--------|----------|----------|--------|
| 15-Mar | Japan core machine orders, % MoM          | Jan    | (5.5%)   | 5.2%     | (4.5%) |
|        | China new home prices, % MoM              | Feb    | --       | 0.3%     | 0.4%   |
|        | China industrial production YTD, % YoY    | Feb    | 32.2%    | --       | 35.1%  |
|        | China fixed assets ex rural YTD, % YoY    | Feb    | 40.9%    | --       | 35.0%  |
|        | China retail sales YTD, % YoY             | Feb    | 32.0%    | --       | 33.8%  |
|        | Indonesia exports, % YoY                  | Feb    | 8.2%     | 12.2%    | --     |
|        | India WPI, % YoY                          | Feb    | 4.0%     | 2.0%     | --     |
|        | India exports, % YoY                      | Feb    | --       | 6.2%     | --     |
| 16-Mar | RBA minutes of policy meeting             | Mar    | --       | --       | --     |
|        | Japan industrial production, % MoM        | Jan    | --       | 4.2%     | --     |
|        | France CPI, % YoY                         | Feb    | 0.4%     | 0.4%     | --     |
|        | Germany ZEW survey expectations           | Mar    | 74.0     | 71.2     | --     |
|        | US retail sales advance, % MoM            | Feb    | (0.5%)   | 5.3%     | --     |
|        | US industrial production, % MoM           | Feb    | 0.4%     | 0.9%     | --     |
| 17-Mar | South Korea unemployment rate SA, %       | Feb    | 5.0%     | 5.4%     | --     |
|        | Japan exports, % YoY                      | Feb    | (0.2%)   | 6.4%     | --     |
|        | Singapore non-oil domestic exports, % YoY | Feb    | 5.8%     | 12.8%    | --     |
|        | Euro Area CPI, % YoY                      | Feb    | 0.9%     | 0.9%     | --     |
|        | US housing starts, in mn                  | Feb    | 1.56     | 1.58     | --     |
|        | US FOMC rate decision, %                  | 17-Mar | 0.25%    | 0.25%    | --     |
| 18-Mar | Australia unemployment rate, %            | Feb    | 6.3%     | 6.4%     | --     |
|        | Euro Area trade balance SA, € bn          | Jan    | 28.5     | 27.5     | --     |
|        | Bank of England bank rate, %              | 18-Mar | 0.10%    | 0.10%    | --     |
|        | US initial jobless claims, in thousands   | 13-Mar | 700.0    | 712.0    | --     |
| 19-Mar | Japan CPI, % YoY                          | Feb    | (0.4%)   | (0.6%)   | --     |
|        | UK GfK consumer confidence                | Mar    | (20.0)   | (23.0)   | --     |
|        | Australia retail sales, % MoM             | Feb    | 0.6%     | 0.5%     | --     |
|        | Germany PPI, % MoM                        | Feb    | 0.8%     | 1.4%     | --     |
|        | BOJ policy balance rate, %                | 19-Mar | (0.1%)   | (0.1%)   | --     |

Source: Bloomberg, Bank of Baroda

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For further details about this publication, please contact:

### **Economics Research Department**

Bank of Baroda

+91 22 6698 5713

[chief.economist@bankofbaroda.com](mailto:chief.economist@bankofbaroda.com)