

WEEKLY WRAP

17 November 2020

Equities surge higher on vaccine hopes

Global recovery strengthened further as seen in China's industrial production and Japan's Q3 GDP. However, Germany's ZEW survey points to a slowdown in the current quarter. Global equity markets continue to inch up on news of an effective vaccine. Global yields are reacting to rising Covid-19 cases in EU and US. On the domestic front too rising Covid-19 cases in North India pose a challenge to recovery. Inflation remains above RBI's upper band implying limited room for RBI to cut rates in this cycle.

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Markets

- **Bonds:** Germany's 10Y yield fell the most by 4bps (-0.55%) amidst rising Covid-19 cases and lockdown. US 10Y fell by 2bps (0.91%) as central bank officials warned of uncertainty surrounding growth outlook and rising Covid-19 cases. Oil prices rose by 3.3% (US\$ 44/bbl) on hope of vaccine driving growth higher. India's 10Y yield rose by 1bps (5.88%) due to higher CPI print in Oct'20. System liquidity surplus rose to Rs 5.2tn as on 13 Nov 2020 compared with Rs 5tn in the previous week.
- **Currency:** Except INR, other global currencies closed higher against the dollar. DXY index fell by 0.1% in the week. Hopes hinged on an effective vaccine and possible agreement on UK-EU post Brexit deal. JPY gained the most, following positive GDP print for Q3CY20. INR depreciated by 0.3% in the week ending 13 Nov 2020. However, it is trading today in-line with other Asian currencies.
- **Equity:** Except Shanghai Comp, global indices closed higher supported by US election results, expectation of a potential vaccine, anticipation of a trade deal between UK and EU post Brexit and signing of RCEP among 15 economies. Nikkei rose the most by 4.3% followed by FTSE (3.8%) and Dow (2.7%). Sensex rose by 3.7% supported by government's stimulus. Today it is trading at record high level.
- **Upcoming key events:** Markets will see daily addition of Covid-19 cases and impact of lockdowns. In addition, US retail sales, industrial production and housing data will be released. Policy decisions in Thailand and Indonesia are also scheduled. On the domestic front, progress of Covid-19 cases in North India will be determinant of economic recovery.



India macro developments

- As per news reports, cargo traffic in India's 12 major ports fell for the 7th straight month by 1.2% in Oct'20 from a decline of 1.9% in Sep'20. These ports handle over 61% of India's total cargo traffic. On a FYTD basis, cargo traffic growth fell by 12.4% in the period Apr-Oct'20 and stood at 354.8mt compared with 405.2mt in the same period last year. The decline has been attributed to disruptions caused by Covid-19.
- Noting a robust turnaround, India's exports are estimated to have increased by 22.5% on a YoY basis in the period 1-7 Nov 2020 following a decline of 5.4% in Oct'20. Exports of gems and jewellery (88.8%) pharmaceuticals (32%) and engineering goods (16.7%) rose the most. Imports too showed a significant recovery and increased by 13.6% in Nov'20 from a decline of 11.6% in Oct'20.
- In an effort to boost manufacturing, government has approved Production Linked Incentives (PLI) for 10 sectors including white goods, auto and battery manufacturing. Total amount of sops amount to Rs 1.47tn. Earlier, PLI scheme worth Rs 500bn and Rs 100bn have been rolled out for electronics and active pharmaceutical ingredients (APIs) respectively.
- RBI has published an Economic Activity Index (EAI) for India which has been constructed from 27 high frequency indicators. This index has been used to forecast the real GDP for Q2FY21, which is expected to contract by 8.6% for the same period. Despite predicting to have entered in technical recession, the recent performance of these indicators points towards positive growth in Q3FY21. For FY21, RBI projected GDP to contract by 9.5%.
- Fiscal stimulus under Atmanirbhar Bharat 3.0 package is pegged at Rs 2.65tn. Focus is on manufacturing, rural, exports and infrastructure. Credit guarantee scheme has been extended till 31 Mar 2021 and 26 stressed sectors too have been included. While government spending has been muted, private sector revival is visible in high frequency indicators as India's Covid-19 infection rate has seen a substantial reduction.
- India's Industrial production rebounded sharply to 0.2% in Sep'20 from a decline of 7.4% in Aug'20 with improvement across sectors. CPI inflation rose to 7.6% in Oct'20, a 77-month high, led by food especially vegetables and pulses. Protein inflation may not fall soon. Core inflation remained sticky at 5.9% with jump in housing and recreation and amusement.
- India's WPI rose to 1.5% in Oct'20 (1.3% in Sep'20) led by core (1.7% in Oct'20 from 1% in Sep'20). Food prices showed moderation (5.8% in Oct'20 from 6.9% in Sep'20), led by cereals and a few protein based items. The moderation in food inflation bodes well for CPI. However, its trajectory will remain above RBI's target thus leaving limited room to reduce policy rates.

Global macro developments

- China's PPI declined by 2.1% in Oct'20, following a similar decline in Sep'20 on a YoY basis. Separately, CPI inflation also eased to an 11-year low at 0.5%, from an increase of 1.7% in Sep'20. This was led by lower pork prices, which declined for the first time since Feb'19 by 2.8%. Core CPI rose by 0.5% in Oct'20, unchanged from Sep'20 signalling weak demand.
- Germany's exports rose by 2.3% in Sep'20 on a MoM basis versus an increase of 2.9% in Aug'20 and estimate of a 2% increase. Exports to China rose by 10.6% while exports to UK and US declined by 12.4% and 5.8% respectively. Imports on the other hand, declined by 0.1% after rising by 5.8% in Aug'20. As a result, its trade surplus expanded to € 20.8bn from € 12.8bn in Aug'20.
- Germany's ZEW economic sentiment index dropped to 39.0 in Nov'20 much lower compared with 56.1 in Oct'20 and against expectation of 42.5. The current situation index also fell to (-) 64.3 in Nov'20 against (-) 59.5 in Oct'20. This was on the back of resurgence in Covid-19 infections which has raised concerns over a double-dip recession.
- Italy's industrial production contracted sharply by 5.1% in Sep'20 from 0.3% in Aug'20. This was led by deep contraction in textiles, wearing apparels and coke and petroleum products. On the other hand, industrial output in France improved to 1.4% in Sep'20 from 1.1% in Aug'20 on a MoM basis. Separately, unemployment rate in France surged to a 2-year high of 9% in Q3CY20 due to the ongoing Covid-19 pandemic.
- Japan's economy continued to show early signs of recovery from the lows seen during the ongoing Covid-19 pandemic. It was reflected by slower than anticipated pace of contraction in machine tool orders at 5.9% in Oct'20 compared with a decline of 15.1% in Sep'20. This in turn is expected to translate in to higher corporate spending which is a proxy indicator of the same.
- US CPI remained flat in Oct'20 (est.: 0.2% increase) following a 0.2% increase in Sep'20. Even CPI excluding food and energy remained flat, showing muted demand conditions. Separately, jobless claims for the week ending 7 Nov 2020 fell to 709,000 against 751,000 seen in previous week, showing some revival in labour market.
- China's industrial production continued its steady growth in Oct'20, rising by 6.9% (same as Sep'20) versus est.: 6.5%, supported by policy stimulus and resilient exports. Smelters and refineries led the growth in Oct'20. FAI also rose by 1.8% between Jan-Oct'20 versus 0.8% increase in Jan-Sep'20. With Covid-19 cases down in China, retail sales also rose by 4.3% in Oct'20 from 3.3% in Sep'20, supported by auto sales and tourism.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.91	(2)	16	22	(91)
UK	0.35	(2)	17	13	(40)
Japan	0.02	0	0	(3)	10
Germany	(0.55)	(4)	8	(9)	(21)
India	5.88	1	(2)	(7)	(64)
China	3.27	3	5	32	8
2Y yields (Δ bps)					
US	0.18	1	3	3	(142)
UK	(0.03)	(2)	3	2	(60)
Japan	(0.13)	0	0	(2)	7
Germany	(0.72)	1	5	(6)	(10)
India	4.10	(1)	(16)	(15)	(137)
China**	2.83	7	11	57	14
Currencies (Δ %)					
EUR	1.1852	0.3	1.1	(0.2)	7.0
GBP	1.3199	0.3	2.2	0.7	1.9
JPY	104.58	0.8	0.8	1.3	3.8
AUD	0.7320	0.5	3.4	1.5	7.5
INR	74.61	(0.6)	(1.8)	0.4	(3.9)
CNY	6.5848	0.7	1.7	5.0	6.3
Equity & Other indices (Δ %)					
Dow	29,950	2.7	4.7	7.6	6.8
FTSE	6,421	3.8	8.5	4.8	(12.1)
DAX	13,139	0.3	1.8	1.7	(0.5)
NIKKEI	25,907	4.3	10.7	12.2	10.6
Shanghai Comp	3,347	(0.8)	0.3	(2.7)	15.0
SENSEX	43,443	3.7	6.5	14.7	7.6
Brent (US\$/bbl)	43.82	3.3	2.1	(3.4)	(29.8)
Gold (US\$/oz)	1,889	1.4	(0.5)	(4.9)	28.4
CRB Index	420.3	0.7	2.1	9.5	8.1
Rogers Agri Index	820.5	2.0	4.9	14.5	13.2
LIBOR (3M)*	0.22	2	(1)	(5)	(168)
INR 5Y Swap*	5.14	6	(16)	(21)	(132)
India FII data (US\$ mn)					
	12 Nov	WTD	MTD	CYTD	FYTD
FII-Debt	(42.7)	62.5	148.2	(14,081.5)	(4,322.0)
FII-Equity	478.1	2,424.1	4,156.3	10,702.8	17,305.7

Source: Bloomberg, Bank of Baroda | *Indicates change in bps | **1Y yield | Indian markets were closed on 16.11.2020

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
17-Nov	RBA minutes of Nov. policy meeting		--	--	--
	Singapore non-oil domestic exports, % YoY	Oct	5.1%	5.8%	(3.1%)
	US retail sales, % MoM (advance)	Oct	0.5%	1.9%	--
	US industrial production, % MoM	Oct	1.0%	(0.6%)	--
18-Nov	Japan trade balance, ¥bn	Oct	300.0	675.0	--
	UK CPI, % YoY	Oct	0.5%	0.5%	--
	UK PPI output, NSA, % MoM	Oct	0.1%	(0.1%)	--
	Bank of Thailand benchmark interest rate, %	18-Nov	0.5%	0.5%	--
	Euro Area CPI, % YoY	Oct	(0.3%)	(0.3%)	--
	US housing starts, in thousands	Oct	1,460.0	1,415.0	--
19-Nov	Australia unemployment rate, %	Oct	7.1%	6.9%	--
	Bank Indonesia 7D reverse repo, %	19-Nov	4.0%	4.0%	--
	ECB current account, SA, EURbn	Sep	--	19.9	--
	US initial jobless claims, in thousands	14-Nov	700.0	709.0	--
	US existing home sales, mn units	Oct	6.46	6.54	--
20-Nov	Japan CPI, % YoY	Oct	(0.4%)	0.0%	--
	Jibun Bank Japan manufacturing PMI	Nov	--	48.7	--
	Jibun Bank Japan services PMI	Nov	--	47.7	--
	Germany PPI, % MoM	Oct	0.1%	0.4%	--
	UK retail sales (inc auto fuel), % MoM	Oct	(0.3%)	1.5%	--
	Taiwan export orders, % YoY	Oct	9.0%	9.9%	--
	Euro Area consumer confidence (advance)	Nov	(18.0)	(15.5)	--

Source: Bloomberg, Bank of Baroda

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