

WEEKLY WRAP

02 November 2020

PMIs, US Fed and US elections

Global equity markets and yields fell on the back of rising Covid-19 cases in Europe and US. US\$ and JPY strengthened. EUR slid as ECB hinted at further easing in Dec'20. India's 10Y yield rose by 4bps amidst negative global cues. India's core sector showed improvement in Sep'20 and fiscal deficit moderated due to lower spending by government. Apart from being a data and central bank centric week (Global PMIs, US payroll, US Fed, BoE), markets also await US election results. Global volatility is likely to be at its peak.

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Markets

- **Bonds:** Germany's 10Y yield fell by 5bps on the back of rising Covid-19 cases and Europe wide lockdowns. US 10Y yields was up by 3bps as GDP growth surprised positively. Oil prices fell steeply by 10.3% (US\$ 37.5/bbl) owing to weak demand outlook. India's 10Y yield rose by 4bps to 5.88% following global risk-off sentiment amidst rising Covid-19 cases. System liquidity surplus was at Rs 4.51tn as on 29 Oct 2020 compared with Rs 4.17tn in the previous week.
- **Currency:** Global currencies closed lower against the dollar. DXY rose by 1.4% on safe-haven demand amidst a resurgence of Covid-19 cases and fresh lockdown restrictions in France, Germany and Spain. EUR fell by 1.8% as ECB hinted at further monetary easing in its Dec'20 policy meet. INR depreciated by 0.7% to a 2-month low even as oil prices fell steeply by 10.3%. FII inflows were US\$ 151mn.
- **Equity:** Global equity indices ended the week lower amidst uncertainty over US fiscal stimulus, renewed surge in Covid-19 cases in US and Europe. Dax slumped the most by 8.6% followed by Dow (6.5%) and FTSE (4.8%). Sensex (2.6%) too ended in red dragged down by metal and auto stocks. Commodity prices too fell.
- **Upcoming key events:** In the current week, markets will closely monitor rate decisions of US Fed, BoE, RBA and global manufacturing and services PMIs. In addition, China's exports, US non-farm payrolls and Germany's factory order prints will be released. On the domestic front, manufacturing and services PMIs will be in focus.



India macro developments

- As per news reports, Government of India is expected to announce another round of fiscal stimulus around the festive season. The new set of measures could include focus towards infrastructure sector, special intervention towards tourism and hospitality sector and the extension of the production-linked incentive (PLI) scheme for other sectors. Special attention will be given to tier-1 to tier-4 cities in order to generate substantial employment.
- RBI's study on state budgets indicates that while states had projected fiscal deficit for FY21 at 2.8% (of GSDP), it is expected at 4.6% instead. This is due to the Covid-19 pandemic, which has pushed revenues lower and spending higher. In FY20, fiscal deficit of states was at 2.6%. The report also flagged higher debt concerns due to increased reliance on market borrowings. It expects pressure on repayments to double from FY26.
- RBI reported that currency in circulation (CIC) increased by Rs 81bn and stood at Rs 27tn for the week ending 23 Oct 2020. Reserve money rose by 12.2% on a YoY basis, compared with 15.3% a year ago. On FYTD basis, reserve money increased by 6.5% as against 3.8% a year ago.
- Showing early signs of revival, India's eight core industries contracted at a much slower pace of 0.8% in Sep'20 from 7.3% dip in Aug'20. This was led by sharp recovery in coal (increase of 21.2% in Sep'20 from a decline of 3.6% in Aug'20) and electricity output (3.7% in Sep'20 from a decline of 1.8% in Aug'20). On a FYTD basis, eight core output has contracted by 14.9% in Apr-Sep'20 compared with an increase of 1.3% last year.
- India's forex reserves rose to a fresh historic high at US\$ 560.5bn in the week ended 23 Oct 2020. FX reserves increased by US\$ 5.4bn this week, higher compared with an increase of US\$ 3.6bn last week. In FYTD21, forex reserves have increased by US\$ 85bn compared with an accretion of US\$ 30.7bn in the same period last year.
- Centre's fiscal deficit narrowed to 6.2% (of GDP) in Sep'20 from 6.5% in Aug'20 (12MMA basis) as gross tax collections improved and spending was curbed substantially. On FYTD basis, indirect tax collections were down only 11.6% from 16.2% decline in Aug'20, while direct tax collections were down by 31.4% versus decline of 34.1% in Aug'20. Total expenditure growth dropped by 0.6% from increase of 6.2% in Aug'20. Capex fell further by 11.6% from decline of 1.3% in Aug'20.

Global macro developments

- US GDP growth rebounded to 33.1% in Q3CY20 on an annualized basis, from a contraction of 31.4% in Q2 as economic activity picked up amidst lifting of lockdown restrictions. The recovery was led by higher consumption spending (jump of 40.7% from a decline of 33.2% in Q2), along with improvement in business and residential investments and exports.
- Ifo business climate index for Germany fell to 92.7 in Oct'20 from 93.0 in Sep'20. The higher than estimated decline (est. 93) was due to rising Covid-19 cases which affected business morale. Ifo expects GDP growth at 2.1% in Q4CY20, but a second lockdown is a potential risk. Further, rising cases in other European countries will also dampen exports.
- China's industrial profit growth eased to 10.1% in Sep'20 from 19.1% increase in Aug'20. This is in line with slowdown seen in PPI inflation. On CYTD basis, profit growth fell by only 2.4%, compared with 4.4% decline registered in Jan-Aug'20. This improvement was driven by auto manufacturing and non-ferrous/ferrous metal smelting and processing.
- South Korea's GDP growth bounced back to 1.9% in Q3CY20 on a QoQ basis, from a contraction of 3.2% in Q2. This was the fastest pace of expansion since Q1CY10 and was led by a 15.6% increase in exports (contraction of 16.1% in Q2). Manufacturing growth too improved to 7.6% versus a decline of 8.9% in Q2. However, construction sector output fell by 5.5% versus 0.3% dip in Q2. Private consumption too declined.
- US consumer confidence dropped to 100.9 in Oct'20 from 101.3 in Sep'20. This was on the back of growing concerns in labour market as jobless claims and unemployment rate remain elevated. Economic expectations weakened (98.4 in Oct'20 from 102.9) ahead of US elections. Uncertainty over fiscal stimulus and resurgence of Covid-19 cases also dented sentiments.
- BoJ has kept its policy rates unchanged and reiterated its accommodative stance. However, in view of prevailing uncertainty around global recovery and resurgence in Covid-19 cases, it has lowered the growth forecast for FY20 to contraction of 5.5% from decline of 4.7% estimated earlier. Weakness in domestic economy also remains, as evident from muted retail sales growth (8.7% drop in Sep'20 versus 1.9% dip in Aug'20).

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.87	3	22	35	(84)
UK	0.26	(2)	8	16	(40)
Japan	0.04	0	3	2	22
Germany	(0.63)	(5)	(8)	(10)	(25)
India	5.88	4	(15)	4	(57)
China	3.19	(1)	5	21	(9)
2Y yields (Δ bps)					
US	0.15	0	3	5	(140)
UK	(0.03)	0	2	4	(55)
Japan	(0.12)	0	1	1	15
Germany	(0.79)	(4)	(8)	(8)	(14)
India	4.19	3	(24)	0	(130)
China**	2.72	9	11	47	4
Currencies (Δ %)					
EUR	1.1647	(1.8)	(0.8)	(1.1)	4.3
GBP	1.2947	(0.7)	0.7	(1.1)	0.0
JPY	104.66	0	0.9	1.1	3.3
AUD	0.7028	(1.6)	(1.4)	(1.6)	1.8
INR	74.11	(0.7)	(0.3)	0.9	(4.7)
CNY	6.6915	(0.1)	1.8	4.1	4.9
Equity & Other indices (Δ %)					
Dow	26,502	(6.5)	(3.5)	0.3	(3.1)
FTSE	5,577	(4.8)	(5.4)	(5.4)	(23.6)
DAX	11,556	(8.6)	(9.9)	(6.1)	(10.8)
NIKKEI	22,977	(2.3)	(2.4)	5.8	0.6
Shanghai Comp	3,225	(1.6)	0	(2.6)	9.0
SENSEX	39,614	(2.6)	4.3	5.3	(1.4)
Brent (US\$/bbl)	37.46	(10.3)	(8.7)	(13.5)	(39.3)
Gold (US\$/oz)	1,879	(1.2)	(1.0)	(4.9)	24.1
CRB Index	410.6	(1.1)	1.7	8.7	5.3
Rogers Agri Index	783.1	(2.0)	5.7	11.9	7.0
LIBOR (3M)*	0.21	0	(1)	(3)	(168)
INR 5Y Swap*	5.19	(5)	(25)	5	(132)
India FII data (US\$ mn)					
	28 Oct	WTD	MTD	CYTD	FYTD
FII-Debt	(86.8)	(232.4)	385.2	(14,294.6)	(4,535.1)
FII-Equity	(118.2)	383.5	2,696.4	6,736.5	13,339.5

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
02-Nov	South Korea exports, % YoY	Oct	(3.5%)	7.7%	--
	Jibun Bank Japan manufacturing PMI	Oct	--	48.0	--
	Caixin China manufacturing PMI	Oct	52.8	53.0	--
	Markit India manufacturing PMI	Oct	--	56.8	--
	Markit Italy manufacturing PMI	Oct	53.7	53.2	--
	Markit France manufacturing PMI	Oct	51.0	51.0	--
	Markit/BME Germany manufacturing PMI	Oct	58.0	58.0	--
	Markit Eurozone manufacturing PMI	Oct	54.4	54.4	--
	Markit UK PMI manufacturing SA	Oct	53.3	53.3	--
	Markit US manufacturing PMI	Oct	53.3	53.3	--
	US ISM manufacturing	Oct	55.8	55.4	--
03-Nov	South Korea CPI, % YoY	Oct	0.8%	1.0%	--
	RBA cash rate target, %	03-Nov	0.10%	0.25%	--
	US durable goods orders, % MoM	Sep	1.9%	1.9%	--
04-Nov	Caixin China services PMI	Oct	55.0	54.8	--
	Australia retail sales, % MoM	Sep	(1.5%)	(4.0%)	--
	Markit India services PMI Services	Oct	--	49.8	--
	Markit Italy services PMI	Oct	47.1	48.8	--
	Markit France services PMI	Oct	46.5	46.5	--
	Markit Germany services PMI	Oct	48.9	48.9	--
	Markit Eurozone services PMI	Oct	46.2	46.2	--
	Markit/CIPS UK services PMI	Oct	52.3	52.3	--
	Euro Area PPI, % YoY	Sep	(2.4%)	(2.5%)	--
	US trade balance, US\$ bn	Sep	(63.9)	(67.1)	--
	Markit US services PMI	Oct	56.0	56.0	--
US ISM services Index	Oct	57.5	57.8	--	
05-Nov	Australia exports, % MoM	Sep	3.0%	(4.0%)	--
	Jibun Bank Japan services PMI	Oct	--	46.6	--
	Indonesia GDP, % YoY	Q3CY20	(3.5%)	(5.3%)	--
	Germany factory orders, % MoM	Sep	2.0%	4.5%	--
	Euro Area retail sales, % MoM	Sep	(1.5%)	4.4%	--
	Bank of England bank rate, %	05-Nov	0.10%	0.10%	--
	US initial jobless claims	31-Oct	7,35,000	7,51,000	--
US FOMC rate decision (upper bound), %	05-Nov	0.25%	0.25%	--	
06-Nov	RBA statement on monetary policy	--	--	--	--
	Germany industrial production SA, % MoM	Sep	2.5%	(0.2%)	--
	France trade balance, € bn	Sep	(6.9)	(7.7)	--
	US change in nonfarm payrolls	Oct	6,00,000	6,61,000	--
	US unemployment rate, %	Oct	7.7%	7.9%	--
	China exports, % YoY	Oct	8.0%	9.9%	--

Source: Bloomberg, Bank of Baroda

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