

## WEEKLY WRAP

25 January 2021

**All eyes on Budget**

Hopes of US\$ 1.9tn fiscal stimulus in the US under the new President lifted global equities and currencies higher. US yields were stable. US housing starts and jobless claims were better than estimates. However, economic activity in Euro Zone and Japan was a tad weak. India's 10Y yield fell by 4bps supported by RBI's OMO purchase of Rs 100bn. However, trajectory will be determined by Union Budget to be announced on 1 Feb 2021. Our fiscal deficit estimate is 7.2%/5.3% of GDP in FY21/22. Focus will be on reviving investments.

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**Markets**

- **Bonds:** US 10Y yield closed stable (1.09%) amidst expectations of large fiscal stimulus. Germany's 10Y yield rose by 3bps. ECB retained its accommodative stance. Oil prices rose by 0.6% (US\$ 55/bbl) on hopes of economic revival. India's 10Y yield fell by 4bps (5.91%) supported by RBI's OMO of Rs 100bn. System liquidity surplus was at Rs 5tn as on 22 Jan 2021 versus Rs 5.1tn in the previous week.
- **Currency:** Except CNY (flat), other global currencies closed higher. Risk sentiment improved on expectations of US fiscal stimulus under the new US President. DXY fell by 0.6% in the week. EUR and GBP both rose by 0.7% despite weak PMI readings. INR rose by 0.1% supported by FII inflows (US\$ 781mn).
- **Equity:** Barring FTSE and Sensex, other global indices ended higher this week on expectation of US stimulus. Shanghai Comp (1.1%) surged the most on the back of stronger data (GDP for Q4CY20 and industrial production). Sensex (0.3%) broke its 11-week winning streak and ended in red dragged down by metal stocks.
- **Covid-19 tracker:** Global cases rose by 4.11mn in the week ending 24 Jan 2021 compared with 5.29mn in the previous week, led by dip in US and Europe. India added 83k cases in the week versus 121k in the earlier week.
- **Upcoming key events:** In current week, markets await Q4CY20 GDP print of US, Germany and France. US Fed policy will also be closely watched. On the domestic front, eight core, fiscal estimates, first revised estimates of GDP and Economic Survey will be released.



## India macro developments

- As per news reports, government is considering hiking custom duties by 5%-10% on about 50 items such as smartphones, electronic components, refrigerators and other electronic appliances. This is expected to provide an impetus to the Atma Nirbhar programme as India imported US\$ 54.5bn worth of electronic goods in FY20. Apart from this, it will also help generate extra revenue of about Rs 200bn for the government.
- News reports suggest that the Centre may announce complete shift to DBT for providing fertiliser subsidy to farmers in FY22 Budget. It is estimated that Rs 5,000-Rs 6,000 will be provided to 146mn beneficiaries annually. This will cost the exchequer ~Rs 803bn. For FY21, centre had budgeted subsidy of Rs 713bn, which was raised by another Rs 650bn as part of fiscal stimulus program, taking the total to Rs 1.36tn.
- As per news reports, government may set aside Rs 250bn for capital infusion in PSBs in FY22. During FY18-20, government infused Rs 2.65tn into PSBs. In FY21, while there was no allocation for recap, but later Rs 200bn was earmarked through supplementary demand. This is likely to revive the health of PSBs whose GNPA ratio as per RBI's FSR is likely to rise to 16.2% from 9.7% in Sep'20 (base case) and to 17.6% (severe stress).
- RBI reported that currency in circulation (CIC) increased by Rs 125bn and stood at Rs 28.1tn for the week ending 15 Jan 2021. Reserve money rose by 15.2% on a YoY basis, compared with 11.4% a year ago. On FYTD basis, reserve money increased by 11.3% as against 5.6% a year ago.
- RBI bought net US\$ 10.3bn in the spot market in Nov'20 compared with net purchase of US\$ 15.6bn in Oct'20. In FYTD21, RBI has purchased net US\$ 68.4bn in the spot market compared with net purchase of US\$ 25.4bn in FYTD20. In the forwards market, RBI purchased US\$ 14.8bn in Nov'20, highest in over 78-months. Its net outstanding forward position stands at US\$ 28.3bn.
- India's forex reserves declined to US\$ 584.2bn in the week ended 15 Jan 2021 from a record high of US\$ 586.1bn. Forex reserves fell by US\$ 1.8bn this week, compared with an increase of US\$ 0.8bn last week. In FYTD21, forex reserves have increased by US\$ 108.7bn versus an accretion of US\$ 49.3bn in the same period last year.

## Global macro developments

- CPI inflation in Germany eased to 0.5% in CY20 from 1.4% in CY19. This was led by temporary reduction in value added tax which dampened prices sharply in H2CY20. Further, decline in energy prices (-4.8% from 1.4% in CY19) owing to a crash in oil prices, added to the moderation. Separately, ZEW investor sentiment index rose to a 4-month high of 61.8 in Jan'21 from 55 in Dec'20, on improved export expectations.
- Bank of Japan (BoJ) kept policy rate unchanged. Growth forecast for FY21 was revised lower to 5.6% contraction from 5.5% dip estimated earlier. For FY22, growth projection was revised upward to 3.9% from 3.6% earlier. In a separate print, Japan's exports rose by 2% (est.: 2.4%) in Dec'20 from 4.2% decline in Nov'20. Imports fell by 11.6% from 11.1%. Trade surplus rose to ¥ 751bn from ¥ 366bn.
- UK's CPI inflation rose at a faster pace of 0.6% on a YoY basis versus 0.3% in Nov'20 and estimate of 0.5% increase. This was led by higher transport prices as lockdown restrictions were temporarily lifted. Increase was also noted in prices of oil and clothing & footwear in Dec'20. Core inflation also rose by 1.4% from 1.1% in Nov'20.
- US housing starts rose by 5.8% on a MoM basis in Dec'20 versus 3.1% in Nov'20. This was led by pick-up in single family homes (12% versus 1.4%), while multi-family homes declined sharply by 15.2%. New permits rose by 4.5% versus 5.9% increase in Nov'20. Separately, jobless claims in the US for the week ending 16 Jan 2021 remained elevated at 0.9mn versus 0.93mn in the previous week.
- ECB kept its policy rates and accommodative stance unchanged. The policy is aimed at preventing 'tightening of financial conditions'. The council warned of downside risks to economic outlook due to imposition of stricter lockdown in some countries, though these risks will be less pronounced. It will also continue to provide 'ample' liquidity and 'stands ready' to take appropriate measures to ensure inflation moves towards its target level.
- Flash global manufacturing PMI for US rose to 59.1 (series record high) in Jan'21 from 57.1 in Dec'20. Activity in UK (52.9) and Germany (57) dropped to 7-month and 4-month low respectively. In Japan manufacturing growth contracted as PMI plunged to 49.7 from 50 in Dec'20. Rising cost pressures and falling demand remained key concerns everywhere. Services activity too remained in contraction in UK, Eurozone and Japan while it showed steady improvement in the US.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	1.09	0	16	24	(60)
UK	0.31	2	5	3	(26)
Japan	0.05	1	3	1	7
Germany	(0.51)	3	4	6	(18)
India	5.91	(4)	2	6	(68)
China	3.13	(2)	(10)	(7)	12
<b>2Y yields (Δ bps)</b>					
US	0.12	(1)	0	(3)	(137)
UK	(0.13)	1	0	(9)	(55)
Japan	(0.13)	(1)	(1)	(1)	0
Germany	(0.71)	1	0	5	(10)
India	4.50	3	62	35	(159)
China**	2.32	4	(33)	(31)	9
<b>Currencies (Δ %)</b>					
EUR	1.2171	0.7	(0.1)	2.6	10.4
GBP	1.3686	0.7	0.9	5.0	4.7
JPY	103.78	0.1	(0.1)	0.9	5.0
AUD	0.7715	0.2	1.6	8.1	12.9
INR	72.98	0.1	0.8	0.9	(2.3)
CNY	6.4815	0	0.7	3.1	6.6
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	30,997	0.6	2.6	9.4	6.9
FTSE	6,695	(0.6)	3.0	14.2	(11.7)
DAX	13,874	0.6	2.1	9.7	2.2
NIKKEI	28,631	0.4	7.4	21.8	20.2
Shanghai Comp	3,607	1.1	7.2	10.0	21.2
SENSEX	48,879	(0.3)	4.1	20.1	17.5
Brent (US\$/bbl)	55.41	0.6	8.0	32.7	(8.7)
Gold (US\$/oz)	1,856	1.5	(1.5)	(2.4)	18.1
CRB Index	456.3	0.5	3.6	9.9	11.7
Rogers Agri Index	901.5	(2.5)	4.4	12.8	19.8
LIBOR (3M)*	0.22	(1)	(2)	0	(158)
INR 5Y Swap*	5.64	5	38	40	(105)
<b>India FII data (US\$ mn)</b>					
	<b>21 Jan</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	297.8	(180.5)	(664.1)	(664.1)	(4,757.7)
FII-Equity	238.3	961.7	2,562.7	3,257.9	33,233.6

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
25-Jan	Taiwan industrial production, % YoY	Dec	6.0%	7.8%	--
	Germany IFO business climate index	Jan	91.4	92.1	--
	China FDI, % YoY, CNY	Dec	--	5.5%	--
26-Jan	S.Korea GDP, % YoY	Q4CY20	(1.6%)	(1.1%)	--
	Singapore industrial production, % YoY	Dec	12.0%	17.9%	--
	UK jobless claims change, in thousands	Dec	--	64.3	--
	Hong Kong exports, % YoY	Dec	8.4%	5.6%	--
	US conf. board consumer confidence index	Jan	89.0	88.6	--
27-Jan	Philippines exports, % YoY	Dec	2.7%	3.0%	--
	China industrial profits, % YoY	Dec	--	15.5%	--
	Germany GfK consumer confidence index	Feb	(7.9)	(7.3)	--
	France consumer confidence index	Jan	94.0	95.0	--
	US durable goods orders, % MoM	Dec	1.0%	1.0%	--
	US FOMC rate decision (upper bound)	27-Jan	0.25%	0.25%	--
28-Jan	Japan retail sales, % YoY	Dec	(0.5%)	0.6%	--
	Italy manufacturing confidence index	Jan	95.6	95.9	--
	Euro Area consumer confidence index	Jan	--	(15.5)	--
	Germany CPI, % YoY	Jan	0.7%	(0.3%)	--
	US GDP, Annualized, % QoQ	Q4CY20	4.2%	33.4%	--
	US initial jobless claims, in thousands	23-Jan	880	900	--
29-Jan	US new home sales, thousand units	Dec	860	841	--
	S.Korea industrial production, % YoY	Dec	(0.2%)	0.5%	--
	Japan industrial production, % MoM	Dec	(1.5%)	(0.5%)	--
	France GDP, % QoQ	Q4CY20	(4.0%)	18.7%	--
	Germany GDP, SA, % QoQ	Q4CY20	0.0%	8.5%	--
	Taiwan GDP, % YoY	Q4CY20	3.6%	3.9%	--
	Hong Kong GDP, % YoY	Q4CY20	(1.9%)	(3.5%)	--
	Germany unemployment change, in thousands	Jan	7.5	(37.0)	--
	India fiscal deficit, Rs crore	Dec	--	1,22,353	--
	India eight infrastructure industries index, % YoY	Dec	--	(2.6%)	--
	India GDP annual estimate, % YoY	FY21	(7.2%)	(7.7%)	--
	US University of Mich. Sentiment index	Jan	79.2	79.2	--

Source: Bloomberg, Bank of Baroda

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