

WEEKLY WRAP

26 April 2021

Global recovery holds ground

Resurging flash PMIs and higher US new home sales point to durable economic recovery across the world. However, yields were broadly lower led by India (10Y lower by 5bps) as rising Covid-19 cases and localised lockdowns are showing dip in economic activity. INR fell by 0.9% even as DXY was lower by 0.8%. Indian equity market also fell for the third straight week with higher FII outflows. MPC members reiterated preference to growth over inflation. US Fed decision and slew of economic data will drive global markets this week.

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Markets

- **Bonds:** Even with resilient macro data as seen in flash PMIs and US new home sales, yields fell in most markets (US, UK and Japan). The dip in global yields can be explained by rising Covid-19 cases. Indian 10Y yield fell by 5bps in the week. Crude prices fell by 1% (US\$ 66/bbl) led by risk to demand outlook. System liquidity surplus fell to Rs 4.8tn as on 23 Apr 2021 versus Rs 5.5tn last week.
- **Currency:** Global currencies closed higher. DXY fell by 0.8% in the week as US 10Y yield fell by 2bps. EUR rose the most by 1% as Eurozone's flash services and manufacturing PMIs rose more than anticipated. INR fell by 0.9% amidst a surge in Covid-19 cases and FII outflows (US\$ 483mn).
- **Equity:** Barring Shanghai Comp, other global indices ended lower this week as investors continued to monitor rising Covid-19 cases. Nikkei (2.2%) dropped the most. Sensex (2%) declined for the third straight week over concerns over rising Covid-19 cases and imposition of localised lockdowns. Real estate and consumer durable stocks fell the most.
- **Covid-19 tracker:** Global Covid-19 cases rose by 5.6mn this week versus 5.2mn in last week, led by India which alone added 2mn cases versus 1.2mn WoW. Israel has vaccinated 62% of its population (single dose), UK at 49% and US at 42%. India is at 8.5%.
- **Upcoming key events:** Globally, Q1CY21 GDP prints (US, Europe), China's PMIs and Germany IFO index will be in key focus. Rate decisions of BoJ and US Fed are also due. In India, core sector and fiscal data will be released. Focus will remain on trajectory of Covid-19 cases.



India macro developments

- Fitch has maintained India's sovereign rating at 'BBB-' with a negative outlook. The rating was retained as medium-term growth outlook still remains strong along with resilient external sector growth. Negative outlook is on the back of high debt levels and the impact of pandemic on government finances. Fitch estimates India's GDP growth at 12.5% in FY22 and 5.8% in FY23.
- As per EPFO's data, 0.8mn (+1.4% YoY) new subscribers were added in Feb'21 compared with 0.9mn (+3.5%) added in Jan'21. With this 1.62mn new subscribers were added in Q4FY21 (Jan-Feb), marginally higher than 1.58mn added in Q4FY20 (Jan-Feb). In FY21 (Apr'20-Feb'21), 7.7mn (-27.3%) new subscribers have been added compared with 10.6mn in FY20 (Apr'19-Feb'20).
- As per news reports centre has allowed states to borrow 75% of their planned borrowing target (upto 4% of their GSDP) in the Apr-Dec period. This compares with 50% allowed in normal years. As Covid-19 pandemic struck in FY21 states borrowed 70% (Rs 5.3tn) of the total amount (Rs 7.6tn) between Apr-Dec20. For FY22, centre has also asked states to earmark 0.5% of the borrowing for incremental capital expenditure to improve their quality of spending. Higher supply of government paper in first three quarters of FY22 and may lead to hardening of yields in the coming months.
- As per CMIE data, India's unemployment rate (30-day moving average) rose to 7.74% as on 23 Apr 2021 from 7.31% in the previous week. Both rural and urban unemployment rose to 7.17% and 8.99% respectively from 6.74% and 8.58% in the previous week. Further, state specific lockdown to contain the pandemic is likely to take a hit on the print in the coming months
- India's forex reserves rose to US\$ 582.4bn in the week ended 16 Apr 2021. Forex reserves rose by US\$ 1.2bn this week compared with an increase of US\$ 4.3bn last week. In FYTD22, forex reserves have risen by US\$ 3.1bn compared with an accretion of US\$ 4bn in the same period last year.
- RBI reported that currency in circulation (CIC) increased by Rs 15.2bn and stood at Rs 28.9tn for the week ending 16 Apr 2021. Reserve money rose by 17.6% on a YoY basis, compared with 8% a year ago. On FYTD basis, reserve money increased by 1.6% as against a decline of 0.5% a year ago.
- MPC believes that recovery will be impacted by second wave. Thus members voted to keep accommodative stance for as long as necessary to sustain growth on durable basis even as time based guidance was removed. While inflationary pressures from increase in international commodity prices will be seen in core CPI, impact on headline will be limited due to benign demand side environment. We continue to expect RBI to reduce the rate corridor in H2 before raising repo rate in early FY23 as second wave ebbs in Q2FY22.

Global macro developments

- US labour market continued to recover at an accelerated pace with jobless claims falling to 0.55mn last week compared with 0.59mn claims filed previously. The second consecutive dip is a new pandemic low. The 4-week moving average stood at 6,51,000. Separately, existing home sales fell to 7-month low of 3.7% in Mar'21 as restricted supply has pushed prices up.
- ECB kept policy rates unchanged and also said that the current asset purchase program of € 1.85tn is likely to continue till Mar'22. However, it noted that some improvement has been seen on growth despite considerable uncertainty from third wave of infection. Inflation in the Eurozone is still below the 2% target at 1.3% in Mar'21. GDP has contracted by 6.6% in CY20 and contraction is anticipated in Q1 as well.
- CPI inflation in UK edged up to 0.7% in Mar'21 from 0.4% in Feb'21 on a YoY basis. The increase was led by higher global oil prices. Prices of clothing and footwear were also higher as retailers cut back on discounts. Core inflation rose to 1.1% in Mar'21, from 0.9% in Feb'21. BoE expects inflation to reach 1.9% in CY21.
- Japan's exports rose to a 40-month high of 16.1% in Mar'21 (est. 11.7%) versus a decline of 4.5% in Feb'21. Exports of autos, semiconductors and chip-making equipment rose. Further, while exports to China rose sharply by 37.2% (lifetime high), exports to US were relatively muted at 4.9%. Imports rose by 5.7% in Mar'21. Separately, industrial production fell by 2% in Feb'21 on a YoY basis versus a decline of 2.6% in Jan'21.
- RBA minutes highlighted that the central bank is in no hurry to tighten policy settings. It reiterated that it will maintain its supportive policy until inflation is within 2-3% target range. While it expects that the economy will expand at 'above trend' pace this year and the next, wage and price pressures remain subdued along with higher unemployment rate.
- Global flash PMIs for Apr'21 indicate that manufacturing activity surged significantly in US, UK and Eurozone. UK PMI jumped to 60.7 (~27-year high) versus 60.3 in Mar'21 and Eurozone PMI reached 63.3 (series high; 62.5 in Mar'21). However, within Eurozone, both Germany and France reported marginal slowdown in activity. New export orders remained subdued while domestic orders supported growth. Global services activity too remained buoyant, with improvement seen across regions.
- New home sales in the US rebounded more than expectation and surged by 20.7% in Mar'21 after dropping by 16.2% in Feb'21. The annualised sales were pushed to 1.02mn, fastest increase since CY06 and is led by robust demand and lower borrowing costs. The median sale price of new house rose by 0.8% (US\$ 330,800) on a YoY basis in Mar'21.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.56	(2)	(8)	47	96
UK	0.74	(2)	2	44	45
Japan	0.07	(2)	(2)	2	9
Germany	(0.26)	1	13	26	22
India	6.04	(5)	(9)	13	(13)
China	3.18	2	(1)	5	69
2Y yields (Δ bps)					
US	0.16	0	2	4	(7)
UK	0.04	(1)	(1)	16	(3)
Japan	(0.13)	(1)	(2)	0	2
Germany	(0.69)	0	3	2	1
India	4.50	(12)	(20)	0	(5)
China**	2.40	(6)	(16)	7	127
Currencies (Δ %)					
EUR	1.2097	1.0	2.8	(0.6)	11.8
GBP	1.3876	0.3	1.0	1.4	12.2
JPY	107.88	0.8	1.2	(4.0)	(0.3)
AUD	0.7739	0.1	2.1	0.3	21.5
INR	75.02	(0.9)	(3.3)	(2.8)	1.9
CNY	6.4963	0.4	0.8	(0.2)	8.3
Equity & Other indices (Δ %)					
Dow	34,043	(0.5)	4.4	9.8	43.2
FTSE	6,939	(1.2)	4.0	3.6	20.6
DAX	15,280	(1.2)	4.5	10.1	47.8
NIKKEI	29,021	(2.2)	1.0	1.4	50.7
Shanghai Comp	3,474	1.4	3.3	(3.7)	23.7
SENSEX	47,878	(2.0)	(1.2)	(2.0)	52.8
Brent (US\$/bbl)	66.11	(1.0)	6.7	19.3	208.3
Gold (US\$/oz)	1,777	0	2.9	(4.2)	2.8
CRB Index	524.6	1.8	3.7	15.0	50.6
Rogers Agri Index	1,044.2	5.5	10.5	15.8	62.7
LIBOR (3M)*	0.18	(1)	(1)	(3)	(71)
INR 5Y Swap*	5.52	(8)	(29)	(12)	32
India FII data (US\$ mn)					
	22 Apr	WTD	Mar-21	CYTD	FY21
FII-Debt	(75.0)	(43.7)	(65.3)	(2,092.6)	(65.3)
FII-Equity	(120.7)	(439.0)	(934.2)	6,392.2	(934.2)

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
26-Apr	Singapore industrial production, % YoY	Mar	4.7%	16.4%	--
	Germany IFO expectations	Apr	101.2	100.4	--
	US durable goods orders, % MoM	Mar	2.5%	(1.2%)	--
27-Apr	South Korea GDP, % YoY	Q1CY21	1.2%	(1.2%)	--
	China industrial profits, % YoY	Mar	--	20.1%	--
	Italy consumer confidence index	Apr	101.8	100.9	--
	US Conf. Board consumer confidence index	Apr	112.0	109.7	--
	BoJ policy balance rate, %	27-Apr	(0.1%)	(0.1%)	--
28-Apr	South Korea consumer confidence	Apr	--	100.5	--
	Australia CPI, % QoQ	Q1CY21	0.9%	0.9%	--
	Germany GfK consumer confidence	May	(4.2)	(6.2)	--
	France consumer confidence	Apr	93.0	94.0	--
	US goods trade balance, US\$ bn	Mar	(87.7)	(86.7)	--
	FOMC rate decision (upper bound), %	28-Apr	0.25%	0.25%	--
29-Apr	Euro Area consumer confidence	Apr	--	(8.1)	--
	Germany CPI, % YoY	Apr	1.9%	1.7%	--
	US initial jobless claims, in thousands	24-Apr	550.0	547.0	--
	US GDP annualized, % QoQ	Q1CY21	6.9%	4.3%	--
	US pending home sales, % MoM	Mar	4.0%	(10.6%)	--
30-Apr	South Korea industrial production, % YoY	Mar	4.2%	0.9%	--
	Japan jobless rate, %	Mar	2.9%	2.9%	--
	Japan industrial production, % MoM	Mar	(2.0%)	(1.3%)	--
	China Non-manufacturing PMI	Apr	56.0	56.3	--
	China manufacturing PMI	Apr	51.7	51.9	--
	France GDP, % QoQ	Q1CY21	0.0%	(1.4%)	--
	France CPI, % YoY	Apr P	1.3%	1.1%	--
	Taiwan GDP, % YoY	Q1CY21	6.1%	5.1%	--
	Germany GDP SA, % QoQ	Q1CY21	(1.5%)	0.3%	--
	Italy GDP WDA, % QoQ	Q1CY21	(0.5%)	(1.9%)	--
	Euro Area unemployment rate, %	Mar	8.3%	8.3%	--
	Euro Area CPI, % MoM	Apr	0.5%	0.9%	--
	Euro Area GDP SA, % QoQ	Q1CY21	(0.8%)	(0.7%)	--
	India core sector output, % YoY	Mar	--	(4.6%)	--

Source: Bloomberg, Bank of Baroda

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