

WEEKLY WRAP

07 December 2020

US10Y moves closer to 1%

US 10Y yield increased by 13bps on the back of hope of US fiscal stimulus. DXY index fell by 1.2% with weak payrolls and progress on vaccine. Oil prices too rose by 2.2% as OPEC+ agreed on production cuts. Global equities continued to make fresh highs, including India where RBI's liquidity stance is positive for equities. GST collections were steady and gives room for spending. RBI's new inflation forecast rules out a rate cut. High frequency data, IIP and Covid-19 cases will be the focal point for India in the week.

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Markets

- **Bonds:** US 10Y yield rose by 13bps (0.97%) amidst hopes of US\$ 908bn coronavirus aid plan. UK 10Y yield rose by 7bps (0.35%) amidst expectation of a trade deal between UK and EU before 31 Dec 2020. China 10Y yield fell by 1bps (3.3%) amidst better macro prints. Oil prices rose by 2.2% (US\$ 49/bbl) as OPEC+ planned to cut output by 7.2mbpd from Jan'21. India's 10Y yield fell by 1bps (5.9%) as RBI maintained accommodative stance. System liquidity surplus rose to Rs 5.8tn as on 4 Dec 2020 compared with Rs 5.4tn in the previous week.
- **Currency:** Except JPY (lower), other global currencies closed higher against the dollar. DXY fell by 1.2% to nearly two-and-a-half year low. Renewed expectations from US fiscal talks and progress of vaccine explain a weaker US\$. INR appreciated by 0.3% in the week supported by foreign inflows of US\$ 1.3bn.
- **Equity:** Barring Dax, other global indices ended the week higher on hopes of Covid-19 vaccine. Amongst other indices, FTSE (2.9%) gained the most. Sensex too climbed up by 2.1% led by real estate and metal stocks. RBI's liquidity stance is also positive for equity markets. This was followed by Shanghai Comp (1.1%) as China's services PMI edged upwards.
- **Upcoming key events:** In current week, markets will watch CPI prints of US, China and Germany and industrial production of European economies. In addition, ECB policy decision and Germany's ZEW index results are also awaited. On the domestic front, industrial production data and progress of Covid-19 cases will be tracked.



India macro developments

- RBI's data showed that credit demand was stable at 5.8% for the fortnight ending 20 Nov 2020. Deposit growth on the other hand, inched up by 10bps to 10.9% from 10.8% earlier. Demand deposits grew at a faster pace of 13.5% against 12.8% in the previous fortnight, time deposits grew at the same pace of 10.6%. CD ratio rose was at 72.6 against 72.3 previously
- India's manufacturing PMI slipped to a 3-month low of 56.3 in Nov'20 from 58.9 in Oct'20. Both new orders and output rose at a slowest pace in over 3-months, with employment remaining in the contractionary zone. However, pickup in international demand was seen as new exports orders increased with easing off the COVID-19 restrictions.
- RBI reported that currency in circulation (CIC) increased by Rs 2bn and stood at Rs 27tn for the week ending 27 Nov 2020. Reserve money rose by 15.3% on a YoY basis, compared with 12.4% a year ago. On FYTD basis, reserve money increased by 9.4% as against 3.7% a year ago.
- India's trade deficit expanded to US\$ 10bn in Nov'20 from US\$ 8.7bn in Oct'20 led by moderation in exports and stable non-oil-non-gold imports. Stable non-oil-non-gold imports indicate normalization of domestic economic activity. Capital goods imports continue to contract, albeit at a slower pace.
- Services activity in India continued to expand as PMI reading was at 53.7 in Nov'20 from 54.1 in Oct'20. This was led by new business inflows which rose for the second straight month driven by domestic demand. Both employment and input cost picked up. Business activity for the 12-month ahead also brightened considerably.
- Total GST collections for Oct'20 remained steady at Rs 1.05tn, registering 1.4% YoY increase versus 10.2% in Sep'20. On MoM basis, IGST collections dipped marginally from Rs 525bn in Sep'20, to Rs 520bn in Oct'20. After adjusting for IGST, while CGST collections rose on MoM basis, SGST collection were down, with 15 states reporting a decline.

Global macro developments

- Total non-farm payroll in the US increased at a less than anticipated pace of 245,000 in Nov'20 (est.: 500,000) and against 610,000 in Oct'20. Labour force participation rate moderated to 61.5 (61.7 in Nov'20). Unemployment rate however edged down to 6.7% (6.9% in Oct'20). Average earning rose by 0.3% on MoM basis in Nov'20 (0.1% in Oct'20).
- Manufacturing activity in the Eurozone despite showing moderation remained in expansion. The print was at 53.8 in Nov'20 against 54.8 in Oct'20, led by slower but steady gains in output and new orders. Input costs remained elevated. In a separate print, US ISM manufacturing PMI also showed similar trend. It moderated to 57.5 from 59.3 in Oct'20.
- Services activity globally remained muted. In the Eurozone, the print was lower at 41.7 in Nov'20 from 46.9 in Oct'20. In UK, it dropped to 47.6 from 51.4. While in Japan, it was at 47.8 versus 47.7 in Oct'20, well below the 50-mark. In all the economies, new business inflows recorded decline. Employment scenario worsened and price pressure moderated owing to lockdown restrictions from rising Covid-19 cases.
- Initial jobless claims in the US dropped to 712,000 for the week ending 28 Nov 2020 from 787,000 in the previous week. The more than estimated (715,000) decline was on account of holiday season hiring. However, labour market still remains fragile without additional fiscal support, as pointed out by Fed Chair Powell. Separately, US ISM services index also showed that activity slowed in Nov'20 to 55.9 from 56.6 in Oct'20.
- Employment scenario in both the Euro area and EU improved in Oct'20. In the Euro area unemployment rate dropped to 8.4% in Oct'20 from 8.5% in Sep'20. While in the EU, it remained stable at 7.6% in Oct'20. This print has come as a respite amidst rising Covid-19 cases in the region and uncertainty over stimulus
- Services activity in China also gained pace as the Caixin PMI reading rose to 57.8 in Nov'20 (est.: 56.3) against 56.8 in Oct'20. This was led by new business which expanded at its quickest pace since Apr'10, with new export business expanding for the first time in five months. Business confidence also strengthened for the third month in a row. Input cost pressure and employment picked up.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.97	13	7	25	(87)
UK	0.35	7	8	9	(42)
Japan	0.02	(1)	(2)	(2)	3
Germany	(0.55)	4	7	(8)	(26)
India	5.90	(1)	0	(3)	(77)
China	3.30	(1)	12	18	10
2Y yields (Δ bps)					
US	0.15	0	(2)	1	(146)
UK	(0.04)	1	1	4	(63)
Japan	(0.12)	2	(1)	0	2
Germany	(0.75)	1	5	(5)	(12)
India	3.86	(6)	(32)	(48)	(187)
China**	2.87	(5)	14	27	25
Currencies (Δ %)					
EUR	1.2121	1.3	3.5	2.4	9.6
GBP	1.3441	1.0	2.9	1.2	2.3
JPY	104.17	(0.1)	0.3	1.9	4.1
AUD	0.7425	0.5	3.6	2.0	8.5
INR	73.80	0.3	0.8	(0.9)	(3.6)
CNY	6.5315	0.7	2.2	4.5	7.2
Equity & Other indices (Δ %)					
Dow	30,218	1.0	10.0	7.4	7.9
FTSE	6,550	2.9	13.2	13.0	(9.5)
DAX	13,299	(0.3)	10.0	3.6	1.0
NIKKEI	26,751	0.4	14.8	15.3	14.5
Shanghai Comp	3,445	1.1	5.3	2.7	18.3
SENSEX	45,080	2.1	12.0	17.5	11.5
Brent (US\$/bbl)	49.25	2.2	24.0	15.4	(23.5)
Gold (US\$/oz)	1,839	2.9	(3.7)	(4.9)	25.9
CRB Index	427.3	(0.3)	3.9	7.2	9.4
Rogers Agri Index	818.5	(2.1)	3.8	11.2	12.4
LIBOR (3M)*	0.23	0	0	(2)	(167)
INR 5Y Swap*	5.18	0	(4)	(36)	(132)
India FII data (US\$ mn)					
	3 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	376.1	267.1	267.1	(14,352.1)	(4,592.6)
FII-Equity	498.8	1,002.3	1,002.3	17,108.0	23,711.0

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
07-Dec	Germany industrial production, SA, % MoM	Oct	1.6%	1.6%	--
	Taiwan exports, % YoY	Nov	8.5%	11.2%	--
	China exports, % YoY	Nov	12.0%	11.4%	--
08-Dec	Japan GDP, SA, % QoQ	Q3CY20	5.0%	5.0%	--
	Japan BoP current account balance, ¥bn	Oct	2,117	1,660	--
	Taiwan CPI, % YoY	Nov	0.0%	(0.2%)	--
	Germany ZEW survey expectations	Dec	46.0	39.0	--
09-Dec	Japan core machine orders, % MoM	Oct	2.7%	(4.4%)	--
	China PPI, % YoY	Nov	(1.8%)	(2.1%)	--
	China CPI, % YoY	Nov	0.0%	0.5%	--
	Germany trade balance, EUR bn	Oct	18.5	20.6	--
	US MBA mortgage applications	4-Dec	--	(0.6%)	--
	US wholesale inventories, % MoM	Oct	0.9%	0.9%	--
10-Dec	Japan PPI, % YoY	Nov	(2.2%)	(2.1%)	--
	UK industrial production, % MoM	Oct	0.3%	0.5%	--
	UK trade balance, GBP mn	Oct	(500.0)	613.0	--
	France industrial production, % MoM	Oct	0.4%	1.4%	--
	ECB main refinancing rate	10-Dec	0.0%	0.0%	--
	US initial jobless claims, in thousands	5-Dec	725.0	712.0	--
	US CPI, % MoM	Nov	0.1%	0.0%	--
	China new Yuan loans, CNY bn	Nov	1,450.0	689.8	--
11-Dec	Germany CPI, % YoY	Nov	--	(0.3%)	--
	Spain CPI, % YoY	Nov	(0.8%)	(0.8%)	--
	Italy industrial production, % MoM	Oct	1.0%	(5.6%)	--
	India industrial production, % YoY	Oct	0.2%	0.2%	--
	US PPI final demand, % MoM	Nov	0.1%	0.3%	--
	US university of Michigan Sentiment index	Dec	76.0	76.9	--

Source: Bloomberg, Bank of Baroda

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