

WEEKLY WRAP

07 April 2020

Markets rejoice fewer virus cases

World added fewer cases of COVID-19 in the last few days which resulted in a rebound in equity markets. Oil prices rose by 45% to US\$ 33/bbl on the back of anticipated cut in production. Japan announced a US\$ 1tn stimulus. We see more volatility ahead as economic costs of global lockdown increase. On the domestic front, number of coronavirus cases have seen a small dip. Government is likely to consider a second relief package. Markets will await information on road ahead as national lockdown ends on 14 Apr 2020.

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Markets

- **Bonds:** Global yields closed mixed. Fed undertook measures to improve liquidity and lending norms for small borrowers. Japan unveiled US\$ 1tn (20% of GDP) fiscal stimulus. US 10Y yield fell by 6bps (0.67%) as US lost 701k jobs. Oil prices rose by 45% (US\$ 33/bbl) as output cut from Russia and Saudi Arabia is anticipated. India's 10Y yield rose by 10bps (6.31%) amidst fiscal worries. System liquidity surplus rose to Rs 4tn as on 3 Apr 2020 vs Rs 3.2tn in the previous week.
- **Currency:** Except CNY, other global currencies closed lower. DXY rose by 1.5% as world economy has entered into a recession. EUR depreciated the most by (-) 2.3%. GBP depreciated by (-) 1.5%. INR fell by (-) 1% as FII outflows continued (US\$ 1.6bn in the week) due to anticipated impact of COVID-19 on the economy.
- **Equity:** Barring Nikkei and Sensex, global indices ended the week higher as all countries have been taking steps to mitigate the impact of COVID-19. Dax (2.6%) gained the most followed by Dow (1.6%). However, Sensex (-3%) ended the week in red led by banking and tech stocks as coronavirus cases continue to increase in India.
- **Upcoming key events:** In the current week, markets will continue to monitor daily increase in COVID-19 cases which have increased globally by 0.56mn vs 0.41mn last week. Industrial production data of major economies (Germany, UK and India) and US jobless claims data are also scheduled for release. On the domestic front, developments on lockdown, fiscal measures and MPC minutes are awaited.



India macro developments

- As per news reports, government is likely to witness shortfall in direct tax collection for FY20 by Rs 1.5tn. Till 18 Mar 2020, direct tax collection has been at Rs 9.57tn against the RE of Rs 11.7tn. Direct tax collection were already muted on account of corporate tax cut. The current slowdown emanating from COVID-19 is further expected to hit revenue collection of the government both in FY20 and FY21.
- Government has published its borrowing calendar for H1FY21. Gross borrowing is pegged at Rs 4.88tn in H1FY21 (Rs 4.25tn in H1FY20). Additional borrowing seems unlikely as other instruments-extension in WMA limit, FRB issuances, debt ETF are being deployed.
- India's manufacturing PMI slipped to a 4-month low of 51.8 in Mar'20 from 54.5 in Feb'20. This was on the back of steep decline in both domestic and external demand owing to COVID-19 outbreak. With signs of possible supply side disruptions, 12-month business outlook sentiment has also weakened for the same period.
- GST collections for the month of Feb'20 eased to Rs 976bn from Rs 1.1tn in Jan'20, registering a (-) 8.4% decline on YoY basis. The dips was on account of countrywide lockdown owing to COVID-19 outbreak. The drag was led by fall in SGST (-7%) and IGST (-87.6%) collections. On FYTD basis, CGST collections are Rs 601bn away from government's RE and vs Rs 413bn monthly average run-rate.
- India's eight core industries rose to an 11-month high of 5.5% in Feb'20 from 1.4% in Jan'20. This was led by expansion in output of coal (10.3% from 6.9%), refinery products (7.4% from 1.9%) and in electricity (11% from 3.2%). On a cumulative basis, the overall infrastructure index has inched up by 1% in Apr-Feb'20 vs 4.8% in Apr-Feb'19.
- Apart from emergency rate cut and loan moratorium, RBI has announced other measures to combat the ongoing crisis. The realisation period of export proceeds has been extended to 15 months (9 months, currently), for exports made up to or on 31 Jul 2020. RBI has also decided to increase the WMA limit for all States/UTs by 30% from the existing limit. RBI has also deferred the implementation of countercyclical capital buffer for a period of one year or earlier, as may be necessary.
- Government's highway construction gained pace with 3,979km in FY20 compared to 3,380km in FY19. However, the actual construction fell short of its target of 4,500km which translates into 12.32km/day against the actual of 10.9km/day. In a separate report, India's services PMI plunged into contraction of 49.3 in Mar'20 as against 85-month high of 57.5 in Feb'20 in the wake of COVID-19.

Global macro developments

- COVID-19 cases increased globally to 1.3mn as of 6 Apr 2020 (1.2 times increase vs last week). On a daily basis, new cases in US rose the most by 30,561, followed by France at 5,204 and Spain at 5,029. Globally, US has the maximum number of cases at 368,196. In India, the number of cases rose to 4,778 as of 7 Apr 2020 vs 1,998 last week.
- China's manufacturing PMI rebounded sharply in Mar'20 to 52 from 35.7 in Feb'20 and est.: 45. The revival was possible after the COVID-19 related shutdown restrictions were removed. This led to increase in new orders, production and employment index. However production is yet to recover to normal levels. As a result, PBOC has also reduced the 7D-reverse repo rate by 20bps (steepest cut in 5 years) to 2.2% from 2.4%.
- US initial jobless claims for the week ending 28 Mar 2020, soared to 6.6mn from 3.31mn in the previous week. The weekly rise of 3.34mn claims was the highest on record and was driven by COVID-19 related lockdown. The 4-week moving average was at 2.61mn vs 1mn in the previous week. Separately, factory order growth continued to decline by (-) 0.5% in Feb'20, unchanged from Jan'20 and vs est.: +0.2%.
- US non-farm payrolls dropped by 701,000, in Mar'20, worst job loss registered since Mar'09 amidst the ongoing shutdowns to contain the spread of COVID-19. The sharpest drop was seen in the leisure and the hospitality sector. Unemployment rate too rose sharply to 4.4% (highest since Aug'17) from 3.5%. However, wages continue to inch up by 3.1% on a YoY basis.
- ADB in its latest report highlighted growth in developing Asia is likely to slow down to 2.2% (5.2% projected earlier) in CY20. This will be the lowest growth seen in past 22-years. China's growth has been sharply revised downwards to 2.3% (5.8% earlier) in CY20. India's growth is likely to be muted at 4% in FY20. However, growth will bounce back to 6.2% in FY21, supported by government initiatives. ADB has estimated the global cost from COVID-19 in the range of US\$ 2-4.1tn (2.3-4.8% of world GDP).
- Germany's factory orders declined by (-) 1.4% in Feb'20 on a MoM basis vs est.: (-) 1.9% and +4.8% in Jan'20. The dip was led by decline in foreign orders (-3.6%) with orders from other Euro Area countries declining the most (-5%). Domestic orders rose by 1.7%. Industry-wise, orders for capital goods fell (-3.4%) the most. The full impact of COVID-19 related shutdown will be more visible in the Mar'20 print.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.67	(6)	(9)	(114)	(185)
UK	0.33	0	10	(43)	(78)
Japan	0.02	0	14	4	7
Germany	(0.43)	7	29	(14)	(43)
India**	6.31	10	12	(27)	(110)
China**	2.56	(6)	(7)	(58)	(70)
2Y yields (Δ bps)					
US	0.26	3	(24)	(128)	(210)
UK	0.11	(4)	0	(49)	(60)
Japan	(0.11)	3	16	4	4
Germany	(0.65)	3	21	(2)	(7)
India**	5.27	2	(8)	(96)	(139)
China**	1.63	(7)	(33)	(65)	(76)
Currencies (Δ %)					
EUR	1.0793	(2.3)	(4.4)	(3.6)	(4.2)
GBP	1.2231	(1.5)	(6.3)	(7.1)	(6.4)
JPY	109.22	(1.4)	(3.6)	(0.8)	2.0
AUD	0.6088	(1.4)	(8.3)	(12.3)	(14.6)
INR**	76.17	(1.0)	(3.2)	(5.9)	(9.3)
CNY*	7.0913	0.1	(2.3)	(1.7)	(5.6)
Equity & Other indices (Δ %)					
Dow	22,680	1.6	(12.3)	(21.0)	(13.9)
FTSE	5,582	0.3	(13.6)	(26.3)	(25.1)
DAX	10,075	2.6	(12.7)	(23.2)	(15.8)
NIKKEI	18,576	(2.7)	(10.5)	(19.9)	(14.6)
Shanghai Comp**	2,764	0.6	(8.9)	(10.4)	(14.8)
SENSEX**	27,591	(3.0)	(26.6)	(32.2)	(28.7)
Brent (US\$/bbl)	33.05	45.2	(27.0)	(52.0)	(53.5)
Gold (US\$/oz)	1,661	2.4	(0.8)	6.1	28.0
CRB Index	363.4	(2.1)	(8.8)	(9.4)	(14.5)
Rogers Agri Index	647.3	(2.1)	(7.6)	(14.2)	(13.7)
LIBOR (3M)*	1.39	(5)	49	(48)	(120)
INR 5Y Swap*	6.23	26	50	(43)	(22)
India FII data (US\$ mn)					
	31 Mar	WTD	MTD#	CYTD	FY20
FII-Debt	(374.6)	(613.6)	(8,192.4)	(9,759.5)	(6,815.4)
FII-Equity	(504.3)	(985.4)	(8,389.9)	(6,603.0)	786.3

Source: Bloomberg, Bank of Baroda | *Indicates change in bps | **Markets in India and China were closed on 6.04.2020 bps/# refers to Mar'20

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
6-Apr	UK GfK consumer confidence	Mar	--	(9.0)	--
	Markit India services PMI	Mar	--	57.5	--
	Germany factory orders, % MoM	Feb	(2.5%)	5.5%	--
7-Apr	South Korea current account balance, US\$ bn	Feb	--	1.0	--
	RBA cash rate target, %	07-Apr	0.25%	0.25%	--
	Germany industrial production SA, % MoM	Feb	(0.9%)	3.0%	--
	Italy retail sales, % MoM	Feb	--	0.0%	--
8-Apr	Japan core machine orders, % MoM	Feb	(2.9%)	2.9%	--
	Japan current account balance, ¥ bn	Feb	3,067.2	612.3	--
9-Apr	UK industrial production, % MoM	Feb	0.1%	(0.1%)	--
	Germany exports SA, % MoM	Feb	(1.0%)	0.0%	--
	Italy industrial production, % MoM	Feb	(1.8%)	3.7%	--
	India industrial production, % YoY	Feb	--	2.0%	--
	US PPI final demand, % MoM	Mar	(0.4%)	(0.6%)	--
	US initial jobless claims, in mn	04-Apr	5.0	6.6	--
	BoK 7-day repo rate, %	09-Apr	0.75%	0.75%	--
10-Apr	China PPI, % YoY	Mar	(1.1%)	(0.4%)	--
	Chian CPI, % YoY	Mar	4.9%	5.2%	--
	France industrial production, % MoM	Feb	0.0%	1.2%	--
	US CPI, % MoM	Mar	(0.3%)	0.1%	--

Source: Bloomberg, Bank of Baroda

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