

WEEKLY WRAP

04 May 2020

Central Banks extend support as data disappoints

Oil prices rose and DXY fell as global risk sentiment improved. Equity markets (ex-Dow) also inched up led by Sensex and Dax. BoJ is looking at unlimited asset purchases and ECB has initiated a € 750bn non-targeted refinancing operation as economic data disappoints. US Fed is likely to keep rates near zero. In India, lockdown has been extended till 17 May 2020 with relaxations in green and orange zones. This is expected to revive growth. More importantly, details of government's fiscal package are awaited.

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Markets

- **Bonds:** Global short-end yields closed lower as macro data showed both US and EU GDP growth was below estimates. US Fed pledged to keep near zero rates till growth and employment normalises. Other central banks (ECB, BoJ) also increased durable liquidity. Oil prices rose by 23% (US\$ 26/bbl) amidst hopes of revival in demand. India's 10Y yield fell by 6bps (6.17%). System liquidity surplus rose to Rs 4.9tn as on 30 Apr 2020 compared with Rs 4.8tn in the previous week.
- **Currency:** Global currencies closed higher against US\$ due to improved risk sentiment as more countries look at restarting their economies. DXY fell by 1.3% in the week. EUR and GBP gained by 1.5% and 1.1% respectively. INR rose by 1.8% in the week to a 1-month high supported by FII inflows in the equity segment. FII outflows from debt segment continued.
- **Equity:** Barring Dow, other global indices closed higher led by hopes of a possible vaccine for COVID-19 and phased opening up of global economy. Dow was under pressure on Friday. Sensex (7.6%) surged the most followed by Dax (5.1%) and Nikkei (1.9%) Metal and banking stocks advanced the most in the domestic market.
- **Upcoming key events:** COVID-19 cases rose by 557k (577k last week). Markets await policy rate decisions of RBA and BoE along with US unemployment rate and China's exports data to gauge impact of COVID-19 on global economy. On the domestic front, manufacturing and services PMI and details of government's fiscal stimulus package are awaited.



India macro developments

- The nationwide lockdown which was expected to end on 3 May 2020 has now been extended by another 2 weeks till 17 May 2020. Lockdown 3.0 has divided districts into red (130), orange (284) and green (319) zones. Within red zones lie containment areas where no business activity will be allowed. In green and orange zones near normalcy will be aimed to achieve in districts with no fresh COVID-19 case. Private offices have also been allowed to reopen in all 3 zones with 33% capacity.
- According to news reports, total GST collections for Mar'20 fell to Rs 283bn versus Rs 976bn in Feb'20 and Rs 1.13tn in Mar'19. The sharp dip comes as lockdown began in the last week of Mar'20 and filing date was extended to 5 May 2020 from 20 Apr. E-way bill generated in Mar'20 also fell by 30% on MoM basis while in Apr'20 the dip was ~80%. Collections for Apr'20 and May'20 is also expected to be severely hit due to nationwide lockdown.
- India's infrastructure index contracted to an all-time low in this series to 6.5% in Mar'20 from an increase of 7.1% in Feb'20. The decline was led by lower output across all the industries. With natural gas (-15.2% vs -9.6%), fertilizers (-11.9% vs 2.9%) steel (-13% vs 6.3%) and cement (-24.7% vs 7.8%) seeing double digit contraction for Mar'20. Coal was the only exception as output levels rose by 4%. However, the overall index is expected to worsen in Apr'20 on account of nationwide lockdown.
- ADB has announced an assistance package of US\$ 1.5bn for India in order to counter the effects of COVID-19 on health, welfare and overall economy. In addition, ADB is also expected to announce support for MSMEs and infrastructure projects through credit guarantees. Till date, it has provided a total stimulus of US\$ 20bn to Asian economies.
- Foreign tourist arrival growth in India fell by 66.4% in Mar'20 versus 6.6% decline in Feb'20. The decline can be attributed to beginning of lockdown in most countries, including India (last week of Mar'20). This brings the FY20 growth down by 3.2% versus 2.4% increase in FY19. In Q4FY20, the growth was down by 23.9% compared with 1.7% increase last year.
- RBI reported that currency in circulation (CIC) rose by Rs 166.6bn and stood at Rs 25.2tn for the week ending 24 Apr 2020. Reserve money rose by 9.1% on a YoY basis, versus 13% a year ago. On a FYTD basis, reserve money declined by 0.3% as against a decline of 0.1% last year.

Global macro developments

- COVID-19 cases increased globally to 3.6mn as of 3 May 2020; the pace of increase has slowed gradually. On a weekly basis, new cases in US rose the most by 0.19mn, followed by India at 14,615 and Italy at 13,042. Globally, US has the maximum number of cases at 1.16mn.
- US Fed in its latest policy pledged to keep interest rate in the range of 0-0.25%, until the objective of price stability and full employment is reached. In CYTD20, Fed has reduced policy rate by 150bps to support the economy. In a separate print, US GDP fell by 4.8% in Q1CY20 compared with 2.1% growth in Q4CY19. This is the first negative reading since Q1CY14. The main drag down was consumer spending, non-residential fixed investment, exports and inventories.
- ECB in its latest policy kept rates unchanged and took a host of liquidity infusion measures. It will continue its monthly asset purchase program at the pace of € 20bn, together with the purchases of additional € 120bn temporary envelope until the end of the year. It reduced rates on TLTRO III to ease lending. A new series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs) have also been introduced. Further, purchases have been conducted under the Governing Council's new pandemic emergency purchase programme (PEPP), which has an overall envelope of € 750bn.
- Bank of Japan (BoJ) has resorted to unlimited government bond buying and has scrapped its earlier target of purchasing it at the annual pace of ¥ 80tn. It has increased its corporate bonds and CP buying by three-fold to ¥ 20tn to ease corporate funding strains. BoJ has also projected economy to shrink by 3-5% in CY21 (earlier estimate of 0.8-1.1% growth). Inflation is also estimated to fall short of its 2% target for three more years.
- In the wake of economic crisis emanating from COVID-19, consumer confidence in both US and France fell sharply in Apr'20. In the US, the reading was at its six year low of 86.9 compared with 118.8 in Mar'20. In France as well, the reading was below its long run average of 100 at 95 and compared with 103 in Mar'20. Consumers evaluated job loss as the main concern.
- China's official manufacturing PMI eased to 50.8 in Apr'20 from 52 in Mar'20, led by slump in export orders amidst global lockdown. However, non-manufacturing PMI rose to 53.2 in Apr'20 from 52.3 in Mar'20 as lockdown restrictions are phased out. Construction, new order and employment indices gained the most.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

| Particulars | Current | 1W | 1M | 3M | 12M |
|---|---------------|------------|------------|-------------|-------------|
| 10Y yields (Δ bps) | | | | | |
| US | 0.61 | 1 | (6) | (90) | (191) |
| UK | 0.25 | (4) | (11) | (28) | (97) |
| Japan | (0.02) | 0 | (4) | 5 | 2 |
| Germany | (0.59) | (11) | (12) | (15) | (61) |
| India | 6.11 | (6) | (3) | (49) | (129) |
| China | 2.52 | 3 | (7) | (35) | (89) |
| 2Y yields (Δ bps) | | | | | |
| US | 0.19 | (3) | (6) | (112) | (214) |
| UK | 0.04 | (2) | (10) | (46) | (75) |
| Japan | (0.14) | 1 | 0 | 0 | 1 |
| Germany | (0.76) | (6) | (7) | (9) | (17) |
| India | 4.55 | 0 | (72) | (151) | (222) |
| China** | 1.12 | (1) | (59) | (111) | (154) |
| Currencies (Δ %) | | | | | |
| EUR | 1.0981 | 1.5 | (0.5) | (1.0) | (1.9) |
| GBP | 1.2506 | 1.1 | 0.7 | (5.3) | (5.1) |
| JPY | 106.91 | 0.6 | 0.6 | 1.3 | 3.8 |
| AUD | 0.6418 | 0.7 | 4.7 | (4.1) | (8.5) |
| INR | 75.10 | 1.8 | 0.6 | (5.3) | (8.5) |
| CNY | 7.0633 | 0.3 | 0.3 | (0.6) | (4.9) |
| Equity & Other indices (Δ %) | | | | | |
| Dow | 23,724 | (0.2) | 8.2 | (16.0) | (10.5) |
| FTSE | 5,763 | 0.2 | 1.6 | (20.9) | (21.9) |
| DAX | 10,862 | 5.1 | 9.3 | (16.3) | (12.5) |
| NIKKEI | 19,619 | 1.9 | 3.7 | (15.5) | (11.9) |
| Shanghai Comp | 2,860 | 1.8 | 4.0 | 2.8 | (7.1) |
| SENSEX | 33,718 | 7.6 | 14.4 | (17.2) | (13.5) |
| Brent (US\$/bbl) | 26.44 | 23.3 | 16.3 | (54.5) | (62.7) |
| Gold (US\$/oz) | 1,700 | (1.7) | 7.8 | 7.0 | 32.9 |
| CRB Index | 353.2 | 1.4 | (4.6) | (12.6) | (15.6) |
| Rogers Agri Index | 653.6 | 1.8 | (1.3) | (11.1) | (9.3) |
| LIBOR (3M)* | 0.56 | (33) | (89) | (120) | (200) |
| INR 5Y Swap* | 5.22 | 2 | (61) | (146) | (202) |
| India FII data (US\$ mn) | | | | | |
| | 29 Apr | WTD | MTD | CYTD | FY20 |
| FII-Debt | (82.4) | (543.3) | (1,280.5) | (11,040.0) | (1,280.5) |
| FII-Equity | 103.7 | 8.9 | (399.7) | (7,002.6) | (399.7) |

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

FIG 2 – DATA RELEASE CALENDAR

| Date | Event | Period | Estimate | Previous | Actual |
|--------|--------------------------------------|--------|---------------|------------|--------|
| 04-May | South Korea CPI, % YoY | Apr | 0.4% | 1.0% | -- |
| | Markit India Manufacturing PMI | Apr | -- | 51.8 | -- |
| | Markit Italy Manufacturing PMI | Apr | 30.0 | 40.3 | -- |
| | Markit France Manufacturing PMI | Apr | 31.5 | 31.5 | -- |
| | Markit/BME Germany Manufacturing PMI | Apr | 34.4 | 34.4 | -- |
| | Markit Eurozone Manufacturing PMI | Apr | 33.6 | 33.6 | -- |
| | Hong Kong GDP, % YoY | Q1CY20 | (6.4%) | (2.9%) | -- |
| | US factory orders, % MoM | Mar | (9.4%) | 0.0% | -- |
| 05-May | RBA cash rate target, % | 05-May | 0.25% | 0.25% | -- |
| | Markit/CIPS UK services PMI | Apr | 12.3 | 12.3 | -- |
| | US trade balance, US\$ bn | Mar | (44.2) | Apr | -- |
| | Markit US services PMI | Apr | 27.0 | 27.0 | -- |
| | US ISM non-manufacturing index | Apr | 37.8 | 52.5 | -- |
| 06-May | Markit India services PMI | Apr | -- | 49.3 | -- |
| | Germany factory orders, % MoM | Mar | (10.0%) | (1.4%) | -- |
| | Markit Italy services PMI | Apr | 9.3 | 17.4 | -- |
| | Markit France services PMI | Apr | 10.4 | 10.4 | -- |
| | Markit Germany services PMI | Apr | 15.9 | 15.9 | -- |
| | Markit Eurozone services PMI | Apr | 11.7 | 11.7 | -- |
| 07-May | Caixin China services PMI | Apr | 50.5 | 43.0 | -- |
| | Bank of England Bank Rate, % | 07-May | 0.1% | 0.1% | -- |
| | US initial jobless claims, in mn | 01-May | 3.0 | 3.8 | -- |
| | China exports, % YoY | Apr | (9.5%) | (6.6%) | -- |
| 08-May | Jibun Bank Japan services PMI | Apr | -- | 22.8 | -- |
| | RBA statement on monetary policy | | | | |
| | Germany exports SA, % MoM | Mar | (5.0%) | 1.3% | -- |
| | US change in nonfarm payrolls | Apr | (2,13,00,000) | (7,01,000) | -- |
| | US unemployment rate, % | Apr | 16.0% | 4.4% | -- |

Source: Bloomberg, Bank of Baroda

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