

WEEKLY WRAP

13 July 2020

Global macros improving despite rising cases

Global equity markets continued upward momentum led by China as economic activity rebounds. However, apart from China bond yields were lower. DXY was under pressure on the back of rising COVID-19 cases in US and Fed comments of a protracted slowdown. Domestic economic activity is gaining traction as seen in higher electricity demand, digital payments and a normal monsoon implying rural demand will bounce back. India's 10Y yield closed lower on anticipation of bond purchases by RBI and softening inflation.

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Markets

- **Bonds:** Yields rose in China as economic activity is showing signs of improvement. Despite US ISM-non manufacturing index surprising positively, its 10Y yield closed lower due to rising COVID-19 cases and concern of prolonged slowdown raised by Fed. Oil prices rose by 1% (US\$ 43/bbl). India's 10Y yield fell by 9bps (5.76%). System liquidity surplus was lower at Rs 3.9tn as on 10 Jul 2020 compared with Rs 4.3tn in the previous week.
- **Currency:** Except INR, global currencies closed higher against the dollar as economic data such as European retail sales surprised positively. Comments by Fed on protracted slowdown and rising number of COVID-19 cases in US weighed against US\$ and DXY fell by 0.5%. CNY appreciated by 0.9%. INR depreciated by 0.7% as oil prices inched up despite FII inflows of US\$ 82.3mn.
- **Equity:** Global indices ended the week mixed due to surge in cases and hopes of global economic recovery amidst news of COVID-19 vaccine. Shanghai Comp (7.3%) gained the most on the back of improving economic fundamentals. Sensex too was up by 1.6% on the back of global cues, with metal and banking stocks advancing the most.
- **Upcoming key events:** Markets will closely watch host of data from the US (CPI, retail sales, housing starts and jobless claims) and China (GDP, trade, industrial production and FAI). Central Bank decisions and comments from ECB, Japan, Indonesia and Korea are also awaited. On the domestic front, CPI, WPI and trade data is scheduled for release. Local lockdowns too will have an impact on domestic markets.



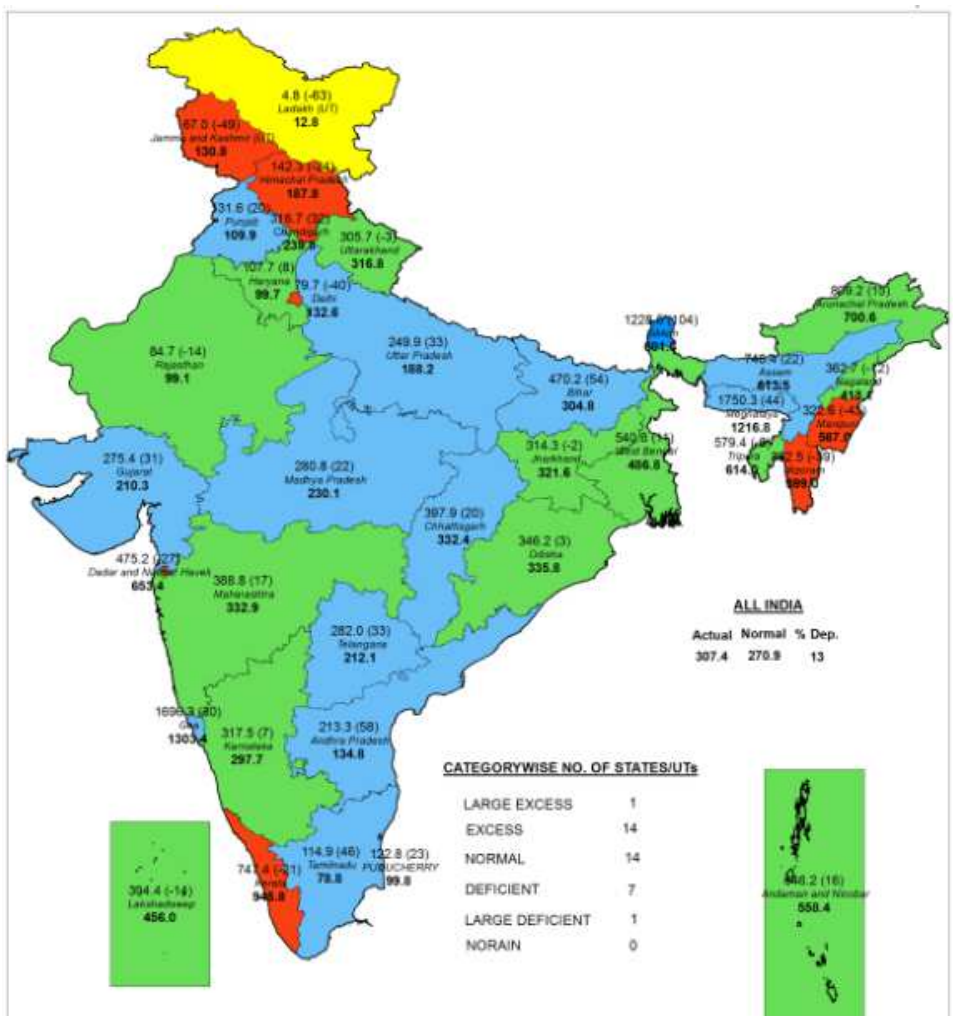
India macro developments

- As per news reports, central government has extended the 15% spending limit for various departments to Q2FY21 as well. In Q1, directive was issued to departments such as commerce, industry, etc, to curb their expenditure at 15% of FY21BE against 25% allowed every year. This is expected to save Rs 2.8tn in H1FY21, amount similar to stimulus announced so far. Despite maintaining expenditure at budgeted levels, government is estimated to see 6.5% of fiscal deficit in FY21, largely owing to revenue shortfalls.
- As per news reports, CPSEs have been tasked by the FM to ensure that 50% of their budgeted capital outlay (Rs 1.66tn) is spent by Q2FY21. As of Q1FY21, spending is at Rs 202bn (12.2% of the target) versus Rs 263.2bn (16% of the target) in Q1FY20. However, labour shortage and delayed imports have been cited as key hurdles currently.
- As per news reports, central government is planning a stake sale in Coal India and IDBI bank to raise nearly Rs 200bn in disinvestment proceeds. Government currently holds 66% stake in Coal India and 47% in IDBI bank. In Jan'15, 10% stake sale in Coal India alone had raised Rs 225bn. The FY21 disinvestment target of Rs 2.1tn has come under strain as prospects of sale of Air India and BPCL have been severely hit.
- India's industrial output declined by 34.7% in May'20 versus a decline of 57.6% in Apr'20. While recovery in FMCG goods is encouraging, capital and durable goods continue to show steep declines. However, broader economic activity is improving as seen in higher manufacturing PMI, electricity demand and E-way bill generation in Jun'20. Rising COVID cases and risks of local shutdowns remain a key risk.
- RBI reported that currency in circulation (CIC) increased by Rs 49.5bn and stood at Rs 26.6tn for the week ending 3 Jul 2020. Reserve money rose by 14.3% on a YoY basis, compared with 12.3% a year ago. On a FYTD basis, reserve money increased by 5% as against an increase of 0.4% last year.
- India's forex reserves rose by US\$ 6.4bn in the week ended 3 Jul 2020 to a record high at US\$ 513.3bn, compared with an increase of US\$ 1.3bn last week. In FYTD21, forex reserves have risen by US\$ 37.7bn, compared with an accretion of US\$ 18bn last year.

Monsoon Tracker

- For the period 1 Jun 2020 to 12 Jul 2020, monsoon is 13% above LPA compared with (-) 14% below LPA last year. While Rajasthan, Maharashtra, Karnataka and Jharkhand have received normal rainfall, states such as Gujarat, Tamil Nadu, Uttar Pradesh, Andhra Pradesh and Madhya Pradesh have seen excess rainfall. Parts of Jammu and Kashmir, Kerala and Himachal Pradesh have seen deficient rainfall during this period.
- Kharif sowing has increased by 44.1% as on 10 Jul 2020 compared with last year. Sown area for both pulses and oilseeds has jumped sharply by 163% and 85% respectively. Cotton sowing too continued its upward momentum and rose by 35% compared with last year.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Legend
 Large Excess [60% or more] Excess [20% to 59%] Normal [-19% to 19%] Deficient [-59% to -20%] Large Deficient [-99% to -60%] No Rain [-100%] No Data

Source: IMD, Bank of Baroda Research. Note: Cumulative Data for 1 Jun-12 Jul 2020

Global macro developments

- US producer prices fell unexpectedly by 0.2% in Jun'20 on MoM basis, against estimates and previous month's level of 0.4% increase. This was led by fall in index for food, trade and transportation services. However, core PPI inched up to 0.3% versus 0.1% increase in May'20.
- US jobless claims fell by 99,000 to 1,314,000 for the week ending 4 Jul 2020 against 1,413,000 in the previous week. Despite improvement visible in the labour market, signs of strain remain due to surge in cases in the US (0.3 mn weekly rise) and re-imposition of lockdown restrictions in few states.
- Services activity in the US gained traction in Jun'20. ISM non-manufacturing PMI print rose to 57.1 in Jun'20 (est.: 50) from 45.4 in May'20. This jump in the reading comes after two successive months of contraction due to COVID-19. This was on the back of improved business outlook and employment scenario.
- Eurozone retail sales rebounded more than anticipated to 17.8% in May'20 from a decline of 12.1% in Apr'20 on a MoM basis. This was led by across the board jump with sharpest increase in automobile products (38.4% in May'20) and non-food products (34.5%). The bounce back signals a possible recovery as countries began to reopen and ease restrictions.
- Industrial production in Germany rose by 7.8% in May'20 on a MoM basis versus a decline of 17.5% in Apr'20. The rebound was led by capital goods production (up by 27.6%) amidst easing lockdown restrictions. Separately, Ifo production index rose to 4.3 in Jun'20 from (-) 19.5 in May'20 signalling that the economy is recovering. However, government expects GDP growth to contract by 6.3% in CY20-its lowest since WWII.
- Reserve Bank of Australia (RBA) decided to keep its policy rate unchanged at 0.25%. However, it highlighted that unprecedented monetary policy easing coupled with fiscal response is needed to emerge from the ongoing crisis. It also pointed that some green shoots of recovery are visible despite ongoing uncertainty about the health situation globally.
- China's PPI fell by 3% in Jun'20 versus estimated decline of 3.2% and 3.7% in May'20. As a sign of improvement in activity, manufacturing inflation rose by 0.4% in Jun'20 from a decline of 0.4% in May'20, driven by fiscal stimulus and higher infra spending. Separately, CPI rose by 2.5% in Jun'20 from 2.4% owing to higher food prices (mainly pork). Core inflation remains benign at 0.9% versus 1.1% in May'20.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.64	(2)	(2)	(7)	(148)
UK	0.16	(3)	(4)	(15)	(68)
Japan	0.03	0	2	1	14
Germany	(0.47)	(3)	(5)	(12)	(26)
India	5.76	(9)	(3)	(73)	(73)
China	3.03	13	26	49	(13)
2Y yields (Δ bps)					
US	0.15	0	(4)	(7)	(169)
UK	(0.11)	(3)	(6)	(15)	(70)
Japan	(0.12)	1	2	4	6
Germany	(0.69)	(1)	(4)	(7)	3
India	4.11	(5)	(33)	(113)	(207)
China**	2.13	7	15	93	(44)
Currencies (Δ %)					
EUR	1.1300	0.5	0.0	3.3	0.3
GBP	1.2622	1.1	0.2	1.3	0.4
JPY	106.93	0.5	(0.1)	1.4	0.9
AUD	0.6950	0.2	1.4	9.5	(1.0)
INR	75.21	(0.7)	0.8	1.4	(9.5)
CNY	7.0019	0.9	0.9	0.5	(1.8)
Equity & Other indices (Δ %)					
Dow	26,075	1.0	3.8	9.9	(4.6)
FTSE	6,095	(1.0)	0.3	4.3	(18.8)
DAX	12,634	0.8	5.5	19.6	2.5
NIKKEI	22,291	(0.1)	(0.8)	14.3	2.8
Shanghai Comp	3,383	7.3	15.8	21.0	15.5
SENSEX	36,594	1.6	9.1	17.4	(5.5)
Brent (US\$/bbl)	43.24	1.0	12.2	37.4	(35.2)
Gold (US\$/oz)	1,799	1.3	4.1	6.0	27.0
CRB Index	363.5	0.8	(0.9)	0.4	(10.4)
Rogers Agri Index	691.4	1.4	2.2	4.9	(8.0)
LIBOR (3M)*	0.27	(1)	(5)	(95)	(205)
INR 5Y Swap*	5.27	(1)	5	(96)	(131)
India FII data (US\$ mn)					
	9 Jul	WTD	MTD	CYTD	FYTD
FII-Debt	(202.6)	(68.0)	(53.5)	(14,335.5)	(4,576.0)
FII-Equity	450.3	150.3	(33.5)	(2,475.0)	4,128.0

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
13-Jul	India CPI, % YoY	Jun	5.3%	--	--
	China FDI CNY, % YoY	Jun	--	7.5%	--
14-Jul	Singapore GDP, % YoY	Q2CY20	(10.5%)	(0.7%)	--
	Japan industrial production, % MoM	May	--	(8.4%)	--
	UK industrial production, % MoM	May	6.0%	(20.3%)	--
	UK trade balance, £ mn	May	(635.0)	305.0	--
	Germany CPI, % YoY	Jun	0.9%	0.9%	--
	India WPI, % YoY	Jun	(2.4%)	(3.2%)	--
	Euro Area industrial production SA, % MoM	May	15.0%	(17.1%)	--
	Germany ZEW survey expectations	Jul	60.0	63.4	--
	US CPI, % MoM	Jun	0.5%	(0.1%)	--
	China exports, % YoY	Jun	(2.0%)	(3.3%)	--
15-Jul	UK CPI, % YoY	Jun	0.5%	0.5%	--
	US industrial production, % MoM	Jun	4.3%	1.4%	--
	India exports, % YoY	Jun	--	(36.5%)	--
	Bank of Japan policy rate, %	15-Jul	--	(0.10%)	--
16-Jul	China new home prices, % MoM	Jun	--	0.5%	--
	Australia unemployment rate, %	Jun	7.2%	7.1%	--
	China industrial production, % YoY	Jun	4.8%	4.4%	--
	China GDP, % YoY	Q2CY20	2.2%	(6.8%)	--
	China retail sales, % YoY	Jun	0.5%	(2.8%)	--
	China fixed assets ex rural YTD, % YoY	Jun	(3.3%)	(6.3%)	--
	France CPI, % YoY	Jun	0.1%	0.1%	--
	Bank of Indonesia policy rate, %	16-Jul	4.00%	4.25%	--
	ECB policy rate, %	16-Jul	0.00%	0.00%	--
	US retail sales advance, % MoM	Jun	5.0%	17.7%	--
17-Jul	US initial jobless claims, in mn	11-Jul	1.25	1.31	--
	Bank of Korea policy rate, %	16-Jul	0.50%	0.50%	--
	Singapore non-oil domestic exports, % YoY	Jun	8.7%	(4.5%)	--
	Italy industrial orders, % MoM	May	--	(32.2%)	--
	Euro Area CPI, % YoY	Jun	0.3%	0.1%	--
17-Jul	US housing starts, in mn	Jun	1.18	0.97	--
	US University of Michigan consumer sentiment	Jul	79.0	78.1	--

Source: Bloomberg, Bank of Baroda

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