

WEEKLY WRAP

23 March 2020

COVID-19 cases jump, so does volatility

A 3 times increase in confirmed COVID-19 cases to 152,366, drove Dow down by 17.1%. Other equity markets such as Dax and Sensex followed. DXY rose to a 3-year high with AUD and GBP falling to multi-year lows. INR too fell to lifetime low of 75.2/\$ with FII outflows of US\$ 6.3bn. India's 10Y yield fell by 6bps as RBI announced multiple liquidity infusion measures. We expect RBI to cut rates by 50bps in Apr'20 policy or earlier. Apart from this, Centre's borrowing calendar for H1FY21 is scheduled to be released.

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Markets

- Bonds:** Global yields closed mixed even as monetary easing continued. Fed's emergency rate cut and liquidity infusion measures kept its 10Y yield lower by 11bps (0.85%). Oil prices fell sharply by (-) 20% (US\$ 27/bbl) due to muted demand. India's 10Y yield fell by 6bps (6.26%) as RBI said it will buy bonds worth Rs 400bn in Mar'20 apart from injecting Rs 1tn through LTRO and US\$ 2bn through US\$ swap. System liquidity surplus was at Rs 2.2tn as on 20 Mar 2020 vs Rs 2.7tn in the previous week.
- Currency:** Global currencies trailed near multi-year lows as dollar strengthened due to a global risk-off. DXY registered its biggest weekly gain since the financial crisis and rose by 4.1% (index is now at a 3-year high). AUD fell to its lowest level in 17-years (down by 6.7%). GBP is at lowest level since Mar'85 (down by 5.3%). INR too depreciated to a lifetime low at 75.2/\$ as FII outflows continued (US\$ 6.3bn in the week).
- Equity:** Global indices closed lower as fears of a possible economic slowdown on the back of spread of COVID-19 continued to rattle markets. Dow (-17.3%) slumped the most followed by Sensex (-12.3%) and Nikkei (-10.8%). The domestic market registered its biggest weekly loss in over 10 years with banking and real estate stocks being the worst hit.
- Upcoming key events:** In the current week, markets will monitor daily increase in COVID-19 confirmed cases which increased by 152,366 in the previous week. Flash PMIs of major economies (US, Eurozone and Japan) and US durable goods orders will shed light on the extent of slowdown. On the domestic front, H1FY21 borrowing calendar will be closely watched.



India macro developments

- In an effort to boost durable liquidity to combat the impact of COVID-19, RBI has announced that it will conduct LTROs in multiple tranches at policy rate, amounting to Rs 1tn. Till now, Rs 1tn LTROs have already been issued. Further, to maintain dollar liquidity into the system, RBI has announced another US\$ sell-buy swap of US\$ 2bn. RBI has already conducted US\$ 7bn of swap in FYTD20.
- RBI's liquidity infusion measures continued. In the current week, Rs 400bn OMO purchase announcement of multi-year security ((2 year, 3 year, 6 year and 9 years) have been made. System liquidity on an average has been Rs 3tn in Mar'20, almost at the same level as in previous month.
- RBI reported that currency in circulation (CIC) increased by Rs 258.2bn and stood at Rs 23.9tn for the week ending 13 Mar 2020. Reserve money rose by 9.6% on a YoY basis, compared with 18.5% a year ago. On a FYTD basis, reserve money increased by 9.3% as against 14.3% last year.
- Centre's direct tax collections on FYTD basis reached Rs 8.6tn as of Feb'20 vs FY20RE of Rs 11.7tn. Indirect tax collections are at Rs 8.8tn compared with FY20RE of Rs 9.9tn. With business operations getting impacted in Mar'20, we expect shortfall in direct and indirect tax collections.
- As per news reports, Ministry of Finance is considering a Rs 100-200bn stimulus package to support the aviation sector. The sector has come under pressure due to the recent COVID-19 outbreak and the resulting travel restrictions imposed by several countries. Domestic travel too has fallen. Under this, the government is likely to defer payments of most taxes levied including aviation fuel tax.
- India's forex reserves fell for the first time in 6-months by US\$ 5.3bn to US\$ 481.9bn in the week ended 13 Mar 2020 from a lifetime high. This was the steepest weekly fall since Nov'11 and follows an increase of US\$ 5.7bn last week. In CYTD20, forex reserves have risen by US\$ 88.5bn vs US\$ 12.2bn last year. Despite the decline, India's import cover remains comfortable at over 10months.

Global macro developments

- The number of COVID-19 cases surged dramatically throughout the world. As on 22 Mar 2020, number of COVID-19 increased by 3 times to 318,297 as against 165,931 last week. This was led by 34,931 increase in new cases in Italy, 29,444 increase in US, 16,917 increase in Germany. China reported only 143 new cases. India on the other hand, reported 210 new cases between 15 Mar-22 Mar 2020.
- Retail sales in the US declined by (-) 0.5% in Feb'20 vs 0.6% in Jan'20, on MoM basis, driven by muted demand due to COVID-19. Sales in the control group (Sales excl. food, auto, building materials and gas stations) ; a better gauge of consumption demand remained flat. On the other hand, US industrial production rose by 0.6% in Feb'20 vs (-) 0.5% decline in Jan'20. This was on the back of sharp increase in utilities (7.1% in Feb'20 vs -4.9% in Jan'20) due to seasonality factor.
- Germany's ZEW economic sentiment index fell by 58.2 points (sharpest drop since Dec'91) to (-) 49.5 points in Mar'20. The considerable worsening of investor sentiment (similar to levels seen in CY08) is on account of global outbreak of COVID-19 and its economic impact. GDP is expected to contract in Q1 and Q2 of CY20, and the full year impact is estimated at ~100bps.
- Bank of Japan in its emergency policy meeting has announced to expand monetary stimulus to combat the impact of COVID-19. As the policy rates are already at (-) 0.1%, expanding its asset buying program through purchasing of stocks, bonds, other asset and the new credit program (1-year loan with zero rate to encourage lending) is likely to boost liquidity.
- In accordance with other major central banks to counter the impact of COVID-19, Indonesia, Taiwan (first since CY16) and Philippines have reduced policy rates to 4.5%, 1.125% and 3.25% respectively. With this, Indonesia and Philippines have now reduced rates by 50bps and 75bps respectively on a CYTD basis. Additionally, Bank of England made a second emergency rate cut to an all-time low of 0.1%.
- China's industrial production plunged by (-) 13.5% in Jan-Feb'20 vs est.: (-) 3% and 6.9% in Dec'19, led by manufacturing (-) 15.7%. General equipment manufacturing, autos, textiles and metal industries suffered the most. In addition, FAI too fell sharply to (-) 24.5% from 5.4% in CY19, retail sales also slumped to (-) 20.5% from 8% in Dec'19. The severe collapse in economic activity was driven by factory shutdowns and city lockdowns on the back of COVID-19.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.85	(11)	(72)	(107)	(159)
UK	0.56	15	(5)	(22)	(45)
Japan	0.08	3	14	7	15
Germany	(0.32)	22	9	(7)	(31)
India	6.26	(6)	(13)	(34)	(108)
China	2.69	0	(20)	(52)	(42)
2Y yields (Δ bps)					
US	0.31	(18)	(110)	(132)	(200)
UK	0.13	(16)	(40)	(41)	(53)
Japan	(0.16)	3	(1)	(7)	1
Germany	(0.68)	19	(3)	(4)	(11)
India	5.54	3	(15)	(34)	(106)
China	1.91	(6)	(32)	(68)	(49)
Currencies (Δ %)					
EUR	1.0688	(3.8)	(1.0)	(3.5)	(5.4)
GBP	1.1629	(5.3)	(10.5)	(10.5)	(12.0)
JPY	110.93	(3.1)	(1.0)	(1.4)	(0.9)
AUD	0.5785	(6.7)	(13.5)	(16.2)	(18.3)
INR	75.20	(1.7)	(5.1)	(5.7)	(9.0)
CNY	7.0960	(1.2)	(1.4)	(1.3)	(5.6)
Equity & Other indices (Δ %)					
Dow	19,174	(17.3)	(34.4)	(32.6)	(24.8)
FTSE	5,191	(3.3)	(29.7)	(31.5)	(28.0)
DAX	8,929	(3.3)	(34.7)	(33.0)	(21.4)
NIKKEI	16,553	(10.8)	(28.6)	(30.5)	(23.5)
Shanghai Comp	2,746	(4.9)	(8.0)	(8.6)	(11.6)
SENSEX	29,916	(12.3)	(26.8)	(28.2)	(21.6)
Brent (US\$/bbl)	26.98	(20.3)	(53.3)	(59.2)	(59.7)
Gold (US\$/oz)	1,499	(2.0)	(6.4)	1.4	14.1
CRB Index	374.0	(3.4)	(7.2)	(6.1)	(11.9)
Rogers Agri Index	656.6	(1.9)	(11.7)	(12.1)	(13.9)
LIBOR (3M)*	1.20	45	(50)	(74)	(141)
INR 5Y Swap*	6.20	53	(20)	(44)	(45)
India FII data (US\$ mn)					
	19 Mar	WTD	MTD	CYTD	FYTD
FII-Debt	(773.3)	(3,860.2)	(6,337.2)	(7,904.3)	(4,960.1)
FII-Equity	(610.4)	(2,418.1)	(6,237.7)	(4,450.8)	2,938.4

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
23-Mar	Thailand customs exports, % YoY	Feb	(10.9%)	3.4%	--
	Singapore CPI, % YoY	Feb	0.5%	0.8%	--
	Taiwan industrial production, % YoY	Feb	3.7%	(1.5%)	--
	Taiwan unemployment rate, %	Feb	3.8%	3.7%	--
	Hong Kong CPI composite, % YoY	Feb	1.6%	1.4%	--
	Euro Area consumer confidence	Mar	(13.0)	(6.6)	--
24-Mar	Jibun Bank Japan manufacturing PMI (flash)	Mar	--	47.8	--
	Jibun Bank Japan services PMI (flash)	Mar	--	46.8	--
	Japan machine tool orders, % YoY	Feb	--	(30.1%)	--
	Markit France manufacturing PMI (flash)	Mar	41.0	49.8	--
	Markit France services PMI (flash)	Mar	41.0	52.5	--
	Markit/BME Germany manufacturing PMI (flash)	Mar	40.0	48.0	--
	Markit Germany services PMI (flash)	Mar	43.0	52.5	--
	Markit Eurozone manufacturing PMI (flash)	Mar	39.0	49.2	--
	Markit Eurozone services PMI (flash)	Mar	40.0	52.6	--
	Markit UK PMI manufacturing SA (flash)	Mar	45.0	51.7	--
	Markit/CIPS UK services PMI (flash)	Mar	45.0	53.2	--
	Markit US manufacturing PMI (flash)	Mar	44.0	50.7	--
	Markit US services PMI (flash)	Mar	42.0	49.4	--
	US new home sales	Feb	7,50,000	7,64,000	--
25-Mar	Bank of Thailand policy rate, %	25-Mar	0.75%	0.75%	--
	Germany IFO business climate	Mar	--	87.7	--
	UK CPI, % YoY	Feb	1.7%	1.8%	--
	US durable goods orders, % MoM	Feb	(1.0%)	(0.2%)	--
26-Mar	Japan services PPI, % YoY	Feb	2.2%	2.3%	--
	Singapore industrial production, % YoY	Feb	(2.0%)	3.4%	--
	Germany GfK consumer confidence	Apr	7.7	9.8	--
	France manufacturing confidence	Mar	93.0	102.0	--
	ECB economic bulletin				
	Bank of England policy rate, %	26-Mar	0.10%	0.10%	--
	US advance goods trade balance, US\$ bn	Feb	(63.8)	(65.5)	--
	US GDP annualized, % QoQ	Q4CY19	2.1%	2.1%	--
	US initial jobless claims	21-Mar	15,00,000	2,81,000	--
27-Mar	South Korea consumer confidence	Mar	--	96.9	--
	China industrial profits YTD, % YoY	Feb	--	--	--
	US University of Michigan consumer sentiment	Mar	90.0	95.9	--
	China current account balance, US\$ bn	Q4CY19	--	40.1	--

Source: Bloomberg, Bank of Baroda

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