

## WEEKLY WRAP

18 January 2021

**India yield curve flattens**

**Global yields fell, equity markets were lower and DXY index rose as world economy battles another wave of Covid-19. US jobless claims rose and retail sales were below estimates. Oil prices fell. Commodity prices continue to rise led by China's growth at 2.3%, above estimates. Indian 2Y yield rose by 30bps after RBI mopped up Rs 2tn at cut-off of 3.55%. Notably, Covid-19 curve in India continues to flatten. Long-end yields are relatively stable and trajectory of the same will depend on fiscal deficit glide path to be released on 1 Feb.**

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**Markets**

- **Bonds:** US 10Y yield closed lower by 3bps (1.08%) as Fed Chair indicated that policy will remain accommodative. Rising Covid-19 cases meant yields were largely stable to lower globally. Oil prices too fell by 1.6% (US\$ 55/bbl). However, India's 2Y yield rose by 30bps as RBI mopped up Rs 2tn at cut-off of 3.55% thus pushing short-end yields higher. System liquidity surplus was at Rs 5.1tn as on 15 Jan 2021 versus Rs 5.6tn last week.
- **Currency:** DXY rose by 0.7% on safe-haven demand amidst resurgence in Covid-19 cases globally despite rising US jobless claims and poor retail sales. GBP rose by 0.2% in the week as BoE Governor quashed expectations of negative interest rates. INR rose by 0.2% supported by lower oil prices and FII inflows (US\$ 588mn).
- **Equity:** Barring Nikkei and Sensex, other global indices ended lower this week led by resurgence in Covid-19 cases and imposition of lockdown restrictions in many parts of the world. FTSE (2%) declined the most followed by Dax (1.9%). However, Sensex (0.5%) ended the week in green led by tech and oil & gas stocks.
- **Covid-19 tracker:** Global cases rose by 4.96mn in the week ending 15 Jan 2021 compared with 4.90mn in the previous week, led by surge in US and Europe. India added 114k cases in the week versus 127k in the earlier week.
- **Upcoming key events:** In the current week, flash global PMIs, policy decisions of ECB and BoJ and Germany's ZEW index is due. On the domestic front, news flow surrounding budget expectations and progress on vaccine will impact the markets.



## India macro developments

- RBI's FSR noted increase in GNPA of SCBs to 13.5% in base case and 14.8% under severe stress. However, it does point out that SCBs are in much better position with CRAR of 15.6% (from 14.7% as of Mar'20) and PCR of 72.4% (from 66.2%). SMA2 for large corporates shows increase of 5.5% from Sep'20, indicating higher stress.
- India's exports have risen by 10.9% (YoY) in the first two weeks of Jan'21, compared with 0.1% increase in Dec'20. This was led by pharmaceuticals, electronics and engineering goods. In the same period, imports rose by 6.6% compared with 7.6% increase in Dec'20. In FYTD21 (Apr-Dec'20), exports have fallen by 15.4% while imports have fallen by 27.9%.
- Recovery in India's industrial output hit a snag in Nov'20 as it fell by 1.9% following a 4.2% increase in Oct'20. CPI inflation too eased significantly to 4.6% in Dec'20 from 6.9% in Nov'20. This was driven by (-) 10% vegetable inflation. While the dip in CPI inflation is positive, some of it may not sustain with reversal in vegetable prices. Thus RBI will remain on hold.
- RBI reported that currency in circulation (CIC) increased by Rs 27bn and stood at Rs 27.9tn for the week ending 8 Jan 2021. Reserve money rose by 14.3% on a YoY basis, compared with 11.8% a year ago. On FYTD basis, reserve money increased by 9.8% as against 5.1% a year ago.
- India's passenger vehicles sales noticed a sharp uptick as it registered a growth of 13.6% in Dec'20 versus 4.6% in Nov'20. This is largely attributed to base effect, while transitioning to BS-VI norms. However, two-wheeler sales moderated to 7.4% in Dec'20 from 13.4% in Nov'20. Overall, auto production has risen by 5% in Dec'20 (contraction of 1% in Nov'20).
- India's forex reserves rose by US\$ 0.8bn to a record high of US\$ 586.1bn in the week ended 8 Jan 2021. Last week, forex reserves had risen by US\$ 4.5bn. In FYTD21 so far, forex reserves have risen sharply by US\$ 110.5, compared with an accretion of US\$ 49.3bn in the same period last year.

## Global macro developments

- Japan's current account surplus in Nov'20 eased to ¥1.88tn from ¥2.15tn in Oct'20. The easing was mainly on account of dip in goods trade surplus which fell to ¥0.61tn from ¥0.97tn. On the other hand, services trade deficit narrowed to ¥0.18tn from ¥0.38tn. In view of travel restrictions due to Covid-19, travel balance (indicator of tourist spending in Japan) fell by 88% YoY to surplus of only ¥27.6bn.
- China's trade growth remained robust in Dec'20 as exports rose by 18.1% compared with 21.1% pick up in Nov'20. Lockdown in Europe increased demand for medical supplies and work from home equipment and shifted consumption pattern from services to goods, thus supporting exports. China's imports too improved, rising by 6.5% from 4.5% in Nov'20. In CY20, exports were up by 3.6% while imports fell by 1.1%.
- US CPI rose by 0.4% on MoM basis in Dec'20, in line with expectation and compared with 0.2% increase in Nov'20. This was led by rise in gasoline prices (8.4% increase versus 0.4% decline in Nov'20). Core CPI however edged up by only 0.1% from 0.2% in Nov'20. On YoY basis, CPI and core rose by 1.4% and 1.6% respectively.
- Germany's GDP contracted by 5% in CY20, less than 5.2% decline estimated. This was also lower than 5.7% decline during Asian financial crisis. The decline was led by private consumption (6% drop) and exports (9.9% drop). Only GFCE growth was positive at 3.4%. Germany has fared better than other EU countries such as France and Italy, where ECB forecasts GDP to have declined by 9.3% and 9.0% respectively.
- Initial jobless claims in the US rose sharply by 181,000 from the previous week to reach 965,000 (est.: 789,000) in the week ending 9 Jan 2021. The much sharper than estimated increase has taken the claims to 5-month high led by resurgence in Covid-19 cases due to cold weather and end of holiday season. The 4-week moving average also rose by 18,250 from the previous week to reach 834,250.
- US retail sales fell by 0.7% in Dec'20 compared with 1.4% decline in Nov'20. Core sales (excl. automobiles, gasoline, building materials and food services) tumbled 1.9% from 1.1% decline in Nov'20. In a separate print, industrial production rose for the 3rd consecutive month by 1.6% from 0.5% in Nov'20, led by manufacturing and utilities.
- China's GDP in CY20 rose by 2.3% (est.: 2.1%) versus 6.1% growth in CY19. This was driven by 6.5% rise in GDP in Q4CY20 versus 4.9% rise in Q3. Further, CY20 growth was supported by 2.8% increase in industrial output, 2.9% rise in FAI and 3.6% rise in exports. Consumer spending acted as a drag as retail sales fell by 3.9%, led by 17% drop in hospitality.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	1.08	(3)	18	34	(74)
UK	0.29	0	3	11	(34)
Japan	0.04	1	4	2	4
Germany	(0.54)	(2)	7	8	(33)
India	5.95	8	6	1	(68)
China	3.15	0	(15)	(7)	6
<b>2Y yields (Δ bps)</b>					
US	0.13	0	2	(1)	(143)
UK	(0.13)	(1)	(8)	(8)	(55)
Japan	(0.11)	0	1	2	2
Germany	(0.72)	(2)	4	6	(13)
India	4.47	30	60	22	(170)
China**	2.28	0	(52)	(44)	(2)
<b>Currencies (Δ %)</b>					
EUR	1.2082	(1.1)	(0.6)	3.1	8.9
GBP	1.3590	0.2	1.0	5.2	4.4
JPY	103.85	0.1	(0.2)	1.5	5.7
AUD	0.7703	(0.7)	1.9	8.8	12.0
INR	73.07	0.2	0.8	0.4	(2.8)
CNY	6.4809	(0.1)	0.9	3.2	5.5
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	30,814	(0.9)	2.0	7.7	5.0
FTSE	6,736	(2.0)	3.4	13.8	(12.2)
DAX	13,788	(1.9)	3.2	6.8	1.9
NIKKEI	28,519	1.4	6.9	21.8	18.6
Shanghai Comp	3,566	(0.1)	5.9	6.9	16.0
SENSEX	49,035	0.5	6.0	22.6	16.9
Brent (US\$/bbl)	55.10	(1.6)	8.6	28.3	(15.0)
Gold (US\$/oz)	1,828	(1.1)	(1.4)	(3.7)	17.4
CRB Index	455.3	1.4	4.2	10.7	10.9
Rogers Agri Index	924.2	2.9	10.8	18.2	21.0
LIBOR (3M)*	0.23	0	0	1	(159)
INR 5Y Swap*	5.59	16	32	31	(119)
<b>India FII data (US\$ mn)</b>					
	<b>14 Jan</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	(45.0)	(457.4)	(428.6)	(428.6)	(4,522.2)
FII-Equity	220.4	1,045.1	2,440.3	2,440.3	32,416.1

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
18-Jan	Singapore non-oil domestic exports, % YoY	Dec	(1.1%)	(4.9%)	--
	China GDP, % YoY	Q4CY20	6.2%	4.9%	2.3%
	China industrial production, % YoY	Dec	6.9%	7.0%	7.3%
	China retail sales, % YoY	Dec	5.5%	5.0%	4.6%
	China fixed assets ex rural YTD, % YoY	Dec	3.2%	2.6%	2.9%
	Japan industrial production, % MoM	Nov	--	0.0%	--
	Italy CPI EU harmonized, % YoY	Dec	(0.3%)	(0.3%)	--
19-Jan	Germany CPI, % YoY	Dec	(0.3%)	(0.3%)	--
	Euro Area current account SA, € bn	Nov	--	26.6b	--
	Germany ZEW survey expectations	Jan	59.4	55.0	--
	Euro Area ZEW survey expectations	Jan	--	54.4	--
20-Jan	UK CPI, % YoY	Dec	0.5%	0.3%	--
	Germany PPI, % MoM	Dec	0.3%	0.2%	--
	Euro Area CPI, % YoY	Dec	(0.3%)	(0.3%)	--
21-Jan	South Korea PPI, % YoY	Dec	--	(0.3%)	--
	Japan exports, % YoY	Dec	2.4%	(4.2%)	--
	South Korea exports 20 days, % YoY	Jan	--	1.2%	--
	Australia unemployment rate, %	Dec	6.7%	6.8%	--
	France manufacturing confidence	Jan	94.0	93.0	--
	Italy industrial orders, % MoM	Nov	--	3.0%	--
	ECB policy rate, %	21-Jan	0.25%	0.25%	--
	US initial jobless claims, in thousands	16-Jan	923	965	--
	US housing starts, in mn	Dec	1.56	1.55	--
	Euro Area consumer confidence	Jan A	(15.0)	(13.9)	--
	BoJ policy rate, %	21-Jan	--	(0.1%)	--
22-Jan	Japan CPI, % YoY	Dec	(1.3%)	(0.9%)	--
	Jibun Bank Japan manufacturing PMI (flash)	Jan	--	50.0	--
	Jibun Bank Japan services PMI (flash)	Jan	--	47.7	--
	Markit France manufacturing PMI (flash)	Jan	50.5	51.1	--
	Markit France services PMI (flash)	Jan	48.5	49.1	--
	Markit/BME Germany manufacturing PMI (flash)	Jan	57.2	58.3	--
	Markit Germany services PMI (flash)	Jan	45.0	47.0	--
	Markit Eurozone manufacturing PMI (flash)	Jan	54.5	55.2	--
	Markit Eurozone services PMI (flash)	Jan	44.5	46.4	--
	Markit UK PMI manufacturing SA (flash)	Jan	53.3	57.5	--
	Markit/CIPS UK services PMI (flash)	Jan	45.0	49.4	--
	Markit US manufacturing PMI (flash)	Jan	56.5	57.1	--
	Markit US services PMI (flash)	Jan	53.4	54.8	--
	US existing home sales, in mn	Dec	6.55	6.69	--

Source: Bloomberg, Bank of Baroda

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