

## WEEKLY WRAP

20 April 2020

**Oil falls, equities recover**

**Global equity markets closed higher on the hope of successful treatment to Covid-19 to hit the markets soon enough. Yields fell as macro data points to steep slowdown with IMF warning of a sharp recession. China's Q1CY20 GDP contracted by 6.8%. India's 2Y yield fell by more than 40bps as RBI Governor indicated room for further rate cuts. We expect another 50bps rate cut as economy slows down to 1.5% in the year. We also see stimulus for MSMEs, more liquidity for impacted sectors and RBI buying government bonds.**

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**Markets**

- **Bonds:** Except Japan and China, global yields closed lower as macro data points to a steep slowdown. IMF has warned of a severe recession. US 10Y yield fell by 8bps (0.64%) as retail sales, factory output and home sales disappointed. Oil prices fell by 10.8% (US\$ 28/bbl) as OPEC projected global oil demand to drop by 6.8 mn bpd in CY20. India's 10Y yield fell by 14bps (6.35%). India's 2Y yield fell by more than 40bps as RBI Governor indicated room for further rate cuts. System liquidity surplus was at Rs 4.8tn, same as last week.
- **Currency:** Global currencies closed mixed. DXY rose by 0.3% in the week as investors fear the economic impact of the pandemic will be worse than anticipated. Rising US jobless claims and sharp drop in US retail sales and industrial orders also dented sentiment. CNY fell by 0.5% as China's GDP growth contracted by 6.8%. INR ended the week lower by 0.1% after touching a fresh record low at 76.79/\$. FPI outflows were US\$ 539mn.
- **Equity:** Apart from FTSE, other global indices closed higher in the week led by hopes of a possible vaccine for COVID-19 and as countries begin to open up their economies. Dow (2.2%) posted gains for second week in a row. Sensex (1.4%) too ended in green supported by liquidity boosting measures by RBI. Cap goods and metal stocks gained the most.
- **Upcoming key events:** Markets will track COVID-19 cases. Pace of increase has moderated to 564k this week from 599k last week. Apart from this, flash PMI readings of major economies (US, Eurozone and Japan) are scheduled to be released. On the domestic front, markets will await fresh stimulus from government to combat the crisis.



## India macro developments

- Government has notified the list of activities to be permitted from 20 Apr 2020. Focus is on targeted economic activities especially rural infra projects- such as roads, housing which will deploy around 2mn workers. Disaster Management Act can also be invoked if the activities are not resumed. Removal of restrictions in these sectors along with relaxation for agriculture activities is likely to provide some impetus to growth.
- IMF has sharply revised downward India's growth projection to 1.9% in FY21 from 5.8% projected in Jan'20. The report has highlighted that India and China are likely to report positive growth while other economies may contract in CY20/FY21. Global growth is also expected to contract by (-) 3% in CY20-the outcome can be worse than CY08 financial crisis.
- India's exports fell steeply in Mar'20 by 34.6% versus an increase of 2.9% in Feb'20. Apart from domestic lockdown, sharp reduction in global demand also contributed to the decline. Imports too plunged by 28.7% in Mar'20 versus an increase of 2.5% in Feb'20. Non-oil-non-gold imports fell by 30.5% registering the biggest decline on record as the COVID-19 restrictions kicked-in. We expect trade deficit to be even lower in FY21.
- Government has granted relaxation to certain sectors from 20 Apr to revive the economy. Focus has been on health, rural economy especially agriculture, MSME, construction and infra. States with a high share in agriculture such as MP, Punjab, AP and UP will benefit. Separately, IMD has forecasted a normal southwest monsoon (100% of LPA+/-5%).
- Government has set record foodgrain production target at 298.3mn tonnes for 2020-21 compared to 291.95mn tonnes last year. Rice and wheat production have been almost equal to last year's estimate of 117.5 and 106.5 mn tonnes respectively. With the forecast of normal monsoon and relaxation of lockdown on agriculture sector, some revival is expected in the near term.
- CPI moderated to a 4-month low of 5.9% in Mar'20 led by food inflation. Within food, vegetables and protein based items such as milk, eggs and fish noted considerable deceleration. Core was stable at 4.1%. Given the expected dip in discretionary demand, core inflation is likely to remain muted.
- RBI reported that currency in circulation (CIC) increased by Rs 298.7bn and stood at Rs 24.8tn for the week ending 10 Apr 2020. Reserve money rose by 8% on a YoY basis, compared with 15.2% a year ago. On a FYTD basis, reserve money declined by 2.2% as against 1% last year.

## Global macro developments

- COVID-19 cases increased globally to 2.4mn as of 19 Apr 2020, the pace of increase has slowed gradually. On a weekly basis, new cases in US rose the most by 0.2mn, followed by France at 42,272 and Spain at 31,843. Globally, US has the maximum number of cases at 759,467. In India, the number of cases rose to 17,312 as of 20 Apr 2020 vs 10,453 last week.
- China's exports fell by 6.6% in Mar'20 vs est.: 14% and 17.2% in Jan-Feb'20, while its imports declined by only 0.9% vs est.: 9.5% and 4% in Jan-Feb'20. China's exports got a boost as domestic economic activity resumed, even as other manufacturing hubs were shut down. However, it faces headwinds from weak global demand in the coming months. To support growth, PBOC has cut MLF rate by 20bps to 2.95%.
- Industrial production in the US contracted by 5.4% in Mar'20 vs 0.5% increase seen in Feb'20 on a MoM basis. The worst print since 1946 shows the impact of partial lockdown. Within this, manufacturing activity fell by 6.3%. Production of business equipment fell the most (8.6%) followed by consumer goods (5.9%) and construction (5.8%).
- China's GDP growth contracted by 6.8% in Q1CY20 versus estimated decline of 6.5% and 6% rise in Q4CY19. The worst print since CY76 was due to business shutdowns on account of Lunar New Year holidays and COVID-19 outbreak. Separately, industrial production fell by 1.1% in Mar'20 versus 13.5% decline in Jan-Feb'20, while retail sales were down by 15.8% versus 20.5% decline for the same period.
- Initial jobless claims in the US eased to 5.2mn for the week ending 11 Apr 2020, compared to 6.6mn in the previous week. The 4-week moving average rose sharply to 5.5mn from 4.3mn last week. Over the last one month 22mn jobless claims have been filed in total. Separately, retail sales plunged by 8.7% in Mar'20 on a MoM basis versus 0.4% in Feb'20. Apart from grocery and health stores and e-commerce, all other saw sharp decline in sales. Sales of clothing, furniture, sports accessories, motor vehicle & parts and restaurants fell the most.
- Japan's industrial production fell by 0.3% in Feb'20 versus 1.9% rise in Jan'20. Within this, manufacturing output declined by 0.2% versus 2% increase in Jan'20. The decline was led by machinery industry (3.2%) and auto sector (4.7%). Survey results indicate that manufacturing output is expected to decline by 5.3% in Mar'20, before rising by 7.5% in Apr'20.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	0.64	(8)	(44)	(118)	(192)
UK	0.30	0	(25)	(33)	(89)
Japan	0.03	1	1	2	6
Germany	(0.47)	(13)	(4)	(26)	(50)
India	6.35	(14)	8	(28)	(107)
China	2.55	1	(17)	(54)	(83)
<b>2Y yields (Δ bps)</b>					
US	0.20	(2)	(29)	(136)	(218)
UK	0.09	5	(23)	(33)	(68)
Japan	(0.12)	4	5	1	3
Germany	(0.68)	(6)	16	(9)	(11)
India	4.82	(42)	(79)	(135)	(187)
China	1.22	2	(74)	(108)	(146)
<b>Currencies (Δ %)</b>					
EUR	1.0875	(0.6)	(1.1)	(2.0)	(3.3)
GBP	1.2499	0.4	3.7	(4.0)	(3.8)
JPY	107.54	0.9	0.1	2.4	3.9
AUD	0.6366	0.3	6.1	(7.5)	(11.0)
INR	76.38	(0.1)	(2.9)	(7.5)	(10.1)
CNY	7.0737	(0.5)	(1.0)	(3.1)	(5.5)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	24,242	2.2	14.2	(17.4)	(8.7)
FTSE	5,787	(1.0)	9.3	(24.6)	(22.4)
DAX	10,626	0.6	18.9	(21.4)	(13.1)
NIKKEI	19,897	2.0	17.0	(17.2)	(10.4)
Shanghai Comp	2,838	1.5	2.1	(7.7)	(13.2)
SENSEX	31,589	1.4	3.3	(24.7)	(19.3)
Brent (US\$/bbl)	28.08	(10.8)	(2.3)	(56.7)	(61.0)
Gold (US\$/oz)	1,683	(0.8)	10.1	8.1	31.9
CRB Index	350.8	(3.1)	(7.0)	(14.6)	(17.5)
Rogers Agri Index	645.6	(2.1)	(0.9)	(15.5)	(13.0)
LIBOR (3M)*	1.14	(8)	8	(68)	(145)
INR 5Y Swap*	5.57	(66)	(9)	(121)	(111)
<b>India FII data (US\$ mn)</b>					
	<b>16 Apr</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	(162.8)	(181.3)	(933.1)	(10,692.6)	(933.1)
FII-Equity	(337.6)	(357.6)	0.4	(6,602.5)	0.4

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
20-Apr	Japan exports, % YoY	Mar	(9.4%)	(1.0%)	--
	Germany PPI, % MoM	Mar	(0.7%)	(0.4%)	--
	Italy current account balance, € mn	Feb	--	(209.0)	--
	Euro Area current account balance SA, € bn	Feb	--	34.7	--
21-Apr	RBA minutes of april policy meeting				
	UK jobless claims change	Mar	--	17,300.0	--
	Japan machine tool orders, % YoY	Mar	--	(40.8%)	--
	Germany ZEW survey expectations	Apr	(42.0)	(49.5)	--
	US existing home sales, in mn	Mar	5.3	5.8	--
22-Apr	South Korea PPI, % YoY	Mar	--	0.7%	--
	UK CPI, % YoY	Mar	1.5%	1.7%	--
	France business confidence	Apr	80.0	95.0	--
	Italy industrial orders, % MoM	Feb	--	1.2%	--
	Euro Area consumer confidence	Apr	(20.0)	(11.6)	--
23-Apr	South Korea GDP, % YoY	Q1CY20	0.7%	2.3%	--
	Jibun Bank Japan manufacturing PMI (flash)	Apr	--	44.8	--
	Jibun Bank Japan services PMI (flash)	Apr	--	33.8	--
	Germany GfK consumer confidence	May	(1.7)	2.7	--
	Markit France manufacturing PMI (flash)	Apr	37.5	43.2	--
	Markit France Services PMI	Apr	25.0	27.4	--
	Markit/BME Germany manufacturing PMI (flash)	Apr	39.0	45.4	--
	Markit Germany services PMI (flash)	Apr	28.1	31.7	--
	Markit Eurozone manufacturing PMI (flash)	Apr	38.0	44.5	--
	Markit Eurozone services PMI (flash)	Apr	23.0	26.4	--
	Markit UK PMI Manufacturing SA	Apr	42.0	47.8	--
	Markit/CIPS UK services PMI (flash)	Apr	28.5	34.5	--
	US initial jobless claims, in mn	18-Apr	4.5	5.2	--
	Markit US manufacturing PMI (flash)	Apr	38.0	48.5	--
	Markit US services PMI (flash)	Apr	31.3	39.8	--
US new home sales	Mar	64,400.0	76,500.0	--	
24-Apr	Japan CPI, % YoY	Mar	0.4%	0.4%	--
	Singapore industrial production, % YoY	Mar	(4.8%)	(1.1%)	--
	Germany IFO business climate	Apr	79.9	86.1	--
	US durable goods orders, %	Mar	(12.0%)	1.2%	--
	US University of Mich. sentiment	Apr	68.0	71.0	--

Source: Bloomberg, Bank of Baroda

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