

WEEKLY WRAP

28 December 2020

Year ends with conclusive deals

The year ended with a Brexit deal and US President signing a US\$ 900bn stimulus. GBP ended the week higher. US\$ was stronger as well. Global yields and equities were softer on concerns over economic impact of new Covid-19 strain. On the domestic front, RBI continued its special OMO of another Rs 100bn. Indian equity markets were also flat as FPI inflows slowed down. In the coming week, India's current account, fiscal and core industries data will be released. RBI will publish much awaited Financial Stability Report.

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Markets

- **Bonds:** US 10Y yield fell by 2bps (0.92%). However, in the current week it will be supported by stimulus deal signed by President. UK 10Y yield rose by 1bps (0.26%) and would inch up further due to finalisation of trade deal between UK and EU. Crude prices fell by 1.9% (US \$ 51/bbl). India's 10Y yield closed flat at 5.96%. System liquidity surplus was at Rs 5.1tn as on 24 Dec 2020, same as in the previous week.
- **Currency:** Global currencies closed mixed with EUR falling the most (0.6%) and GBP (0.3%) gaining the most led by developments around Brexit trade deal. DXY rose by 0.3% as global currencies were impacted by new Covid-19 strain. INR ended flat despite dip in crude prices (1.9%) and foreign inflows of US\$ 220mn.
- **Equity:** Barring Dow and Sensex (flat), other global indices ended the week lower on the back of escalated concerns over new strain of Covid-19 virus leading to extended lockdowns. Amongst other indices, Shanghai Comp (0.9%) declined the most, followed by both FTSE and Nikkei falling by 0.4% each. Sensex ended flat with oil & gas stocks slipping the most.
- **Covid-19 tracker:** Global cases rose by 4mn in the week ending 27 Dec 2020 compared with 4.6mn in the previous week, led by US and Europe. India added 157k cases this week compared with 174k in earlier week.
- **Upcoming key events:** In current week, retail sales data of Germany and manufacturing PMI of China will be released. In addition, US pending home sales and jobless claims are also awaited. On the domestic front, infrastructure index, fiscal, external account and RBI's FSR is awaited.



India macro developments

- EPFO's payroll data for Oct'20 showed that net additions eased to 0.72mn from 1.11mn in Sep'20. This is in line with CMIE's data, which had previously shown that unemployment rate had risen to 7% in Oct'20 from 6.7% in Sep'20. In Nov'20 as unemployment rate was down to 6.5% we can expect pick up in EPFO data as well. In FYTD21 so far, net additions to subscriber base stand at 4.3mn (down 40%) versus 7.2mn in FYTD20.
- India's crude oil production slipped to 2.49mn tonne in Nov'20 (4.9% drop) compared with 2.61mn tonne in Nov'19. Production by state owned ONGC and Oil India was much lower than anticipated and was down by 1.5% and 6.5% in Nov'20 compared with last year. Natural gas output too fell by 9% in the same period. On a FYTD basis, India's oil and natural gas output declined by 7.5% and 11.8% respectively, compared with last year.
- RBI reported that currency in circulation (CIC) declined by Rs 329bn and stood at Rs 27.7tn for the week ending 18 Dec 2020. Reserve money rose by 14.8% on a YoY basis, compared with 13.2% a year ago. On FYTD basis, reserve money increased by 10.3% as against 5% a year ago.
- As per CMIE data, labour market scenario in India remained weak. Unemployment rate (30-day moving average) edged up to 9.6% as on 23 Dec 2020 compared with 8.2% in the previous week. This was led by sharp jump in rural unemployment rate (10% from 8.1%). Even urban unemployment rate rose to 8.8% from 8.4% in the previous week.
- India's forex reserves rose by US\$ 2.6bn to a record high of US\$ 581.1bn in the week ended 18 Dec 2020. Last week, forex reserves had declined by US\$ 0.8bn. In FYTD21, forex reserves have increased by US\$ 105.6bn compared with an accretion of US\$ 43bn in the same period last year.
- As per news reports, between Jan-Sep'20, 78 resolution plans has been approved by bankruptcy courts. This is the highest number approved by NCLT since the inception of Insolvency and Bankruptcy Code (IBC). Out of this 78, 36 plans were approved between Q1CY20, 20 between Q2CY20 and 22 between Q3CY20. However, the ongoing pandemic and recent amendments may delay the process.

Global macro developments

- Retail sales in Australia rose sharply by 7% in Nov'20 (est., 2% rise) MoM compared with a 1.4% increase in Oct'20. This was attributed to a steep 21% increase in retail sales in the state of Victoria as lockdown restrictions were eased. Household goods retailing also rose by 13%, buoyed by Black Friday sales and new product launches in electronics.
- As per flash estimates, Euro Area's consumer confidence index improved moderately to (-) 13.9 in Dec'20 from (-) 17.6 in Nov'20. Even for EU as whole, the consumer confidence index rose to (-) 15.3 in Dec'20 from (-) 18.7 in Nov'20. However, these estimates are still far below the long-term average of (-) 11.2 (Euro Area) and (-) 10.7 (EU).
- US existing home sales declined by 2.5% in Nov'20 on MoM basis versus 4.3% increase seen in Oct'20. This is the first monthly decline in 5-months and supply of homes in Nov'20 was the lowest on record since CY82. Separately, consumer confidence index also fell to 88.6 in Dec'20 from 92.9 in Nov'20. US Q3CY20 GDP print on the other hand was revised marginally upward to 33.4% from 33.1% estimated earlier.
- Germany's GfK consumer sentiment fell for the third straight month to (-) 7.3 in Jan'21 from (-) 6.8 in Dec'20. This was due to an increase in propensity to save as stricter restrictions were put in place amidst a second wave of Covid-19 infections. Further, while income expectations dipped, economic expectations noted an increase.
- US new home sales declined by 11% in Nov'20 on MoM basis to 841,000 units compared with 999,000 units in Oct'20. This is the lowest level since Jun'20. On the positive side, new orders for US manufactured goods rose for the 7th straight month by 0.9% in Nov'20 versus 1.8% in Oct'20. Core capital goods order, proxy for business investment also rose by 0.4% in Nov'20. Separately, jobless claims for the week ended 19 Dec 2020 fell by 89,000 to 803,000 (est., 885,000).
- Japan's factory output remained flat in Nov'20 after rising for five consecutive months. This was led by declining output of motor vehicles and plastic products, offsetting higher production of machinery and iron & steel output. Ministry expects the output will decline by 1.1% in Dec'20 and rebound sharply by 7.1% in Jan'21.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.92	(2)	4	27	(95)
UK	0.26	1	(2)	7	(50)
Japan	0.02	1	(1)	1	2
Germany	(0.55)	2	4	(2)	(29)
India	5.96	0	9	(8)	(55)
China	3.23	(7)	(7)	10	10
2Y yields (Δ bps)					
US	0.12	0	(4)	(1)	(146)
UK	(0.12)	(4)	(8)	(6)	(69)
Japan	(0.12)	0	2	3	0
Germany	(0.71)	2	5	0	(7)
India	3.89	1	(2)	(56)	(194)
China**	2.66	(7)	(29)	6	37
Currencies (Δ %)					
EUR	1.2187	(0.6)	2.3	4.8	9.0
GBP	1.3558	0.3	1.5	6.4	3.7
JPY	103.65	(0.3)	0.6	1.8	5.3
AUD	0.7597	(0.3)	3.2	8.1	8.8
INR	73.55	0	0.5	0.1	(3.1)
CNY	6.5300	0.2	0.7	4.3	6.7
Equity & Other indices (Δ %)					
Dow	30,200	0.1	1.1	11.1	5.4
FTSE	6,502	(0.4)	2.2	11.3	(14.9)
DAX	13,587	(0.3)	2.3	9.0	1.9
NIKKEI	26,668	(0.4)	0.5	14.9	11.9
Shanghai Comp	3,363	(0.9)	(0.2)	4.5	11.9
SENSEX	46,974	0	6.1	25.6	13.0
Brent (US\$/bbl)	51.29	(1.9)	7.3	22.4	(24.8)
Gold (US\$/oz)	1,883	0.1	3.7	1.2	24.7
CRB Index	440.6	0.6	3.2	9.2	9.9
Rogers Agri Index	863.4	1.6	4.6	16.0	14.1
LIBOR (3M)*	0.24	0	2	2	(170)
INR 5Y Swap*	5.26	(7)	5	(22)	(148)
India FII data (US\$ mn)					
	23 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	(144.1)	(313.8)	449.8	(14,169.4)	(4,409.9)
FII-Equity	94.8	533.9	6,450.7	22,556.4	29,159.3

Source: Bloomberg, Bank of Baroda | *Indicates change in bps | **1Y yield | Dax was closed on 24.12.2020

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
28-Dec	Japan industrial production, % MoM	Nov	1.1%	4.0%	0.0%
	Spain retail sales, % YoY	Nov	(5.3%)	(2.4%)	--
	Hong Kong, exports, % YoY	Nov	1.8%	(1.1%)	--
	US Dallas Fed manufacturing activity	Dec	10.2	12.0	--
	Germany retail sales, % MoM	Nov	(2.0%)	2.6%	--
29-Dec	Bank of Austria manufacturing PMI	Dec	--	51.7	--
	Poland retail sales, % YoY	Nov	--	(0.7%)	--
	US S&P corelogic CS 20-city index, NSA	Oct	--	232.5	--
	Philippines bank lending, % YoY	Nov	--	2.1%	--
30-Dec	S.Korea business manufacturing survey	Jan	--	81.0	--
	S.Korea industrial production, % YoY	Nov	(0.5%)	(2.2%)	--
	UK nationwide house price, % MoM	Dec	0.4%	0.9%	--
	Thailand exports, % YoY	Nov	--	(5.6%)	--
	Spain CPI, % YoY	Dec	(0.6%)	(0.8%)	--
	US wholesale inventories, % MoM	Nov	0.7%	1.1%	--
	US advance goods trade balance, US\$ bn	Nov	(81.5)	(80.3)	--
	US pending home sales, % MoM	Nov	0.1%	(1.1%)	--
31-Dec	S.Korea CPI, % YoY	Dec	0.5%	0.6%	--
	China manufacturing PMI	Dec	52.0	52.1	--
	China non-manufacturing PMI	Dec	56.4	56.4	--
	India fiscal deficit, Rs crore	Nov	--	39,161.0	--
	India eight infrastructure industries, % YoY	Nov	--	(2.5%)	--
	US initial jobless claims, in thousands	26-Dec	830.0	803.0	--
	India BoP current account balance, US\$ bn	Q2FY21	14.3	19.8	--
1-Jan	S.Korea exports, % YoY	Dec	5.4%	4.1%	--
	Italy budget balance, EUR bn	Dec	--	(17.5)	--

Source: Bloomberg, Bank of Baroda

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