

WEEKLY WRAP

03 August 2020

RBI decision to guide markets

US yields and US\$ fell in the week after a steep contraction in US GDP, falling consumer confidence and Fed's prediction of weak economic recovery. On the other hand, 10Y yield in China rose as PMI shows economy is recovering from the pandemic. India's manufacturing PMI data for Jul'20 at 46 versus 47.2 in Jun'20 confirmed that economic activity has plateaued. This poses a dilemma for RBI to keep rates on hold as inflation is above its tolerance band or cut to spur growth. We expect 25bps reduction this week.

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Markets

- **Bonds:** While 10Y yield rose in China by 11bps, it fell by 6bps in US. Even German yields closed lower. US GDP contracted by 32.9%, consumer confidence fell and durable goods order shrunk. US Fed reiterated that growth will be much lower than pre-COVID levels. Chinese PMI is indicating that economy is again expanding. Oil prices were more or less flat at US\$ 43/bbl. India's 10Y yield rose by 1bps (5.84%). System liquidity surplus was higher at Rs 3.8tn as on 31 Jul 2020 compared with Rs 3tn in the previous week.
- **Currency:** Except INR (flat), other global currencies closed higher against the dollar. DXY fell by 1.1% in the week and is expected to decline further as US economy is likely to take time to recover from the pandemic. EUR on the other hand rose by 1% on the back of EU stimulus and posted its biggest jump in a decade in Jul'20 (5.8%). Equity FII inflows into India continued the upward trajectory at US\$ 180mn in the week.
- **Equity:** Barring Shanghai Comp, other global indices ended lower in the week led by anticipation of weaker than expected recovery due to rising COVID-19 cases. Nikkei (4.6%) declined the most followed by FTSE and Dax. Sensex (1.3%) too snapped its 6- week winning streak and ended in red as the investors shifted focus to RBI's policy meet. It was dragged lower by banking and oil and gas stocks.
- **Upcoming key events:** In current week, markets will await manufacturing and services PMI data of major economies. Apart from this, US jobs report, policy decision of BoE and RBA and China's trade data will be key. On the domestic front, India's PMIs and RBI policy will be released.



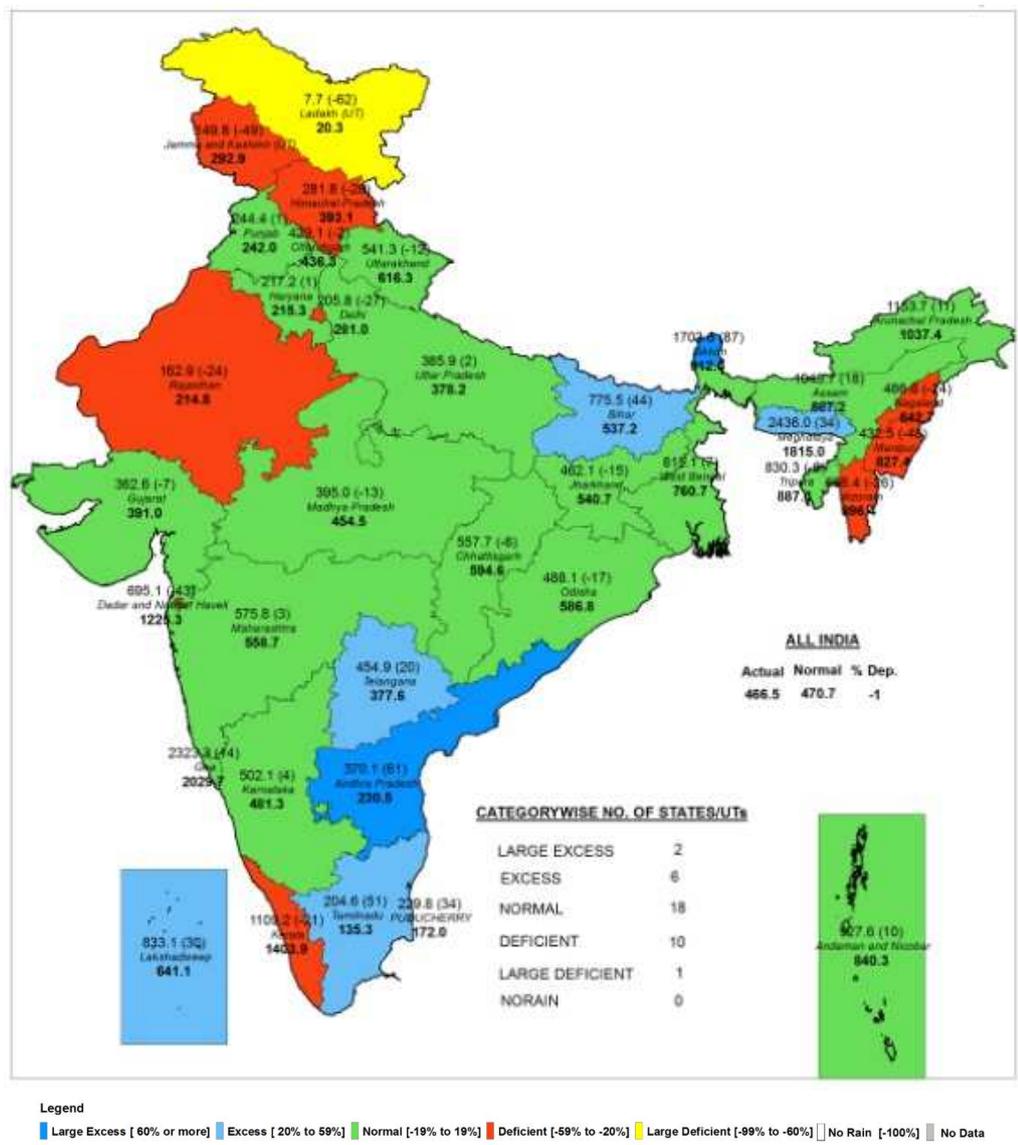
India macro developments

- As per news reports, cabinet has given approval for disinvestment in 22-23 PSUs to meet FY21 target of Rs 2.1tn. Of this, Rs 1.2 is expected to come from disinvestment in PSUs and Rs 900bn from stake sale in financial institutions. In FYTD21 so far, no disinvestments have taken place as against Rs 23.6bn fetched last year (Apr-Jul'19).
- According to news reports, railway freight reported its first YoY increase (0.3%) in FY21 on 27 Jul 2020. Freight handled rose to 3.13mn ton (mt) versus 3.12mt last year. The improvement was led by coal, iron ore, cement and food grains. In FYTD21 (Apr-27 Jul), freight volume has dropped by 18% to 322.7mt.
- RBI reported that currency in circulation (CIC) declined by Rs 48bn and stood at Rs 26.7tn for the week ending 24 Jul 2020. Reserve money rose by 14.7% on a YoY basis, compared with 12.9% a year ago. On a FYTD basis, reserve money increased by 4.8% as against a decrease of 0.1% last year.
- Centre's net tax revenue growth remained weak in Q1FY21 with 47.3% drop versus 6.4% increase seen in the same period last year. Direct tax collections fell by 30.6% against 9.7% increase last year while indirect tax collections were down by 34.1% versus 3.9% decline last year. Spending growth remained robust at 13% versus 2% Q1FY20, led by 40% increase in capex and 10.5% increase in revenue spending.
- In order to boost domestic manufacturing and reduce the dependency on inbound shipments of non-essential items in India, government has imposed restrictions on imports of colour televisions. This is expected to result in backward integration with investments in better assembly lines and component production. Annual turnover of TV market in India is ~ Rs 250bn with ~Rs 70bn being imported and China having over 60-65% share in these imports.
- GST collections for Jun'20 was recorded at Rs 874bn, down from Rs 909bn for May'20. The dip was on account of fall in adjusted SGST to Rs 400bn from Rs 562bn in May'20. CGST on the other hand rose to Rs 302bn from Rs 190bn in May'20. In Q1FY21, total GST collections are at Rs 2.4tn versus Rs 3tn in Q1FY20. The loss is mainly borne by the centre with collections at Rs 550bn versus Rs 1.7tn last year.
- India's eight core index contracted for the 4th straight month, albeit at a slower pace by 15% in Jun'20 from 22% in May'20. With the gradual reopening of the economy, marginal recovery was seen in refinery products (8.9% from 21.3% in May'20), electricity production (11% from 14.8% in May'20) and cement output (6.9% from 21.4%).

Monsoon tracker

- For the period 1 Jun 2020 to 2 Aug 2020, monsoon is (-1%) below LPA compared with (-) 9% last year. While central and North Eastern region of the country continue to receive normal rainfall, states like Bihar, Andhra Pradesh, Telangana and Tamil Nadu are receiving heavy rainfall. On the other hand, Gujarat, Kerala and parts of J&K have received deficient rainfall.
- Overall Kharif sowing is higher by 13.9% compared with last year. The improvement is largely led by higher sowing for pulses (19.3%), rice (19%) and foodgrains (15.3%). Sown area of oilseeds and cotton is higher by 16.8% and 11.3% respectively.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun-2 Aug 2020

Global macro developments

- Germany's business sentiment improved as IFO index rose to 90.5 in Jul'20 higher than estimate of 89.3 and last month's print of 86.2. Both the current situation (84.5 versus 81.3 in Jun'20) and expectation index pointed (97 versus 91.4 in Jun'20) towards recovery amidst easing lockdown restrictions.
- US durable goods orders rose by 7.3% in Jun'20 from 15.1% in May'20 on a MoM basis. The moderation was still higher than consensus estimates and shows early signs of recovery. This was led by sharp jump in orders for motor vehicles (86% in Jun'20 from 29% in May'20). Excluding defence and transportation, core orders rose by 3.3% in Jun'20 (1.6% in May'20)
- US consumer sentiment index fell to 72.5 compared with flash estimate reading of 73.2 and against 78.1 in Jun'20. Both the current and future conditions indices continued to decline showing pessimism on account of rising COVID-19 cases and impact on consumer spending.
- Australia's CPI fell by 1.9% in Q2CY20 versus an increase of 0.3% in Q1 on a QoQ basis. This was the sharpest fall in 72 years and was led by drop in prices of free child care and petroleum. On a YoY basis too, CPI declined for the first time since CY98 by 0.3% (2% increase in Q1), much below RBA's target.
- US Fed kept policy rate unchanged (0-0.25%). It further stated that economic activity and employment conditions are improving, but remain far below pre-COVID levels. The statement added that 'the path of the economy will depend significantly on the course of the virus'. Lending facilities have been extended till Dec'20 (Sep'20 earlier) and dollar liquidity swap lines and temporary repo operations through Mar'21.
- Japan's retail sales fell by 1.2% in Jun'20 on a YoY basis versus est. 6.5% decline and 12.5% drop in May'20. The slower than anticipated dip was supported by higher spending on machinery and equipment (15.9%) and food (3%). On the other hand, weakness in sales of general merchandise (-11.2%) and motor vehicles (-17.2%) acted as a drag on the headline figure.
- US GDP contracted by 32.9% in Q2CY20, worst ever contraction since the Great Depression and against 5% drop in Q1CY20. This was led by 34.6% decline in personal consumption expenditure against 6.9% decline in Q1. Investment demand also declined sharply by 49% from 9% drop in Q1. Exports contracted by 64% against 9.5% fall in Q1.
- China's manufacturing PMI improved marginally to 51.1 in Jul'20 from 50.9 in Jun'20, indicating steady growth in activity. This was driven by higher new orders (51.5), particularly supported by domestic orders. On the other hand, non-manufacturing eased to 54.2 in Jul'20 from 54.4 in Jun'20, led by services (53.1 versus 53.4).

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.53	(6)	(13)	(11)	(132)
UK	0.10	(4)	(7)	(13)	(45)
Japan	0.02	0	(1)	5	18
Germany	(0.52)	(8)	(7)	6	(3)
India	5.84	1	(5)	(27)	(51)
China	2.98	11	13	46	(13)
2Y yields (Δ bps)					
US	0.11	(4)	(4)	(9)	(161)
UK	(0.07)	2	2	(8)	(51)
Japan	(0.12)	1	1	5	8
Germany	(0.71)	(6)	(3)	5	8
India	4.19	2	(2)	(36)	(176)
China**	2.25	(2)	14	113	(30)
Currencies (Δ %)					
EUR	1.1778	1.0	4.8	7.5	6.0
GBP	1.3085	2.3	5.5	3.9	7.6
JPY	105.83	0.3	1.9	1.3	0.7
AUD	0.7143	0.5	3.5	9.7	5.0
INR	74.81	0	0.9	0.4	(7.5)
CNY	6.9752	0.6	1.3	1.2	(0.5)
Equity & Other indices (Δ %)					
Dow	26,428	(0.2)	2.4	8.6	(0.2)
FTSE	5,898	(3.7)	(4.4)	(0.1)	(20.4)
DAX	12,313	(4.1)	0	13.4	3.7
NIKKEI	21,710	(4.6)	(2.6)	7.5	3.0
Shanghai Comp	3,310	3.5	10.9	15.7	15.4
SENSEX	37,607	(1.4)	7.7	11.5	1.3
Brent (US\$/bbl)	43.30	(0.1)	5.2	71.3	(30.0)
Gold (US\$/oz)	1,976	3.9	10.9	17.2	37.1
CRB Index	377.7	1.1	4.9	6.9	(5.6)
Rogers Agri Index	699.5	0.8	3.6	6.8	(1.6)
LIBOR (3M)*	0.25	0	(5)	(31)	(199)
INR 5Y Swap*	5.14	(9)	(14)	(8)	(142)
India FII data (US\$ mn)					
	30 Jul	WTD	MTD	CYTD	FYTD
FII-Debt	(94.1)	(149.6)	(328.5)	(14,610.5)	(4,851.0)
FII-Equity	190.0	180.9	1,275.7	(1,165.8)	5,437.2

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
03-Aug	Japan GDP, SA, % QoQ (final)	Q2CY20	(0.7%)	(0.6%)	--
	Japan Jibun Bank manufacturing PMI (final)	Jul	--	42.6	--
	China Caixin manufacturing PMI	Jul	51.1	51.2	--
	Indonesia CPI, % YoY	Jul	1.7%	2.0%	--
	Markit India manufacturing PMI	Jul	--	47.2	--
	Markit France manufacturing PMI (final)	Jul	52.0	52.0	--
	Markit/BME Germany manufacturing PMI (final)	Jul	50.0	50.0	--
	Markit Eurozone manufacturing PMI (final)	Jul	51.1	51.1	--
	Markit UK PMI manufacturing, SA (final)	Jul	53.6	53.6	--
	US ISM manufacturing index	Jul	53.6	52.6	--
04-Aug	S.Korea CPI, % YoY	Jul	0.4%	0.0%	--
	Australia trade balance, AUD mn	Jun	8,800	8,025	--
	RBA cash rate target	04-Aug	0.3%	0.3%	--
	Euro Area PPI, % YoY	Jun	(3.9%)	(5.0%)	--
	US factory orders, % MoM	Jun	5.0%	8.0%	--
05-Aug	Japan Jibun bank services PMI (final)	Jul	--	45.2	--
	Caixin China services PMI	Jul	57.9	58.4	--
	Indonesia GDP, % YoY	Q2CY20	(4.6%)	3.0%	--
	Markit India services PMI	Jul	--	33.7	--
	BoT benchmark interest rate	05-Aug	0.5%	0.5%	--
	Markit France services PMI (final)	Jul	57.8	57.8	--
	Markit Germany services PMI (final)	Jul	56.7	56.7	--
	Markit Eurozone services PMI (final)	Jul	55.1	55.1	--
	Markit/CIPS UK services PMI (final)	Jul	56.6	56.6	--
	US ADP employment change, in thousands	Jul	1,200	2,369	--
06-Aug	US trade balance, \$bn	Jun	(50.3)	(54.6)	--
	US ISM non-manufacturing index	Jul	55.0	57.1	--
	Philippines GDP, % YoY	Q2CY20	(9.2%)	(0.2%)	--
	Germany factory orders, % MoM	Jun	12.0%	10.4%	--
	RBI repurchase rate	06-Aug	3.8%	4.0%	--
07-Aug	Italy industrial production, % MoM	Jun	9.0%	42.1%	--
	Bank of England bank rate	06-Aug	0.1%	0.1%	--
	US initial jobless claims, in thousands	01-Aug	1,450	1,434	--
	RBA statement on monetary policy	--	--	--	--
	Germany exports, SA, % MoM	Jun	--	9.0%	--
	Germany industrial production, SA, % MoM	Jun	8.3%	7.8%	--
	Taiwan exports, % YoY	Jul	0.2%	(3.8%)	--
US change in nonfarm payrolls, in thousands	Jul	1,510	4,800	--	
US unemployment rate	Jul	10.5%	11.1%	--	
China exports, % YoY	Jul	(1.2%)	0.5%	--	

Source: Bloomberg, Bank of Baroda

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