WEEKLY WRAP

11 May 2020

India steps up borrowing for stimulus

Sameer Narang | Sonal Badhan
chief.economist@bankofbaroda.com

Global yields steepened with US unemployment rate increasing to 14.7% and disappointing US factory and Germany's exports data. However, oil prices jumped 17% in the week as restrictions are being gradually eased. Global equity market markets (ex-Sensex) also responded positively. In India, yields increased after Centre announced 50% increase in its borrowing for FY21 which has pushed yields up. We expect state borrowings to also increase, leading to consolidated fiscal deficit of 10% of GDP in FY21.

Markets

- **Bonds:** Global short-end yields closed lower as macro data print remained dismal in US, Eurozone and UK. Long-end yields were mixed amidst relaxation of lockdown restrictions. US 10Y yield rose by 7bps (0.68%). Oil prices also rose by 17% (US$ 31/bbl). Despite this, India's 10Y yield fell by 14bps (5.97%) but is trading 20bps higher today due to 50% increase in centre's borrowing plan in FY21. System liquidity surplus was at Rs 5.4tn as on 8 May 2020 as against Rs 6tn in the previous week.

- **Currency:** Except AUD and JPY, other global currencies closed lower as economic data remained bleak. DXY and JPY rose by 0.7% and 0.2% respectively in the week. EUR depreciated by 1.3% as macro data prints (PMIs and retail sales) disappointed. AUD rose by 1.8% supported by easing economic restrictions. INR depreciated by 0.6% led by FII outflows.

- **Equity:** Barring Sensex, other global indices ended the week higher surrounded by optimism over improved US-China relations and graded reopening of global economies. FTSE (3%) surged the most followed by Nikkei (2.9%) and Dow (2.6%). However, Sensex (6.2%) ended in red as investors await announcement on second fiscal stimulus package. It was dragged down by consumer durables and banking stocks.

- **Upcoming key events:** In the data heavy week, markets will closely watch data from China (industrial production, FAI, PPI, CPI), US (CPI, jobless claims and retail sales) and Q1 GDP prints of Eurozone and UK. On the domestic front, CPI, IIP WPI, trade data and details of government's fiscal stimulus package are awaited.

India macro developments

- India's manufacturing PMI reading fell sharply to 27.4 in Apr'20 compared with 51.8 in Mar'20. This was on the back of steep decline in new orders in the past two and a half years. Widespread business closures and muted demand conditions contributed to this plunge. Input cost and employment scenario also remained muted.
- Government has hiked excise duty on petrol and diesel by Rs 10 (additional excise duty: Rs 8+ SAD: Rs 2) & Rs 13 (additional excise duty: Rs 8+ SAD: Rs 5) respectively. This has been in the wake of falling crude prices (53% in CYTD20). News reports suggest for every Re 1 hike in excise duty on petrol and diesel government's tax revenue will increase by Rs 140bn.
- RBI reported that currency in circulation (CIC) increased by Rs 122bn and stood at Rs 25.3tn for the week ending 1 May 2020. Reserve money rose by 10% on a YoY basis, compared with 14.2% a year ago. On a FYTD basis, reserve money increased by 1.2% as against 0.6% last year.
- Centre has revised its borrowing to Rs 12tn in FY21 from Rs 7.8tn earlier. Now borrowing in H1 and H2 is split in half at Rs 6tn each compared with Rs 4.88tn and Rs 2.92tn earlier. Issuance pattern is skewed towards 10Y and above bucket at 38% (Rs 2.28tn) versus 35% (Rs 1.48tn) in H1FY20. We thus expect a similar increase in the fiscal deficit from FY21BE of 3.5% of GDP to 5.5% of GDP. States too would require additional borrowing in FY21, thus consolidated fiscal deficit is estimated to be 10% of GDP.
- As per news reports, centre has released Rs 218bn or 35% of the budget outlay under MGNREGS. The average daily release of funds till 10 May 2020 was also higher at Rs 5.4bn, against Rs 2bn in FY20 and Rs 1.7bn in FY19. However, an average of 11.72 days of employment has been provided so far in the current fiscal as against 48.39 days of work in FY20, due to COVID-19 related disruption.
- India's forex reserves rose by US$ 1.6bn to US$ 481.1bn in the week ended 1 May 2020 compared with a decline of US$ 0.1bn last week. In CYTD20, forex reserves have risen by US$ 23.6bn, lower compared with an accretion of US$ 25.3bn last year.

Global macro developments

- With the imposition of lockdown to curtail the outbreak of COVID-19, US factory orders declined to an all-time low in this series to 10.3% in Mar'20 from an increase of 0.2% in Feb'20. Inventories in factories (0.8% from 0.4% in Feb'20) and shipment of manufactured goods (5.2% from 0.3% in Feb'20) also contracted during this period. Both durables and non-durables orders also declined by 14.7% and 5.8% respectively in Mar'20.
- US non-manufacturing ISM index for Apr'20 dropped to 41.8 (est.: 37.8) from 52.5 in Mar'20. The lowest print since Dec'09 comes against the backdrop of COVID-19 related lockdown in the country. The decline was led by sharp fall in new business activity, new orders and employment. Sectors hit the most include: recreation & entertainment, agriculture and related activities, retail trade and construction.
- RBA left its policy rate unchanged at 0.25%, a record low while maintaining its commitment to keep 3Y bond yield at 0.25%. It also reiterated that policy rate will remain low until employment and growth conditions improve. RBA estimates GDP growth to contract by 10% in H1CY20 and by 6% in CY20 before bouncing back to 6% in CY21. Unemployment rate is also expected to surge to 10% this year.
- China's exports rose by 3.5% in Apr'20 versus est.: 11% decline and 6.6% decline in Mar'20. Imports were however down by 14.2% in Apr'20 versus est.: 10% decline and 0.9% decline in Mar'20. While sharp dip in imports can be attributed to weak domestic demand and lower commodity prices, surprise gains in exports was on the back of exporters fulfilling previous orders of electronic products post lockdown. PMIs indicate new export orders are scarce, thus exports are expected to take a hit going forward.
- Bank of England (BoE) in its latest meeting kept policy rate unchanged at 0.1%. It also announced to continue with the £ 200bn quantitative easing program, bringing total bond-buying program to £ 645bn. BoE expects growth to fall steeply by 14% in CY20-sharpest annual downturn since 1706. CPI print is also expected to fall below its targeted 2% in CY20.
- US nonfarm employment fell to its lowest since 1939 by 20.5mn in Apr'20 (est.: 21mn) and against 0.7mn in Mar'19. Unemployment rate rose sharply to 14.7% (4.4% in Mar'20). COVID-19 driven economic loss was visible in part-time layoffs. The biggest hit was the leisure and hospitality industry.
- Germany's exports fell by 7.9% in Mar'20 on a YoY basis vs 0.3% increase in Feb'20. With lockdowns in place in most of the European countries in Mar'20, exports to Eurozone fell the most (11%) compared with rest of the world (4.3%). Imports too declined by 4.5% versus 2.8% dip in Feb'20.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.68	7	(9)	(90)	(176)
UK	0.24	(1)	(15)	(34)	(89)
Japan	0	2	(3)	4	5
Germany	(0.54)	5	(23)	(15)	(49)
India	5.97	(14)	(47)	(47)	(143)
China	2.61	9	13	(20)	(70)
2Y yields (Δ bps)					
US	0.16	(3)	(10)	(124)	(210)
UK	(0.01)	(5)	(12)	(50)	(74)
Japan	(0.15)	(1)	(5)	(1)	0
Germany	(0.78)	(2)	(18)	(14)	(15)
India	4.37	(19)	(96)	(140)	(237)
China**	1.19	7	(4)	(104)	(141)
Currencies (Δ %)					
EUR	1.0839	(1.3)	(0.2)	(1.0)	(3.4)
GBP	1.2410	(0.8)	0.2	(3.7)	(4.6)
JPY	106.65	0.2	2.0	2.8	2.8
AUD	0.6532	1.8	4.8	(2.1)	(6.5)
INR	75.55	(0.6)	1.0	(5.8)	(8.0)
CNY	7.0742	(0.2)	(0.1)	(1.0)	(3.6)
Equity & Other indices (Δ %)					
Dow	24,331	2.6	3.8	(16.4)	(5.8)
FTSE	5,936	3.0	4.5	(20.5)	(17.6)
DAX	10,904	0.4	5.5	(19.3)	(8.9)
NIKKEI	20,179	2.9	4.3	(15.3)	(5.7)
Shanghai Comp	2,895	1.2	2.8	0.7	1.6
SENSEX	31,643	(6.2)	5.8	(23.1)	(15.8)
Brent (US$/bbl)	30.97	17.1	(5.7)	(43.1)	(56.0)
Gold (US$/oz)	1,703	0.1	3.4	8.4	32.6
CRB Index	360.9	2.2	(0.5)	(10.2)	(12.5)
Rogers Agri Index	660.3	1.0	0.8	(10.6)	(5.9)
LIBOR (3M)*	0.43	(11)	(88)	(130)	(210)
INR 5Y Swap*	5.24	2	(78)	(121)	(186)
India FII data (US$ mn)	**5 May**	**WTD**	**MTD**	**CYTD**	**FY20**
FII-Debt	(7.7)	(46.6)	(46.6)	(11,390.3)	(1,630.8)
FII-Equity	(42.9)	(166.1)	(166.1)	(6,799.6)	(196.7)

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
11-May	Italy industrial production, % MoM	Mar	(20.0%)	(1.2%)	--
	China FDI, % YoY	Apr	--	(14.1%)	--
12-May	China PPI, % YoY	Apr	(2.5%)	(1.5%)	--
	China CPI, % YoY	Apr	3.7%	4.3%	--
	India CPI, % YoY	Apr	5.9%	5.9%	--
	India industrial production, % YoY	Mar	(8.9%)	4.5%	--
	US CPI, % MoM	Apr	(0.8%)	(0.4%)	--
13-May	South Korea unemployment rate SA, %	Apr	4.1%	3.8%	--
	Japan current account balance, ¥ tn	Mar	2.0	3.2	--
	RBNZ official cash rate, %	13-May	0.25%	--	--
	UK industrial production, % MoM	Mar	(5.5%)	0.1%	--
	UK GDP, % QoQ	1Q P	(2.5%)	0.0%	--
	Euro Area industrial production SA, % MoM	Mar	(12.0%)	(0.1%)	--
	US PPI final demand, % MoM	Apr	(0.5%)	(0.2%)	--
14-May	Australia unemployment rate, %	Apr	8.3%	5.2%	--
	Germany CPI, % YoY	Apr F	0.8%	0.8%	--
	India WPI, % YoY	Apr	0.2%	1.0%	--
	US initial jobless claims, in mn	09-May	2.5	3.2	--
15-May	Japan PPI, % YoY	Apr	(1.4%)	(0.4%)	--
	China industrial production, % YoY	Apr	1.5%	(1.1%)	--
	China retail sales, % YoY	Apr	(6.0%)	(15.8%)	--
	China fixed assets ex rural YTD, % YoY	Apr	(10.0%)	(16.1%)	--
	Germany PPI, % YoY	Apr	--	(0.8%)	--
	Germany GDP SA, % QoQ	1Q P	(2.3%)	0.0%	--
	France CPI, % YoY	Apr F	0.4%	0.4%	--
	Hong Kong GDP, % YoY	1Q F	(8.9%)	(8.9%)	--
	Euro Area GDP SA, % QoQ	1Q P	(3.8%)	(3.8%)	--
	US retail sales advance, % MoM	Apr	(11.7%)	(8.7%)	--
	Us industrial production, % MoM	Apr	(12.0%)	(5.4%)	--
	India trade balance, US$ bn	Apr	(6.0)	(9.8)	--

Source: Bloomberg, Bank of Baroda

Disclaimer

Visit us at **www.bankofbaroda.in**

For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com