

WEEKLY WRAP

12 April 2021

Second wave a risk to recovery

Rising global Covid-19 infections pose a risk to global recovery. Israel, US and UK are leading global vaccination drive. Services PMIs moved higher in US, China and Eurozone thus driving global yields higher. Indian yields were lower on account of lower oil prices and RBI's GSAP-1 announcement. INR also fell by 2.2%. India's PMI data moderated. RBI kept the policy rate on hold and will remain accommodative till such time growth does not pick-up on durable basis. We believe reverse repo rate hike will have to wait for H2FY22.

Sameer Narang | Jahnavi

chief.economist@bankofbaroda.com

Markets

- **Bonds:** Except Germany and China, global 10Y yields closed lower. US 10Y yield fell by 6bps (1.66%) as Fed Chair signalled no rate hike. Crude prices fell by 2.9% (US \$ 63/bbl) due to muted demand. India's 10Y yield fell the most by 15bps (6.02%) supported by RBI's decision to conduct GSAP-1 of Rs 1tn in Q1FY22. System liquidity surplus swelled to Rs 6.2tn as on 9 Apr 2021 against Rs 4.6tn in the previous week.
- **Currency:** Except GBP and INR (lower), global currencies closed higher. DXY fell by 0.9% in-line with dip in US 10Y yield. EUR rose by 1.2% as services activity showed recovery. INR depreciated sharply by 2.2% to trade near its lowest since Jul'20, amidst a spike in Covid-19 cases. FII outflows were US\$ 187mn.
- **Equity:** Global indices ended mixed with US and Europe closing in green and Asian stocks ending in red. Dovish comments from Fed Chair helped boost sentiment in US and Europe. Sensex fell by 0.9% amidst spike in Covid-19 infections. It was dragged down by banking and power stocks.
- **Covid-19 tracker:** Global cases rose by 4.6mn for the current week versus 4.1mn in the previous week led by India, Germany and France. India added 0.9mn cases in the week versus 0.5mn WoW. Israel has vaccinated 61% of its population, UK at 47% and US at 35%. India is at 6.4%.
- **Upcoming key events:** Globally, Macro prints from US (CPI, industrial production retail sales) and China (exports, GDP, FAI) will be in key focus. Also, rate decisions of BoK and RBNZ are due. In India, CPI, WPI and industrial production data along with Covid-19 infections will be tracked.



India macro developments

- As per news reports, combined capex of 37 large CPSEs were at Rs 4.6tn in FY21, which is 92% of the budgeted target and also 4.3% higher than FY20. NHAI's capex roll was the highest at Rs 1.25tn (110% of targeted level), followed by railways at Rs 1.24tn (78% of target). This is likely to crowd-in private investment and kick start the growth cycle.
- Government is likely to increase the FDI limit in pension sector to 74% from 49% currently. In the Union Budget for FY22, government had raised FDI limit for insurance sector. In FYTD21 so far, FDI inflows have risen to US\$ 51.5bn versus US\$ 36.8bn in the same period last year. It is expected that the enhanced limit will boost FDI inflows further.
- India's services PMI eased to 54.6 in Mar'21 from 55.3 in Feb'21 as rising Covid-19 cases impacted services activity. However the index remained in the expansion zone for the 6th consecutive month. New orders rose, albeit at a slower pace. However, new orders from abroad declined for the 13th straight month. Further, while input cost inflation rose sharply, selling prices rose only marginally.
- MPC kept repo rate on hold but removed time specific stance guidance in favour of one contingent on reviving growth. RBI also announced Rs 1tn of asset purchase in Q1 (Rs 3.13tn in FY21). Growth forecast for FY22 was maintained at 10.5%. At the same time, inflation in FY22/ FY23 is projected at 5%/ 4.7%.
- As per Insolvency and Bankruptcy Board of India's data (IBBI), 1481 of 1717 pending cases (86% of corporate insolvency cases) have been extended beyond 270 days. Since Dec'16, 4139 cases have commenced, with around 1126 cases going for liquidation, most of which were from pre IBC days. Recently, government has also introduced the pre-packaged resolution mechanism for stressed MSMEs under this framework.
- IMF has upgraded India's growth forecast to 12.5% in FY22 from 11.5% projected earlier. In FY21, GDP growth is estimated to have contracted by 8%. Growth forecast for other major economies has also been upgraded led by US at 6.4% in CY21 (+1.3%). China's GDP growth is estimated at 8.4% in CY21 (+0.3%). Overall, global GDP growth is estimated at 6% in CY21 (+0.5%) after contracting by 3.3% in CY20.
- India's manufacturing PMI fell to a 7-month low of 55.4 in Mar'21 from 57.5 in Feb'21. However, it still remained in expansion (above the 50-mark). Production, new orders and input buying expanded at a softer pace. Employment scenario remained bleak due to Covid-19 restrictions. Input cost inflation rose at its strongest pace in past three years.

Global macro developments

- Germany's exports moderated to 0.9% in Feb'21 after an increase of 1.6% in Jan'21. Imports on the other hand rose by 3.6% from a decline of 3.5% in Jan'21. Exports to UK fell sharply by 12.2% in Feb'21 amidst lockdown restrictions. Separately, industrial output contracted by 1.6% in Feb'21 versus a dip of 2% in Jan'21. Apart from consumer goods (up by 0.2%), production of other goods contracted in Feb'21.
- US jobless claims continued to increase for the 2nd consecutive week by 16,000 to 7,44,000 (est: 6,80,000) for the week ending 3 Apr 2021. Thus employment scenario remained bleak. The 4-week moving average also rose by 2,500 to 723,750, from its previous week's level.
- US Fed minutes noted that economic activity is reviving and inflation is seeing a pickup. However, it pointed out that there would be some time until substantial progress towards Fed's goal of maximum employment and inflation at 2% can be achieved. FOMC members also highlighted that changes in the path of policy should be based primarily on observed outcomes, thus signalling no raising of rates in the near term.
- Germany's factory orders rose for the 2nd straight month in Feb'21 by 1.2% (MoM) compared with 0.8% in Jan'21. This was led by domestic orders which rose by 4%, while foreign orders fell by 0.8%. Further while new orders for capital goods (2.1%) and intermediate goods (0.5%) rose in Feb'21, new orders for consumer goods declined by 1.9%.
- China's Caixin services PMI rose to 54.3 in Mar'21 from 51.5 in Feb'21. Both new orders and sales improved sharply and backlog of work rose for the 1st time in 5 months. New orders rose to 3 month high supported by domestic orders. New export orders fell slightly. Employment remained steady while operating expenses rose with input cost rising. Business confidence in Mar'21 jumped to its highest since Feb'11.
- US ISM services PMI rose for 10th month in a row to a record high of 63.7 in Mar'21 from 55.3 in Feb'21. Business activity and employment index too inched up. Price index also increased at a faster pace in Mar'21 on the back of higher demand and growing optimism. Separately, US factory orders declined by 0.8% in Feb'21 compared with an increase of 2.7% in Jan'21 on a MoM basis led by fall in machinery, computers and electronic orders.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.66	(6)	12	54	94
UK	0.77	(2)	4	49	47
Japan	0.11	(2)	1	8	9
Germany	(0.30)	3	3	22	4
India	6.02	(15)	(19)	14	(47)
China	3.21	1	(4)	6	67
2Y yields (Δ bps)					
US	0.15	(3)	2	2	(7)
UK	0.05	(3)	(3)	17	1
Japan	(0.12)	(1)	(1)	(0)	4
Germany	(0.70)	1	(1)	(0)	(8)
India	4.56	(10)	(31)	40	(68)
China**	2.50	(2)	(9)	21	130
Currencies (Δ %)					
EUR	1.1899	1.2	(0.7)	(2.6)	8.8
GBP	1.3707	(0.9)	(2.0)	1.0	10.1
JPY	109.67	0.9	(1.1)	(5.5)	(1.1)
AUD	0.7623	0.2	(2.1)	(1.7)	20.1
INR	74.75	(2.2)	(2.5)	(2.1)	2.0
CNY	6.5526	0.2	(0.9)	(1.2)	6.9
Equity & Other indices (Δ %)					
Dow	33,801	2.0	4.0	8.7	42.5
FTSE	6,916	2.6	2.7	0.6	18.4
DAX	15,234	0.8	4.6	8.4	44.2
NIKKEI	29,768	(0.3)	1.9	5.8	53.9
Shanghai Comp	3,451	(1.0)	0.4	(3.3)	22.1
SENSEX	49,591	(0.9)	(2.8)	1.7	59.2
Brent (US\$/bbl)	62.95	(2.9)	(9.6)	12.4	100.0
Gold (US\$/oz)	1,744	0.9	1.2	(5.7)	3.6
CRB Index	511.2	1.2	2.5	13.9	41.2
Rogers Agri Index	965.1	2.6	(0.6)	7.5	46.4
LIBOR (3M)*	0.19	(1)	0	(4)	(103)
INR 5Y Swap*	5.66	(18)	(33)	23	(37)
India FII data (US\$ mn)					
	8 Apr	WTD	Mar-21	CYTD	FY21
FII-Debt	12.0	(312.7)	(312.7)	(2,340.0)	(312.7)
FII-Equity	280.2	125.6	125.6	7,451.9	125.6

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
12-Apr	Japan PPI, % YoY	Mar	0.5%	(0.7%)	1.0%
	Japan machine tool orders, % YoY	Mar	--	36.7%	--
	Euro Area retail sales, % MoM	Feb	1.7%	(5.9%)	--
	India CPI, % YoY	Mar	5.4%	5.0%	--
	India IIP, % YoY	Feb	(3.0%)	(1.6%)	--
	US monthly budget statement, US\$ bn	Mar	(658.0)	(310.9)	--
13-Apr	UK industrial production, % MoM	Feb	0.5%	(1.5%)	--
	Italy industrial production, % MoM	Feb	0.7%	1.0%	--
	Germany ZEW survey expectations	Apr	79.0	76.6	--
	US CPI, % MoM	Mar	0.5%	0.4%	--
	China exports, % YoY	Mar	38.0%	18.1%	--
14-Apr	South Korea unemployment rate SA, %	Mar	3.9%	4.0%	--
	Japan core machine orders, % MoM	Feb	2.5%	(4.5%)	--
	Singapore GDP, % YoY	Q1CY21	(0.5%)	(2.4%)	--
	RBNZ official cash rate, %	01-Apr	0.3%	0.3%	--
	Euro Area industrial production SA, % MoM	Feb	(1.2%)	0.8%	--
15-Apr	Australia unemployment rate, %	Mar	5.7%	5.8%	--
	Germany CPI, % YoY	Mar	1.7%	1.7%	--
	India WPI, % YoY	Mar	6.2%	4.2%	--
	France CPI, % YoY	Mar	1.1%	1.1%	--
	India exports, % YoY	Mar	--	0.7%	--
	US initial jobless claims, in thousands	15-Apr	700.0	744.0	--
	US retail sales, % MoM	Mar	5.5%	(3.0%)	--
	US industrial production, % MoM	Mar	2.5%	(2.2%)	--
BoK 7-day repo rate, %	15-Apr	0.5%	0.5%	--	
16-Apr	Singapore non-oil domestic exports, % YoY	Mar	3.0%	4.2%	--
	China GDP, % YoY	Q1CY21	18.5%	6.5%	--
	China fixed assets ex rural YTD, % YoY	Mar	26.0%	35.0%	--
	China retail sales, % YoY	Mar	28.0%	--	--
	China industrial production, % YoY	Mar	18.0%	--	--
	Euro Area CPI, % YoY	Mar	1.3%	0.9%	--
	US housing starts, in thousands	Mar	1,600.0	1,421.0	--

Source: Bloomberg, Bank of Baroda

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.in



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com