

WEEKLY WRAP

14 September 2020

Indian yields rise on inflation and fiscal concerns

Global recovery gained steam led by higher exports by China and Taiwan. Industrial production in Italy and UK also improved. US 10Y yield closed lower as jobless claims increased. Brexit stalemate pushed GBP and UK 10Y yields lower. ECB kept rates on hold and shrugged-off an exchange rate target. This week, US Fed, BoE and BoJ policy meet will be in focus. India's 10Y yield rose by 11bps on concerns over higher inflation and fiscal deficit. Inflation data and parliament session will drive domestic markets.

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Markets

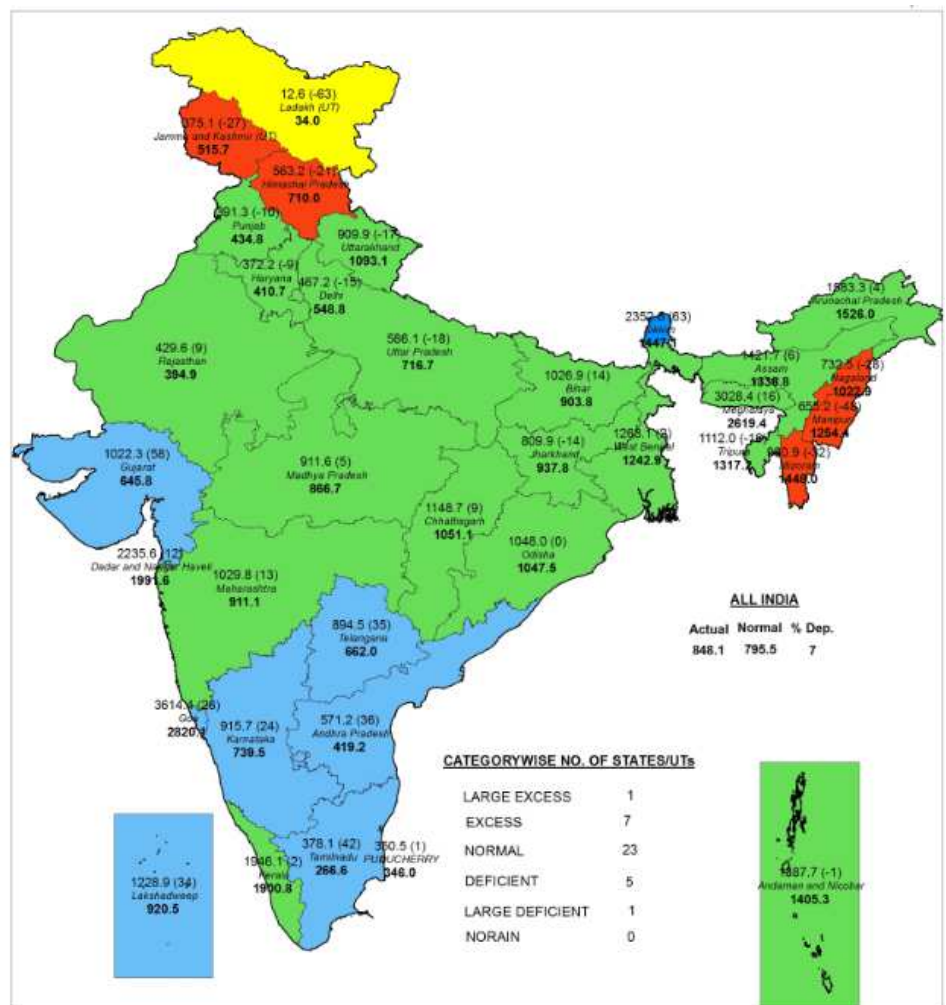
- **Bonds:** Long end yields in China inched up by 2bps (3.15%) supported by higher exports. In UK, 10Y yield fell the most by 8bps (0.18%) over growing discord between EU and UK over the Internal Market Bill. US 10Y yield fell by 5bps (0.67%) over strain in the employment scenario. Oil prices fell by 6.6% (US\$ 40/bbl) due to rising US inventory. India's 10Y yield rose the most by 11bps (6.04%) amidst growing fiscal and inflationary concerns. System liquidity surplus was lower at Rs 3.6tn as on 11 Sep 2020 compared with Rs 4.1tn in the previous week.
- **Currency:** Global currencies closed mixed. DXY recovered and rose by 0.7% on hopes of an economic recovery. GBP depreciated by 3.6% in the week amidst lack of progress on Brexit trade deal between EU and UK. EUR rose by 0.1% as ECB Chair noted that the bank does not target exchange rate. INR depreciated by 0.5% even as oil prices fell sharply. FII inflows were US\$ 61mn.
- **Equity:** Barring Dow and Shanghai Comp, global indices ended higher on hopes of resumption of trials of COVID-19 vaccine. European indices closed higher with FTSE (4%) leading the gains. Dow declined (1.7%) for the second straight week, led by steep fall in tech stocks. On other hand, Sensex rose by 1.3% in the week supported by oil and gas stocks.
- **Upcoming key events:** In the current week, markets keenly await rate decisions by Central Banks of US, UK, Japan, Indonesia and Taiwan. In addition, industrial production data of China, US and Eurozone will also be released. On the domestic front, CPI, WPI, trade data and parliamentary proceedings in context of fiscal numbers will be closely watched.



Monsoon tracker

- For the period 1 Jun 2020 to 13 Sep 2020, monsoon is 7% above LPA compared with 3% last year. While large part of Central and North Eastern region of the country continue to receive normal rainfall, states like Gujarat, Sikkim, Telangana, Andhra Pradesh and Tamil Nadu have been receiving heavy rainfall. On the other hand, parts of J&K, Nagaland, Mizoram and Manipur have received deficient rainfall.
- Overall Kharif sowing improved by 5.7% as on 11 Sep 2020 compared with last year. This was led by higher acreage of oilseeds (10.4%), rice (7.6%) and foodgrains (5.4%). Sowing area of cotton as well as jute & mesta have also improved by 2.1% and 1.6% respectively.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun-13 Sep 2020

India macro developments

- RBI has released the KV Kamath Committee report on resolution framework for COVID-19 related stress. It has identified 26 sectors such as power, construction, iron and steel. These sectors will require restructuring based on the performance of 5 major financial parameters- total outside liability/adjusted tangible net worth, total debt/EBIDTA, current ratio, debt service coverage ratio, average debt service coverage ratio. Sector specific thresholds have also been recommended.
- As per news reports, government is planning to sell about 15-20% of its stake in IRCTC in FY21 through OFS route in tranches. Previously, stake sale of 12.6% had fetched Rs 6.45bn to the government. In a separate report, Cabinet Committee on Economic Affairs (CCEA) has approved asset monetisation of subsidiaries of Power Grid Corporation of India Ltd (PGCIL) through InvIT which would help them to garner Rs 70bn.
- As per news reports, government has released Rs 103bn to developers, for expediting infrastructure projects amidst COVID-19. This comes under the simplified payment process of the Atmanirbhar Bharat scheme. Another Rs 25bn is also due to be released. For HAM/BOT contracts, relief of Rs 35bn through performance guarantee has been provided.
- RBI reported that currency in circulation (CIC) increased by Rs 68bn and stood at Rs 26.8tn for the week ending 4 Sep 2020. Reserve money rose by 15.4% on a YoY basis compared with 13.5% a year ago. On a FYTD basis, reserve money increased by 6.1% as against 0.6% last year.
- RBI purchased a record US\$ 16bn in Jul'20 (net) in the spot market versus net purchase of US\$ 9.8bn in Jun'20. In FYTD21, RBI purchased US\$ 29bn in spot market versus purchase of US\$ 9.8bn in FYTD20. In the forwards market, RBI sold US\$ 2.8bn versus purchase of US\$ 4.4bn in Jun'20. Separately, India's forex reserves rose to a lifetime high at US\$ 541.4bn in the week ended 28 Aug 2020.
- Government has constituted a three-member expert committee for assessment of relief to bank borrowers. It will look into the impact of waiving of interest and interest on interest pertaining to COVID-19 related moratorium. It will also put forward suggestions on mitigating financial constraints.

Global macro developments

- Japan's Q2CY20 GDP has been revised down to a decline of 7.9% from 7.8% estimated earlier. On an annualised basis, GDP contracted by 28.1% versus 27.8% estimated earlier. The revision was on account of private non-residential investment and government consumption, which have fallen by 4.7% and 0.6% respectively, versus 1.5% and 0.3% drop estimated earlier.
- Germany's industrial production rose by 1.2% in Jul'20 on a MoM basis versus 9.3% increase in Jun'20. Energy and construction output declined by 0.6% and 4.3% respectively. However, production ex-energy and construction inched up by 2.8%, led by intermediate goods at 4% and capital goods at 2.1%.
- China's PPI fell by 2% in Aug'20 (est.: 1.9% decline) from 2.4% drop in Jul'20. The slower pace of contraction was supported by inching up of international commodity prices, pick up in construction activities and higher export demand. Separately, CPI eased to 2.4% in Aug'20 from 2.7% in Jul'20, due to lower food prices (11.2% versus 13.2%). Muted domestic demand kept core inflation unchanged at 0.5% in Aug'20.
- Germany's export growth declined by 11% in Jul'20 versus 9.4% drop in Jun'20. Owing to COVID-19 pandemic, exports to US were hit the most (17% decline) followed by exports to UK (12.6% decline). Exports to China were down by only 0.1%. Domestic demand also remained muted with imports falling by 11.3% in Jul'20 versus 10% decline in Jun'20.
- ECB has kept the policy rates and ongoing stimulus program (PEPP) of € 1,350bn unchanged. In view of macro data available since the last policy meet in Jul'20, the Council estimates domestic demand in the Eurozone has rebounded strongly. It thus revised its GDP forecast upward with contraction estimated at 8% in CY20 versus 8.7% projected earlier. Growth in CY21 and CY22 is expected at 5% and 3.2% respectively.
- US PPI rose by 0.3% in Aug'20 (MoM) versus est.: 0.2% and 0.6% increase in Jul'20. Positive growth for the second consecutive month in Aug'20 was driven by higher price pressures in trade, transportation and warehousing. On the other hand, energy prices eased significantly. Core PPI remained unchanged from last month at 0.3% in Aug'20.
- Both headline and core CPI in the US rose by 0.4% (MoM) in Aug'20 following a 0.6% increase in Jul'20. Within core CPI, 40% of the increase was attributed to sharp rise in prices of used cars and trucks. Rent, recreational activities, household furnishings and apparels also contributed to higher inflation. On YoY basis CPI was up by 1.3% versus 1% in Jul'20.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.67	(5)	(6)	(4)	(123)
UK	0.18	(8)	(6)	(3)	(58)
Japan	0.03	(1)	(1)	1	18
Germany	(0.48)	(1)	(7)	(4)	(3)
India	6.04	11	18	24	(60)
China	3.15	2	19	39	6
2Y yields (Δ bps)					
US	0.13	(2)	(4)	(7)	(167)
UK	(0.13)	(5)	(12)	(9)	(70)
Japan	(0.12)	(1)	(1)	2	12
Germany	(0.69)	1	(5)	(2)	1
India	4.48	14	24	6	(124)
China**	2.60	1	35	63	7
Currencies (Δ %)					
EUR	1.1846	0.1	0.3	5.2	7.0
GBP	1.2796	(3.6)	(2.1)	2.0	2.4
JPY	106.16	0.1	0.7	1.1	1.8
AUD	0.7284	0	1.9	6.1	5.9
INR	73.54	(0.5)	1.7	3.0	(3.7)
CNY	6.8344	0.1	1.6	3.5	3.5
Equity & Other indices (Δ %)					
Dow	27,666	(1.7)	(0.8)	8.0	1.6
FTSE	6,032	4.0	(2.5)	(1.2)	(18.1)
DAX	13,203	2.8	1.6	10.5	5.9
NIKKEI	23,406	0.9	0.7	4.9	6.4
Shanghai Comp	3,260	(2.8)	(1.8)	11.7	7.9
SENSEX	38,855	1.3	1.4	15.0	3.9
Brent (US\$/bbl)	39.83	(6.6)	(11.4)	2.8	(33.9)
Gold (US\$/oz)	1,941	0.3	(0.7)	12.1	30.4
CRB Index	399.2	0.2	5.0	9.1	3.8
Rogers Agri Index	741.8	0.8	4.8	10.1	5.9
LIBOR (3M)*	0.25	0	(3)	(7)	(189)
INR 5Y Swap*	5.58	4	31	36	(73)
India FII data (US\$ mn)					
	10 Sep	WTD	MTD	CYTD	FYTD
FII-Debt	2.3	64.2	223.9	(14,866.1)	(5,106.6)
FII-Equity	125.4	(3.2)	(155.2)	4,652.1	11,255.1

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
14-Sep	China new home prices, % MoM	Aug	--	0.5%	0.6%
	Japan industrial production, % MoM	Jul	--	8.0%	--
	India WPI, % YoY	Aug	(0.4%)	(0.6%)	--
	Euro Area industrial production SA, % MoM	Jul	4.2%	9.1%	--
	India CPI, % YoY	Aug	6.9%	6.9%	--
15-Sep	RBA minutes of sep. policy meeting				
	China industrial production, % YoY	Aug	5.1%	4.8%	--
	China retail sales, % YoY	Aug	0.0%	(1.1%)	--
	China fixed assets ex rural YTD, % YoY	Aug	(0.4%)	(1.6%)	--
	UK ILO unemployment rate 3mths, %	Jul	4.1%	3.9%	--
	France CPI, % YoY	Aug	0.2%	0.2%	--
	Germany ZEW survey expectations	Sep	69.5	71.5	--
	US industrial production, % MoM	Aug	1.0%	3.0%	--
	India exports, % YoY	Aug	--	(10.2%)	--
16-Sep	Japan exports, % YoY	Aug	(16.1%)	(19.2%)	--
	UK CPI, % YoY	Aug	0.0%	1.0%	--
	Euro Area trade balance SA, € bn	Jul	18.7	17.1	--
	US retail sales advance, % MoM	Aug	1.0%	1.2%	--
	US FOMC rate decision, %	16-Sep	0.25%	0.25%	--
17-Sep	Singapore non-oil domestic exports, % YoY	Aug	3.1%	6.0%	--
	Australia unemployment rate, %	Aug	7.7%	7.5%	--
	Bank of England bank rate, %	17-Sep	0.10%	0.10%	--
	Bank of Indonesia 7D reverse repo, %	17-Sep	4.0%	4.0%	--
	Euro Area CPI, % YoY	Aug	(0.2%)	(0.2%)	--
	US housing starts, in mn	Aug	1.48	1.50	--
	US initial jobless claims	9-Sep	850,000	884,000	--
	Taiwan CBC benchmark interest rate, %	17-Sep	1.13%	1.13%	--
BOJ policy balance rate, %	17-Sep	--	(0.10%)	--	
18-Sep	Japan CPI, % YoY	Aug	0.2%	0.3%	--
	Germany PPI, % MoM	Aug	0.0%	0.2%	--
	Euro Area current account SA, € bn	Jul	--	20.7	--
	Italy industrial orders, % MoM	Jul	--	23.4%	--
	US current account balance, US\$ bn	Q2CY20	(160.0)	(104.2)	--
	US University of Michigan consumer sentiment	Sep	75.0	74.1	--

Source: Bloomberg, Bank of Baroda

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