

WEEKLY WRAP

15 February 2021

Global yields rise, Indian yields fall

Global yields (except India) moved higher with steady decline in Covid-19 cases and economic upturn. Oil prices rose by 5.2% and are now at highest level since Jan'20. Equity markets continue to move higher on better than estimated earnings and expectation of steady revival. Indian 10Y yield fell by 8bps with RBI signalling its discomfort over higher yields. CPI inflation print of 4.1% is also supportive. However, given the extent of general government borrowing, we do see gradual increase in yields in the medium-term.

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Markets

- **Bonds:** Global 10Y yields closed higher (except India). US and UK 10Y yield rose the most at 4bps, supported by better than expected GDP data in the UK and US lawmaker's approval of US\$ 1.9tn fiscal stimulus. Oil prices rose by 5.2% (US\$ 62/bbl, now at highest level since Jan'20). India's 10Y yield fell by 8bps (5.99%) with RBI not comfortable with higher yields. System liquidity surplus swelled to Rs 6.2tn as on 12 Feb 2021, same as in the previous week.
- **Currency:** Global currencies closed higher. DXY fell by 0.6% (2-week low). EUR rose by 0.6% as European Commission now expects output in Euro Area to reach its pre-crisis levels, earlier than anticipated. GBP rose by 0.8% as UK's GDP rose more than expected in Q4CY20. INR appreciated by 0.2% supported by FII inflows of US\$ 1.1bn.
- **Equity:** Barring Dax (flat), other global equity indices ended higher led by China and Japan. Equity markets are also buoyed by better than expected earnings. FTSE gained 1.5%. Sensex (1.6%) too ended in green led by consumer durable and real estate stocks.
- **Covid-19 tracker:** Global cases rose by 2.7mn in the week ending 14 Feb 2021 versus 3.2mn in the previous week led by dip in UK, US, Germany and France. India added 79k cases in the week versus 80k last week.
- **Upcoming key events:** This week flash PMIs for Feb'21 will be released along with minutes of US FOMC and RBA. Also, Germany's ZEW, US industrial production and retail sales data is due.



India macro developments

- India's Finance ministry has confirmed that dues for GST compensation to states for Apr-Nov'20 period stands at Rs 2.06tn. It was also reported that Rs 400bn had been released to states for Apr-May'20 period. Following shortfall in funds to meet the dues of states, centre had announced to borrow Rs 1.1tn from the market and release to states as back to back loans. Under this scheme, Rs 840bn has been paid out so far.
- EPFO has settled Rs 6.09mn non-refundable advance claims during Covid-19 and has disbursed Rs 153bn till 31 Jan 2021. Further, total beneficiaries under the Atmanirbhar Bharat Rozgar Yojana (a scheme to incentivise employment generation in EPFO registered establishments) also rose to 0.47mn. The outlay for this scheme stands at Rs 228bn for FY20-23.
- As per IEA report, India will overtake EU as the world's third largest energy consumer by CY30. India's oil demand will rise by 74% to 8.7mbpd by CY40. Its share in the growth of renewable energy will be the second largest in the world, after China. The above assumption is based on GDP expanding to US\$ 8.6tn by CY40.
- RBI reported that currency in circulation (CIC) increased by Rs 16.2bn and stood at Rs 28.2tn for the week ending 05 Feb 2021. Reserve money rose by 14.9% on a YoY basis, compared with 11.5% a year ago. On FYTD basis, reserve money increased by 11.7% as against 6.3% a year ago.
- Recovery in auto industry hit a snag, as retail sales contracted by 10% in Jan'21 from an increase of 11% in Dec'20. Both passenger and two-wheeler sales were down by 4% and 9% respectively in Jan'21. Lower demand and fresh hike in prices added to the woes. Retail sales of commercial vehicles also took a beating and declined by 25% in Jan'21.
- As per news reports, government may soon announce more schemes focussing on agriculture and its infrastructure development. This will be financed through the special cess, which is expected to generate Rs 300-350bn. It could also cover areas such as construction of warehouses and food processing facilities. It was also stated that out of an estimated 140mn beneficiaries, 105mn have received income support under PM Kisan.
- Industrial output improved to 1% in Dec'20 (-2.1% in Nov'20) led by manufacturing and electricity. CPI inflation eased to a 16-month low of 4.1% in Jan'21 driven by sharp drop in food inflation to 1.9% in Jan'21 (3.4% in Dec'20). Core inflation remained sticky at 5.7% in Jan'21. We believe inflation is likely to be lower than RBI's revised trajectory of 5-5.2% in H1 FY22. However, government borrowing leaves no room for a decline in yields.

Global macro developments

- US CPI rose by 0.3% (MoM) in Jan'21 versus 0.2% rise in Dec'20, led by higher energy prices which rose by 3.5% from 2.6% in Dec'20. Core inflation remained flat (0%) in Jan'21 (est.: 0.2% rise). Within core, prices of new and used vehicles fell, while that of apparels and medical services rose. Prices of transportation services fell less sharply in Jan'21.
- US initial jobless claims for the week ending 6 Feb 2021 fell by 19,000 to 793,000 (est.: 760,000) from 812,000 in the week before. The easing can be attributed to declining Covid-19 cases and acceleration in vaccination drive, which have allowed businesses and consumers to resume activity. The 4-week moving average dropped by 33,500 to 823,000.
- European Commission (EC) estimates GDP growth in the Euro Area to increase to 3.8% in CY21 (versus 4.2% earlier) and CY22 (3% earlier) against a 6.8% decline in CY20 (7.8% dip earlier). It noted that while growth in Q1CY21 may contract due to renewed lockdowns, it will pick up sharply from H2 as vaccine roll-out gathers pace. Private consumption and external demand will lead the gains. CPI inflation is expected to accelerate to 1.4% in CY21 from 0.3% in CY20, before moderating to 1.3% in CY22.
- UK's GDP growth rose by 1% in Q4CY20 following 16.1% increase in Q3. Support was provided by positive, albeit slowing growth of GFCF (2.1% versus 20.3% in Q3). Household spending growth contracted (0.2% versus 19.3% increase). Services activity rose by 0.6% versus 14.7% increase. Accommodation, food, wholesale trade and repair services fell the most. In CY20, GDP fell by 9.9% versus 1.4% increase in CY19.
- Japan's Q4CY20 GDP rose by 12.7% (est.: 9.4%) compared with 22.9% increase in Q3. This was due to an 8.1% increase in domestic demand and 52.3% increase in exports. Private consumption rose by 8.9% owing to government policies such as employment protection subsidies and cash handouts. Private non-residential investment too remained buoyant (19.4%). Overall in CY20, GDP contracted by 4.8% (est.: 5.3% drop).
- China's PPI rose by 0.3% in Jan'21 (highest since Jan'20) following 0.4% decline in Dec'20. This was led by increase in prices of crude oil and iron ore which pushed prices in ferrous metal smelting and processing industry higher by 10%. On the other hand, CPI fell by 0.3% in Jan'21 versus 0.2% increase in Dec'20, owing to higher base and drop in prices of services. Food prices remained elevated with 1.6% rise in Jan'21 (1.2% in Dec'20).

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

| Particulars | Current | 1W | 1M | 3M | 12M |
|---|---------------|------------|------------|-------------|-------------|
| 10Y yields (Δ bps) | | | | | |
| US | 1.21 | 4 | 8 | 31 | (38) |
| UK | 0.52 | 4 | 23 | 18 | (11) |
| Japan | 0.07 | 1 | 3 | 4 | 10 |
| Germany | (0.43) | 2 | 12 | 12 | (3) |
| India | 5.99 | (8) | 10 | 11 | (38) |
| China | 3.24 | 2 | 13 | (3) | 38 |
| 2Y yields (Δ bps) | | | | | |
| US | 0.11 | 1 | (3) | (7) | (132) |
| UK | (0.04) | (1) | 8 | (1) | (58) |
| Japan | (0.12) | 0 | (1) | 1 | 2 |
| Germany | (0.71) | 0 | 2 | 2 | (5) |
| India | 4.58 | (5) | 15 | 48 | (113) |
| China** | 2.65 | (5) | 38 | (17) | 35 |
| Currencies (Δ %) | | | | | |
| EUR | 1.2120 | 0.6 | (0.3) | 2.4 | 11.9 |
| GBP | 1.3849 | 0.8 | 1.2 | 5.0 | 6.1 |
| JPY | 104.94 | 0.4 | (1.1) | (0.3) | 4.4 |
| AUD | 0.7761 | 1.1 | (0.2) | 6.8 | 15.6 |
| INR | 72.76 | 0.2 | 0.4 | 2.5 | (1.9) |
| CNY | 6.4583 | 0.1 | 0.3 | 2.2 | 7.6 |
| Equity & Other indices (Δ %) | | | | | |
| Dow | 31,458 | 1.0 | 1.5 | 6.7 | 7.0 |
| FTSE | 6,590 | 1.5 | (3.1) | 4.3 | (11.1) |
| DAX | 14,050 | 0 | 0.4 | 7.4 | 2.2 |
| NIKKEI | 29,520 | 2.6 | 2.9 | 16.3 | 24.6 |
| Shanghai Comp | 3,655 | 3.9 | 2.5 | 10.4 | 25.3 |
| SENSEX | 51,544 | 1.6 | 4.0 | 18.6 | 24.9 |
| Brent (US\$/bbl) | 62.43 | 5.2 | 10.7 | 45.9 | 8.9 |
| Gold (US\$/oz) | 1,824 | 0.6 | (1.2) | (3.4) | 15.2 |
| CRB Index | 470.1 | 1.9 | 3.2 | 13.1 | 17.2 |
| Rogers Agri Index | 941.3 | 1.0 | 1.6 | 15.8 | 27.8 |
| LIBOR (3M)* | 0.19 | 0 | (3) | (3) | (150) |
| INR 5Y Swap* | 5.90 | 12 | 31 | 77 | (48) |
| India FII data (US\$ mn) | | | | | |
| | 11 Feb | WTD | MTD | CYTD | FYTD |
| FII-Debt | (18.8) | (64.8) | (85.7) | (584.0) | (4,677.6) |
| FII-Equity | 140.7 | 1,151.3 | 3,419.6 | 5,397.8 | 35,373.6 |

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

FIG 2 – DATA RELEASE CALENDAR

| Date | Event | Period | Estimate | Previous | Actual |
|--------|--|--------|----------|----------|--------|
| 15-Feb | Japan GDP SA, % QoQ | Q4CY20 | 2.4% | 5.3% | 3.0% |
| | Singapore GDP, % YoY | Q4CY20 | (3.6%) | (3.8%) | (2.4%) |
| | Thailand GDP, % YoY | Q4CY20 | (5.4%) | (6.4%) | (4.2%) |
| | Japan industrial production, % MoM | Dec | -- | (1.6%) | -- |
| | India WPI, % YoY | Jan | 1.1% | 1.2% | -- |
| | Euro Area industrial production SA, % MoM | Dec | (0.8%) | 2.5% | -- |
| | Euro Area trade balance SA, € bn | Dec | 25.0 | 25.1 | -- |
| | India exports, % YoY | Jan | -- | 0.1% | -- |
| 16-Feb | RBA minutes of Feb. policy meeting | | -- | -- | -- |
| | France ILO unemployment rate, % | Q4CY20 | 9.2% | 9.0% | -- |
| | Germany ZEW survey expectations | Feb | 59.5 | 61.8 | -- |
| | Euro Area GDP SA, % QoQ | Q4CY20 | (0.7%) | (0.7%) | -- |
| | Euro Area ZEW survey expectations | Feb | -- | 58.3 | -- |
| 17-Feb | Japan exports, % YoY | Jan | 7.0% | 2.0% | -- |
| | Japan core machine orders, % MoM | Dec | (6.1%) | 1.5% | -- |
| | Singapore non-oil domestic exports, % YoY | Jan | 5.2% | 6.8% | -- |
| | UK CPI, % YoY | Jan | 0.5% | 0.6% | -- |
| | US PPI final demand, % MoM | Jan | 0.4% | 0.3% | -- |
| | US retail sales advance, % MoM | Jan | 1.0% | (0.7%) | -- |
| | US industrial production, % MoM | Jan | 0.4% | 1.6% | -- |
| | US FOMC meeting minutes | 27-Jan | -- | -- | -- |
| 18-Feb | Australia unemployment rate, % | Jan | 6.5% | 6.6% | -- |
| | US housing starts, in mn | Jan | 1.66 | 1.67 | -- |
| | US initial jobless claims, in thousands | 13-Feb | 773.0 | 793.0 | -- |
| | Euro Area consumer confidence | Feb A | (15.0) | (15.5) | -- |
| 19-Feb | Japan CPI, % YoY | Jan | (0.7%) | (1.2%) | -- |
| | UK GfK consumer confidence | Feb | (27.0) | (28.0) | -- |
| | Jibun Bank Japan manufacturing PMI (flash) | Feb | -- | 49.8 | -- |
| | Jibun Bank Japan services PMI (flash) | Feb | -- | 46.1 | -- |
| | Germany PPI, % MoM | Jan | 0.9% | 0.8% | -- |
| | UK retail sales inc. auto fuel, % MoM | Jan | (2.7%) | 0.3% | -- |
| | Markit France manufacturing PMI (flash) | Feb | 51.5 | 51.6 | -- |
| | Markit France services PMI (flash) | Feb | 47.0 | 47.3 | -- |
| | Markit Germany services PMI (flash) | Feb | 46.5 | 46.7 | -- |
| | Markit Eurozone manufacturing PMI (flash) | Feb | 54.3 | 54.8 | -- |
| | Markit Eurozone services PMI (flash) | Feb | 45.8 | 45.4 | -- |
| | Markit UK PMI manufacturing SA (flash) | Feb | 53.1 | 54.1 | -- |
| | Markit US manufacturing PMI (flash) | Feb | 58.5 | 59.2 | -- |
| | Markit US services PMI (flash) | Feb | 58.0 | 58.3 | -- |
| | US existing home sales, in mn | Jan | 6.61 | 6.76 | -- |

Source: Bloomberg, Bank of Baroda

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