

WEEKLY WRAP

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Focus shifts to Budget and RBI policy

Global equity markets fell on the back of concerns over vaccine rollout. US 10Y yield fell as Fed indicated continuation of lower rates. China's short-end yield rose by 36bps as liquidity dried up. Indian yields were stable ahead of the Budget but equity markets fell led by FPI outflows. Economic Survey called for higher deficits to spur growth with FY20 GDP growth revised lower to 4% from 4.2% earlier. Our fiscal deficit estimate for FY22 stands at 5.3% of GDP implying net borrowing of Rs 8.5tn. RBI to keep policy rates on hold.

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Markets

- **Bonds:** 10Y US and German yield inched lower. US Fed indicated lower rates likely to stay. China's 10Y yield rose by 6bps while 2Y yield shot up by 36bps as liquidity crunch is pointing towards tighter policy stance by PBOC. India's 10Y yield ended flat ahead of Budget. Economic Survey called for counter cyclical fiscal policy to support growth. RBI conducted 14-day reverse repo of Rs 2tn. System liquidity surplus was at Rs 5.8tn as on 29 Jan 2021 versus Rs 5tn last week.
- **Currency:** DXY rose by 0.4% supported by better than expected US jobless claims and consumer confidence. JPY depreciated by 0.9% to a 2-month low as Japan's industrial production declined further in Dec'20. CNY rose by 0.8% due to tightening of domestic liquidity conditions. INR closed flat. FII outflows were US\$ 617mn in the week.
- **Equity:** Global indices were lower this week due to concerns over slow roll-out of Covid-19 vaccine along with weaker than anticipated US GDP print. Speculative trading in US markets also impacted broader sentiment. Sensex fell by 5.3% ahead of the Budget led by auto and tech stocks.
- **Covid-19 tracker:** Global cases rose by 3.9mn in the week ending 29 Jan 2021 compared with 4.3mn in the previous week, led by dip in UK and US. India added 95k cases in the week versus 97k in the earlier week.
- **Upcoming key events:** Globally, policy decisions of BoE and RBA are due along with US payroll data, Euro Area GDP and global PMIs. In India, the week starts with the Union Budget followed by RBI's rate decision and Parliament session where 20 key bills will be tabled.



India macro developments

- India's CGA data shows that Centre's fiscal deficit (% of GDP) has narrowed to 6% from 6.3% in Nov'20, led by higher revenue growth. On FYTD (Apr-Dec) basis, decline in direct tax collections eased to 11.2% from 24.4% drop until Nov'20. Indirect tax collection jumped significantly by 4.6% following 2% decline noted till last month. Expenditure growth also bounced back to 8.1% from 4.7% last month, with capex at 20.3% from 12.8% till Nov'20 and revenue spending at 3.6% versus 3.7%.
- CSO has revised FY20 growth to 4% from 4.2%. However, FY19 growth has been revised upwards to 6.5% (6.1% earlier). The downward revision in FY20 is led by lower government spending and lower manufacturing activity. Public investment fell considerably. So did real estate. With lower investment and consumption, India's saving rate increased in FY20 to 31.4% of GDP (30.6% in FY19). Investment and consumption have fallen further in FY21. Thus the Budget will look at kickstarting public and private investment cycle.
- According to news reports, in the budget for FY22, capex spending target for 36 major CPSEs may get increased by 50-60% to Rs 7.5-8tn from Rs 4.95tn in FY21. Only a small part of this is estimated to be met through budgetary support, while the remaining part will be met through market borrowings and asset monetisation of CPSEs. Railway and NHAI are likely to see biggest jumps. In FYTD21 (Apr-Dec), of Rs 4.95tn, Rs 2.9tn has been invested by the CPSEs.
- RBI reported that currency in circulation (CIC) increased by Rs 7.7bn and stood at Rs 28.1tn for the week ending 22 Jan 2021. Reserve money rose by 14.7% on a YoY basis, compared with 11.8% a year ago. On FYTD basis, reserve money increased by 10.6% as against 5.5% a year ago.
- IMF has projected India's growth to rebound to 11.5% in FY22 from a decline of 8% in FY21, to be the fastest growing country in the world. Growth forecasts for FY21 and FY22 were revised upwards by 2.3% and 2.7% respectively, led by a revival in economic activity as lockdown restrictions were eased. Global growth is also expected to recover from 3.5% dip in CY20 to 5.5% in CY21 on the back of strong policy support and vaccine rollout.
- India's total GST collections rose to Rs 1.20tn for the month of Dec'20 versus Rs 1.15tn in Nov'20. On YoY basis too collections are up by 8.1%. After adjusting for IGST, CGST collections jumped to Rs 430bn from 398bn in Nov'20, while SGST collections eased to Rs 560bn from Rs 596bn in Dec'20. This is the 4th straight month where collections have crossed Rs 1tn mark, and average run-rate for FYTD21 is at Rs 964bn.

Global macro developments

- GDP growth in major Euro Area economies showed resilience in Q4CY20. GDP growth in Germany rose by 0.1% versus 8.5% in Q3 and est., 0% led by a strong rebound in exports. In Spain as well, GDP growth rose by 0.4% versus 16.4% in Q3 and est., 1.5% dip. In France, GDP growth contracted by 1.3% compared with 18.5% in Q3 and est., 4% decline. However, with delay in vaccine rollout and renewed lockdowns in place, growth is likely to be lower in Q1CY21.
- US GDP rose by 4% in Q4CY20 (est.: 4.2%) against 33.4% in Q3. The increase in exports, non-residential fixed investment and personal consumption expenditure were offset by fall in government spending. At an annualised pace, GDP contracted by 3.5% in CY20, which has been the worst decline since WW II. In a separate print, US jobless claims fell by 67,000 to 847,000 for the week ending 23 Jan 2020.
- China's official manufacturing PMI eased to 51.3 in Jan'21 (est.: 51.6) from 51.9 in Dec'20. The slowdown was more visible in small industries where activity is still constrained with index at 49.4 versus 48.8 in Dec'20. Index for large (52.1) and medium (51.4) firms shows activity remained in expansion. Easing in headline print is also owing to resurgence in Covid-19 cases leading to partial shutdowns and seasonality factor (Lunar holidays).
- US Fed kept policy rate unchanged at 0-0.25% in its latest meeting. It also kept its asset purchase program at its previous level of US\$ 120bn per month. The policy highlighted that financial conditions continued to be accommodative to support the economy. Downside risks to growth from the Covid-19 pandemic persist.
- US Conference Board consumer confidence index rose to 89.3 in Jan'21 from 87.1 in Dec'20. This was led by rise in the short-term outlook index for income and labour market from 87 to 92.5. The current situation index however deteriorated further to 84.4 from 87.2 in Dec'20, as consumers expect job losses in the wake of raging Covid-19 cases.
- China's industrial profits rose by 20.1% in Dec'20 from 15.5% Nov'20. In CY20 profits have risen by 4.1% following 3.3% decline in CY19. After complete lockdown in Q1CY20, production recovered to meet pandemic related global demand. Profits of manufacturing sector rose by 7.6% and that of overall private sector rose by 3.1%. Earnings of SoEs fell by 2.9%.
- CPI inflation in Germany rose to a 10-month high at 1% in Jan'21 from a dip of 0.3% in Dec'20. The higher than estimated increase (est., +0.7%) was led by an increase in VAT and higher minimum wages. Analysts expect inflation to remain elevated in the near-term as lockdown restrictions are gradually eased.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.07	(2)	13	19	(44)
UK	0.33	2	11	7	(20)
Japan	0.05	1	3	1	12
Germany	(0.52)	(1)	5	11	(8)
India	5.91	0	2	2	(70)
China	3.19	6	2	0	18
2Y yields (Δ bps)					
US	0.11	(1)	(2)	(4)	(120)
UK	(0.11)	2	4	(7)	(61)
Japan	(0.11)	1	1	0	3
Germany	(0.73)	(3)	(2)	6	(6)
India	4.47	(3)	57	28	(160)
China**	2.68	36	12	(4)	45
Currencies (Δ %)					
EUR	1.2136	(0.3)	(0.9)	4.2	9.4
GBP	1.3708	0.2	1.5	5.9	3.8
JPY	104.68	(0.9)	(1.1)	(0.0)	3.4
AUD	0.7644	(0.9)	0.5	8.8	14.2
INR	72.95	0	0.7	1.6	(2.2)
CNY	6.4292	0.8	1.6	3.9	7.4
Equity & Other indices (Δ %)					
Dow	29,983	(3.3)	(1.2)	13.1	6.1
FTSE	6,407	(4.3)	(3.0)	14.9	(12.1)
DAX	13,433	(3.2)	(2.4)	16.2	3.5
NIKKEI	27,663	(3.4)	0.3	20.4	19.2
Shanghai Comp	3,483	(3.4)	3.1	8.0	17.0
SENSEX	46,286	(5.3)	(2.8)	16.8	13.7
Brent (US\$/bbl)	55.88	0.8	9.4	49.2	(3.9)
Gold (US\$/oz)	1,848	(0.4)	(1.6)	(1.7)	16.3
CRB Index	457.4	0.2	3.4	11.7	13.2
Rogers Agri Index	928.0	2.9	6.5	18.5	26.2
LIBOR (3M)*	0.21	(1)	(5)	(1)	(155)
INR 5Y Swap*	5.57	(7)	28	38	(111)
India FII data (US\$ mn)					
	28 Jan	WTD	MTD	CYTD	FYTD
FII-Debt	31.7	(47.6)	(472.6)	(472.6)	(4,566.2)
FII-Equity	(517.5)	(569.2)	2,573.7	2,573.7	32,549.5

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
1-Feb	South Korea exports, % YoY	Jan	9.8%	12.6%	--
	Jibun Bank Japan manufacturing PMI	Jan	--	49.7	--
	Caixin China manufacturing PMI	Jan	52.6	53.0	--
	Markit India manufacturing PMI	Jan	--	56.4	--
	India Budget : FY2021-2022	FY22	--	--	--
	Germany retail sales, % MoM	Dec	(2.0%)	1.9%	--
	Markit Italy manufacturing PMI	Jan	52.4	52.8	--
	Markit France manufacturing PMI	Jan	51.5	51.5	--
	Markit/BME Germany manufacturing PMI	Jan	57.0	57.0	--
	Markit Eurozone manufacturing PMI	Jan	54.7	54.7	--
	Markit UK PMI manufacturing SA	Jan	52.9	52.9	--
	Euro Area unemployment rate, %	Dec	8.3%	8.3%	--
	Markit US manufacturing PMI	Jan	59.1	59.1	--
	US ISM manufacturing PMI	Jan	60.0	60.7	--
2-Feb	South Korea CPI, % YoY	Jan	0.5%	0.5%	--
	RBA cash rate target, %	02-Feb	0.1%	0.1%	--
	France CPI, % YoY	Jan	0.4%	0.0%	--
	Italy GDP WDA, % YoY	Q4CY20	(6.6%)	(5.0%)	--
	Euro Area GDP SA, % QoQ	Q4CY20	(0.9%)	12.5%	--
3-Feb	Jibun Bank Japan services PMI	Jan	--	45.7	--
	Caixin China services PMI	Jan	55.5	56.3	--
	Markit India services PMI	Jan	--	52.3	--
	Markit Italy services PMI	Jan	39.5	39.7	--
	Markit France services PMI	Jan	46.5	46.5	--
	Markit Germany services PMI	Jan	46.8	46.8	--
	Markit Eurozone services PMI	Jan	45.0	45.0	--
	Markit/CIPS UK services PMI	Jan	38.8	38.8	--
	Euro Area CPI estimate, % YoY	Jan	0.6%	(0.3%)	--
	Markit US services PMI	Jan	57.5	57.5	--
US ISM services Index	Jan	56.7	57.2	--	
04-Feb	Australia exports, % MoM	Dec	8.0%	3.0%	--
	Euro Area retail sales, % MoM	Dec	2.0%	(6.1%)	--
	BoE bank rate, %	04-Feb	0.1%	0.1%	--
	US initial jobless claims, in thousands	30-Jan	830.0	847.0	--
	US durable goods orders, % MoM	Dec	0.2%	0.2%	--
5-Feb	RBI repo rate, %	05-Feb	4.0%	4.0%	--
	Germany factory orders, % MoM	Dec	(1.3%)	2.3%	--
	US change in nonfarm payrolls, in thousands	Jan	50.0	(140.0)	--
	US unemployment rate, %	Jan	6.7%	6.7%	--
	US trade balance, US\$ bn	Dec	(65.7)	(68.1)	--

Source: Bloomberg, Bank of Baroda

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