

WEEKLY WRAP

21 September 2020

Central Banks on hold, India expands fisc support

Major central banks kept the policy rates on hold with US Fed likely to keep ultra-low rates till 2023. On the other hand, BoE hinted at negative rates with downside risks to growth. Global yields and equities ended the week mixed. US\$ continued to depreciate. On the domestic front, Government sought Parliamentary approval for additional spending of Rs 1.69tn. Even so, India's 10Y yield fell by 3bps as RBI announced OMO purchase of Rs 100bn. Borrowing calendar will be published towards end of the month.

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Markets

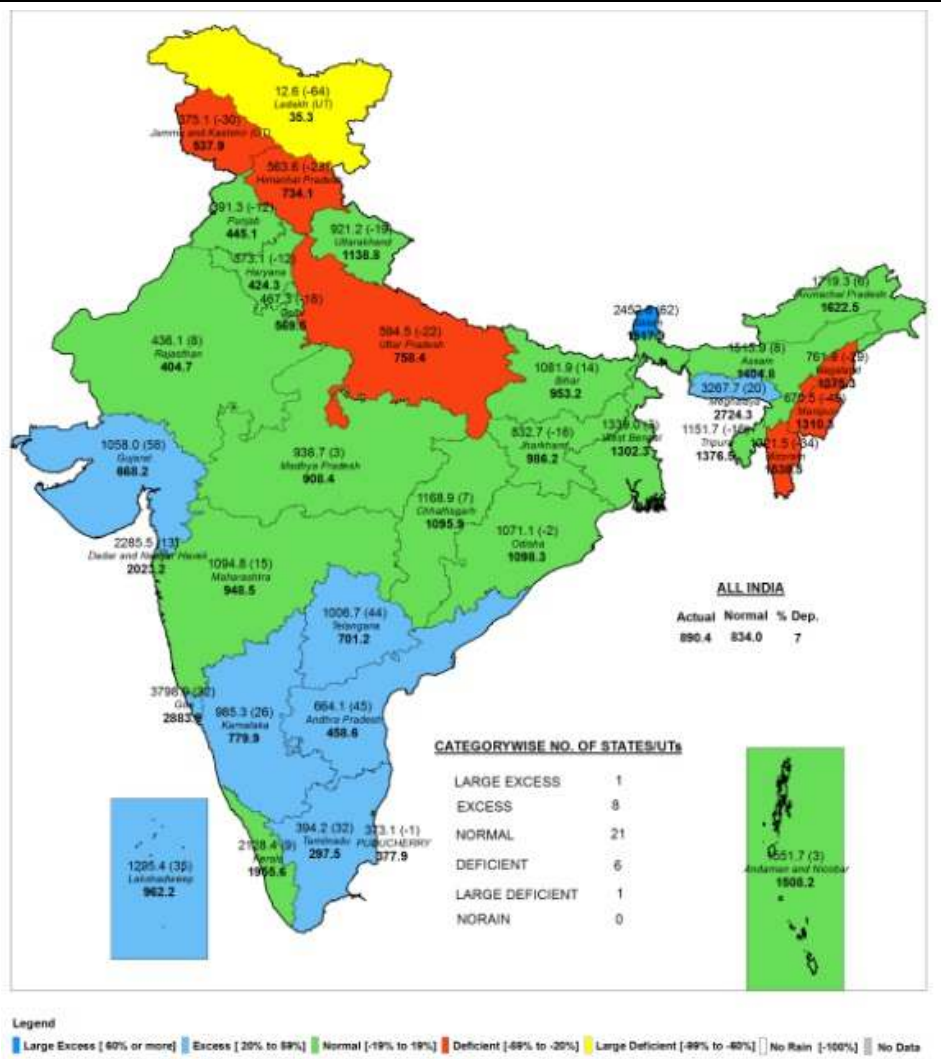
- **Bonds:** US 10Y yield rose by 3bps (0.69%) as Fed projected better growth outlook in CY20 (3.7% contraction against 6.5% contraction, estimated earlier). However, dot plot showed policy rate will be near zero till CY23. UK 10Y was flat (0.18%) as BoE hinted at negative rates. Oil prices rose by 8.3% (US\$ 43/bbl) due to supply disruption from Hurricane Sally. India's 10Y yield fell by 3bps (6.02%), supported by RBI's OMO purchase announcement of Rs 100bn. System liquidity surplus was at Rs 2.6tn as on 18 Sep 2020 compared with Rs 3.6tn in the previous week.
- **Currency:** Except EUR other global currencies closed higher against the dollar. DXY fell by 0.4% this week as US macro data remained weaker than anticipated (industrial production, retail sales and housing starts). JPY rose by 1.5% to a 6-month high on safe haven demand. GBP also rose by 0.9% even as BoE hinted at negative rates. INR rose by 0.1% in the week supported by FII inflows of US\$ 527mn.
- **Equity:** Global indices ended mixed as major central banks kept the policy rates on hold. Fed expects the rate to remain at current level till CY23. Shanghai Comp (2.4%) surged the most led by acceleration in industrial profits and retail sales. On other hand, Sensex ended flat with real estate gaining the most and banking stocks under-performing the most.
- **Upcoming key events:** In the current week, markets will await flash PMI data of major economies, along with US housing and jobless claims data. On the domestic front, government's H2 borrowing calendar is awaited and markets will also look for further direction from RBI to control yield curve.



Monsoon tracker

- For the period 1 Jun 2020 to 20 Sep 2020, monsoon is 7% above LPA compared with 5% last year. Parts of Central and North Eastern region of the country continue to receive normal rainfall. States like Gujarat, Telangana, Andhra Pradesh and Tamil Nadu have received excess rainfall. On the other hand, parts of J&K, Uttar Pradesh, Nagaland and Mizoram have received deficient rainfall.
- Overall Kharif sowing improved by 5.7% as on 18 Sep 2020 compared with last year. This was led by higher acreage of oilseeds (10.5%), rice (7.5%) and cereals (5.7%). Sowing area of cotton and sugarcane have also improved by 1.9% and 1.7% respectively.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun-20 Sep 2020

India macro developments

- As per news reports, 21 states have opted to borrow Rs 970bn from the RBI in order to meet the gap of the GST compensation cess. These states will also be allowed to borrow additional 0.5% of their GSDP from the market. Payment of ~ Rs 1.5tn as GST compensation is pending to states for Apr-Jul'20 period. Those states which do not chose from the two borrowing options will have to wait till Jun'22 for their dues to be cleared.
- The Banking Regulation (Amendment) Bill, 2020 has been introduced in the Lok Sabha. A notable amendment has been proposed in Section 45 which enables RBI to protect the interest of depositors first, before making an order of moratorium. Another amendment pertains to applying RBI's regulations to cooperative banks which were facing dual controls of both cooperative societies and RBI.
- Government has asked Parliament's approval for Rs 2.4tn additional expenditure in FY21. Out of which Rs 688.7bn will be met through savings. Most of the expense will be for allocation under the Atmanirbhar Bharat scheme. Apart from this, Rs 466bn will be for grants to States, Rs 200bn for PSB recap, Rs 40bn for providing sovereign guarantee to MSMEs.
- Government passed the Farmers' Produce Trade and Commerce (Promotion and Facilitation) and Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Bill. The reforms are expected to accelerate agriculture growth through private investment in building infrastructure and supply chain. Additionally, farmers will have the freedom to market their produce at better prices. MSP procurement system will also continue and benefit farmers.
- According to news reports, centre's direct tax collections are down by ~22.4% in H1FY21 so far (15 Sep 2020) and stand at Rs 2.54tn compared with Rs 3.27tn in the same period last year. Within this, the 2 major components, personal income tax and corporate tax collections, stood at Rs 1.5tn and Rs 0.99tn respectively. In Q1FY21 the decline in gross direct tax collection was ~34.1% versus only 3.9% drop in Q1FY20.
- ADB expects India's GDP to contract by 9% in FY21 versus 4% decline estimated earlier. It notes that the rapid spread of COVID-19 has led to a decline in private consumption and investment. Hence economic activity is unlikely to see a revival in FY21. However, GDP growth is expected to bounce back to 8% in FY22 versus 5% increase earlier.

Global macro developments

- The University of Michigan US consumer sentiment index rose to 78.9 in Sep'20 (est.: 75) from 74.1 in Aug'20. This is the highest level since Mar'20, but it still remains below the pre-pandemic level of 100.9 in Feb'20. The gains in Sep'20 were driven by improved sentiment towards future economic prospects. However, uncertainty around election outcome, and delay in rolling out of the vaccine remained key concerns.
- US housing starts fell by 5.1% in Aug'20 on a MoM basis compared with 17.9% increase in Jul'20. While housing starts for single-family homes continued to rise (4.1%), they fell sharply in the multi-family segment (25.4%), as builders were worried about rising cost and delay in supplies. Separately, jobless claims for the week ending 12 Sep 2020 eased to 0.86mn.
- Bank of England (BoE) unanimously kept policy rate unchanged at 0.1% and its bond buying programme at the previous level of £ 745bn. It cited resurgence of COVID-19 cases and fear of no-deal Brexit as downside risks to growth. It also spoke of “structured engagement” with UK bank regulators on how it might implement negative rates.
- Bank of Japan kept policy rates steady at (-) 0.1% in its latest policy meet and kept the target for 10Y G-sec at around 0%. It also made no changes to its asset buying program. However the Bank was more upbeat on the state of economy on the back of gradual resumption in business activity.
- US Fed in its latest policy kept policy rate unchanged (0-0.25%). Fed's dot plot showed that current low rate is expected to persist till CY23. Real GDP is expected to contract by 3.7% in CY20 against 6.5% contraction estimated in Jun'20. Unemployment rate will also be elevated at 7.6%. Core PCE will be at 1.5%, well below the 2% target. In a separate print, US retail sales rose for the 4th consecutive month by 0.6% in Aug'20, however it was lower than estimate of 1% and 0.9% increase in Jul'20.
- Germany's ZEW economic sentiment index rose to 77.4 points in Sep'20 from 71.5 in Aug'20. Future outlook index also jumped by 15.1 points to settle at (-) 66.2 in Sep'20. Market participants remained positive on domestic growth outlook. However, banking sector outlook remained negative on concerns of higher loan defaults in the coming months.
- China's industrial production rose by 5.6% in Aug'20 from 4.8% increase in Jul'20. The sharp acceleration is supported by fiscal stimulus and recovering external demand. The FAI fell by only 0.3% between Jan-Aug'20 versus 1.6% decline in Jan-Jul'20, indicating higher capital spending by government and private sector. In addition, with improving domestic demand, retail sales were up by 0.5% in Aug'20 versus 1.1% decline in Jul'20.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.69	3	3	0	(103)
UK	0.18	0	(4)	(6)	(45)
Japan	0.02	(1)	(2)	0	22
Germany	(0.49)	0	(2)	(7)	4
India	6.02	(3)	6	16	(77)
China	3.12	(2)	14	24	2
2Y yields (Δ bps)					
US	0.14	1	0	(5)	(154)
UK	(0.11)	1	(7)	(7)	(64)
Japan	(0.14)	(1)	(3)	0	16
Germany	(0.70)	0	(4)	(3)	2
India	4.44	(4)	17	9	(136)
China**	2.61	1	35	44	7
Currencies (Δ %)					
EUR	1.1840	(0.1)	(0.8)	5.9	7.5
GBP	1.2917	0.9	(2.4)	4.6	3.5
JPY	104.57	1.5	0.8	2.2	2.8
AUD	0.7289	0.1	0.6	6.6	7.7
INR	73.45	0.1	1.8	3.6	(3.5)
CNY	6.7691	1.0	2.2	4.3	4.5
Equity & Other indices (Δ %)					
Dow	27,657	0	(0.4)	6.9	2.7
FTSE	6,007	(0.4)	(1.1)	(4.5)	(18.2)
DAX	13,116	(0.7)	1.8	6.4	5.2
NIKKEI	23,360	(0.2)	1.3	3.9	5.8
Shanghai Comp	3,338	2.4	(3.3)	12.5	11.0
SENSEX	38,846	0	0.8	11.8	2.2
Brent (US\$/bbl)	43.15	8.3	(5.1)	2.3	(32.9)
Gold (US\$/oz)	1,951	0.5	(2.6)	11.9	28.6
CRB Index	408.3	1.8	6.3	12.4	5.9
Rogers Agri Index	762.3	2.8	6.6	13.1	9.1
LIBOR (3M)*	0.23	(2)	(3)	(8)	(191)
INR 5Y Swap*	5.59	1	23	43	(76)
India FII data (US\$ mn)					
	17 Sep	WTD	MTD	CYTD	FYTD
FII-Debt	(36.3)	143.2	310.9	(14,779.1)	(5,019.6)
FII-Equity	(17.8)	383.8	563.0	5,370.4	11,973.3

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
21-Sep	South Korea exports 20 days, % YoY	Sep	--	(7.0%)	--
	Taiwan export orders, % YoY	Aug	9.2%	12.4%	--
	Hong Kong CPI composite, % YoY	Aug	(1.9%)	(2.3%)	--
22-Sep	South Korea PPI, % YoY	Aug	--	(0.8%)	--
	Taiwan unemployment rate, %	Aug	3.9%	3.9%	--
	Hong Kong current account balance, US\$ bn	Q2CY20	--	(9.0)	--
	Euro Area consumer confidence	Sep A	(14.6)	(14.7)	--
	US existing home sales, in mn	Aug	6.0	5.9	--
23-Sep	Jibun Bank Japan manufacturing PMI (flash)	Sep P	--	47.2	--
	Jibun Bank Japan services PMI (flash)	Sep P	--	45.0	--
	RBNZ official cash rate, %	23-Sep	0.25%	0.25%	--
	Singapore CPI, % YoY	Aug	(0.4%)	(0.4%)	--
	Germany GfK consumer confidence	Oct	(1.0)	(1.8)	--
	BoT benchmark interest rate, %	23-Sep	0.50%	0.50%	--
	Markit France manufacturing PMI (flash)	Sep	50.6	49.8	--
	Markit France services PMI (flash)	Sep	51.5	51.5	--
	Markit/BME Germany manufacturing PMI (flash)	Sep	52.5	52.2	--
	Markit Germany services PMI (flash)	Sep	52.9	52.5	--
	Markit Eurozone manufacturing PMI (flash)	Sep	51.9	51.7	--
	Markit Eurozone services PMI (flash)	Sep	50.5	50.5	--
	Markit UK PMI manufacturing SA (flash)	Sep	54.0	55.2	--
	Markit/CIPS UK services PMI (flash)	Sep	55.8	58.8	--
	Markit US manufacturing PMI (flash)	Sep	53.3	53.1	--
	Markit US services PMI (flash)	Sep	54.5	55.0	--
	24-Sep	France manufacturing confidence	Sep	96.0	93.0
Germany IFO business climate		Sep	93.8	92.6	--
Hong Kong exports, % YoY		Aug	(3.0%)	(3.0%)	--
US initial jobless claims		19-Sep	840,000	860,000	--
US new home sales		Aug	890,000	901,000	--
25-Sep	UK GfK consumer confidence	Sep	(27.0)	(27.0)	--
	Singapore industrial production, % YoY	Aug	(0.1%)	(8.4%)	--
	Italy manufacturing confidence	Sep	87.4	86.1	--
	China current account balance, US\$ bn	Q2CY20	--	119.6	--

Source: Bloomberg, Bank of Baroda

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