WEEKLY WRAP

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All eyes on India's Q2 GDP print

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Rising global Covid-19 cases (4.2mn) drove global 10Y yields lower. US$ weakened with rising Covid-19 cases in US. However, US housing data continued to be upbeat supported by lower rates. Global equity markets inched up further on further progress in vaccine development. Indian equity markets are at record highs supported by FPI inflows of US$ 14.9bn in FYTD21. High frequency indicators point to continued recovery. We expect Q2FY21 GDP growth at (-) 8% and (-) 8.2% for FY21. RBI to remain on hold.

Markets

- **Bonds:** Apart from India and China, global 10Y yields closed lower with rising Covid-19 cases (4.2mn versus 12-week MA of 2.7mn). US 10Y fell the most by 7bps (0.82%) amidst muted retail sales and rising jobless claims. Germany's 10Y yield fell by 4bps (-0.58%) over uncertainty surrounding stimulus. China's 10Y yield rose by 6bps (3.34%) supported by better macro prints. India's 10Y yield closed flat at 5.88% supported by RBI's special OMO of Rs 100bn. System liquidity surplus was at Rs 5.2tn as on 20 Nov 2020, same as in the previous week.

- **Currency:** Global currencies closed higher against the dollar, with JPY, GBP and CNY appreciating the most (0.7%). DXY index fell by 0.4% in the week. A weaker dollar is a result of RCEP trade deal, better data from Asia and optimism around vaccine development. INR appreciated by 0.6% in the week supported by foreign inflows of US$ 1.7bn.

- **Equity:** Barring Dow, other global indices closed higher. In the US investors turned cautious over surging Covid-19 cases and the announcement by Fed that it will allow some of the key central bank funded programs to expire on 31 Dec 2020. Elsewhere, Shanghai Comp (2%) and Sensex (1%) rose the most. Capital goods, power and auto stocks rose the most.

- **Upcoming key events:** Markets will monitor daily addition of Covid-19 cases. Apart from this, Fed minutes, Q3 GDP data (second estimate), US durable goods orders and global flash PMI data will be in focus. On the domestic front, fiscal and GDP data will be released.

India macro developments

- Domestic trade activity in India continues to rise steadily as visible in rail freight movement which rose by 13.6% during 1-10 Nov 2020. However, this was slightly lower than growth seen in the same period last month (21.1%). On FYTD basis, activity is down by 4.8% so far. In order to sustain high growth in the long run, government has recently also announced infrastructure upgradation plans to take railway's loading capacity to 2024mt by CY24 from current level of 1200-1300mt.

- RBI's data showed that state borrowings in FYTD21 are up by 49% compared with last year and stood at Rs 4.48tn as of 17 Nov 2020. Cost of borrowing remains a concern for states as the average gap between SDLs and G-sec is beginning to inch up again. While it was at 54bps in the last auction it rose to 61bps in the recent auction held on 17 Nov 2020. However, RBI's OMO has supported the average gap which went down to 53.8bps in Nov'20 from 61.1 in Oct'20.

- As per news reports, government has received Rs 724.8bn from 45,855 cases under the tax dispute resolution scheme 'Vivad se Vishwas'. The revenue expected by the tax department from these cases was Rs 1.32tn. The scheme was launched to liquidate nearly Rs 9.5tn stuck in direct tax disputes for nearly 0.5mn cases.

- RBI's data showed that credit demand picked up to 5.7% for the fortnight ending 6 Nov 2020 compared with 5.1% in Oct'20. Deposits grew by 10.6% against 10.1% in Oct'20, led by both time (10.4% versus 10.1%) and demand deposit (12.6% versus 10.6%). CD ratio rose to 72.4 against 72.3 in Oct'20.

- RBI reported that currency in circulation (CIC) increased by Rs 438bn and stood at Rs 27.8tn for the week ending 13 Nov 2020. Reserve money rose by 15.2% on a YoY basis, compared with 12.3% a year ago. On FYTD basis, reserve money increased by 9.4% as against 3.8% a year ago.

- India's forex reserves rose to a fresh historic high at US$ 572.8bn in the week ended 13 Nov 2020. FX reserves increased by US$ 4.3bn this week, slightly lower compared with an increase of US$ 7.8bn last week. In FYTD21, forex reserves have increased by US$ 97.2bn compared with an accretion of US$ 36.3bn in the same period last year.

Global macro developments

- US retail sales rose at the slowest pace in 6-months by 0.3% in Oct'20 (est.: 0.5%) and against 1.6% increase in Nov'20. Excluding auto and gasoline, sales rose by only 0.2%, reflecting muted consumption demand. Industrial production on the other hand rose by 1.1% against 0.4% decline in Sep'20, led by increase in utilities (3.9% against -5.2% in Sep'20).
- US housing starts rose to 1.53mn in Oct'20 (1.46mn in Sep'20), noting a 4.9% MoM growth. Better than estimated (1.46mn) print was supported by lower mortgage rates (~2.84%) and higher demand for larger houses in the current work from home scenario. Single family home starts (77% of home building) rose by the highest pace since Apr'07 to 6.4% in Oct'20.
- US existing home sales rose for the 5th straight month by 4.3% to 6.9mn units in Oct'20 against 6.6mn units in Sep'20. This was due to record low mortgage rates (30-year fixed rate at ~2.8%). However, owing to supply crunch, median existing house price rose to a record high of US$ 0.3mn in Oct'20. In a separate print, US jobless claims rose by 31,000 to 742,000 for the week ending 14 Nov 2020 against its previous week's level.
- Flash estimate showed consumer confidence in both the Euro area and EU are down by 2.1 points and 2.2 points respectively and well below their long-term averages. Muted demand on the back of surging cases and uncertainty over US$ 2tn stimulus talks, attributed to this decline.
- CPI inflation in the UK rose by 0.7% in Oct'20 on a YoY basis, versus an increase of 0.5% in Sep'20 and expectation of 0.6% rise. This was led by clothing and food prices. However, prices of energy and travel declined in Oct'20. Core inflation (excluding energy and food) also rose to 1.5% from 1.3% in Sep'20. Despite the increase, inflation in UK remains well below BoE's target of 2%.
- RBA in its minutes re-affirmed that lower policy rates will continue as long as needed and are already showing effects. It observed that borrowing costs have fallen, exchange rate is low and there is steady growth in asset prices. In terms of forward guidance, it confirmed that targeting of 3-year bond rate will be continued instead of using 5-year bond rate. Unemployment was also given more weightage in the discussion.
- Bank of Indonesia has cut policy rate by 25bps, for the first time in 4-months, to its record low of 3.75%. In CYTD20, it has cut policy rate by 125bps. This decision was on the back of inflation remaining at 1.4%, well below the target of 2-4%, and to support growth. However, additional rate cuts are contingent on its currency's stability.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.82	(7)	4	20	(95)
UK	0.30	(4)	12	10	(40)
Japan	0.01	(1)	(1)	(2)	9
Germany	(0.58)	(4)	2	(8)	(22)
India	5.88	0	(5)	(21)	(62)
China	3.34	6	14	35	16
2Y yields (Δ bps)					
US	0.16	(2)	1	1	(147)
UK	(0.04)	(2)	2	1	(57)
Japan	(0.14)	(1)	0	(3)	5
Germany	(0.75)	(2)	3	(7)	(12)
India	3.97	(13)	(27)	(35)	(144)
China**	2.94	12	27	50	31
Currencies (Δ %)					
EUR	1.1857	0.2	0.3	0.5	7.6
GBP	1.3275	0.7	2.5	1.4	3.4
JPY	103.86	0.7	1.6	1.8	4.4
AUD	0.7302	0.4	3.6	2.0	7.6
INR	74.15	0.6	(0.9)	0.9	(3.4)
CNY	6.5630	0.7	1.7	5.2	6.8
Equity & Other indices (Δ %)					
Dow	29,263	(0.7)	3.4	4.8	5.0
FTSE	6,351	0.6	7.8	5.8	(13.3)
DAX	13,137	0.5	3.1	2.9	(0.2)
NIKKEI	25,527	0.6	8.3	11.4	10.4
Shanghai Comp	3,378	2.0	1.5	(0.1)	17.1
SENSEX	43,882	1.0	8.2	14.2	8.7
Brent (US$/bbl)	44.96	5.1	4.2	1.4	(29.1)
Gold (US$/oz)	1,871	(1.0)	(1.9)	(3.6)	28.0
CRB Index	423.5	1.9	2.2	9.6	9.3
Rogers Agri Index	827.3	1.8	4.7	14.9	14.1
LIBOR (3M)*	0.21	(1)	0	(4)	(170)
INR 5Y Swap*	5.11	(2)	(12)	(37)	(131)
India FII data (US$ mn)	**19 Nov**	**WTD**	**MTD**	**CYTD**	**FYTD**
FII-Debt	(103.2)	(101.3)	46.3	(14,183.4)	(4,423.9)
FII-Equity	294.7	1,775.5	6,163.6	12,710.0	19,313.0

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

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FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
23-Nov	Thailand exports, % YoY	Oct	(5.8%)	(3.9%)	--
	Taiwan industrial production, % YoY	Oct	8.3%	10.7%	--
	Markit France manufacturing PMI	Nov	49.9	51.3	--
	Markit France services PMI	Nov	39.0	46.5	--
	Markit/BME Germany manufacturing PMI	Nov	56.0	58.2	--
	Markit Germany services PMI	Nov	46.3	49.5	--
	Markit Eurozone manufacturing PMI	Nov	53.3	54.8	--
	Markit Eurozone services PMI	Nov	42.0	46.9	--
	Markit UK PMI manufacturing SA	Nov	50.5	53.7	--
	Markit/CIPS UK services PMI	Nov	42.8	51.4	--
	Markit US manufacturing PMI	Nov	53.0	53.4	--
	Markit US services PMI	Nov	55.0	56.9	--
24-Nov	Germany GDP, SA, % QoQ (final)	Q3CY20	8.2%	8.2%	--
	France manufacturing confidence	Nov	91.0	93.0	--
	Hong Kong exports, % YoY	Oct	9.0%	9.1%	--
	Germany IFO business climate index	Nov	90.3	92.7	--
	US conf. board consumer confidence	Nov	97.9	100.9	--
25-Nov	US initial jobless claims (in thousands)	21-Nov	733.0	742.0	--
	US advance goods trade balance, US$ bn	Oct	(80.0)	(79.4)	--
	US wholesale inventories, % MoM	Oct	0.4%	0.4%	--
	US GDP, annualized % QoQ (second estimate)	Q3CY20	33.1%	33.1%	--
	US durable goods orders, % MoM	Oct	0.9%	1.9%	--
	US University of Mich. Sentiment index	Nov	77.0	77.0	--
	US new home sales (in thousands)	Oct	973.0	959.0	--
26-Nov	US FOMC meeting minutes	05-Nov	--	--	--
	Japan machine tool orders, % YoY	Oct	--	(5.9%)	--
	Germany GfK consumer confidence	Dec	(5.0)	(3.1)	--
	France consumer confidence	Nov	92.0	94.0	--
	BoK 7-Day repo rate	26-Nov	0.5%	0.5%	--
27-Nov	China industrial profits, % YoY	Oct	--	10.1%	--
	France CPI, % YoY	Nov	0.1%	0.0%	--
	France GDP, % QoQ (final)	Q3CY20	18.2%	18.2%	--
	Taiwan GDP, % YoY (final)	Q3CY20	3.3%	3.3%	--
	Eurozone economic confidence	Nov	86.0	90.9	--
	Eurozone consumer confidence	Nov	--	(17.6)	--
	India eight core index, % YoY	Oct	--	(0.8%)	--
	India GDP, % YoY	Q2FY21	(8.5%)	(23.9%)	--
	India fiscal deficit, Rs crore	Oct	--	43,646.0	--

Source: Bloomberg, Bank of Baroda

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