

WEEKLY WRAP

24 August 2020

Global yields dip, Indian yields rise

Global yields (ex-India and China) fell after macro data showed global recovery flattening, in particular in Eurozone. US manufacturing and PMI were above estimates. So were jobless claims. Concerns over uncertainty of US recovery flagged by Fed pushed US 10Y yield lower by 8bps. On the other hand, India's 10Y yield rose by 14bps as higher than estimated inflation implies rate cuts are behind us. MPC members also raised concern about rising inflation. At the same time, India's economic recovery continues.

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Markets

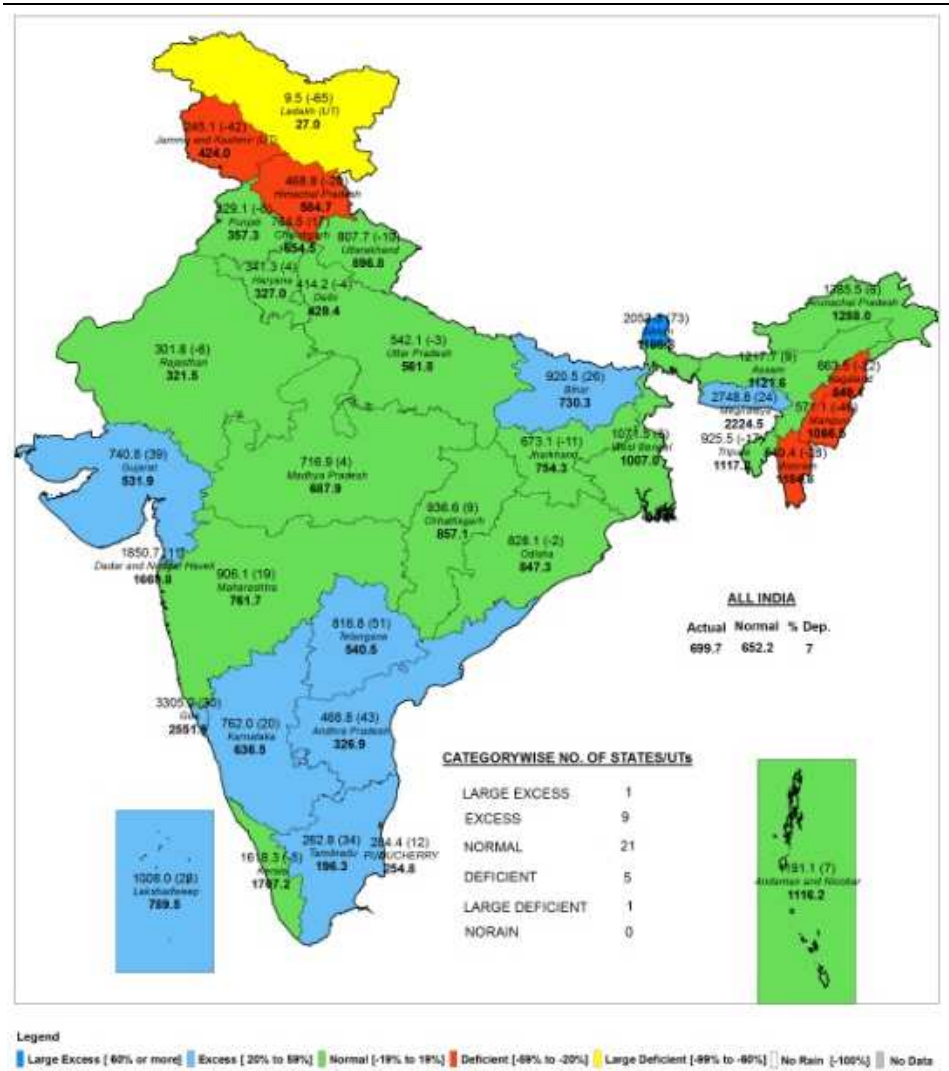
- **Bonds:** Except India and China, global yields closed lower. US 10Y yield fell by 8bps (0.63%). Fed refrained from changing its guidance in its upcoming Sep'20 meeting. Oil prices fell by 1% (US\$ 44/bbl) as OPEC+ members expect oil demand to fall by 9.1mnbpd in CY20, 0.1mnbpd more than the previous forecast. India's 10Y yield rose the most by 14bps (6.09%) as RBI's hawkish minutes dented hopes of further rate cuts. System liquidity surplus was higher at Rs 3.6tn as on 21 Aug 2020 compared with Rs 3.3tn in the previous week.
- **Currency:** Global currencies closed mixed this week. DXY rose by 0.2% in the week supported by better than expected US PMI and existing home sales. However, higher than estimated increase in jobless claims capped gains. EUR depreciated by 0.4% in the week as Eurozone PMIs fell from previous month. INR appreciated marginally by 0.1% on the back of FII equity inflows of US\$ 1.9bn in the week.
- **Equity:** Barring Shanghai Comp and Sensex, global equity indices ended lower this week guided by Fed minutes and subdued PMI print for Eurozone. Amongst other indices, Nikkei (1.6%) declined the most followed by FTSE (1.4%). However, Sensex (1.5%) ended the week in green with power and metal stocks advancing the most.
- **Upcoming key events:** In the current week, markets will closely watch Q2CY20 GDP prints of US, Germany and France. In addition, Germany's IFO business sentiment index, US consumer confidence, China's industrial profits and BoK's rate decision will also be released. On the domestic front, RBI's balance sheet data is awaited.



Monsoon tracker

- For the period 1 Jun 2020 to 23 Aug 2020, monsoon is 7% above LPA compared with 2% last year. States like Bihar, Gujarat, Telangana, Karnataka and Tamil Nadu have been receiving heavy rainfall. On the other hand, parts of J&K, Himachal Pradesh and Manipur have received deficient rainfall. Central and North Eastern region of the country continue to receive normal rainfall.
- Sown area for Kharif crops has increased by 8.6% as on 21 Aug 2020, compared with last year. The improvement is led by higher sown area for oilseeds (14.1%), rice (11.7%) and pulses (6.7%). Sowing area of cotton and jute & mesta has also improved by 3.4% and 1.7% respectively.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun-24 Aug 2020

India macro developments

- As per CMIE data, India's unemployment rate (30-day moving average) rose to 8.23% against 8.14% in the previous week. Rural unemployment rate rose to 7.6% from 7.52% in the previous week. Urban unemployment rate also rose to 9.58% from 9.46% in the previous week.
- MPC members noted future growth trajectory remains uncertain. MPC members also expressed concerns over rising inflation and said that while Apr'20 and May'20 CPI prints may be regarded as break in the series, upward pressure on inflation is seen in most food items. Further, supply side pressures imply that inflation is likely to be above 4% even in H2FY21, implying no room for rate cut as of now.
- RBI reported that currency in circulation (CIC) increased by Rs 56bn and stood at Rs 26.9tn for the week ending 14 Aug 2020. Reserve money rose by 14.4% on a YoY basis, compared with 13.6% a year ago. On a FYTD basis, reserve money increased by 5.7% as against 1% last year.
- India's forex reserves declined by US\$ 2.9bn in the week ended 14 Aug 2020 to US\$ 535.3bn. Last week, forex reserves had increased by US\$ 3.6bn to a record high of US\$ 538.2bn. In FYTD21, forex reserves have increased by US\$ 59.7bn compared with an accretion of US\$ 18.6bn in the same period last year.
- As per news reports, government has received proposals worth Rs 12tn for the next five years under Production Linked Incentive (PLI) scheme. The top global and domestic mobile manufacturers have applied for the same. Out of this Rs 12tn around Rs 7tn will be for exports. It has also been said that this will generate employment to 1.2mn people.
- In an effort to provide greater funding to NBFCs, government has decided to expand the Partial Credit Guarantee Scheme (PCGS) 2.0 by another three months till 19 Nov'20. It has also allowed PSBs to invest up to 50% of total investments in AA and AA- rated bonds against 25% earlier.
- Railway freight data showed further improvement in 1st 10 days of Aug'20 as it registered 6.7% growth compared with 4.6% decline in Jul'20. This indicates pick up in domestic trade activity as states re-open after imposing lockdowns in Jul'20. On FYTD basis however, freight activity is still down by 15.8% versus 0.7% increase last year.

Global macro developments

- US jobless claims rose to 1.11mn for the week ended 15 Aug 2020, from 0.96mn in the previous week and est.: 0.93mn. With resurgence in COVID-19 cases and many states going into lockdown again, jobless claims were pushed beyond the 1mn mark. The 4W moving average was at 1.18mn versus 1.25mn in the previous week.
- Euro Area CPI rose by 0.4% in Jul'20 from 0.3% in Jun'20. Core CPI showed sharper improvement at 1.2% versus 0.8% in Jun'20. This was driven by higher prices of both non-industrial goods and services, each rising by 0.4%. CPI in UK too edged up to 1% in Jul'20 from 0.6% in Jun'20 as lockdown restrictions eased. Prices of clothing and footwear contributed most to the gains.
- US Fed minutes highlighted the commitment to maintain ultra-accommodative monetary policy to support the economy. FOMC members also backed away from any guidance shift in their upcoming Sep'20 meeting. On the state of the economy, they noted some recent optimism in few macro indicators. However, the path of the recovery would depend on containment of the virus.
- Flash manufacturing PMIs for Europe indicate that while activity improved sharply in the UK, it was subdued in the Eurozone. In UK, PMI jumped to 30-month high of 55.3 in Aug'20 from 53.3 in Jul'20, while in Eurozone it moved to 51.7 from 51.8. PMI for Germany rose to 53 from 51 in Jul'20, but for France it slipped into contraction at 49 from 52.4 in Jul'20. Sharp slowdown in new orders and acceleration in job cuts were the key drivers.
- US housing starts rose by 22.6% on MoM basis in Jul'20 to 1.5mn units from 1.22mn units in Jun'20 (0.3%). This was the biggest gain since Oct'16 and brings the new housing starts much closer to pre-pandemic levels (1.57mn in Feb'20). The surge was driven by both single and multi-family housing units. Building permits also rose by 18.8% in Jul'20 (3.5% in Jun'20) with 17% jump in single family units.
- Flash manufacturing (53.6; 19-month high) and services PMI (54.8; 17-month high) rose significantly in the US in Aug'20. This was driven by expansion in new orders and exports. Both employment and input costs inched up. Separately, US existing home sales rose to ~14-year high of 5.86mn in Jul'20 (4.7mn in Jun'20) supported by lower mortgage rates.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.63	(8)	5	(3)	(91)
UK	0.21	(4)	8	3	(28)
Japan	0.03	(2)	2	3	27
Germany	(0.51)	(9)	(3)	(2)	17
India	6.09	14	28	34	(49)
China	2.99	5	8	41	(8)
2Y yields (Δ bps)					
US	0.14	0	(1)	(2)	(139)
UK	(0.05)	(3)	5	0	(50)
Japan	(0.11)	0	2	6	19
Germany	(0.68)	(4)	(1)	0	21
India	4.32	7	14	(11)	(149)
China**	2.44	18	38	108	(16)
Currencies (Δ %)					
EUR	1.1797	(0.4)	1.7	8.2	5.9
GBP	1.3090	0	2.7	7.5	6.7
JPY	105.8000	0.8	1.0	1.7	(0.4)
AUD	0.7161	(0.1)	0.9	9.5	6.0
INR	74.8450	0.1	(0.1)	1.5	(4.4)
CNY	6.9194	0.4	1.2	3.0	2.5
Equity & Other indices (Δ %)					
Dow	27,930	0	4.8	14.2	9.0
FTSE	6,002	(1.4)	(3.4)	0.1	(15.4)
DAX	12,765	(1.1)	(2.6)	15.3	9.9
NIKKEI	22,920	(1.6)	0.7	12.4	10.7
Shanghai Comp	3,381	0.6	1.7	20.1	16.7
SENSEX	38,435	1.5	0.8	25.3	4.7
Brent (US\$/bbl)	44.35	(1.0)	2.4	26.2	(25.3)
Gold (US\$/oz)	1,940	(0.2)	2.8	11.9	27.1
CRB Index	386.5	1.2	3.8	5.7	(1.5)
Rogers Agri Index	720.0	1.6	3.7	8.9	5.6
LIBOR (3M)*	0.25	(2)	1	(12)	(189)
INR 5Y Swap*	5.48	14	22	35	(78)
India FII data (US\$ mn)					
	20 Aug	WTD	MTD	CYTD	FYTD
FII-Debt	(148.5)	(113.6)	(160.0)	(14,687.6)	(4,928.1)
FII-Equity	(21.5)	1,911.2	5,499.5	4,211.3	10,814.3

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
24-Aug	Thailand exports, % YoY	Jul	(18.8%)	(23.2%)	(11.4%)
	Singapore CPI core, % YoY	Jul	(0.4%)	(0.2%)	--
	Taiwan industrial production, % YoY	Jul	3.5%	7.3%	--
	Taiwan unemployment rate, %	Jul	3.9%	4.0%	--
25-Aug	South Korea consumer confidence	Aug	--	84.2	--
	Germany GDP SA, % QoQ	Q2CY20	(10.1%)	(10.1%)	--
	Germany IFO business climate	Aug	92.2	90.5	--
	US conference board consumer confidence	Aug	93.0	92.6	--
	US new home sales	Jul	785,000	776,000	--
26-Aug	Singapore industrial production, % YoY	Jul	(7.0%)	(6.7%)	--
	France consumer confidence	Aug	94.0	94.0	--
	Hong Kong exports, % YoY	Jul	(3.5%)	(1.3%)	--
	US durable goods orders, % MoM	Jul P	4.5%	7.6%	--
27-Aug	China industrial profits, % YoY	Jul	--	11.5%	--
	Japan machine tool orders, % YoY	Jul F	--	(31.1%)	--
	France manufacturing confidence	Aug	86.0	82.0	--
	Italy industrial orders, % MoM	Jun	--	42.2%	--
	US GDP annualized, % QoQ	Q2CY20	(32.5%)	(32.9%)	--
	US initial jobless claims, in mn	22-Aug	1.0	1.1	--
	US pending home sales, % MoM	Jul	2.0%	16.6%	--
	Bank of Korea 7-day repo rate, %	27-Aug	0.5%	0.5%	--
28-Aug	Germany retail sales, % MoM	Jul	0.5%	(1.6%)	--
	Germany GfK consumer confidence	Sep	1.0	(0.3)	--
	France CPI, % YoY	Aug P	0.1%	0.8%	--
	France GDP, % QoQ	Q2CY20	(13.8%)	(13.8%)	--
	Italy manufacturing confidence	Aug	88.9	85.2	--
	Euro Area consumer confidence	Aug F	--	(14.7)	--
	US advance goods trade balance, US\$ bn	Jul	(72.3)	(70.6)	--
	US University of Michigan consumer sentiment	Aug F	72.8	72.8	--

Source: Bloomberg, Bank of Baroda

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