

WEEKLY WRAP

28 September 2020

RBI to maintain status quo

Global equities fell and DXY regained strength with European governments imposing fresh restrictions to restrict the spread of COVID-19. US 10Y yield fell by 4bps and oil prices by 2.9%. On the domestic front, 10Y yield rose by 3bps with H2 borrowing calendar set to be announced this week. RBI seems to have moved from open market operations to secondary market purchases to restrict yields from rising. While fiscal data will be released on Wednesday, monetary policy will be announced a day later. We expect status quo on rates.

Sameer Narang | Sonal Badhan

chief.economist@bankofbaroda.com

Markets

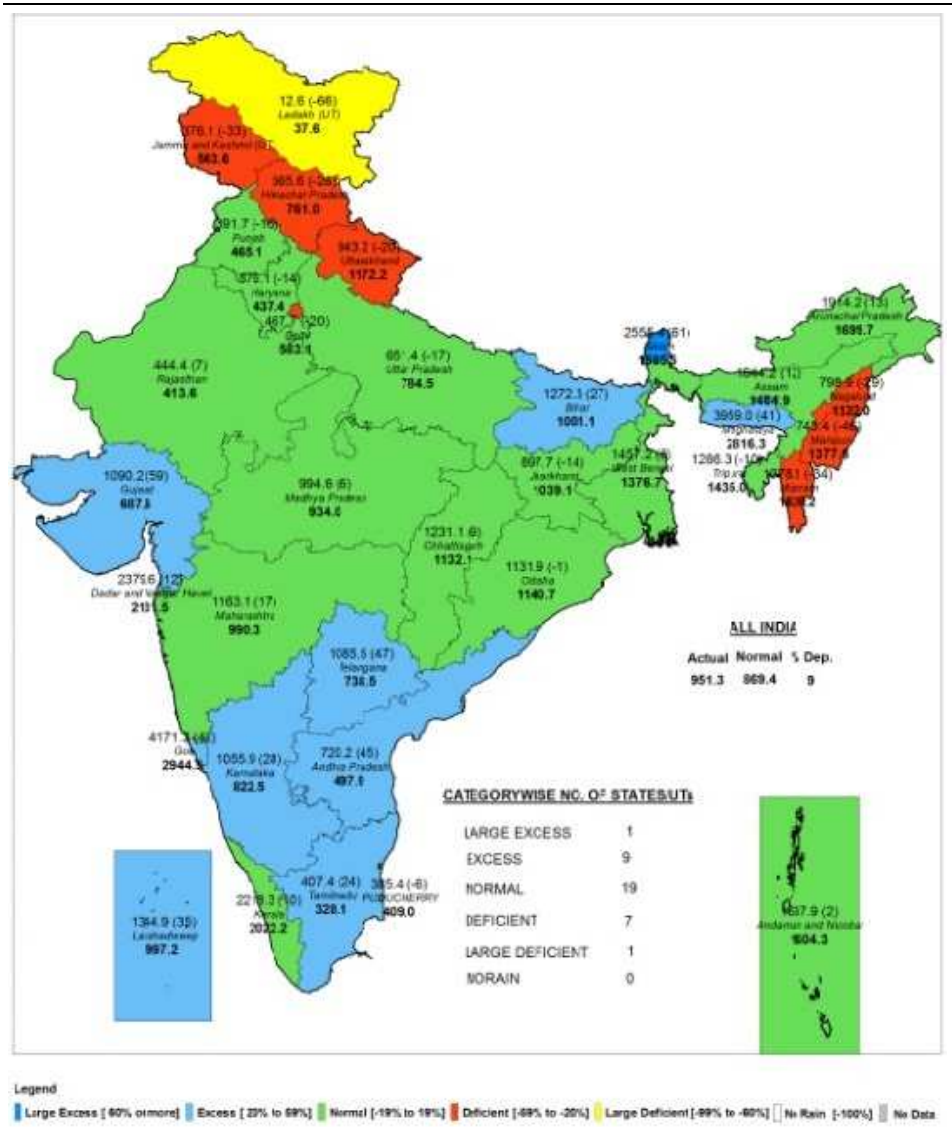
- **Bonds:** US 10Y yield fell by 4bps (0.65%) as jobless claims were higher than estimate. Oil prices also fell by 2.9% (US\$ 42/bbl) with rising cases in Europe leading to renewed restrictions unveiled by governments. UK yields went up. India's 10Y yield rose by 3bps (6.04%) amidst fiscal concerns. System liquidity surplus was at Rs 2.8tn as on 25 Sep 2020 compared with Rs 2.5tn in the previous week.
- **Currency:** Global currencies closed lower this week as dollar rebounded. DXY rose by 1.8% this week due to safe-haven demand amidst concerns over economic recovery. EUR depreciated the most by 1.8% as COVID-19 cases continued to increase. GBP too depreciated by 1.3% as UK imposed new restrictions to curb the spread of the virus. INR depreciated by 0.2% on the back of FII outflows of US\$ 912mn.
- **Equity:** Global indices ended lower on the back of fresh restrictions imposed by countries to curb spread of COVID-19 cases. While manufacturing sector continues to show recovery, services sector output is likely to be impacted. Amongst indices, Dax (4.9%) slumped the most. This was followed by Sensex (3.8%) led by fall in real estate and oil & gas stocks.
- **Upcoming key events:** In current week, markets will await manufacturing PMI data of major economies. Apart from this, US jobs report will also shed light on employment scenario. On the domestic front, RBI's monetary policy will be announced on October 1, 2020. We expect status quo. Borrowing calendar for H2, fiscal data for Aug'20 and BoP data for Q1FY21 will be released on 30 Sep 2020.



Monsoon tracker

- For the period 1 Jun 2020 to 27 Sep 2020, monsoon is 9% above LPA compared with 6% last year. Parts of Central and North Eastern region of the country continue to receive normal rainfall. States like Gujarat, Bihar, Telangana, Andhra Pradesh and Tamil Nadu have received excess rainfall. On the other hand, parts of J&K, Himachal Pradesh, Nagaland and Mizoram have received deficient rainfall.
- Overall Kharif sowing improved by 4.8% as on 25 Sep 2020 compared with last year. This was led by higher acreage of oilseeds (9.8%), rice (5.6%) and cereals (4.3%). Sowing area of cotton and sugarcane have also improved by 2.1% and 1.8% respectively.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun-27 Sep 2020

India macro developments

- Government has hiked the MSP for Rabi crops for the marketing season (2021-2022) in line with the recommendations of Swaminathan Commission. MSP for wheat has been hiked by Rs 50 per quintal to Rs 1,975. MSP for pulses and oilseeds have been raised to the highest in order to boost their production and reduce imports. It was also assured that the procurement at MSP and APMC mandis will also continue.
- According to the first advance estimates, total food grain production in the country during the kharif season is estimated at 144.5mn ton, on the back of normal monsoon. These estimates are higher by 0.8% compared with last year and higher by 9.83mn ton than average production of last five years. Production estimates of both cotton and sugarcane are also higher by 4.6% and 12.4% respectively from last year.
- Government is aiming to subsume 44 central laws into four codes on wages, industrial relations, occupational safety, health and working conditions and social security. This would provide for 'one labour return, one licence and one registration' and help securing a higher rank in the Ease of Doing Business (current rank: 63, up 14 places from last year).
- RBI reported that currency in circulation (CIC) declined by Rs 58bn and stood at Rs 26.9tn for the week ending 18 Sep 2020. Reserve money rose by 14.8% on a YoY basis, compared with 12.7% a year ago. On a FYTD basis, reserve money increased by 6.3% as against 1.2% last year.
- As announced under the Atama Nirbhar Bharat Abhiyan package, centre has increased the borrowing limits of 5 states (A.P, Telangana, Karnataka, Goa and Tripura) by 0.5% of their GSDP as they have implemented the 'One Nation One Ration Card' card scheme. This will allow them to borrow additional Rs 99.13bn from the markets.
- S&P retained India's sovereign rating at the lowest investment grade at BBB- with stable outlook. This was on account of possible rebound from a projected contraction of 9% in FY21 to a recovery of 10% in FY22. This will be supported by above-average long-term real GDP growth, sound external profile and policy stability. It also expects India's fiscal deficit to rise to 12.5% of GDP in FY21, led by weaker revenue generation, debt-to-GDP ratio is expected to exceed 90% this year.
- As per news reports, government is planning to offer US\$ 4.6bn incentives to companies for setting up manufacturing facilities to promote electric vehicles. Niti Aayog recommended that this would reduce India oil import bill by US\$ 40bn by FY30. Earlier, government has also announced the PLI scheme and incentives of Rs 409.51bn to boost manufacturing.

Global macro developments

- S.Korea's 20 day exports rose for the 1st time in six months in Sep'20 to 3.6% compared with 7.5% decline in the same period in Aug'20. The jump was led by semiconductors (25.3%) and cars (38.8%). Country-wise, exports to China (8.7%), US (16.1%) and Europe (9.6%) rose the most.
- Japan's flash manufacturing PMI remained broadly unchanged at 47.3 in Sep'20 versus 47.2 in Aug'20 led by a sharp decline in output. The index has remained in the contractionary zone for the 17th straight month. Green shoots were however visible as employment and business sentiment improved. Services PMI edged up to its highest since Jan'20 at 45.6 in Sep'20 versus 45 in Aug'20.
- Manufacturing activity showed improvement while services activity faltered globally. In the Eurozone, flash manufacturing PMI improved to a 25-month high of 53.7 in Sep'20 from 51.7 in Aug'20. Services PMI hit a 4-month low of 47.6 from 50.5 in Aug'20. In the US, manufacturing PMI rose to a 20-month high of 53.5 from 53.1 in Aug'20. Services PMI was at its 2-month low of 54.6 from 55 in Aug'20. Moderate rise in input cost was visible and employment remained considerably bleak.
- Germany's consumer confidence for Oct'20 edged up a tad to (-) 1.6 points from (-) 1.7 in Sep'20. This was on the back of improvement in economic (24.1 versus 11.7) and income expectations (16.1 from 12.8). However, willingness to spend index eased to its lowest since Jun'20, owing to rising lay-offs and decline in nominal wages (4% in Q2)
- US jobless claims for the week ending 19 Sep rose by 4,000 to 0.87mn (est.:0.84mn) signalling the need for additional fiscal stimulus in order to aid the economic recovery. Separately, new home sales rebounded to near 14-year high of 1.01mn units in Aug'20 (4.8% MoM) on the back of robust demand and lower mortgage rates.
- Germany's Ifo business climate index rose for the 5th straight month to 93.4 in Sep'20 from 92.5 in Aug'20. The improvement was led by manufacturing as export demand picked up. However, services sector continues to remain weak. Separately, business confidence index in France also rose to its highest since Feb'20 at 92 versus 90 in Aug'20. Both industrial as well as services sector showed improvement.
- GfK consumer confidence index for UK edged up to (-) 25 in Sep'20, from a historic low of (-) 36 in Jun'20. Improvement was seen in the index for general economic situation for the next 12 months as it edged up to (-) 38 from (-) 42 in Jun'20. However, with rising COVID-19 cases and new restrictions in place, the outlook may worsen.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.65	(4)	(10)	1	(103)
UK	0.19	1	(15)	2	(31)
Japan	0.01	0	(3)	0	25
Germany	(0.53)	(4)	(12)	(5)	4
India	6.04	3	(11)	12	(70)
China	3.13	1	7	26	(1)
2Y yields (Δ bps)					
US	0.13	(1)	(3)	(4)	(150)
UK	(0.07)	5	(5)	0	(46)
Japan	(0.15)	(1)	(3)	(3)	17
Germany	(0.71)	(1)	(5)	(1)	6
India	4.45	1	(4)	19	(136)
China**	2.60	(1)	10	42	4
Currencies (Δ %)					
EUR	1.1631	(1.8)	(1.6)	3.7	6.3
GBP	1.2746	(1.3)	(3.4)	3.3	3.7
JPY	105.58	(1.0)	0.9	1.5	2.2
AUD	0.7031	(3.5)	(3.1)	2.4	3.9
INR	73.61	(0.2)	0.3	2.7	(4.3)
CNY	6.8238	(0.8)	1.0	3.6	4.2
Equity & Other indices (Δ %)					
Dow	27,174	(1.7)	(4.6)	8.6	1.3
FTSE	5,843	(2.7)	(2.6)	(5.1)	(21.3)
DAX	12,469	(4.9)	(4.8)	3.1	0.7
NIKKEI	23,205	(0.7)	0	3.1	6.1
Shanghai Comp	3,219	(3.6)	(3.9)	8.1	9.8
SENSEX	37,389	(3.8)	(4.4)	6.3	(3.7)
Brent (US\$/bbl)	41.92	(2.9)	(7.0)	2.2	(32.3)
Gold (US\$/oz)	1,862	(4.6)	(3.5)	5.1	24.4
CRB Index	403.5	(1.6)	3.2	12.4	4.1
Rogers Agri Index	744.2	(2.4)	0.8	13.0	5.7
LIBOR (3M)*	0.22	(1)	(3)	(9)	(188)
INR 5Y Swap*	5.48	(11)	(17)	20	(90)
India FII data (US\$ mn)					
	24 Sep	WTD	MTD	CYTD	FYTD
FII-Debt	(3.4)	114.9	472.3	(14,617.7)	(4,858.2)
FII-Equity	(225.3)	(1,032.7)	(220.8)	4,586.5	11,189.5

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
28-Sep	Japan leading index	Jul	--	86.9	--
	ECB's Lagarde European parliament hearing				
29-Sep	South Korea industrial production, % YoY	Aug	(3.0%)	(2.5%)	--
	France consumer confidence	Sep	93.0	94.0	--
	Euro Area consumer confidence	Sep	--	(13.9)	--
	Germany CPI, % YoY	Sep	0.0%	0.0%	--
	US advance goods trade balance, US\$ bn	Aug	(81.8)	(79.3)	--
	US conference board consumer confidence	Sep	90.0	84.8	--
30-Sep	Japan retail sales, % YoY	Aug	(3.1%)	(2.8%)	--
	Japan industrial production, % MoM	Aug	1.4%	8.7%	--
	China manufacturing PMI	Sep	51.3	51.0	--
	China non-manufacturing PMI	Sep	54.7	55.2	--
	Germany retail sales, % MoM	Aug	0.4%	(0.9%)	--
	UK GDP, % QoQ	Q2CY20	(20.4%)	(20.4%)	--
	Japan machine tool orders, % YoY	Aug	--	(23.3%)	--
	India eight infrastructure industries, % YoY	Aug	--	(9.6%)	--
	US GDP annualized, % QoQ	Q2CY20	(31.7%)	(31.7%)	--
	India fiscal deficit, Rs crore	Aug	--	1,58,986	--
India current account balance, US\$ bn	Q2CY20	19.5	0.6	--	
1-Oct	South Korea exports, % YoY	Sep	3.8%	(9.9%)	--
	Jibun Bank Japan manufacturing PMI	Sep	--	47.3	--
	Markit India manufacturing PMI	Sep	--	52.0	--
	RBI repo rate, %	01-Oct	4.0%	4.0%	--
	Markit Italy manufacturing PMI	Sep	53.5	53.1	--
	Markit France manufacturing PMI	Sep	50.9	50.9	--
	Markit/BME Germany manufacturing PMI	Sep	56.6	56.6	--
	Markit Eurozone manufacturing PMI	Sep	53.7	53.7	--
	Markit UK PMI manufacturing SA	Sep	54.3	54.3	--
	Euro Area unemployment rate, %	Aug	8.1%	7.9%	--
	US initial jobless claims	26-Sep	850k	870k	--
	Markit US manufacturing PMI	Sep	53.5	53.5	--
	US ISM manufacturing index	Sep	56.3	56.0	--
	2-Oct	Australia retail sales, % MoM	Aug	(4.2%)	3.2%
Euro Area CPI estimate, % YoY		Sep	(0.2%)	(0.2%)	--
US change in non-farm payrolls		Sep	8,50,000	13,71,000	--
US unemployment rate, %		Sep	8.2%	8.4%	--
US factory orders, % MoM		Aug	1.0%	6.4%	--

Source: Bloomberg, Bank of Baroda

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Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com