

WEEKLY WRAP

29 June 2020

COVID spike worries markets

Despite global economy gaining positive momentum in the form of improvement in consumer confidence and US home sales, equity markets and yields fell as markets were worried about resurgence in COVID-19 cases.

Cases have now crossed 10mn from 8.9mn last week. On the domestic front, Sensex gained 1.3% as activity is inching up. FII inflows of US\$ 232mn were supportive for INR. Apart from global and domestic data, domestic COVID-19 cases will be eventful in future course of action by government.

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Markets

- **Bonds:** Except India, global 10Y yields closed lower amidst rising COVID-19 cases in the US (0.27mn weekly increase). Macro data continued to improve as seen in consumer confidence and flash PMI. US 10Y yield fell by 5bps (0.64%) and oil prices fell by 2.8% (US\$ 41/bbl). India's 10Y yield rose by 7bps (5.92%) as RBI failed to meet market's expectation of OMO purchase announcement. System liquidity surplus rose to Rs 3.7tn as on 26 Jun 2020 compared with Rs 3.3tn in the previous week.
- **Currency:** Global currencies closed mixed this week. Fears of a second wave of COVID-19 and US-China trade tensions continued to weigh on investor sentiment. However, improvement in global flash manufacturing and services PMIs were seen as positive. JPY and DXY fell by 0.3% and 0.2% respectively. INR appreciated by 0.7% on the back of FII inflows.
- **Equity:** Global indices ended the week mixed as investors continued to monitor the resurgence in COVID-19 cases. Dow (3.3%) declined the most followed by FTSE (2.1%) and Dax (2%). On the other hand, Sensex (1.3%) ended in green for the second straight week and was pushed higher by cap goods and power stocks.
- **Upcoming key events:** In current week, markets will closely watch global PMIs including China, FOMC minutes and macro prints from the US such as non-farm payroll, factory orders and unemployment rate. On the domestic front, apart from new unlock rules and spike in COVID cases, market will also track PMIs, BoP, core sector and fiscal data.



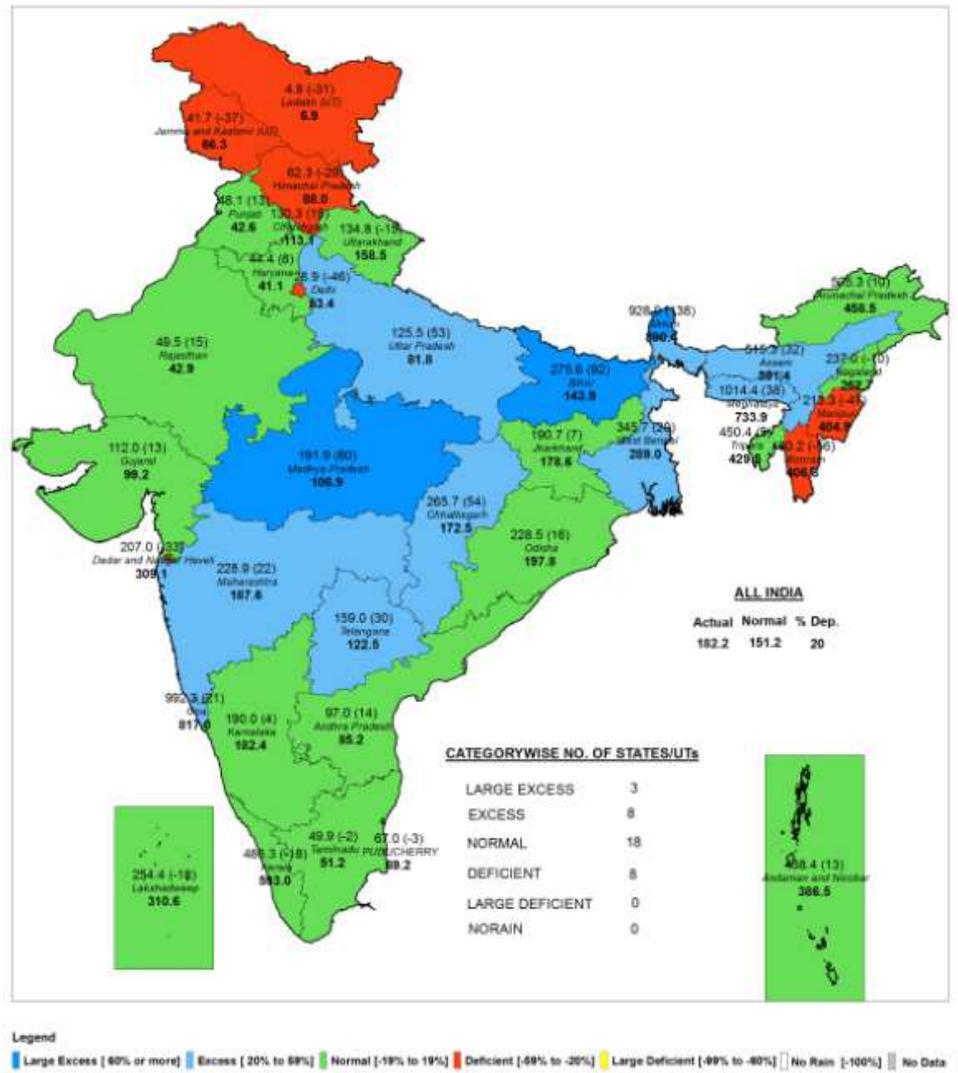
India macro developments

- Moody's has cut India's growth projection in FY21 and expects GDP to contract by 3.1% against 0.2% estimated earlier. In a separate report, Fitch has also anticipated government to come up with another fiscal stimulus worth 1% of GDP, apart from the Rs 21tn fiscal and monetary measures announced previously. Both Moody's and Fitch earlier downgraded India's sovereign rating and outlook respectively due to crisis from COVID-19.
- As per World Bank data, India has retained its position as the third largest economy in purchasing power parity (PPP) terms. It accounts for 6.7% or US\$ 8.1tn of world's US\$ 120tn economy, after China (16.4%) and US (16.3%). The calculation is based on PPP of Rs/US\$ at 20.65 in 2017 (reference year) versus 15.55 in 2011 and exchange rate at 65.12 against 46.67 in 2011.
- As per news reports, led by steep hike in excise duty on petrol and diesel and pick-up in demand, centre's excise collections have risen to ~Rs 400bn in FYTD21 (Apr-May). The jump was 2.8x in May'20 as collection rose to Rs 294bn from Rs 106bn in Apr'20. This was following Rs 10/ltr hike in excise duty of petrol and Rs 13/ltr hike in diesel on 5 May 2020. Collections so far account for 15% of FY21 BE of Rs 2.67tn.
- In an effort to provide a helping hand to non-MSMEs, government is considering a one-time loan restructuring facility especially for those businesses which have been severely hit by the pandemic. Similar facility has already been extended by RBI to MSMEs till Dec'20 from Mar'20 earlier. Further, government is also planning to extend the existing emergency line of credit (Rs 3tn) to MSMEs.
- IMF estimates global GDP growth to contract by 4.9% in CY20, a sharp reduction from a decline of 3% estimated in Apr'20. The slowdown is led by significant contraction in US (8%) and Euro Zone (10.2%). Growth recovery in CY21 is also expected to be weaker at 5.4% versus 5.8% projected earlier. India's GDP is estimated to shrink by 4.5% in FY21 (1.9% in Apr'20) before recovering to 6% in FY22.
- India's forex reserves declined by US\$ 2.1bn to US\$ 505.6bn for the week ending 19 Jun 2020. This was the first weekly decline since Apr'20. Last week, forex reserves had increased by US\$ 5.9bn to touch a record-high of US\$ 507.6bn. In FYTD21, forex reserves have risen by US\$ 30bn, compared with an accretion of US\$ 4.2bn last year.

Monsoon Tracker

- For the period 1 Jun 2020 to 28 Jun 2020, monsoon is 20% above LPA compared with (-) 36% below LPA last year. The South-West monsoon has now covered pan India advancing by over 12 days compared to its normal date (8 Jul). While Madhya Pradesh, Uttar Pradesh, Bihar and parts of North Eastern region received excess rainfall, Rajasthan, Gujarat and Southern India has received normal rainfall.
- Overall Kharif sowing has increased by 104.3% as on 26 Jun 2020 compared with last year led by sharp jump in the sown area for pulses (222%) and foodgrains (80%). Major improvement was also visible in sown area for cotton (165%). However, sown area of jute and mesta has declined by 12%.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Source: IMD, Bank of Baroda Research. Note: Cumulative Data for 1 Jun-28 Jun 2020.

Global macro developments

- US existing home sales fell by 9.7% in May'20 on a MoM basis, versus estimated drop of 3% and 17.8% decline in Apr'20. At the current rate the inventory will take 4.8 months to clear compared with 4.3 months in Apr'20. While building permits and mortgage loan data shows marginal pickup in activity, overall investment in real estate continues to remain subdued and is estimated to drag the overall GDP down in Q2CY20.
- US new home sales surprised positively and jumped by 16.6% in May'20 to 0.67mn units. It was higher than anticipated (0.64mn) and was up from 5.2% increase in Apr'20. The rebound was led by record-low mortgage rates and relatively higher demand for new properties post the removal of lockdown restriction in view of COVID-19 pandemic.
- Flash PMIs indicate that manufacturing activity has seen marked improvement in Jun'20 as lockdown restrictions were lifted. UK and France have reported expansion in activity with indices at 50.1 and 52.1 respectively. Eurozone PMI came in at 46.9 versus 39.4 in May'20, while US PMI was at 49.6 versus 39.8. However, activity in Japan remains weak with index reading worsening to 28.9 from 30.3 in May'20.
- Germany's business climate showed signs of improvement with IFO index rising to 86.2 in Jun'20 as against 79.7 in May'20. This 6.5 points monthly increase is the highest in the entire series. Both the current situation and expectation index picked up. Business climate both in the manufacturing and service sector also showed considerable improvement.
- US GDP contracted by 5% in Q1CY20 on the back of lockdown imposed amidst the COVID-19 pandemic and is expected to decline further in Q2CY20. Separately, new orders for durable goods rebounded by 15.8% in May'20 from a decline of 18.1% in Apr'20, led by soaring of orders for transportation equipment and auto vehicles and parts. Initial jobless claims dropped by 60,000 to 1.48mn for the week ending 13 Jun.
- Germany's consumer confidence is expected to improve further in Jul'20 as the Gfk index rose to (-) 9.6 points from (-) 18.6 in Jun'20. Improvement was seen across all 3 sub-indices-economic and income expectations and propensity to buy. This was largely driven by economic stimulus package announced by the government, which also includes temporary VAT reductions.
- US personal spending rebounded in May'20 as it rose by 8.2% on MoM basis versus 12.6% decline in Apr'20. The improvement was led by higher spending on motor vehicles and parts, recreational goods and vehicle, healthcare, and food services and accommodation.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.64	(5)	(4)	(3)	(137)
UK	0.17	(7)	(2)	(20)	(65)
Japan	0.01	(1)	1	(1)	15
Germany	(0.48)	(7)	(7)	(1)	(16)
India	5.92	7	16	(23)	(98)
China	2.87	(1)	15	27	(39)
2Y yields (Δ bps)					
US	0.17	(2)	(1)	(8)	(158)
UK	(0.07)	(3)	(5)	(22)	(67)
Japan	(0.12)	2	3	1	9
Germany	(0.70)	(3)	(7)	(2)	3
India	4.25	(9)	(15)	(98)	(204)
China**	2.18	1	59	46	(45)
Currencies (Δ %)					
EUR	1.1219	0.4	1.9	0.7	(1.3)
GBP	1.2336	(0.1)	0.6	(1.0)	(2.7)
JPY	107.22	(0.3)	0.5	0.7	0.5
AUD	0.6865	0.4	3.7	11.3	(2.1)
INR	75.65	0.7	0.1	(1.0)	(9.5)
CNY	7.0782	(0.1)	1.3	0.3	(2.9)
Equity & Other indices (Δ %)					
Dow	25,016	(3.3)	(2.1)	15.6	(5.7)
FTSE	6,159	(2.1)	0.2	11.8	(16.8)
DAX	12,089	(2.0)	3.7	25.5	(1.5)
NIKKEI	22,512	0.1	5.1	16.1	5.5
Shanghai Comp	2,980	0.4	5.0	7.5	(0.6)
SENSEX	35,171	1.3	11.3	18.0	(11.2)
Brent (US\$/bbl)	41.02	(2.8)	18.1	64.5	(38.4)
Gold (US\$/oz)	1,771	1.6	3.6	8.8	25.6
CRB Index	358.9	(1.2)	(1.4)	(3.9)	(12.2)
Rogers Agri Index	658.4	(2.3)	(1.4)	(1.2)	(13.3)
LIBOR (3M)*	0.31	0	(5)	(114)	(201)
INR 5Y Swap*	5.28	12	15	(77)	(146)
India FII data (US\$ mn)					
	25 Jun	WTD	MTD	CYTD	FY20
FII-Debt	(16.4)	82.6	(379.7)	(14,435.0)	(4,675.5)
FII-Equity	(68.9)	148.9	2,871.0	(2,043.6)	4,559.4

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual	
29-Jun	Japan retail sales, % YoY	May	(11.6%)	(13.7%)	(12.3%)	
	Euro Area economic confidence	Jun	80.0	67.5	--	
	Germany CPI, % MoM	Jun	0.3%	(0.1%)	--	
	US pending home sales, % MoM	May	18.0%	(21.8%)	--	
30-Jun	South Korea industrial production, % YoY	May	(4.5%)	(4.5%)	--	
	Japan industrial production, % MoM	May	(5.9%)	(9.8%)	--	
	China manufacturing PMI	Jun	50.5	50.6	--	
	China non-manufacturing PMI	Jun	53.6	53.6	--	
	UK GDP, % QoQ	Q1CY20	(2.0%)	(2.0%)	--	
	Euro Area CPI, % MoM	Jun	0.3%	(0.1%)	--	
	India current account balance, US\$ bn	Q4FY20	(3.1)	(1.4)	--	
	India eight infrastructure industries, % YoY	May	--	(38.1%)	--	
	US conference board consumer confidence	Jun	90.5	86.6	--	
	India fiscal deficit, Rs cr	May	--	2,79,512	--	
	1-Jul	South Korea exports, % YoY	Jun	(8.6%)	(23.7%)	--
		Jibun Bank Japan manufacturing PMI	Jun	--	37.8	--
		Caixin China manufacturing PMI	Jun	50.5	50.7	--
Markit India manufacturing PMI		Jun	--	30.8	--	
Germany retail sales, % MoM		May	3.5%	(5.3%)	--	
Markit France manufacturing PMI		Jun	52.1	52.1	--	
Markit/BME Germany manufacturing PMI		Jun	44.6	44.6	--	
Markit Eurozone manufacturing PMI		Jun	46.9	46.9	--	
Markit US manufacturing PMI		Jun	49.6	49.6	--	
US ISM manufacturing		Jun	49.5	43.1	--	
US FOMC meeting minutes		10-Jun	--	--	--	
2-Jul		South Korea CPI, % YoY	Jun	(0.2%)	(0.3%)	--
		Australia trade balance, AUD bn	May	9.0	8.8	--
	Euro Area PPI, % YoY	May	(4.7%)	(4.5%)	--	
	US trade balance, US\$ bn	May	(53.0)	(49.4)	--	
	US change in nonfarm payrolls, in mn	Jun	3.0	2.5	--	
	US unemployment rate, %	Jun	12.4%	13.3%	--	
	US initial jobless claims, in mn	27-Jun	1.3	1.5	--	
	US factory orders, % MoM	May	7.9%	(13.0%)	--	
3-Jul	Jibun Bank Japan services PMI	Jun	--	42.3	--	
	Markit India services PMI	Jun	--	12.6	--	
	Markit Italy services PMI	Jun	46.6	28.9	--	
	Markit France services PMI	Jun	50.3	50.3	--	
	Markit Germany services PMI	Jun	45.8	45.8	--	
	Markit Eurozone services PMI	Jun	47.3	47.3	--	
	Markit/CIPS UK services PMI	Jun	47.0	47.0	--	

Source: Bloomberg, Bank of Baroda

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