

WEEKLY WRAP

31 August 2020

India's GDP and fiscal health in focus

Global 10Y yields went up as macro data showed further improvement in economic activity: China's industrial profits, US durable goods and new home sales. US Fed Chair introduced a new inflation targeting policy which will allow Fed to keep lower interest rates for longer. DXY fell by 0.9%. INR rose by 1.9% supported by FPI inflows. India's 10Y yield rose by 5bps despite RBI's operation Twist due to accelerating inflation and elevated fiscal deficit. Markets look forward to Q1FY21 GDP and government's fiscal numbers.

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Markets

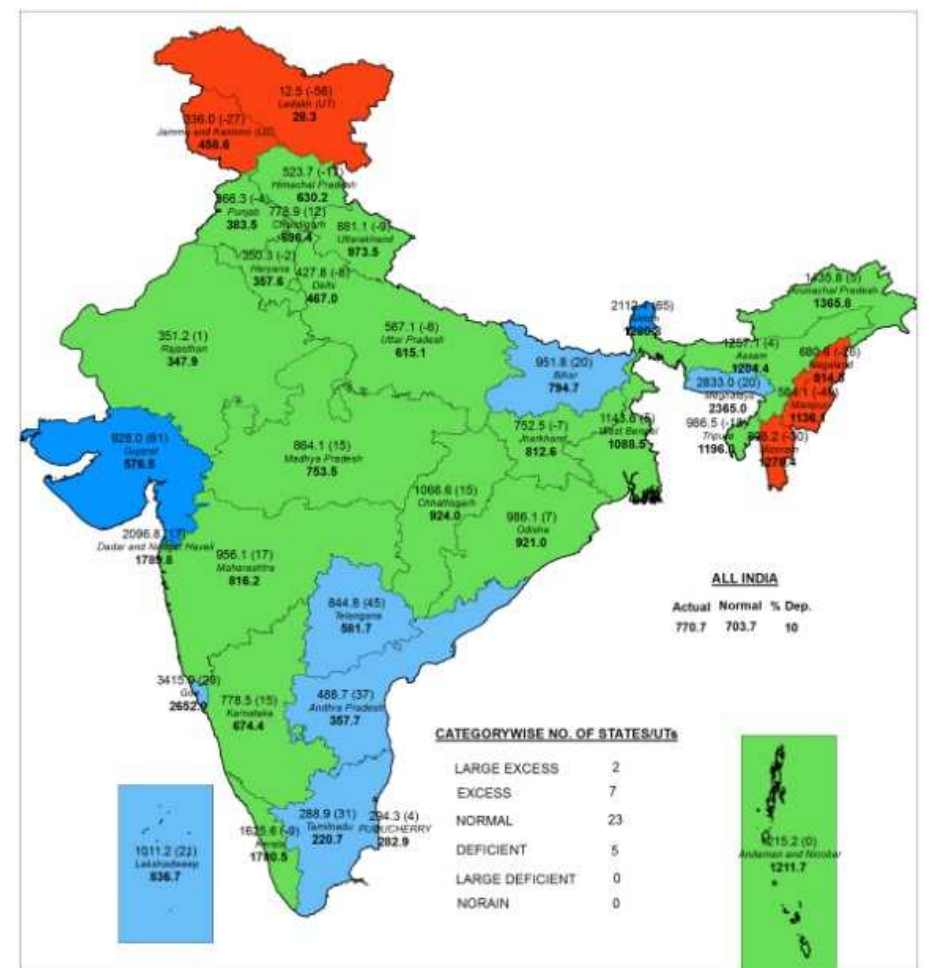
- **Bonds:** Global long end yields closed higher. US 10Y yield rose by 9bps (0.72%) supported by improving economic outlook even as US Fed shifted policy mandate to average inflation targeting. This implies lower rates for longer. Crude prices rose by 1.6% (US \$ 45/bbl) due to likely impact of hurricane 'Laura' in the Gulf of Mexico. India's 10Y yield rose by 5bps (6.14%) owing to fiscal and inflationary concerns. System liquidity surplus was at Rs 4tn against Rs 3.6tn in the previous week.
- **Currency:** Global currencies closed higher against US\$ this week. DXY fell by 0.9% as Fed Chair announced a shift in its inflation targeting signalling that ultra-low rates will continue in the medium-term. GBP rose by 2% to more than 2-year high as BoE Governor hinted at further stimulus to support the economy. INR appreciated sharply by 1.9% in the week to its highest since Mar'20 supported by FII equity inflows of US\$ 793mn.
- **Equity:** Barring FTSE and Nikkei, other global indices ended higher this week led by improving global macro indicators (China's industrial profits, US home sales) and Fed's shift indicating lower rates for long. Sensex (2.7%) surged the most, posting its biggest weekly gain in a month led by banking and real estate stocks. This was followed by Dow and Dax gaining by 2.6% and 2.1% respectively.
- **Upcoming key events:** In the current week, markets will closely watch manufacturing and services PMIs of all major economies. In addition, US and Germany's factory orders and US unemployment rate will also be released. On the domestic front, Q1FY21 GDP print, core industrial index and fiscal data are due for release today.



Monsoon tracker

- For the period 1 Jun 2020 to 30 Aug 2020, monsoon is 10% above LPA compared with 1% last year. While large part of central and North Eastern region of the country have received normal rainfall, states like Gujarat, Bihar, Telangana and Tamil Nadu continue to receive heavy rainfall. On the other hand, parts of J&K, Nagaland, Mizoram and Manipur have received deficient rainfall.
- Overall Kharif sowing is higher by 7.2% as on 28 Aug 2020 compared with last year. The improvement is led by higher sown area for oilseeds (13%), rice (10%) and cereals (7.6%). Sowing area of cotton (2.8%) and jute & mesta (1.6%) too continued to inch upwards.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



India macro developments

- According to Ministry of Finance, post the implementation of GST, tax compliance has improved and average tax rate has been reduced for the system. Compliance has nearly doubled from 6.5mn assesses at the beginning to 12.4mn currently. The revenue neutral rate as per the GST committee was estimated to be 15.3%, while the actual weighted GST rate currently is only 11.6%.
- RBI's balance sheet expanded by 30% in FY20 to Rs 53tn led by FX intervention, higher gold prices and OMOs. Notes in circulation increased by 22% to Rs 26.35tn followed by CGRA which was up by Rs 3.1tn to Rs 9.77tn. Surplus liquidity with SCBs deposits with RBI under reverse repo increased to Rs 7tn from Rs 2.15tn last year. RBI's surplus fell to Rs 571bn in FY20 from Rs 1,760bn last year.
- RBI reported that currency in circulation (CIC) declined by Rs 33.8bn and stood at Rs 26.8tn for the week ending 21 Aug 2020. Reserve money rose by 15% on a YoY basis, compared with 11.9% a year ago. On a FYTD basis, reserve money increased by 5.4% as against 0.2% last year.
- In the GST council meet the FM informed the states that centre will not able to meet the full demand of GST compensation in FY21. The total demand is estimated to be at Rs 3tn, and BE for cess collections is Rs 650bn. This implies a gap of Rs 2.35tn. Two options have been given to states; 1) take loan of Rs 970bn (estimated gap for GST compensation payable to states) from RBI at G-sec linked rates and repay after 5 years; 2) borrow Rs 2.35tn from market. In case of the 1st option, states will also be allowed to borrow additional 0.5% of their GSDP from the markets.
- India's forex reserves rose by US\$ 2.3bn in the week ended 21 Aug 2020 to US\$ 537.5bn. Last week, forex reserves had declined by US\$ 2.9bn. In FYTD21, forex reserves have increased by US\$ 62bn, higher compared with an accretion of US\$ 17.1bn in the same period last year.
- As per CMIE data, unemployment rate (30-day moving average) was at 8.05% as on 28 Aug 2020 against 8.15% in the previous week. This was led by slight moderation in rural unemployment rate (7.17% against 7.55% in the previous week). Urban unemployment rate however rose to 9.92% from 9.45% in the previous week.

Global macro developments

- US macro prints remained mixed. Consumer confidence index tumbled to lowest since May'14 (84.8 in Aug'20 from 91.7 in Jul'20). This was led by deterioration in sentiments about business and employment conditions. In a separate print, US new home sales rose to its highest since Dec'06 to 0.9mn in Jul'20 (0.79mn in Jun'20).
- Germany's IFO business climate index rose to 92.6 points in Aug'20 from 90.4 in Jul'20, led by marked increase in confidence in manufacturing (5.4 versus -12.1) and services sector (7.8 versus 2.1). Separately, Germany's Q2CY20 GDP print showed the economy contracted by 9.7% after a decline of 2% in Q1. Barring government consumption (1.5%), all other components fell with private consumption, construction taking the lead
- Industrial profits in China rose by 19.6% (YoY) in Jul'20 from 11.5% in Jun'20. This was led by recovery in equipment manufacturing industry (44.3%), mainly automobiles (125.5%) and electronics (38.6%), and hi-tech manufacturing (36.5%). On CYTD basis, profits were lower by 8.1% versus decline of 12.8% in H1CY20. SoEs have contributed more to the decline (23.5%) compared with private firms (5.3%).
- US durable goods orders surprised positively and rose for the 3rd straight month by 11.2% (est.: 4.5%), against 7.7% in Jun'20 on a MoM basis. This was on account of surge in automobile demand. Core capital goods orders (excl. aircraft and military hardware) rose by 1.9% (est.: 1.7%).
- US Fed made a change in its mandate by seeking to achieve inflation that averages 2% over time. Powell's statement specified "approach could be viewed as a flexible form of average inflation targeting". Separately, US GDP fell by 31.7% in Q2CY20, against its first estimate of 32.9%. Jobless claims also fell by 98,000 to 1.01mn for the week ending 22 Aug 2020.
- Taiwan's industrial production growth eased to 2.7% in Jul'20 versus 7.2% in Jun'20 on a YoY basis. This was attributable to a slowdown in manufacturing output at 2.6% in Jul'20 from 7.6% in Jun'20. Separate data showed that the seasonally adjusted unemployment rate fell to 3.9% in Jul'20 compared with 4% in Jun'20.
- US consumer sentiment improved in Aug'20 as the index rose to 74.1, against preliminary reading of 72.8. Both the current situation and future expectation index rose, driven by anticipation of increased consumer spending.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.72	9	14	7	(78)
UK	0.31	11	20	13	(17)
Japan	0.06	3	4	5	33
Germany	(0.41)	10	10	4	29
India	6.14	5	29	38	(42)
China	3.08	9	14	38	1
2Y yields (Δ bps)					
US	0.13	(2)	(1)	(3)	(138)
UK	(0.06)	(1)	4	(1)	(46)
Japan	(0.11)	0	1	4	19
Germany	(0.67)	2	2	(1)	26
India	4.49	17	24	9	(130)
China**	2.52	8	27	96	(7)
Currencies (Δ %)					
EUR	1.1903	0.9	1.6	7.2	8.4
GBP	1.3353	2.0	3.3	8.2	9.8
JPY	105.37	0.4	(0.3)	2.3	0.9
AUD	0.7365	2.8	2.9	10.5	9.4
INR	73.40	1.9	1.9	2.9	(2.8)
CNY	6.8654	0.8	1.9	3.8	4.1
Equity & Other indices (Δ %)					
Dow	28,654	2.6	8.6	12.9	8.5
FTSE	5,964	(0.6)	(2.7)	(1.9)	(17.3)
DAX	13,033	2.1	1.5	12.5	9.2
NIKKEI	22,883	(0.2)	1.0	4.6	10.5
Shanghai Comp	3,404	0.7	5.4	19.3	17.9
SENSEX	39,467	2.7	2.5	21.7	5.7
Brent (US\$/bbl)	45.05	1.6	4.2	27.5	(25.5)
Gold (US\$/oz)	1,965	1.3	0.3	13.6	29.2
CRB Index	391.1	1.2	3.6	6.5	1.0
Rogers Agri Index	738.1	2.5	6.9	10.3	8.1
LIBOR (3M)*	0.25	(1)	(2)	(10)	(189)
INR 5Y Swap*	5.72	24	50	59	(47)
India FII data (US\$ mn)					
	27 Aug	WTD	MTD	CYTD	FYTD
FII-Debt	(177.7)	(244.0)	(274.7)	(14,802.3)	(5,042.8)
FII-Equity	192.7	792.9	6,350.9	5,062.7	11,665.6

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
31-Aug	South Korea industrial production, % YoY	Jul	(2.0%)	(0.5%)	--
	Japan industrial production, % MoM	Jul	5.0%	1.9%	--
	China manufacturing PMI	Aug	51.2	51.1	--
	China non-manufacturing PMI	Aug	54.2	54.2	--
	Italy GDP WDA, % QoQ	Q2CY20	(12.4%)	(12.4%)	--
	India eight infrastructure industries, % YoY	Jul	--	(15.0%)	--
	India GDP, % YoY	Q1FY21	(19.2%)	3.1%	--
	Germany CPI, % YoY	Aug	0.1%	(0.1%)	--
	India fiscal deficit, Rs cr	Jul	--	1,96,020	--
1-Sep	South Korea GDP, % YoY	Q2CY20	(2.9%)	(2.9%)	--
	South Korea exports, % YoY	Aug	(10.0%)	(7.0%)	--
	Caixin China manufacturing PMI	Aug	52.5	52.8	--
	RBA cash rate target, %	01-Sep	0.25%	0.25%	--
	Markit India manufacturing PMI	Aug	--	46.0	--
	Markit France manufacturing PMI	Aug	49.0	49.0	--
	Markit/BME Germany manufacturing PMI	Aug	53.0	53.0	--
	Markit Eurozone manufacturing PMI	Aug	51.7	51.7	--
	Markit UK PMI manufacturing SA	Aug	55.3	55.3	--
	Euro Area unemployment rate, %	Jul	8.0%	7.8%	--
	Euro Area CPI, % MoM	Aug	0.0%	(0.4%)	--
	US ISM manufacturing PMI	Aug	54.5	54.2	--
2-Sep	Germany retail sales, % MoM	Jul	0.5%	(1.6%)	--
	Euro Area PPI, % YoY	Jul	(3.4%)	(3.7%)	--
	US ADP employment change, in thousands	Aug	950	167	--
	US factory orders, % MoM	Jul	6.0%	6.2%	--
3-Sep	Jibun Bank Japan services PMI	Aug	--	45.0	--
	Caixin China services PMI Services	Aug	54.0	54.1	--
	Markit India services PMI Services	Aug	--	34.2	--
	Markit France services PMI	Aug	51.9	51.9	--
	Markit Germany services PMI	Aug	50.8	50.8	--
	Markit Eurozone services PMI	Aug	50.1	50.1	--
	Markit/CIPS UK services PMI	Aug	60.1	60.1	--
	Euro Area retail sales, % MoM	Jul	1.4%	5.7%	--
	US initial jobless claims, in mn	29-Aug	0.95	1.01	--
	Markit US services PMI	Aug	54.7	54.8	--
US ISM services index	Aug	57.0	58.1	--	
4-Sep	Australia retail sales, % MoM	Jul	3.3%	2.7%	--
	Singapore retail sales, % YoY	Jul	(11.3%)	(27.8%)	--
	Germany factory orders, % MoM	Jul	5.0%	27.9%	--
	US change in nonfarm payrolls, in mn	Aug	1.40	1.76	--
	US unemployment rate, %	Aug	9.8%	10.2%	--

Source: Bloomberg, Bank of Baroda

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