

WEEKLY WRAP

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Domestic recovery gains steam

Global equity indices ended CY20 on a high driven by news of Covid-19 vaccine, US stimulus deal and Brexit trade deal. DXY index fell to a 32-month low on concern over rising twin deficits. Oil prices too rose by 1% in the week. On domestic front, GST collections gained further traction to grow by 11.6% in Nov'20 and non-oil-non gold recovered sharply (up 7.9%). Most high frequency indicators are pointing to marked improvement in underlying economic activity in Q3 implying sustained pick-up in growth in Q4/ FY22.

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Markets

- **Bonds:** Except Japan, global 10Y yields closed lower. UK 10Y yield fell most by 6bps (0.2%) amidst fear of new Covid strain and renewed lockdown restrictions. US 10Y fell by 1bps (0.91%) even as twin deficits: trade and fiscal expanded. India's 10Y yield fell by 1bps (5.88%) supported by RBI's Rs 100bn special OMO announcement. System liquidity surplus swelled to Rs 6.2tn as on 1 Jan 2020 compared with Rs 5.1tn in the previous week.
- **Currency:** Global currencies ended CY20 higher against the US\$ as risk sentiment improved with vaccine rollout. DXY fell by 0.6% in the week and by 6.7% in CY20 (near 32-month low) amidst concerns over US twin deficits. GBP rose by 0.8% as UK clinched a last minute Brexit trade deal. INR rose by 0.6% supported by FII inflows of US\$ 1bn.
- **Equity:** Barring FTSE, other global indices ended higher led by news of Covid-19 vaccine and Brexit trade deal. Nikkei (3.5%) gained the most, followed by Shanghai Comp (3.3%). Sensex too climbed up by 1.9% led by real estate and consumer durable stocks. High frequency data supports underlying economic recovery (GST, imports, fuel, electricity)
- **Covid-19 tracker:** Global cases rose by 4.1mn in the week ending 1 Jan 2020, same as the previous week. India added 139k cases this week which was less than 142k addition in earlier week.
- **Upcoming key events:** PMI data of major economies will be released along with US FOMC minutes and employment data which will shed light on underlying labour market conditions. On the domestic front, progress of Covid-19 cases and rollout of vaccine as well as PMI data will be tracked.



India macro developments

- Total GST collections for Nov'20 rose by 11.6% on a YoY basis to Rs 1.15tn from Rs 1.05tn in Oct'20 (1.4% increase). On MoM basis, IGST collections inched up from Rs 520bn in Oct'20 to Rs 574bn in Nov'20. Unadjusted figures for CGST and IGST stood at Rs 214bn and Rs 278bn, respectively
- India's trade deficit expanded to US\$ 15.7bn in Dec'20 from US\$ 9.9bn in Nov'20 as imports bounced back by 7.6% (26-month high), led by gold imports. Non-oil-non-gold imports too improved to 7.9% in Dec'20 led by electronics and edible oils. Exports fell by only 0.8%. Pharma and chemical exports held-up. Both exports and imports are likely to see a pickup in Q4FY21 as lockdowns in other parts of the world are lifted and domestic activity improves.
- India's current account surplus narrowed to US\$ 15.5bn in Q2FY21 (2.4% of GDP) from US\$ 19.2bn in Q1 (3.8% of GDP). With recovery in economic activity, imports picked up and trade deficit widened. Transfers and software services income rose. Capital inflows saw a rebound with a surplus of US\$ 15.4bn in Q2, led by foreign inflows. In FY21, we expect a current account surplus of 1.5% of GDP and a BoP surplus of US\$ 130bn.
- RBI's recent working paper has pointed out that current 4% inflation target is appropriate in the medium-term. This paper comes amidst reports that the government is considering to loosen the target in its next review in Mar'21. The paper explores trend or steady state inflation and says that the same has declined to 4.1- 4.3% since 2014. Thus setting a higher/lower target can result in expectation mismatches.
- India's fiscal deficit in Nov'20 inched up to 6.2% (of GDP) on 12MMA basis from 6% in Oct'20. On FYTD basis, centre's net revenue contracted less sharply in Nov'20 (17.3% versus 22.3% in Oct'20), led by pickup in both direct and indirect tax collections. Overall spending rose significantly with 4.7% rise versus 0.4% in Oct'20. This was led by capex (12.8% versus 1.9% drop in Oct'20) and revenue spending (3.7% versus 0.7%).
- Market borrowings by states in India have risen by 43% in FYTD21 (Apr-Dec) to Rs 5.3tn compared with 31% increase (Rs 3.7tn) in FYTD20. While state revenues were already under stress in FY20, the burden has gone up further in FY21 owing to Covid-19 pandemic. Maharashtra (Rs 395bn), Karnataka (Rs 259bn), T.N. (Rs 166bn) and Telangana (Rs 134bn) have borrowed the most.

Global macro developments

- South Korea's exports rose by the fastest pace since Oct'18 at 12.6% in Dec'20 versus 4.1% in Nov'20. This was driven by exports of IT products, especially semiconductors (30% jump). Exports to EU (26.4%), US (11.6%) and China (3.3%) rose. For CY20, exports declined by 5.4% compared with a 10.4% decline in CY19. Imports also showed a recovery in Dec'20 and rose by 1.8% following a 1.9% decline in Nov'20.
- Hong Kong's exports rose by 5.6% in Nov'20 following a decline of 1.1% in Oct'20, on a YoY basis supported by improvement in global economy. Exports to Germany (7.1%) and Asia (5.7%) rose the most. In terms of commodities, exports of electrical machinery (10.5%) showed maximum increase. Imports too accelerated to 5.1% in Nov'20 versus 0.6% in Oct'20 led by Korea (20.8%) and Taiwan (19.4%).
- US jobless claims fell for the second straight week by 19,000 in the week ended 26 Dec 2020 to 787,000 (est., 835,000). Despite the recent dip, jobless claims continue to remain elevated above the pre-pandemic level. Analysts expect labour market to remain on a weak footing amidst a resurgence in Covid-19 cases.
- China's official manufacturing PMI eased to 51.9 in Dec'20 from 52.1 in Nov'20. Stricter lockdown restrictions in Europe, slight increase in domestic infections and power blackouts in Southern China, impacted the print. New export order index fell (51.3 versus 51.5) and small business activity contracted (48.8 from 50.1). Non-manufacturing PMI also eased to 55.7 in Dec'20 from 56.4 in Nov'20.
- US goods trade deficit widened to US\$ 84.8bn in Nov'20 from US\$ 80.4bn in Oct'20. This was led by higher imports (2.6% MoM at US\$ 212bn in Nov'20) driven by consumer goods. However, exports rose at a softer pace of 0.8% to US\$ 127.2bn. Separately, advance wholesale inventories declined by 0.1% in Nov'20 (increase by 1.2% in Oct'20).
- Industrial production in South Korea rose by 0.7% in Nov'20 (MoM) versus a 0.1% decline in Oct'20, supported by robust exports. Increase was registered in all sub-indices. However, domestic consumption remained weak as retail sales declined for the second straight month by 0.9% in Nov'20 versus a decline of 1% in Oct'20.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.91	(1)	(2)	21	(87)
UK	0.20	(6)	(16)	(5)	(54)
Japan	0.02	0	(1)	(0)	3
Germany	(0.57)	(2)	(5)	(3)	(29)
India	5.88	(1)	3	(12)	(64)
China	3.15	(5)	(17)	(0)	0
2Y yields (Δ bps)					
US	0.12	0	(4)	(1)	(140)
UK	(0.16)	(4)	(13)	(12)	(71)
Japan	(0.12)	2	1	1	2
Germany	(0.70)	1	2	1	(8)
India	3.87	(2)	(6)	(50)	(188)
China**	2.48	(14)	(40)	(12)	20
Currencies (Δ %)					
EUR	1.2215	0.2	0.8	4.3	9.4
GBP	1.3672	0.8	2.3	5.7	4.5
JPY	103.20	0.2	1.2	2.0	4.5
AUD	0.7694	1.2	3.7	7.4	10.7
INR	73.13	0.6	0.9	0.0	(1.9)
CNY	6.5272	0.2	0.5	3.9	6.3
Equity & Other indices (Δ %)					
Dow	30,606	1.3	2.6	10.0	6.9
FTSE	6,461	(0.6)	1.2	9.9	(15.2)
DAX	13,719	1.0	3.2	7.5	2.5
NIKKEI	27,444	3.5	3.8	18.4	16.0
Shanghai Comp	3,473	3.3	0.6	7.9	12.6
SENSEX	47,869	1.9	7.3	23.7	15.4
Brent (US\$/bbl)	51.80	1.0	9.2	26.6	(24.5)
Gold (US\$/oz)	1,899	0.8	3.7	(0.1)	22.3
CRB Index	443.8	0.7	3.9	9.8	10.7
Rogers Agri Index	884.7	2.5	7.9	17.7	17.3
LIBOR (3M)*	0.24	0	1	0	(164)
INR 5Y Swap*	5.32	6	13	(10)	(131)
India FII data (US\$ mn)					
	31 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	130.7	121.1	766.1	(13,853.1)	(4,093.6)
FII-Equity	84.4	884.8	7,267.1	23,372.8	29,975.8

Source: Bloomberg, Bank of Baroda | *Indicates change in bps | **1Y yield | Apart from Sensex all markets were closed on 1 Jan 2021

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
04-Jan	Singapore GDP, % YoY	Q4CY20	(4.7%)	(5.8%)	(3.8%)
	Jibun Bank Japan manufacturing PMI	Dec	--	49.7	50.0
	Caixin China manufacturing PMI	Dec	54.7	54.9	53.0
	Markit India manufacturing PMI	Dec	--	56.3	--
	Markit Italy manufacturing PMI	Dec	53.5	51.5	--
	Markit France manufacturing PMI	Dec	51.1	51.1	--
	Markit Germany manufacturing PMI	Dec	58.6	58.6	--
	Markit Eurozone manufacturing PMI	Dec	55.5	55.5	--
	Markit UK PMI manufacturing SA	Dec	57.3	57.3	--
	Markit US manufacturing PMI	Dec	56.3	56.5	--
05-Jan	Singapore retail sales, % YoY	Nov	(8.1%)	(8.6%)	--
	Germany retail sales, % MoM	Nov	(2.0%)	2.6%	--
	France CPI, % YoY	Dec	0.2%	0.2%	--
	Germany unemployment change (000's)	Dec	10.0	(39.0)	--
	US ISM manufacturing	Dec	56.6	57.5	--
06-Jan	Jibun Bank Japan services PMI	Dec	--	47.2	--
	Caixin China services PMI	Dec	58.0	57.8	--
	Markit India services PMI	Dec	--	53.7	--
	France consumer confidence	Dec	92.0	90.0	--
	Markit Italy services PMI	Dec	45.0	39.4	--
	Markit France services PMI	Dec	49.2	49.2	--
	Markit Germany services PMI	Dec	47.7	47.7	--
	Markit Eurozone services PMI	Dec	47.3	47.3	--
	Markit UK services PMI	Dec	49.9	49.9	--
	Germany CPI, % YoY	Dec	(0.2%)	(0.3%)	--
	Markit US services PMI	Dec	55.3	55.3	--
	US factory orders	Nov	0.7%	1.0%	--
	US FOMC meeting minutes	16-Dec	--	--	--
07-Jan	Australia trade balance, AUD bn	Nov	6.5	7.5	--
	Germany factory orders, % MoM	Nov	(1.2%)	2.9%	--
	Euro Area retail sales, % MoM	Nov	(3.4%)	1.5%	--
	Euro Area consumer confidence	Dec	--	(13.9)	--
	Euro Area CPI, % MoM	Dec	0.4%	(0.3%)	--
	US initial jobless claims	2-Jan	--	787.0	--
	US trade balance, US\$ bn	Nov	(67.0)	(63.1)	--
08-Jan	Germany exports SA, % MoM	Nov	1.0%	0.8%	--
	Germany industrial production SA, % MoM	Nov	0.7%	3.2%	--
	Euro Area unemployment rate, %	Nov	8.5%	8.4%	--
	US change in nonfarm payrolls, in thousands	Dec	50.0	245.0	--
	US unemployment rate, %	Dec	6.8%	6.7%	--

Source: Bloomberg, Bank of Baroda

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