

## WEEKLY WRAP

05 April 2021

**Manufacturing PMIs signal global recovery**

Global yields rose with manufacturing PMIs showing signs of recovery. US payroll data was better than estimates and President unveiled US\$ 2.2tn infra stimulus. Thus US\$ continues to strengthen. On the domestic front, current account went again into deficit mode (0.2% of GDP) from a surplus of 2.4% in Q2, due to pick-up in imports. Government's H1 borrowing calendar is tilted towards long-end which may put upward pressure on long-end yields. No change in policy rates this week, accommodative stance to continue.

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**Markets**

- **Bonds:** Except China, global 10Y yields closed higher supported by better than expected macro data globally. US 10Y yield rose the most by 5bps (1.72%) supported by US President's infra stimulus of \$ 2.2tn. Oil prices fell by 1.4% (US\$ 64/bbl) amidst reports that Saudi Arabia may start easing supply restrictions. India's 10Y yield rose by 1bps (6.17%) eyeing H1 borrowing calendar. System liquidity surplus was at Rs 4.6tn as on 1 Apr 2021, versus Rs 4.7tn in the previous week.
- **Currency:** Except GBP, global currencies closed lower. DXY rose by 0.3% supported by better payroll data in the US. JPY fell by 1%. EUR fell by 0.3% due to spread of third wave of infection. INR depreciated by 0.8% due to FII outflow of US\$ 126mn.
- **Equity:** Global equity indices ended higher driven by rising manufacturing PMIs across major economies. Eurozone at 62.5 (previous: 62.4) and US ISM at 64.7 (60.8). Dax rose the most (3.3%) followed by Nikkei (2.3%). Sensex rose by 3.3% supported by metal and consumer durable stocks.
- **Covid-19 tracker:** Global cases rose by 4.1mn in the week versus 3.8mn in the last week led by France, Italy and Germany. India added 0.5mn cases in the week versus 0.4mn last week. Israel has got 61% of the population vaccinated followed by UK (46%). India's 4.3% population is vaccinated.
- **Upcoming key events:** Globally, services PMIs of US, Eurozone and Germany will be released. Additionally, FOMC minutes along with China's CPI and PPI data will also be released. In India, services PMI and RBI policy will be in focus. Covid-19 infections will be tracked very closely.



## India macro developments

- India's trade deficit expanded to US\$ 14.1bn in Mar'21 from US\$ 12.6bn in Feb'21 led by sharp rebound in gold (+584%) and non-oil-non-gold (+46%) imports. While imports increased by 52.9%, exports rose by 58.2% on the back of gems, engineering and pharma products. Rising domestic demand and higher oil prices imply trade deficit is likely to increase to US\$ 180bn in FY22.
- India's current account went back into deficit of US\$ 1.7bn (-0.2% of GDP) from surplus of US\$ 15.1bn (2.4% of GDP) in Q2. Non-oil imports increased to US\$ 111.8bn in Q3 from US\$ 90.4bn in Q2. Still, BoP surplus increased to US\$ 32.5bn (from US\$ 31.6bn in Q2) due to FPI inflows of US\$ 21.2bn in Q3. Normalisation of domestic economic activity and rising oil prices imply current account deficit will increase to 1.5% of GDP in FY22.
- India's fiscal deficit for the centre (12MMA basis) rose to 6.7% in Feb'21 from 6.1% in Jan'21. This is on account of higher spending in Q4. Between Jan-Feb'21, overall spending has increased by 51.2% (YoY) compared with 28.9% increase in Q3. While capex has maintained momentum in Q3 and Q4, revenue spending is also gathering pace now. At the same time, revenue receipts have eased in Q4 (24.6%) compared with Q3 (62.8%).
- Centre's borrowing in H1FY22 is pegged at Rs 7.2tn compared with Rs 7.4tn in H1FY21. The share of greater than 30 year maturity has increased to 27% from 22% last year. Share of 10 year and 14 year maturity has declined to 41% from 47%. Rising global yields, inflation and issuance pattern suggests upward momentum in yields to sustain.
- India's eight core output contracted to a 6-month low of 4.6% in Feb'21 from an increase of 0.9% in Jan'21. This was led by across the board decline in output, with double digit contraction registered in refinery output at 10.9% in Feb'21. On FYTD basis, output dropped by 8.3% in Apr-Feb'21 from an increase of 1.3% last year. With this, IIP too is expected to be lower than anticipated in Feb'21.
- Centre has confirmed that Rs 300bn have been transferred to states on 27 Mar 2021 as GST compensation, bringing the total amount transferred to Rs 700bn for FY21 so far. In addition, Rs 1.1tn has also been released to states as back to back loans in order to make up for shortfall in compensation cess. Thus, of the total estimated shortfall of Rs 2.43tn in GST compensation cess, Rs 630bn is still pending for FY21.

## Global macro developments

- US non-farm payrolls rose by 916,000 in Mar'21, far higher than estimated 600,000 and compared to 468,000 in Feb'21. This was sharpest increase since Aug'20. Unemployment rate edged down to 6% in Mar'21 from 6.2% in Feb'21. Labour force participation rate also improved to 61.5 from 61.4. Job growth was widespread led by gains in leisure and hospitality, public and private education and construction. Average hourly earnings fell by 0.1% from 0.3% increase in Feb'21, on MoM basis.
- US ISM manufacturing PMI rose for 10<sup>th</sup> month in a row to 64.7 in Mar'21 from 60.8 in Feb'21. This was led by pick up in new orders and increase in overall production. Even employment situation improved. Input prices however, showed slight softening. In a separate print, US jobless claims rose by 61,000 to 719,000 compared to its previous week level. Despite this, filing of claim benefits remained at its near low levels since the onset of pandemic. Even the 4-week moving average decreased by 10,500 to 719,000 from its previous week level.
- Japan's industrial production fell by 2.1% on MoM basis in Feb'21 (est.: 1.3% decline) versus 4.3% rise in Jan'21. Output was impacted by both earthquake and pandemic related restrictions. Decline was led by motor vehicles, electrical machinery and I&C equipment. Government expects production to have dropped further in Mar'21 by 1.9%.
- China's official manufacturing PMI index rose to 51.9 in Mar'21 (est.: 51) from 50.6 in Feb'21. The sub-index of production rose to 53.9 (highest since Dec'20) and both new orders (+2.1 points) and new export orders (+2.4 points) gained pace. Non-manufacturing PMI too jumped sharply to 56.3 from 51.4 in Feb'21. This is supported by rise in construction activity due to implementation of infra investments announced by government.
- Consumer confidence in the US rose to a 1 year high of 109.7 in Mar'21 (up 19.3 points from Feb'21). Consumers remained upbeat about employment, improved income and business outlook. Even in EU the economic sentiment index rose by 6.9 points to 100 and in euro area by 7.6 points to 101, both nearing its long term average.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	1.72	5	33	81	113
UK	0.80	4	11	60	48
Japan	0.13	4	0	11	13
Germany	(0.33)	2	2	24	11
India	6.17	1	(7)	29	(14)
China	3.20	0	(6)	5	64
<b>2Y yields (Δ bps)</b>					
US	0.19	5	7	7	(4)
UK	0.08	2	3	24	(2)
Japan	(0.11)	2	1	0	2
Germany	(0.71)	1	(2)	(1)	(5)
India	4.67	6	1	80	(60)
China**	2.51	(5)	(4)	3	88
<b>Currencies (Δ %)</b>					
EUR	1.1759	(0.3)	(2.7)	(3.7)	8.9
GBP	1.3832	0.3	(0.9)	1.2	12.7
JPY	110.69	(1.0)	(3.7)	(7.3)	(2.0)
AUD	0.7610	(0.4)	(2.7)	(1.1)	26.9
INR	73.11	(0.8)	0.3	0.0	4.0
CNY	6.5670	(0.4)	(1.5)	(0.6)	7.4
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	33,153	1.6	5.6	8.3	57.5
FTSE	6,737	0.9	1.9	4.3	24.4
DAX	15,107	3.3	7.6	10.1	58.6
NIKKEI	29,854	2.3	1.5	8.8	67.5
Shanghai Comp	3,484	1.9	(0.7)	0.3	26.1
SENSEX	50,030	3.3	(0.5)	4.5	81.3
Brent (US\$/bbl)	64.86	4.7	3.4	25.2	90.1
Gold (US\$/oz)	1,729	(0.2)	(0.5)	(8.9)	6.7
CRB Index	505.0	(0.2)	3.0	13.8	39.1
Rogers Agri Index	940.6	(0.5)	(3.4)	6.2	46.7
LIBOR (3M)*	0.20	1	2	(4)	(119)
INR 5Y Swap*	5.84	0	0	52	(14)
<b>India FII data (US\$ mn)</b>					
	<b>30 Mar</b>	<b>WTD</b>	<b>Mar-21</b>	<b>CYTD</b>	<b>FY21</b>
FII-Debt	(11.5)	468.7	(767.5)	(2,251.7)	(6,345.3)
FII-Equity	(64.4)	(595.0)	2,563.0	7,556.8	37,532.5

Source: Bloomberg, Bank of Baroda | \*Indicates change in bps | \*\*1Y yield | Fixed income markets in India were closed on 1st Apr. Global equity markets (except Japan and China) were closed on 2nd Apr

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
5-Apr	Japan Jibun bank services PMI	Mar	--	46.5	--
	Thailand CPI, % YoY	Mar	0.2%	(1.2%)	--
	Markit India manufacturing PMI	Mar	--	57.5	--
	Singapore retail sales, % YoY	Feb	7.0%	(6.1%)	--
	Markit US services PMI	Mar	60.2	60.0	--
	US ISM services index	Mar	59.0	55.3	--
	US factory orders, % MoM	Feb	(0.5%)	2.6%	--
	US durable goods orders, % MoM	Feb	(1.1%)	(1.1%)	--
6-Apr	Caixin China services PMI	Mar	52.1	51.5	--
	RBA cash rate target	06-Apr	0.1%	0.1%	--
	Euro Area unemployment rate	Feb	8.1%	8.1%	--
7-Apr	Markit Australia services PMI	Mar	--	56.2	--
	S.Korea BoP current account balance, US\$ mn	Feb	--	7,060.0	--
	RBI repurchase rate	07-Apr	4.0%	4.0%	--
	Markit India services PMI	Mar	--	55.3	--
	Markit France services PMI	Mar	47.8	47.8	--
	Markit Germany services PMI	Mar	50.8	50.8	--
	Markit Eurozone services PMI	Mar	48.8	48.8	--
	Markit/CIPS UK services PMI	Mar	56.8	56.8	--
	US MBA mortgage applications	07-Apr	--	(2.2%)	--
	US trade balance, US\$ bn	Feb	(70.4)	(68.2)	--
	US FOMC meeting minutes	17-Mar	--	--	--
	Singapore GDP, % YoY	Q1CY21	(0.7%)	(2.4%)	--
8-Apr	Japan BoP current account balance, ¥ bn	Feb	1,999.7	646.8	--
	New Zealand ANZ business confidence index	Apr	--	(4.1)	--
	Phillippines exports, % YoY	Feb	3.4%	(5.2%)	--
	Japan consumer confidence index	Mar	35.5	33.8	--
	Germany factory orders, % MoM	Feb	1.2%	1.4%	--
	France trade balance, EUR mn	Feb	--	(3,946.0)	--
	Taiwan CPI, % YoY	Mar	1.3%	1.4%	--
	Euro Area PPI, % YoY	Feb	1.3%	0.0%	--
	US initial jobless claims, in thousands	03-Apr	690.0	719.0	--
9-Apr	China CPI, % YoY	Mar	0.3%	(0.2%)	--
	China PPI, % YoY	Mar	3.5%	1.7%	--
	Germany industrial production, SA, % MoM	Feb	1.5%	(2.5%)	--
	Germany trade balance, EUR bn	Feb	20.1	13.8	--
	France industrial production, % MoM	Feb	0.5%	3.3%	--
	US PPI final demand, % MoM	Mar	0.5%	0.5%	--
	US wholesale inventories, % MoM	Feb	0.5%	0.5%	--
	China new Yuan loans, CNY bn	Mar	2,258.3	1,359.4	--

Source: Bloomberg, Bank of Baroda

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