

## WEEKLY WRAP

06 July 2020

**Economic recovery continues despite COVID**

Early signs of global recovery are visible with improvement in global manufacturing and services PMIs and strong US jobs report. Manufacturing is recovering faster than services. As a result, global yields (except India) are edged up and equity indices closed higher. Fed minutes signal continuity of accommodative monetary policy. Global currencies gained with INR higher by 1.3% as India reported current account surplus after 17- years. Markets will closely eye industrial output data scheduled for the week.

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**Markets**

- **Bonds:** Except India, global 10Y yields closed higher. Manufacturing and services activity improved globally with gradual easing of lockdown restrictions. US 10Y yield rose by 3bps (0.67%) on account of improving employment scenario. Oil prices rose by 4.3% (US\$ 43/bbl) amidst hopes of revival in demand. India's 10Y yield fell by 7bps (5.85%) supported by RBI's operation twist announcement. System liquidity surplus was lower at Rs 4.3tn as on 3 Jul 2020 compared with Rs 3.7tn in the previous week.
- **Currency:** Major currencies closed higher this week as macro data globally raised hopes of a recovery. Improvement was seen in global manufacturing and services PMIs, Germany's retail sales and US labour market. As a result, DXY and JPY edged down by 0.3% each as risk-sentiment improved. INR appreciated sharply by 1.3% to a 3-month high as India reported its first current account surplus in 17-years. FII outflows were US\$ 380mn.
- **Equity:** Barring Nikkei, other global indices ended the week higher on signs of global recovery and hope of availability of COVID-19 vaccine. Shanghai Comp (5.8%) surged the most followed by Dax (3.6%) and Dow (3.2%). China's economic data surprised positively. Sensex (2.4%) too ended in green for the third week in a row, with auto stocks advancing the most.
- **Upcoming key events:** In current week, markets will closely watch US non-manufacturing ISM PMI, US PPI and German factory orders. In addition, China's CPI and PPI data along with RBA's policy decision is also due. On the domestic front, apart from new unlock rules and spike in COVID cases, market will track industrial production data.



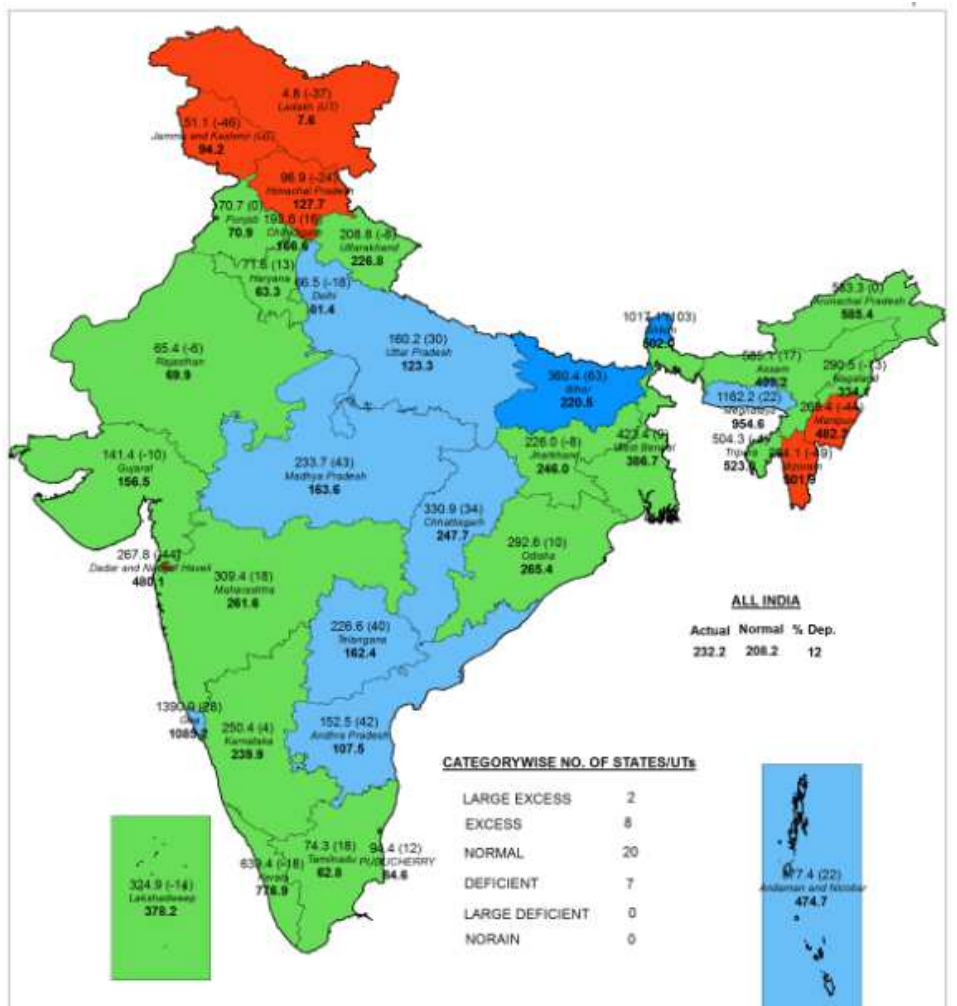
## India macro developments

- India's services PMI rose to 33.7 in Jun'20 from 12.6 in May'20 as lockdown restrictions were eased. However, the print indicates that weakness in activity still persists. New orders continued to contract, led by external orders. Domestic demand also remained subdued, forcing some businesses to close down. Employment index fell further in Jun'20 and 12-month ahead business expectation remains negative.
- As per news reports, under government's Atmanirbhar package, banks have sanctioned Rs 629bn to over 7mn Kisan Credit Card (KCC) holders as on Jun'20. This is part of the Rs 2tn concessional credit through KCC. Government has already disbursed Rs 246bn to cooperative banks, RRBs and MFIs under special liquidity facility by NABARD of Rs 300bn.
- Latest GST collections and manufacturing PMI indicate that economy is on the path of recovery in May/Jun'20. GST collections rose to Rs 909bn in May'20 from Rs 495bn in Apr'20. CGST and Cess collections increased the most on MoM basis. Manufacturing PMI too improved to 47.2 in Jun'20 from 30.8 in May'20 as most states eased lockdown restrictions. However, demand remains muted, in particular export orders.
- Central government tax revenues continue to remain weak as direct tax collections fell by 14.6% in FYTD21 (Apr-May) versus 12.1% rise in the same period last year. It is led by 41% decline in income tax collections versus 15% increase last year. Indirect tax collections also fell by 52% in FYTD21 versus 3.9% dip in FYTD20. News reports indicate that GST collections for May'20 so far stand at Rs 439bn vs Rs 495bn in Apr'20.
- India's infrastructure index contracted for 3<sup>rd</sup> straight month, albeit at a slower pace by 23.4% in May'20 from 37% in Apr'20. Barring expansion in fertilizer production by 7.5% in May'20 from a decline of 4.5% in Apr'20, other sectors, continued to register negative growth. Separately, PM Garib Kalyan Yojana for distributing free foodgrain to poor has been extended till Nov'20 with additional expenditure of Rs 900bn.
- In view of the current liquidity scenario, RBI has again decided to conduct simultaneous purchase of longer dated securities and sell shorter duration ones, of Rs 100bn each. Earlier, RBI had already conducted Operation Twist of Rs 500bn (Dec'19, Jan'20 & Apr'20). In a separate release, RBI has extended the relaxation of minimum daily maintenance of Cash Reserve Requirement of 80% (90% earlier) by another 3-months.

### Monsoon Tracker

- For the period 1 Jun 2020 to 5 Jul 2020, monsoon is 12% above LPA compared with (-) 28% below LPA last year. Bihar, Uttar Pradesh, Chhattisgarh and Madhya Pradesh continue to receive heavy rainfall. Parts of North-Eastern region, Gujarat, Maharashtra, Rajasthan and Karnataka on the other hand have received normal rainfall.
- With the advancement of monsoon, overall Kharif sowing has increased by 88% as on 3 Jul 2020 compared with last year. Sowing area for both foodgrains and pulses continue to scale an uptrend rising by 87% and 290% respectively. Major improvement was also visible in cotton sowing. However, sown area of jute and mesta declined further by 13.4%.

**FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON**



Legend: Large Excess [ 60% or more], Excess [ 20% to 59%], Normal [-19% to 19%], Deficient [-59% to -20%], Large Deficient [-69% to -60%], No Rain [-100%], No Data

Source: IMD, Bank of Baroda Research. Note: Cumulative Data for 1 Jun-5 Jul 2020

## Global macro developments

- Services activity gained some traction globally with gradual lifting of lockdown restrictions. In the Eurozone, services PMI rose to 48.3 from 30.5 in May'20; still below the 50 mark. In Japan as well, services PMI rose to 45 from 26.5 in May'20. Despite an improvement, demand conditions continued to remain weak. Employment scenario also weakened and input prices moderated.
- China's official manufacturing PMI rose to 50.9 in Jun'20 from 50.6 in May'20. While expansion in activity continued with new orders improving, headwinds were visible in new exports orders. The index remains in contraction at 42.6. Non-manufacturing PMI also inched up in Jun'20 to 54.4 from 53.6 in May'20. However, with second wave of COVID cases hitting Beijing, this momentum could gradually lose steam.
- Japan's services PMI surged to 45 in Jun'20 from 26.5 in May'20 indicating deceleration at a slower pace. Activity picked up as state of emergency has been lifted. However, output continues to remain below capacity and domestic demand remains muted. New business orders also remain in contraction owing to weak global demand. Future business outlook expects conditions to remain constrained.
- US jobless claims dropped for the 13<sup>th</sup> straight week to 1.43mn for the week ending 27 Jun 2020 from 1.48mn for the prior week. Non-farm payroll improved better than expected with over 4.8mn jobs added in Jun'20. Unemployment rate dropped to 11.1%. However, concerns over possible recovery in labor market arose, amidst rollback of reopening plans in some states due to resurgence in COVID-19 cases.
- Fed minutes pointed that highly accommodative monetary policy would persist in the wake of downside risks to growth. FOMC members also discussed about strengthening its forward guidance on policy and asset purchases. It further expressed preference for policy tied to outcomes, preferably inflation rather than unemployment. In a separate release, US ISM manufacturing index rose to 52.6 (est.: 49.5) against 43.1 in May'20.
- Germany's retail sales rose by 13.9% in May'20 on a MoM basis versus a decline of 6.5% in Apr'20 as lockdown restrictions were lifted. This was higher than estimates of a 3.5% increase. However, labour market remained under stress as separate data showed that unemployment rate rose to 6.2% in Jun'20 from 6.1% in May'20.
- US consumer confidence index rose more than anticipated to 98.1 in Jun'20 (est.: 90.5) against 85.9 in May'20. Both the present situation and expectation index rose considerably. This was on account of gradual reopening of the economy and improvement in employment scenario.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	0.67	3	(2)	7	(136)
UK	0.19	2	(3)	(12)	(55)
Japan	0.03	2	2	4	18
Germany	(0.43)	5	(2)	1	(7)
India	5.85	(7)	9	(46)	(85)
China	2.90	3	9	35	(28)
<b>2Y yields (Δ bps)</b>					
US	0.15	(1)	(1)	(8)	(171)
UK	(0.08)	(1)	(6)	(17)	(64)
Japan	(0.13)	(1)	1	0	8
Germany	(0.68)	2	(3)	(2)	7
India	4.16	(9)	(26)	(111)	(201)
China**	2.06	(12)	40	43	(52)
<b>Currencies (Δ %)</b>					
EUR	1.1248	0.3	0.7	4.1	0.2
GBP	1.2483	1.2	(0.5)	1.7	(0.3)
JPY	107.51	(0.3)	1.1	1.0	0.9
AUD	0.6939	1.1	0.6	15.7	(0.6)
INR	74.65	1.3	0.9	2.0	(9.1)
CNY	7.0665	0.2	0.5	0.3	(2.5)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	25,827	3.2	0.3	22.7	(4.1)
FTSE	6,157	0	(1.0)	13.7	(18.5)
DAX	12,528	3.6	4.2	31.5	(0.3)
NIKKEI	22,306	(0.9)	(0.1)	25.2	2.6
Shanghai Comp	3,153	5.8	7.9	14.1	4.7
SENSEX	36,021	2.4	6.5	30.6	(8.8)
Brent (US\$/bbl)	42.80	4.3	8.2	25.5	(33.4)
Gold (US\$/oz)	1,772	0	2.6	9.3	26.6
CRB Index	360.6	0.5	(2.3)	(0.7)	(10.8)
Rogers Agri Index	681.7	3.5	1.5	6.4	(8.6)
LIBOR (3M)*	0.30	0	(3)	(108)	(201)
INR 5Y Swap*	5.28	0	10	(70)	(134)
<b>India FII data (US\$ mn)</b>					
	<b>2 Jul</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FY20</b>
FII-Debt	(16.3)	157.7	31.7	(14,250.3)	(4,490.8)
FII-Equity	(223.0)	(537.8)	(266.9)	(2,708.3)	3,894.6

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
6-Jul	Germany factory orders, % MoM	May	15.0%	(25.8%)	--
	Euro Area retail sales, % MoM	May	15.0%	(11.7%)	--
	Markit US services PMI	Jun	47.0	46.7	--
	US ISM non-manufacturing index	Jun	50.0	45.4	--
7-Jul	South Korea current account balance, US\$ bn	May	--	(3.1)	--
	Australia cash rate target, %	7-Jul	0.25%	0.25%	--
	Germany industrial production SA, % MoM	May	10.0%	(17.9%)	--
	Italy retail sales, % MoM	May	15.0%	(10.5%)	--
8-Jul	Japan current account balance, ¥ bn	May	1,088.2	262.7	--
9-Jul	Japan core machine orders, % MoM	May	(3.2%)	(12.0%)	--
	China PPI, % YoY	Jun	(3.2%)	(3.7%)	--
	China CPI, % YoY	Jun	2.5%	2.4%	--
	Germany exports SA, % MoM	May	13.8%	(24.0%)	--
	US initial jobless claims, in mn	4-Jul	--	1.4	--
10-Jul	Japan PPI, % YoY	Jun	(2.0%)	(2.7%)	--
	France industrial production, % MoM	May	15.0%	(20.1%)	--
	Italy industrial production, % MoM	May	21.5%	(19.1%)	--
	India industrial production, % YoY	May	(36.3%)	--	--
	US PPI final demand, % MoM	Jun	0.4%	0.4%	--

Source: Bloomberg, Bank of Baroda

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