

WEEKLY WRAP

07 September 2020

Indian yields fall after RBI acts

Chinese yields rose as domestic economic activity continues to show improvement. Even US 10Y yield closed flat with better jobs data. DXY gained some lost ground after Europe saw deflation after 4 years. Global equity markets fell led by US tech stocks. India's 10Y yield fell by 21bps after a record 23.9% decline in GDP, special OMOs and hike in the HTM limit by RBI. In the coming week, ECB policy decision and India's industrial production data are key watchable.

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Markets

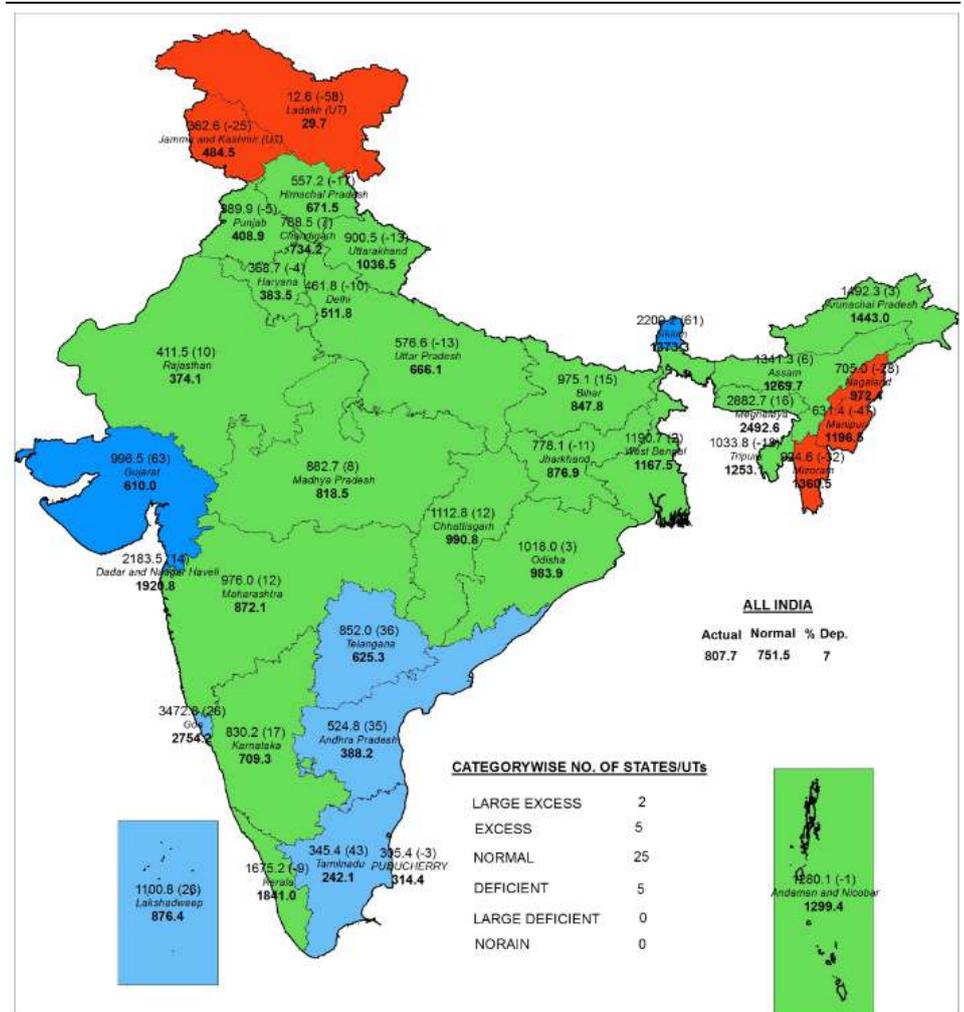
- **Bonds:** Except China, global long end yields closed lower. US 10Y yield was stable in the week at 0.72% supported by better jobs data. UK 10Y yield fell by 5bps as BoE expressed growth concerns. Crude prices fell by 5.3% (US \$ 43/bbl) amidst concerns of muted demand led by dip in US services ISM and European and Japanese services PMIs. India's 10Y yield fell the most by 21bps (5.93%) supported by RBI's special OMO announcements and hike in the HTM limit. System liquidity surplus was at Rs 4.1tn against Rs 4tn in the previous week.
- **Currency:** Except INR and CNY other global currencies closed lower. DXY recovered and rose by 0.4% as US manufacturing activity rebounded in Aug'20. GBP fell by 0.6% as BoE officials warned of a much bigger impact of COVID-19 crisis on growth. EUR depreciated by 0.5% as ECB officials raised concerns over its recent surge. INR rose by 0.4%. FII outflows were US\$ 113mn.
- **Equity:** Barring Shanghai Comp, other global equity indices ended lower. Sell-off in equities was triggered by US tech stocks. Sensex and FTSE (2.8%) declined the most, followed by Dow (1.8%). Fed's Beige book pointed to not so rosy economic outlook. Drop in domestic equity market was led by banking and real estate stocks.
- **Upcoming key events:** In the current week, markets will track CPI data of US, China, and Germany and industrial production of European economies. In addition, China and Taiwan's exports and ECB's policy decision is also due. On the domestic front, industrial production data will be released this week.



Monsoon tracker

- For the period 1 Jun 2020 to 6 Sep 2020, monsoon is 7% above LPA compared with 1% last year. Central and North Eastern parts of the country continue to receive normal rainfall, however states like Gujarat, Telangana, Andhra Pradesh and Tamil Nadu continue to receive heavy rainfall. On the other hand, parts of J&K, Nagaland and Manipur have received deficient rainfall.
- Overall Kharif sowing advanced by 6.3% as on 4 Sep 2020 compared with last year. The improvement is led by higher sown area for oilseeds (12%), rice (8.3%), cereals (6.2%) and pulses (4.7%). Sowing area of cotton (2.8%) too has improved.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun-6 Sep 2020

India macro developments

- GDP growth in Q1FY21 contracted by 23.9%. Manufacturing led the decline at 39.3% followed by services at 20.6%. The only beacon of light was agriculture output which increased by 3.4%. Counter cyclical fiscal policy was visible with 16.4% jump in government consumption. However, private consumption and investment spending fell by 26.7% and 47.1% respectively.
- Centre's fiscal deficit continues to remain elevated as revenue receipts are in free fall while spending is maintained. Net tax revenues were down by 40.6% in FYTD21 (Apr-Jul) versus 14% increase in FYTD20. This was driven by 33.2% decline in direct taxes and 27% drop in indirect taxes, versus 5.8% and 7.2% increase respectively in FYTD20. Total spending is up by 11.3% (revenue spending at 12.2%, capex at 3.9%).
- Total GST collections eased to Rs 864bn from Rs 874bn in Jun'20, registering a 12% YoY decline. The dip was on account of lower cess and IGST collections. CGST on the other hand rose by 57.3% (YoY) to Rs 379bn versus Rs 302bn in Jun'20, while SGST was at Rs 475bn (17.4%) versus Rs 400bn in Jun'20. On FYTD basis total collections stand at Rs 3.3tn versus Rs 4tn in FYTD20.
- RBI has taken measures to improve system liquidity. It has announced special OMOs of another Rs 200bn in Sep'20. It will also conduct term repos of Rs 1tn. Further, banks that had availed funds under LTROs are allowed to refinance their borrowings via these term repo auctions at lower costs. RBI has also allowed banks to hold fresh securities acquired from Sep'20-Mar'20 in the HTM bucket up to 22% of NDTL.
- India's manufacturing PMI print rose for the first time since Mar'20 above the 50-mark at 52 in Aug'20 from 46 in Jul'20. This was led by expansion in new orders and output amidst reopening of the economy and pickup in domestic demand. Input costs remained elevated at 21-month high. Employment scenario remained bleak.
- India's services PMI improved in Aug'20 to 41.8 from 34.2 in Jul'20. With state lockdown restrictions being removed, businesses re-opened but were operating much below capacity. Both new domestic and export orders remained weak. Employment index fell only marginally.
- RBI reported that currency in circulation (CIC) declined by Rs 79bn and stood at Rs 26.8tn for the week ending 28 Aug 2020. Reserve money rose by 14.7% on a YoY basis compared with 13.1% a year ago. On a FYTD basis, reserve money increased by 5.4% as against 0.5% last year.

Global macro developments

- Manufacturing activity improved globally in Aug'20 as most economies eased restrictions. Manufacturing PMI in Germany rose to 52.2 from 51 in Jul'20, Japan's PMI also improved to 47.2 from 45.2. US ISM manufacturing index rose to its highest since Nov'18 to 56 from 54.2 in Jul'20 led by improvement in new orders. However, Euro Zone manufacturing PMI fell marginally to 51.7 from 51.8 in Jul'20.
- Services activity in Eurozone eased in Aug'20. The PMI index fell to 50.5 from 54.7 in Jul'20. The slowdown was broad-based with significant contraction seen in Italy (47.1 from 51.6) and Spain (47.7 from 51.9). New export orders and weak domestic demand were the key drags. In case of Germany (52.5 from 55.6) and France (51.5 from 57.6) while the activity slowed, it still remains in the expansionary zone for now.
- US ISM services index fell to 56.9 in Aug'20 from 58.1 in Jul'20 as increase in COVID-19 cases in some parts lead to re-imposition of restrictions. New orders declined to 56.8 from 67.7 in Jul'20. Separate data also showed that US trade deficit rose to a 12-year high at US\$ 63.6bn led by a sharp increase in imports. Separately, jobless claims for the week ended 29 Aug 2020 fell by 130,000 to a 5-month low at 881,000.
- Japan's services PMI showed further contraction in activity in Aug'20 as the index eased to 45 from 45.4 in Jul'20. Government restrictions and lack of customer demand owing to COVID-19 were the key reason for dip in business activity. New orders and employment index suffered the most.
- US factory orders rose for the 3rd straight month by 6.4% in Jul'20 same as in Jun'20 and more than its estimation of 6% increase, on MoM basis. Shipments also rose for the 3rd consecutive month by 7.5% from 7.3% in Jun'20. Inventories also declined by 0.6%. Core capital goods orders rose by 1.9%.
- US nonfarm payroll increased by 1.37mn in Aug'20 against expectation of 1.35mn and compared with 1.73mn increase in Jul'20. Unemployment rate edged down to 8.4% from 10.2% in Jul'20, reaching the levels seen in Mar'20. Average hourly earnings rose by 0.4% against 0.1% in Jul'20, on MoM basis.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.72	0	21	(18)	(84)
UK	0.26	(5)	19	(9)	(24)
Japan	0.04	(2)	2	(1)	28
Germany	(0.47)	(6)	8	(20)	17
India	5.93	(21)	16	17	(67)
China	3.13	5	18	27	12
2Y yields (Δ bps)					
US	0.14	2	4	(6)	(140)
UK	(0.08)	(2)	(1)	(8)	(47)
Japan	(0.12)	(1)	0	1	18
Germany	(0.70)	(3)	1	(10)	17
India	4.34	(15)	15	(11)	(137)
China**	2.60	8	39	55	1
Currencies (Δ %)					
EUR	1.1838	(0.5)	0.3	4.8	7.3
GBP	1.3279	(0.6)	1.6	4.8	8.1
JPY	106.24	(0.8)	(0.5)	3.1	0.6
AUD	0.7282	(1.1)	1.7	4.5	6.4
INR	73.14	0.4	2.5	3.2	(2.0)
CNY	6.8425	0.3	1.9	3.4	3.8
Equity & Other indices (Δ %)					
Dow	28,133	(1.8)	4.9	3.8	5.0
FTSE	5,799	(2.8)	(3.9)	(10.6)	(20.4)
DAX	12,843	(1.5)	1.9	(0.0)	5.3
NIKKEI	23,205	1.4	2.8	1.5	9.5
Shanghai Comp	3,355	(1.4)	(0.5)	14.5	11.9
SENSEX	38,357	(2.8)	1.8	11.9	3.7
Brent (US\$/bbl)	42.66	(5.3)	(4.0)	0.9	(30.7)
Gold (US\$/oz)	1,934	(1.6)	(4.2)	14.8	28.3
CRB Index	395.1	0.5	5.3	7.0	2.1
Rogers Agri Index	736.1	(0.3)	5.8	7.4	9.1
LIBOR (3M)*	0.25	1	0	(6)	(188)
INR 5Y Swap*	5.54	(18)	39	43	(56)
India FII data (US\$ mn)					
	3 Sep	WTD	MTD	CYTD	FYTD
FII-Debt	85.4	(23.3)	7.4	(15,082.6)	(5,323.1)
FII-Equity	(16.2)	(89.7)	230.7	5,038.1	11,641.1

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
7-Sep	Germany industrial production SA, % MoM	Jul	4.5%	8.9%	--
	Taiwan exports, % YoY	Aug	0.8%	0.4%	--
	China exports, % YoY	Aug	7.5%	7.2%	--
8-Sep	Japan GDP SA, % QoQ	Q2CY20	(8.1%)	(7.8%)	--
	Japan current account balance, ₹ bn	Jul	1,886.0	167.5	--
	Germany exports SA, % MoM	Jul	5.0%	14.9%	--
	France trade balance, € bn	Jul	--	(8.0)	--
	Italy retail sales, % MoM	Jul	(1.0%)	12.1%	--
	Euro Area GDP SA, % QoQ	Q2CY20	(12.1%)	(12.1%)	--
9-Sep	South Korea unemployment rate SA, %	Aug	4.3%	4.2%	--
	China PPI, % YoY	Aug	(1.9%)	(2.4%)	--
	China CPI, % YoY	Aug	2.4%	2.7%	--
	Japan machine tool orders, % YoY	Aug	--	(31.1%)	--
10-Sep	Japan core machine orders, % MoM	Jul	2.0%	(7.6%)	--
	France industrial production, % MoM	Jul	5.0%	12.7%	--
	Italy industrial production, % MoM	Jul	3.5%	8.2%	--
	ECB policy rate, %	10-Sep	0.0%	0.0%	--
	US PPI final demand, % MoM	Aug	0.2%	0.6%	--
	US initial jobless claims	05-Sep	8,45,000	8,81,000	--
11-Sep	Japan PPI, % YoY	Aug	(0.5%)	(0.9%)	--
	UK industrial production, % MoM	Jul	4.2%	9.3%	--
	UK trade balance, £ bn	Jul	3.0	5.3	--
	Germany CPI, % YoY	Aug	0.0%	0.0%	--
	India industrial production, % YoY	Jul	(12.0%)	(16.6%)	--
	US CPI, % MoM	Aug	0.3%	0.6%	--

Source: Bloomberg, Bank of Baroda

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