

MARKET OUTLOOK

21 December 2020

Year of rollercoaster ride

2020 was one of the worst years for global economy but one of the best years for NASDAQ (5th highest since inception). Even in India, technology stocks outperformed. Global yields fell and commodity prices increased. US\$ too fell. 2021 should see the trend continuing as pivot of growth shifts to Asia. Higher commodity prices will drive inflation up. India's retail inflation will remain above 4% and yields will inch up as RBI starts to withdraw liquidity support gradually (CRR cut upto Mar'21) and credit growth revives.

Sameer Narang

+91 22 6698 5713

chief.economist@bankofbaroda.com

Sonal Badhan

sonal.badhan@bankofbaroda.com

Aditi Gupta

aditi.gupta3@bankofbaroda.com

Dipanwita Mazumdar

dipanwita.mazumdar@bankofbaroda.com

Jahnvi

jahnvi@bankofbaroda.com

What a year: The 2020 pandemic, 9th since 1700, brought down global growth from 2.8% in 2019 to a contraction of 4.4%. Fiscal deficits expanded globally led by US at 19% and Europe at 10%. Central Banks stepped up stimulus by bringing rates to record lows and undertaking balance sheet expansion. US Fed increased its asset size by 14.8% of GDP in a year, and India by 6.7% (till Dec'20).

Financial assets re-priced: Portfolio allocations moved away from debt into equities in the US by more than US\$ 200bn. US equity markets are higher in the year led by 40% return on the tech heavy NASDAQ index. Even in India, tech stocks have given a 39% return during the year. FPI inflows into Indian equity markets during CY20 are at US\$ 21.5bn while debt outflows are US\$ 13.8bn.

Global yields at rock bottom: As much as US\$ 18tn of global debt are yielding a negative return. Junk bond yields in the US have fallen to lowest level since Feb'20. Even in India, RBI's liquidity support has worked wonders with spread of corporate bond yields over Gsec for prime borrowers falling to levels not seen since 2010. For AAA borrowers (3yr) spread over Gsec is now less than 20bps.

What will change in 2021: Global liquidity conditions are likely to remain accommodative, but yields may start to inch up as global growth revives. DXY index will continue to under-perform. Commodity prices will remain firm as Asia will continue to drive growth. Inflation will gradually inch up. Services inflation will pick up gradually. Equity markets will continue to inch up as growth revives.

India's growth at 8.8% in FY22: Led by revival in domestic consumption, India's growth will revive to 8.8% in FY22. Government's PLI scheme is positive for exports. So is flow of work to Indian IT firms. Inflation will remain a teething issue (4.5% in FY22 versus 6.5% in FY21) because of higher global commodity prices.

KEY HIGHLIGHTS

- Global growth plunged, technology stocks outperformed
- Commodity prices inching up, US\$ weak
- Yields fall globally, central banks to remain accommodative
- India and global growth to revive, PLI scheme and digitisation to benefit India

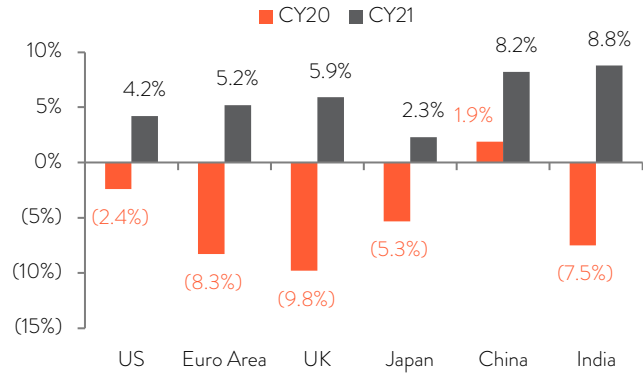


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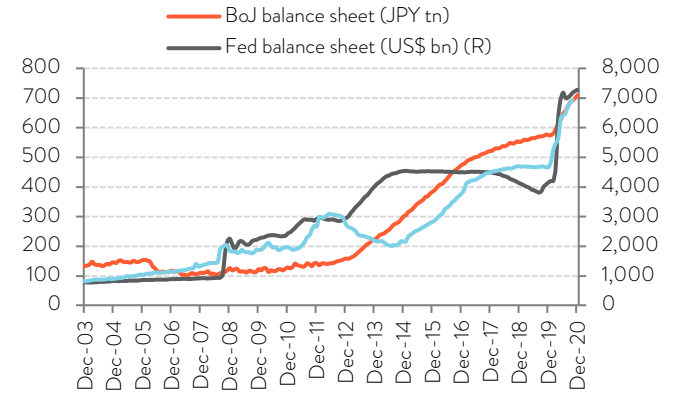
Macro Scenario

FIG 1 – IMF PROJECTION SHOWS GDP OF MAJOR ECONOMIES TO CONTRACT SHARPLY IN CY20



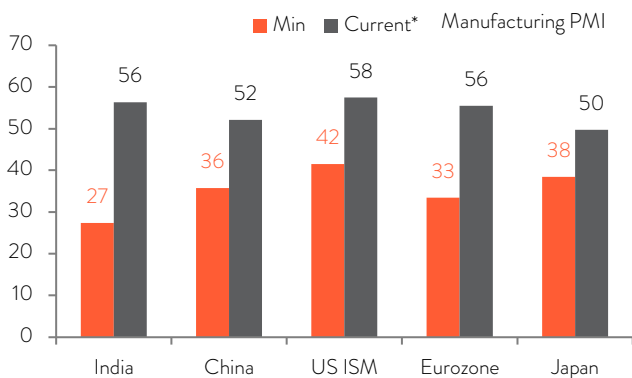
Source: IMF, Bank of Baroda Research Note: US growth estimates are FOMC's projection, FY21 estimates of India are RBI's projection and FY22 estimates are author's own calculation

FIG 2 – BALANCE SHEET OF MAJOR ECONOMIES ARE SKYROCKETING



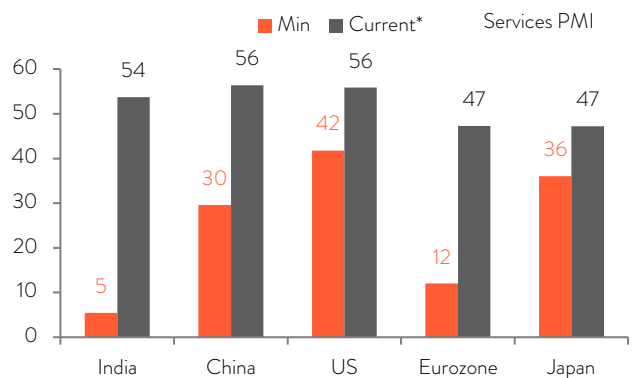
Source: Bloomberg, Bank of Baroda Research

FIG 3 – MANUFACTURING PMI



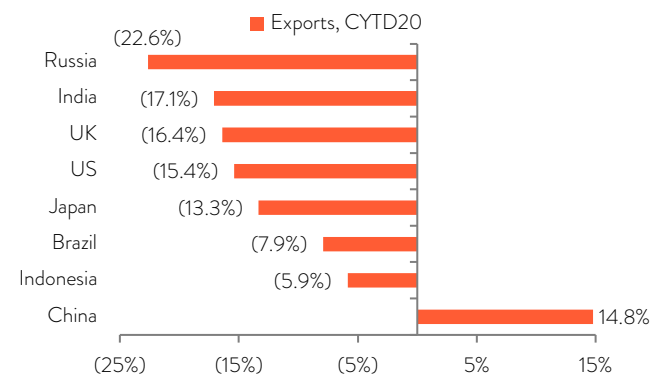
Source: CEIC, Bank of Baroda Research

FIG 4 – SERVICES PMI



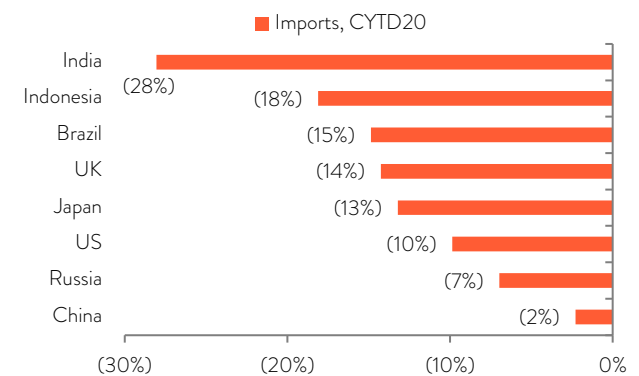
Source: CEIC, Bank of Baroda Research

FIG 5 – EXPORTS GROWTH COUNTRYWISE



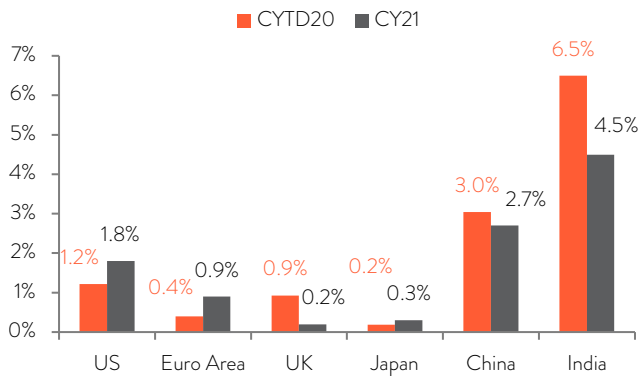
Source: CEIC, Bloomberg, Bank of Baroda Research

FIG 6 – IMPORTS GROWTH COUNTRYWISE



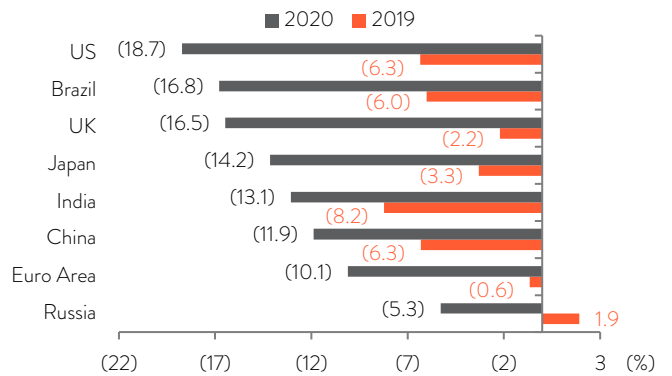
Source: CEIC, Bloomberg, Bank of Baroda Research

FIG 7 – INFLATION PROJECTION COUNTRYWISE SHOWS INDIA AN OUTLIER



Source: IMF, Bank of Baroda Research, Note: US CPI are projections of FOMC, India print is author's own calculation

FIG 8 – FISCAL DEFICIT AS % OF GDP COUNTRYWISE



Source: IMF, Bank of Baroda Research

Policy Table

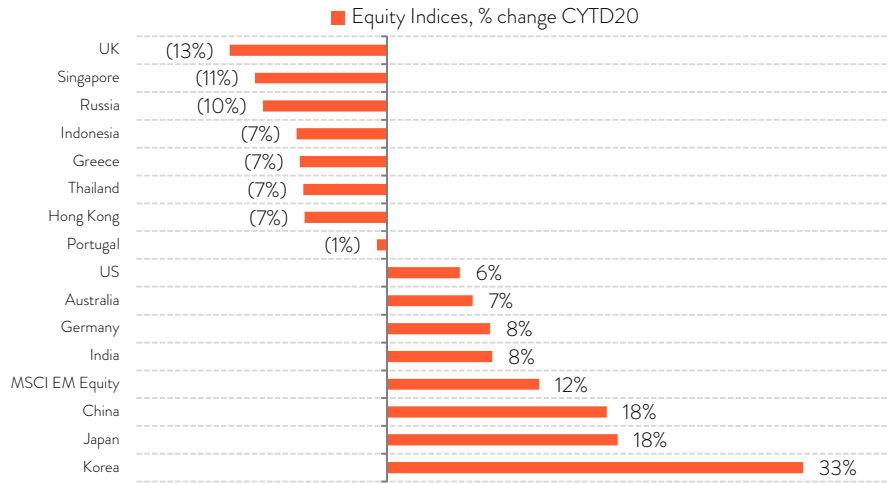
FIG 9 – GLOBAL CENTRAL BANKS ARE ON MONETARY EASING CYCLE

Country	Current inflation rate (%)	Current policy rate (%)	CY19 (change in bps)	CYTD20 (change in bps)	Direction of policy rate in CYTD20
Turkey	14.03	15.00	(1,200)	300	↑
Germany	(0.30)	0	0	0	-
Japan	(0.90)	(0.10)	0	0	-
China	(0.50)	4.35	0	0	-
UK	0.30	0.10	0	(65)	↓
Australia	0.70	0.1	(75)	(65)	↓
Korea	0.60	0.5	(50)	(75)	↓
Thailand	(0.41)	0.5	(50)	(75)	↓
India	6.93	4	(135)	(115)	↓
Indonesia	1.59	3.75	(100)	(125)	↓
Malaysia	(1.50)	1.75	(25)	(125)	↓
US	1.20	0.25	(75)	(150)	↓
Russia	4.40	4.25	(150)	(200)	↓
Phillipines	3.30	2.00	(75)	(200)	↓
Brazil	4.31	2.00	(200)	(250)	↓
Mexico	3.33	4.25	(100)	(300)	↓

Source: Bloomberg, Bank of Baroda Research

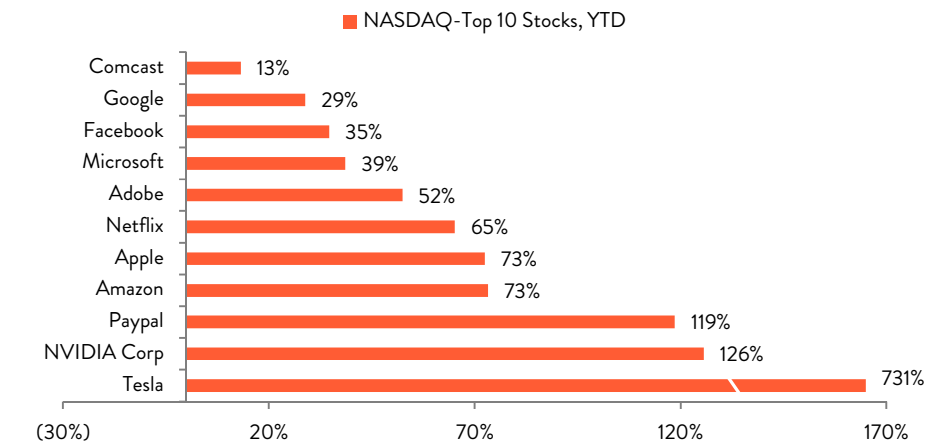
Global Equity Indices:

FIG 10 – CYTD20 CHANGE OF MAJOR EQUITY INDICES



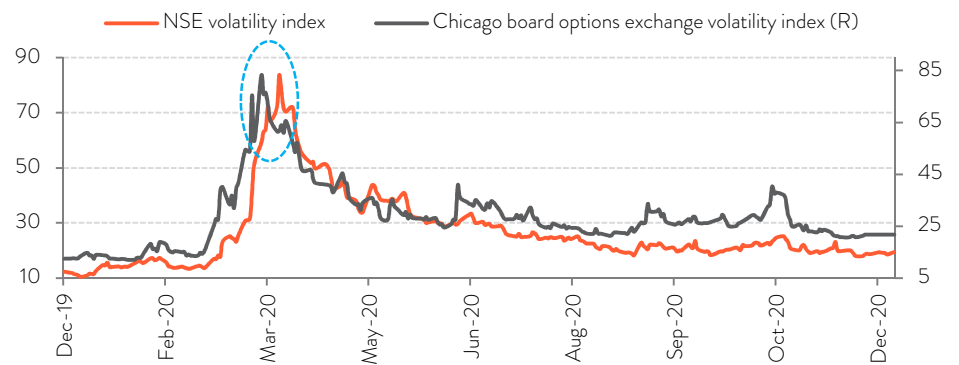
Source: Bloomberg, Bank of Baroda Research, CYTD: Jan-Dec (till date)

FIG 11 – PERFORMANCE OF MAJOR STOCKS OF NASDAQ



Source: Bloomberg, Bank of Baroda Research, CYTD: Jan-Dec (till date)

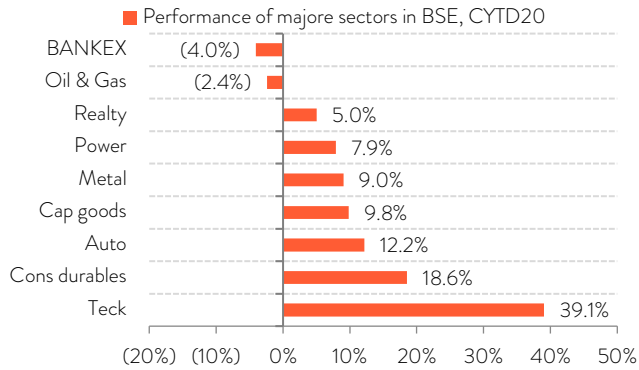
FIG 12 – VOLATILITY IN EQUITY INDICES IS PACIFYING



Source: Bloomberg, Bank of Baroda Research

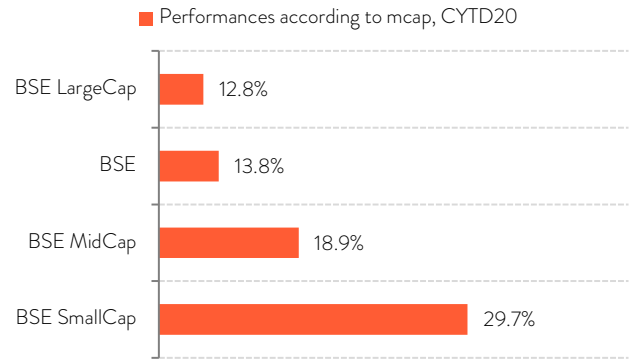
India Scenario

FIG 13 – SECTORWISE STOCKS PERFORMANCE



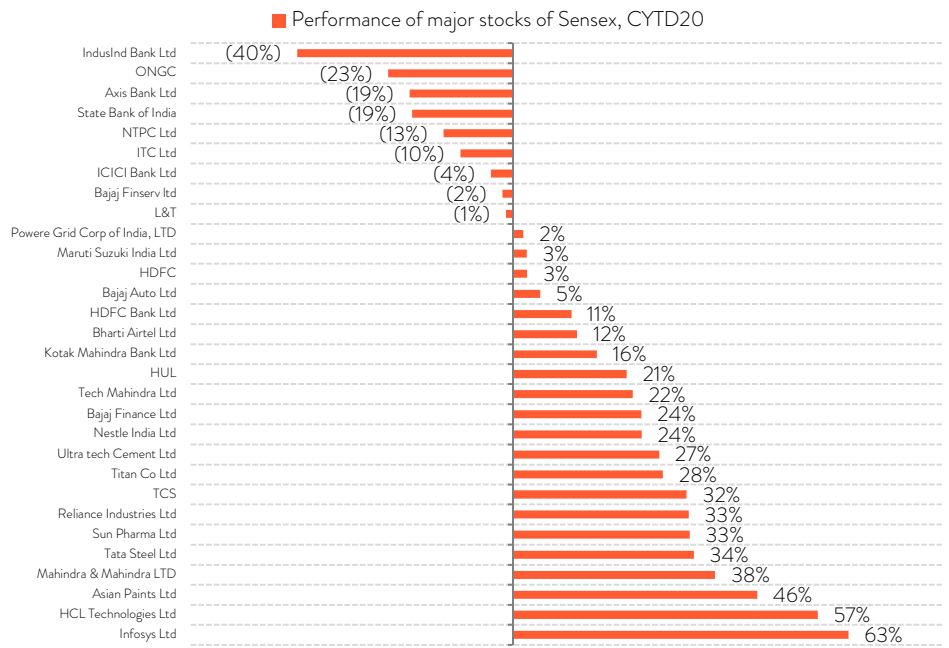
Source: Bloomberg, Bank of Baroda Research, CYTD: Jan-Dec (till date)

FIG 14 – SMALL CAP ROSE THE MOST



Source: Bloomberg, Bank of Baroda Research, CYTD: Jan-Dec (till date)

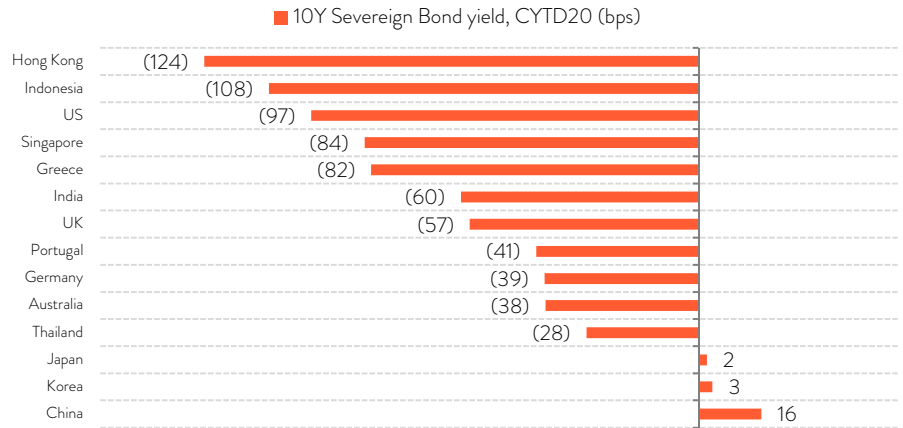
FIG 15 – PERFORMANCE OF MAJOR STOCKS IN THE DOMESTIC MARKET



Source: Bloomberg, Bank of Baroda Research, CYTD: Jan-Dec (till date)

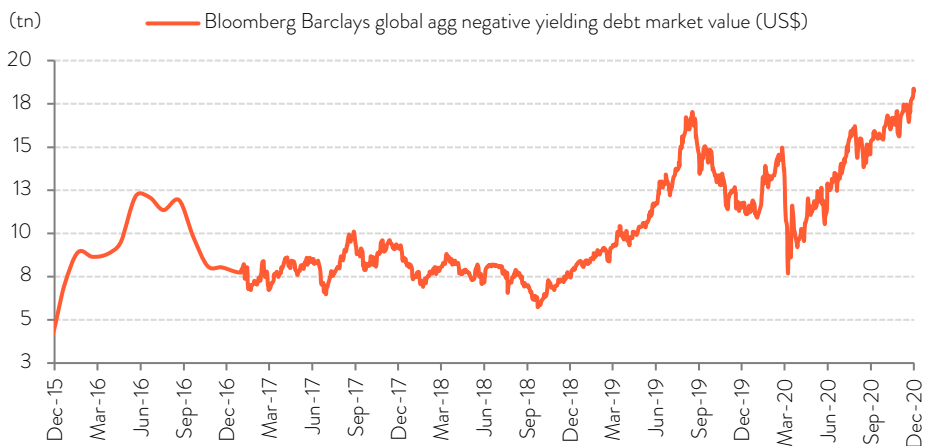
Global Yields and Rates

FIG 16 – 10Y SOVEREIGN YIELD MOVEMENT IN CYTD20



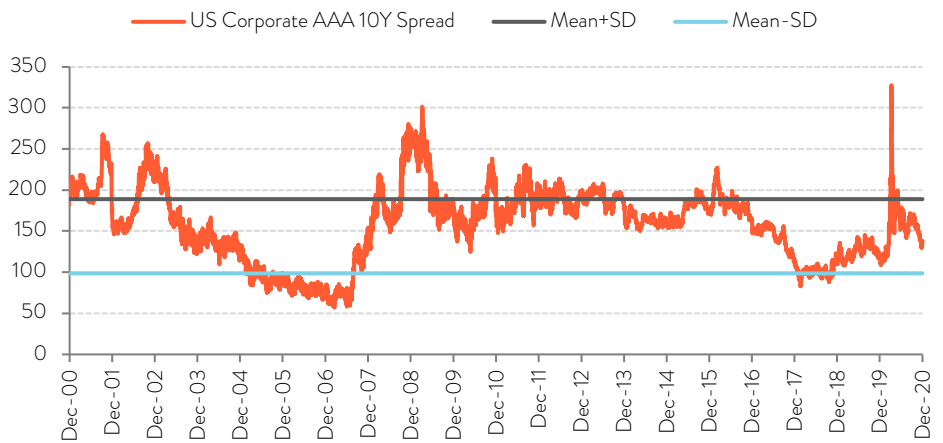
Source: Bloomberg, Bank of Baroda Research, CYTD: Jan-Dec (till date)

FIG 17 – GLOBAL DEBT YIELDING NEGATIVE YIELD IS PILING UP



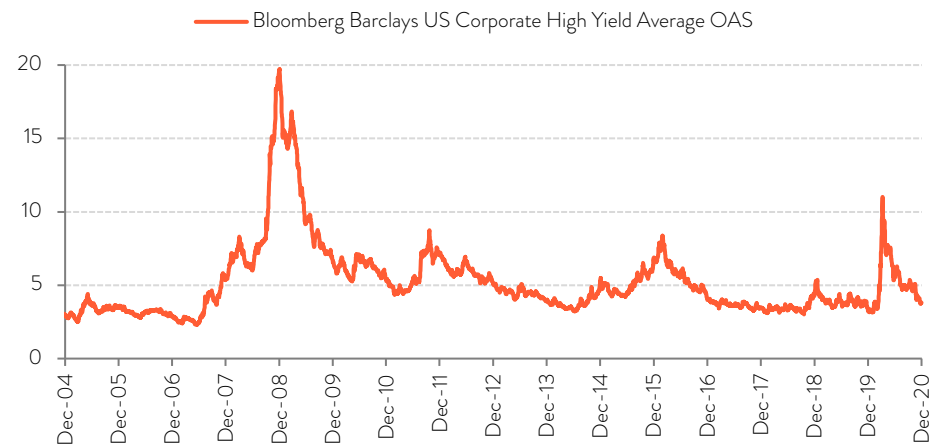
Source: Bloomberg, Bank of Baroda Research

FIG 18 – US AAA RATED CORPORATE SPREAD IS ALSO FALLING



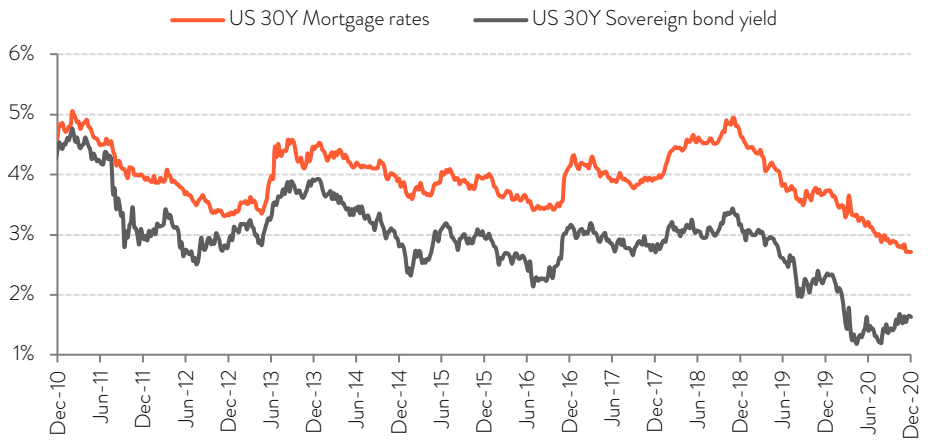
Source: Bloomberg, Bank of Baroda Research

FIG 19 – US JUNK BOND YIELD



Source: Bloomberg, Bank of Baroda Research

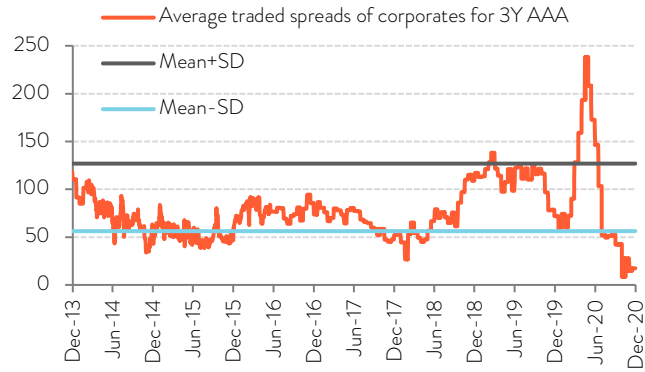
FIG 20 – US MORTGAGE RATE



Source: Bloomberg, Bank of Baroda Research

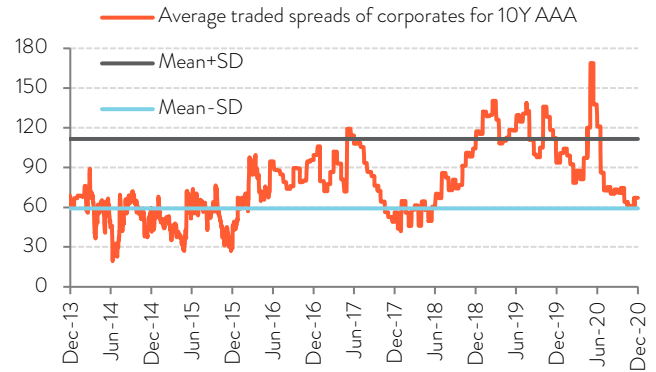
Indian Rates

FIG 21 – CORP SPREAD FOR 3Y AAA RATED PAPERS BELOW ITS MEAN REVERSION LEVEL



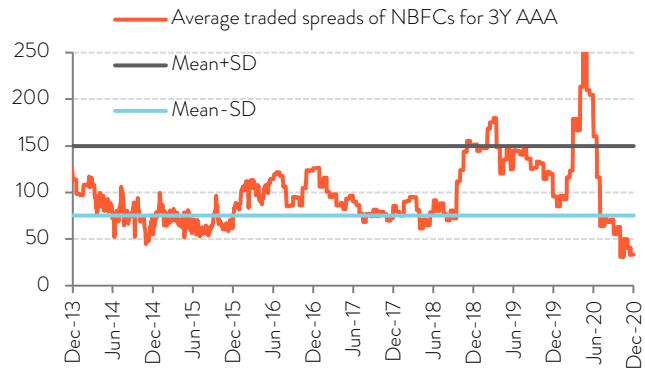
Source: Bloomberg, Bank of Baroda Research

FIG 22 – FOR 10Y AAA RATED CORPORATE PAPERS AS WELL IT IS APPROACHING ITS LOWS



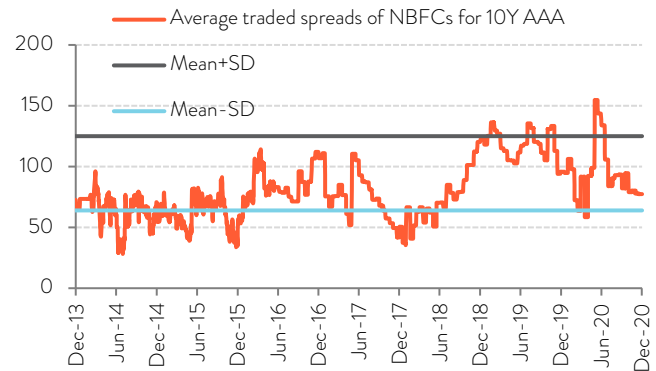
Source: Bloomberg, Bank of Baroda Research

FIG 23 – SPREAD OF NBFC AAA RATED IS ALSO BELOW ITS MEAN REVERSION LEVEL



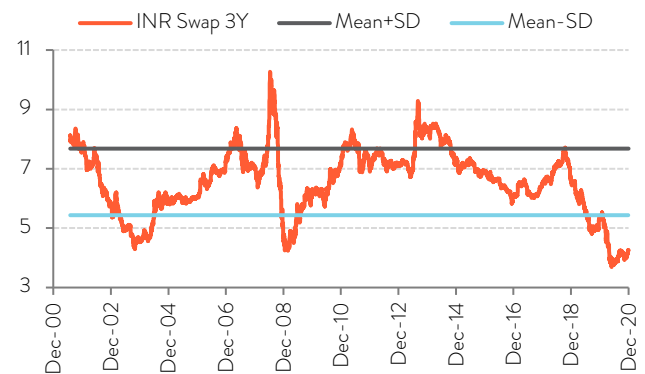
Source: Bloomberg, Bank of Baroda Research

FIG 24 – FOR 10Y AAA RATED NBFC PAPER, THE SPREAD IS ALSO SIGNIFICANTLY LOWER



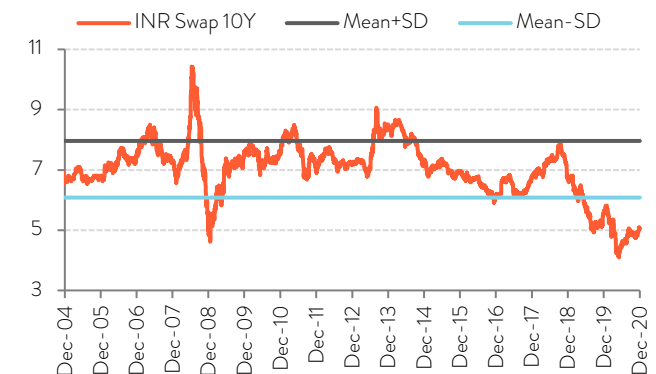
Source: Bloomberg, Bank of Baroda Research

FIG 25 – INR SWAP 3-YR



Source: Bloomberg, Bank of Baroda Research

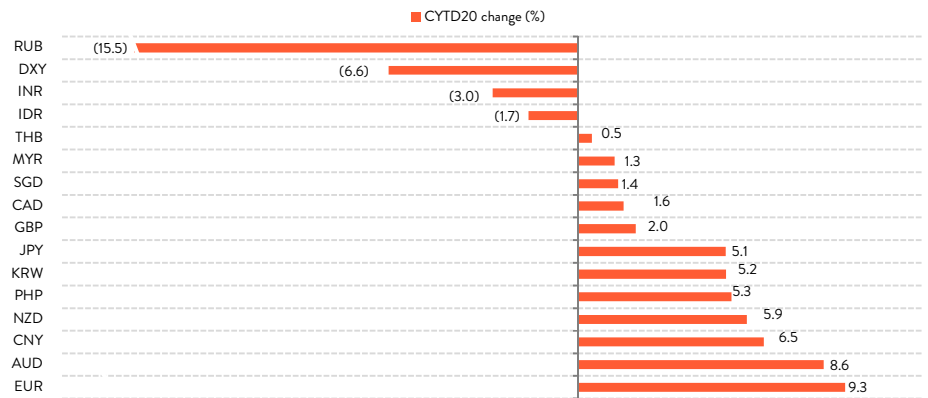
FIG 26 – INR SWAP 10-YR



Source: Bloomberg, Bank of Baroda Research

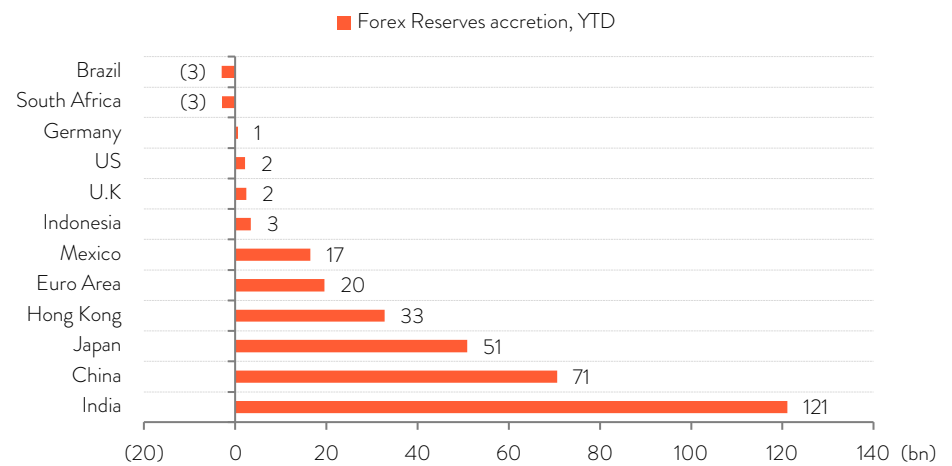
Global Currencies and Commodities

FIG 27 – MOVEMENT OF MAJOR CURRENCIES, CYTD20



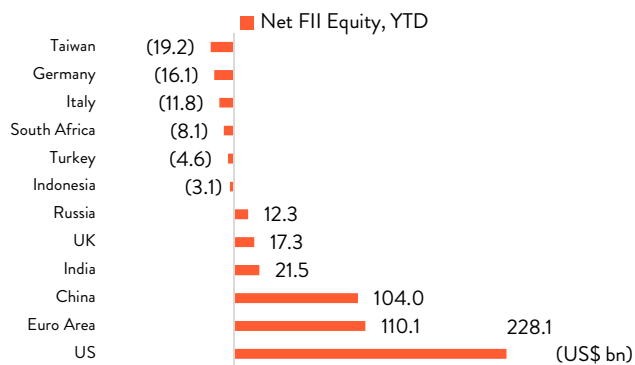
Source: Bloomberg, Bank of Baroda Research

FIG 28 – FX RESERVES ACCRETION, CYTD20



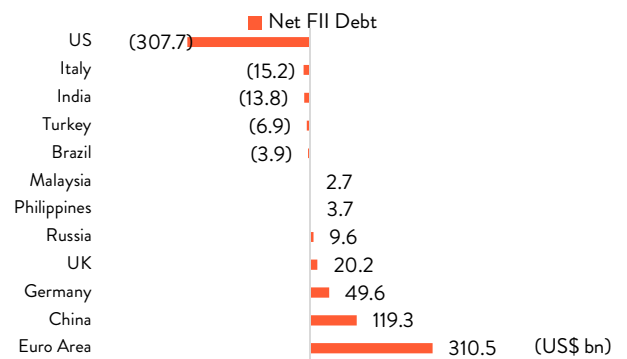
Source: Bloomberg, Bank of Baroda Research

FIG 29 – EQUITY IN CYTD20



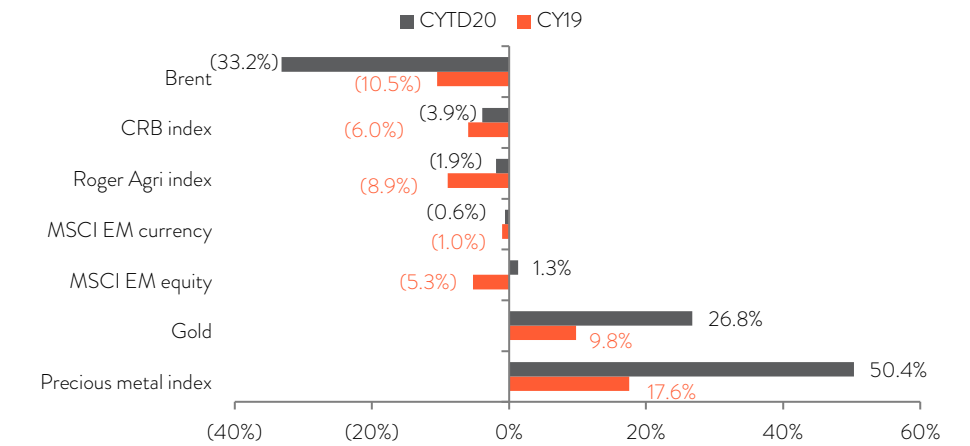
Source: Bloomberg, Bank of Baroda Research

FIG 30 – DEBT IN CYTD20



Source: Bloomberg, Bank of Baroda Research

FIG 31 – MOVEMENT OF MAJOR ASSET CLASSES



Source: Bloomberg, Bank of Baroda Research

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com