

WEEKLY WRAP

01 December 2020

RBI to maintain status quo

US\$ weakened by 0.7% in the week with positive development on vaccine. Global equity markets too rose. Dow rose by 11.8% MoM in Nov'20, best month in 30 years. Crude oil also went up by 27% in Nov'20. On the domestic front, FPI inflows continue into India, now at US\$ 21.5bn in the current financial year. GDP growth surprised positively at (-) 7.5%. RBI is expected to keep rates on hold as inflation continues to be higher than its target. However, liquidity conditions are likely to remain accommodative.

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Markets

- **Bonds:** Global 10Y yield closed mixed. US 10Y yield fell by 1bps (0.84%) amidst rising jobless claims. UK 10Y yield fell by 1bps (0.31) over progress in trade talks with EU. Germany 10Y yield rose by 1bps (-0.57%) as services economy slowed down. Oil prices rose by 3.3% (US\$ 48/bbl) with hope of a potential vaccine to revive economic activity. Thus, India's 10Y yield rose by 1bps (5.91%). System liquidity surplus rose to Rs 5.4tn as on 27 Nov 2020 compared with Rs 5.2tn in the previous week.
- **Currency:** Except GBP (flat), other global currencies closed higher against the dollar. DXY index fell by 0.7% in the week. Dollar weakened as risk appetite of investors improved supported by progress on vaccine development. INR appreciated by 0.1% in the week supported by foreign inflows of US\$ 1.2bn.
- **Equity:** Barring FSTE and Shanghai Comp, other global indices closed higher. Positive flash manufacturing PMIs and hopes of an effective vaccine boosted risk sentiment. Dax rose even as services activity was weak and consumer confidence fell in Germany. Following global cues, Sensex rose by 0.2%, led by metals, consumer durables and realty stocks. FPI inflows have now reached US\$ 21.5bn in current FYTD.
- **Upcoming key events:** In current week, markets will await final manufacturing and services PMI data of major economies. Apart from this, US employment data will also shed light on underlying labour market conditions. On the domestic front, markets await RBI's policy decision, PMI data and progress of Covid-19 cases.



India macro developments

- As per CMIE data, unemployment rate (30-day moving average) moderated to 6.4% as on 23 Nov 2020 against 6.7% in the previous week. This was led by improvement in rural employment (6.1% versus 6.5%). However, urban unemployment rose to 7.2% versus 6.9%. Government initiatives such as higher allocation under MGNREGA and “Atmanirbhar Bharat Rozgar Yojana” will boost employment in the near-term.
- High-frequency data for India shows that post festival demand, there is marginal easing in trading activity observed. Average e-way bills generation which increased by ~14.5mn each week in Oct’20, are seeing an increase of ~12.2mn in Nov’20. Rail freight movement in the 1st 10 days of Nov’20 also slowed to 13.6% from 21.1% in the same period in Oct’20. Electricity demand has also dipped to 4.9% in Nov’20 so far from 5.3% in Oct’20.
- RBI reported that currency in circulation (CIC) fell by Rs 69bn and stood at Rs 27.7tn for the week ending 20 Nov 2020. Reserve money rose by 16.2% on a YoY basis, compared with 12.1% a year ago. On FYTD basis, reserve money increased by 9.5% as against 3.1% a year ago.
- RBI governor in his recent address highlighted that the sustainability of demand post festive season is to be carefully watched, as downside risks to growth still persist. He pointed out that the recent focus is on maintaining financial stability through 1) liberalising financial markets 2) internationalisation of the same for lowering transaction costs 3) safeguarding interests of the users and 4) ensuring resilience and safety.
- India’s GDP contracted by 7.5% in Q2FY21 (BoB est.: 8%) against a sharp contraction of 23.9% seen in Q1. This was led by revival in private consumption (11.3% decline against 26.7% contraction in Q2), investment demand (7.3% contraction against 47.1% decline in Q2) and exports (1.5% decline against 19.8% dip in Q2). Government final consumption expenditure on the other hand, fell sharply by 22.2% against an increase of 16.4% in Q1.
- The hike in petrol and diesel prices continued, with petrol prices up by Rs 1.28/lit and diesel prices by Rs 1.96/lit since 19 Nov 2020. On an average retail prices of petrol rose to a 25-month high of Rs 84.1/lit in Nov’20 against Rs 83.9/lit in Oct’20. Diesel prices on an average rose to Rs 74.7/lit from Rs 74.3/lit in Oct’20. This followed a 5.9% MoM increase in international crude prices in Nov’20.

Global macro developments

- Flash PMIs indicate that manufacturing activity in Nov'20 remained buoyant across regions. The index for US came in at 56.7 versus 53.4, for UK at 55.2 versus 53.7 and Eurozone at 53.6 versus 54.8. Slowdown in Eurozone is led by France (49.1 versus 51.3). On the other hand, barring US, services activity contracted elsewhere. Index for UK (45.8), Germany (46.2) and France (38) were all at their 6-month lows.
- Germany's GDP rebounded to 8.5% in Q3CY20 higher than estimate of 8.2% and 9.8% decline in Q2. This was led by private consumption which rose by 10.8% against 11.1% contraction in Q2. In a separate print, IFO index edged down to 90.7 from 92.5 in Oct'20, due to rising Covid-19 cases and stringent restrictions impacting the services industry the most.
- US consumer confidence fell to 96.1 in Nov'20 from 101.4 in Oct'20. The sub-index for present situation eased to 105.9 from 106.2, while the expectation index (short-term outlook on income and labour market) fell much more sharply to 89.5 from 98.2 in Oct'20. Delay in new fiscal stimulus and resurgence in Covid-19 cases impacted the mood.
- US GDP rose by 33.1% in Q3CY20 (unrevised from 1st estimate) versus 31.4% decline in Q2. The upward revision in fixed/residential investment and exports were offset by downward revisions to government spending, private inventory investment and PCE. US durable goods orders rose by 1.3% (est.: 0.9%) versus 2.1% in Sep'20. US jobless claims rose by 30,000 from the previous week to 778,000 as on 21 Nov 2020. Separately, US Fed minutes signalled tweaking of asset purchases to support economy.
- Bank of Korea has left its policy rate unchanged at 0.5% in its latest policy decision. It has also revised upward the GDP forecasts for CY20 and CY21. In CY20 the economy is expected to contract by 1.1% versus 1.3% estimated earlier while CY21 growth is projected at 3% increase versus 2.8% earlier. This is in view of faster pick up in investment and exports
- China's industrial profits rose by 28.2% in Oct'20 from 10.1% in Sep'20. The print was supported by lower base, recovery in exports and consumption, which offset the negative impact of deflation in PPI. In CYTD20, profits are up by 0.7% versus decline of 2.4% in Jan-Sep'20, led by private firms (1.1%), while SoEs have seen 7.5% decline in Jan-Oct'20.
- China's official manufacturing PMI rose to 52.1 in Nov'20 (est.: 51.5) from 51.4 in Oct'20. Amongst the 21 industries surveyed, 19 reported expansion in activity. Sub-indexes of production and new orders rose the most. Within new orders, export orders picked up led by holiday demand. The non-manufacturing PMI also rose in Nov'20, to 56.4 from 56.2 in Oct'20, led by construction, transport, finance and IT services.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.84	(1)	(3)	13	(98)
UK	0.31	(1)	4	(1)	(43)
Japan	0.03	2	(1)	(2)	8
Germany	(0.57)	1	6	(17)	(29)
India	5.91	1	3	(21)	(58)
China	3.27	(2)	9	25	6
2Y yields (Δ bps)					
US	0.15	(1)	0	2	(145)
UK	(0.02)	1	1	4	(57)
Japan	(0.12)	2	0	(1)	4
Germany	(0.74)	1	5	(9)	(13)
India	3.92	(2)	(27)	(55)	(143)
China**	2.86	(9)	15	36	23
Currencies (Δ %)					
EUR	1.1927	0.7	2.4	(0.1)	7.7
GBP	1.3323	0	2.9	(0.4)	3.0
JPY	104.31	0.2	0.3	1.5	4.3
AUD	0.7344	0.8	4.5	(0.4)	7.7
INR	74.04	0.1	0.1	(0.6)	(3.3)
CNY	6.5789	0.1	1.7	3.9	6.5
Equity & Other indices (Δ %)					
Dow	29,639	0.2	11.8	4.3	6.7
FTSE	6,266	(1.1)	12.4	5.1	(14.0)
DAX	13,291	1.3	15.0	2.7	2.5
NIKKEI	26,434	3.6	15.0	14.2	12.3
Shanghai Comp	3,392	(0.7)	5.2	(0.1)	17.9
SENSEX	44,150	0.2	11.4	14.3	8.2
Brent (US\$/bbl)	47.59	3.3	27.0	5.1	(21.9)
Gold (US\$/oz)	1,777	(3.3)	(5.4)	(9.7)	21.5
CRB Index	428.4	0.4	4.6	8.5	11.0
Rogers Agri Index	823.6	(1.0)	5.2	11.4	13.7
LIBOR (3M)*	0.23	2	1	(2)	(167)
INR 5Y Swap*	5.18	5	(1)	(46)	(121)
India FII data (US\$ mn)					
	26 Nov	WTD	MTD	CYTD	FYTD
FII-Debt	(60.3)	(402.8)	(307.8)	(14,537.5)	(4,778.0)
FII-Equity	406.6	1,632.3	8,321.8	14,868.2	21,471.2

Source: Bloomberg, Bank of Baroda | *Indicates change in bps | **1Y yield | Markets in India were closed on 30.11.2020

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
1-Dec	S.Korea GDP, % YoY	Q3CY20	(1.3%)	(1.3%)	--
	S.Korea export, % YoY	Nov	8.6%	--	--
	Jibun Bank Japan manufacturing PMI	Nov	--	48.3	--
	Caixin China manufacturing PMI	Nov	53.5	53.6	--
	RBA cash rate target	01-Dec	0.1%	0.1%	--
	Markit India manufacturing PMI	Nov	--	58.9	--
	Markit Italy manufacturing PMI	Nov	--	53.8	--
	Markit France manufacturing PMI	Nov	--	49.1	--
	Markit/BME Germany manufacturing PMI	Nov	57.9	57.9	--
	Germany unemployment change, in thousands	Nov	15.0	(35.0)	--
	Markit Eurozone manufacturing PMI	Nov	53.6	53.6	--
	Markit UK PMI manufacturing SA	Nov	55.2	55.2	--
	Eurozone CPI, % MoM	Nov	(0.3%)	0.2%	--
	Markit US manufacturing PMI	Nov	--	56.7	--
	US ISM manufacturing index	Nov	57.6	59.3	--
2-Dec	S.Korea CPI, % YoY	Nov	0.5%	0.1%	--
	Australia GDP, SA, % QoQ	Q3CY20	2.4%	(7.0%)	--
	Eurozone unemployment rate	Oct	8.5%	8.3%	--
	US MBA mortgage applications	27-Nov	--	3.9%	--
	US ADP employment change, in thousands	Nov	500	365	--
3-Dec	Markit Australia services PMI	Nov	--	54.9	--
	Australia trade balance, AUD mn	Oct	5,800	5,630	--
	Jibun Bank Japan service PMI	Nov	--	46.7	--
	Caixin China services PMI	Nov	56.3	56.8	--
	Markit India service PMI	Nov	--	54.1	--
	Markit France services PMI	Nov	--	38.0	--
	Markit Germany services PMI	Nov	46.2	46.2	--
	Markit Eurozone services PMI	Nov	41.3	41.3	--
	Markit/CIPS UK services PMI	Nov	45.7	45.8	--
	US initial jobless claims, in thousands	28-Nov	--	778	--
	Markit US services PMI	Nov	57.5	57.7	--
US ISM services index	Nov	56.0	56.6	--	
4-Dec	Australia retail sales, % MoM	Oct	0.5%	(1.1%)	--
	RBI repurchase rate	04-Dec	4.0%	4.0%	--
	Germany factory orders, % MoM	Oct	2.0%	0.5%	--
	US change in nonfarm payrolls, in thousands	Nov	500	638	--
	US unemployment rate	Nov	6.8%	6.9%	--
	US factory orders, % MoM	Oct	0.8%	1.1%	--
	US trade balance, US\$ bn	Oct	(64.8)	(63.9)	--

Source: Bloomberg, Bank of Baroda

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