

WEEKLY WRAP

14 December 2020

Inflation, RBI minutes in focus

10Y yield in UK and US declined due to uncertainty over Brexit and US stimulus. GBP too weakened against the US\$. The global rally in commodity prices was favourable for AUD. Indian 10Y yield increased by 6bps with inflation looking to remain elevated in Nov'20 as well. RBI minutes this week will give a sense of direction. Indian equity markets continue to gain traction led by FPI inflows of US\$ 2bn in the week and positive economic data. While global Covid-19 cases are accelerating, India continues to see a dip.

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Markets

- **Bonds:** UK 10Y yield fell the most by 18bps (0.17%) amidst Brexit uncertainty. US 10Y yield fell by 7bps (0.9%) amidst weak labour market scenario (jobless claims at 3-month high). Oil prices rose by 1.5% (US\$ 50/bbl). India's 10Y yield rose by 6bps (5.96%) amidst inflationary concerns. System liquidity surplus swelled to Rs 6.2tn as on 11 Dec 2020 compared with Rs 5.8tn in the previous week.
- **Currency:** DXY rose by 0.3% in the week. GBP fell by 1.6% on the back of inconclusive Brexit negotiations. CNY (0.2%) and EUR (0.1%) too dragged lower. On the other hand, JPY and AUD rose by 0.1% and 1.5% respectively. INR appreciated by 0.2% supported by US\$ 2bn of FII inflows. Equity inflows into India in FYTD21 are now at US\$ 26bn.
- **Equity:** Barring Sensex, other global indices ended the week lower amidst the ongoing uncertainty over Brexit and US stimulus. Shanghai Comp (2.8%) declined the most followed by Dax (1.4%) and Dow (0.6%). However, Sensex (2.3%) ended the week in green for the 6th week led by real estate and power stocks.
- **Covid-19 tracker:** Global cases rose by 5.2mn in the week ending 13 Dec 2020 compared with 4.3mn in the previous week led by US and Europe. India added 180k cases this week compared with 246k in earlier week.
- **Upcoming key events:** In current week, markets will watch US FOMC and BoE rate decision, flash PMIs of major economies and industrial production, retail sales data in China. On the domestic front, headline CPI, RBI's minutes and progress of Covid-19 cases will be tracked.



India macro developments

- India's industrial output surprised positively in Oct'20 at 3.6% from an increase of 0.5% in Sep'20. Consumer durables output jumped by 17.6%, a 5-year high, infra goods by 7.8% and FMCG by 7.5%. Even capital goods output increased by 3.3%, first expansion since Jan'19. While high frequency indicators suggest marginal cooling off in Nov'20 as seen in domestic PMIs, E-Way bills, exports and electricity generation. However, government spending is likely to pick-up thus driving growth upwards.
- Domestic LPG price (non-subsidised) has risen by Rs 50 to Rs 644/cylinder in Dec'20. In the CPI basket, fuel and light has a weight of 6.84% and inflationary pressure is noticed since Sep'20. In view of rising crude prices (5.9% in Nov'20 & 3.5% in Dec'20), retail petrol (up by Rs 1.28/lt in Dec'20) and diesel prices (Rs 1.96/lt), fuel component may pose significant upside risk to inflation print in the coming months.
- RBI reported that currency in circulation (CIC) increased by Rs 26.5bn and stood at Rs 27tn for the week ending 4 Dec 2020. Reserve money rose by 15.2% on a YoY basis, compared with 13.3% a year ago. On FYTD basis, reserve money increased by 9.8% as against 4.2% a year ago.
- Centre has recently released the 6th instalment of GST compensation cess of Rs 60bn thus taking the total transfer to states to Rs 360bn. This is a part of Rs 1.1tn additional borrowing by centre on behalf of states in order to meet the compensation cess gap. Further, centre had also allowed states to borrow additional 1% of GSDP (Rs 2tn) from markets based on performance of 4 reforms. Within this, 9 states have implemented ONORCS and will now be able to borrow Rs 235bn from the market.
- As per AMFI data, net inflow under mutual funds moderated to Rs 272bn in Nov'20 from Rs 986bn in Oct'20. Equity outflow was at Rs 134bn against Rs 43bn in Oct'20. Debt inflow also moderated to Rs 447bn against Rs 1.1tn in Oct'20. However, AUM of MF rose to Rs 30tn in Nov'20 (Rs 28tn in Oct'20), with AUM of equity at Rs 8.6tn and debt AUM at Rs 13.9tn in Nov'20.
- India's forex reserves rose to a fresh historic high at US\$ 579.3bn in the week ended 4 Dec 2020. FX reserves increased by US\$ 4.5bn this week, higher compared with a decline of US\$ 0.5bn last week. In FYTD21, forex reserves have increased by US\$ 103.8bn compared with an accretion of US\$ 41.5bn in the same period last year.

Global macro developments

- ADB has estimated growth in developing Asia to contract by 0.4% in CY20 (0.7% decline projected earlier). Growth is expected to bounce back to 6.8% in CY21 with gradual normalisation of economic activity. China's GDP is projected to rise by 2.1% in CY20 (1.8% estimated earlier) and by 7.7% in CY21. India's growth is expected to contract by 8% in FY21 (9% estimated earlier), while revival will be noticed in FY22 with 8% growth.
- ECB extended its Pandemic emergency purchase programme (PePP) by € 500mn to € 1.85tn euros, in order to boost the economy. The measures have been extended further by 9 months to at least Mar'22, with reinvestments to be made till CY23. ECB noted, this will provide credit flow to all sectors and safeguard medium-term price stability.
- Japan's Q3CY20 GDP print was revised upward from 21.4% to 22.9% on a QoQ annualized basis, driven by higher than previously estimated private consumption (5.1% versus 4.7% in preliminary estimate). This was mainly supported by 'Go To Travel' and 'Go To Eat' programs, which offered steep discounts on hotels and dining out. In Oct'20 as well, spending remained steady with 1.9% YoY increase, led by automobiles and refrigerators.
- China's PPI fell by 1.5% in Nov'20 (est.: 1.8% decline) compared with 2.1% drop in Oct'20. Easing contraction in factory gate implies improvement in industrial profits. This lends support that PBOC will withdraw stimulus measures soon. However, CPI fell by 0.5% in Nov'20 (est.: 0%) following a 0.5% increase in Oct'20. First contraction since Oct'09 indicates that consumer demand still remains weak.
- China's new home prices rose by 0.1% in Nov'20 on a MoM basis versus 0.2% rise in Oct'20. The marginal easing is touted to be on the back of increased supply and year-end discounts offered by the developers. PBOC has also tightened liquidity for the real estate sector and has identified it as "grey rhino" posing risk to financial stability of the system.
- CPI print in the US rose by 0.2% in Nov'20 (est.: 0.1%) against flat reading in Oct'20, on MoM basis. This was led by energy prices, hotel stays, airfares and apparel. Core also rose by 0.2% in Nov'20. In a separate print, jobless claims rose by 137,000 to 853,000 (3-month high) as on 5 Dec 2020 compared to its previous week, amidst lockdown restrictions.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.90	(7)	1	23	(93)
UK	0.17	(18)	(18)	(1)	(62)
Japan	0.01	(1)	(2)	(1)	3
Germany	(0.64)	(9)	(10)	(16)	(35)
India	5.96	6	5	(8)	(83)
China	3.31	1	5	16	11
2Y yields (Δ bps)					
US	0.12	(4)	(6)	(1)	(149)
UK	(0.11)	(8)	(8)	1	(66)
Japan	(0.13)	(1)	(0)	(1)	(1)
Germany	(0.78)	(4)	(6)	(9)	(17)
India	3.92	6	(22)	(56)	(186)
China**	2.83	(4)	3	23	23
Currencies (Δ %)					
EUR	1.2112	(0.1)	2.6	2.2	8.9
GBP	1.3224	(1.6)	0.8	3.3	(0.8)
JPY	104.04	0.1	1.0	2.0	4.9
AUD	0.7533	1.5	4.2	3.4	9.6
INR	73.65	0.2	1.3	(0.1)	(4.0)
CNY	6.5462	(0.2)	1.0	4.2	6.2
Equity & Other indices (Δ %)					
Dow	30,046	(0.6)	3.3	8.6	6.8
FTSE	6,547	(0.1)	3.3	8.5	(11.0)
DAX	13,114	(1.4)	0.5	(0.7)	(1.3)
NIKKEI	26,653	(0.4)	4.4	13.9	10.9
Shanghai Comp	3,347	(2.8)	0.3	2.7	12.8
SENSEX	46,099	2.3	6.3	18.6	12.4
Brent (US\$/bbl)	49.97	1.5	14.8	25.5	(23.4)
Gold (US\$/oz)	1,840	0.1	(2.0)	(5.2)	24.6
CRB Index	435.7	2.0	5.0	8.7	10.0
Rogers Agri Index	831.0	1.5	2.4	12.0	12.4
LIBOR (3M)*	0.22	(1)	(0)	(3)	(168)
INR 5Y Swap*	5.23	5	9	(35)	(136)
India FII data (US\$ mn)					
	10 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	41.5	92.5	345.8	(14,273.4)	(4,513.9)
FII-Equity	476.9	1,859.5	3,290.3	19,396.1	25,999.0

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
14-Dec	China new home prices, % MoM	Nov	--	0.2%	0.1%
	Japan industrial production, % MoM	Oct	--	3.8%	--
	India wholesale prices, % YoY	Nov	1.7%	1.5%	--
	Eurozone industrial production, SA, % MoM	Oct	1.8%	(0.4%)	--
	India CPI, % YoY	Nov	7.2%	7.6%	--
	Bank of France industrial sentiment index	Nov	95	97	--
15-Dec	RBA minutes of Dec. policy meeting	--	--	--	--
	China industrial production, % YoY	Nov	7.0%	6.9%	--
	China retail sales, % YoY	Nov	5.0%	4.3%	--
	China fixed assets (ex rural), YTD, % YoY	Nov	2.6%	1.8%	--
	Indonesia exports, % YoY	Nov	3.2%	(3.3%)	--
	UK jobless claims change, in thousands	Nov	--	(29.8)	--
	France CPI, % YoY	Nov	0.2%	0.2%	--
	US industrial production, % MoM	Nov	0.3%	1.1%	--
16-Dec	India exports, % YoY	Nov	(9.1%)	(5.1%)	--
	Markit France manufacturing PMI	Dec	49.0	49.6	--
	Markit France services PMI	Dec	36.0	38.8	--
	Markit/BME Germany manufacturing PMI	Dec	56.0	57.8	--
	Markit Germany services PMI	Dec	44.0	46.0	--
	Markit Eurozone manufacturing PMI	Dec	53.0	53.8	--
	Markit Eurozone services PMI	Dec	41.0	41.7	--
	Markit UK PMI manufacturing SA	Dec	55.2	55.6	--
	Markit/CIPS UK services PMI	Dec	50.2	47.6	--
	US MBA mortgage applications	11-Dec	--	(1.2%)	--
	US retail sales advance, % MoM	Nov	(0.2%)	0.3%	--
	Markit US manufacturing PMI	Dec	55.8	56.7	--
	Markit US services PMI	Dec	55.0	58.4	--
17-Dec	US FOMC rate decision (upper bound)	16-Dec	0.3%	0.3%	--
	Bank of England bank rate	17-Dec	0.1%	0.1%	--
	US housing starts, in thousands	Nov	1,528	1,530	--
	US initial jobless claims, in thousands	12-Dec	--	853	--
	Taiwan benchmark interest rate	17-Dec	1.1%	1.1%	--
18-Dec	Japan CPI, % YoY	Nov	(0.8%)	(0.4%)	--
	UK retail sales (inc auto fuel), % MoM	Nov	(1.8%)	1.2%	--
	Germany PPI, % MoM	Nov	0.1%	0.1%	--
	Germany IFO business climate index	Dec	89.8	90.7	--
	RBI policy minutes	Dec	--	--	--
	US current account balance, US\$ bn	Q3CY20	(188.6)	(170.5)	--
	BoJ policy balance rate	01-Dec	--	(0.1%)	--

Source: Bloomberg, Bank of Baroda

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