

## WEEKLY WRAP

18 May 2020

**China expands; US, Europe and India yet to see recovery**

**US yields closed lower due to poor economic data (retail sales, jobless claims, Fed Chair comments). With expanding industrial output, yields in China rose. After announcement of an economic package of Rs 21tn (10.5% of GDP), Indian yields too rose and upward pressure will remain due to large issuances by States. DXY gained due to safe haven demand and equities fell. Oil prices rose as IEA predicts demand to bounce back in H2. India's exports plunged by 60.3%. We see a current account surplus in FY21 which should support INR.**

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**Markets**

- **Bonds:** Global 10Y yield closed mixed with US yields heading lower on the back of lower than estimated retail sales and comments by Fed Chair on lasting damage of COVID-19 to the economy. Yields in China and India rose. In China, industrial output expanded while in India government upped the stimulus to 10% of GDP. Oil prices rose by 4.9% (US\$ 33/bbl) as IEA predicts demand to bounce back in H2. System liquidity surplus was at Rs 5.2tn as on 15 May 2020 compared with Rs 5.4tn in the previous week.
- **Currency:** Global currencies closed lower against the dollar as fears of second wave of COVID-19 infections emerged. DXY edged up by 0.7% on safe-haven demand even as macro data (retail sales, jobless claims) pointed towards a deep contraction in GDP growth in Q2CY20. GBP depreciated the most by 2.4% amidst uncertainty over Brexit deal. INR ended the week flat as government announced a huge fiscal package of Rs 20tn. FII outflows were US\$ 2.3bn in the week.
- **Equity:** Led by resurgence in COVID-19 cases and US-China trade dispute, global indices closed lower. Dax (4%) slumped the most, followed by Dow (2.7%). Sensex (1.7%) ended in red as stimulus announcement failed to cheer investors. It was dragged down by banking stocks.
- **Upcoming key events:** In current week, markets await global flash manufacturing PMIs and US FOMC meeting minutes. Apart from this, GDP prints of Japan, Singapore and Thailand and policy decision of Thailand and Indonesia are also scheduled for release. On the domestic front, government reforms will impact markets.



## India macro developments

- Government has announced stimulus of Rs 21tn (10.5% of GDP) to combat the economic crisis. This makes India well placed with Japan (stimulus: 21% of GDP) and US (stimulus: 13% of GDP). The stimulus includes previously announced Rs 1.7tn Pradhan Mantri Garib Kalyan Package and Rs 6.5tn of monetary stimulus and liquidity measures undertaken by RBI.
- As a part of Rs 20tn Aatmanirbhar Bharat Abhiyan package, FM has announced the first stimulus of ~Rs 6tn boost for MSMEs, NBFCs and power sector. MSMEs are the biggest beneficiary with an allocation of Rs 3.7tn. Further, a special liquidity scheme NBFCs/HFCs/MFIs of Rs 300bn has been launched. For power sector, Rs 900bn liquidity against DISCOM receivables has been launched.
- The second stimulus was worth Rs 3.1tn, of which farmers have got benefit of Rs 2.3tn in the form of higher credit allocation. Real estate sector will see incremental spending of Rs 700bn. Migrants and vendors will benefit from foodgrain allotment and credit to restart operations. Government has also streamlined changes to labour code which is positive for consumption.
- FM announced third tranche of Rs 1.5tn stimulus focused on agri sector. Agri infra got a big boost with an allocation of Rs 1tn. Notably, FM also announced reforms for kick-starting investments in agri supply chains. At the same time.
- In the last tranche of the fiscal package, the FM announced a 2% rise in state borrowings. Centre's gross borrowing is at Rs 12tn. This will likely offset revenue loss from lockdown. The Rs 21tn stimulus announced by FM focusing on MSMEs, agri, coal infra and power sector will provide liquidity. The reforms to usher in private sector participation in mining, power distribution and privatisation of PSEs will kickstart the investment cycle.
- RBI sold net US\$ 4.1bn in Mar'20 in the spot market versus net purchase of US\$ 9.1bn in Feb'20. In FY20, RBI purchased US\$ 45.1bn in the spot market versus net sales of US\$ 15.4bn in FY19. In the forwards market, RBI sold US\$ 2.6bn versus US\$ 1.1bn in Feb'20. RBI's net outstanding forward sales position is at US\$ 4.9bn versus US\$ 2.3bn in Feb'20.
- India's IIP growth contracted by 16.7% in Mar'20 versus 4.5% increase in Feb'20, led by manufacturing sector (20.6%) and electricity (6.8%). Separately, consumer food inflation rose to 10.5% in Apr'20 from 8.8% in Mar'20. This was driven by 5% increase in vegetable inflation and 7.8% increase in cereal inflation. Prices of milk and pulses also rose.

## Global macro developments

- US CPI fell by 0.8% in Apr'20 on MoM basis versus 0.4% drop in Mar'20. The biggest drag was 20.6% decline in gasoline prices versus 10.5% decline in Mar'20. Core inflation fell by 0.4% from 0.1% decline in Mar'20. This was the sharpest dip since CY57 and was driven by lower prices of apparels, transportation services and used cars and trucks.
- Industrial production in the Euro Area fell by 11.3% in Mar'20 versus 0.1% decline in Feb'20. This was led by sharp decline in production of durable consumer goods (26.3%), capital goods (15.9%) and intermediate goods (11%). The worst hit countries included, Italy (28.4%) and France (16.4%).
- Germany's GDP contracted by 2.2% in Q1CY20 on QoQ basis versus 0.1% decline in Q4CY19. Current print is the lowest since Q1CY09 was led by sharp reduction in household consumption, GFCF in machinery and equipment and exports. On the other hand, GFCE and GFCF contributed positively to GDP growth. Government expects a further 10% decline in GDP in Q2CY20.
- The brunt of COVID-19 was visible in UK's major macro prints. GDP in Q1CY20 contracted by 2% (sharpest fall since Q4CY08). The decline was broad-based across major sectors-services, production and construction. In a separate print, industrial production also fell by 4.2% in Mar'20 (0.1% decline in Feb'20), with sharpest decline in manufacturing sector.
- Japan's GDP contracted by 3.4% in Q1CY20 (QoQ) compared with 7.3% decline in Q4CY19, thus slipping into technical recession. While Q4 print was marred by disruptions due to typhoons and consumption slump due to tax increase, Q1 print shows the impact of COVID-19. Exports fell the most (21.6%), followed by private residential investment (16.9%) and private consumption (2.8%).
- China's industrial production rose by 3.9% in Apr'20 (est.: 1.5%) compared with 1.1% decline in Mar'20, led by 5% growth in manufacturing sector versus 1.8% drop in Mar'20. This was partly also on account of lower base. Retail sales on the other hand fell by 7.5% in Apr'20 versus 15.8% drop in Mar'20 as demand remains weak. FAI contracted by 10.3% in Jan-Apr'20 versus 16.1% decline in Jan-Mar'20, implying improvement in Apr'20.
- China's PPI fell by 3.1% in Apr'20 (est. 2.7% decline) versus 1.5% decline in Mar'20. The sharpest dip in 4 years was on account of lower commodity prices and weak industrial demand. Fuel extraction/processing and chemical manufacturing accounted for 60% of decline in prices. Separately, CPI too eased from 4.3% in Mar'20 to 3.3% in Apr'20 led by dip in food and energy prices. Core inflation continued to remain benign.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	0.64	(4)	(11)	(94)	(175)
UK	0.23	0	(11)	(40)	(80)
Japan	0.00	0	(3)	3	5
Germany	(0.53)	1	(15)	(13)	(43)
India	6.08	11	(42)	(29)	(128)
China	2.66	5	11	(21)	(61)
<b>2Y yields (Δ bps)</b>					
US	0.15	(1)	(7)	(128)	(205)
UK	(0.00)	0	(8)	(55)	(70)
Japan	(0.15)	1	0	(1)	1
Germany	(0.73)	5	(7)	(7)	(8)
India	4.50	14	(71)	(121)	(216)
China**	1.21	1	0	(102)	(140)
<b>Currencies (Δ %)</b>					
EUR	1.0820	(0.2)	(1.5)	(0.1)	(3.0)
GBP	1.2116	(2.4)	(4.0)	(7.1)	(4.8)
JPY	107.06	(0.4)	0.1	2.5	2.7
AUD	0.6413	(1.8)	(0.5)	(4.5)	(6.6)
INR	75.58	0	0.9	(5.9)	(7.6)
CNY	7.1019	(0.4)	(0.7)	(1.6)	(2.7)
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	23,685	(2.7)	(1.1)	(19.4)	(8.1)
FTSE	5,800	(2.3)	0.1	(21.7)	(21.1)
DAX	10,465	(4.0)	(2.2)	(23.9)	(14.5)
NIKKEI	20,037	(0.7)	2.0	(15.4)	(5.7)
Shanghai Comp	2,868	(0.9)	1.5	(1.7)	(0.5)
SENSEX	31,098	(1.7)	1.3	(24.6)	(18.0)
Brent (US\$/bbl)	32.50	4.9	9.8	(43.3)	(55.0)
Gold (US\$/oz)	1,744	2.4	1.0	10.1	36.5
CRB Index	363.0	0.6	2.6	(9.5)	(12.0)
Rogers Agri Index	657.5	(0.4)	1.4	(10.8)	(7.7)
LIBOR (3M)*	0.39	(5)	(79)	(131)	(214)
INR 5Y Swap*	5.18	(6)	(79)	(120)	(185)
<b>India FII data (US\$ mn)</b>					
	<b>14 May</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FY20</b>
FII-Debt	(746.5)	(1,795.4)	(2,190.6)	(13,534.3)	(3,774.8)
FII-Equity	(314.0)	(453.5)	1,928.0	(4,705.5)	1,897.5

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
18-May	Japan GDP SA, % QoQ	Q1CY20	(1.1%)	(1.8%)	--
	Singapore non-oil domestic exports, % YoY	Apr	(5.0%)	17.6%	--
	Thailand GDP, % YoY	Q1CY20	(3.8%)	1.6%	--
19-May	Japan industrial production, % MoM	Mar	--	(3.7%)	--
	UK jobless claims change	Apr	--	12,200	--
	Bank of Indonesia 7D reverse repo, %	19-May	4.25%	4.50%	--
	Germany ZEW survey expectations	May	30.0	28.2	--
	US housing starts	Apr	9,23,000	12,16,000	--
	Singapore GDP, % YoY	Q1CY20	(2.2%)	(2.2%)	--
20-May	Japan core machine orders, % MoM	Mar	(6.8%)	2.3%	--
	UK CPI, % MoM	Apr	(0.1%)	0.0%	--
	BoT benchmark interest rate, %	20-May	0.50%	0.75%	--
	Euro Area CPI, % YoY	Apr F	0.4%	0.7%	--
	US FOMC meeting minutes	29-Apr	--	--	--
21-May	Japan exports, % YoY	Apr	(23.1%)	(11.7%)	--
	Jibun Bank Japan manufacturing PMI (flash)	May	--	41.9	--
	Jibun Bank Japan PMI Services (flash)	May	--	21.5	--
	Markit UK manufacturing PMI SA (flash)	May	35.0	32.6	--
	Markit/CIPS UK Services PMI (flash)	May	22.1	13.4	--
	US initial jobless claims, in mn	16-May	2.4	3.0	--
	Markit US manufacturing PMI (flash)	May	38.0	36.1	--
	Markit US Services PMI (flash)	May	32.3	26.7	--
22-May	US existing home sales, in mn	Apr	4.3	5.3	--
	Japan CPI, % YoY	Apr	0.1%	0.4%	--
	UK retail sales incl auto fuel, % MoM	Apr	(15.5%)	(5.1%)	--
	Markit France manufacturing PMI (flash)	May	35.8	31.5	--
	Markit France services PMI (flash)	May	28.0	10.2	--
	Markit/BME Germany manufacturing PMI (flash)	May	39.0	34.5	--
	Markit Germany services PMI (flash)	May	26.0	16.2	--
	Markit Eurozone manufacturing PMI (flash)	May	38.0	33.4	--
Markit Eurozone services PMI (flash)	May	24.5	12.0	--	

Source: Bloomberg, Bank of Baroda

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