

WEEKLY WRAP

20 July 2020

RBI to focus on growth as inflation surprises negatively

China continues to lead global recovery with GDP growth rebounding to 3.2% in Q2CY20 from a decline of 6.8% in Q1. However, Chinese equity markets and yields fell. Equity markets elsewhere were buoyant as economic activity picks up and more stimulus may be on the way. India's CPI surprised negatively implying limited room for monetary easing. Economic activity picked up further as seen in rising electricity demand. Hence, India's 10Y yield rose. INR rose by 0.2% as India recorded a rare trade surplus in Jun'20.

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Markets

- **Bonds:** Global 10Y yields closed mixed over rising COVID-19 cases in US, Spain, and Brazil. US 10Y yield dipped by 2bps as jobless claims fell less than expected. Oil prices also fell by 0.2% as OPEC+ members eased supply curbs. India's 10Y yield rose by 5bps (5.81%) with CPI inflation limiting room for monetary easing. System liquidity surplus was at Rs 3.4tn as on 17 Jul 2020 versus Rs 3.9tn in the previous week.
- **Currency:** Except JPY and GBP, other global currencies closed higher against the dollar. DXY fell by 0.7% to its lowest since Mar'20 as COVID-19 cases in the US surged. EUR rose by 1.1% as investors expect EU leaders to break the deadlock on the € 750bn recovery fund. INR rose by 0.2% as India reported its first trade surplus in 18-years. FII outflows were US\$ 367mn.
- **Equity:** Barring Shanghai Comp, other global indices ended the week higher. Shanghai Comp fell by 5% even as China's GDP growth bounced back in Q2CY20. Dow rose by 2.3% on hopes of COVID-19 vaccine. Sensex (1.2%) ended in green for the 5th straight week, led by global cues and disinvestment push of the government.
- **Upcoming key events:** In current week, flash manufacturing and services PMI data of major economies will be released. US new home sales and jobless claims report are also awaited. Progress of COVID-19 vaccine will remain a market mover. On the domestic front, markets await fresh OMO purchase announcement from RBI. Markets will also monitor indicators of domestic demand as seen in improving electricity demand (decline of 8.6% in Jul'20 as against 13.6% in Jun'20).



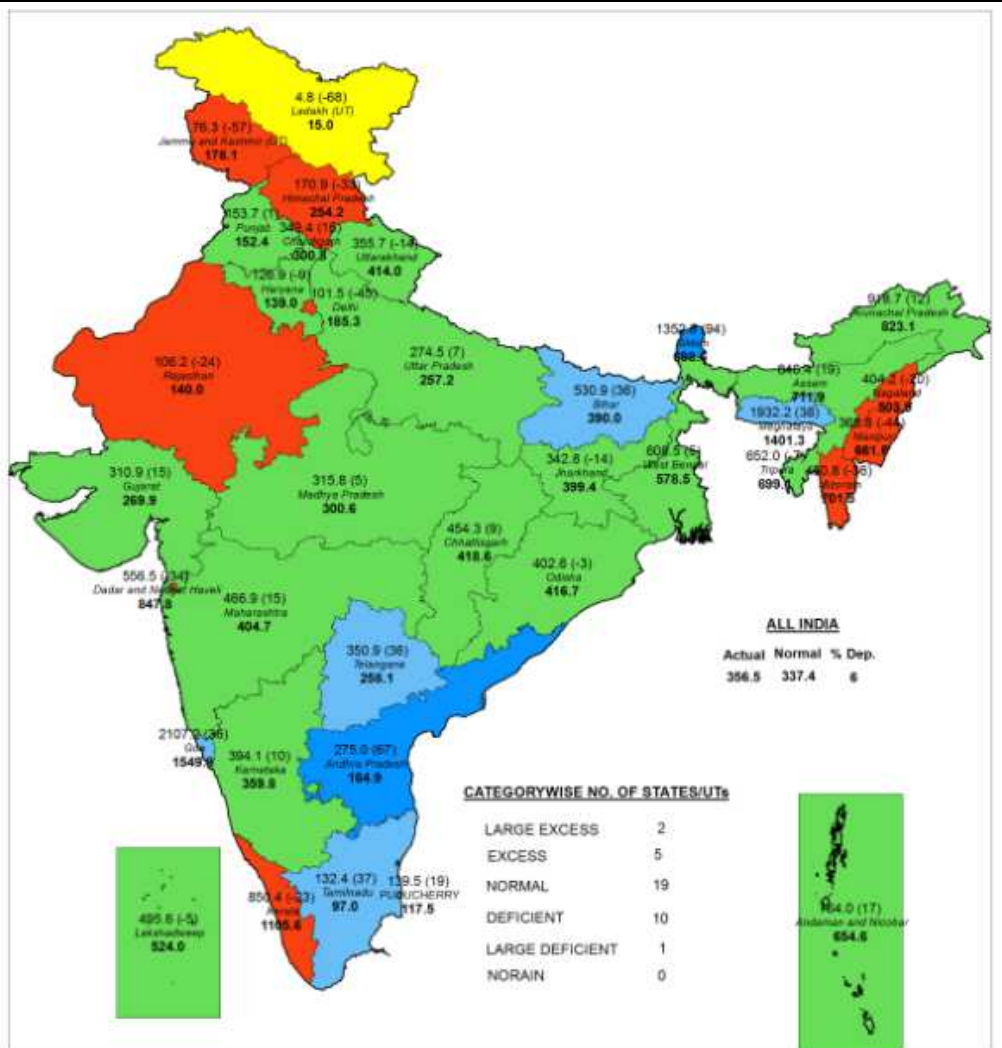
India macro developments

- NSO released India's CPI data for Apr'20 and May'20 along with Jun'20. CPI in Q1 is at 6.5% (6.7% in Q4) and in Jun'20 at 6.1%. The negative surprise came from core inflation at 5.1% in Q1 from 4.1% in Q4. While core and food inflation will moderate, trajectory for H2 is higher than earlier estimated. RBI may still go for a 25bps rate cut to support growth but room is limited as most rate cuts are behind us.
- India's exports contracted by 12.4% in Jun'20 versus a decline of 36.2% in May'20. However, imports continued to show steep decline of 47.6% compared with 51.1% in May'20. As a result, India registered its first trade surplus in 18-years at US\$ 0.8bn in Jun'20 versus a deficit of US\$ 3.1bn in May'20. We expect imports to pick-up in H2 as economic activity revives.
- India's auto sales fell by 43% in Jun'20 versus a decline of 84.8% in May'20. While the pace of contraction has moderated as lockdown restrictions eased, sales still remain muted. Passenger car sales declined by 49.6% versus 85.2% decline in May'20. Auto sector stress continues from FY20 which ended on a weaker note with sales falling by 15% from 6.7% increase in FY19 due to weak demand.
- RBI reported that currency in circulation (CIC) increased by Rs 124.5bn and stood at Rs 26.7tn for the week ending 10 Jul 2020. Reserve money rose by 13.9% on a YoY basis, compared with 12.6% a year ago. On a FYTD basis, reserve money increased by 4.8% as against 0.6% last year.
- As per news reports, banks have sanctioned Rs 1.23tn of the Rs 3tn Emergency Credit Line Guarantee Scheme (ECLGS) for MSMEs. The scheme is part of government's Aatmanirbhar package. Actual disbursements stood at Rs 683bn till 15 Jul 2020. The scheme is aimed at providing liquidity support to MSME sector amidst the ongoing pandemic.
- WPI contracted by 1.8% in Jun'20 from 3.2% in May'20 led by 13.6% decline in fuel and power index in Jun'20. Food inflation inched up to 3.1% in Jun'20 from 2.3%. Higher international commodity and fuel prices along with rising domestic food prices imply WPI has bottomed out. However, the difference between CPI and WPI will be elevated in the year due to rigidities associated with lockdown.

Monsoon tracker

- For the period 1 Jun 2020 to 19 Jul 2020, monsoon is 6% above LPA compared with (-) 16% below LPA last year. While parts of Jammu and Kashmir, Rajasthan and Kerala have received deficient rainfall, states such as Bihar, Tamil Nadu and Andhra Pradesh have received heavy rainfall. States such as Maharashtra, Madhya Pradesh, Gujarat, Uttar Pradesh and Chattisgarh have seen normal rainfall during this period.
- Kharif sowing has improved by 21.2% as on 17Jul 2020 compared with last year. Sown area for both oilseeds and pulses has jumped sharply by 40.7% and 32.4% respectively. Improvement was also visible in sowing area for food grains (19.2%) and for cotton (17.3%). Sugarcane sowing too inched up by 0.9% compared with last year.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Legend
 Large Excess [60% or more] Excess [20% to 59%] Normal [-19% to 19%] Deficient [-59% to -20%] Large Deficient [-89% to -60%] No Rain [-100%] No Data

Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun-19 Jul 2020

Global macro developments

- China's exports rose by 0.5% in Jun'20 versus est.: 2% decline and 3.3% drop in May'20. Imports too rose by 2.7% versus est.: 9% decline and 16.7% fall in May'20. In H1CY20, exports of PPE (32.4%), drugs (23.6%) and medical equipment (46.4%) rose the most. Trade surplus with US stood at US\$ 121bn in H1CY20 versus US\$ 296bn in CY19.
- Singapore's GDP contracted by 12.6% in Q2CY20 on a YoY basis versus est.: 10.5% decline and 0.7% dip in Q1CY20, showing the impact of partial lockdown in the country from 7 Apr to 1 Jun 2020. While manufacturing activity declined by 23.1% in Q2 versus 45.5% increase in Q1, services declined by 37.7% and construction by 95.6% in Q2.
- US CPI rose sharply to 0.6% in Jun'20 versus a decline of 0.1% in May'20 on MoM basis as businesses began to reopen. This was led by 12.3% jump in gasoline prices (contraction of 3.5% in May'20). Core CPI too inched up to 0.2% in Jun'20 (decline of 0.1% in May'20). With gradual reopening in several states, prices are expected to stabilise as demand for goods and services picks up. However, surge in COVID-19 cases remains a key risk.
- China's GDP rose by 3.2% on a YoY basis in Q2CY20 versus a decline of 6.8% in Q1. Infrastructure spending by the government and reopening of domestic economy were the key drivers. Industrial production also improved to 4.8% in Jun'20 (4.4% in May'20). Retail sales contracted at a slower pace from 2.8% in May'20 to 1.8% in Jun'20, as demand gradually improved. Decline in FAI moderated much sharply in H1CY20 to 3.1% from 6.3% in Jan-May'20, indicating revival in investments.
- US industrial production rose by 5.4% in Jun'20 (est.: 4.3%) from 1.4% in May'20. Manufacturing output jumped 7.2% from 3.8% last month. Production of consumer goods, motor vehicles and parts and machinery surged the most. The improvement can be attributed to reopening of economic activity, however resurgence in cases and re-imposition of lockdown restrictions remain key concerns.
- US retail sales rose by 7.5% in Jun'20 on a MoM basis versus est.: 5% increase and 18.5% jump in May'20. With this, retail sales are back to pre-pandemic levels at US\$ 524bn versus US\$ 527bn in Feb'20. In Jun'20, most gains were made by apparels, electronics and appliances and restaurants. Separately, jobless claims for the week ending 11 Jul 2020 eased by 10,000 to 1.3mn.
- Indonesia's central bank cut policy rate by 25bps in Jun'20. This is the 4th rate cut in CYTD20. It also pledged last week to purchase bonds worth US\$ 28bn to bolster the economy from COVID-19 led slowdown. Separately, both ECB and Korea's central bank kept policy rate unchanged. ECB has also retained its pandemic funding program at the previous levels.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.63	(2)	(13)	(2)	(143)
UK	0.16	1	(4)	(14)	(57)
Japan	0.02	0	0	0	16
Germany	(0.45)	2	(2)	3	(12)
India	5.81	5	(4)	(54)	(56)
China	2.97	(7)	11	42	(20)
2Y yields (Δ bps)					
US	0.15	(1)	(5)	(6)	(167)
UK	(0.09)	2	(5)	(18)	(61)
Japan	(0.13)	(1)	1	0	7
Germany	(0.66)	2	(1)	2	10
India	4.16	4	(24)	(66)	(190)
China**	2.06	(7)	6	84	(52)
Currencies (Δ %)					
EUR	1.1428	1.1	1.5	5.1	1.8
GBP	1.2568	(0.4)	0	0.6	0.5
JPY	107.02	(0.1)	0.3	0.5	0.6
AUD	0.6996	0.7	1.6	9.9	(0.7)
INR	75.02	0.2	1.6	1.8	(9.0)
CNY	6.9924	0.1	1.3	1.1	(1.6)
Equity & Other indices (Δ %)					
Dow	26,672	2.3	1.5	10.0	(1.8)
FTSE	6,290	3.2	0.8	8.7	(16.2)
DAX	12,920	2.3	4.9	21.6	5.4
NIKKEI	22,696	1.8	0.5	14.1	5.7
Shanghai Comp	3,214	(5.0)	9.6	13.2	9.9
SENSEX	37,020	1.2	10.2	17.2	(3.4)
Brent (US\$/bbl)	43.14	(0.2)	5.3	53.6	(30.9)
Gold (US\$/oz)	1,810	0.7	4.9	7.6	27.0
CRB Index	365.9	0.7	0.8	4.3	(9.9)
Rogers Agri Index	695.2	0.6	3.5	7.7	(6.1)
LIBOR (3M)*	0.27	0	(4)	(84)	(199)
INR 5Y Swap*	5.25	(2)	7	(32)	(118)
India FII data (US\$ mn)					
	16 Jul	WTD	MTD	CYTD	FYTD
FII-Debt	(81.5)	19.7	28.5	(14,253.5)	(4,494.0)
FII-Equity	(159.8)	(386.7)	(544.4)	(2,985.8)	3,617.1

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
20-Jul	Japan trade balance, ¥ bn	Jun	(11.9)	(838.2)	--
	Germany PPI, % MoM	Jun	0.2%	(0.4%)	--
	Euro Area current account balance, SA, € bn	May	--	14.4	--
	Taiwan export orders, % YoY	Jun	1.2%	0.4%	--
21-Jul	Japan CPI, % YoY	Jun	0.1%	0.1%	--
	RBA minutes of July policy meeting		--	--	--
	UK public sector net borrowing, £ bn	Jun	34.7	54.5	--
	Japan machine tool orders, % YoY	Jun	--	(32.0%)	--
22-Jul	Jibun Bank Japan manufacturing PMI	Jul	--	40.1	--
	Jibun Bank Japan services PMI	Jul	--	45.0	--
	Thailand exports, % YoY	Jun	(15.0%)	(22.5%)	--
	US existing home sales, mn units	Jun	4.8	3.9	--
23-Jul	S.Korea GDP, % YoY	Q2CY20	(2.0%)	1.4%	--
	Germany GfK consumer confidence index	Aug	(4.5)	(9.6)	--
	France manufacturing confidence index	Jul	84.0	77.0	--
	US initial jobless claims, in thousands	18-Jul	1,293.0	1,300.0	--
	Euro Area consumer confidence index	Jul	(12.0)	(14.7)	--
24-Jul	UK retail sales ex auto fuel, % MoM	Jun	7.9%	10.2%	--
	Markit France Manufacturing PMI	Jul	53.0	52.3	--
	Markit France Services PMI	Jul	52.3	50.7	--
	Markit/BME Germany Manufacturing PMI	Jul	48.0	45.2	--
	Markit Germany Services PMI	Jul	50.3	47.3	--
	Markit Eurozone Manufacturing PMI	Jul	50.0	47.4	--
	Markit Eurozone Services PMI	Jul	51.0	48.3	--
	Markit UK PMI Manufacturing, SA	Jul	52.0	50.1	--
	Markit/CIPS UK Services PMI	Jul	51.3	47.1	--
	Markit US Manufacturing PMI	Jul	52.0	49.8	--
	Markit US Services PMI	Jul	51.0	47.9	--
	Markit US Composite PMI	Jul	--	47.9	--
	US new home sales, thousand units	Jun	700.0	676.0	--

Source: Bloomberg, Bank of Baroda

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