

WEEKLY WRAP

21 December 2020

Risk-on sentiment improves

Global yields and equities rose on the back of US stimulus deal, launch of vaccine and US FOMC's upward revision to growth and inflation. DXY index fell to a 32-month low. GBP rose to two and a half year high. Central banks (Fed, BoJ, BoE) are likely to continue with expansionary policies. India's MPC too supported accommodative policy but magnitude of surplus liquidity may be brought down. India's retail inflation came down by 70bps MoM and tax collections are improving thus giving room to government to spend.

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Markets

- **Bonds:** UK 10Y yield rose the most by 8bps (0.25%) amidst final round of Brexit negotiations. US 10Y yield too rose by 5bps (0.95%) supported by US\$ 900bn fiscal stimulus and US FOMCs upward revision of growth and inflation. Oil prices rose by 4.6% (US\$ 52/bbl) with roll out of vaccine. India's 10Y yield closed flat at 5.96%. System liquidity surplus fell to Rs 4.6tn as on 18 Dec 2020 compared with Rs 6.2tn in the previous week.
- **Currency:** Global currencies gained amidst optimism over US fiscal stimulus and Brexit trade deal. DXY fell by 1.1% in the week to hover near a 32-month low with global risk sentiment improving. GBP rose by 2.3% to a more than two-and-a-half year high. INR appreciated by 0.1% in the week supported by foreign inflows of US\$ 1.6bn even as oil prices rose by 4.6%.
- **Equity:** Barring FTSE, global indices ended higher as macro data shows recovery sustaining and central banks (Fed, BoE, BoJ) reiterated monetary stimulus is required to support growth. US fiscal deal also helped. Dax surged by 3.9% followed by Sensex (1.9%). The gain in domestic market was led by durables and cap goods and was the 7th weekly gain in a row.
- **Covid-19 tracker:** Global cases rose by 4.6mn in the week ending 18 Dec 2020 compared with 5.2mn in the previous week, led by US and Europe. India added 208k cases this week compared with 189k in earlier week.
- **Upcoming key events:** Markets await US and UK GDP, consumer confidence index for US and Germany and policy decision of Bank of Thailand. UK's new restrictions too will play out. On domestic front, markets will react to RBI minutes and progress of Covid-19 cases.



India macro developments

- India's CPI eased to a 3-month low of 6.9% in Nov'20 (7.6% in Oct'20) driven by lower food inflation at 9.4% (11% in Oct'20). Core remains sticky at 5.9%. While near-term outlook for inflation is favourable on the back of a high base and recent decline in food inflation, it is still estimated to remain above RBI's target of 4% thus leaving no room for a rate cut.
- Final print for India's trade data shows that exports fell by 8.7% in Nov'20 compared with 9.1% drop estimated in preliminary estimates and 5.1% decline in Oct'20. Imports also fell by 13.3% versus 11.5% in Oct'20. Upward revision in exports was mainly on the back of lesser than estimated decline in oil exports which fell by 59.7% versus 63.8% reported in preliminary estimates and 52% drop in Oct'20.
- RBI reported that currency in circulation (CIC) increased by Rs 116bn and stood at Rs 27.8tn for the week ending 11 Dec 2020. Reserve money rose by 14.6% on a YoY basis, compared with 9.7% a year ago. On FYTD basis, reserve money increased by 9.2% as against 4.2% a year ago.
- Centre's net direct tax collections improved in Q3FY21 as it fell by only 13% till 16 Dec 2020 versus 25% drop seen between Apr-Sep'20. Net tax collections so far stand at Rs 5.89tn versus Rs 6.75tn last year in the same period. Advance direct tax collections in Q3 alone rose by 33%. Overall collections are at nearly 45% of the budgeted levels (Rs 13.19tn) so far.
- MPC members stated that growth has surprised positively. However, inflation is a teething issue. RBI's monetary policy and accommodative stance has helped in economic recovery. But at the same time, asset prices have moved higher, in India and globally. Fiscal spending is likely to pick up in Q4FY21. However, fiscal space is constrained because of which monetary policy needs to remain accommodative. But given the inflation outlook, RBI may look at calibrated withdrawal of liquidity support starting in FY22.
- RBI's statistics showed that credit demand eased to 5.7% for the fortnight ending 4 Dec 2020 as against 5.8% in the previous fortnight. Deposit growth however rose by 11.3% from 10.9% led by both demand (16% from 13.5%) and time deposits (10.8% from 10.6%). CD ratio was at 72 from 72.6 in the previous fortnight.
- Centre has allowed 5 states to borrow additional Rs 167bn from the market as they have implemented the Ease of Doing Business reforms. These states are T.N., Karnataka, A.P, Telangana and M.P. Of these, T.N (Rs 48bn) and Karnataka (Rs 45bn) have been the biggest beneficiaries. With this, 17 states have been allowed additional market borrowing (0.25% of their GSDP) with 10 states implementing ONOR scheme, 5 undertaking Ease of Doing Business reforms and 2 completing local body reforms.

Global macro developments

- China's industrial production rose by 7% in Nov'20 following 6.9% increase in Oct'20 supported by robust exports which have fuelled the demand for work from home and medical equipment. This was also helped by pick up in FAI, which has risen by 2.6% in Jan-Nov'20 from 1.8% in Jan-Oct'20. Retail sales have also improved, increasing by 5% in Nov'20 from 4.3% in Oct'20, highest since Dec'19 (8%).
- Germany's Ifo business climate index rose to 92.1 in Dec'20 from 90.9 in Nov'20. The better than expected print (est. 89.8) was led by manufacturing, as industrial demand and export prospects improved. Companies' assessment of current situation improved and scepticism over the next 6-months ebbed.
- US industrial production eased by 0.4% in Nov'20 from 0.9% in Oct'20. This was led by utilities output contracting sharply by 4.3% in Nov'20 from an increase of 1.8% in Oct'20. Additionally, manufacturing output also moderated to 0.8% in Nov'20 (from 1.1% in Oct'20). However, mining output rose by 2.3% in Nov'20. Capacity utilization for the industry inched up to 73.3% in Nov'20 (73% in Oct'20).
- Global flash PMIs for Dec'20 indicate that both manufacturing and services activity improved in the UK and Eurozone, while US saw a slowdown. Manufacturing PMI in Eurozone rose to 55.5 from 53.8 in Nov'20, while services index was up to 47.3 from 41.7 last month. In the US, manufacturing PMI eased to 56.5 from 56.7 and services index fell to 55.3 from 58.4 in Nov'20.
- US Fed in its latest policy kept rates unchanged in the range of 0-0.25%. Fed projections shows that the same is likely to persist till CY23. It also voted to maintain monthly bond purchase of at least US\$ 120bn. Real GDP is expected to contract at a slower pace of 2.4% in CY20 (3.7% estimated earlier), while reviving to 4.2% in CY21. Core PCE is estimated to be below its 2% target at 1.4% and 1.8% in CY20 and CY21 respectively.
- Bank of England kept rate on hold (0.1%) as Covid-19 outlook continues to remain uncertain. It also retained the QE programme unchanged at £ 895bn. It noted reduced downside risks to growth with the rollout of the Covid-19 vaccine and expects the recent measures by the government will boost growth by over 1% in CY22.
- US housing starts rose by 1.2% on a MoM basis in Nov'20 to 1.55mn units, bringing it closer to the pre-pandemic level of 1.57mn units in Feb'20. This was led by single-family homebuilding which rose by 0.4% to 1.18mn units, a 13-year high. Separately, US jobless claims for the week ended 12 Dec 2020 rose by 23,000 to 885,000, highest since Sep'20. This was the second straight weekly increase amidst a resurgence in Covid-19 cases.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.95	5	9	25	(97)
UK	0.25	8	(8)	7	(53)
Japan	0.01	0	(2)	(1)	0
Germany	(0.57)	7	(1)	(9)	(32)
India	5.96	0	8	(5)	(64)
China	3.30	(1)	2	18	10
2Y yields (Δ bps)					
US	0.12	1	(5)	(2)	(151)
UK	(0.08)	3	(5)	3	(63)
Japan	(0.12)	1	1	1	(3)
Germany	(0.73)	6	0	(3)	(9)
India	3.88	(4)	(19)	(56)	(200)
China**	2.73	(10)	(12)	12	14
Currencies (Δ %)					
EUR	1.2257	1.2	3.3	3.5	10.6
GBP	1.3523	2.3	2.1	4.7	4.0
JPY	103.30	0.7	0.9	1.2	5.6
AUD	0.7622	1.2	4.4	4.6	10.5
INR	73.57	0.1	1.2	(0.2)	(3.4)
CNY	6.5400	0.1	0.3	3.4	6.7
Equity & Other indices (Δ %)					
Dow	30,179	0.4	1.3	9.1	6.1
FTSE	6,529	(0.3)	2.6	8.7	(13.9)
DAX	13,631	3.9	3.8	3.9	2.3
NIKKEI	26,763	0.4	2.9	14.6	12.4
Shanghai Comp	3,395	1.4	1.6	1.7	13.0
SENSEX	46,961	1.9	6.8	20.9	12.7
Brent (US\$/bbl)	52.26	4.6	19.5	21.1	(21.0)
Gold (US\$/oz)	1,881	2.3	0.1	(3.6)	27.3
CRB Index	437.6	0.4	3.9	6.7	9.9
Rogers Agri Index	849.5	2.2	3.2	11.4	13.7
LIBOR (3M)*	0.24	2	1	1	(170)
INR 5Y Swap*	5.33	10	21	(26)	(130)
India FII data (US\$ mn)					
	17 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	45.5	137.0	808.8	(13,810.4)	(4,050.9)
FII-Equity	358.6	1,419.5	5,394.3	21,500.0	28,103.0

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
21-Dec	Taiwan export orders, % YoY	Nov	14.3%	9.1%	--
	Euro Area consumer confidence	Dec	(17.3)	(17.6)	--
	South Korea exports 20 days, % YoY	Dec	--	11.1%	--
22-Dec	South Korea PPI, % YoY	Nov	--	(0.6%)	--
	Australia retail sales, % MoM	Nov	2.5%	1.4%	--
	Japan machine tool orders, % YoY	Nov	--	8.0%	--
	Germany GfK consumer confidence	Jan	(7.6)	(6.7)	--
	UK GDP, % QoQ	Q3CY20	15.5%	15.5%	--
	Taiwan unemployment rate, %	Nov	3.7%	3.8%	--
	US GDP annualized, % QoQ	Q3CY20	33.1%	33.1%	--
	US Conference board consumer confidence	Dec	97.0	96.1	--
	US existing home sales, in mn	Nov	6.70	6.85	--
	23-Dec	Thailand customs exports, % YoY	Nov	(3.5%)	(6.7%)
Singapore CPI, % YoY		Nov	(0.2%)	(0.2%)	--
BoT benchmark interest rate, %		23-Dec	0.5%	0.5%	--
Taiwan industrial production, % YoY		Nov	5.5%	7.1%	--
Italy manufacturing confidence		Dec	90.5	90.2	--
US initial jobless claims, in thousand		19-Dec	875	885	--
US durable goods orders, % MoM		Nov	0.6%	1.3%	--
US new home sales, in thousand		Nov	990	999	--
24-Dec	Japan PPI services, % YoY	Nov	(0.6%)	(0.6%)	--
	Singapore industrial production, % YoY	Nov	11.7%	(0.9%)	--
	ECB economic bulletin		--	--	--
25-Dec	Japan jobless rate, %	Nov	3.1%	3.1%	--
	Japan retail sales, % YoY	Nov	1.7%	6.4%	--

Source: Bloomberg, Bank of Baroda

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