

WEEKLY WRAP

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Global data shows world economy improving

Global economy is showing signs of pick-up with flash PMIs showing MoM improvement. US yields fell as Fed Chair expressed concerns over economic outlook and housing starts disappointed. EU is mulling a € 500bn recovery fund. RBI delivered another emergency rate cut of 40bps and extended moratorium by 3-months. We expect GDP to contract by 4.7% and inflation to cool down to 3.5% in FY21. This will give RBI room to cut rates by another 25bps. Q4FY20 GDP will be released this week. Our estimate is 1.6%.

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Markets

- **Bonds:** Global 10Y yields broadly closed lower amidst US-China conflict and weaker US housing data. US 10Y yield fell by 7bps (0.66%) as Fed Chair expressed concerns over economic outlook. UK 2Y yield went negative. Oil prices rose by 2.1% (US\$ 36/bbl) as lockdown restrictions were eased. India's 10Y yield fell by 12bps (5.96%) supported by RBI's emergency rate cut of 40bps. System liquidity surplus was at Rs 4.6tn as on 22 May 2020 compared with Rs 5.2tn in the previous week.
- **Currency:** Global currencies closed mixed this week. DXY rose by 0.2% as US-China dispute escalated. After rallying for much of the week, EUR ended lower by 0.1% as EU mulls the details of the € 500bn COVID-19 recovery fund. AUD rose by 0.3% in the week as Chinese economic activity picked up. INR ended the week lower by 0.1% as RBI cut policy rates by another 40bps. FII outflows were US\$ 1bn.
- **Equity:** Global indices ended mixed on the back of escalation of US-China dispute. Dax and Nikkei rose by 3% each as Europe and Japan ease lockdown restrictions. Flash PMIs show improvement in activity. Sensex rose by 2.1% supported by a rate cut by RBI. Auto and tech stocks advanced the most. Financials fell as moratorium benefits were extended.
- **Upcoming key events:** In the current week, markets await GDP prints of US, France and Singapore. In addition, US durable goods orders, new home sales, consumer confidence, and China's industrial profit growth will also be watched closely. On the domestic front, Q4FY20 GDP print and fiscal data for FY20 are scheduled for release this week. Markets also await the decision on extension of lockdown.



India macro developments

- NABARD has disbursed Rs 205bn to cooperative banks and RRBs. This is part of the Rs 250bn refinance facility provided by RBI and will enable cooperative banks to front load their resources and ensure liquidity to farmers. RBI has also provided Rs 150bn to SIDBI and Rs 100bn to NHB, taking the total quantum of refinance facilities to Rs 500bn.
- India's exports are expected to fall by 20% in FY21 (decline of 4.3% in FY20) as per estimates by FIEO. In value terms, exports are likely to be lower by US\$ 50-60bn. This will have a significant impact on employment in the sector. Already in Apr'20, exports have contracted by 60%. In order to combat the crisis, exporters are demanding 2% extra support under MEIS for all exports and 4% for labour intensive sectors such as leather.
- RBI reported that currency in circulation (CIC) increased by Rs 193.6bn and stood at Rs 25.9tn for the week ended 15 May 2020. Reserve money rose by 10% on a YoY basis compared with 13.5% a year ago. On a FYTD basis, reserve money increased by 2.2% as against 1.7% last year.
- Central government has sanctioned Rs 920.8bn for transfers to states for Apr-May'20. These transfers are part of tax devolution in central taxes. (Rs 7.8tn in FY21BE). In FYTD20 (Apr-Feb) states received only Rs 5.6tn against FY20RE of Rs 7.2tn, thus increasing their reliance on market borrowing (23%) in the wake of muted tax revenue growth (1.8%).
- MPC announced another 40bps reduction in policy rate to 4%. In addition, RBI has extended moratorium and guidelines on asset classification by another 3 months. Exporters too will get additional benefits. Recent trade and electricity data suggests large contraction due to lockdown and social distancing measures. We expect GDP to contract by 4.7% in FY21 and CPI inflation at 3.5% which makes us believe that RBI has room for another 25bps reduction in policy rate.
- According to news reports, direct tax collections in FYTD21 (till 23 May) eased to Rs 916.5bn compared with Rs 1.1tn in the same period last year. However, net tax collections rose by 39% to Rs 754bn as refunds declined sharply to Rs 162.4bn in FYTD21 versus Rs 516.6bn in FYTD20. In FY20, government has missed the revised direct tax collection target of Rs 11.7tn by ~Rs 1.42tn, thus registering a decline of 9.6% in the year.
- As per news reports, India's exposure to US government securities has fallen to US\$ 156.5bn in Mar'20 compared with record high level of US\$ 177.5bn in Feb'20. The current holding is also at its 11-month low. This was on the back of volatility in INR (depreciated by 4.5% in Mar'20) amidst COVID-19. Investment in foreign securities is part of RBI's prudential liquidity management framework.

Global macro developments

- RBA Minutes revealed that the last policy decision (keeping rate unchanged at 0.25%) was taken with baseline assumption of 10% contraction in H1CY20 GDP and 6% decline in GDP in CY20. It was stressed that recovery will be dependent more on public health measures rather than economic and financial measures. Inflation is expected to miss the 2-3% medium-term target for the next few years.
- US housing starts fell by 30.2% in Apr'20 on a MoM basis to 0.9mn units from 1.3mn units in Mar'20 (18.6% decline). While homebuilding was classified as essential in many states, worker shortage and supply chain disruptions in building materials had a negative impact on the activity. Permits for future construction also declined by 20.8% in Apr'20
- Germany's ZEW expectation index rose sharply to 51 in May'20 from 28.2 in Apr'20. According to analysts, growth is expected to pick up from Q4CY20. However, impact of COVID-19 continued to keep the current situation index print negative at 93.5 in May'20.
- Japan's exports fell by 21.9% in Apr'20 (lowest since Oct'09) compared with a decline of 11.7% in Mar'20. This was driven by steep fall in exports to US (37.8% versus 16.5%), W. Europe (30.4% versus 13.2%) and Asia (11.4% versus 9.4%). Exports of chemical materials, cars and car parts, and medicines were hit the most.
- US Fed minutes highlighted considerable uncertainty to overall economic outlook due to COVID-19. Further, a second wave of infection could induce sharp contraction in GDP, rise in unemployment and downward pressure on inflation. It also pointed out potential for bankruptcies from non-financial companies. Fed also reassured measures to fulfil its goal of full employment and price stability.
- US existing home sales in Apr'20 noted sharp decline (by 17.8% to 4.33mn) in past 10 years. Both its manufacturing and services PMI (flash) remained in contraction at 39.8 and 36.9 respectively, in May'20. However, jobless claims (2.44mn) showed some moderation (decrease of 0.2mn claims against last week), with easing of lockdown restrictions.
- Global manufacturing and services activity improved in May'20 after declining to multi-year lows in Apr'20 as countries started easing lockdown restrictions. However, activity remained in contraction zone (below 50). While manufacturing and services PMI picked up in the UK and Euro Zone, Japan's manufacturing PMI fell from 34.7 to 31.7 in Apr'20. Employment declined across the board.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.66	(7)	6	(71)	(166)
UK	0.17	(8)	(12)	(37)	(78)
Japan	0.00	1	2	6	7
Germany	(0.49)	(3)	(2)	(1)	(35)
India	5.96	(12)	(21)	(41)	(121)
China	2.66	(6)	17	(16)	(70)
2Y yields (Δ bps)					
US	0.17	(1)	(6)	(108)	(200)
UK	(0.05)	(6)	(12)	(46)	(69)
Japan	(0.14)	1	1	2	1
Germany	(0.68)	1	3	(1)	(3)
India	4.42	(9)	(13)	(123)	(212)
China	1.41	20	28	(56)	(115)
Currencies (Δ %)					
EUR	1.0898	(0.1)	0.7	0.4	(2.6)
GBP	1.2191	0	(1.4)	(5.7)	(3.8)
JPY	107.71	(0.3)	(0.2)	2.7	1.6
AUD	0.6545	0.3	2.7	(0.9)	(5.4)
INR	75.96	(0.1)	0.6	(5.5)	(9.3)
CNY	7.1368	(0.4)	(0.8)	(1.5)	(3.5)
Equity & Other indices (Δ %)					
Dow	24,465	(0.5)	2.9	(12.5)	(3.5)
FTSE	5,993	(0.9)	4.2	(16.3)	(17.5)
DAX	11,391	3.0	10.2	(12.6)	(5.6)
NIKKEI	20,742	3.0	7.7	(8.2)	(2.1)
Shanghai Comp	2,818	(2.0)	0.3	(7.0)	(2.6)
SENSEX	30,673	2.1	(2.1)	(24.0)	(22.7)
Brent (US\$/bbl)	35.53	2.1	65.7	(36.9)	(49.3)
Gold (US\$/oz)	1,732	0	0.1	4.4	34.7
CRB Index	365.5	0	5.0	(8.4)	(12.4)
Rogers Agri Index	661.2	0.1	3.0	(8.9)	(11.4)
LIBOR (3M)*	0.37	(1)	(52)	(128)	(215)
INR 5Y Swap*	5.13	2	(7)	(121)	(171)
India FII data (US\$ mn)					
	21 May	WTD	MTD	CYTD	FYTD
FII-Debt	21.4	(266.0)	(2,328.8)	(13,672.5)	(3,913.0)
FII-Equity	(27.2)	(760.4)	835.4	(5,798.1)	804.8

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
25-May	Germany GDP SA, % QoQ	Q1CY20	(2.2%)	(2.2%)	--
	Germany IFO business climate	May	78.3	74.3	--
	Taiwan industrial production, % YoY	Apr	0.8%	10.4%	--
	Hong Kong exports, % YoY	Apr	(4.2%)	(5.8%)	--
26-May	South Korea consumer confidence	May	--	70.8	--
	Singapore GDP, % YoY	Q1CY20	(1.7%)	(2.2%)	--
	Singapore CPI, % YoY	Apr	(0.5%)	0.0%	--
	Germany GfK Consumer Confidence	Jun	(18.0)	(23.4)	--
	Japan machine tool orders, % YoY	Apr	--	(48.3%)	--
	US conf. board consumer confidence	May	87.0	86.9	--
	US new home sales	Apr	490,000	627,000	--
27-May	China industrial profits, % YoY	Apr	--	(34.9%)	--
	France manufacturing confidence	May	86.0	82.0	--
28-May	Taiwan GDP, % YoY	Q1CY20	1.50%	1.54%	--
	Euro area consumer confidence	May	--	(18.8)	--
	Germany CPI, % YoY	May	0.7%	0.9%	--
	US GDP annualized, % QoQ	Q1CY20	(4.8%)	(4.8%)	--
	US durable goods orders, % MoM	Apr	(18.0%)	(14.7%)	--
	US initial jobless claims, in mn	23-May	--	2.4	--
	US pending home sales, % MoM	Apr	(15.0%)	(20.8%)	--
29-May	South Korea industrial production SA, % MoM	Apr	(3.5%)	4.6%	--
	Japan jobless rate, %	Apr	2.7%	2.5%	--
	Japan retail sales, % YoY	Apr	(11.2%)	(4.6%)	--
	Germany Retail Sales, % MoM	Apr	(10.0%)	(5.6%)	--
	France CPI, % YoY	May P	0.3%	0.3%	--
	France GDP, % QoQ	Q1CY20	(5.8%)	(5.8%)	--
	Euro Area CPI, % MoM	May P	(0.1%)	0.3%	--
	India GDP, % YoY	Q4FY20	1.0%	4.7%	--
	India GDP annual estimate, % YoY	FY20	--	5.0%	--
	US advance goods trade balance, US\$ bn	Apr	(64.2)	(64.2)	--

Source: Bloomberg, Bank of Baroda

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