

WEEKLY WRAP

26 October 2020

RBI's bond purchases drive yields lower

Despite rising Covid-19 cases in Europe, US and UK yields inched up on the back of impending stimulus in US and Brexit deal. Services PMIs and consumer confidence is sliding in Europe. Thus global equity markets were largely weak. India's 10Y yield fell by 9bps as RBI steps up bond purchases and MPC minutes were dovish. Fiscal data for H1FY21 will be released towards the end of the week. As of Aug'20, Centre's spending is up by 6.2% against budgeted increase of 13.2%. We expect fiscal deficit at 7.6% of GDP.

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Markets

- **Bonds:** Barring India and China, global yields closed higher. US and UK 10Y yield rose the most (10bps each) on the back of progress on US fiscal stimulus and Brexit negotiations. Oil prices fell by 2.7% (US\$ 41.7/bbl) owing to resurgence of COVID-19 cases in US and Europe. India's 10Y yield fell sharply by 9bps to 5.84% as RBI has increased the quantum of domestic bond purchases. System liquidity surplus was at Rs 4.17tn as on 23 Oct 2020 compared with Rs 4.19tn in the previous week.
- **Currency:** Except INR, other global currencies closed higher against the dollar. DXY fell by 1% ahead of elections and uncertainty over stimulus deal. GBP rose by 1% in the week as negotiations on post-Brexit trade deal resumed this week. CNY also rose by 0.2% as China's industrial production and retail sales rose more than expected. INR depreciated by 0.4% despite lower oil prices (down by 2.7%) and FII inflows (US\$ 1.1bn).
- **Equity:** Barring Nikkei and Sensex, other global indices ended the week lower amidst uncertainty over rising Covid-19 cases and subdued flash services PMIs. Dax (2%) declined the most followed by Shanghai Comp (1.7%). However, Sensex (1.8%) ended the week in green led by real estate and metal stocks.
- **Upcoming key events:** In the current week, markets keenly await Q3 GDP prints of US, Euro Area, Germany and France. In addition, policy decisions of BoJ and ECB, Germany's IFO business climate index, China's industrial profits and official PMIs are also due. On the domestic front, Central government finances, core sector and RBI's OMO auctions will be released later in the week.



India macro developments

- MPC members favoured forward guidance on accommodative conditions to anchor market expectations of liquidity. This along with purchase of government securities has led to reduction in term premium. Minutes show MPC members believe inflation will ease as supply restrictions are removed. Demand conditions are weak. So is pricing power with corporates. On growth, members believe consumption recovery may be short lived and an investment led recovery is likely to take time and contingent on public sector spending.
- According to EPFO's data, it added 0.67mn new subscribers to its subscriber base in Aug'20 compared with 0.65mn added in Jul'20. Within this, 0.37mn were in the age group of 18-25 years. While total new additions still remain below pre-COVID levels (0.75mn in Feb'20), they have continuously gained pace since Apr'20. On FYTD basis, total additions stand at 2.4mn compared with 5.5mn in FYTD20.
- RBI reported that currency in circulation (CIC) increased by Rs 47bn and stood at Rs 27tn for the week ending 16 Oct 2020. Reserve money rose by 12.9% on a YoY basis, compared with 12.8% a year ago. On FYTD basis, reserve money increased by 6.6% as against 3.3% a year ago.
- According to CMIE data, rural unemployment rose to 7.93% in the week ending 4 Oct 2020, compared with only 4.73% in the previous week. This could be attributed to job losses as the harvesting season ends. On the other hand urban unemployment eased to 8.17% from 8.25% in previous week, taking the all India unemployment rate to 8.01% from 5.84%.
- In order to meet the GST compensation cess gap, Gol has transferred Rs 60bn to 16 states under the 1st tranche of Rs 1.1tn payment to be made. So far 21 states and 2 UTs have opted for the scheme where India's central government will borrow Rs 1.1tn from the market and transfer to states as back to back loans. Each week MoF will transfer Rs 60bn to states. It is borrowing at 5.19% in 3-5 years tenor.
- India's forex reserves rose to a fresh historic high at US\$ 555.1bn in the week ended 16 Oct 2020. FX reserves increased by US\$ 3.6bn this week compared with an increase of US\$ 5.9bn last week. In FYTD21, forex reserves have increased by US\$ 79.6bn compared with an accretion of US\$ 28.8bn in the same period last year.

Global macro developments

- Flash Eurozone PMI signalled a renewed possible downturn at the beginning of Q4CY20, as composite PMI dropped to a 4-month low (49.4 in Oct'20 from 50.4 in Sep'20). This was on the back of deterioration in services activity due to a resurgence in COVID-19 cases. However, Germany was the only exception as it reported steady growth (54.5 in Oct'20 from 54.7), led by the manufacturing sector.
- Japan's exports declined for the 22nd straight month and fell by 4.9% in Sep'20. However, it was lower than a contraction of 14.8% in Aug'20. The improvement was led by exports to China (up 14%, highest since Jan'18) and US (up by 0.7%). Imports contracted by 17.2% versus a dip of 20.8% in Aug'20 as domestic demand continues to remain weak.
- US housing starts accelerated by 1.9% on a MoM basis in Sep'20 reversing a decline of 5.1% in Aug'20 and raising hopes of economic recovery. This was led by uptick of 8.5% in single-housing units to 1.08mn, as interest rates remained low and people migrated to sub-urban and low density areas. On the other hand, demand for multi-family housing segment dropped by 16%.
- UNCTAD estimates global trade to decline by 7%-9% in CY20, upwardly revised from an initial estimate of 20% decline projected in Jun'20. This is led by a rebound in trade growth in Q3CY20 to a 5% dip compared with a 19% drop in Q2CY20. The improvement in Q3 was led by China with export growth of 10%. Trade is expected to contract by 3% in Q4. However, a resurgence in COVID-19 remains a key downside risk.
- S.Korea's exports fell by 5.8% (YoY) in 1-20 Oct 2020 versus 34% increase in the same period last month. Exports to China and US fell the most, by 4.6% and 2.3% respectively. However, average daily shipments continued to rise by 5.9% in 1-20 Oct 2020. This was supported by 12% jump in semiconductors and 11% rise in computer devices.
- Germany's consumer confidence is expected to deteriorate in Nov'20 amidst rising COVID-19 cases and fears of fresh restrictions. GfK's consumer sentiment index for Nov'20 fell to (-) 3.1 from (-) 1.7 in Oct'20. COVID-19 cases in Germany have increased at a faster pace of average 5,044 per day in Oct'20 so far, compared with 1,617 cases per day in Sep'20 fuelling fears of a second wave of infections.
- Initial jobless claims in the US declined lower than estimated by 0.78mn for the week ending 17 Oct 2020 compared with 0.84mn in the previous week. Thereby signalling that job losses have gradually eased. Although resurgence in COVID-19 cases, imposition of new restrictions and delay in passing of the US stimulus, remain concerns for progress of labour market.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

| Particulars | Current | 1W | 1M | 3M | 12M |
|---|---------------|------------|------------|-------------|-------------|
| 10Y yields (Δ bps) | | | | | |
| US | 0.84 | 10 | 18 | 25 | (95) |
| UK | 0.28 | 10 | 6 | 14 | (40) |
| Japan | 0.04 | 2 | 3 | 2 | 18 |
| Germany | (0.57) | 5 | (7) | (13) | (21) |
| India | 5.84 | (9) | (15) | 2 | (66) |
| China | 3.20 | (2) | 11 | 33 | (4) |
| 2Y yields (Δ bps) | | | | | |
| US | 0.16 | 1 | 2 | 1 | (146) |
| UK | (0.03) | 2 | 2 | 6 | (56) |
| Japan | (0.12) | 1 | 2 | 1 | 11 |
| Germany | (0.76) | 2 | (6) | (11) | (11) |
| India | 4.16 | (9) | (27) | (1) | (142) |
| China** | 2.64 | (8) | 5 | 37 | 1 |
| Currencies (Δ %) | | | | | |
| EUR | 1.1860 | 1.2 | 1.6 | 1.8 | 7.0 |
| GBP | 1.3039 | 1.0 | 2.3 | 1.9 | 1.7 |
| JPY | 104.71 | 0.7 | 0.7 | 1.3 | 3.6 |
| AUD | 0.7139 | 0.8 | 1.3 | 0.5 | 4.6 |
| INR | 73.61 | (0.4) | 0.4 | 1.6 | (3.8) |
| CNY | 6.6867 | 0.2 | 2.1 | 4.7 | 5.4 |
| Equity & Other indices (Δ %) | | | | | |
| Dow | 28,336 | (0.9) | 5.7 | 7.0 | 5.1 |
| FTSE | 5,860 | (1.0) | 0.6 | (4.3) | (20.0) |
| DAX | 12,646 | (2.0) | 0.3 | (1.5) | (1.9) |
| NIKKEI | 23,517 | 0.5 | 1.9 | 3.4 | 3.1 |
| Shanghai Comp | 3,278 | (1.7) | 1.7 | 2.5 | 10.9 |
| SENSEX | 40,686 | 1.8 | 11.3 | 6.7 | 4.2 |
| Brent (US\$/bbl) | 41.77 | (2.7) | (0.4) | (3.6) | (32.7) |
| Gold (US\$/oz) | 1,902 | 0.1 | 1.8 | 0 | 26.4 |
| CRB Index | 415.3 | 0.9 | 3.2 | 11.1 | 6.3 |
| Rogers Agri Index | 799.3 | 2.2 | 7.7 | 15.2 | 9.8 |
| LIBOR (3M)* | 0.22 | 0 | (2) | (3) | (171) |
| INR 5Y Swap* | 5.24 | (4) | (26) | 1 | (128) |
| India FII data (US\$ mn) | | | | | |
| | 22 Oct | WTD | MTD | CYTD | FYTD |
| FII-Debt | 69.5 | 126.1 | 367.2 | (14,312.6) | (4,553.1) |
| FII-Equity | 166.4 | 975.1 | 2,167.4 | 6,207.5 | 12,810.5 |

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

FIG 2 – DATA RELEASE CALENDAR

| Date | Event | Period | Estimate | Previous | Actual |
|--------|--|--------|----------|----------|--------|
| 26-Oct | Australia preliminary merchandise trade | Sep | | | |
| | Singapore industrial production, % YoY | Sep | 2.5% | 13.7% | -- |
| | Germany IFO business climate | Oct | 93.0 | 93.4 | -- |
| | US new home sales, in mn | Sep | 1.0 | 1.0 | -- |
| 27-Oct | South Korea GDP, % YoY | Q3CY20 | (1.8%) | (2.7%) | -- |
| | China industrial profits, % YoY | Sep | -- | 19.1% | -- |
| | France PPI, % YoY | Sep | -- | (2.5%) | -- |
| | Hong Kong exports, % YoY | Sep | 0.5% | (2.3%) | -- |
| | US durable goods orders, % MoM | Sep | 0.5% | 0.5% | -- |
| | US conference board consumer confidence | Oct | 101.9 | 101.8 | -- |
| 28-Oct | South Korea consumer confidence | Oct | -- | 79.4 | -- |
| | Australia CPI, % YoY | Q3CY20 | 0.6% | (0.3%) | -- |
| | France consumer confidence | Oct | 93.0 | 95.0 | -- |
| | Italy PPI, % MoM | Sep | -- | 0.1% | -- |
| | US advance goods trade balance, US\$ bn | Sep | (85.0) | (82.9) | -- |
| 29-Oct | Japan retail sales, % YoY | Sep | (7.6%) | (1.9%) | -- |
| | Germany unemployment claims rate SA, % | Oct | 6.3% | 6.3% | -- |
| | Italy manufacturing confidence | Oct | 91.8 | 92.1 | -- |
| | Euro Area consumer confidence | Oct | -- | (15.5) | -- |
| | US initial jobless claims | 24-Oct | 780k | 787k | -- |
| | US GDP annualized, % QoQ | Q3CY20 | 31.8% | (31.4%) | -- |
| | ECB main refinancing rate, % | 29-Oct | 0.0% | 0.0% | -- |
| | Germany CPI, % YoY | Oct | (0.3%) | (0.2%) | -- |
| | US pending home sales, % MoM | Sep | 3.0% | 8.8% | -- |
| | India fiscal deficit, Rs cr | Sep | -- | 48,998.0 | -- |
| 30-Oct | BOJ policy balance rate, % | 29-Oct | (0.1%) | (0.1%) | -- |
| | South Korea industrial production, % YoY | Sep | 1.4% | (3.0%) | -- |
| | Japan jobless rate, % | Sep | 3.1% | 3.0% | -- |
| | Japan industrial production, % MoM | Sep | 3.0% | 1.0% | -- |
| | France GDP, % QoQ | Q3CY20 | 15.0% | (13.8%) | -- |
| | Germany retail sales, % MoM | Sep | (0.5%) | 3.1% | -- |
| | Germany GDP SA, % QoQ | Q3CY20 | 7.3% | (9.7%) | -- |
| | Thailand exports, % YoY | Sep | -- | (8.2%) | -- |
| | Hong Kong GDP, % YoY | Q3CY20 | (5.7%) | (9.0%) | -- |
| | Euro Area unemployment rate, % | Sep | 8.2% | 8.1% | -- |
| | Euro Area GDP SA, % QoQ | Q3CY20 | 9.5% | (11.8%) | -- |
| | Euro Area CPI, % MoM | Oct | 0.1% | 0.1% | -- |
| | Italy GDP WDA, % QoQ | Q3CY20 | 11.1% | (12.8%) | -- |
| | India core sector output, % YoY | Sep | -- | (8.5%) | -- |
| | China manufacturing PMI | Oct | 51.3 | 51.5 | -- |
| | China non-manufacturing PMI | Oct | 56.1 | 55.9 | -- |

Source: Bloomberg, Bank of Baroda

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