

WEEKLY WRAP

27 July 2020

All eyes on Fed

Global economy maintained growth momentum as seen in US home sales and higher flash PMIs. However, rising COVID-19 cases raise the risk of prolonged recovery. US 10Y yield fell and so did DXY. EU's stimulus package led to 2% gain in EUR/USD. US-China tensions suggest DXY may underperform. INR too appreciated. Indian equity markets too gained on the back of revival of the economy, but revival seems to be plateauing. The week will give insight into India's fiscal position and stance of US Fed.

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Markets

- **Bonds:** US 10Y yield fell by 4bps (0.59%) as jobless claims surged raising concerns of employment scenario. More fiscal stimulus is in the offing ahead of elections. Macro data in Eurozone (flash PMIs) and China was better at the margin. Oil prices rose by 0.4% (US\$ 43/bbl) on hopes of reviving demand. India's 10Y yield rose by 1bps (5.82%). System liquidity surplus was lower at Rs 3tn as on 24 Jul 2020 compared with Rs 3.4tn in the previous week.
- **Currency:** Except CNY, other global currencies closed higher against the dollar. DXY fell sharply by 1.6% to a 22-month low in the week, as US-China tensions escalated. CNY too depreciated by 0.4%. EUR rose by 2% buoyed by EU's stimulus. INR rose by 0.3% supported by FII inflows of US\$ 1bn in the equity segment.
- **Equity:** Barring Dow and FTSE, other global indices ended the week higher as global manufacturing PMI rebounded. Shanghai Comp (3.5%) was the biggest gainer, amongst other indices even as tensions rose between China and US. Sensex (3%) continued its weekly gains for the 6th week, led by global cues.
- **Upcoming key events:** In the current week, GDP and consumer confidence data in the US and Euro area will be released. Apart from this, retail sales in Germany and Japan as well as Fed's rate decision is also awaited. On the domestic front, India's fiscal data and eight core data will also be released.



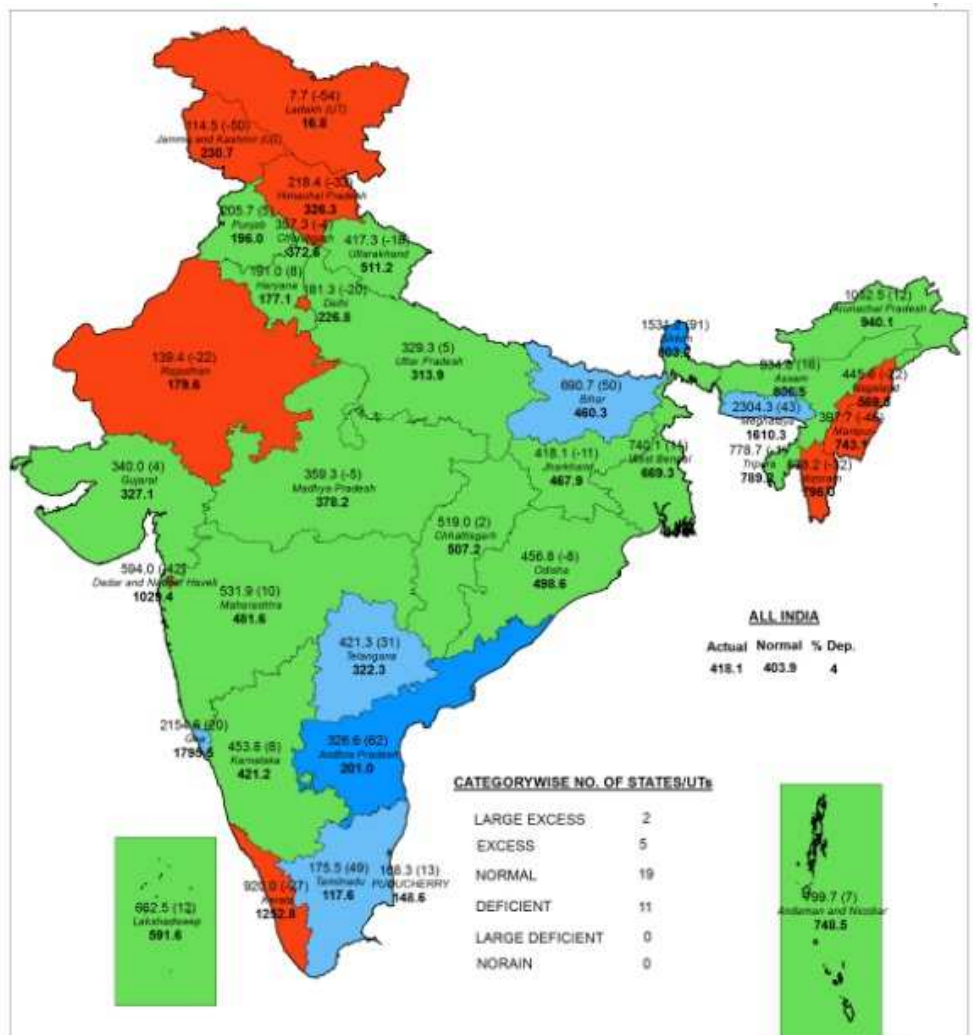
India macro developments

- RBI's FSR indicated that financial conditions of SCBs have worsened with respect to soundness, liquidity and efficiency parameters in Mar'20 against Sep'19. Risks such as global, domestic macro, financial market and institutional positions are also high. GNPA ratio of SCBs is likely to shoot up to 12.5% in Mar'21 from 8.5% in Mar'20 under base case and to 14.7% under severe stress scenario. CRAR may fall from 14.6% in Mar'20 to 13.3% in Mar'21 and further to 11.8% under severe stress.
- India's forex reserves rose by US\$ 1.3bn in the week ended 17 Jul 2020 to a record high at US\$ 517.6bn, compared with an increase of US\$ 3.1bn last week. In FYTD21, forex reserves have risen by US\$ 42.1bn, compared with an accretion of US\$ 18.5bn last year.
- In yet another sign of revival, India's crude oil processing rose by 10.9% in Jun'20 to 4.29mbpd against 3.87mbpd in May'20. Crude processing posted its biggest drop in two decades in Apr'20 due to lockdown restrictions. Fuel demand also rose by 11% in Jun'20 on MoM basis, recovering from its 13-year low seen in Apr'20.
- RBI reported that currency in circulation (CIC) declined by Rs 20bn and stood at Rs 26.7tn for the week ending 17 Jul 2020. Reserve money rose by 13.9% on a YoY basis, compared with 12.8% a year ago. On a FYTD basis, reserve money increased by 5.1% as against 0.8% last year.
- According to news reports, number of registered companies in the country stands at 2mn as of 30 Jun 2020. Registration of companies have jumped sharply by 126.5% in Jun'20 (10,954 companies) on a MoM basis. Amongst these, large number of companies have been engaged in business services (3,399), followed by manufacturing (2,360), trading (1,499), community services (1,411) and construction (644).
- Pace of contraction in India's port cargo volumes reduced in Jun'20 to 14.5% from 23.3% in May'20. Owing to reduced economic activity amidst nationwide and global lockdown, volumes fell by 19.7% in Q1FY21 versus 1.5% increase last year and 0.4% increase in Q4FY20. Separately, jobs data showed after collapse in additions to EPFO subscriber base in Apr'20 (0.1mn), there is marginal pickup seen in May'20 with 0.32mn additions.

Monsoon tracker

- For the period 1 Jun 2020 to 26 Jul 2020, monsoon is 4% above LPA compared with (-) 19% below LPA last year. States such as Maharashtra, Madhya Pradesh, Gujarat, Uttar Pradesh and Chattisgarh continue to receive normal rainfall. While Bihar, Telangana and Tamil Nadu have been witnessing heavy rainfall. On the other hand, Gujarat, Jammu & Kashmir and Kerala have received deficient rainfall.
- With the widespread distribution of monsoon, overall Kharif sowing has improved by 18.5% as on 24 Jul 2020 compared with last year. Sowing area for both pulses and oilseeds continues to track upward momentum as it rose by 25.7% and 24.6% respectively. Cotton (22.5%) and foodgrain (18.6%) sowing too improved further 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 [-99% to -60%] No Rain [-100%] No Data

Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun-26 Jul 2020

Global macro developments

- US weekly jobless claims rose unexpectedly for the first time since 28 Mar 2020. Jobless claims for the week ended 18 Jul 2020 rose by 109,000 to 1.42mn versus estimate of 1.3mn. This raises doubts over the recovery in the labour market amidst a surge in COVID-19 cases and resulting shutdowns.
- US existing home sales surged by 21% in Jun'20 to 4.7mn much higher than 3.9mn in May'20. This is the largest monthly increase on record (since CY68) after three months of consecutive decline due to COVID-19 crisis. This was supported by record low mortgage rates.
- Minutes of RBA's latest meeting revealed that the members agreed on the current level of monetary and fiscal push (especially labour market focused) being provided. Target for 3Y yield and accommodative stance will be maintained as long as necessary, along with the possibility of scaling up its bonds purchase program, if required. However, uncertainty around global growth, slower revival of domestic economy and pullback in non-essential investment spending remain key concerns for the members.
- Japan's manufacturing and services activity showed slight improvement, albeit remaining below the 50 mark. As per flash PMI print, manufacturing output index rose to 41.2 in Jul'20 from 32.3 in Jun'20. Services activity index rose slightly to 45.2 in Jul'20 from 45 in Jun'20. Employment scenario remained bleak.
- Germany's producer price for industrial products contracted at a slower pace by 1.8% in Jun'20 from a decline of 2.2% in May'20 on a YoY basis. Prices of both consumer durable and capital goods rose by 1.5% and 1.2% respectively. The increase was however offset by sharp decline of 6.2% in energy prices with prices of petroleum products falling by 20.5% in Jun'20 (5.5% in May'20).
- Japan's exports declined by 26.2% in Jun'20 higher than an estimated decline of 24.7% due to weak global demand. However the pace of contraction was lower than 28.3% in May'20. The decline was led by sharp fall in exports to the US and EU at 46.6% and 28.4% respectively. Imports too contracted by 14.4% versus 26.2% in May'20. Separately, CPI inflation in Japan rose by 0.1% Jun'20, unchanged from last month.
- Flash manufacturing PMIs of Eurozone, UK and US indicate rebound in activity in Jul'20. PMI for Eurozone jumped to 51.1 from 47.4 in Jun'20, while that of UK rose to 53.6 from 50.1 in Jun'20. In US too the index moved to 51.3 from 49.8. Across regions, recovery was driven by new business orders and reduction in backlog of work.

FIG 2 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.59	(4)	(13)	(2)	(150)
UK	0.15	(2)	(7)	(17)	(59)
Japan	0.01	(1)	1	1	17
Germany	(0.45)	0	(4)	(6)	(12)
India	5.82	1	(7)	(24)	(70)
China	2.90	(8)	0	41	(25)
2Y yields (Δ bps)					
US	0.14	(1)	(4)	(7)	(171)
UK	(0.10)	(1)	(3)	(16)	(60)
Japan	(0.14)	(1)	0	2	8
Germany	(0.67)	(2)	2	(0)	9
India	4.17	1	(16)	(41)	(191)
China**	2.06	0	(17)	93	(49)
Currencies (Δ %)					
EUR	1.1656	2.0	3.0	7.6	4.0
GBP	1.2794	1.8	2.2	3.2	2.3
JPY	106.14	0.8	0.0	0.7	1.6
AUD	0.7105	1.6	2.8	11.4	2.1
INR	74.83	0.3	1.7	1.7	(8.3)
CNY	7.0184	(0.4)	0.9	0.9	(1.9)
Equity & Other indices (Δ %)					
Dow	26,652	(0.1)	2.4	13.3	(1.8)
FTSE	6,211	(1.3)	(0.5)	6.6	(17.1)
DAX	13,103	1.4	6.9	24.6	6.0
NIKKEI	22,752	0.2	1.4	17.1	4.6
Shanghai Comp	3,325	3.5	12.1	17.1	13.2
SENSEX	38,140	3.0	9.2	19.7	0.8
Brent (US\$/bbl)	43.31	0.4	0.5	103.0	(31.7)
Gold (US\$/oz)	1,902	5.1	7.6	9.1	33.4
CRB Index	372.2	1.7	2.6	6.2	(8.6)
Rogers Agri Index	694.2	0.5	3.1	6.9	(5.7)
LIBOR (3M)*	0.26	(1)	(3)	(73)	(199)
INR 5Y Swap*	5.26	0	8	13	(134)
India FII data (US\$ mn)					
	23 Jul	WTD	MTD	CYTD	FYTD
FII-Debt	34.4	(188.5)	(151.2)	(14,433.2)	(4,673.7)
FII-Equity	282.9	1,015.1	577.6	(1,863.9)	4,739.1

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

FIG 3 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
27-Jul	China industrial profits, % YoY	Jun	--	6	11.5
	Germany IFO business climate index	Jul	--	--	--
	Hong Kong exports, % YoY	Jun	--	--	--
	US durable goods orders, % MoM	Jun	--	--	--
	Germany retail sales, % MoM	Jun	--	--	--
28-Jul	US conf. board consumer confidence	Jul	--	--	--
	UK nationwide house price index, % MoM	Jul	--	--	--
29-Jul	Australia CPI, % QoQ	Q2CY20	--	--	--
	France consumer confidence index	Jul	--	--	--
	Italy PPI, % YoY	Jun	--	--	--
	Hong Kong GDP, % YoY	Q2CY20	--	--	--
	US advance goods trade balance, US\$bn	Jun	--	--	--
	US wholesale inventories, % MoM	Jun	--	--	--
	US FOMC rate decision (Upper Bound)	29-Jul	--	--	--
30-Jul	Japan retail sales, % MoM	Jun	--	--	--
	Germany GDP, SA, % QoQ	Q2CY20	--	--	--
	France PPI, % YoY	Jun	--	--	--
	Spain CPI, % YoY	Jul	--	--	--
	Spain GDP, % QoQ	Q2CY20	--	--	--
	Germany unemployment change (000's)	Jul	--	--	--
	Euro Area economic confidence index	Jul	--	--	--
	Euro Area unemployment rate, %	Jun	--	--	--
	Germany CPI, % YoY	Jul P	--	--	--
	US GDP annualized, % QoQ	Q2CY20	--	--	--
	US initial jobless claims	25-Jul	--	--	--
31-Jul	South Korea industrial production, % YoY	Jun	--	--	--
	Japan industrial production, % MoM	Jun	--	--	--
	China manufacturing PMI	Jul	--	--	--
	China non-manufacturing PMI	Jul	--	--	--
	France GDP, % QoQ	Q2CY20	--	--	--
	France CPI, % YoY	Jul	--	--	--
	Thailand exports, % YoY	Jun	--	--	--
	Italy GDP, WDA, % QoQ	Q2CY20	--	--	--
	Taiwan GDP, % YoY	Q2CY20	--	--	--
	Italy retail sales, % MoM	Jun	--	--	--
	Euro Area GDP, SA, % QoQ	Q2CY20	--	--	--
	Euro Area CPI Estimate, % YoY	Jul	--	--	--
	India eight infrastructure industries, % YoY	Jun	--	--	--
	University of Michican consumer sentiment index	Jul	--	--	--
	India fiscal deficit, Rs cr	Jun	--	--	--

Source: Bloomberg, Bank of Baroda

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