

WEEKLY WRAP

30 March 2021

Rising Covid-19 cases a worry

Yield differential between US and other economies widened led by US vaccination drive and stimulus. Stronger global PMI prints, improvement in Germany's IFO index, upward revision to US Q4 GDP and drop in US jobless claims also point towards revival in global demand. DXY rose (+1.3%) to its highest level since Nov'20. On the domestic front, continued surge in Covid-19 cases drove Sensex and INR lower. India's 10Y yield fell by 6bps supported by lower government borrowing. Centre's H1 borrowing calendar is awaited.

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Markets

- **Bonds:** Except US, global 10Y yields closed lower on account of rising cases in Europe, Brazil and India. US 10Y yield rose a tad by 1bps (1.71%) on the back of concerns over inflation. Oil prices rose by 0.6% (US\$ 65/bbl) due to supply disruptions and ahead of OPEC+ meeting. India's 10Y yield fell the most by 6bps (6.12%) supported by cancellation of Government's last auction and Rs 100bn special OMO. System liquidity surplus fell to Rs 3.8tn as on 26 Mar 2021, versus Rs 3.9tn in the previous week.
- **Currency:** Global currencies closed lower. DXY rose by 1.3% led by rapid vaccination drive in the US and widening yield differential. EUR fell by 0.2% as tougher restriction in France and Germany will impact growth. INR depreciated by 0.2% led by higher oil prices (+0.6%) and FII outflows.
- **Equity:** Barring Shanghai Comp and Sensex, other global indices ended higher led by the strong data prints (global flash PMIs). Dow (1.3%) surged the most followed by Dax (1.1%). Sensex fell by 1.5% amidst rising Covid-19 infections. It was dragged down by oil & gas and auto stocks.
- **Covid-19 tracker:** Global cases rose by 4mn in the week versus 3.4mn last week led by France and Germany. India added 0.4mn cases in the week versus 0.3mn last week. Israel has got 60% of the population vaccinated followed by UK (44%).
- **Upcoming key events:** Globally, China's official PMI will be out, US payroll data and consumer confidence in US and Europe will be released. In India, Centre's H1 borrowing calendar, BoP, fiscal deficit and eight core data will be released. Covid-19 infections will be tracked very closely.



India macro developments

- As per CMIE data, India's unemployment rate (30-day moving average) inched down to 6.48% as on 29 Mar 2021 against 6.53% in the previous week. This was led by fall in rural unemployment rate from 6.19% to 6.13%. Even urban unemployment fell a tad to 7.26% from 7.27%. With government reforms such as higher allocation for MGNREGA and Atmanirbhar Bharat Rozgar Yojana, employment scenario might improve further.
- As per Agriculture Ministry, farmers have completed harvest of over 48% of Rabi crops. Plantation of Kharif crops such as rice has also slowly begun and has covered over 56.5lakh hectare for the ongoing Kharif season (2020-21). As these are rainfed crops, sowing of these crops is likely to pick up with the onset of south-west monsoon in Jun'21.
- According to news reports, central government has collected ~Rs 304bn as dividend receipts from CPSEs in FYTD21 (till 22 Mar 2021), slightly lower than the revised target of Rs 347bn. Apart from this, FY21RE estimates Rs 618bn will be received as surplus from RBI and nationalised banks/financial institutions, bringing the total dividend receipts to Rs 965bn. Of this total amount, Rs 744bn has been garnered till Jan'21.
- RBI reported that currency in circulation (CIC) declined by Rs 11.6bn and stood at Rs 28.5tn for the week ending 19 Mar 2021. Reserve money rose by 12% on a YoY basis, compared with 14.1% a year ago. On FYTD basis, reserve money increased by 13.9% as against 11.2% a year ago.
- As per news reports, NHAI is planning to raise Rs 1tn through monetisation of national highways in the next 5-years. Pace of highway construction has already picked up at 35km/day and is likely to reach 40km/day by Mar'21. This along with the NIP, under which Rs 44tn worth projects are under implementation, will boost country's infrastructure.
- India's highway construction is gaining pace as it touched a record high of 34km/day construction in FY21 (till 22 Mar 2021). This number is three times higher than the pace of construction in FY15. For FY21, as a whole 12,205.25kms of National Highways have been constructed, which is about 1,205kms more than the targeted level of 11,000kms.

Global macro developments

- Global flash PMIs indicate that both manufacturing and services activity rebounded sharply in Mar'21 in US and Europe. In US, manufacturing PMI jumped to 59 and services PMI rose to 80-month high of 60 in Mar'21. Manufacturing PMI for Eurozone and Germany reached its record high of 62.4 and 66.6 and that of UK rose to 40-month high of 57.9. Services activity in Germany and UK too entered into expansion in Mar'21.
- US GDP rose by 4.3% in Q4CY20 as per 3rd estimate and higher than its previous estimate of 4.1%. The upward revision was led by exports, non-residential fixed investment and personal consumption expenditures (PCE), amongst others. In a separate print, US jobless claims fell by 97,000 to a 1-year low of 684,000 for the week ending 20 Mar 2021.
- US new home sales dropped to a 9-month low of 18.2% (MoM) in Feb'21 versus 3.2% increase in Jan'21, driven by extreme weather conditions and elevated mortgage rates. Higher rates are expected to adversely impact affordability and weaken demand in CY21. However, rapid vaccination drive and stimulus package might lend support to the sector.
- Existing home sales in the US fell by 6.6% (MoM) in Feb'21 compared with 0.6% increase in Jan'21. Rising prices and interest rates are key reasons for dip in demand. In Feb'21, median prices were up by 15.8% on YoY basis following 14.1% increase in Jan'21. The 30Y mortgage rate was also up at 2.81% versus 2.74% in Jan'21. It has further risen to 3.09% since then.
- Japan's manufacturing PMI rose to 52 in Mar'21 from 51.4 in Feb'21, led by new orders which rose at the fastest pace in 18-months. However, input prices were elevated and job shedding continued for the 3rd straight month. Services PMI rose marginally to 46.5 versus 46.3 in Feb'21, however it remained in the contraction zone for 14th consecutive month.
- Germany's GfK consumer sentiment index for Apr'21 improved to (-) 6.2 (est: -12.1) from (-) 12.7 in Mar'21 amidst easing of lockdown restrictions. This was the highest reading since Nov'20, before the imposition of the second lockdown. Income expectation index jumped sharply to 22.3 from 6.5 in Mar'21. However, with Germany imposing further restrictions recently amidst a third-wave of infections, the outlook is likely to remain muted
- CPI print in UK slipped to 0.4% in Feb'21 (est.: 0.8%) from 0.7% in Jan'21. This was on account of dip in prices of clothing and footwear (5.7% decline versus 3.4% decline) and recreation and culture (2.2% versus 2.6%) due to lockdown restriction. Core inflation also edged down to 0.9% in Feb'21 from 1.4% in Jan'21.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.71	1	30	79	98
UK	0.79	(3)	(3)	53	45
Japan	0.08	(1)	(9)	5	6
Germany	(0.32)	(1)	(6)	25	17
India	6.12	(6)	(11)	24	(9)
China	3.20	(4)	(8)	3	58
2Y yields (Δ bps)					
US	0.14	(1)	1	2	(9)
UK	0.07	(1)	(6)	19	(8)
Japan	(0.14)	(1)	(3)	(2)	0
Germany	(0.71)	(1)	(5)	0	(3)
India	4.61	(18)	(11)	73	(64)
China**	2.56	(1)	(1)	(3)	85
Currencies (Δ %)					
EUR	1.1765	(1.4)	(2.6)	(3.7)	6.5
GBP	1.3762	(0.7)	(1.2)	2.3	10.9
JPY	109.81	(0.9)	(3.0)	(5.8)	(1.9)
AUD	0.7633	(1.5)	(0.9)	0.7	23.6
INR	72.51	(0.2)	1.3	1.4	3.9
CNY	6.5701	(1.0)	(1.4)	(0.5)	7.5
Equity & Other indices (Δ %)					
Dow	33,171	1.3	7.2	9.1	48.6
FTSE	6,736	0.1	3.9	3.6	21.1
DAX	14,818	1.1	7.5	7.5	51.0
NIKKEI	29,385	0.7	1.4	9.4	54.0
Shanghai Comp	3,435	(0.2)	(2.1)	1.1	25.0
SENSEX	49,009	(1.5)	(0.2)	3.5	72.3
Brent (US\$/bbl)	64.98	0.6	(1.7)	27.8	185.5
Gold (US\$/oz)	1,712	(1.5)	(1.3)	(8.6)	5.5
CRB Index	509.2	0.5	4.6	15.3	37.1
Rogers Agri Index	943.5	(1.8)	(2.8)	9.5	42.6
LIBOR (3M)*	0.20	1	1	(4)	(123)
INR 5Y Swap*	5.84	(11)	(2)	57	(13)
India FII data (US\$ mn)					
	25 Mar	WTD	MTD	CYTD	FYTD
FII-Debt	6.5	361.3	(874.9)	(2,359.1)	(6,452.7)
FII-Equity	(397.7)	(585.1)	2,572.8	7,566.6	37,542.4

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual	
29-Mar	Vietnam CPI, % YoY	Mar	1.5%	0.7%	1.16%	
	Japan jobless rate, %	Feb	3.0%	2.9%	2.9%	
30-Mar	Japan retail sales, % YoY	Feb	(2.8%)	(2.4%)	(1.5%)	
	France consumer confidence	Mar	--	91.0	--	
	Euro Area consumer confidence	Mar	--	(10.8)	--	
	Germany CPI, % YoY	Mar	1.7%	1.3%	--	
	US Conference board consumer confidence index	Mar	96.0	91.3	--	
	South Korea industrial production, % YoY	Feb	1.8%	7.5%	--	
31-Mar	Japan industrial production, % MoM	Feb	(1.3%)	4.3%	--	
	China non-manufacturing PMI	Mar	52.3	51.4	--	
	China manufacturing PMI	Mar	51.2	50.6	--	
	UK GDP, % QoQ	Q4CY21	--	1.0%	--	
	France CPI, % YoY	Mar	--	0.6%	--	
	Euro Area CPI, % MoM	Mar	1.0%	0.2%	--	
	Fiscal deficit, Rs cr	Feb	--	75,535.0	--	
	India eight core output, %	Feb	--	0.1%	--	
	US pending home sales, % MoM	Feb	(2.7%)	(2.8%)	--	
	India current account balance, US\$ bn	4Q	(2.4)	15.5	--	
	South Korea exports, % YoY	Mar	16.6%	9.5%	--	
	Jibun Bank Japan manufacturing PMI	Mar	--	52.0	--	
01-Apr	Exports MoM	Feb	2.0%	6.0%	--	
	Retail Sales MoM	Feb	(1.1%)	(1.1%)	--	
	Caixin China manufacturing PMI Mfg	Mar	51.3	50.9	--	
	Markit Italy manufacturing PMI	Mar	--	56.9	--	
	Markit France manufacturing PMI	Mar	--	58.8	--	
	Markit/BME Germany manufacturing PMI	Mar	66.6	66.6	--	
	Markit Eurozone manufacturing PMI	Mar	62.4	62.4	--	
	Markit UK PMI manufacturing SA	Mar	--	57.9	--	
	US initial jobless claims, in thousands	27-Mar	--	684.0	--	
	US ISM manufacturing PMI	Mar	61.0	60.8	--	
	02-Apr	South Korea CPI, % YoY	Mar	1.5%	1.1%	--
		US change in nonfarm payrolls, in thousands	Mar	600.0	379.0	--
US unemployment rate, %		Mar	6.0%	6.2%	--	

Source: Bloomberg, Bank of Baroda

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