

WEEKLY WRAP

08 June 2020

Equity markets gain as global economies recover

Global economic activity showed signs of improvement with PMIs gaining MoM traction led by China and US. US jobs report surprised positively. Global equity markets gained led by DAX which was up 10.9%. ECB's additional € 600bn stimulus was also positive. On the domestic front, Moody's downgraded India due to fiscal concerns. MPC minutes show members may reduce rates by another 25bps in next meeting. Even domestic economic activity is improving, and is likely to gain traction as most states removing lockdown from today.

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Markets

- Bonds:** Global long-end yields on account of improved PMIs which show revival in global manufacturing and services activity. US 10Y yield rose by 24bps (0.9%) supported by positive employment report. Oil prices too rose by 19.7% (US\$ 42/bbl) amidst expectation of economic revival and anticipation of output cuts by Saudi Arabia and Russia. India's 10Y yield rose by 1bps (6.02%). System liquidity surplus was at Rs 3.8tn as on 5 Jun 2020 versus Rs 3.7tn in previous week.
- Currency:** Global currencies closed higher as manufacturing and services PMIs rose in May'20. JPY and DXY fell by 1.6% and 1.4% respectively as risk sentiment improved. AUD rose by 4.5% as RBA suggested that the impact of COVID-19 on GDP growth may be lower than estimated. EUR rose by 1.7% with ECB ramping up its stimulus program by € 600bn. INR closed flat even as FII inflows picked up to US\$ 2.5bn in the week.
- Equity:** Led by renewed hopes of global economic recovery, additional stimulus by ECB and strong US Jobs report, global indices ended the week higher. Dax (10.9%) surged the most followed by Dow (6.8%) and FTSE (6.7%). Sensex (5.7%) too ended in green on the back of global cues and reopening of domestic economy.
- Upcoming key events:** Markets will track Japan and Euro Area's GDP in the current week. Apart from this, FOMC's rate decision as well as PPI and CPI reading of Japan, China and US are also scheduled for release. On the domestic front, markets will track industrial output and inflation prints.



India macro developments

- Moody's downgraded India's sovereign rating to Baa3 from Baa2 with negative outlook on the back of rising fiscal deficits, growth contraction and higher debt levels (30% more than Baa median). The agency believes that India's long-term growth is likely to be 6% instead of 8% earlier. In addition, general government's public debt which is estimated at 72% in FY21, is expected to go up to 84% in FY22. This raises the risk of other agencies revising outlook to negative from stable.
- India's manufacturing PMI inched up to 30.8 in May'20 from 27.4 in Apr'20, contracting for second consecutive month. Led by weakness in demand, new orders continued to decline, however the pace has softened. Additionally, subdued demand from international markets added to the growing concerns, as uncertainty looms over the impact of COVID-19.
- Government approved the increase in MSP for kharif crops for the 2020-21 marketing season. The hike is expected to be 1.5 times the weighted average cost of production. While MSP for paddy and cotton was raised by 2.9% and 5% respectively, the sharpest increase was seen in niger seed (12.7%) and bajra (7.5%).
- In an effort to prudently use the existing resources, Centre has announced that no new government schemes will be announced in FY21. Even, approved schemes of Rs 5bn will remain suspended till FY21. However, proposals worth Rs 21tn announced under Pradhan Mantri Garib Kalyan and Aatmanirbhar Bharat package will continue to operate. Apart from this, all ongoing schemes which got approval in Jan'20 will also continue.
- India's services activity still contracted as visible in the PMI print. It was at 12.6 in May'20, slightly higher than the unprecedented low of 5.4 in Apr'20. Business shutdown and weak demand conditions due to COVID-19 accounted for dismal service sector performance. Employment scenario also deteriorated and price pressure softened.
- Central government has released Rs 364bn as GST compensation for states for Dec'19-Feb'20. In addition to this, centre had transferred Rs 1.2tn as compensation between Apr-Nov'19, bringing the total amount transferred to states to Rs 1.5tn versus centre's collection of Rs 956bn as compensation cess in FY20.
- RBI has announced establishment of Payments Infrastructure Development Fund (PIDF). It will provide initial corpus of Rs 2.5bn, covering half of the fund. The remaining will be raised from card issuing banks and card network companies. This fund will enable adoption of PoS infrastructure in Tier-3 to Tier-6 centres and north-eastern states. This in turn will help banks to increase their market share in this segment.

Global macro developments

- Euro Zone manufacturing PMI improved to 39.4 in May'20 from a 22-year low of 33.4 in Apr'20, as lockdown restrictions were lifted. In US too, ISM manufacturing index improved to 43.1 from an 11-year low at 41.5 in Apr'20. However, the index still remains in contraction globally. In Asia manufacturing PMIs in Japan and S. Korea fell to their lowest since CY09
- Japan's services PMI rose to 26.5 in May'20 from a record low of 21.5 in Apr'20, indicating that the sector remains in stress, despite marginal improvement. Survey reports that store closures, cancelled events and weak sales contributed most to the stress. Job losses were at the highest since Feb'10. The 12-month ahead outlook also remains negative on the back of weak domestic and export orders.
- Reserve Bank of Australia left interest rates unchanged at an all-time low of 0.25%. Further, bank is ready to increase government bond purchase to ensure that 3Y bond yield remains at 0.25%. While Australia's GDP contracted by 0.3% in Q1CY20, bank remains optimistic on the growth trajectory as infections in the country have largely remained in check.
- Global services PMI improved to 35.2 in May'20 from 23.7 in Apr'20, as activity was seen recovering across regions with gradual reopening of the economies. Eurozone services PMI too inched up to 30.5 in May'20 from 12 in Apr'20. However, stress continues to remain in customer facing industries with new orders and employment successively declining owing to weak demand.
- US non-manufacturing PMI rose to 45.4 in May'20 from 41.8 in Apr'20. The improvement was led by higher business activity (+15 points), new orders (+9 points) and employment (+1.8 points). Sector-wise, growth was led by only agri & forestry, finance & insurance, public administration and information
- ECB kept policy rates unchanged. However, it scaled up its Pandemic Emergency Purchase Program (PEPP) by € 600bn, in addition to € 750bn announced earlier. The program has also been extended till Jun'21 (Dec'20 earlier). ECB estimates GDP to contract by 8.7% in CY20 (0.8% estimated in Mar'20). Inflation is also likely to be at 0.3% in CY20.
- US good and services trade deficit expanded to US\$ 59.4bn in Apr'20 compared with US\$ 42.3bn in Mar'20. This was on the back of weaker goods exports which plunged to 25.2% (10-year low) versus 9% in Mar'20. Separately, US jobless claims for the week ended 30 May fell to 1.88mn versus 2.13mn in the previous week amidst easing lockdown restrictions.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.90	24	23	13	(119)
UK	0.35	17	15	12	(46)
Japan	0.05	5	7	17	17
Germany	(0.28)	17	30	43	(2)
India	6.02	1	(5)	(16)	(95)
China	2.86	17	29	23	(40)
2Y yields (Δ bps)					
US	0.21	5	2	(30)	(164)
UK	0.01	5	0	(10)	(52)
Japan	(0.13)	3	1	15	7
Germany	(0.60)	6	19	26	7
India	4.45	6	(5)	(90)	(182)
China	2.04	49	87	8	(49)
Currencies (Δ %)					
EUR	1.1292	1.7	4.2	0.1	(0.4)
GBP	1.2668	2.6	1.9	(2.9)	(0.5)
JPY	109.59	(1.6)	(2.8)	(4.0)	(1.3)
AUD	0.6969	4.5	8.4	5.0	(0.5)
INR	75.58	0	0.1	(2.4)	(8.8)
CNY	7.0835	0.8	0.3	(2.2)	(2.5)
Equity & Other indices (Δ %)					
Dow	27,111	6.8	13.5	4.8	4.3
FTSE	6,484	6.7	10.9	0.3	(11.6)
DAX	12,848	10.9	19.7	11.3	6.7
NIKKEI	22,864	4.5	16.2	10.2	9.5
Shanghai Comp	2,931	2.8	1.8	(3.4)	3.6
SENSEX	34,287	5.7	9.0	(8.8)	(13.5)
Brent (US\$/bbl)	42.30	19.7	36.6	(6.6)	(33.2)
Gold (US\$/oz)	1,685	(2.6)	(1.2)	0.7	25.7
CRB Index	369.4	0.6	5.3	(7.4)	(9.8)
Rogers Agri Index	685.4	2.4	5.3	(2.1)	(8.0)
LIBOR (3M)*	0.32	(3)	(16)	(58)	(213)
INR 5Y Swap*	5.11	(2)	(18)	(63)	(151)
India FII data (US\$ mn)					
	4 Jun	WTD	MTD	CYTD	FYTD
FII-Debt	(86.5)	(177.0)	(177.0)	(14,232.3)	(4,472.8)
FII-Equity	347.4	2,596.8	2,596.8	(2,317.7)	4,285.3

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
8-Jun	Japan GDP SA, % QoQ	Q1CY20	(0.5%)	(0.9%)	--
	Japan current account balance, ¥ bn	Apr	377.2	1,971.0	--
	Germany industrial production SA, % MoM	Apr	(16.5%)	(9.2%)	--
9-Jun	Germany exports SA, % MoM	Apr	(15.6%)	(11.8%)	--
	Japan machine tool orders, % YoY	May	--	(48.3%)	--
	Euro Area GDP SA, % QoQ	Q1CY20	(3.8%)	(3.8%)	--
10-Jun	South Korea unemployment rate SA, %	May	4.0%	3.8%	--
	Japan PPI, % YoY	May	(2.4%)	(2.3%)	--
	Japan core machine orders, % MoM	Apr	(7.5%)	(0.4%)	--
	China PPI, % YoY	May	(3.2%)	(3.1%)	--
	China CPI, % YoY	May	2.7%	3.3%	--
	France industrial production, % MoM	Apr	(20.0%)	(16.2%)	--
	OECD Economic Outlook				
	US CPI, % MoM	May	0.0%	(0.8%)	--
	US FOMC rate decision, %	06-Jun	0.3%	0.3%	--
	11-Jun	Italy industrial production, % MoM	Apr	(24.0%)	(28.4%)
US PPI final demand, % MoM		May	0.1%	(1.3%)	--
US initial jobless claims, in mn		06-Jun	1.6	1.9	--
12-Jun	Japan industrial production, % MoM	Apr	--	(9.1%)	--
	UK industrial production, % MoM	Apr	(15.0%)	(4.2%)	--
	France CPI, % YoY	May	0.2%	0.2%	--
	Euro Area industrial production SA, % MoM	Apr	(20.0%)	(11.3%)	--
	India CPI, % YoY	May	5.6%	5.8%	--
	India industrial production, % YoY	Apr	(47.5%)	(16.7%)	--

Source: Bloomberg, Bank of Baroda

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