

WEEKLY WRAP

09 November 2020

Equity markets rejoice US election results

Global equity markets surged as results of US Presidential elections indicated a change in guard. However, Senate results will be known only in Jan'21 due to run-offs. Fiscal stimulus will have to wait. US yields and US\$ fell. Emerging market currencies and commodity prices went up. US Fed and BoE kept the rates on hold. BoE expanded its QE programme. On the domestic front, with visibility of green shoots (higher GST collection, manufacturing and services PMIs), markets will closely look at inflation. Our estimate is 6.9%.

Sameer Narang

+91 22 6698 5713

chief.economist@bankofbaroda.com

Jahnvi

jahnvi@bankofbaroda.com

Markets

- Bonds:** US 10Y yield fell by 6bps amidst uncertainty surrounding US Presidential and Senate elections and its impact on fiscal policy. UK 10Y yield also rose by 1bps (0.27%) even as BoE stepped up its asset purchase program. Oil prices rose by 5.3% (US\$ 39/bbl) with improving macro data. India's 10Y yield fell by 1bps (5.87%), supported by RBI's announcement of special OMOs of Rs 100bn. System liquidity surplus was higher at Rs 4.9tn as on 6 Nov 2020 compared with Rs 4.5tn in the previous week.
- Currency:** Except INR, other global currencies closed higher against the dollar. DXY fell sharply by 1.9% in the week to a 2-month low amidst political uncertainty. With Democrats not controlling the Senate, hopes of large fiscal stimulus are lower. GBP rose by 1.6%. BoE left policy rate unchanged and scaled up its bond purchases by more than expected. INR depreciated by 0.1% as oil prices increased. FII inflows were US\$ 1.1bn.
- Equity:** Global equity indices ended the week higher as investors turned their focus towards US elections result, central banks holding the rates steady and acceleration in China's exports and Germany's industrial production. Dax (8%) surged the most followed by Dow (6.9%). Sensex (5.8%) too climbed up led by advancement in banking and metal stocks.
- Upcoming key events:** In the current week, markets will closely monitor industrial production of Euro Area, CPI print of China. In addition, Japan's machine tool orders, US non-farm payrolls and Germany's Zew business index will be released. On the domestic front, CPI and industrial production will be released.



India macro developments

- RBI's fortnightly statistics showed credit demand edged down to 5.1% as of 23 Oct 2020 from 5.7% in the previous fortnight. Even deposit growth moderated to 10.1% from 10.5% in the previous fortnight, led by time deposits (10.1% from 10.7% in the previous fortnight). Demand deposit growth however improved to 10.6% from 9.6% in the previous fortnight. CD ratio was stable at 72.3%.
- India's manufacturing PMI accelerated for the 3rd straight month to a 13-year high of 58.9 in Oct'20 from 56.8 in Sep'20. This was led by improvement in both new orders and exports orders with robust expansion in intermediate goods sector amidst easing of lockdown restrictions. Companies expect the ongoing momentum to sustain led by upturn in input buying and restocking efforts.
- RBI reported that currency in circulation (CIC) increased by Rs 6.6bn and stood at Rs 27tn for the week ending 30 Oct 2020. Reserve money rose by 13.1% on a YoY basis, compared with 13.5% a year ago. On FYTD basis, reserve money increased by 7.1% as against 3.5% a year ago.
- India's exports fell by 5.4% in Oct'20 from an increase of 6% in Sep'20 as per preliminary data. While oil exports declined by 53.3%, non-oil exports too decelerated to 1.8% versus an increase of 6.1% in Sep'20. Imports showed a steady recovery and contracted by only 11.6% versus a dip of 19.6% led by higher gold and non-oil-non-gold imports. As a result, trade deficit rose to a 7-month high of US\$ 8.8bn from US\$ 2.7bn in Sep'20.
- India's services PMI expanded for the first time in over eight months to 54.1 in Oct'20 from 49.8 in Sep'20. This was led by improvement in new orders on the back of strong domestic demand. However, exports continued to pose challenge led by Covid-19 restrictions. Overall composite PMI too inched up to 58 in Oct'20 from 54.6 in Sep'20 led by revival in both manufacturing and services sector.
- RBI announced the new Co-Lending Model (CML) to improve credit flow to the underserved section of the economy at an affordable cost. Under this, banks can provide loans or co-lend along with registered NBFCs to the priority sector borrowers based upon a prior agreement. NBFCs will be required to retain a minimum of 20% share of the loans on their books.

Global macro developments

- Non-farm payroll in the US rose more than anticipated by 0.64mn in Oct'20 (est. 0.58mn) and against 0.66mn in Sep'20. Labour force participation rate rose to 61.7 from 61.4 in Sep'20. Unemployment rate edged down to 6.9% from 7.9% in Sep'20. Sectors such as hospitality, professional and business services showed biggest gains. Average hourly earnings on MoM basis, rose at the same pace of 0.1%.
- US ISM manufacturing PMI rose to a 2 years at 59.3 in Oct'20 from 55.4 in Sep'20. This was led by a sharp uptick in new orders to a near 17-year high at 67.9 versus 60.2 in Sep'20. Out of the 18 manufacturing industries, 15 recorded strong growth led by apparel and leather & allied products. The sub-index for employment rose for the first time since Jul'19 to 53.2 from 49.6 in Sep'20.
- Reserve Bank of Australia (RBA) has cut its cash rate to a record low at 0.1% from 0.25% citing high unemployment and risks to growth. RBA also lowered its target for 3Y government bond yield and bank lending facility rate to 0.1%. It also announced purchase of AUD 100bn government bonds of 5-10Y maturities over the next 6 months. The bank expects GDP growth at 6% over the year to Jun'21 and by 4% in CY22. Inflation is estimated at 1% in CY21 and 1.5% in CY22.
- European Commission (EC) expects GDP in the Euro Area to contract by 7.8% in CY20 versus a dip of 8.7% estimated in Jun'20. Growth will recover to 4.2% in CY21, lower than 6.1% estimated earlier due to a resurgence in Covid-19 cases and resultant lockdowns. Unemployment rate will remain elevated at 8.3% in CY20 and 9.4% in CY21. Inflation is set to rise from 0.3% in CY20 to 1.1% in CY21, much below ECB's target.
- China's exports rose by 11.4% in Oct'20, a 19-month high from an increase of 9.9% in Sep'20. This was led by higher exports of medical equipments and textiles. Imports on the other hand, moderated to 4.7% from 13.2% in Sep'20 due to lesser working days in Oct'20. As a result, its trade surplus expanded to US\$ 58.4bn from US\$ 37bn in Sep'20
- US Fed maintained status quo by keeping rates steady and making no changes to its asset purchase programme. It added that the ongoing pandemic continues to pose a considerable risk to the economic outlook over the medium term. Separately, BoE kept rates on hold and expanded its quantitative easing programme (£ 895bn). It has revised its growth projection for CY20 downwards from 5.4% dip estimated earlier to a contraction of 11%.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.82	(6)	8	25	(112)
UK	0.27	1	(1)	14	(52)
Japan	0.02	(2)	(2)	1	7
Germany	(0.62)	1	(11)	(11)	(36)
India	5.87	(1)	(15)	3	(69)
China	3.20	2	5	21	(7)
2Y yields (Δ bps)					
US	0.15	0	1	2	(152)
UK	(0.03)	0	(1)	(1)	(59)
Japan	(0.14)	(2)	(2)	(2)	3
Germany	(0.78)	1	(9)	(10)	(16)
India	4.12	(8)	(27)	(11)	(144)
China**	2.75	3	15	52	6
Currencies (Δ %)					
EUR	1.1874	1.9	1.2	0.7	7.8
GBP	1.3156	1.6	2.1	0.8	3.0
JPY	103.35	1.3	2.2	2.4	5.4
AUD	0.7258	3.3	2.2	1.4	5.8
INR	74.20	(0.1)	(1.0)	1.0	(4.1)
CNY	6.6124	1.2	2.6	5.1	5.5
Equity & Other indices (Δ %)					
Dow	28,323	6.9	2.0	3.2	2.3
FTSE	5,910	6.0	(0.7)	(2.0)	(19.7)
DAX	12,480	8.0	(3.3)	(1.5)	(5.7)
NIKKEI	24,325	5.9	3.8	8.9	4.0
Shanghai Comp	3,312	2.7	2.9	(1.2)	11.7
SENSEX	41,893	5.8	5.9	10.1	3.9
Brent (US\$/bbl)	39.45	5.3	(7.5)	(11.1)	(36.9)
Gold (US\$/oz)	1,951	3.9	3.9	(4.1)	33.7
CRB Index	415.0	1.3	2.4	9.6	6.2
Rogers Agri Index	799.1	2.0	4.7	15.6	9.4
LIBOR (3M)*	0.21	0	(2)	(4)	(169)
INR 5Y Swap*	5.07	(12)	(31)	(16)	(143)
India FII data (US\$ mn)					
	5 Nov	WTD	MTD	CYTD	FYTD
FII-Debt	30.0	50.1	50.1	(14,179.6)	(4,420.1)
FII-Equity	727.5	1,072.7	1,072.7	7,619.2	14,222.2

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
09-Nov	China exports, % YoY	Oct	9.2%	9.9%	11.4%
	Germany exports SA, % MoM	Sep	1.0%	2.4%	--
	Taiwan exports, % YoY	Oct	5.8%	9.4%	--
10-Nov	Japan current account, ¥ tn	Sep	2.0	2.1	--
	China PPI, % YoY	Oct	(1.9%)	(2.1%)	--
	China CPI, % YoY	Oct	0.8%	1.7%	--
	France industrial production, % MoM	Sep	0.2%	1.3%	--
	Italy industrial production, % MoM	Sep	(3.4%)	7.7%	--
	Germany ZEW survey expectations	Nov	42.5	56.1	--
11-Nov	South Korea unemployment rate SA, %	Oct	3.8%	3.9%	--
	Japan machine tool orders, % YoY	Oct	--	(15.0%)	--
12-Nov	Japan PPI, % YoY	Oct	(2.0%)	(0.8%)	--
	Japan core machine orders, % YoY	Sep	(12.0%)	(15.2%)	--
	UK industrial production, % YoY	Sep	(5.7%)	(6.4%)	--
	Germany CPI, % YoY	Oct	(0.2%)	(0.2%)	--
	UK manufacturing production, % YoY	Sep	(7.6%)	(8.4%)	--
	UK GDP, % QoQ	Q3CY20	15.7%	(19.8%)	--
	Euro Area industrial production SA, % MoM	Sep	0.9%	0.7%	--
	India CPI, % YoY	Oct	7.1%	7.3%	--
	India industrial production, % YoY	Sep	(2.0%)	(8.0%)	--
	US CPI, % MoM	Oct	0.2%	0.2%	--
US initial jobless claims	7-Nov	--	751,000.0	--	
13-Nov	France CPI, % YoY	Oct F	0.0%	0.0%	--
	Hong Kong GDP, % YoY	3Q F	(3.4%)	(3.4%)	--
	Euro Area GDP SA, % QoQ	3Q P	12.7%	12.7%	--
	US PPI final demand, % MoM	Oct	0.2%	0.4%	--
	US University of Michigan consumer sentiment	Nov	82	81.8	--

Source: Bloomberg, Bank of Baroda

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com