

WEEKLY WRAP

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Markets jittery as virus spreads

Global markets fell as COVID-19 outbreak spread beyond China to Italy, South Korea and Middle East. China's manufacturing and services PMI fell to an all-time low raising fresh concerns over global growth outlook. While bond yields fell, equity markets worldwide saw a sharp sell-off. US10Y yield fell by 32bps to an all-time low of 1.15% as investors expect Fed to intervene to support growth. JPY strengthened. Indian equity markets and INR fell due to FII outflows (US\$ 2.4bn). Indian 10Y yield fell 5bps as oil prices eased.

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Markets

- **Bonds:** Global yields closed lower as concerns linger over spread of COVID-19. China's manufacturing and services PMI also fell sharply raising further concerns over global growth outlook. US 10Y yield fell by 32bps to hit a record low of 1.15% as markets are pricing a rate cut by Fed in Mar'20. Oil prices fell by (-) 3.2% (US\$ 51/bbl) over muted demand outlook. India's 10Y yield fell by 5bps (6.37%). System liquidity surplus was at Rs 3tn as on 28 Feb 2020 vs Rs 2.3tn in the previous week.
- **Currency:** Global currencies closed mixed this week. DXY weakened by (-) 1.1% in the week as Fed Chair hinted at rate cuts to combat the impact of COVID-19. JPY however, rose sharply by 3.3% on safe-haven demand. EUR also gained 1.7%. INR depreciated by (-) 0.7% on the back of FII outflows (US\$ 2.4bn) even as oil prices fell sharply.
- **Equity:** Barring Nikkei Global indices nosedived in the week, led by Dow, Dax (-12.4%) and FTSE (-11.1%). Renewed fears around spread of COVID-19 outside of China dragged global markets down. There is widespread risk to global growth from spread of coronavirus. Following global cues, Sensex also fell by (-) 7%, with metal, auto and oil & gas stocks falling the most.
- **Upcoming key events:** In the current week, markets will closely follow news flow on spread of COVID-19 as well as manufacturing and services PMI of major economies-US, Eurozone, Japan and China. Apart from this, US jobs data is also scheduled to be released. Domestic markets will move in-line with global markets.



India macro developments

- India's GDP and GVA growth moderated to 4.7% and 4.5% in Q3FY20 from a revised growth of 5.1% and 4.9% in Q2. Investment spending led the dip at (-) 5.2%. PFCE held up. On the supply side, electricity output declined the most on account of manufacturing slowdown. Growth is likely to recover to 5.5% in FY21 and 6.2% in FY22 on the back of recovery in rural demand and disinvestment led government capex. The recent COVID-19 outbreak remains a significant downside risk in Q4FY20.
- India's central government fiscal deficit is at 4.3% of GDP (12M trailing basis) in Jan'20 vs FY20 (RE) of 3.8%. On FYTD basis, gross tax collections continue to disappoint with (-) 1.6% decline vs 11.4% growth seen in FYTD19. The drag is led by corporate tax collections (-13.5% vs RE: -8%). Indirect tax collections are also muted (2.2% vs 6.9% FYTD19). On the expenditure front, while revenue spending is running below RE (12.9% vs 17%), capex remains elevated (16.5% vs 13.4%).
- Total GST collections for Jan'20 remained broadly unchanged at Rs 1.1tn. On a YoY basis, collections were 8.3% higher, led by 25% jump in CGST and 15.5% in SGST (post IGST settlement). On FYTD basis CGST collections are at Rs 4.1tn vs RE of Rs 5.1tn and total collections are at Rs 5tn vs RE of Rs 6.4tn. While CGST and cess are expected to meet targets, IGST may see marginal shortfall (Rs 63bn vs RE Rs 280bn).
- According to NSO report, ESIC added 1.3mn persons as new subscribers in Dec'19 vs 1.5mn persons in Nov'19. Additions to EPFO remained steady at 1mn persons. In Q3FY20, EPFO's new subscriber base jumped by 81% from 1.4mn in Q3FY19 to 2.5mn. Since Sep'17, total additions to EPFO stand at 14.9mn vs 35mn additions in ESIC.
- RBI reported that currency in circulation (CIC) rose by Rs 110bn and stood at Rs 23.6tn for the week ending 21 Feb 2020. Reserve money increased by 11.4% on a YoY basis, compared with 16.5% a year ago. On a FYTD basis, reserve money increased by 7.5% as against 10.5% last year.
- As per news reports, EPFO is considering a 15bps cut in deposit rate to 8.5% for FY20 vs 8.65% in FY19. This is against the backdrop of 50-80bps lower returns on long-term FDs, bonds and government securities. EPFO's investments are estimated at more than Rs 18tn, of which Rs 45bn are in DHFL and IL&FS. However, government may oppose the move as reduction in rates will hurt consumer sentiment.

Global macro developments

- Germany's IFO business climate index rose marginally to 96.1 in Feb'20 from 96 in Jan'20. Sector-wise only manufacturing showed improvement, while indices for services, trade and construction declined further. Analysts believe that the survey has not taken into account full effect of spread of COVID-19 which could hamper Germany's manufacturing and services sector the most.
- US consumer confidence data print was less than expected at 130.7 in Feb'20 (est.: 132.3) vs 130.4 in Jan'20. The present situation index fell to 165.1 in Feb'20 vs 173.9 in Jan'20. However, expectations index rose moderately to 107.8 vs 101.4 in Jan'20 over improved short-term outlook for income, business and labour market conditions.
- Bank of Korea kept its policy rate unchanged at 1.25%. This was against expectations of a 25bps cut in rates as the rapid spread of COVID-19 in the country threatens to derail growth. The Board also slashed its growth forecast to below 2% in CY20 from 2.3% (Nov'19). Inflation is also expected to be muted at ~1%. However, it kept room open for further rate cuts as it maintained an accommodative policy stance.
- New home sales in the US rose to 12.5-year high of 7.9% in Jan'20 (MoM basis) vs est.: 3.5% and 2.3% in Dec'19. The surge can be attributed to lower interest rates after Fed reduced rates thrice in CY19. Construction permits were also at 7-year high in Jan'20, indicating increase in supply may ease median prices (+14% YoY in Jan'20) and push sales further up.
- Industrial production in Japan rose by 0.8% in Jan'20 on a MoM basis vs est.: 0.2% and 1.2% in Dec'19. The better than estimated print was driven by higher production of motor vehicles, transport equipment and other manufacturing items. Compared with Dec'19, marginal easing was led by machinery and I&C electronic equipment.
- US GDP rose by 2.1% in Q4CY19 on an annualised basis, in line with estimates. However, consumption spending was muted at 1.7% vs 3.2% in Q3. Separately, US durable goods orders fell by (-) 0.2% in Jan'20 vs 2.4% in Dec'19. However, core capital goods orders rose by 1.1% vs (-) 0.8%. US jobless claims rose to 219,000 for the week ended 22 Feb 2020 vs 211,000 in the previous week.
- China's official manufacturing PMI plunged to an all-time low of 35.7 in Feb'20 vs est.: 45 and 50 in Jan'20, amidst factory shutdowns owing to Lunar New Year holiday and COVID-19. Sectors impacted the most include chemical fibre and automobiles. The sub-index for new orders fell to 29.3 vs 51.4 in Jan'20, while new export orders index declined to 28.7 from 48.7. Non-manufacturing PMI too fell, to 29.6 from 54.1 in Jan'20.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.15	(32)	(51)	(63)	(160)
UK	0.44	(13)	(11)	(26)	(85)
Japan	(0.15)	(10)	(11)	(8)	(15)
Germany	(0.61)	(18)	(27)	(25)	(79)
India	6.37	(5)	(21)	(10)	(101)
China	2.73	(13)	(27)	(44)	(47)
2Y yields (Δ bps)					
US	0.91	(44)	(55)	(70)	(164)
UK	0.31	(21)	(14)	(23)	(49)
Japan	(0.25)	(9)	(12)	(8)	(10)
Germany	(0.77)	(13)	(14)	(14)	(26)
India	5.60	(9)	(50)	26	(111)
China	1.97	(33)	(32)	(67)	(45)
Currencies (Δ %)					
EUR	1.1026	1.7	0	0.1	(3.0)
GBP	1.2823	(1.1)	(1.6)	(0.8)	(2.9)
JPY	107.89	3.3	1.2	1.5	3.6
AUD	0.6515	(1.7)	(3.7)	(3.7)	(8.0)
INR	72.18	(0.7)	(1.2)	(0.6)	(1.8)
CNY	6.9920	0.5	(0.7)	0.6	(4.3)
Equity & Other indices (Δ %)					
Dow	25,409	(12.4)	(11.5)	(9.4)	(2.4)
FTSE	6,581	(11.1)	(12.0)	(10.4)	(7.4)
DAX	11,890	(12.4)	(10.8)	(10.2)	2.5
NIKKEI	21,143	(9.6)	(8.9)	(9.2)	(2.1)
Shanghai Comp	2,880	(5.2)	(3.2)	0.3	(3.8)
SENSEX	38,297	(7.0)	(6.5)	(6.1)	6.2
Brent (US\$/bbl)	50.52	(13.6)	(15.1)	(19.1)	(22.4)
Gold (US\$/oz)	1,586	(3.5)	1.2	8.3	22.6
CRB Index	395.1	(1.8)	(2.7)	2.2	(4.5)
Rogers Agri Index	703.2	(5.1)	(6.2)	(3.5)	(6.3)
LIBOR (3M)*	1.58	(10)	(19)	(33)	(102)
INR 5Y Swap*	6.15	(24)	(52)	(19)	(86)
India FII data (US\$ mn)					
	27 Feb	WTD	MTD	CYTD	FYTD
FII-Debt	(270.9)	(1,031.9)	315.6	(1,253.3)	1,690.8
FII-Equity	(428.0)	(1,362.0)	877.1	2,249.7	9,638.9

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
17-Feb	Japan GDP SA, % QoQ	Q4CY19	(1.0%)	0.4%	--
	Singapore GDP, % YoY	Q4CY19	0.8%	0.8%	--
	China new home prices, % MoM	Jan	--	0.4%	--
	Thailand GDP, % YoY	Q4CY19	2.0%	2.4%	--
	Japan industrial production, % MoM	Dec	--	1.3%	--
18-Feb	Reserve Bank of Australia meeting minutes	--	--	--	--
	UK jobless claims change	Jan	--	14,900	--
	UK ILO unemployment rate 3mths, %	Dec	3.8%	3.8%	--
	Germany ZEW survey expectations	Feb	22.0	26.7	--
19-Feb	Japan exports, % YoY	Jan	(7.0%)	(6.3%)	--
	Japan core machine orders, % MoM	Dec	(8.9%)	18.0%	--
	UK CPI, % YoY	Jan	1.6%	1.3%	--
	US housing starts, in mn	Jan	1.4	1.6	--
	US PPI final demand, % MoM	Jan	0.1%	0.1%	--
20-Feb	US FOMC meeting minutes	29-Jan	--	--	--
	South Korea PPI, % YoY	Jan	--	0.7%	--
	Australia unemployment rate, %	Jan	5.2%	5.1%	--
	Germany PPI, % MoM	Jan	0.1%	0.1%	--
	France CPI, % YoY	Jan	1.5%	1.5%	--
	Taiwan export orders, % YoY	Jan	(7.3%)	0.9%	--
	Hong Kong CPI composite, % YoY	Jan	3.1%	2.9%	--
	Reserve Bank of India meeting minutes	06-Feb	--	--	--
	US initial jobless claims, in thousands	15-Feb	210.0	205.0	--
	Euro Area consumer confidence	Feb	(8.2)	(8.1)	--
21-Feb	Japan CPI, % YoY	Jan	0.7%	0.8%	--
	Jibun Bank Japan manufacturing PMI (flash)	Feb	--	48.8	--
	Jibun Bank Japan services PMI (flash)	Feb	--	51.0	--
	Markit France manufacturing PMI (flash)	Feb	50.8	51.1	--
	Markit France services PMII (flash)	Feb	51.3	51.0	--
	Markit/BME Germany manufacturing PMII (flash)	Feb	44.8	45.3	--
	Markit Germany services PMII (flash)	Feb	53.9	54.2	--
	Markit Eurozone manufacturing PMII (flash)	Feb	47.4	47.9	--
	Markit Eurozone services PMII (flash)	Feb	52.3	52.5	--
	Italy industrial orders, % MoM	Dec	--	(0.3%)	--
	Markit UK PMI manufacturing SAI (flash)	Feb	49.7	50.0	--
	Markit/CIPS UK services PMII (flash)	Feb	53.4	53.9	--
	Euro Area CPI, % YoY	Jan	1.4%	1.4%	--
	Markit US manufacturing PMII (flash)	Feb	51.5	51.9	--
	Markit US services PMII (flash)	Feb	53.5	53.4	--
	US existing home sales, in mn	Jan	5.45	5.54	--

Source: Bloomberg, Bank of Baroda

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