

WEEKLY WRAP

13 April 2020

Markets hopeful of a flattening COVID curve

Globally risk sentiment improved with new projections showing US deaths may be lower than worst case scenario anticipated earlier. Equity markets went up and currencies rebounded. Fed (US\$ 2.3tn) and EU (€ 0.5tn) announced further stimulus. Oil fell even as OPEC+ members agreed on a 9.7mn bpd production cut. India's 10Y yield rose by 19bps as FII outflow persisted in the debt segment (US\$ 408mn) on fiscal concerns. Markets are hoping of global and domestic flattening of COVID curve.

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Markets

- **Bonds:** Global yields closed mixed. US 10Y yield rose by 12bps (0.72%) even as FOMC minutes highlighted that downside risks to growth have increased significantly. Fed also unveiled a US\$ 2.3tn stimulus package to help main street small enterprises. EU finance ministers agreed on a € 0.5tn support to the economy. Oil prices fell by (-) 7.7% (US\$ 31/bbl) despite OPEC+ decision to cut output by 9.7mn bpd. India's 10Y yield rose by 19bps (6.49%) as fiscal worries persisted. System liquidity surplus rose to Rs 4.8tn as on 9 Apr 2020 vs Rs 4.6tn in the previous week.
- **Currency:** Except INR, other global currencies closed higher on improved risk sentiment. DXY fell by (-) 1.1% in the week. AUD rose the most by 5.9% as RBA left policy rate unchanged at 0.25%. EUR and GBP too gained. INR depreciated by (-) 0.1% in the week to hover around its historic lows as FPI outflows receded.
- **Equity:** Global indices ended the week higher led by improved outlook with possible peaking of the COVID-19 cases. Dow surged by 12.7% on the hope that US will do better than worst case scenario. European indices too ended in green. Sensex (12.9%) too rose on the back of likely flattening of COVID-19 curve in India and anticipation of fresh stimulus by government. Auto and banking stocks advanced the most.
- **Upcoming key events:** Markets will track COVID-19 cases which have increased by 504k from 564k last week. Indonesia's policy rate, industrial production of China, Japan, Euro Area along with China's GDP and US housing starts, jobless claims, and advance retail sales will be in focus. On the domestic front, inflation and trade data is awaited.



India macro developments

- Industrial growth rose to a 7-month high of 4.5% in Feb'20 from 2.1% in Jan'20. The acceleration was led by mining at 10% and electricity at 8.1%. Manufacturing output was also higher at 3.2%. Consumption and investment were weak. Next few readings will see a large decline as impact of lockdown will be visible. Barring pharma and a few essential goods, most capacity as of now is lying idle. However, manufacturing sector is likely to rebound faster as shop floors adjust to social distancing. Services sector will take longer.
- To enhance liquidity for state governments, RBI has eased overdraft facility norms from 14 working days in a month to 21 working days and 36 days in quarter to 50 days. Revenue starved states are increasingly relying on markets borrowings to meet the expenditure in times of COVID-19 outbreak. However, the cost of borrowing for states have increased steeply (gap between 10Y G-Sec and SDL is over 100bps now). As a result, RBI has also increased states' WMA limit by 30%.
- As per news reports, government is considering recommendations to re-open certain industries and districts post the nationwide lockdown ending on 14 Apr 2020. Some recommendations include opening up of: 161 districts in the country where no COVID-19 case has been reported as yet; cargo movement of all types; fishing; SMEs where workers can be in-housed; major manufacturing units running at 20-25% employee capacity.
- RBI reported that currency in circulation (CIC) increased by Rs 177bn and stood at Rs 24.6tn for the week ending 3 Apr 2020. Reserve money rose by 9.3% on a YoY basis, compared with 15.7% a year ago. On a FYTD basis, reserve money declined by (-) 1.9% as against (-) 1.8% last year.
- India's forex reserves fell by US\$ 901mn to US\$ 474.7bn in the week ended 3 Apr 2020 compared with an increase of US\$ 5.7bn last week. Forex reserves rose to a lifetime high at US\$ 487.7bn in Mar'20 but have since declined as pressure on INR mounted. In CYTD20, forex reserves have risen by US\$ 17.2bn, lower compared with an accretion of US\$ 20.4bn last year. Despite the decline, India's import cover remains comfortable at over 11months.

Global macro developments

- COVID-19 cases increased globally to 1.8mn as of 13 Apr 2020 (1 times increase vs last week). On a weekly basis, new cases in US rose the most by 0.19mn, followed by France at 34,686 and Spain at 30,156. Globally, US has the maximum number of cases at 557,300. In India, the number of cases rose to 7,812 as of 13 Apr 2020 vs 4,778 last week.
- US fed minutes revealed that downside risks to economic outlook have increased significantly. Thus, FOMC members have taken the decision of two intermeeting cuts (150bps) to take the policy rate in the range of 0-0.25%. The future outlook would be contingent on both fiscal and monetary response. Fed has already announced host of liquidity infusion and credit positive measures which led to its balance sheet expansion of US\$ 6tn in Mar'20 from US\$ 4tn in CY19.
- US CPI fell by (-) 0.4% in Mar'20 on a MoM basis (steepest decline in 5 years) vs +0.1% in Feb'20. Sharpest dip was seen in prices of energy commodities (-10.4% vs -3.5%). Core CPI also fell by (-) 0.1% vs +0.2% in Feb'20, led by dips in prices of transportation services and apparels. Analysts expect disinflationary pressures will continue in the next few months as well owing to lockdowns related to COVID-19 outbreak.
- US Fed unveiled US\$ 2.3tn stimulus to help small enterprise especially for businesses with up to 10,000 employees and less than US\$2.5 bn revenues in CY2019. Among the measures include deferment of principal and interest payments for a year. It will be administered through the Paycheck Protection Program and other measures aimed at getting money to small businesses and bolstering municipal finances with a US\$ 500bn lending program.
- Industrial production in Germany rose by 0.3% in Feb'20 on a MoM basis (est. -0.9%) vs 3% in Jan'20. While production of consumer goods increased by 1.8%, capital goods fell by (-) 0.3%. However, the increase may not sustain as major establishments remain shut due to the COVID-19 outbreak. Analysts believe that GDP growth might shrink in Q1CY20.
- China's PPI fell by (-) 1.5% in Mar'20 from (-) 0.4% in Feb'20 and est.: (-) 1.1%. Sharp dip in prices was owing to fall in commodity prices led by COVID-19 outbreak. In addition, which China's factories restarting and others shut around the world, there is also a situation of excess supply. Oil and gas extraction faced steepest (-) 21.7% decline in prices in Mar'20. Separately, China's CPI too eased to 4.3% in Mar'20 from 5.2% in Feb'20. Core inflation too remained benign at 1.2% vs 1% in Feb'20.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.72	12	(8)	(110)	(185)
UK	0.31	(1)	7	(46)	(91)
Japan	0.02	3	7	2	7
Germany	(0.35)	9	44	(15)	(40)
India	6.49	19	43	(10)	(92)
China	2.54	(1)	(7)	(54)	(81)
2Y yields (Δ bps)					
US	0.23	0	(31)	(134)	(217)
UK	0.04	(5)	(13)	(49)	(75)
Japan	(0.16)	(3)	8	(2)	0
Germany	(0.62)	4	34	(2)	(6)
India	5.24	(3)	(5)	(93)	(144)
China	1.20	(43)	(76)	(108)	(125)
Currencies (Δ %)					
EUR	1.0937	1.3	(3.0)	(1.7)	(3.2)
GBP	1.2455	1.5	(3.5)	(4.7)	(4.7)
JPY	108.47	0.1	(2.7)	0.9	3.2
AUD	0.6349	5.9	(2.4)	(8.0)	(11.5)
INR	76.27	(0.1)	(3.0)	(7.5)	(10.3)
CNY	7.0360	0.8	(1.1)	(1.7)	(5.0)
Equity & Other indices (Δ %)					
Dow	23,719	12.7	(5.2)	(17.7)	(10.2)
FTSE	5,843	7.9	(2.0)	(23.0)	(21.4)
DAX	10,565	10.9	0.9	(21.6)	(12.0)
NIKKEI	19,499	9.4	(1.9)	(18.2)	(10.8)
Shanghai Comp	2,797	1.2	(6.7)	(9.6)	(12.3)
SENSEX	31,160	12.9	(12.6)	(25.1)	(19.6)
Brent (US\$/bbl)	31.48	(7.7)	(15.4)	(51.6)	(56.0)
Gold (US\$/oz)	1,697	4.7	2.9	8.6	31.5
CRB Index	362.1	(0.2)	(8.6)	(11.1)	(15.0)
Rogers Agri Index	659.2	2.8	(4.9)	(13.5)	(12.2)
LIBOR (3M)*	1.22	(17)	43	(62)	(138)
INR 5Y Swap*	6.23	25	54	(53)	(49)
India FII data (US\$ mn)					
	8 Apr	WTD	MTD	CYTD	FY20
FII-Debt	(256.5)	(407.8)	(568.7)	(10,328.2)	(568.7)
FII-Equity	273.6	407.7	111.2	(6,491.8)	111.2

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
13-Apr	RBI minutes of policy meeting	27-Mar			
	India CPI, % YoY	Mar	5.9%	6.6%	--
14-Apr	India WPI, % YoY	Mar	1.3%	2.3%	--
	Bank of Indonesia 7D reverse repo rate, %	14-Apr	4.3%	4.5%	--
	China exports, % YoY	Mar	(14.0%)	--	--
15-Apr	France CPI, % YoY	Mar	0.6%	0.6%	--
	India exports, % YoY	Mar	--	2.9%	--
	Italy CPI EU harmonized, % YoY	Mar	0.1%	0.1%	--
	US advance retail sales, % MoM	Mar	(8.0%)	(0.5%)	--
16-Apr	Germany CPI, % YoY	Mar	1.4%	1.4%	--
	Euro Area industrial production SA, % MoM	Feb	(0.1%)	2.3%	--
	US housing starts, in mn	Mar	1.3	1.6	--
	US initial jobless claims, in mn	11-Apr	5.0	6.6	--
17-Apr	South Korea unemployment rate SA, %	Mar	3.8%	3.3%	--
	China GDP, % YoY	Q1CY20	(6.0%)	6.0%	--
	China industrial production YTD, % YoY	Mar	(8.1%)	(13.5%)	--
	China retail sales, % YoY	Mar	(10.0%)	--	--
	China fixed assets ex rural YTD, % YoY	Mar	(15.0%)	(24.5%)	--
	Japan industrial production, % MoM	Feb	--	0.4%	--
	Euro Area CPI, % YoY	Mar	0.7%	1.2%	--

Source: Bloomberg, Bank of Baroda

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