

WEEKLY WRAP

27 April 2020

Fed, ECB meet in focus

The week saw negative oil prices, a first as global supply outran storage due to demand compression. Global yields and equity markets fell and DXY strengthened. Flash manufacturing and services PMI of major economies point towards a deep contraction. Amidst the above backdrop, Fed and ECB policy meets are due this week. India's 10Y yield fell as RBI announced special OMOs and also announced SLF of Rs 500bn for MFs. Decision on extension of Indian lockdown is also awaited as are details of next fiscal stimulus.

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Markets

- Bonds:** Global yields closed lower amidst weak macro prints in US, Germany and Japan. US 10Y yield fell by 4bps (0.6%) as Senate passed another US\$ 484bn stimulus. Oil prices fell by 24% (US\$ 21/bbl) as US inventories touched a record high amid concerns of muted demand. India's 10Y yield fell by 18bps (6.17%) supported by RBI's Operation Twist. System liquidity surplus was at Rs 4.8tn as on 24 Apr 2020, same as in the previous week
- Currency:** DXY rose by 0.6% in the week as risk sentiment remained muted amidst a sharp plunge in oil prices. GBP depreciated by 1.1% as UK's flash manufacturing and services PMI plunged to a record low in Apr'20. EUR fell by 0.5% as uncertainty remains over the EU stimulus package. INR ended the week lower by 0.1% after depreciating to a record low as equities see lower outflows and debt segment sees inflows.
- Equity:** Global indices ended the week lower as oil prices plummeted on the back of cratering demand. Nikkei (3.2%) slumped the most followed by Dax (2.7%). Dow slipped by 1.9% despite a US\$ 484bn relief package to counter the impact of COVID-19. Sensex also fell by 0.8% following global cues and liquidity freeze in certain debt mutual fund schemes. However, RBI's Rs 500bn SLF announcement will ease concerns.
- Upcoming key events:** Global COVID-19 cases increased by 740k from 564k last week. This week Q1CY20 GDP of US, France, Italy and Taiwan and US, China and Japanese manufacturing ISM/PMI will be released. Fed and ECB policy meet is also awaited. On the domestic front, core output data, decision on extension of lockdown and fiscal stimulus details are due.



India macro developments

- RBI has announced special liquidity facility (SLF) of Rs 500bn for mutual funds (MFs). Under this, RBI will provide funds to banks at lower rates (repo operations of 90 days tenor for meeting the liquidity requirements of MFs. This will be eligible to be classified as HTM even in excess of 25% of total investment permitted in the HTM portfolio. It will also not be reckoned under the LEF and in computation of ANBC (for priority sector targets) as well as banks' capital market exposure limits.
- RBI has increased WMA limit for Government of India for H1FY21 to Rs 2tn (~67% increase) from Rs 1.2tn fixed in Mar'20. RBI had earlier increased WMA limit of States by 60% over Mar'20. As per the recommendation of 15th Finance commission, centre has also sanctioned release of Rs 460bn to States as their share in central taxes in Apr'20. This is in addition to the Rs 173bn released earlier as share of the State Disaster Response Mitigation Fund (SDRMF).
- As per news reports, government is likely to announce another stimulus package amounting to Rs 6-8tn (3-4% of GDP). Earlier too government had announced a stimulus of Rs 1.7tn (0.8% of GDP). It is expected to focus on easing credit constraints and providing relief to MSMEs.
- RBI reported that currency in circulation (CIC) increased by Rs 196.3bn and stood at Rs 25tn for the week ending 17 Apr 2020. Reserve money rose by 8% on a YoY basis versus 15% a year ago. On a FYTD basis, reserve money declined by 0.5% as against an increase of 0.8% last year.
- As per news reports, government has decided to amend the insolvency law and suspend sections 7, 9 and 10 for 6 months-1 year. While sections 7 and 9 pertain to initiation of corporate insolvency proceedings by financial creditor, section 10 relates to filing an application for insolvency resolution by corporates. Earlier, government had raised the threshold default amount (from Rs 0.1 to Rs 10mn) for invoking insolvency proceedings.
- In response to Indian states' demand for expanding their FY21 fiscal deficit (% of GDP) to 5% versus 3% recommended in the FRBM act, the Finance Commission has advised states to expand only upto 3.5%. Overarching expansion could dent the incentives recommended by the commission availed by states. Concerns were also raised about higher market borrowings by the states, leading to upwards pressure on rates.

Global macro developments

- COVID-19 cases increased globally to 3mn as of 26 Apr 2020, yet the pace of increase is declining. On a daily basis, new cases in US rose the most by 26,730, followed by Spain at 2,870 and Italy at 2,324. Globally, US has the maximum number of cases at 965,783. In India, the number of cases rose to 27,928 as of 27 Apr 2020 vs 18,601 last week.
- Japan's exports fell by 11.7% in Mar'20 versus est.: 10.1% decline and 1% fall recorded in Feb'20. Sharp decrease was driven by lower exports to the US (16.5%) and China (8.7%). On FY basis (Apr-Mar), exports were down by 6% in FY19 versus 1.9% increase in FY18. Imports too were down by 6.3% versus 7.2% increase in FY18.
- Germany's ZEW economic sentiment index rose to 28.2 in Apr'20 from (-) 49.5 in Mar'20. The current situation index however worsened further to (-) 91.5 points from (-) 43.1 in Mar'20. This is mainly because participants do not expect positive GDP growth till Q3CY20. GDP is estimated to go back to pre-COVID-19 levels only in CY22 now.
- Minutes of RBA's latest policy meet reiterated that the bank awaits the results of considerable monetary and fiscal stimulus already provided. It expects less frequent bond purchase program going forward to maintain the 3Y yield ~0.25%. The bank also expects the economy to contract by 10% in H1CY20, with the highest impact in Q2CY20. Unemployment rate is also estimated at 10%—highest since CY94.
- Korea's GDP contracted by 1.4% in Q1CY20 on a QoQ basis versus 1.3% growth seen Q4CY19. The decline was led by sharp dip in consumer spending (6.4%) and exports (2%). Private consumption was lowest since the Asian financial crisis. At the start of Q2, exports between 1-20 Apr 2020 fell by 27%, indicating sharper contraction in Q2CY20. Analysts estimate GDP to fall by 6% in Q2.
- Global flash manufacturing PMIs indicate sharp contraction in activity in Apr'20 in major economies including US (36.9 from 48.5 in Mar'19), UK (32.9 from 47.8) and Eurozone (33.6 from 44.5). Across all countries, new orders and employment index fell sharply. Both input and output prices declined and 12 month business expectation index too nosedived. Services activity index saw more severe decline across regions.
- US initial jobless claims rose by 4.4mn for the week ended 18 Apr 2020 versus 5.2mn last week. Despite easing, claims remain elevated with 4-week moving average at 5.8mn versus 5.5mn last week. Since the shutdown was announced, 26.4mn jobless claims have been filed. Separately, US new home sales fell by 15.4% in Mar'20 on MoM basis to a 6.5 year low versus 4.4% decline in Feb'20.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.60	(4)	(25)	(108)	(190)
UK	0.29	(1)	(19)	(27)	(85)
Japan	(0.02)	(4)	(6)	0	2
Germany	(0.47)	0	(15)	(14)	(45)
India	6.17	(18)	(14)	(42)	(124)
China	2.49	(6)	(15)	(51)	(92)
2Y yields (Δ bps)					
US	0.22	2	(15)	(127)	(206)
UK	0.07	(2)	(6)	(36)	(66)
Japan	(0.15)	(3)	6	(2)	0
Germany	(0.71)	(3)	(8)	(9)	(11)
India	4.55	(27)	(109)	(155)	(224)
China	1.13	(9)	(69)	(110)	(154)
Currencies (Δ %)					
EUR	1.0823	(0.5)	0.3	(1.8)	(2.9)
GBP	1.2367	(1.1)	5.1	(5.4)	(4.3)
JPY	107.51	0	3.3	1.6	3.6
AUD	0.6371	0.1	6.9	(6.7)	(9.5)
INR	76.45	(0.1)	(0.5)	(7.2)	(9.2)
CNY	7.0819	(0.1)	(0.3)	(2.0)	(5.2)
Equity & Other indices (Δ %)					
Dow	23,775	(1.9)	14.8	(18.0)	(10.4)
FTSE	5,752	(0.6)	5.6	(24.2)	(22.6)
DAX	10,336	(2.7)	6.6	(23.9)	(16.1)
NIKKEI	19,262	(3.2)	6.5	(19.2)	(13.5)
Shanghai Comp	2,809	(1.1)	3.2	(5.6)	(9.0)
SENSEX	31,327	(0.8)	17.4	(24.7)	(19.8)
Brent (US\$/bbl)	21.44	(23.6)	(21.0)	(64.7)	(70.3)
Gold (US\$/oz)	1,730	2.8	6.0	10.1	34.5
CRB Index	348.3	(0.7)	(6.8)	(14.7)	(17.6)
Rogers Agri Index	641.9	(0.6)	(4.4)	(14.7)	(11.9)
LIBOR (3M)*	0.99	(14)	(24)	(80)	(159)
INR 5Y Swap*	5.20	(37)	(105)	(149)	(192)
India FII data (US\$ mn)					
	23 Apr	WTD	MTD	CYTD	FYTD
FII-Debt	115.9	361.9	(628.1)	(10,387.6)	(628.1)
FII-Equity	63.4	(266.3)	(392.2)	(6,995.1)	(392.2)

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
27-Apr	China industrial profits, % YoY	Mar	--	--	--
	BoJ policy balance rate, %	27-Apr	(0.10%)	(0.10%)	--
28-Apr	Japan jobless rate, %	Mar	2.5%	2.4%	--
	France consumer confidence	Apr	77.0	103.0	--
	US advance goods trade balance, US\$ bn	Mar	(55.0)	(59.9)	--
	US conference board consumer confidence	Apr	90.0	120.0	--
29-Apr	South Korea industrial production SA, % MoM	Mar	1.5%	(3.8%)	--
	Australia CPI, % YoY	Q1CY20	2.0%	1.8%	--
	Euro Area consumer confidence	Apr	--	(22.7)	--
	Germany CPI, % YoY	Apr	0.8%	1.4%	--
	US GDP annualised, % QoQ	Q1CY20	(3.7%)	2.1%	--
	US pending home sales, % MoM	Mar	(10.0%)	2.4%	--
	US FOMC policy rate, %	29-Apr	0.25%	--	--
30-Apr	Japan retail sales, % YoY	Mar	(4.6%)	1.7%	--
	Japan industrial production, % MoM	Mar	(5.0%)	(0.3%)	--
	China manufacturing PMI	Apr	51.0	52.0	--
	China non-manufacturing PMI	Apr	52.8	52.3	--
	France GDP, % QoQ	Q1CY20	(2.9%)	(0.1%)	--
	Germany retail sales, % MoM	Mar	(12.5%)	1.2%	--
	France CPI, % YoY	Apr	0.3%	0.7%	--
	Taiwan GDP, % YoY	Q1CY20	1.7%	3.3%	--
	Euro Area unemployment rate, %	Mar	7.7%	7.3%	--
	Euro Area GDP SA, % QoQ	Q1CY20	(3.9%)	0.1%	--
	Euro Area CPI estimate, % YoY	Apr	0.1%	0.7%	--
	Italy GDP WDA, % YoY	Q1CY20	(5.2%)	0.1%	--
	India core sector output, % YoY	Mar	--	5.5%	--
	ECB main financing rate, %	30-Apr	0.00%	0.00%	--
1-May	US initial jobless claims, in mn	25-Apr	--	4.4	--
	South Korea exports, % YoY	Apr	(23.0%)	(0.2%)	--
	Jibun Bank Japan manufacturing PMI	Apr	--	43.7	--
	Markit UK manufacturing PMI SA	Apr	32.5	32.9	--
	US ISM manufacturing PMI	Apr	37.5	49.1	--

Source: Bloomberg, Bank of Baroda

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