WEEKLY WRAP

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Global yields inch up led by US

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US 10Y yield inched up by 20bps in the week after Democratic party regained control of the Senate. Higher yields supported US$. Global equity markets too rose led by FTSE. Global manufacturing activity continues to gain traction, but services activity is yet to normalise. Indian equity markets too rose as economic activity is gaining ground. Yield curve is likely to flatten with RBI resuming normal liquidity operations. This week, inflation, industrial production and RBI's FSR will be released. Inflation is estimated at 4.9%.

Markets

- **Bonds:** Except China (stable), global 10Y yields closed higher.US 10Y yield rose the most by 20bps (1.12%-highest since Mar'20) supported by Democrat's winning Senate run-off. India's 10Y yield closed flat at 5.88%. RBI is resuming normal liquidity operation and announced variable rate repo auction of Rs 2tn, after a gap of 9 months. System liquidity surplus fell to Rs 5.6tn as on 8 Jan 2020 versus Rs 6.2tn in the previous week.

- **Currency:** Global currencies closed mixed. DXY rose by 0.2% on hopes of further stimulus as Democrats won control of the Senate. GBP depreciated by 0.8% as more stringent lockdown measures raised bets of a rate cut by BoE. INR fell by 0.2% as oil prices climbed to an 11-month high at US$ 56/bbl. FII inflows were also lower at US$ 427mn.

- **Equity:** Global indices ended the week higher with FTSE (6.4%) and Shanghai Comp (2.8%) gaining the most. Vaccine roll out in Europe and additional stimulus by Biden administration drove equity markets higher. Sensex too rose by 1.9% as GDP is estimated to contract less sharply in FY21. Metal and capital good stocks surged the most.

- **Covid-19 tracker:** Global cases rose by 5.2mn in the week ending 10 Jan 2021 compared with 4.2mn in the previous week, led by surge in US and UK. India added 126k cases this week compared with 136k in earlier week.

- **Upcoming key events:** In the current week, macro prints from US (CPI, PPI, retail sales, industrial production) will be in focus. UK industrial production and Germany's CY20 GDP print are also awaited. On the domestic front, CPI, WPI and IIP data are scheduled for release.

India macro developments

- India's GDP growth is estimated to contract by 7.7% in FY21 (4.2% in FY20) led by 9.5% decline in consumption and 14.5% dip in investment spending. Recent high frequency indicators show rapid improvement. This not only builds a case for an upgrade to FY21 estimates but also sets the base for a double digit growth in FY22. We expect GVA and GDP growth to rebound to 10% and 10.5% respectively in FY22.

- India's manufacturing activity continued to remain robust as visible in the PMI reading. It rose to 56.4 in Dec'20 compared with 56.3 in Nov'20. This was led by marked improvement in business conditions across the sector. Input cost inflation on the other hand accelerated to a 26-month high in Dec'20. Employment scenario also weakened considerably.

- India's services PMI eased to 52.3 in Dec'20 (53.7 in Nov'20) with growth in new business and output softening. New hiring stagnated owing to labour shortage, liquidity crunch and muted demand. Input prices remained higher while output prices were seen declining driven by higher competition. Real estate, I&C and business services contracted the most. Transport, consumer service and finance & insurance fared better.

- World Bank expects India's GDP growth to contract by 9.6% in FY21 before recovering to 5.4% in FY22 and 5.2% in FY23. The contraction in FY21 is attributed to weak consumption and investment demand. For FY22, the report notes that the rebound due to a lower base will be offset by subdued private investment due to weakness in financial sector. Global GDP is expected to shrink by 4.3% in CY20 and recover to 4% in CY21.

- RBI has again announced the conduct of variable rate reverse repo auction worth Rs 2tn to restore normal liquidity operation. This was last conducted on 27 Mar 2020, in view of the disruptions from Covid-19. In earlier MPC minutes as well the issue of excess liquidity and its impact on rates was highlighted. Currently, liquidity surplus is at Rs 5.6tn. Raising CRR from Apr'21 will also be a step towards restoring to normal liquidity conditions.

Global macro developments

- Global manufacturing activity showed marked improvement in Dec'20. Manufacturing PMI in Japan rose to 50 in Dec'20 (versus 49 in Nov'20) ending 19-months of contraction. Euro Zone's manufacturing PMI rose to a 31-month high at 55.2 versus 53.8 led by Germany. US manufacturing PMI also rose to a 6-year high at 57.1 from 56.7 led by expansion in output and new orders. UK's manufacturing PMI too rose to a 3-year high at 57.5 from 55.6 due to a surge in orders before end of Brexit transition period.

- Services activity continued to remain subdued globally in Dec'20 due to a resurgence in Covid-19 cases and increased restrictions. In US, services PMI edged down sharply to 54.8 in Dec'20 from 58.4 in Nov'20. Japan's services PMI also dipped to 47.7 from 47.8. In the Euro Zone, it rose to 46.4 in Dec'20, below the initial estimate of 47.3, from 41.7 in Nov'20, and remained firmly in the contraction zone for the fourth straight month.

- Initial jobless claims in the US eased to 787,000 for the week ending 2 Jan 2021 versus 790,000 in the previous week. The 4-week moving average also fell by 18,750 from the previous week to 818,750. However, as the print continues to hover around 0.8mn, stress in labour market remains. Separately, trade deficit in Nov'20 jumped to US$ 68.1bn (highest since Aug'06), from US$ 63.1bn in Oct'20, led by surge in imports.

- US non-farm payrolls declined by 140,000 in Dec'20, marking the first ever decline since Apr'20. This was against estimate of an increase of 50,000 and also well below 336,000 additions in Nov'20. The decline was led by leisure and hospitality sector due to a sharp spike in Covid-19. Other sectors such as retail, professional & business services and construction fared well. Unemployment rate remained unchanged at 6.7%.

- US Fed minutes highlighted that the current pace of asset purchase (US$ 120bn/month) would continue until it made "substantial further progress" in its policy goals. FOMC members also said that markets would get plenty of time before asset purchases were curtailed so that it can prevent a taper tantrum.

- Germany's retail sales rose by 1.9% in Nov'20 versus 2.6% in Oct'20 and estimated 2% contraction, as only partial lockdown was in effect then. Online shopping and higher spending on home improvement products supported growth. With this, sales in CY20 are expected to have risen by 4% compared with 3.2% in CY19. Separately, number of unemployed in Germany rose by 8,000 in Dec'20 on a MoM basis to 2.7mn persons.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.12	20	21	34	(70)
UK	0.29	9	9	1	(48)
Japan	0.04	1	2	0	4
Germany	(0.52)	5	8	1	(32)
India	5.88	0	3	(6)	(71)
China	3.15	0	(14)	(4)	7
2Y yields (Δ bps)					
US	0.13	1	0	(2)	(144)
UK	(0.13)	3	(1)	(11)	(66)
Japan	(0.12)	0	1	0	2
Germany	(0.70)	0	7	1	(10)
India	4.17	30	24	(10)	(200)
China**	2.29	(20)	(54)	(33)	0
Currencies (Δ %)					
EUR	1.2218	0	0.7	3.3	9.9
GBP	1.3568	(0.8)	2.1	4.1	3.9
JPY	103.94	(0.7)	0.3	1.6	5.0
AUD	0.7757	0.8	2.9	7.1	12.4
INR	73.25	(0.2)	0.6	(0.2)	(3.3)
CNY	6.4746	0.8	1.1	3.3	6.4
Equity & Other indices (Δ %)					
Dow	31,098	1.6	3.7	8.8	7.9
FTSE	6,873	6.4	4.1	14.2	(9.4)
DAX	14,050	2.4	5.7	7.6	4.2
NIKKEI	28,139	2.5	5.2	19.1	18.0
Shanghai Comp	3,570	2.8	5.8	9.1	15.5
SENSEX	48,783	1.9	6.1	20.4	17.3
Brent (US$/bbl)	55.99	8.1	11.4	30.7	(13.8)
Gold (US$/oz)	1,849	(2.6)	0.7	(4.2)	18.3
CRB Index	449.0	1.2	3.5	9.4	10.2
Rogers Agri Index	898.1	1.4	8.6	16.3	17.9
LIBOR (3M)*	0.22	(1)	0	0	(161)
INR 5Y Swap*	5.43	11	18	10	(134)
India FII data (US$ mn)	**7 Jan**	**WTD**	**MTD**	**CYTD**	**FYTD**
FII-Debt	(145.3)	13.4	6.4	6.4	(4,087.2)
FII-Equity	109.7	413.9	575.5	575.5	30,551.3

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
11-Jan	Australia retail sales, % MoM	Nov	7.0%	7.0%	7.1%
	China PPI, % YoY	Dec	(0.7%)	(1.5%)	(0.4%)
	China CPI, % YoY	Dec	0.0%	(0.5%)	0.2%
12-Jan	Japan current account balance, ¥ tn	Nov	1.6	2.1	--
	India IIP, % YoY	Nov	(1.0%)	3.6%	--
	India CPI, % YoY	Dec	5.0%	6.9%	--
13-Jan	South Korea unemployment rate SA, %	Dec	4.1%	4.1%	--
	Japan machine tool orders, % YoY	Dec P	--	8.6%	--
	Italy industrial production, % MoM	Nov	(0.3%)	1.3%	--
	Euro Area industrial production SA, % MoM	Nov	0.2%	2.1%	--
	US CPI, % MoM	Dec	0.4%	0.2%	--
14-Jan	US monthly budget statement, US$ bn	Dec	(123.5)	(145.3)	--
	Japan core machine orders, % MoM	Nov	(6.5%)	17.1%	--
	Japan PPI, % YoY	Dec	(2.2%)	(2.2%)	--
	Germany GDP NSA, % YoY	CY20	(5.2%)	0.6%	--
	India WPI, % YoY	Dec	0.9%	1.6%	--
	US initial jobless claims	09-Jan	785.0	787.0	--
	China exports, % YoY	Dec	15.0%	21.1%	--
15-Jan	China new home prices, % MoM	Dec	--	0.1%	--
	UK industrial production, % MoM	Nov	0.4%	1.3%	--
	France CPI, % YoY	Dec	0.0%	0.0%	--
	Euro Area trade balance SA, € bn	Nov	22.0b	25.9b	--
	India exports, % YoY	Dec	--	(8.7%)	--
	US PPI final demand, % MoM	Dec	0.3%	0.1%	--
	US retail sales advance, % MoM	Dec	0.0%	(1.1%)	--
	US industrial production, % MoM	Dec	0.4%	0.4%	--
	Bank of Korea 7-day repo rate, %	15-Jan	0.5%	0.5%	--

Source: Bloomberg, Bank of Baroda

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