WEEKLY WRAP

19 October 2020

India decides to borrow more

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Fresh restrictions in Europe to curb COVID-19, uncertainty around US fiscal stimulus, drop in Germany's ZEW sentiment index and higher US jobless claims led to risk-off driving global yields and equities lower and US$ higher. China is an outlier with positive GDP, retail sales and FAI growth. Indian 10Y yield rose towards end of the week after Government increased its borrowing by Rs 1.1tn in H2FY21. RBI announced Rs 100bn in SDL OMOs. Yields have been anchored for now. MPC minutes will give a peek into future.

Markets

- **Bonds:** Barring China and India (flat), global yields closed lower. UK and German 10Y yield fell the most (10bps each), followed by US (down 3bps). Uncertainty around US fiscal stimulus, increase in jobless claims and fresh lockdown restrictions in Europe led to dip in yields. Oil prices rose by 0.2% (US$ 42.9/bbl) owing to supply concerns. India's 10Y yield closed flat at 5.94%. Centre's decision to borrow Rs 1.1tn on behalf of states impacted yields later in the week. System liquidity surplus was at Rs 4.2tn as on 16 Oct 2020 compared with Rs 3.9tn in the previous week.

- **Currency:** DXY (up by 0.7%) and JPY (up by 0.2%) rose on safe-haven demand amidst continued uncertainty over US fiscal stimulus and rising COVID-19 cases globally. CNY was flat. EUR and GBP depreciated by 0.9% as Brexit negotiations continued and new restrictions were put in place to contain spread of COVID-19 in Europe. INR depreciated by 0.3% even as FII inflows increased to US$ 754mn in the week.

- **Equity:** Barring Dow and Shanghai Comp, global indices ended the week lower amidst uncertainty over US stimulus plan and surge in COVID-19 cases. Germany's ZEW index was far below estimate. Sensex (1.3%) broke its winning streak and declined led by subdued global cues. It was dragged down by auto and oil & gas stocks.

- **Upcoming key events:** Markets will focus on economic impact of European restrictions and flash PMIs of advanced economies. US housing starts, home sales and jobless claims are also due for release. On the domestic front, MPC minutes and RBI's first ever OMO in SDLs will be closely watched.

India macro developments

- India's trade deficit narrowed to US$ 2.7bn in Sep'20 from US$ 6.8bn in Aug'20 as export growth rose to an 18-month high at 6% from a dip of 12.6%. Pharma and agri exports rose the most. Imports declined at a slower pace of 19.6% versus 26% fall in Aug'20 led by recovery in non-oil-non-gold imports. We expect a current account surplus of US$ 39bn in FY21 led by lower merchandise trade deficit.

- Centre has increased its borrowing program for FY21 as it has decided to borrow Rs 1.1tn on behalf of states to meet the GST compensation cess shortfall. Centre's H2FY21 borrowing will be at Rs 5.75tn, with Rs 4.88tn to be borrowed in the remaining part of H2. The money raised will be given to states as back to back loans.

- Government of India has announced a slew of measures like LTC cash voucher, restoring the festival advance scheme for central and state government employees in order to boost demand in the economy. The demand infusion is expected to be around Rs 280bn. Additionally, it will also issue an interest-free 50 year loan to states amounting to Rs 120bn to boost capex.

- RBI reported that currency in circulation (CIC) increased by Rs 21bn and stood at Rs 27tn for the week ending 9 Oct 2020. Reserve money rose by 13.9% on a YoY basis, compared with 13.5% a year ago. On FYTD basis, reserve money increased by 6.2% as against 2% a year ago.

- RBI purchased net US$ 5.3bn in the spot market in Aug'20 compared with net purchase of US$ 16bn in Jul'20. In FYTD21, RBI has purchased net US$ 34.3bn in the spot market compared with net purchase of US$ 5.7bn in FYTD20. In the forwards market, RBI purchased US$ 10.7bn in Aug'20. Its net outstanding forward position stands at US$ 10.4bn.

- IMF expects India's GDP to contract by 10.3% compared with a 4.5% dip estimated earlier. The downward revision is mainly due to sharper than anticipated contraction in growth in Q1FY21 at 23.9%. Growth is expected to rebound to 8.8% in FY22, making India the fastest growing economy. Global growth is now expected to contract by 4.4% in CY20, an upward revision of 80bps, as growth in advanced economies is expected to contract at a slower pace than earlier estimated (-5.8% versus -8.1% earlier).

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Global macro developments

- US retail sales accelerated at a much faster pace than anticipated, by 1.9% in Sep'20 from 0.6% in Aug'20 on a MoM basis. The surge has been on the back of higher spending on clothing (11% in Sep'20 from 1.4% in Aug'20) and motor vehicles (3.6% in Sep'20 from 0.7% in Aug'20). Core sales (ex automobiles, gasoline, food and building materials) too improved by 1.4% in Sep'20 from 0.3% in Aug'20.
- China's PPI fell by 2.1% in Sep'20 (est.: 1.8% fall) from 2% decline in Aug'20. While a part of it can be explained by drop international oil prices in Sep'20, the other key concern is slowing industrial demand. Domestic demand too remains muted as CPI eased to 1.7% in Sep'20 (lowest since Feb'19) from 2.4% in Aug'20. Drop in food prices was the key driver. Core inflation remained unchanged from Aug'20 at 0.5%.
- China's exports rose by 9.9% in Sep'20 versus 9.5% increase in Aug'20. This was led by continued increase in exports of medical supplies. In CYTD20, contraction in exports has eased to 0.8% from 6.6% in H1CY20. In Sep'20 imports too improved significantly, rising by 13.2% following a 2.1% decline in Aug'20 owing to revival in domestic demand and infra spending.
- US CPI moderated to 0.2% in Sep'20 from 0.4% in Aug'20 (MoM) driven by easing of supply chain disruptions. Core inflation, excluding food and energy too rose by 0.25 in Sep'20. However, the prices of used car and trucks continued to edge upwards (6.7% in Sep'20 from 5.4%). On a YoY basis, CPI increased by 1.4% in Sep'20 from 1.3% in Aug'20.
- Germany's ZEW economic sentiment index fell sharply to 56.1 points in Oct'20 (est.: 73) from 77.4 in Sep'20. Resurgence in COVID-19 cases, uncertainty around Brexit and US presidential elections, were the key drivers of this trend. Thus the financial market sentiment index also tumbled to 52.3 in Oct'20 from 73.9 in Sep'20.
- China's GDP rose by 4.9% in Q3CY20 (est.: 5.2%) up from 3.2% growth in Q2. This brings the CYTD growth to 0.7%, with manufacturing sector and exports leading in Q3. In Sep'20, industrial production rose by 6.9% from 5.6% in Aug'20 and retail sales were up by 3.3% versus 0.5% in Aug'20. With higher infra spending by the government, FAI rose to 0.8% between Jan-Sep'20 following a 0.3% decline between Jan-Aug'20.
- New jobless claims in the US rose sharply by 53,000 to 8, 98,000, much higher than anticipated. This comes in the wake of the ongoing negotiations over US fiscal stimulus. Additionally, some US airlines and other companies had also announced job cuts this week. This added to concerns of economic recovery amidst the ongoing COVID-19 pandemic.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.75	(3)	7	12	(101)
UK	0.18	(10)	(4)	2	(53)
Japan	0.02	(1)	0	(0)	15
Germany	(0.62)	(10)	(14)	(18)	(24)
India	5.94	(0)	(9)	13	(58)
China	3.22	3	11	25	3
2Y yields (Δ bps)					
US	0.14	(1)	0	(0)	(143)
UK	(0.06)	(4)	1	4	(59)
Japan	(0.13)	(1)	0	(1)	10
Germany	(0.78)	(6)	(9)	(11)	(11)
India	4.25	(2)	(22)	9	(133)
China**	2.72	10	10	66	16
Currencies (Δ %)					
EUR	1.1718	(0.9)	(1.1)	2.5	4.9
GBP	1.2915	(0.9)	0.2	2.8	(0.5)
JPY	105.40	0.2	0	1.5	2.8
AUD	0.7081	(2.2)	(3.0)	1.2	3.3
INR	73.35	(0.3)	0.4	2.2	(3.1)
CNY	6.6976	(0.0)	1.3	4.2	5.4
Equity & Other indices (Δ %)					
Dow	28,606	0.1	2.2	7.3	6.9
FTSE	5,920	(1.6)	(3.0)	(5.9)	(17.2)
DAX	12,909	(1.1)	(2.3)	(0.1)	2.2
NIKKEI	23,411	(0.9)	(0.2)	3.1	4.1
Shanghai Comp	3,336	2.0	1.2	3.8	13.6
SENSEX	39,983	(1.3)	2.4	8.0	1.7
Brent (US$/bbl)	42.93	0.2	5.9	(0.5)	(27.8)
Gold (US$/oz)	1,899	(1.6)	(2.8)	4.9	27.5
CRB Index	411.7	0.3	1.4	12.3	5.0
Rogers Agri Index	782.0	1.3	5.3	12.5	7.0
LIBOR (3M)*	0.22	(1)	(3)	(5)	(174)
INR 5Y Swap*	5.29	(4)	(30)	4	(119)
India FII data (US$ mn)	**15 Oct**	**WTD**	**MTD**	**CYTD**	**FYTD**
FII-Debt	36.0	140.6	77.4	(14,602.4)	(4,842.9)
FII-Equity	(40.0)	613.6	1,193.5	5,233.6	11,836.5

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
19-Oct	Japan exports, % YoY	Sep	(2.6%)	(14.8%)	--
	China GDP, % YoY	Q3CY20	5.5%	3.2%	--
	China industrial production, % YoY	Sep	5.8%	5.6%	--
	China retail sales, % YoY	Sep	1.6%	0.5%	--
	China fixed assets ex rural YTD, % YoY	Sep	0.9%	(0.3%)	--
20-Oct	RBA minutes of Oct. policy meeting		--	--	--
	China new home prices, % MoM	Sep	0.5%	0.6%	--
	Germany PPI, % MoM	Sep	(0.1%)	0.0%	--
	Japan machine tool orders, % YoY	Sep	--	(15.0%)	--
	Euro Area current account SA, € bn	Aug	--	16.6	--
	US housing starts, in mn	Sep	1.5	1.4	--
21-Oct	South Korea exports 20 days, % YoY	Oct	--	3.6%	--
	UK CPI, % YoY	Sep	0.6%	0.2%	--
22-Oct	Thailand customs exports, % YoY	Sep	(5.0%)	(7.9%)	--
	GfK consumer confidence	Nov	(3.0)	(1.6)	--
	France manufacturing confidence	Oct	96.0	96.0	--
	Taiwan unemployment rate, %	Sep	3.8%	3.8%	--
	US initial jobless claims	17-Oct	865k	898k	--
	Euro Area consumer confidence	Oct	(15.0)	(13.9)	--
	US existing home sales, in mn	Sep	6.3	6.0	--
23-Oct	UK GfK consumer confidence	Oct	(28.0)	(25.0)	--
	Japan CPI, % YoY	Sep	0.0%	0.2%	--
	Singapore CPI, % YoY	Sep	(0.3%)	(0.4%)	--
	UK retail sales inc. auto fuel, % MoM	Sep	0.4%	0.8%	--
	Markit France manufacturing PMI (flash)	Oct	51.0	51.2	--
	Markit France services PMI (flash)	Oct	47.0	47.5	--
	Markit/BME Germany manufacturing PMI (flash)	Oct	55.0	56.4	--
	Markit Germany services PMI (flash)	Oct	49.4	50.6	--
	Markit Eurozone manufacturing PMI (flash)	Oct	53.0	53.7	--
	Markit Eurozone services PMI (flash)	Oct	47.0	48.0	--
	Industrial Production YoY	Sep	6.3%	4.7%	--
	Markit UK PMI manufacturing SA (flash)	Oct	53.0	54.1	--
	Markit/CIPS UK services PMI (flash)	Oct	53.4	56.1	--
	Markit US manufacturing (flash)	Oct	53.5	53.2	--
	Markit US services PMI (flash)	Oct	54.6	54.6	--

Source: Bloomberg, Bank of Baroda

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