WEEKLY WRAP

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Better macro prints supported markets

Global macro data showed some improvement with US home sales and EU consumer confidence surprising positively. EU announced € 750bn package. South Korea cut policy rate to an all-time low of 0.5%. Global equity markets went up and currencies too gained against DXY. Yields were also higher led by China. In India's case, Q4 GDP growth slipped to 3.1% and FY20 growth was at an eleven year low of 4.2%. RBI minutes will be released this week. With Apr'20 growth trudging lower, we expect another 25bps cut in policy rate.

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Markets

- **Bonds:** Global long-end yields closed higher led by China. Not only China's data surprised positively but political tensions between US and China are escalating over passage of national security law over Hong Kong. US 10Y yield closed a tad lower by 1bps (0.65%). Oil prices rose by 0.6% (US$ 35/bbl). India's 10Y yield rose by 5bps (6.01%) amidst fiscal concerns with FY20 fiscal deficit at 4.6%. System liquidity surplus was lower at Rs 3.7tn as on 29 May 2020 compared with Rs 4.6tn in the previous week.

- **Currency:** Global currencies gained some strength against US$. Relaxations in lockdown restrictions, hopes of a COVID-19 vaccine and EU's stimulus program lifted global currencies. DXY and JPY fell by 1.5% and 0.2% respectively. AUD rose the most by 2% followed by EUR which rose by 1.8%. INR appreciated by 0.5% led by FII inflows in the equity segment (US$ 874mn). Chinese Yuan closed flat and may fall due to escalating political tensions over Hong Kong.

- **Equity:** Global indices ended the week higher. Nikkei surged the most by 7.3% as government lifted restrictions on economic activity. European indices too rose on the back of EU's € 750bn stimulus program. Dow too rose by 3.8%. Sensex rose by 5.7% following global cues. Banking and capital goods stocks advanced the most.

- **Upcoming key events:** In current week, markets will await manufacturing and services PMI data of major economies. Apart from this, US jobs report will also shed light on employment scenario. On the domestic front, India's PMI and RBI minutes too will be released.

India macro developments

- India's FY20 growth slipped to 4.2% from 6.1% due to lower consumption and investment demand. Growth for Q4 moderated to 3.1% from 4.1% in Q3. Agriculture did well. Government spending held up. We expect GDP to decline by 4.7% in FY21 led by private consumption and investment demand. We expect RBI to reduce rate by 25bps in next policy.
- Led by nationwide lockdown to curtail the impact of COVID-19 pandemic, India's infrastructure index contracted to a record low by 38.1% in Apr'20 from a decline of 9% in Mar'20. While, there was a broad-based drop across sectors, both cement and steel sector saw the sharpest decline by 86% (from a dip of 25.1% in Mar'20) and 84% (from a dip of 24.1% in Mar'20) respectively in Apr'20.
- Provisional estimates for fiscal deficit (% of GDP) show that it reached 4.6% in FY20 versus RE of 3.8%. The higher than anticipated deficit was on account of lower revenues and steady expenditure growth. Centre's gross tax revenue fell by 3.4% versus RE of 4% and 8.4% growth last year. Despite this expenditure rose steadily by 16% versus RE of 16.6% and 8.1% last year. Growth was led by revenue spending (17% versus 6.8% in FY19), while capex eased (9.7% versus 17% in FY19).
- FDI inflows into India rose by 18% to US$ 73.5bn in FY20 versus US$ 62bn in FY19. Sectorwise, services sector remained the highest recipient of FDI inflows at US$ 7.9bn followed by computer hard ware and software services at US$ 7.7bn. Further, Singapore was the biggest source of FDI inflows into India at US$ 14.7bn followed by Mauritius at US$ 8.2bn.
- CBIC has announced that between 8 Apr-24 May 2020, Rs 110.5bn worth GST refunds have been processed. On 8 Apr 2020, the FM had announced that in order to boost liquidity for MSMEs, ~Rs 180bn refunds benefiting 0.1mn MSMEs will be processed at the earliest. Apart from this, news reports suggest that GST council is also mulling at rationalization of taxes under GST in its upcoming meeting next month.
- RBI reported that currency in circulation (CIC) increased by Rs 221bn and stood at Rs 26.1tn for the week ending 22 May 2020. Reserve money rose by 12.8% on a YoY basis, compared with 12.4% a year ago. On a FYTD basis, reserve money increased by 3% as against decline of 0.1% last year.

Global macro developments

- US GDP for Q1CY20 contracted further and was revised downwards to 5% (previously 4.8%), this was the second sharpest decline since the 8.4% drop seen in Q4 during CY08 crisis. The drop in Q1 was attributed to weaker investments. It is expected that while growth in Q2 will remain subdued; possible revival may be seen in Q3CY20. Separately, US jobless claims was at 2.1 mn from 2.4 mn claims filed last week.
- US new home sales rose by 1% in Apr'20 on MoM basis against expectation of 22% decline. This was due to falling median prices by 8.5% in Apr'20 and slight revival in demand. In a separate print, US consumer confidence in May'20 also rose by 0.9 points to 86.6. The near-term outlook for income and labour market conditions also improved as economists expect a revival from Q3CY20.
- Euro Area economic sentiment index rose to 67.5 points in May'20 from 64.9 in Apr'20, led by uptick in industry (+5 points) and consumer (+3.2 points) confidence. Industry expects pick up in production and export orders in the coming months, while consumers are optimistic about their financial conditions and future purchases. Services confidence on the other hand declined by 5 points as it expects at a very slow recovery.
- Germany's GFK consumer confidence index is expected to improve marginally from a decline of 23.1 points in May'20 to a decline of 18.6 points in Jun'20. The likelihood of this improvement is on the back of gradual reopening of businesses and higher propensity to buy (5.5 in May'20 from decline of 4.6 points in Apr'20).
- RBA Governor has said that negative rates and more quantitative easing are unlikely. This is because the economic impact COVID-19 is likely to be lower than expected as the pandemic has been contained (7,150 confirmed cases), allowing for a quick resumption in economic activity. However, rates are expected to remain at a historic low at 0.25% on the back of muted inflation and higher unemployment.
- China's industrial profits fell by 4.3% in Apr'20 compared with 34.9% decline in Mar'20. Post reopening of the economy, industries contributing positively were: automobiles, special purpose equipment, electrical machinery and electronics industry. On CYTD20 basis, profits were down by 27.4%. Profits of SoEs have fallen by 46% and private firms by 17.2%.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.65	(1)	4	(50)	(147)
UK	0.18	1	(10)	(26)	(70)
Japan	0.01	1	4	16	10
Germany	(0.45)	4	2	16	(25)
India	6.01	5	(12)	(36)	(102)
China	2.69	11	19	(4)	(60)
2Y yields (Δ bps)					
US	0.16	(1)	(5)	(75)	(176)
UK	(0.04)	1	(10)	(35)	(64)
Japan	(0.15)	2	2	10	2
Germany	(0.66)	2	3	11	0
India	4.39	(3)	(13)	(120)	(205)
China**	1.56	20	42	(41)	(97)
Currencies (Δ %)					
EUR	1.1101	1.8	2.6	0.7	(0.6)
GBP	1.2343	1.4	(0.7)	(3.7)	(2.3)
JPY	107.83	(0.2)	(0.9)	0.1	0.4
AUD	0.6667	2.0	2.7	2.3	(3.9)
INR	75.62	0.5	0.7	(4.8)	(8.5)
CNY	7.1372	(0.0)	(0.8)	(2.1)	(3.4)
Equity & Other indices (Δ %)					
Dow	25,383	3.8	5.3	(0.1)	2.3
FTSE	6,077	1.4	2.0	(7.7)	(15.2)
DAX	11,587	4.6	7.3	(2.6)	(1.2)
NIKKEI	21,878	7.3	10.7	3.5	6.2
Shanghai Comp	2,852	1.4	1.5	(1.0)	(1.6)
SENSEX	32,424	5.7	1.0	(15.3)	(18.4)
Brent (US$/bbl)	35.33	0.6	72.7	(30.1)	(45.2)
Gold (US$/oz)	1,730	(0.3)	1.3	9.1	32.5
CRB Index	367.1	0.4	4.6	(7.1)	(11.7)
Rogers Agri Index	669.3	1.2	4.3	(4.8)	(11.0)
LIBOR (3M)*	0.35	(2)	(41)	(111)	(215)
INR 5Y Swap*	5.13	0	(9)	(102)	(152)
India FII data (US$ mn)	**14 May**	**WTD**	**MTD**	**CYTD**	**FY20**
FII-Debt	(51.7)	(361.4)	(2,730.8)	(14,074.6)	(4,315.1)
FII-Equity	263.5	873.5	1,559.7	(5,073.8)	1,529.2

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
01-Jun	South Korea exports, % YoY	May	(25.1%)	(24.3%)	(23.7%)
	Jibun Bank Japan manufacturing PMI	May	--	38.4	38.4
	Caixin China manufacturing PMI	May	49.6	49.4	50.7
	Markit India manufacturing PMI	May	--	27.4	--
	Markit Italy manufacturing PMI	May	36.8	31.1	--
	Markit France manufacturing PMI	May	40.3	40.3	--
	Markit/BME Germany manufacturing PMI	May	36.8	36.8	--
	Markit Eurozone manufacturing PMI	May	39.5	39.5	--
	Markit UK PMI manufacturing SA	May	40.8	40.6	--
	US ISM manufacturing PMI	May	43.7	41.5	--
02-Jun	South Korea GDP, % YoY	Q1CY20	1.3%	1.3%	--
	South Korea CPI, % YoY	May	(0.2%)	0.1%	--
	RBA cash rate target, %	02-Jun	0.25%	0.25%	--
03-Jun	Jibun Bank Japan services PMI	May	--	25.3	--
	Australia GDP SA, % QoQ	Q1CY20	(0.4%)	0.5%	--
	Caixin China services PMI	May	47.3	44.4	--
	Markit India services PMI	May	--	5.4	--
	Markit Eurozone services PMI	May	28.7	28.7	--
	Markit/CIPS UK services PMI	May	28.0	27.8	--
	Euro Area unemployment rate, %	Apr	8.2%	7.4%	--
	US ADP employment change, in mn	May	(9.5)	(20.2)	--
	Markit US services PMI	May	37.4	36.9	--
	US factory orders, % MoM	Apr	(14.2%)	(10.3%)	--
	US ISM mon-manufacturing index	May	44.5	41.8	--
04-Jun	Australia trade balance, AUD bn	Apr	7.5	10.6	--
	Euro Area retail sales, % MoM	Apr	(15.0%)	(11.2%)	--
	ECB policy rate, %	04-Jun	0.0%	0.0%	--
	US trade balance, US$ bn	Apr	(49.1)	(44.4)	--
	US initial jobless claims, in mn	30-May	1.8	2.1	--
05-Jun	Germany factory orders, % MoM	Apr	(19.7%)	(15.6%)	--
	Italy retail sales, % MoM	Apr	(20.0%)	(20.5%)	--
	US change in nonfarm payrolls, in mn	May	(8.0)	(20.5)	--
	US unemployment rate, %	May	19.6%	14.7%	--
	US average hourly earnings, % MoM	May	0.9%	4.7%	--

Source: Bloomberg, Bank of Baroda

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