

## WEEKLY WRAP

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**Global yields inch up**

Global reflation trade drove US 10Y to a 1-year high. Unlock in UK, surging oil prices and better than estimated US data added to upward momentum in global yields. India's 10Y yield has risen by 33 bps in Feb'21 on the back of higher than expected borrowing by government. Global equity markets retreated with sharp increase in yields. Indian equities too fell despite Indian economy reporting positive growth in Q3FY21 at 0.4%. We see growth improving to 2% in Q4 and 11.5% in FY22 with no change in policy rates.

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**Markets**

- **Bonds:** Global 10Y yields closed higher with reflation trade gaining momentum. UK 10Y yield rose the most (+12bps at 0.82%) on the back of removal of lockdown restrictions. US 10Y went up (+7bps at 1.4%) with better than estimated macro data and expectation that inflation would pick up following US\$ 1.9tn stimulus. Oil prices also rose by 5.1% (US\$ 66/bbl) with improved demand outlook and OPEC+ meeting this week. India's 10Y yield rose by 10bps (6.23%-highest since Apr'20) on account of global cues. System liquidity surplus swelled to Rs 6tn as on 26 Feb 2021, versus Rs 5.5tn in the previous week.
- **Currency:** Global currencies closed lower against the dollar. DXY rose by 0.6% as US 10Y yield rose to a 1-year high. AUD fell the most (down by 2.1%). INR depreciated by 1.1% to a 3-month low as oil prices rose sharply by 5.1% in the week. FII outflows were US\$ 565mn.
- **Equity:** Global equity indices ended the week in red led by Asian markets. Dow and FTSE too fell, by 1.8% and 2.1% respectively with investors spooked by rising yields. Sensex fell by 3.5% due to the impact of resurgence in Covid-19 cases. Tech, auto and banking stocks led the fall.
- **Covid-19 tracker:** Global cases rose by 2.7mn in the week ended 28 Feb 2021 versus 2.5mn in the previous week. However, cases in US and UK showed dip. India added 0.1mn cases in the week versus 75k last week.
- **Upcoming key events:** Globally, manufacturing services PMIs, US unemployment rate, German factory orders and RBA's policy decision are due. In India, preliminary trade data will be released.



## India macro developments

- RBI's data showed that credit demand moderated to 5.8% in Jan'21 against 5.9% in Dec'20. This was led by moderation in credit to services (8.4% in Jan'21 versus 8.8% in Dec'20), personal loans (9.1% versus 9.5%) and also industry (1.3% decline against 1.2% drop). Credit to housing also edged down to 7.7% in Jan'21 from 8.1% in Dec'20. Only credit offtake to agriculture went up to 9.9% from 9.4%.
- After two consecutive quarters of decline, GDP and GVA growth returned to the positive territory at 0.4% and 1% respectively in Q3FY21. The growth momentum was led by construction, manufacturing and financial services and real estate. Notably, FY21 GVA has been revised up to (-) 6.5% from (-) 7.2%. However, GDP growth has been revised lower to account for higher subsidy payouts. We expect GDP to fall by 7.3% in FY21.
- In India, cooking gas LPG prices rose for the third time in Feb'21. It was hiked by Rs 25/cylinder across all categories including subsidised fuel and those availed by Ujjwala scheme beneficiaries. Previously, prices rose by Rs 25/cylinder on 4 Feb and by Rs 50/cylinder on 15 Feb. Fuel and light with a weight of 6.84% in overall CPI basket is likely to exert pressure on the headline print.
- As per second advance estimates, India's foodgrain output is expected to rise by 2.5% to 303mn tonne in CY21 (crop year) and will even surpass its target level (301mn tonne). This is led by improvement in the production of rice (1.2%), wheat (1.3%), pulses (6%) and mustard (14.4%) on the back of well distributed rainfall. With improved prospects of a good Rabi harvest, these estimates are likely to improve further.
- As per news reports, government is planning to finalise an asset monetisation pipeline for the next 3 years. This will help investors and government to complete due diligence in time. It is estimated that by FY24, revenue from asset monetisation could exceed Rs 2tn. Pipelines of Indian oil, GAIL, select assets of railways, Delhi and Kolkata metro freight corridor and dedicated rail freight corridor are in the shortlist.
- The decline in CPI inflation has vindicated MPCs lexicographic preference of growth over inflation. They will have to manage the trilemma (corresponding inflation risks) of global flows, currency movement and commodity prices. The growth inflation matrix calls for normalisation of monetary policy with fiscal policy changing gears to crowd-in private investments. RBI has already raised CRR by 4% as a first step.

## Global macro developments

- China's official manufacturing PMI eased to 50.6 in Feb'21 (est.: 51.1) from 51.3 in Jan'21, on the back of falling new export orders. New export order index for smaller firms showed deepening contraction (48.3 from 49.4). Employment index also fell to 48.1 from 48.4. Despite festive demand, non-manufacturing PMI edged down to 51.4 from 52.4 in Jan'21, with services index down at 50.8 versus 51.1 in Jan'21.
- US durable goods orders rose by 3.4% (MoM) in Jan'21 from 1.2% in Dec'20, supported by higher non-defence new orders, (2.3% from 1.4% in Dec'20). This was owing to pick up in demand for computers (8.7%) and electrical equipment (4.2%). Core business orders rose by 0.5% versus 1.5%. Separately, initial jobless claims eased to 0.73mn (est.: 0.84mn) for the week ending 20 Feb 2021 from 0.84mn in the previous week.
- US new home sales rose by 4.3% to its 3-month high of 923,000 at an annualised pace, in Jan'21 from 885,000 in Dec'20 and against expectation of 856,000. This was supported by lower mortgage rates. However, mortgage rates are now inching up in line with US 10Y yield. The median sales price also rose by 5.3% to US\$ 346,400 in Jan'21 compared to a year earlier.
- US Fed Chair in his recent testimony signalled keeping policy rate at its current level on the back of "uncertain and uneven" economic recovery. He stated that the "economy is a long way from employment and inflation goals". He also signalled to continue with the asset purchase program. In a separate print, US Conference Board consumer confidence index rose to 91.3 in Feb'21 from 88.9 in Jan'21, driven by rise in present situation index.
- Business sentiment in Germany improved as reflected in the IFO index print. It rose to 92.4 in Feb'21 from 90.3 in Jan'21 and against expectation of 90.5. This was the strongest monthly gain since Jul'20. Both current situation and expectation index increased pointing to optimism. Amongst major sectors, the index in manufacturing rose to its highest since Nov'18.
- China's new home prices rose by 0.3% (MoM) in Jan'21 versus 0.1% rise in Dec'20. Tier-1 cities contributed most to increase as prices rose by 0.6% versus 0.2% in Dec'20. This is in line with credit growth data, which showed that household loans, mainly mortgages, more than doubled in Jan'21 on MoM basis. Separately, PBOC has left 1Y LPR unchanged at 3.85%, but signalled plans to allow more liberal capital outflows.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	1.40	7	36	57	26
UK	0.82	12	53	54	38
Japan	0.16	5	12	13	32
Germany	(0.26)	5	28	33	35
India	6.23	10	34	32	(14)
China	3.28	1	8	(4)	55
<b>2Y yields (Δ bps)</b>					
US	0.13	2	1	(3)	(79)
UK	0.13	14	24	17	(18)
Japan	(0.11)	0	2	3	14
Germany	(0.66)	2	8	9	11
India	4.72	17	23	80	(88)
China**	2.56	(5)	(10)	(36)	59
<b>Currencies (Δ %)</b>					
EUR	1.2075	(0.4)	(0.4)	0.9	9.5
GBP	1.3933	(0.6)	1.5	4.7	8.7
JPY	106.57	(1.1)	(2.2)	(2.4)	1.2
AUD	0.7706	(2.1)	0.3	4.3	18.3
INR	73.47	(1.1)	(0.6)	0.8	(1.8)
CNY	6.4789	(0.3)	(0.5)	1.5	7.3
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	30,932	(1.8)	1.1	3.4	21.7
FTSE	6,483	(2.1)	(0.7)	1.8	(1.5)
DAX	13,786	(1.5)	0.9	3.4	15.9
NIKKEI	28,966	(3.5)	2.7	8.7	37.0
Shanghai Comp	3,509	(5.1)	0.1	3.0	21.8
SENSEX	49,100	(3.5)	4.7	11.2	28.2
Brent (US\$/bbl)	66.13	5.1	19.1	37.3	30.9
Gold (US\$/oz)	1,734	(2.8)	(5.9)	(3.0)	9.4
CRB Index	486.5	1.1	6.4	13.5	23.1
Rogers Agri Index	970.7	1.1	5.7	16.1	38.0
LIBOR (3M)*	0.19	1	(2)	(4)	(127)
INR 5Y Swap*	5.86	(7)	32	68	(29)
<b>India FII data (US\$ mn)</b>					
	<b>25 Feb</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	(279.7)	(564.8)	(868.4)	(1,366.8)	(5,460.4)
FII-Equity	246.9	89.5	4,134.3	6,112.6	36,088.3

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
1-Mar	Jibun Bank Japan manufacturing PMI	Feb	--	50.6	51.4
	Caixin China manufacturing PMI Mfg	Feb	51.4	51.5	50.9
	Markit India manufacturing PMI Mfg	Feb	--	57.7	--
	Markit Italy manufacturing PMI	Feb	56.8	55.1	--
	Markit France manufacturing PMI	Feb	55.0	55.0	--
	Markit/BME Germany manufacturing PMI	Feb	60.6	60.6	--
	Markit Eurozone manufacturing PMI	Feb	57.7	57.7	--
	Markit UK PMI manufacturing SA	Feb	54.9	54.9	--
	Italy GDP annual, % YoY	CY20	(8.9%)	0.3%	--
	Germany CPI, % YoY	Feb	1.2%	1.0%	--
	Markit US manufacturing PMI	Feb	58.5	58.5	--
	US ISM manufacturing PMI	Feb	58.6	58.7	--
	2-Mar	South Korea industrial production, % YoY	Jan	5.9%	3.4%
Japan jobless rate, %		Jan	3.0%	2.9%	--
Australia current account balance, AUD bn		Q4CY20	13.0	10.0	--
RBA cash rate target, %		02-Mar	0.1%	0.1%	--
Germany retail sales, % MoM		Jan	0.5%	(9.6%)	--
Euro Area CPI, % MoM		Feb	0.2%	0.2%	--
3-Mar	Australia GDP SA, % QoQ	Q4CY20	2.3%	3.3%	--
	Jibun Bank Japan services PMI	Feb	--	45.8	--
	Caixin China services PMI Services	Feb	51.5	52.0	--
	Markit India services PMI	Feb	--	52.8	--
	Markit Italy services PMI	Feb	45.0	44.7	--
	Markit France services PMI	Feb	43.6	43.6	--
	Markit Germany services PMI	Feb	45.9	45.9	--
	Italy GDP WDA, % QoQ	Q4CY20	(2.0%)	(2.0%)	--
	Markit Eurozone services PMI	Feb F	44.7	44.7	--
	Markit/CIPS UK services PMI	Feb F	49.7	49.7	--
Markit US services PMI	Feb F	58.9	58.9	--	
US ISM services Index	Feb	58.6	58.7	--	
4-Mar	South Korea GDP, % YoY	Q4CY20	(1.4%)	(1.4%)	--
	South Korea CPI, % YoY	Feb	0.9%	0.6%	--
	Australia retail sales, % MoM	Jan	0.6%	0.6%	--
	Euro Area unemployment rate, %	Jan	8.3%	8.3%	--
	Euro Area retail sales, % MoM	Jan	(1.3%)	2.0%	--
	US initial jobless claims, in thousands	27-Feb	755.0	730.0	--
	US durable goods orders, % MoM	Jan	3.4%	3.4%	--
5-Mar	Germany factory orders, % MoM	Jan	1.0%	(1.9%)	--
	US unemployment rate, %	Feb	6.4%	6.3%	--
	US trade balance, US\$ bn	Jan	(67.4)	(66.6)	--

Source: Bloomberg, Bank of Baroda

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