

WEEKLY WRAP

22 February 2021

Global yields see a leg up

Global yields rose sharply led by US and UK, as reflation bets gained momentum amidst an improvement in economic activity. Oil prices are now at US\$ 63/bbl. US retail sales, industrial production, existing home sales and services PMI rose more than expected, signalling a quick economic recovery. Equity markets too rose. Indian 10Y yield rose by 15bps as oil prices rose. RBI stepped up OMO purchases as securities devolved on PDs. This week India's GDP will be released. We expect growth to contract by 7% in FY21.

Sameer Narang | Aditi Gupta

chief.economist@bankofbaroda.com

Markets

- **Bonds:** Global 10Y yields closed higher. UK 10Y yield rose the most at 18bps to its highest since Mar'20 led by higher CPI print. US 10Y yield rose by 13bps to 1.34%, highest since Feb'20, supported by US Treasury Secretary's comments on fiscal stimulus. Oil prices rose by 0.8% (US\$ 63/bbl). India's 10Y yield rose by 15bps to a 7-month high (6.14%) led by higher oil prices and devolvement of securities on PDs. System liquidity surplus fell to Rs 5.5tn as on 18 Feb 2021, versus Rs 6.2tn last week.
- **Currency:** Except JPY, other global currencies closed broadly higher against the dollar. DXY fell by 0.1% to hover around a 3-week low as risk-sentiment improved. JPY also fell by 0.5%. GBP rose by 1.2% amidst rising inflation and a faster pace of vaccine rollout. INR appreciated by 0.1% supported by FII equity inflows of US\$ 732mn.
- **Equity:** Barring Dax and Sensex, other global indices ended higher led by vaccine roll out and strong earnings report. Sensex (1.3%) ended in red for the second week led by concerns over rising bond yields and surge in Covid-19 cases in some states.
- **Covid-19 tracker:** Global cases rose by 2.5mn in the week ended 19 Feb 2021 versus 2.8mn in the previous week led by dip in UK, US and Germany. India added 83k cases in the week versus 78k last week.
- **Upcoming key events:** Globally, US durable goods order, consumer confidence, Germany IFO index and New Zealand's policy decision are due. In India, RBI minutes, GDP, eight core and fiscal data will be released.



India macro developments

- India's trade deficit narrowed to US\$ 14.5bn in Jan'21 from US\$ 15.4bn in Dec'20. Export growth rose to 6.2% from 0.1% led by engineering goods and agricultural products. Import growth decelerated to 2% from 7.6%, as oil imports fell. Non-oil-non-gold imports were stable at US\$ 28.6bn. Trade deficit is expected to rise to US\$ 165bn in FY22 from US\$ 95bn in FY21 as economic activity picks up.
- As per news reports, the additional cess of Rs 13-16/ltr imposed on auto fuels from Mar'20 onwards is likely to earn the exchequer around Rs 1.9tn (over FY20) compared with Rs 1.2tn estimated in FY21RE. This is on the back of increase in base prices of petrol and diesel (up by 13.1% and 14.6% respectively on a MoM basis as on 16 Feb 2021). As per FY21RE, revenue from Union Excise Duties has been pegged at Rs 3.6tn (Rs 2.7tn in FY20) and for FY22, it is expected at Rs 3.4tn.
- In an effort to protect the interest of investors and depositors, RBI has issued several directions for Housing Finance Companies (HFCs). These pertain to maintenance of liquidity coverage ratio, risk management, asset classification and LTV ratio, amongst others. It has also prevented HFCs to accept/renew public deposit unless it obtained a minimum investment grade rating for fixed deposits from any approved CRAs for at least a year.
- RBI reported that currency in circulation (CIC) increased by Rs 17.9bn and stood at Rs 28.4tn for the week ending 12 Feb 2021. Reserve money rose by 13.6% on a YoY basis, compared with 12% a year ago. On FYTD basis, reserve money increased by 11.7% as against 7.5% a year ago.
- India's forex reserves declined by US\$ 250mn in the week ended 12 Feb 2021 to US\$ 583.7bn. Last week, forex reserves had declined by US\$ 6.8bn. However, despite the recent decline, forex reserves have risen by US\$ 108.1bn in FYTD21 compared with an accretion of US\$ 64.2bn in the same period last year.
- As per news reports, government and RBI are looking at ways to make cheaper resources available to Development Finance Institution (DFI). These include allowing DFI to float tax-free bonds, permitting them to issue bonds that would qualify for SLR investment by banks and the feasibility of extending a credit window by RBI. The government's initial corpus consist of Rs 200bn but it is willing to dilute its stake going forward.

Global macro developments

- Euro Area's industrial production fell by 1.6% in Dec'20 following 2.6% rise in Nov'20. This was led by a 3.1% decline in production of capital goods and 0.6% dip in non-durable goods. Separately, Japan's industrial production fell by 1% in Dec'20 after remaining flat (0%) in Nov'20. Mining and manufacturing activity fell by 1% following 0.5% dip in Nov'20, led by fall in production of electrical machinery, I&CE equipment and motor vehicles.
- Reserve Bank of Australia's minutes highlighted that growth and employment are expected to reach their pre-pandemic levels in CY21, ~6-12 months earlier than previously anticipated. In the baseline scenario, unemployment rate would decline to 6% by CY21, before reaching around 5.25% by mid CY23. However, muted wage growth would keep inflation below target of 2% even till the middle of CY23.
- Germany's ZEW economic sentiment index rose to 71.2 in Feb'21 from 61.8 in Jan'21. The financial market sentiment index rose by 11.3 points to 69.6 in Feb'21, as long term expectations improved led by banks, automobile and consumer good sectors. However, current situation index worsened further as it dipped to (-) 67.2 from (-) 66.4 in Jan'21.
- Japan's export growth accelerated to 6.4% in Jan'21 from 2.2% in Dec'20. This was led by 37.5% jump in exports to China (biggest gain since Apr'10), with plastics and non-ferrous metals and chip-making equipment clocking the maximum gain. Imports continued to contract, albeit at a slower pace (9.5% in Jan'21 from 11.6%). Separately, core machine orders rose for the 3rd straight month (5.2% in Dec'20 versus est.; contraction of 6.1%).
- US Fed minutes pointed out that considerable risks to economic outlook remain. Thus, the current ultra-low policy rate and asset purchase program (US\$ 120bn/month) are likely to persist till FOMC goals are achieved. Separately, US retail sales rose to a 7-month high of 5.3% in Jan'21 on MoM basis (est.: 1%) versus 1% dip in Dec'20. Industrial production rose by 0.9% in Jan'21 (est.: 0.4%) from 1.3%, led by mining and manufacturing.
- UK's CPI rose by 0.9% in Jan'21 (highest since Oct'20) following 0.8% increase in Dec'20. The pickup was led by higher contribution from furniture and household items, restaurants and hotels and transport. With rising commodity prices, and increased costs owing to Brexit, it is expected that inflation will meet or even surpass BoE's 2% inflation target in CY21.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.34	13	25	51	(13)
UK	0.70	18	41	40	13
Japan	0.11	4	5	10	17
Germany	(0.31)	12	22	28	13
India	6.14	15	23	26	(29)
China	3.27	2	11	(7)	41
2Y yields (Δ bps)					
US	0.10	0	(3)	(5)	(125)
UK	(0.01)	3	12	3	(53)
Japan	(0.11)	1	0	3	6
Germany	(0.68)	3	3	7	(4)
India	4.54	(4)	8	57	(115)
China**	2.61	(4)	23	(32)	65
Currencies (Δ %)					
EUR	1.2119	0	(0.1)	2.2	11.7
GBP	1.4016	1.2	2.8	5.6	8.1
JPY	105.45	(0.5)	(1.5)	(1.5)	5.5
AUD	0.7869	1.4	2.3	7.8	18.7
INR	72.65	0.1	0.7	2.0	(1.4)
CNY	6.4577	0	0.3	1.6	8.1
Equity & Other indices (Δ %)					
Dow	31,494	0.1	1.8	7.6	8.6
FTSE	6,624	0.5	(1.3)	4.3	(10.5)
DAX	13,993	(0.4)	1.3	6.5	3.0
NIKKEI	30,018	1.7	4.8	17.6	28.4
Shanghai Comp	3,696	1.1	3.6	9.4	21.6
SENSEX	50,890	(1.3)	3.0	16.0	23.6
Brent (US\$/bbl)	62.91	0.8	12.5	39.9	7.5
Gold (US\$/oz)	1,784	(2.2)	(3.0)	(4.6)	8.6
CRB Index	481.1	2.3	5.3	12.7	19.5
Rogers Agri Index	960.0	2.0	4.4	16.0	29.6
LIBOR (3M)*	0.18	(1)	(4)	(2)	(150)
INR 5Y Swap*	5.93	3	41	82	(46)
India FII data (US\$ mn)					
	17 Feb	WTD	MTD	CYTD	FYTD
FII-Debt	(131.9)	(165.6)	(214.5)	(712.8)	(4,806.4)
FII-Equity	163.5	732.0	3,916.7	5,894.9	35,870.7

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
22-Feb	South Korea exports 20 days, % YoY	Feb	--	10.6%	--
	RBI MPC minutes	06-Feb	--	--	--
	Germany IFO business climate	Feb	90.5	90.1	--
23-Feb	South Korea consumer confidence	Feb	--	95.4	--
	Australia preliminary merchandise trade	Jan	--	--	--
	China new home prices, % MoM	Jan	--	0.1%	--
	Thailand customs exports, % YoY	Jan	2.5%	4.7%	--
	Singapore CPI, % YoY	Jan	0.1%	0.0%	--
	UK ILO unemployment rate 3months, %	Dec	5.1%	5.0%	--
	Italy industrial orders, % MoM	Dec	--	(1.3%)	--
	Euro Area CPI, % YoY	Jan	0.9%	(0.3%)	--
	US Conference board consumer confidence	Feb	90.0	89.3	--
	24-Feb	Reserve Bank of New Zealand cash rate, %	24-Feb	0.25%	0.25%
Germany GDP SA, % QoQ		Q4CY21	0.1%	0.1%	--
France manufacturing confidence		Feb	99.0	98.0	--
Hong Kong GDP, % YoY		Q4CY21	(3.0%)	(3.0%)	--
US new home sales, in thousands		Jan	855.0	842.0	--
25-Feb	Germany GfK consumer confidence	Mar	(14.0)	(15.6)	--
	Thailand exports, % YoY	Jan	--	4.6%	--
	France consumer confidence	Feb	92.0	92.0	--
	Taiwan industrial production, % YoY	Jan	19.2%	9.9%	--
	Hong Kong exports, % YoY	Jan	31.0%	11.7%	--
	Italy manufacturing confidence	Feb	96.0	95.1	--
	Euro Area consumer confidence	Feb	--	(14.8)	--
	US durable goods orders, % MoM	Jan	1.1%	0.5%	--
	US initial jobless claims, in thousands	20-Feb	840.0	861.0	--
US pending home sales, % MoM	Jan	(0.5%)	(0.3%)	--	
26-Feb	Japan industrial production, % MoM	Jan	3.9%	(1.0%)	--
	Japan retail sales, % YoY	Jan	(2.6%)	(0.3%)	--
	Singapore industrial production SA, % MoM	Jan	6.1%	2.4%	--
	France PPI, % YoY	Jan	--	(1.2%)	--
	France CPI, % YoY	Feb	--	0.6%	--
	France GDP, % QoQ	Q4CY20	(1.3%)	(1.3%)	--
	India fiscal deficit, INR crore	Jan	--	82,962.0	--
	India GDP, % YoY	Q3FY21	0.5%	(7.5%)	--
	India eight core output, % YoY	Jan	--	(1.3%)	--
	India GDP annual estimate, % YoY	FY21	(7.0%)	4.0%	--
US advance goods trade balance, US\$ bn	Jan	(83.0)	(82.5)	--	

Source: Bloomberg, Bank of Baroda

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com