WEEKLY WRAP

22 June 2020

Equity markets and oil prices resist rising COVID cases

Global short-end yields (apart from Germany) were lower as IMF cautioned of sharper downturn and COVID-19 cases increased. Fed officials too warned of risk to economic recovery. Equity markets however rose as US Fed initiated its corporate bond purchases. Fitch downgraded India's outlook from stable to negative and border dispute with China escalated. Despite a trade deficit of US$ 3.2bn, INR fell. Equity markets remained buoyant as unlocking of the economy continued and 10Y yield rose marginally.

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Markets

- **Bonds:** Global 10Y yields closed mixed with rising cases in US, Latin America and China. US 10Y yield fell a tad by 1bps (0.7%) as Fed officials flagged concerns over economic recovery. China's 10Y yield rose the most by 11bps as Beijing put in restrictions amidst rising new cases of COVID-19. Oil prices rose by 10.4% (US$ 43/bbl) with OPEC production cut. India's 10Y yield rose by 1bps (6%). System liquidity surplus was at Rs 3.3tn as on 19 Jun 2020 compared with Rs 4tn in the previous week.

- **Currency:** Emergence of new COVID-19 cases in China and US states led to risk-off sentiment. As a result, JPY rose by 0.5%. DXY closed flat. GBP depreciated the most by 1.5% in the week. AUD fell by 0.5% as Australia's unemployment rate rose to a 19-year high in May'20. INR too closed lower by 0.5% amidst US-China trade dispute. FII outflows were US$ 726mn in the week.

- **Equity:** Global indices ended higher as investors continued to monitor spread of COVID-19 cases. Fed's announcement of corporate bond purchase and EU's € 750bn stimulus plan kept equity indices higher. Dax (3.2%) rose the most followed by FTSE (3.1%). Sensex (2.8%) too ended in green for the 3rd straight week supported by strong global cues and unlocking of domestic economy.

- **Upcoming key events:** In current week, markets will track fresh COVID-19 cases (India and global), flash global manufacturing and services PMIs and central bank decisions in New Zealand, Thailand and Philippines. In addition, US new home sales, jobless claims and third estimate of Q1 GDP print will be released. India-China tensions will also have a bearing.

India macro developments

- India's trade deficit narrowed sharply to US$ 3.2bn in May'20 from US$ 6.8bn in Apr'20. The MoM improvement was driven by a sharp recovery in exports from a decline of 60.3% in Apr'20 to drop of 36.5% in May'20. Imports declined by 51% in May'20 (58.6% in Apr'20). Non-oil-non-gold imports recovered a bit. Given low oil prices and muted domestic demand, we expect India to report a current account surplus in FY21.
- According to news reports, direct tax collections in Apr-Jun'20 have fallen by 32.8% so far to Rs 927bn versus Rs 1.38tn last year. This is led by 79% dip in corporate advance tax collection and 65% decline in income tax collections. Apart from COVID-19 related shutdown, cut in corporate tax rates have also impacted the revenue stream. For FY21, the direct tax collection target is Rs 13.2tn, requiring 27% YoY jump in collections.
- RBI as the regulator of HFC's has proposed certain changes such as providing a formal definition of housing finance (not available under NHB). It has also proposed that HFCs should not be simultaneously allowed to lend to a real estate developer as well as homebuyers in the developer's project. Further, HFCs will be classified as systematically important (asset size of Rs 500crore & above) and non-systemically important. Changes are also proposed in capital requirements norms.
- Outlook on India's long-term foreign currency Issuer Default Rating (IDR) has been revised to 'negative' from 'stable' by Fitch ratings, while maintaining rating at 'BBB-'. This is on account of COVID-19 pandemic hurting growth and concerns over high public debt burden. Fitch estimates FY21 GDP to contract by 5% before rebounding to 9.5% in FY22.
- ADB estimates India's GDP growth to contract by 4% in FY21 due to the COVID-19 pandemic. While exports and investment remain weak, unavailability of migrant workers even after lockdown restrictions are lifted will also impact growth. However, growth is expected to rebound to 5% in FY22. Developing Asia is expected to grow by only 0.1% in CY20, due to weak global demand and disruptions in economic activity.

Global macro developments

- China's PPI fell by 3.7% in May'20 versus estimated decline of 3.3% and 3.1% in Apr'20. While a part of this can be attributed to base effect, the other key reason is lower commodity prices, particularly oil. Prices in oil & natural gas industry fell by 57.6%, while in fuel processing industry prices were down by 24.4%. Separately, CPI eased to 2.4% in May'20 from 3.3% in Apr'20 as food inflation eased further to 10.6% from 14.8% in Apr'20.
- Bank of Japan (BoJ) kept policy rates unchanged. However, it has taken additional measures: 1) to support corporate financing through a special program of ¥ 110tn, 2) stabilise financial markets through unlimited Japanese government bonds purchases and US$ operations and, 3) purchase of exchange traded funds (ETF) at an annual pace of ¥ 12tn.
- Germany's ZEW economic sentiment index rose for the third consecutive month to 63.4 in Jun'20 from 51 in May'20 and against expectation of 60. The survey results predicted that the economy will bottom out by summer CY20. In a separate print, Germany CPI was muted at 0.6% in May'20 (unchanged from Apr'20), led by falling energy prices.
- US retail sales rose by 17.7% in May'20 (biggest jump since CY92) from a decline of 14.7% in Apr'20, on a MoM basis. This was on the back of gradual reopening of businesses following the lockdown imposed to curtail the spread of COVID-19. The sharpest jump was seen in sale of clothing & accessories, electronics & appliances, sporting goods and home furniture.
- Japan's exports plunged 28.3% in May'20 from 21.9% decline in Apr'20. This is the lowest reading since Sep'09 (-30.6%) and was driven by steep fall in exports of cars (64.1%) and car parts (57.6%). Imports too fell by 26.2% from 7.1% in Apr'20, driven by energy commodities and aircraft. Plunging commodity prices have majorly impacted imports.
- Bank of England (BoE) in its latest policy kept bank rate unchanged at 0.1%. However, it pumped in £ 100bn liquidity through its quantitative easing program (QE), taking the total quantum to £ 745bn. It sounded more upbeat on growth estimates, which were projected to be lower by 20% as against its earlier forecast of 27% contraction.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.70	(1)	0	(15)	(137)
UK	0.23	2	(2)	(33)	(62)
Japan	0.01	0	1	(7)	17
Germany	(0.42)	2	5	(10)	(13)
India	6.00	1	(3)	(26)	(86)
China	2.90	11	17	21	(36)
2Y yields (Δ bps)					
US	0.19	0	2	(12)	(158)
UK	(0.06)	(3)	(4)	(19)	(67)
Japan	(0.18)	(4)	(3)	(2)	5
Germany	(0.69)	3	(2)	(1)	5
India	4.35	(7)	(17)	(119)	(187)
China**	1.96	(6)	75	3	(74)
Currencies (Δ %)					
EUR	1.1178	(0.7)	2.3	4.6	(1.7)
GBP	1.2372	(1.3)	1.0	6.4	(2.9)
JPY	106.87	0.5	0.8	3.7	0.4
AUD	0.6835	(0.5)	4.6	18.2	(1.3)
INR	76.19	(0.5)	(0.7)	(1.3)	(9.5)
CNY	7.0710	0.2	0.4	0.4	(2.9)
Equity & Other indices (Δ %)					
Dow	25,871	1.0	6.9	34.9	(3.2)
FTSE	6,293	3.1	4.8	21.2	(15.1)
DAX	12,331	3.2	11.3	38.1	(0.1)
NIKKEI	22,479	0.8	10.0	35.8	5.7
Shanghai Comp	2,968	1.6	2.4	8.1	(1.1)
SENSEX	34,732	2.8	15.0	16.1	(11.4)
Brent (US$/bbl)	42.74	10.4	23.3	58.4	(34.4)
Gold (US$/oz)	1,735	0.3	(0.6)	15.8	24.0
CRB Index	364.3	(1.3)	(1.0)	(2.6)	(11.4)
Rogers Agri Index	671.5	(2.0)	1.2	2.3	(11.4)
LIBOR (3M)*	0.32	1	(5)	(88)	(203)
INR 5Y Swap*	5.20	7	7	(100)	(132)
India FII data (US$ mn)	**18 Jun**	**WTD**	**MTD**	**CYTD**	**FY20**
FII-Debt	(89.7)	(241.5)	(524.6)	(14,579.9)	(4,820.4)
FII-Equity	(41.9)	(484.8)	2,444.8	(2,469.7)	4,133.3

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
22-Jun	Thailand exports, % YoY	May	--	2.1%	--
	Taiwan unemployment rate	May	--	4.1%	--
	Euro Area consumer confidence index	Jun	--	(18.8)	--
	US existing home sales, mn units	May	4.2	4.3	--
23-Jun	Japan Jibun bank manufacturing PMI	Jun	--	38.4	--
	Japan Jibun bank services PMI	Jun	--	26.5	--
	Japan machine tool orders, % YoY	May	--	(52.8%)	--
	Markit France manufacturing PMI	Jun	--	40.6	--
	Markit France services PMI	Jun	29.4	31.1	--
	Markit/BME Germany manufacturing PMI	Jun	--	36.6	--
	Markit Germany services PMI	Jun	--	32.6	--
	Markit Eurozone manufacturing PMI	Jun	--	39.4	--
	Markit Eurozone services PMI	Jun	--	30.5	--
	Markit UK manufacturing PMI	Jun	--	40.7	--
	Markit/CIPS UK services PMI	Jun	--	29.0	--
	Markit US manufacturing PMI	Jun	--	39.8	--
	Markit US services PMI	Jun	--	37.5	--
	US new home sales, thousand units	May	630	623	--
24-Jun	RBNZ official cash rate, %	24-Jun	--	0.25%	--
	France business confidence index	Jun	--	59.0	--
	BoT benchmark interest rate, %	24-Jun	--	0.50%	--
	Germany IFO business climate	Jun	--	79.5	--
	China BoP current account balance, US$ bn	Q1CY20	--	(29.7)	--
25-Jun	New Zealand trade balance, NZD mn	May	--	1,267.0	--
	Germany GfK consumer confidence	Jul	--	(18.9)	--
	Philippines BSP overnight borrowing rate, %	1-Jun	--	2.8%	--
	US advance goods trade balance, US$ bn	May	(68.3)	(69.7)	--
	US wholesale inventories, % MoM	May	--	0.3%	--
	US durable goods orders, % MoM	May	10.0%	(17.7%)	--
	US GDP annualized, % QoQ (third estimate)	Q1CY20	(5.0%)	(5.0%)	--
	US initial jobless claims	20-Jun	--	--	--
26-Jun	France consumer confidence	Jun	--	93.0	--
	Spain retail sales, SA, % YoY	May	--	(31.6%)	--
	Italy economic sentiment	Jun	--	51.1	--
	US personal spending	May	5.1%	(13.6%)	--
	US university of Michigan consumer sentiment	Jun	--	78.9	--

Source: Bloomberg, Bank of Baroda

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