

WEEKLY WRAP

22 March 2021

US yields rise further

US 10Y yield rose by 10bps to a 14-month high even as Fed Chair tried to calm the markets with forward guidance of accommodative policy. Even BoE reiterated that rate hike is not on the table. Oil prices fell by 6.8% on the back of rising US inventories. On the domestic front, surge in Covid-19 cases drove Sensex lower. India's 10Y yield fell by 4bps supported by lower oil prices and RBI's special OMO. INR gained led by FII inflows. Rising Covid-19 cases and localised lockdowns are at the margin negative from a growth standpoint.

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Markets

- **Bonds:** US 10Y yield rose the most by 10bps to 1.72% as US FOMC revised its growth and inflation projections upwards in CY21. Japan's 10Y yield on the other hand fell by 1bps supported by BoJ's measure to keep borrowing costs lower. Oil prices fell by 6.8% (US\$ 65/bbl) due to rise in US inventories. India's 10Y/2Y yield fell by 4bps/13bps respectively as RBI announced special OMOs of Rs 100bn. System liquidity surplus fell to Rs 3.9tn as on 19 Mar 2021, versus Rs 5.7tn in the previous week.
- **Currency:** Except JPY and INR, other global currencies closed lower. DXY rose by 0.3% in the week as US 10Y yield rose to a 14-month high. EUR fell by 0.4% as France announced fresh lockdown amidst rising Covid-19 cases. In Germany, ruling CDU lost key states. INR appreciated by 0.4% supported by lower oil prices (down by 6.8%) and FII inflows (US\$ 1.6bn).
- **Equity:** Barring Dax and Nikkei, other global indices ended lower on the back of rising US 10Y yields and slow pace of vaccination in Europe. Sensex fell by 1.8% amidst concerns over spike in Covid-19 cases in India. It was dragged down by real estate and capital goods stocks.
- **Covid-19 tracker:** Global cases rose by 3.2mn in the week ended 19 Mar 2021 versus 2.9mn in the previous week led by US, France and Italy. India added 0.2mn cases against 0.1mn cases in the previous week. Israel has managed to vaccinate 59.5% of its population followed by UK at 37.9%.
- **Upcoming key events:** Globally, flash manufacturing and services PMI and consumer confidence data of major economies will be in focus. In India, investors will closely monitor surge in Covid-19 cases.



India macro developments

- India's trade deficit narrowed to US\$ 12.6bn in Feb'21 from US\$ 14.5bn in Jan'21. Exports rose by 0.7% versus increase of 6.2% in Jan'21 as non-oil exports decelerated to 3.5% from 11.5%. Imports picked up to 7% from 2% in Jan'21 as oil imports contracted at a slower pace. Trade deficit is likely to inch up in FY22 on the back of higher oil prices and normalization of domestic economic activity. However, higher remittances and foreign inflows should support INR.
- As per AMFI data, AUM under MFs rose to Rs 31.6tn in Feb'21 from Rs 30.5tn in the previous month. Net inflows rose to Rs 41bn versus outflows of Rs 356bn in Jan'21. This was led by debt inflows of Rs 14bn compared with Rs 335bn outflows in Jan'21. Equity outflows also moderated to Rs 70bn as against outflows of Rs 124bn in Jan'21.
- India's exports are estimated to have increased by 17.3% (YoY) between 1-14 Mar 2021 (US\$ 14.2bn), after rising by 0.7% in Feb'21. Exports of engineering goods, rice and gems and jewellery noted maximum increase. Imports rose by 27.8% in the same period versus an increase of 7% in Feb'21, led by gold, electronics and precious stones. Trade deficit is at US\$ 8.2bn in Mar'21 (1-14) versus US\$ 12.6bn in Feb'21.
- As per CMIE data, unemployment rate (30-day moving average) in India rose slightly to 6.53% as on 17 Mar 2021 from 6.52% in the previous week. This was led by urban unemployment which rose to 7.14% from 7.05% in the previous week. However, rural unemployment edged down to 6.25% from 6.28% in the previous week.
- UNCTAD has revised India's growth forecast for CY21 upwards to 5% from 3.9% earlier. In CY20, GDP growth is expected to contract by 6.9% compared with a decline of 5.9% earlier. The recovery in CY21 will be led by public investment which will spur demand. Improvement in global demand will also be positive for exports and growth. Global growth is expected to improve to 4.7% in CY21 from a decline of 3.9% in CY20.
- RBI purchased net US\$ 2.9bn in the spot market in Jan'21 compared with net purchase of US\$ 4bn in Dec'20. In FYTD21, RBI has bought US\$ 75.2bn in the spot market versus US\$ 40bn in the same period last year. In the forwards market, RBI bought US\$ 7.6bn versus US\$ 11.4bn in Dec'20. RBI's outstanding forward position stands at US\$ 47.4bn as of Jan'21.

Global macro developments

- Retail sales in the US fell by 3% (MoM) in Feb'21 (est.: 0.5% decline) from increase of 7.6% in Jan'21. This was on account of winter storms. Notably, retail sales excluding auto fell by 2.7%, the sharpest decline since Apr'20. In a separate print, US industrial production also fell by 2.2% in Feb'21 (est.: 0.4% increase) from 1.1% increase in Jan'21, led by mining (5.4% decline) and manufacturing (3.1% decline).
- Japan's exports fell for the first time in 3-months and declined by 4.5% in Feb'21 (YoY) versus increase of 6.4% in Jan'21. Exports to major trading partners such as US (down by 14%) and Asia (down by 0.8%) declined. Imports on the other hand rose by 11.8% to a 27-month high, from a decline of 9.5% in Jan'21. This was due to an improvement in domestic demand as well as higher oil prices.
- US Fed kept policy rate unchanged. However, it revised its growth estimates upwards to 6.5% in CY21 from 4.2% earlier. Inflation projection has also been revised upward to 2.4% from 1.8%. The dot plot suggests 4 of the 18 FOMC members expect a rate hike in CY22, against just one member in the previous meeting. In a separate print, housing starts fell by 10.3% to 1.42mn units in Feb'21 (lowest since Aug'20).
- Consumer confidence in UK rose to (-) 16 from (-) 23 and against expectation of (-) 20. This was led by phased reopening of the economy, renewed support given in the Budget and rapid vaccine rollout (37.9% of population got vaccinated). The reading was also the largest monthly jump in almost a decade.
- BoE kept policy rates unchanged. It expects inflation to return to 2% in spring. Further, it noted that rate hike is not on the cards until inflation sustainably maintains the 2% target. BoJ in its latest policy also kept rates on hold. However, it undertook actions such as: controlling yield curve in the range of 0 to -0.25%, establishing interest scheme to promote lending and maintaining the pace of asset purchase program set during Covid-19.
- US jobless claims rose by 45,000 to 770,000 (est.: 700,000) for the week ending 13 Mar 2021 against 725,000 in the previous week. Claims have still remained elevated compared with the pre-pandemic level of 695,000. However, the 4-week moving average fell by 16,000 to 746,250, from the previous week's average.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.72	10	41	77	88
UK	0.84	2	22	59	28
Japan	0.11	(1)	3	10	3
Germany	(0.29)	1	5	28	3
India	6.19	(4)	17	28	(7)
China	3.24	(2)	(1)	(6)	55
2Y yields (Δ bps)					
US	0.15	0	3	3	(16)
UK	0.09	(1)	13	18	(4)
Japan	(0.14)	(1)	(2)	(1)	3
Germany	(0.70)	(1)	(1)	3	(2)
India	4.81	(13)	25	93	(73)
China**	2.57	0	(8)	(16)	66
Currencies (Δ %)					
EUR	1.1904	(0.4)	(1.7)	(2.9)	11.4
GBP	1.3872	(0.4)	(0.2)	2.6	19.3
JPY	108.88	0.1	(2.7)	(5.4)	1.8
AUD	0.7742	(0.3)	(0.2)	1.6	33.8
INR	72.52	0.4	0.2	1.4	3.6
CNY	6.5090	(0.0)	(0.8)	0.5	8.3
Equity & Other indices (Δ %)					
Dow	32,628	(0.5)	3.5	8.1	70.2
FTSE	6,709	(0.8)	(0.6)	2.7	29.2
DAX	14,621	0.8	4.0	7.3	63.7
NIKKEI	29,792	0.2	(2.2)	11.3	80.0
Shanghai Comp	3,405	(1.4)	(6.9)	0.3	24.0
SENSEX	49,858	(1.8)	(4.3)	6.2	66.7
Brent (US\$/bbl)	64.53	(6.8)	1.9	23.5	139.2
Gold (US\$/oz)	1,745	1.0	(2.7)	(7.2)	16.5
CRB Index	498.9	0.5	4.8	13.9	33.4
Rogers Agri Index	959.7	(0.8)	0.3	13.0	46.2
LIBOR (3M)*	0.19	(0)	(0)	(5)	(102)
INR 5Y Swap*	5.97	6	2	64	(23)
India FII data (US\$ mn)					
	18 Mar	WTD	MTD	CYTD	FYTD
FII-Debt	(42.6)	60.6	(1,193.4)	(2,677.6)	(6,771.2)
FII-Equity	181.2	1,495.5	3,074.4	8,068.2	38,043.9

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
22-Mar	South Korea exports 20 days, % YoY	Mar	--	16.7%	--
	Euro Area current account SA, € bn	Jan	--	36.7	--
	Italy current account balance, € bn	Jan	--	6.7	--
	US existing home sales, in mn	Feb	6.5	6.7	--
23-Mar	Japan machine tool orders, % YoY	Feb	--	36.7%	--
	UK ILO unemployment rate 3mths, %	Jan	5.2%	5.1%	--
	Italy industrial orders, % MoM	Jan	--	1.7%	--
	US current account balance, US\$ bn	Q4CY20	(187.8)	(178.5)	--
	US new home sales, in thousands	Feb	875.0	923.0	--
24-Mar	Jibun Bank Japan manufacturing PMI (flash)	Mar	--	51.4	--
	Jibun Bank Japan services PMI (flash)	Mar	--	46.3	--
	UK CPI, % YoY	Feb	0.8%	0.7%	--
	BoT benchmark interest rate, %	24-Mar	0.50%	0.50%	--
	Markit France manufacturing PMI (flash)	Mar	56.4	56.1	--
	Markit France services PMI (flash)	Mar	45.5	45.6	--
	Markit/BME Germany manufacturing PMI (flash)	Mar	60.6	60.7	--
	Markit Germany services PMI (flash)	Mar	46.5	45.7	--
	Markit Eurozone manufacturing PMI (flash)	Mar	57.8	57.9	--
	Markit Eurozone services PMI (flash)	Mar	46.0	45.7	--
	Markit UK PMI manufacturing SA (flash)	Mar	55.0	55.1	--
	Markit/CIPS UK services PMI (flash)	Mar	51.0	49.5	--
	US durable goods orders, % MoM	Feb P	0.7%	3.4%	--
	Markit US manufacturing PMI (flash)	Mar	59.5	58.6	--
	Markit US services PMI (flash)	Mar	60.1	59.8	--
	Euro Area consumer confidence	Mar	(14.5)	(14.8)	--
25-Mar	Germany GfK consumer confidence	Apr	(12.1)	(12.9)	--
	France manufacturing confidence	Mar	98.0	97.0	--
	BSP overnight borrowing rate, %	25-Mar	2.0%	2.0%	--
	US initial jobless claims, in thousands	20-Mar	730.0	770.0	--
	US GDP annualized, % QoQ	Q4CY20	4.1%	4.1%	--
26-Mar	South Korea consumer confidence	Mar	--	97.4	--
	Singapore industrial production, % YoY	Feb	14.6%	8.6%	--
	UK retail sales inc auto fuel, % MoM	Feb	2.1%	(8.2%)	--
	Germany IFO expectations	Mar	95.1	94.2	--
	Italy manufacturing confidence	Mar	99.5	99.0	--
	US advance goods trade balance, US\$ bn	Feb	(86.0)	(83.7)	--

Source: Bloomberg, Bank of Baroda

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