

WEEKLY WRAP

30 March 2020

Early indicators point to sharp dip in growth

Global markets responded positively to US fiscal stimulus. Sharp dip in global services PMIs (US: 10ppt, Euro: 24ppt) and US consumer sentiment implies demand will decelerate in the coming days. India is in complete lockdown till 14 April. Government announced Rs 1.7tn fiscal stimulus and RBI did a 75bps reduction in repo rate along with Rs 3.74tn of liquidity infusion and 3-month moratorium on existing loans. More such measures will follow. 10Y yield hasn't fallen in-line as markets expect increase in government borrowings.

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Markets

- **Bonds:** Global yields closed lower as global economic outlook remains jittery. US 10Y yield fell by 17bps (0.67%) on the back of increase in jobless claims and sharp dip in consumer sentiment. Oil prices fell by (-) 7.6% (US\$ 25/bbl) due to muted demand. India's 10Y yield fell by 12bps (6.14%) supported by RBI's rate cut of 75bps and liquidity infusion measures of Rs 3.74tn. System liquidity surplus rose to Rs 3.2tn as on 27 Mar 2020 vs Rs 2.2tn in the previous week.
- **Currency:** DXY fell by (-) 4.3% from a 3-year high, registering its biggest weekly decline since CY09 as dollar liquidity improved. Most global currencies closed higher, led by GBP which rose by 7.1%. INR rose by 0.4% in the week after depreciating to a lifetime low as government and RBI unveiled measures to combat the economic fallout of Covid-19. FII outflows continued (US\$ 1.4bn in the week).
- **Equity:** Barring Sensex, global indices ended the week higher on the back of monetary and fiscal measures to counter the impact of COVID-19. US cleared US\$ 2tn fiscal stimulus. Nikkei (17.1%) surged the most followed by Dow (12.8%). Sensex pared losses to end the week lower by only (-) 0.3% on the back of government stimulus and RBI's monetary easing measures.
- **Upcoming key events:** In the current week, markets will continue to monitor daily increase in COVID-19 confirmed cases which have increased by 373k vs 165k last week. Manufacturing and services PMIs along with US ISM index, factory orders and unemployment rate will be in focus. On the domestic front, H1FY21 borrowing calendar, PMIs, core industry data and fiscal deficit data is awaited.



India macro developments

- On the back of falling oil prices, government may raise the excise duty on petrol and diesel by upto Rs 8/ltr (Rs 18/ltr for petrol vs Rs 10/ltr earlier, Rs 12/ltr for diesel vs Rs 4/ltr earlier). The funds collected shall be utilised to mitigate the ongoing crisis. Recently, government had announced Rs 3/ltr hike on 14 Mar 2020, which is expected to add Rs 390bn annually.
- India has announced fiscal stimulus of Rs 1.7tn (0.8% of GDP). This includes providing cereals and pulses through PDS for next 3-months to marginal households, cash transfers to farmers, pensioners, women and construction workers. Other measures are increase in wages under MNREGA and free LPG cylinders (Ujwala scheme), higher limit for collateral free loans for women SHGs. For organised sector workers, government will pay EPF contribution for 3-months.
- In a surprise move, MPC members reduced repo and reverse repo rate by 75bps and 90bps respectively. RBI is supporting financial stability through additional injection of Rs 3.74tn of liquidity into the system through LTROs, CRR and MSF facilities. Moratorium on loans will allow firms and households to adjust for cash flow mismatch. We believe RBI's focus will be on injecting more liquidity rather than reducing policy rates now. On the fiscal side too, we expect measures to support MSMEs and other impacted sectors.
- RBI reported that currency in circulation (CIC) increased by Rs 96bn and stood at Rs 24.1tn for the week ending 20 Mar 2020. Reserve money rose by 14.1% on a YoY basis, compared with 15.4% a year ago. On a FYTD basis, reserve money increased by 11.2% as against 11.6% last year.
- India's forex reserves fell by US\$ 12bn to US\$ 469.9bn in the week ended 13 Mar 2020 registering the steepest weekly fall since Oct'08 and follows a US\$ 5.3bn decline last week. In CYTD20, forex reserves have risen by US\$ 12.4bn vs US\$ 13.3bn last year. Despite the decline, India's import cover remains comfortable at over 10months.
- RBI's data indicates that credit growth rose by 6.1% for the fortnight ending 13 Mar 2020, lower than 6.9% rise seen in Feb'20. Deposit growth too eased to 9.1% from 10.2% in Feb'20. In the fortnight, while the YoY time deposit growth remained unchanged at 8.6%, demand deposits saw marginal increase in growth from 12.2% (fortnight ending 28 Feb 2020) to 12.9%.

Global macro developments

- COVID-19 cases increased globally to 703,700 as of 29 Mar 2020 (2.3 times increase vs last week). On a daily basis, new cases in Italy rose the most by 5,217, followed by Germany at 4,740 and US at 4,348. Globally, US has the maximum number of cases at 1,24,665. In view of this, current restrictions in the US have been extended upto 30 April 2020. In India, the number of cases rose to 1,024 as of 30 Mar 2020 vs 468 last week.
- Amidst the ongoing COVID-19 outbreak and country lockdowns, IMF expects global growth to contract in CY20 (similar to levels seen in CY08-09 crisis: -0.7%) before recovering in CY21. IIF, too expects growth to contract by (-) 1.5% in CY20, with growth in advanced economies declining by (-) 3.3%.
- Global manufacturing activity slumped sharply in Mar'20 with US (49.2), UK (48), Eurozone (44.8) and Japan (44.8) PMIs well below 50. This is led by steep fall in new business orders and longer supplier delivery times. Services sector too has been hit by COVID-19 outbreak and lockdowns. Future business expectations (12 months) remain negative.
- China's industrial profits plunged sharply in Jan-Feb'20 by (-) 38.3% vs (-) 6.3% in Dec'19. The impact of COVID-19 led shutdown was most visible on private firms where profits fell by (-) 36.6% vs (-) 32.9% for SoEs. Manufacturing companies recorded a decline of (-) 42.7% in profits vs (-) 21.1% reported by mining companies.
- US consumer sentiment index dropped to three and a half year low of 89.1 in Mar'20 vs 101 in Feb'20. This was led by the ongoing COVID-19 outbreak. It is expected to fall further in Apr'20 on the back of rising unemployment and lower incomes. US consumer spending continued to rise at 0.2% in Feb'20, gaining the same pace as last month.
- Germany's Ifo business climate index slipped its lowest level since July'09 to 86.1 in Mar'20 (est.: 87.7) from 96 in Feb'20. The steepest decline on record was led by drop in both, current situation and future business expectation index. The business climate index for manufacturing companies worsened to (-) 18.2 in Mar'20 from (-) 1.6 in Feb'20. For trade and services it fell to (-) 21.4 and (-) 7.6 in Mar'20 from 1 and 17.4 in Feb'20, respectively.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.67	(17)	(66)	(120)	(172)
UK	0.37	(20)	(14)	(39)	(63)
Japan	0.02	(7)	10	2	11
Germany	(0.47)	(15)	3	(22)	(41)
India	6.14	(12)	(21)	(37)	(118)
China	2.60	(8)	(20)	(53)	(48)
2Y yields (Δ bps)					
US	0.24	(7)	(92)	(134)	(199)
UK	0.15	1	(22)	(42)	(51)
Japan	(0.12)	4	7	0	5
Germany	(0.68)	(1)	1	(5)	(9)
India	5.23	(31)	(37)	(59)	(134)
China	1.72	(19)	(25)	(56)	(65)
Currencies (Δ %)					
EUR	1.1141	4.2	2.4	(0.3)	(0.7)
GBP	1.2460	7.1	(3.4)	(4.7)	(4.5)
JPY	107.94	2.7	2.3	1.4	2.4
AUD	0.6168	6.6	(5.7)	(11.6)	(12.8)
INR	74.92	0.4	(4.5)	(5.0)	(8.0)
CNY	7.0960	0	(1.0)	(1.4)	(5.3)
Equity & Other indices (Δ %)					
Dow	21,637	12.8	(19.7)	(24.5)	(15.9)
FTSE	5,510	6.2	(21.8)	(27.9)	(23.8)
DAX	9,633	7.9	(24.6)	(27.8)	(15.7)
NIKKEI	19,389	17.1	(13.5)	(18.7)	(7.8)
Shanghai Comp	2,772	1.0	(7.2)	(7.7)	(7.4)
SENSEX	29,816	(0.3)	(25.3)	(28.3)	(22.6)
Brent (US\$/bbl)	24.93	(7.6)	(53.3)	(63.4)	(63.2)
Gold (US\$/oz)	1,628	8.6	(0.8)	7.8	26.2
CRB Index	373.5	(0.1)	(6.1)	(6.8)	(12.2)
Rogers Agri Index	666.7	1.5	(7.5)	(11.9)	(11.3)
LIBOR (3M)*	1.45	25	(16)	(49)	(114)
INR 5Y Swap*	6.05	(15)	(18)	(69)	(43)
India FII data (US\$ mn)					
	26 Mar	WTD	MTD	CYTD	FYTD
FII-Debt	(243.0)	(572.6)	(7,368.8)	(8,935.9)	(5,991.8)
FII-Equity	1.5	(844.0)	(7,542.1)	(5,755.1)	1,634.1

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
30-Mar	Euro Area consumer confidence	Mar	--	(11.6)	--
	Germany CPI, % YoY	Mar	1.3%	1.7%	--
	US pending home sales, % MoM	Feb	(2.0%)	5.2%	--
31-Mar	Japan industrial production, % MoM	Feb	0.0%	1.0%	--
	China manufacturing PMI	Mar	45.0	35.7	--
	China non-manufacturing PMI	Mar	42.0	29.6	--
	France CPI, % YoY	Mar	1.0%	1.4%	--
	Euro area CPI, % MoM	Mar	0.6%	0.2%	--
	India eight core industries, % YoY	Feb	--	2.2%	--
	US conf. board consumer confidence	Mar	110.0	130.7	--
	India fiscal deficit, Rs cr.	Feb	--	53,747.0	--
1-Apr	Jibun Bank Japan manufacturing PMI	Mar	--	44.8	--
	Caixin China manufacturing PMI	Mar	45.0	40.3	--
	Germany retail sales, % MoM	Feb	0.1%	0.9%	--
	Markit Italy manufacturing PMI	Mar	41.0	48.7	--
	Markit France manufacturing PMI	Mar	42.9	42.9	--
	Markit/BME Germany manufacturing PMI	Mar	45.5	45.7	--
	Markit Eurozone manufacturing PMI	Mar	44.7	44.8	--
	Markit UK manufacturing PMI	Mar	47.0	48.0	--
	Markit US manufacturing PMI	Mar	48.0	49.2	--
	US ISM manufacturing PMI	Mar	45.0	50.1	--
2-Apr	Markit India manufacturing PMI	Mar	--	54.5	--
	US trade balance, US\$ bn	Feb	(40.0)	(45.3)	--
	US initial jobless claims	28-Mar	3,150,000	3,283,000	--
	US factory orders, % MoM	Feb	0.2%	(0.5%)	--
3-Apr	Jibun Bank Japan services PMI	Mar	--	32.7	--
	Caixin China services PMI	Mar	39.5	26.5	--
	Markit Italy services PMI	Mar	22.5	52.1	--
	Markit France services PMI	Mar	29.0	29.0	--
	Markit Germany services PMI	Mar	34.3	34.5	--
	Markit Eurozone services PMI	Mar	28.2	28.4	--
	Markit/CIPS UK services PMI	Mar	34.8	35.7	--
	Euro Area retail sales, % MoM	Feb	0.1%	0.6%	--
	US change in nonfarm payrolls	Mar	(100,000)	273,000	--
	US unemployment rate, %	Mar	3.8%	3.5%	--
	US average hourly earnings, % MoM	Mar	0.2%	0.3%	--
	Markit US services PMI	Mar	38.5	39.1	--
	US ISM non-manufacturing index	Mar	44.0	57.3	--

Source: Bloomberg, Bank of Baroda

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