

WEEKLY WRAP

08 March 2021

US yields move up as economy rebounds

US economy is showing a strong rebound with payrolls and manufacturing activity surprising positively thus driving US 10Y higher. Powell too spoke on temporary inflation pressures. However, yields in RoW were lower even as oil prices inched up by 5% (US\$ 69/bbl) on extension of supply cuts till Apr'21. DXY gained 1.2% and equities too inched up amidst higher volatility. Higher oil prices are a negative for Indian yields. India's 10Y yield was stable as RBI announced special OMO. This week CPI is expected at 5.02%.

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Markets

- **Bonds:** US 10Y yield rose by 16bps to 1.57% led by higher than estimated manufacturing activity as well as payrolls. Fed Chair hinted at temporary price pressures with reopening of the economy. However, global yields were lower on account of dip in China's PMIs. Europe's services activity is impacted by Covid-19. Even so, oil prices rose by 4.9% (US\$ 69/bbl) as OPEC+ will not increase supply till Apr'21. India's 10Y yield closed flat at 6.23% supported by RBI's special OMO. System liquidity surplus fell to Rs 5.8tn as on 5 Feb 2021, versus Rs 6tn in the previous week.
- **Currency:** Except INR, other global currencies closed lower against the dollar. DXY rose by 1.2% to a 4-month high as US 10Y yield inched up. JPY depreciated by 1.6% to a 9-month low. INR appreciated by 0.6% even as oil prices rose by 4.9% in the week, led by FII inflows of US\$ 350mn.
- **Equity:** Barring Nikkei and Shanghai Comp, other global indices ended higher this week. Sensex (2.7%) surged the most led by power and auto stocks. This was followed by FTSE and Dow gaining by 2.3% and 1.8% respectively on the back of rapid vaccination in US and UK.
- **Covid-19 tracker:** Global cases rose by 2.69mn in the week similar to last week. India added 129k cases in the week versus 100k last week. As much as 25.6% of US, 33.5% of UK and 1.4% of India's population has been vaccinated.
- **Upcoming key events:** Globally, CPI prints of China, US and Germany and policy decision of ECB will be in focus. Industrial production data of European economies is also due. In India, CPI and IIP data will be released.



India macro developments

- Total GST collections remained above Rs 1tn mark for the 5th consecutive month in Jan'21, although it eased marginally from Rs 1.2tn (8.1%) in Dec'20 to Rs 1.1tn (7.4%) in Jan'21. On MoM basis, slowdown was seen in adjusted IGST and SGST collections. On FYTD basis, total GST collections are at Rs 8.7tn, with CGST collections at Rs 3.3tn (FY21RE: Rs 4.3tn).
- India's manufacturing PMI stood at 57.5 in Feb'21 versus 57.7 in Jan'21. Despite softening marginally from Jan'21, it remained well above its long-run average of 53.6. Even in Feb'21, strong growth in sales and production continued. New orders also gained momentum led by better domestic demand conditions. Input cost inflation rose to a 32-month high. Employment on the other hand decreased further.
- Indian government recently concluded auction of telecom spectrum garnering Rs 778bn in revenue. Of the total amount, Rs 260-270bn is expected to be upfront payment, with Rs 190-200bn expected to be paid to the government in FY21 and the remaining by Dec'21. In the budget, government had revised FY21 target for non-tax revenue from Rs 3.8tn (BE) to Rs 2.11 (RE). In FYTD21, non-tax collections stand at Rs 1.4tn.
- India's services PMI jumped sharply in Feb'21 to 55.3 from 52.8 in Jan'21. New orders increased, supported by domestic orders. New exports continued to decline for the 12th month, although at a slower pace. Rising commodity prices pushed input cost inflation to highest since Feb'13. Employment also continued to decline. Transport and storage sector reported highest growth, while information and communication sector recorded contraction in activity.
- RBI reported that currency in circulation (CIC) declined by Rs 0.5bn and stood at Rs 28.4tn for the week ending 26 Feb 2021. Reserve money rose by 13.6% on a YoY basis, compared with 11.6% a year ago. On FYTD basis, reserve money increased by 11.5% as against 7.4% a year ago
- As per news reports, government is focussing on farmers producer organisations (FPOs) to support small and marginal farmers. In the Budget, Rs 7bn has been allocated for the scheme in FY22 (+40% from FY21). Centre will contribute equity grant of up to Rs 2,000/member of each FPO, with a limit of Rs 1.5mn per organisation. Also, credit guarantee facility of up to Rs 20mn/FPO for easy funding will also be provided.

Global macro developments

- US ISM manufacturing rose for 9th month in a row to 60.8 in Feb'21 from 58.7 in Jan'21. This recovery was supported by robust demand with improvement in both new order index (+3 points) and new export order index (+2.3 points). Consumption measured through production and employment index too contributed positively (combined +4.3 points).
- Retail sales in Germany fell by 4.5% in Jan'21 (est.: 0.3% dip) versus 9.1% drop in Dec'20 on a MoM basis. This was owing to lockdown restrictions put in force since mid of Dec'20 as well as the end of temporary sales tax cut. On a YoY basis, retail sales declined by 8.7% in Jan'21 led by drop in non-food retailing (down 16.4%). Online sales were up by 31.7% in Jan'21.
- Australia's GDP rose by 3.1% in Q4CY20 from 3.4% in Q3CY20. This was led by slowdown in both federal government's job keeper payments (AUD 11.9bn in Q4 from AUD 35.8bn in Q3CY20) and cash flow for employers scheme (AUD 6.7bn in Q4 from AUD 11.3bn in Q3). Spending on services and household spending rose by 5.2% and 4.3% respectively in Q4. However, economy contracted by 1.1% in CY20, worst recession in over 30 years.
- Globally services activity remained muted as visible in the PMI prints. In Eurozone, it remained below the 50-mark at 45.7 in Feb'21 versus 45.4 in Jan'21. In Japan as well, the index was at 46.3 versus 46.1 in Jan'21. In China, it edged down to 51.5 from 52 in Jan'21. The US ISM services index also moderated to 55.3 from 58.7 in Jan'21. However, slight improvement in employment was visible. Price pressure remained elevated.
- China in its annual NPC meeting announced new growth targets for CY21. It will aim to push GDP growth "above 6%" (2.3% in CY20) and reduce inflation to ~3% (CY20 target: ~3.5%) and fiscal deficit as % of GDP to 3.2% (CY20 target: over 3.6%). Issuance of special government bonds will also be trimmed in CY21, lowering broader gauge of fiscal deficit to 6.5% from 8.3% in CY20, but will be higher than est.: 6.1%.
- US factory orders rose by 2.6% in Jan'21 (est.: 2.1% increase) compared with 1.6% rise in Dec'20. This was led by higher demand of electrical equipment, appliances & parts and primary metals & fabricated metal products. Orders for non-defence capital goods (ex. aircraft) rose by 0.4% in Jan'21 from 0.5% in Dec'20. Separately, initial jobless claims for the week ended 27 Feb 2021 fell by 9,000 to 745,000 (est., 750,000).
- US labour market scenario improved as visible in the non-farm payroll number which rose by 379,000 in Feb'21, much higher than estimated 200,000 and against addition of 166,000 in Jan'21. Unemployment rate was lower at 6.2% from 6.3% in Jan'21. Labour force participation rate was at 61.4. Average hourly earnings rose by 0.2% from 0.1% on MoM basis.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.57	16	47	60	80
UK	0.76	(6)	41	41	52
Japan	0.10	(7)	4	7	22
Germany	(0.30)	(4)	19	25	41
India	6.23	0	10	41	5
China	3.25	(3)	7	(5)	62
2Y yields (Δ bps)					
US	0.14	1	2	(1)	(37)
UK	0.10	(3)	19	14	(1)
Japan	(0.13)	(2)	(2)	(1)	15
Germany	(0.69)	(3)	3	6	17
India	4.84	13	15	98	(50)
China**	2.56	0	(5)	(30)	60
Currencies (Δ %)					
EUR	1.1915	(1.3)	(1.1)	(1.7)	5.6
GBP	1.3841	(0.7)	1.3	3.0	6.1
JPY	108.31	(1.6)	(3.2)	(4.0)	(2.8)
AUD	0.7686	(0.3)	1.0	3.5	15.8
INR	73.03	0.6	(0.1)	1.0	1.0
CNY	6.4971	(0.3)	(0.6)	0.5	6.3
Equity & Other indices (Δ %)					
Dow	31,496	1.8	2.6	4.2	21.8
FTSE	6,631	2.3	1.7	1.2	2.6
DAX	13,921	1.0	0.6	4.7	20.6
NIKKEI	28,864	(0.4)	1.8	7.9	39.1
Shanghai Comp	3,502	(0.2)	(0.9)	1.7	15.4
SENSEX	50,405	2.7	1.2	11.8	34.1
Brent (US\$/bbl)	69.36	4.9	20.7	40.8	53.2
Gold (US\$/oz)	1,701	(1.9)	(7.5)	(7.5)	1.6
CRB Index	491.5	1.0	6.7	15.0	23.3
Rogers Agri Index	969.3	(0.1)	5.3	18.4	38.4
LIBOR (3M)*	0.18	(1)	(2)	(5)	(72)
INR 5Y Swap*	5.98	12	32	80	25
India FII data (US\$ mn)					
	4 Mar	WTD	MTD	CYTD	FYTD
FII-Debt	(21.9)	(647.2)	(647.2)	(2,131.4)	(6,225.0)
FII-Equity	186.8	996.9	996.9	5,990.7	35,966.5

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
8-Mar	China exports YTD, % YoY	Jan-Feb	40.0%	(17.4%)	60.6%
	Japan current account balance, ¥ tn	Jan	1.3	1.2	--
	Germany industrial production SA, % MoM	Jan	(0.4%)	0.0%	--
	China FDI, % YoY CNY	Feb	--	4.6%	--
	China exports YTD, % YoY	Feb	40.0%	--	--
9-Mar	South Korea current account balance, US\$ bn	Jan	--	11.5	--
	Japan GDP SA, % QoQ	Q4CY20	3.0%	3.0%	--
	Japan machine tool orders, % YoY	Feb	--	9.7%	--
	Germany exports SA, % MoM	Jan	(1.8%)	0.1%	--
	Taiwan CPI, % YoY	Feb	1.0%	(0.2%)	--
	Taiwan exports, % YoY	Feb	15.3%	36.8%	--
	Italy industrial production, % MoM	Jan	0.8%	(0.2%)	--
	Euro Area GDP SA, % QoQ	Q4CY20	(0.6%)	(0.6%)	--
10-Mar	South Korea current account balance, US\$ bn	Jan	--	11.5	--
	China CPI, % YoY	Feb	(0.3%)	(0.3%)	--
	China PPI, % YoY	Feb	1.4%	0.3%	--
	France industrial production, % MoM	Jan	0.6%	(0.8%)	--
	Italy PPI, % MoM	Jan	--	0.5%	--
11-Mar	US CPI, % MoM	Feb	0.4%	0.3%	--
	Japan PPI, % YoY	Feb	(0.7%)	(1.6%)	--
	ECB main refinancing rate, %	11-Mar	0.0%	0.0%	--
12-Mar	US initial jobless claims, in thousands	06-Mar	725	745	--
	UK industrial production, % MoM	Jan	(0.8%)	0.2%	--
	Germany CPI, % MoM	Feb	0.7%	0.7%	--
	Euro Area industrial production SA, % MoM	Jan	0.3%	(1.6%)	--
	India CPI, % YoY	Feb	4.8%	4.1%	--
	India IIP, % YoY	Jan	1.0%	1.0%	--
US PPI final demand, % MoM	Feb	0.4%	1.3%	--	

Source: Bloomberg, Bank of Baroda

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