

WEEKLY WRAP

09 March 2020

US yields at all-time low

Global yields fell as markets assess economic impact of COVID-19. US 10Y fell by 39bps. China's services PMI was at 26.5 and exports were down by (-) 17.2%. Global equity markets sold-off as negative news flow of spread of virus emerged. Seven Central Banks reduced rates led by 50bps reduction by Fed. Indian 10Y fell to 6.18% (last seen in 2016) and is trading far lower at 6.06% today due to (-) 26% decline in oil prices. Indian equity markets fell, in-line with Asian markets. INR fell as FPI outflows continue in the week.

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Markets

- **Bonds:** Except Japan, global yields closed lower as markets assess spill over from spread of COVID-19. Global central banks continue to cut rates with 7 central banks reducing rates led by US Fed. US 10Y yield fell steeply by 39bps to a record low (0.76%). Markets expect Fed to cut rates by another 50bps. Oil prices fell sharply by (-) 10.4% (US\$ 45/bbl) as OPEC+ did not cut output. India's 10Y yield also fell by 19bps (6.18%-lowest since Apr'09) and is trading far lower at 6.06% today due to sharp drop in oil prices (-26% to US\$ 33/bbl) in today's session. System liquidity surplus was at Rs 3tn as on 06 Mar 2020 same as previous week.
- **Currency:** Barring INR, other global currencies closed higher against the dollar. DXY fell sharply by (-) 2.2% in the week to a 12-month low after Fed delivered a surprise 50bps reduction in policy rate. JPY continued to strengthen and was higher by 2.3% in the week. However, INR fell by (-) 2.2% as FII outflows continued (US\$ 1bn).
- **Equity:** Apart from Dow and Shanghai Comp, other global indices closed lower in the week as fears around the economic impact of COVID-19 rose. Dow gained by 1.8% supported by rate cut by Fed (50 bps) and US\$ 8.3bn fiscal stimulus approved by US House of Representatives. Sensex fell by (-) 1.9% after Yes Bank board was superseded by RBI. Banking, realty and oil & gas stocks fell the most.
- **Upcoming key events:** In the current week, markets will await industrial production data of Germany and UK. ECB will also announce its monetary policy decision this week. On the domestic front, CPI, IIP and trade data are awaited.



India macro developments

- The government has sought approval from the parliament for an additional spending of Rs 540bn. Of this, Rs 200bn will be used for the payment of GST compensation to states (Rs 162bn for states and Rs 38bn for UTs). Apart from this, funds will be utilised for defence expenses (Rs 70bn), defence pensions (Rs 57bn), MNREGA (Rs 50bn) and NIIF (Rs 10bn).
- EPFO has cut interest rate by 15bps to its 7-year low of 8.5% in FY20. This was on the back of falling interest rates globally. As per news reports, EPFO has suffered a setback from investment in DHFL and ILFS (Rs 45bn). So the new rates, will help in effectively managing the cost. EPFO has invested Rs 18tn of which 85% is in debt and 15% in equity (ETFs).
- India's services PMI rose to 57.5 in Feb'20 from 55.5 in Jan'20. This was led by strong demand from both domestic and international markets. With continued expansion seen in both manufacturing (slower pace) and services PMI, composite PMI inched up to 57.6 in Feb'20 (above long run average 54.6) from 56.3 in Jan'20.
- FDI inflows into India rose to US\$ 10.7bn in Q3FY20 vs US\$ 9.8bn in Q2FY20. In FYTD20, FDI inflows rose by 9.8% to US\$ 36.8bn. Singapore and Mauritius remain the biggest source of FDI at US\$ 11.7bn and US\$ 7.5bn respectively. Sectorwise, while FDI inflows into the services sector have slowed to US\$ 6.5bn vs US\$ 9.2bn in FYTD19, inflows into telecom sector have increased to US\$ 4.3bn vs US\$ 2.7bn.
- OECD has slashed India's growth forecast for FY21 to 5.1% vs 6.2% earlier on the back of the coronavirus outbreak and its impact on global growth. Growth is expected to recover to 5.6% in FY22 vs 6.4% earlier. In FY20, GDP growth is estimated to be 4.9%. World GDP growth is also expected to be lower at 2.4% in CY20 (-50bps) and 3.3% in CY21 (+30bps).
- India's manufacturing PMI eased marginally to 54.5 in Feb'20 from 55.3 in Jan'20. The PMI print remained above the 50 mark, signalling continuous expansion, on the back of strong order flows led by both domestic and external demand. Though, the expansion has been at a slower pace owing to the escalated concerns over the outbreak of COVID-19.
- RBI reported that currency in circulation (CIC) declined by Rs 95bn and stood at Rs 23.5tn for the week ending 28 Feb 2020. Reserve money rose by 11.6% on a YoY basis, compared with 15.6% a year ago. On a FYTD basis, reserve money increased by 7.4% as against 10.2% last year.

Global macro developments

- China's exports fell by (-) 17.2% in Jan-Feb'20, vs 7.9% increase in Dec'19 and (-) 4.5% in the same period last year. The steepest decline since Jan-Feb'17 (+3.7%) was owing to Lunar New Year holidays and lockdowns due to COVID-19. Imports fell less sharply by (-) 4% in Jan-Feb'20 vs est.: (-) 15% and 16.5% increase in Dec'19, supported by US-China trade deal.
- Euro Area retail sales rose by 0.6% in Jan'20 on a MoM basis vs (-) 1.1% decline in Dec'19. The improvement was led by food/drinks/tobacco (0.7% vs -1.1%), electrical goods & furniture (0.4% vs -1.4%) and automotive fuel (1.9% vs -0.1%). Within the region, apart from Germany, Eastern European countries saw most increase in sales volume.
- Services activity moderated globally. Eurozone services PMI was at 52.6 in Feb'20 vs 52.5 in Jan'20, due to falling export demand. The slowdown was sharper in Japan with services PMI at 47 in Feb'20 vs 50.1 in Jan'20 due to concomitant impact of sales tax hike, typhoon and COVID-19. In China as well, index was at its lowest at 26.5 in Feb'20 vs 51.8 in Jan'20 on account of extended company closures and strict travel restrictions.
- US factory orders declined by (-) 0.5% in Jan'20 vs est.: (-) 0.1% and 1.9% in Dec'19, led by transportation equipment and electrical equipment & appliances. On the other hand, ISM non-manufacturing PMI increased to 57.3 in Feb'20 from 55.5 Jan'20, led by new orders, particularly export orders. Separately, initial jobless claims for the week ended 29 Feb fell to 216,000 vs est.: 215,000 and 219,000 in the previous week. The 4-week moving claims rose by 3,250 to 213,000.
- In a surprise move, US Fed cut its policy rate by 50bps, bringing down the Fed's fund rate to 1-1.25%. This comes amidst growing concerns over the economic impact of COVID-19. The FOMC agreed that risks will have "material impact" on US growth. The decision follows G-7 countries' announcement to use policy support to mitigate risks from COVID-19.
- Labour market conditions in the US remained buoyant with nonfarm payroll increasing by 273,000 in Feb'20 (est.: 175,000). Unemployment rate was lower at 3.5% in Feb'20 vs 3.6% in Jan'20. Average hourly earnings also rose by 0.3% in Feb'20 vs 0.2% in Jan'20 on MoM basis.
- Global manufacturing activity remained muted driven by disruption in global supply chains due to COVID-19. US manufacturing PMI was down to 50.7 in Feb'20 from 51.9 in Jan'20. Eurozone PMI was at 49, still below the 50-mark. Japan PMI fell to 47.8 vs 48.8 in Jan'20.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.76	(39)	(84)	(107)	(187)
UK	0.24	(21)	(33)	(54)	(95)
Japan	(0.12)	3	(7)	(12)	(9)
Germany	(0.71)	(10)	(31)	(42)	(78)
India	6.18	(19)	(32)	(48)	(118)
China	2.63	(11)	(24)	(58)	(52)
2Y yields (Δ bps)					
US	0.51	(41)	(90)	(111)	(195)
UK	0.11	(20)	(39)	(49)	(64)
Japan	(0.28)	(3)	(13)	(14)	(13)
Germany	(0.86)	(9)	(20)	(23)	(32)
India	5.35	(25)	(67)	(38)	(132)
China	1.97	(33)	(32)	(65)	(45)
Currencies (Δ %)					
EUR	1.1284	2.3	2.2	2.0	0.4
GBP	1.3048	1.8	0.1	(0.7)	0.3
JPY	105.39	2.3	3.8	2.9	5.2
AUD	0.6636	1.9	(1.5)	(3.0)	(5.8)
INR	73.79	(2.2)	(3.5)	(3.6)	(5.2)
CNY	6.9314	0.9	1.0	1.5	(3.1)
Equity & Other indices (Δ %)					
Dow	25,865	1.8	(10.2)	(7.7)	1.6
FTSE	6,463	(1.8)	(13.1)	(10.7)	(9.0)
DAX	11,542	(2.9)	(13.1)	(12.3)	0.7
NIKKEI	20,750	(1.9)	(10.1)	(11.2)	(1.3)
Shanghai Comp	3,035	5.4	9.0	4.2	2.2
SENSEX	37,577	(1.9)	(7.9)	(7.1)	2.5
Brent (US\$/bbl)	45.27	(10.4)	(16.1)	(29.7)	(31.1)
Gold (US\$/oz)	1,674	5.6	7.8	14.6	28.9
CRB Index	398.7	0.9	(1.3)	2.1	(3.8)
Rogers Agri Index	700.4	(0.4)	(4.5)	(3.8)	(5.6)
LIBOR (3M)*	1.00	(46)	(74)	(89)	(160)
INR 5Y Swap*	5.74	(42)	(87)	(76)	(124)
India FII data (US\$ mn)					
	5 Mar	WTD	MTD	CYTD	FYTD
FII-Debt	41.9	(252.5)	(252.5)	(1,819.6)	1,124.6
FII-Equity	(305.4)	(773.9)	(773.9)	1,013.1	8,402.3

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
9-Mar	Japan current account balance, ¥ bn	Jan	623.5	524.0	--
	Japan GDP annualized SA, % QoQ	Q4CY19	(6.6%)	(6.3%)	--
	Germany exports SA, % MoM	Jan	0.9%	0.1%	--
	Germany industrial production SA, % MoM	Jan	1.7%	(3.5%)	--
	Taiwan exports, % YoY	Feb	2.2%	(7.6%)	--
10-Mar	China PPI, % YoY	Feb	(0.3%)	0.1%	--
	China CPI, % YoY	Feb	5.2%	5.4%	--
	France industrial production, % MoM	Jan	1.8%	(2.8%)	--
	Italy industrial production, % MoM	Jan	1.6%	(2.7%)	--
	Euro Area GDP SA, % QoQ	Q4CY19	0.1%	0.1%	--
11-Mar	South Korea unemployment rate SA, %	Feb	4.1%	4.0%	--
	Italy PPI, % MoM	Jan	--	0.0%	--
	UK industrial production, % MoM	Jan	0.3%	0.1%	--
	UK trade balance, £ bn	Jan	(7.0)	0.8	--
	US CPI, % MoM	Feb	0.0%	0.1%	--
12-Mar	Japan PPI, % YoY	Feb	1.1%	1.7%	--
	Euro Area industrial production SA, % MoM	Jan	1.4%	(2.1%)	--
	India CPI, % YoY	Feb	6.7%	7.6%	--
	India industrial production, % YoY	Jan	0.7%	(0.3%)	--
	US PPI final demand, % MoM	Feb	(0.1%)	0.5%	--
	US initial jobless claims	7-Mar	218,000	216,000	--
	ECB main refinancing rate, %	12-Mar	0.0%	0.0%	--
13-Mar	Germany CPI, % YoY	Feb	1.7%	1.7%	--
	France CPI, % YoY	Feb	1.4%	1.4%	--
	India exports, % YoY	Feb	--	(1.7%)	--

Source: Bloomberg, Bank of Baroda

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