

WEEKLY WRAP

05 October 2020

Uphill climb for global recovery

Global manufacturing PMIs and US consumer confidence supported higher global yields. However, lower than estimated US payroll data shows the uphill climb to recovery. US\$ was under pressure and oil prices fell by 6.3% in the week. India's 10Y yield fell by 4bps as government kept its borrowing calendar unchanged. Latest GST data (up by 3.9%), manufacturing PMI (8-year high) and exports (rose by 5.3%) show recovery is gaining pace. We hold the view that growth in Q4 may be positive as more sectors are unlocked gradually.

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Markets

- **Bonds:** Barring India and Germany, global yields closed higher. UK and US 10Y yield rose by 6bps and 5bps respectively. Underlying economic data supported higher yields with less than estimated decline in UK and US Q2 GDP, fewer jobless claims in the US and progress on additional fiscal stimulus. Oil prices fell by 6.3% (US\$ 39/bbl) due to fears of oversupply and US President testing positive for COVID-19. India's 10Y yield fell by 4bps (6%) as government left its borrowing program unchanged. System liquidity surplus was at Rs 3.7tn as on 1 Oct 2020 compared with Rs 2.8tn in the previous week.
- **Currency:** Global currencies closed higher this week as dollar weakened. DXY fell by 0.8% as US payroll additions were lower than estimated. GBP rose by 1.5% as UK and EU continued negotiations on the trade deal. INR rose by 0.6% on the back of lower oil prices and a record current account surplus in Q1FY21. FII outflows were US\$ 242mn in the week.
- **Equity:** Barring Nikkei and Shanghai Comp (flat), other global indices ended higher this week on expectation of US fiscal package. Sensex (3.5%) surged the most in a truncated week, as the government announced unlock 5.0 guidelines. Banking and consumer durable stocks advanced the most.
- **Upcoming key events:** In the current week, markets await services PMIs of major economies and minutes of US FOMC meeting. Apart from this, RBA's policy decision and industrial production of European economies will be in focus. On the domestic front, services PMI, new MPC members, GST council meeting and COVID-19 curve will be closely watched.



India macro developments

- In an effort to boost SCBs liquidity, RBI has extended the MSF relaxation till 31 Mar 2021 from 30 Sep 2020 earlier. Under this facility, RBI had increased the borrowing limit for SCBs from 2% to 3% of NDTL in Mar'20. This is expected to provide liquidity of Rs 1.49tn. Earlier as well through MSF cut, liquidity worth Rs 1.37tn has already been infused.
- India's trade deficit fell to US\$ 2.9bn in Sep'20 from US\$ 6.8bn in Aug'20 as exports rose by 5.3%, first time in 6-months as per preliminary data. Pharma exports increased the most at 24.4%. Imports too recovered led by non-oil-non-gold imports which fell by 13.3% in Sep'20 versus a fall of 29.6% in Aug'20. We expect a current account surplus of US\$ 39bn (1.5% of GDP) in FY21.
- In an effort to provide liquidity to States, RBI has decided to continue with the increased WMA limit (of 60%) till Mar'21 from Sep'20 earlier. Further, the relaxation in Overdraft (OD) has also been extended till Mar'21. States finances are already impacted and borrowing in FYTD21 is 40% higher than last year at Rs 3.2tn.
- India's eight core output contracted for the 6th straight month to 8.5% in Aug'20 from 8% in Jul'20. This was led by steep contraction in output of petroleum refinery (19.1% from 13.9% in Jul'20) and crude oil (6.3% from 4.9% in Jul'20). On FYTD basis, overall output has declined by 17.8% compared with an increase of 2.5% last year.
- India's fiscal deficit inched up to 6.5% of GDP in Aug'20 (12MMA basis) from 6.3% in Jul'20. On FYTD basis, direct tax collections remain under stress with 34.1% decline in Aug'20 versus 33.2% drop in Jul'20. However, indirect tax collections are contracting at a slower pace of 16.3% now. Centre's net revenue fell by 38.6% in Aug'20 from 30.6% drop in Jul'20. As a result overall spending has eased to 6.2% from 11.3% in Jul'20.
- Total GST collections for Aug'20 jumped by 3.9% on YoY basis to Rs 955bn from Rs 864bn in Jul'20 (12% decline). The improvement was led by 7% jump in SGST to Rs 509bn and pick up in IGST to Rs 52bn. Cess collections are running at Rs 56bn per month versus the required run rate of Rs 92bn. To compensate, in the GST council meeting today, Centre is likely to enhance states' borrowing limit from RBI to Rs 1.1tn from Rs 970bn proposed earlier.

Global macro developments

- World Bank expects GDP growth in East Asia and Pacific (EAP) to moderate to 0.9% in CY20, slowest pace since CY67 versus 5.8% in CY19. China is expected to grow by 2% in CY20 versus 6.1% in CY19 supported by government spending, exports and effective containment of COVID-19. GDP growth in rest of EPAC is expected to contract by 3.5% led by a sharp contraction in tourism and trade.
- China's official manufacturing PMI rose to 51.5 in Sep'20 (est.: 51.2) from 51 in Aug'20. The activity was supported by resilient export demand, stimulus led infrastructure spending and holiday demand. Most notable rise was seen in production of food, alcohol, beverage and tea. Non-manufacturing PMI rose to 55.9 in Sep'20 from 55.2 in Aug'20. In particular, services index inched up to 55.2 from 54.3 in Aug'20.
- Japan's factory output rose for the 3rd straight month, albeit at a slower pace of 1.7% in Aug'20 (MoM) versus 8.7% increase in Jul'20. The rise was led by auto and auto products as global demand picked up. However, the trend is unlikely to sustain due to surging COVID-19 cases globally. Separately, retail sales fell for the 6th straight month in Aug'20 by 1.9% versus 2.8% in Jul'20 (YoY) as consumer spending still remains weak.
- South Korea's exports rose by 7.7% in Sep'20 versus a decline of 10.1% in Aug'20, rising for the first time in 7-months. More working days as well as lifting of restrictions in major trading partners contributed to the increase. Exports of chips, cars and computers rose the most. Exports to US and China rose by 23.2% and 8.2% respectively.
- US non-farm payroll added 661,000 new jobs in Sep'20, much lower than estimated 800,000 rise and an increase of 1.5mn in Aug'20, adding to concerns of slower pace of recovery. Sharp drop in government sector additions led to the decline as major local and state government educational institutes continued with at-home instructions. However, the unemployment rate dropped to 7.9% in Sep'20 from 8.4%.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	0.70	5	3	3	(83)
UK	0.25	6	(5)	6	(20)
Japan	0.02	1	(3)	(1)	23
Germany	(0.54)	(1)	(12)	(10)	5
India	6.00	(4)	5	15	(69)
China	3.15	2	8	25	1
2Y yields (Δ bps)					
US	0.13	0	0	(2)	(127)
UK	(0.04)	3	6	4	(39)
Japan	(0.13)	2	(1)	0	21
Germany	(0.71)	0	(3)	(3)	7
India	4.37	(8)	0	21	(127)
China**	2.60	0	10	54	5
Currencies (Δ %)					
EUR	1.1716	0.7	(1.6)	4.2	6.7
GBP	1.2935	1.5	(3.4)	3.6	4.9
JPY	105.29	0.3	0.6	2.1	1.5
AUD	0.7161	1.8	(2.9)	3.2	5.8
INR	73.15	0.6	(0.4)	2.0	(3.2)
CNY	6.7908	0.5	0.5	3.9	5.0
Equity & Other indices (Δ %)					
Dow	27,683	1.9	(3.4)	7.2	4.2
FTSE	5,902	1.0	0.7	(4.1)	(17.5)
DAX	12,689	1.8	(2.2)	1.3	5.6
NIKKEI	23,030	(0.8)	(0.5)	3.2	7.6
Shanghai Comp	3,218	0	(5.6)	2.1	10.8
SENSEX	38,697	3.5	(0.5)	7.4	2.7
Brent (US\$/bbl)	39.27	(6.3)	(13.8)	(8.2)	(32.7)
Gold (US\$/oz)	1,900	2.1	(3.6)	7.0	26.3
CRB Index	403.6	0	2.4	11.9	3.9
Rogers Agri Index	751.4	1.0	1.1	10.2	5.5
LIBOR (3M)*	0.23	2	(2)	(4)	(179)
INR 5Y Swap*	5.42	(6)	(10)	14	(90)
India FII data (US\$ mn)					
	30 Sep	WTD	MTD	CYTD	FYTD
FII-Debt	(159.2)	(133.0)	410.2	(14,679.8)	(4,920.3)
FII-Equity	(35.9)	(109.0)	(767.3)	4,040.1	10,643.0

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
5-Oct	Jibun Bank Japan services PMI	Sep	--	45.6	--
	Singapore retail sales, % YoY	Aug	(5.8%)	(8.5%)	--
	Markit Italy services PMI	Sep	46.6	47.1	--
	Markit France services PMI	Sep	47.5	47.5	--
	Markit Germany services PMI	Sep	49.1	49.1	--
	Markit Eurozone services PMI	Sep	47.6	47.6	--
	Markit/CIPS UK services PMI	Sep	55.1	55.1	--
	Euro Area retail sales, % YoY	Aug	2.2%	0.4%	--
	Markit US services PMI	Sep	54.6	54.6	--
	US ISM services index	Sep	56.2	56.9	--
6-Oct	South Korea CPI, % YoY	Sep	0.5%	0.7%	--
	Australia exports, % MoM	Aug	(2.0%)	(4.0%)	--
	RBA cash rate target, %	6-Oct	0.25%	0.25%	--
	Markit India services PMI	Sep	--	41.8	--
	Germany factory orders, % MoM	Aug	2.9%	2.8%	--
	US trade balance, US\$ bn	Aug	(66.2)	(63.6)	--
7-Oct	Germany industrial production SA, % MoM	Aug	1.7%	1.2%	--
	France trade balance, € bn	Aug	--	(7.0)	--
	Italy retail sales, % MoM	Aug	3.8%	(2.2%)	--
	Taiwan exports, % YoY	Sep	9.2%	8.3%	--
	US FOMC meeting minutes	16-Sep	--	--	--
	Singapore GDP, % YoY	Q3CY20	--	(13.2%)	--
8-Oct	South Korea current account balance, US\$ bn	Aug	--	7.5	--
	Japan current account balance, ¥ tn	Aug	2.1	1.5	--
	Caixin China services PMI	Sep	54.3	54.0	--
	Germany exports SA, % MoM	Aug	1.4%	4.7%	--
	US initial jobless claims	3-Oct	820,000	837,000	--
9-Oct	UK industrial production, % MoM	Aug	2.6%	5.2%	--
	France industrial production, % MoM	Aug	1.9%	3.8%	--
	Italy industrial production, % MoM	Aug	1.4%	7.4%	--

Source: Bloomberg, Bank of Baroda

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