Weekly Market update

22 NOV 2020

US Economy – Vaccine vs Virus

- There has been a series of positive vaccine announcements and the optimism propelled the S&P 500 to a new all-time high, before the rally fizzled later in the week on deteriorating coronavirus trends.
- The market attempts to balance the weakened near-term outlook against an improving medium- to long-term outlook due to the vaccine developments.
- Soaring confidence among homebuilders, a pace of residential construction activity that topped expectations and existing homes selling at the fastest pace in 14 years were the highlights of a week
- Retail sales showed that spending was losing momentum in October, even as holiday sales remain on track for a banner year.
- The jobs-data release showed worse-than-expected initial jobless claims, which, confirms that the economic recovery is likely to be choppy.
- Reports that the Treasury department is not extending certain funding for Fed's lending facilities established earlier in the pandemic is catching attention, though monetary-policy support will be significantly or permanently scaled back.

Virus impact : Grim Scenario in US

- Evidence emerged during the week that the pandemic and its drag on the economy would get worse before the vaccines would become widely available.
- New local shutdowns and restrictions were announced across the country as case counts rose and hospital systems grew more stressed.
- Sentiment seemed to take a particular blow from news Wednesday that the New York City public school system, the nation's largest, would be switching to remote learning.
- Meanwhile, mobility measures, credit card purchases, and other high-frequency data showed that consumers were growing more cautious and staying closer to home, whether because of mandates or personal choice. In a grim milestone, the number of U.S. fatalities attributed to the disease crossed 250,000.

Virus impact : however US scores better

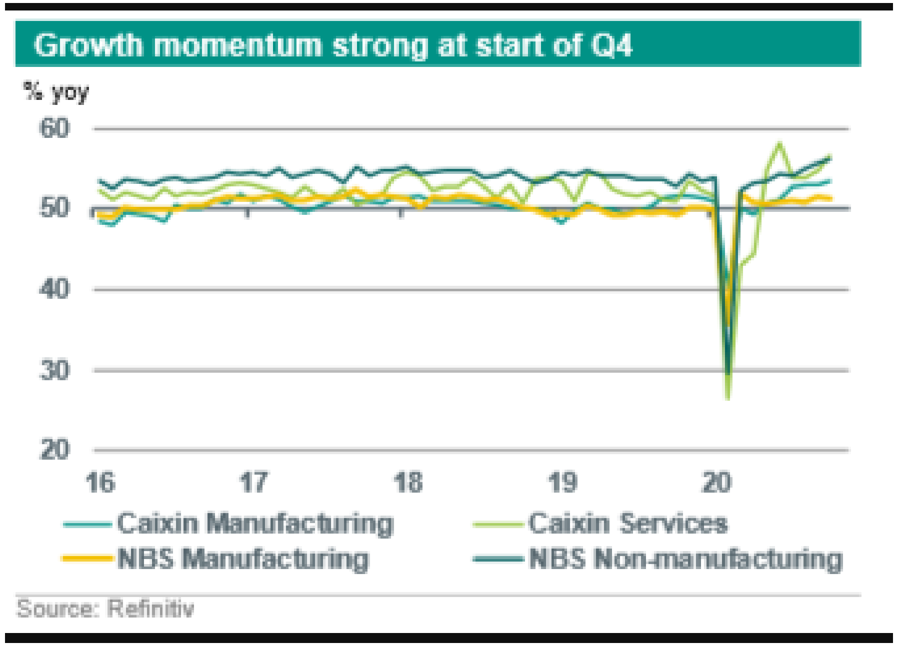
- Mobility in Europe is strongly correlated with PMIs for the service sector.
- Except for UK, these PMIs were already below 50 in October, indicating that the sector was contracting.
- If mobility continues to remain subdued for the rest of November, then we will likely see much lower service PMIs and thus a harsher contraction in services.
- By contrast, in the United States, where population-adjusted new cases are higher than they are for Europe as a whole, mobility was down just 17% from its pre-pandemic levels in November.
- This is about where mobility has been since June, suggesting Americans are no longer adjusting their behaviour based on the ebbs and flows of the virus like they did earlier in the year.
- At the same time, the PMI for US services continued to trend higher over this period, indicating a strengthening expansion in the service sector.
- Since mobility and spending are holding up better so far in US, a contraction may not come until later this year or in Q1 2021.

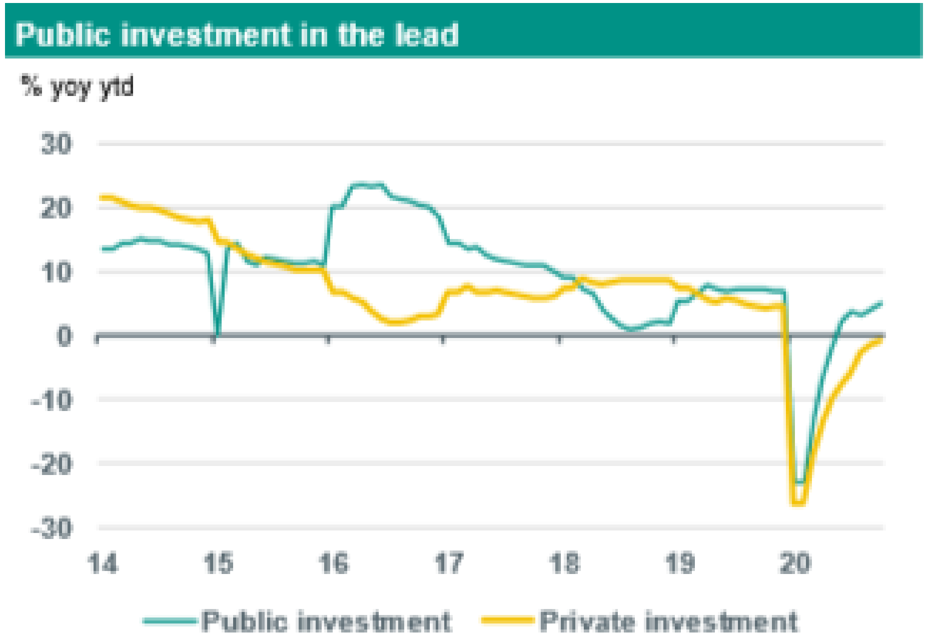
Eurozone :Fiscal impasse

- On the Economic front, we already see signs of slowing activity. High frequency data point to slowing growth in Europe and some survey data have rolled over. Lagarde hinted at more stimulus in December as the PEPP and TLTROs have proven their effectiveness and can be dynamically adjusted to react to how the pandemic evolves.
- Uncertainty has arisen over the EU Recovery Fund this week. Hungary and Poland vetoed the ratification of the EU budget and the recovery package over concerns about the rule-of-law mechanism.
- The markets do not expect the new row to scupper the whole EU budget and next-generation EU package and a compromise solution remains in everyone's interests and Eastern European countries are among the biggest beneficiaries of the recovery fund funds.
- However, the unanimity requirement in EU budget approval process opens up the risk of further delay in the flow of funds in 2021.
- This week’s Eurozone November PMIs could perhaps signal negative GDP growth in Q4. The German ifo business confidence may take a small hit from the new restrictions
- Brexit negotiations are entering a crucial phase and the two sides are still struggling to come to agreement. However, it is not unusual for a deal to be reached last minute

China : Strong Growth

- Incoming macro data confirm that China's economic recovery from the covid-19 shock continues to strengthen and broaden.
- Pandemic support is feeding through in a revival of public investment and credit growth. Moreover, China's success in containing the pandemic has enabled the phasing out of restrictions and a rebound in confidence, supporting consumption as well.
- To a large extent, this is a reflection of pandemic fiscal support, with public investment (+4.9% yoy in Jan-Oct) still doing better than private investment (-0.7%). All in all, monthly GDP growth estimate rose to a 16-month high of 6.9% yoy in October (September: 6.75%).
- Despite China's stark recovery from the covid-19 shock, headline inflation has fallen sharply in the course of this year. to a large extent driven by the food price cycle, particularly pork prices





Impact of Chinese Growth -1/2

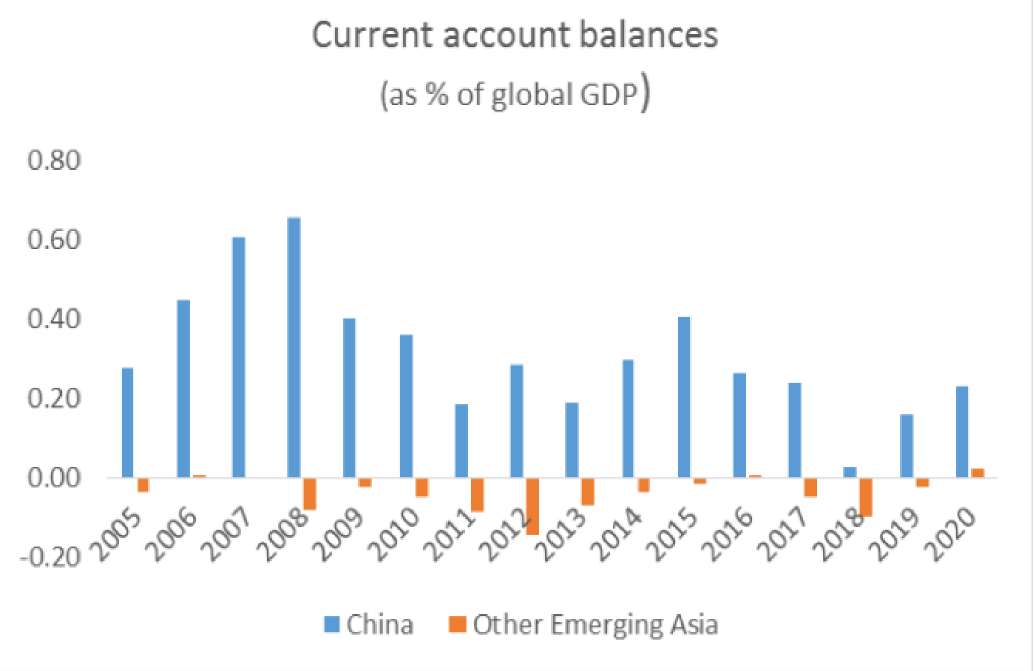
- Chinese imports from Europe were up strongly.
- Specifically, Chinese imports from Germany were up 24% in October versus a year earlier and imports from Italy were up 21%.
- This is a boon to the European economy which is otherwise facing significant headwinds from the resurgence of the virus.
- Moreover, this happened at the same time that Euro zone exports to US and UK were down. The result is that China has now surpassed US as the EU ‘s leading trading partner.
- Thus, at a time when the European continent is suffering from the effects of new lockdowns and weak global demand
- China is providing a much-needed boost. It stems from the fact that China’s economy is growing more rapidly than any other major economy having successfully suppressed the virus.

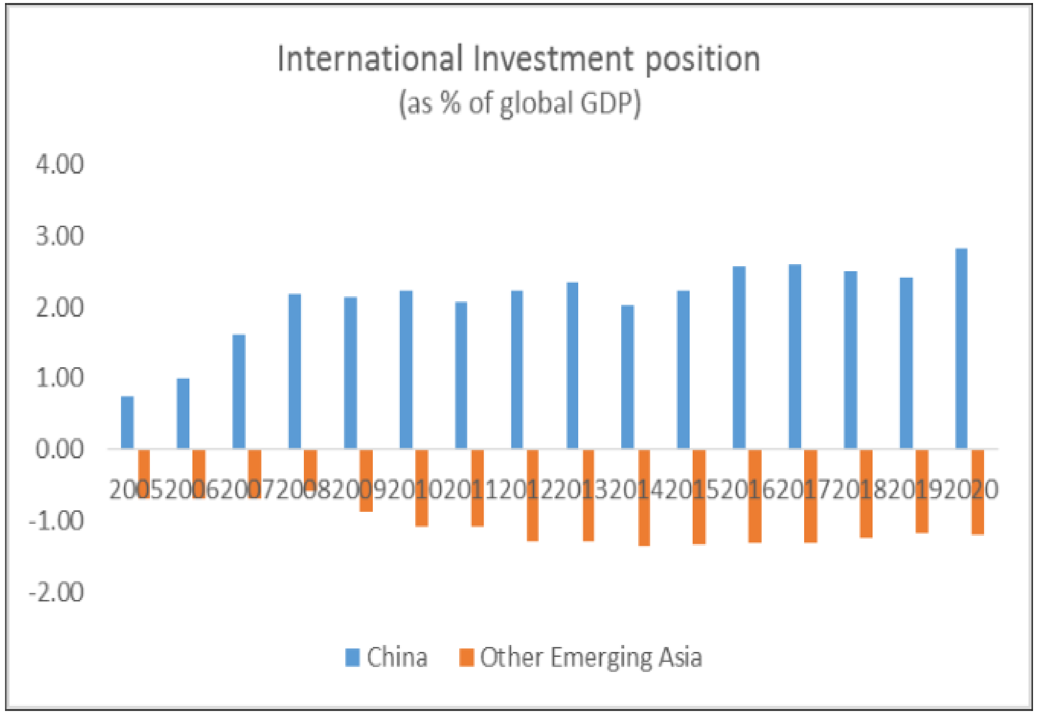
Impact of Chinese Growth -2/2

- China’s exports continue to grow strongly. In October, exports (denominated in US dollars) were up 11.4% from a year earlier, faster than the 9.9% in September. This was the fastest export growth in more than a year and a half. Imports were up 4.7%,
- Interestingly, the bilateral surplus with US is up more than 46% since Trump took office. Although bilateral trade imbalances do not carry any significance,, the current US administration promised to reduce the US deficit with China. Instead, the opposite happened.
- Notably, China’s exports have been especially supported by strong global demand for medical equipment as well as technologies related to remote working and shopping. Thus, Chinese industries have benefitted from pandemic-related trends.
- China’s export strength was largely related to demand in US. Exports to the United States were up 22.5% in October versus a year earlier while exports to the European Union were down 7.0%. Exports to Southeast Asia were up 7.0%
- Interestingly, Chinese imports from the United States were up 33.0%. Strong Chinese demand for US goods will set the stage for whatever policy shifts President-elect Biden intends to implement. If he chooses to ease trade restrictions, the fact that Chinese demand is already strong could allay the concerns of those critical of trade with China.

China –Asia Divergence

- Ability of China to contain the spread of the virus and prevent a renewed outbreak of any substantive nature is unmatched by almost all other countries, with the exception of a few outliers
- The differences are particularly marked with the rest of developing Asia, which until recently reflected similar tendencies as China, often precisely because the rest of the region was benefiting from the increasingly close and dense trade and investment links with that economy.
- But ever since the trade war with US and certainly since the Covid-19 pandemic struck, there has been growing divergence between China and the rest of developing Asia.
- China's international investment position is hugely positive, compared to negative position in the rest of the region. China's current account surplus has shrunk but remains large relative to the current account balance of the rest of the Asian region





India : Trade deficit

- India's October trade deficit widened to USD 8.7bn as compared to USD 2.7bn in the previous month, led by both sequential pickup in imports and contraction in exports.
- There has been a broad-based improvement in imports but Gold and Silver imports have shot up to USD 2.5 billion from USD 0.6 billion in the previous month
- Non Oil and Non Gold imports which are a domestic demand indicator have contracted by 4.6% Y-o-Y, at a slowest pace since the onset of the pandemic, reflecting the demand recovery, sustenance of which remains a question mark.
- Exports at USD 24.89 bn showed a sequential decline from USD 27.57bn in September, moving back to contraction phase, after a transient growth in the past month.
- This decline in export numbers finds its roots in the fading of global stimulus and global recovery thereof and a resurgence in viral case load leading to subdued economic activity.
- Currently, exports are 95% of pre-Covid levels whereas imports are at 88% of pre-covid levels.

India : Data Highlights

- Domestic airlines carried 52.71 lakh passengers in October 2020, declining by 57% compared to 123.16 lakh passengers carried in the same month a year ago. Overall in 2020, the airlines have carried 493.31 lakhs passengers,. Thereby, currently this year, domestic air traffic is down by 58.27% y/y

- Around four million formal sector workers will be eligible for provident fund subsidy from the central government as they had left their jobs during March-September. The payroll data released by EPFO showed around 3.9 million workers had exited the firms that were making EPF contributions towards them.

- Foreign exchange reserves increased by more than $100 billion since the Covid-induced lockdown was enforced in March-end. From USD 469.9 billion in the week ended March 20, 2020, the forex reserves jumped by USD 102.8 billion to a lifetime high of USD 572.7 billion in the week ended November 13, 2020,

Indian Banking system

- Loan growth in the banking system inched higher in the fortnight ended Nov 6 likely due to credit disbursement during the festival season.
- Total loans in scheduled banks grew by 660.82 bln rupees in fortnight ended Nov 6 to 104.05 trln rupees, up 5.67% year-on-year. (Higher credit growth in the time of RBI balance sheet expansion is set to accelerate inflation)
- In the previous fortnight that ended Oct 23, outstanding loans had declined by 46.64 bln rupees and annual loan growth was 5.06%.
- Total deposits grew 10.64% on-year to 143.81 trln rupees as on Nov 6.
- As the growth in deposits continued to outpace loan disbursements, banks are parking excess deposits in safer assets such as government bonds and treasury bills. This is reflected in their investments, which rose 19.12% on year to 44.77 trln rupees as on Nov 6.

Indian Equity Markets

- FPIs massive buying led to the biggest gap rally in the past two weeks - optimism has reached its peak -given that on a daily basis upwards of 10 stocks are included in the F&O ban list also suggests that markets are hovering around its overbought levels, It would also be worth noting that even good news was ineffective in taking stock prices higher;
- case being, Hero MotoCorp which registered its best decade Diwali month sales and ended with inventory at dealerships at all-time post-festive lows of less than four weeks, however, the stock could not sustain at higher levels.
- This state, when such positive news cannot take stock prices higher, is an indication that markets are in an overbought territory.
- Expect the downmove to begin for 12427 break for 12020 below 12963