

THE MACROSCOPE

20th November 2020

Issue#2

Issue Highlights:

What stands out:

Are we ready for an inflation deluge?

Charts in Focus:

Normalization in progress; timing on stimulus and vaccine critical

While pandemic gains momentum, recovery loses steam

Japan and India join China on the path to recovery

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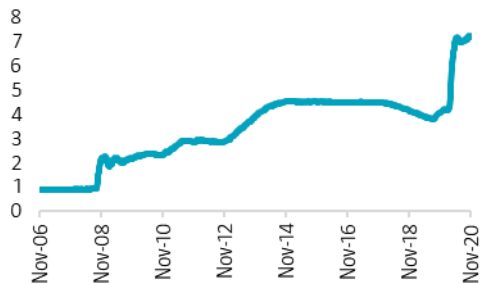
WHAT STANDS OUT...

The Global Financial Crisis (GFC) saw unprecedented balance sheet expansion across global central banks... but economies remained bereft of expected inflation...

This time around the central banks have *"thrown the kitchen sink at it"*! The fiscal stimulus measures, especially in the developed nations, have been...

BIGGER

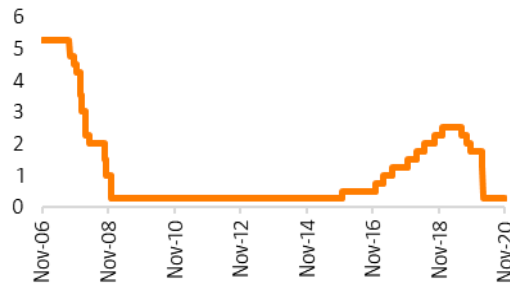
U.S. Balance Sheet Size (\$ trn)



- ✓ The Federal Reserve has a portfolio totaling \$7.2 trillion in assets, an increase of \$2.5 trillion from the \$4.7 trillion total on March 18.
- ✓ By comparison, the Federal Reserve expanded its total portfolio from \$920 billion in December 2007 to \$2.1 trillion in June 2009, a total increase of \$1.2 trillion.

FASTER

Federal Funds Target Rate



- ✓ The Federal Reserve took almost 15 months to bring interest rates to near zero levels during the GFC. This time it did not even take a month to cut rates to similar low levels
- ✓ Also, the Fed expects to keep interest rates low till 2023, which shows high tolerance for inflation

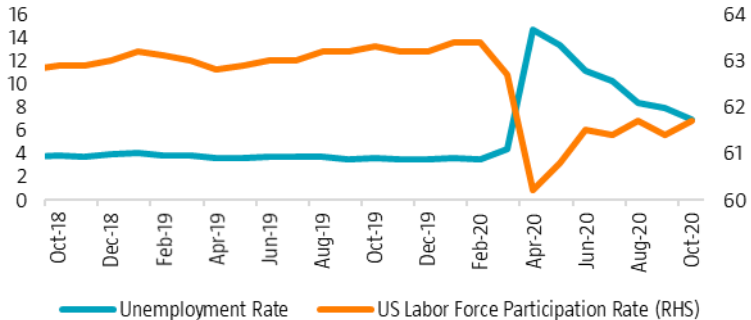
FOCUSSED

- ✓ This time around QE is more focused on getting money in the hands of people rather than institutions as this is not a Banking crisis, but a humanitarian crisis
- ✓ Scope of govt policy much larger than last time, both monetary and fiscal (The Fed ventures into private corporate debt, for the first time in its history)
- ✓ We are already seeing commodity prices rising sharply as the money flows from lenders to the spenders

Are we ready for an inflation deluge?

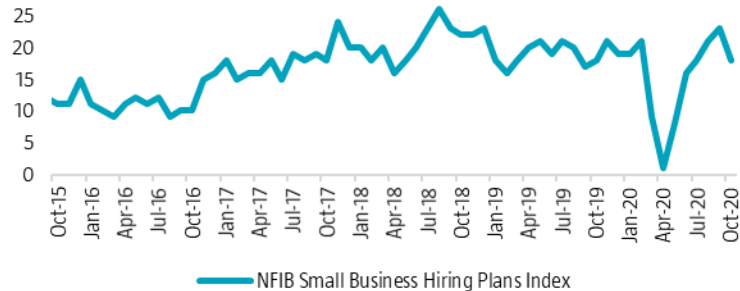
CHARTS IN FOCUS – U.S.

Rising Labor participation coupled with demand recovery indicate that unemployment rate could improve further

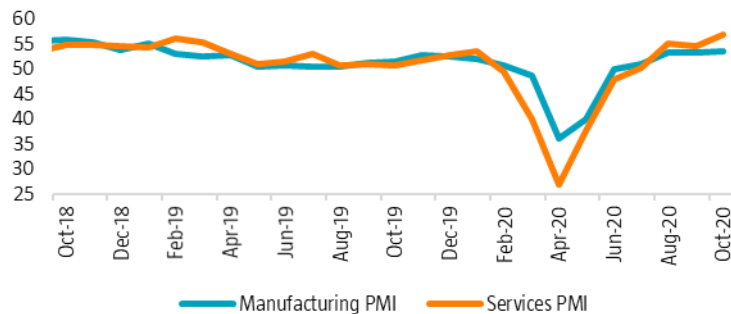


- ✓ Labor market recovery in US continued to be strong as Unemployment rate surprised with a full 1% drop to 6.9% ably supported by a robust private payrolls addition while government job addition faltered
- ✓ More optimistic hiring plans in small businesses was complimented by good breadth in private sector job gains
- ✓ However, with the elections results almost out, fiscal stimulus and rising Covid-19 infections are key risk factors to watch out

Hiring plans of Small businesses have regained pre-Covid-19 levels; fiscal gridlock and rising infections could dent this optimism



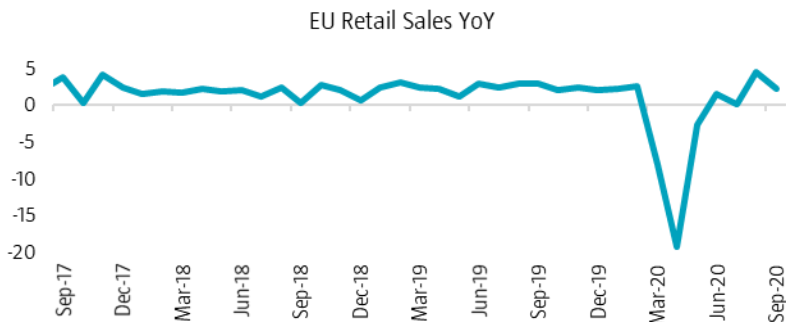
Economic activity especially on the Services sector front continued to expand as the region did not see any large-scale lockdowns despite record high cases



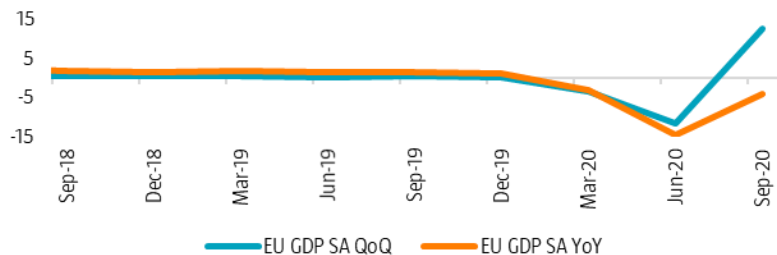
Normalization in progress; timing of fiscal stimulus and vaccine key to determining growth

CHARTS IN FOCUS – EUROZONE

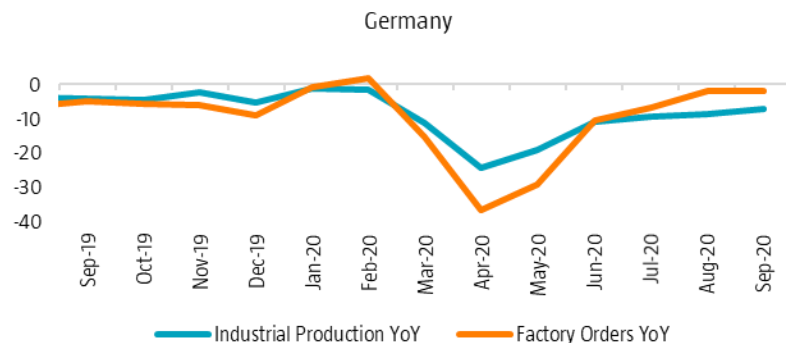
Recent data showed weakness in retail sales data as it factored in renewed restrictions within the region; likely to weaken if restrictions persist



The Eurozone GDP rose 12.7% in third quarter on a Q-o-Q basis, but down 4.4% on a YoY basis



Strong recovery in Factory orders indicate robust domestic and export demand and should translate in higher factory sales

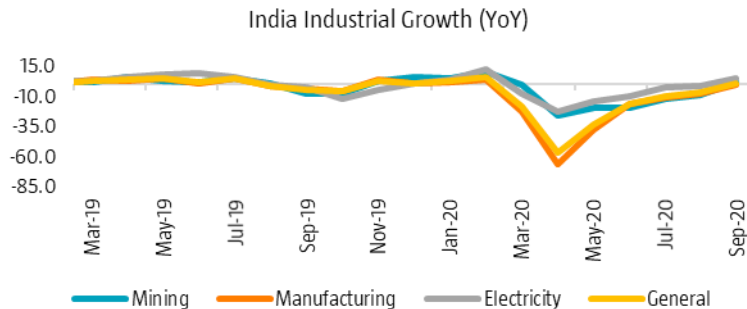


- ✓ Renewed restrictions within the region took the wind out of most data releases, however the impact was uneven on account of lack of uniform restrictions across the regions
- ✓ Germany's Industrial production numbers came in weaker even as factory orders continued to register strong recovery. With manufacturing PMI rising continuously, industrial growth should pick up too
- ✓ Euro GDP growth numbers showed improvement but the imposition of newer lockdowns could see the recovery losing momentum

While Pandemic gains momentum, Economic recovery loses steam

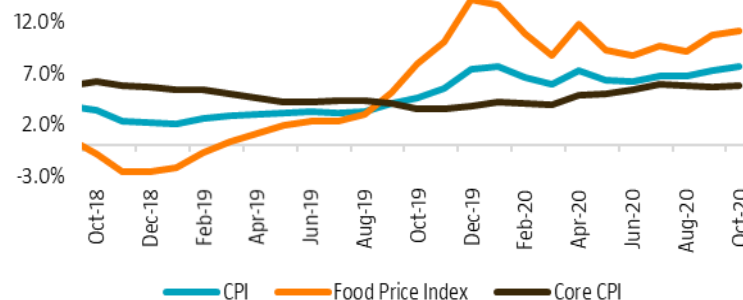
CHARTS IN FOCUS – ASIA

After 6 months contraction, IIP showed marginal positive growth in September; falling trend of new cases is favoring a steady and stable recovery

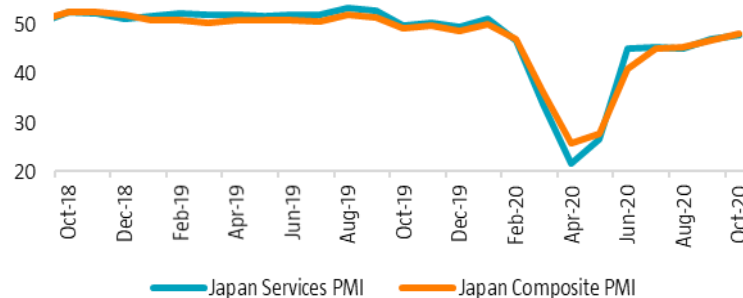


- ✓ Positive reading on India's IIP growth was a result of improvement across all use-based category led mainly capital goods, consumer durables and primary goods
- ✓ At 7.6% CPI in October, inflation has been above the 6% threshold for 11 months now barring the March reading of 5.84% which is expected to keep the rate cut expectations squashed for next month's RBI policy meet
- ✓ Japan's Composite PMI recorded an 8-month high as it moved closer to its pre-Covid levels. Strong improvement in the services sector made up for the languishing manufacturing sector which continues to be impacted by new wave of infections

India's CPI surged higher to 7.6% driven largely by Vegetable prices within the Food & Beverages basket



Continued improvement in PMIs keep the economic recovery on track even as risk from fresh wave of infections both domestic and globally looms large



Japan and India join China on the path of recovery

INDICATORS IN FOCUS – U.S. & EUROPE

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
UNITED STATES									
U. of Mich. Sentiment	101.00	89.10	71.80	72.30	78.10	72.50	74.10	80.40	81.80
Retail Sales Advance MoM	-0.40	-8.20	-14.70	18.30	8.60	1.10	1.40	1.60	0.30
Industrial Production YoY	-0.24	-4.70	-16.26	-15.72	-10.68	-6.72	-6.71	-6.73	-5.34
Trade Balance	-37.01	-46.10	-53.58	-57.86	-53.46	-63.37	-67.04	-63.86	
Wards Total Vehicle Sales	16.83	11.37	8.58	12.21	13.05	14.52	15.19	16.34	16.21
New Home Sales	716.00	612.00	570.00	698.00	840.00	965.00	994.00	959.00	
Housing Starts	1567.00	1269.00	934.00	1038.00	1265.00	1487.00	1388.00	1415.00	
PCE Core Deflator YoY	1.87	1.65	0.93	1.01	1.14	1.25	1.45	1.55	
PCE Deflator YoY	1.80	1.30	0.50	0.50	0.90	1.00	1.30	1.40	
Change in Nonfarm Payrolls	251.00	-1373.00	-20787.00	2725.00	4781.00	1761.00	1493.00	672.00	638.00
Unemployment Rate	3.50	4.40	14.70	13.30	11.10	10.20	8.40	7.90	6.90
Markit US Manufacturing PMI	50.70	48.50	36.10	39.80	49.80	50.90	53.10	53.20	53.40
EUROZONE									
Germany IFO Business Climate	95.8	86.7	75.2	79.9	86.1	90.4	92.4	93.2	92.7
Eurozone Consumer Confidence	-6.60	-11.60	-22.00	-18.80	-14.70	-15.00	-14.70	-13.90	-15.50
Bank of France Ind. Sentiment	95.74	54.85	51.18	84.21	89.51	99.08	105.16	100.76	96.85
France Industrial Production YoY	-1.4	-17.6	-35	-23.4	-11.5	-8.4	-6.4	-6	
Italy Retail Sales YoY	6.1	-18.9	-26.7	-10.5	-2.4	-7.1	1	1.29	
Netherlands Manufacturing Production YoY	-0.90	-1.90	-10.90	-12.10	-9.70	-5.00	-3.60	-6.80	
France Trade Balance	-4580.00	-2918.00	-4959.00	-7411.00	-8094.00	-7005.00	-7707.00	-5745.40	
Italy New Car Registrations YoY	-8.65	-85.39	-97.55	-49.55	-23.03	-10.88	-0.29	9.65	-0.18
Spain CPI YoY	0.70	0.00	-0.70	-0.90	-0.30	-0.60	-0.50	-0.40	-0.80
Eurozone CPI YoY	1.20	0.70	0.30	0.10	0.30	0.40	-0.20	-0.30	-0.30
Germany CPI YoY	1.70	1.40	0.90	0.60	0.90	-0.10	0.00	-0.20	-0.20
Netherlands Unemployment Rate	2.90	2.90	3.40	3.60	4.30	4.50	4.60	4.40	
Eurozone Unemployment Rate	7.30	7.20	7.40	7.60	7.90	8.10	8.30	8.30	
Markit Eurozone Composite PMI	51.60	29.70	13.60	31.90	48.50	54.90	51.90	50.40	50.00

INDICATORS IN FOCUS – ASIA

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
INDIA									
CPI	6.58	5.84	7.22	6.27	6.23	6.73	6.69	7.3	7.61
Core CPI	4.08	3.95	4.85	5.00	5.33	5.87	5.77	5.66	5.77
Nikkei India PMI Mfg	54.50	51.80	27.40	30.80	47.20	46.00	52.00	56.80	58.90
Nikkei India PMI Services	57.50	49.30	5.40	12.60	33.70	34.20	41.80	49.80	54.10
GST Collection (Rs. cr)	105366	97597	32294	62009	90917	87422	86449	95480	105155
Imports YoY	2.47	-28.72	-58.65	-51.05	-47.6	-28.4	-26	-19.6	-11.5
Exports YoY	2.9	-34.57	-60.28	-36.47	-12.4	-10.21	-12.7	6.0	-5.1
Non-oil & non-gold imports (% yoy)	-0.90	-30.45	-52.17	-33.76	-41.37	-29.15	-29.60	-12.63	-5.25
Gold Imports(USD mn)	-8.54	-62.64	-99.93	-98.40	-77.42	4.17	171.27	-52.85	35.88
E-Way Bills	14.29	-24.72	-83.61	-53.03	-12.71	-7.29	-3.47	-4.04	-5.30
Indian Forex Reserves(\$ millions)	481.54	475.60	479.50	493.50	506.80	534.57	541.40	542.00	560.70
Currency Circulation	11.50	14.50	15.70	18.40	20.60	22.20	23.20	22.70	20.30
Passenger auto sales	-7.60	-51.00	-100.00	-86.40	-53.30	-12.80	13.60	43.80	
Cement output(% yoy)	7.78	-25.06	-85.25	-21.43	-6.83	-13.45	-14.56	-3.50	
Steel Production	2.89	-21.97	-82.80	-40.42	-23.23	-8.24	-1.73	0.92	
IIP	5.17	-18.67	-57.31	-33.38	-16.55	-10.77	-7.37	0.24	
CHINA									
Caixin China PMI Composite	27.50	46.70	47.60	54.50	55.70	54.50	55.10	54.50	55.70
Caixin China PMI Services	26.50	43.00	44.40	55.00	58.40	54.10	54.00	54.80	56.80
Exports YoY	3.40	-3.20	0.50	7.20	9.50	9.90	11.40		
Imports YoY	-14.20	-16.60	2.70	-1.40	-2.10	13.20	4.70		
Trade Balance	45.20	63.03	46.42	62.33	58.93	37.00	58.44		
CPI YoY	5.20	4.30	3.30	2.40	2.50	2.70	2.40	1.70	0.50
Industrial Production YoY	3.90	4.40	4.80	4.80	5.60	6.90	6.90		
Retail Sales YoY	-7.50	-2.80	-1.80	-1.10	0.50	3.30	4.30		
Manufacturing PMI	35.70	52.00	50.80	50.60	50.90	51.10	51.00	51.50	51.40
JAPAN									
Vehicle Sales YoY	-10.70	-10.20	-25.50	-40.20	-26.00	-20.40	-18.50	-15.60	31.60
Jobless Rate	2.40	2.50	2.60	2.90	2.80	2.90	3.00	3.00	
Job-To-Applicant Ratio	1.45	1.39	1.32	1.20	1.11	1.08	1.04	1.03	
Money Stock M2 YoY	3.00	3.20	3.70	5.10	7.20	7.90	8.60	9.00	9.00
Industrial Production YoY	-5.70	-5.20	-15.00	-26.30	-18.20	-15.50	-13.80	-9.00	
Exports YoY	-1.00	-11.70	-21.90	-28.30	-26.20	-19.20	-14.80	-4.90	
Imports YoY	-13.90	-5.00	-7.10	-26.10	-14.40	-22.30	-20.70	-17.40	
Natl CPI YoY	0.40	0.40	0.10	0.10	0.10	0.30	0.20	0.00	
Jibun Bank Japan PMI Composite	47.00	36.20	25.80	27.80	40.80	44.90	45.20	46.60	48.00
Retail Sales YoY	1.60	-4.70	-13.90	-12.50	-1.30	-2.90	-1.90	-8.70	

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