CARE Ratings
Professional Risk Opinion

Global Markets Round up – June 2021

July 1, 2021 I Economics

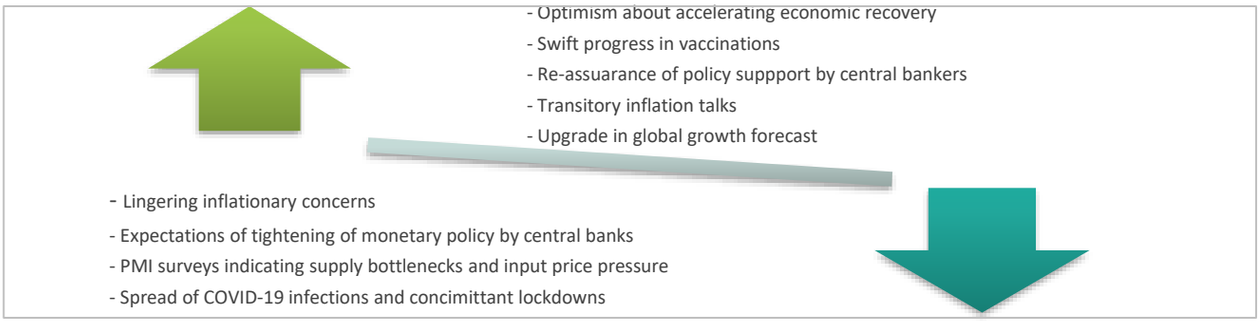
Global Equity Markets

Global equity markets in June 2021 witnessed mixed trends and muted pick-up with several diverse factors weighing on investor sentiments and keeping them at bay from sustained buying. The optimism about economic recovery led by swift pace of vaccination, relaxation of lockdown restrictions and sustained accommodative monetary policy coupled with upward revision in global growth forecast by World Bank to 5.6% in 2021 have driven equity markets globally. Investors have had a strong preference for technology stocks which also supported overall gains. During the first 20 days of the month, investors were concerned about the persistent inflationary pressures globally and "tapering talks" by key central banks to prevent overheating of the economies. These apprehensions were eased by some central bank officials (ECB, Bank of England and some Fed officials) who pointed out the "transitory" nature of inflation and reiteration of continued liquidity support for rapid economic recovery. During the latter half of the month, the spread of the more transmissible "Delta" version of COVID-19, surge in COVID-19 cases and the associated lockdowns in some regions dampened investor sentiments and added further uncertainty to the prospects of economic recovery. Investors were also cautious as the latest preliminary PMI surveys in advanced economies showed pick-up in input costs and supply bottlenecks. Globally, investors also assessed the pros and cons of the decision of the G7 nations regarding the global minimum tax. Travel and leisure stocks have swung like a pendulum owing to uncertainty around lockdown restrictions.

Country	Stock Exchange	Closing on 31-May-21	Closing on 30-June-2021	% change
US	Dow	34,529*	34,503	-0.08
US	NASDAQ	13,749*	14,504	5.49
US	S & P 500	4,204*	4,298	2.22
UK	FTSE 100	7,023*	7,037	0.21
Germany	DAX	15,421	15,531	0.71
France	CAC 40	6,447	6,508	0.94
Japan	Nikkei 225	28,860	28,792	-0.24
South Korea	Kospi	3,204	3,297	2.90
China	Shanghai Composite	3,615	3,591	-0.67
India	Sensex	51,937	52,483	1.05
India	NIFTY 50	15,583	15,722	0.89

Source: WSJ, CNN, BSE, NSE *31st May, 2021 was a holiday and thus closing values are as of May 28, 2021

Drivers and draggers of markets



Source: CARE Ratings

US stocks: The gains in the US stock markets were supported by encouraging PMI data, bipartisan agreement regarding the US infrastructure plans recently announced by the US President. Retail inflation in US had zoomed to a 13-year high of 5% while the core CPI accelerated to 30-year high. There is a debate amongst US Fed officials over the nature of inflation ("temporary v/s persistent") and how it can impede the US economic recovery prospects, which is making investors jittery and cautious before making large bets.

European markets: Quite contrary to the diverging statements by US Fed officials, the comments from the ECB Chairman and the policy stance by the Bank of England have been accommodative and both central banks have assured sustained policy support to reinvigorate the economy. The macroeconomic data from the European countries have also been robust (strong PMI, upward revision in Italy's GDP growth, improved jobs data from Germany, expansionary factory activity in Eurozone, upbeat business sentiments from Germany) which have driven gains in the equity markets. The mounting trade tensions between UK and European Union over the 'Northern Ireland Protocol' have dampened the market sentiments to a limited extent.

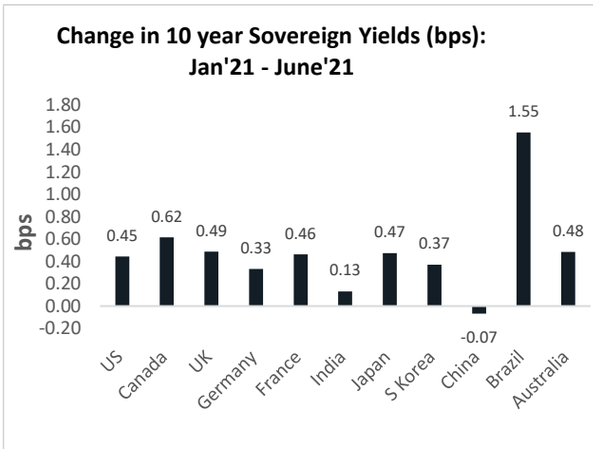
Japanese markets have been broadly steady as the uncertainty around COVID-19 and the re-enforcement of restrictions have kept investors cautious. The gains in Chinese equity markets were also driven by resumption of US-China trade talks and status quo on policy rates in line with market expectations. Certain domestic policies by Chinese regulators like increase in forex requirement ratio for financial institutions, tightening of restrictions related to cryptocurrency, US sanctions on companies having links with Chinese military weighed on gains in the equity markets.

Indian markets: Upbeat corporate performance for Q4-FY21, sudden jump in the pace of vaccinations in June, sharp decline in COVID-19 cases in India from the peaks seen in May'2021, gradual easing of restrictions by various state governments point to the abatement of the second wave of the COVID-19 pandemic and have driven investor sentiments. Investors also cheered the status quo in the RBI's Monetary Policy during the start of the month with the minutes of the meeting reflecting the emphasis on growth over inflation by the members. Investors have become jittery over mixed signals from high frequency data and unexpected jump in the CPI inflation which led to expectations of preponement of the normalization of monetary policy.

Global Bonds Movement

The benchmark sovereign bond yields moderated in June'21 from month ago across several major economies despite concerns over inflation and optimism over economic recovery and growth that fueled the gains in the equity markets. The decline in the bond yields, reflective of higher demand for these securities can in part be attributed to the continued bond purchases by the global central banks along with assurance about the continuity of the same for an extended period. Persistent safe-haven demand with the reimposition of lockdowns/restrictions across various geographies on concerns over the spread of a more transmissible variant of Covid-19 also supported yields at lower levels across economies.

Although yields have come off their highs touched in March-April'21, it has risen across most economies on a year-to -date basis i.e., January-June'21. It is also well-above the pre-pandemic levels. This can be linked to the optimism of a rebound in the economy with a fall in Covid-19 infections and the increased pace of vaccination across regions which has in-turn improved risk appetite for other asset classes. Also, the increase in global price levels has raised concerns over inflation and the ability of the central banks to maintain their accommodative monetary policy if the rise in inflation is durable in nature.



Average Yield of 10 Year Government Bonds				
	May'21	Jun'21	Range: Jun'21	Real Yields: Jun'21
US	1.61	1.51	1.35 - 1.64	-2.7
Canada	1.53	1.43	1.36 - 1.54	-2.0
UK	0.82	0.76	0.69 - 0.85	-0.7
Germany	-0.17	-0.20	(-0.29 - (-0.15)	-2.2
France	0.21	0.16	0.08 - 0.208	-1.0
India	5.99	6.02	5.98 - 6.09	1.7
Japan	0.08	0.51	0.02 - 0.09	0.9
S Korea	2.13	2.10	1.99 - 2.21	-0.2
China	3.12	3.11	3.07 - 3.23	2.2
Brazil	9.32	9.09	8.71 - 9.51	2.3
Australia	1.68	1.54	1.42 - 1.67	0.4

Source: CNN, Bloomberg, RBI and CARE Ratings

The analysis of the benchmark 10-year benchmark government bond yields of eleven major economies in June'21 shows that

- With the exception of India and Japan, the benchmark sovereign bond yields of the other nine economies moderated from month ago. It nevertheless continued to be at elevated levels.
    - US and Canada were down by 10 bps each, while UK and France saw a decline of 6 bps each). Yields also fell in Brazil (23 bps), Australia (14 bps), Germany (4 bps), S. Korea (3 bps) and China (1 bp).
    - Average yields of the benchmark security rose by 3 bps in case of India and by 43 bps for Japan, taking the yields here to an eight year high.
- Barring China, government bond yields have witnessed a notable increase since the start of 2021 across all the 11 major economies (highlighted in chart above)
    - Yields have climbed in the range of 13 to 155 bps across economies since January'21 with the average increase being 54 bps.
    - The sharpest increase has been in the case of Brazil (155 bps). Yields have decline by 7 bps since January'21 for China
- Real, or inflation adjusted, benchmark sovereign bond yields were negative in the US (-2.7%), Canada (-2.0%), UK (-0.7%), Germany (-2.2%), France (-1%) and South Korea (-0.2%) in June.

Factors driving bond yields across key economies in June'21

US: Despite the Federal Reserve moving up their projections for commencing interest rates hikes to 2023 from 2024, the benchmark yields declined with the central bank saying that it would not pare down its asset purchase programme anytime soon. Mixed readings of economic indicators, worries over new coronavirus outbreak and tempered expectations of runway inflation also prompted buying of safe- haven Treasuries.

EU and UK: Bond yields decline in June with the ECB and Bank of England indicating that they would not taper their monetary stimulus programme in the near future.

India: Bond yield rose with the firming up of inflation and the central government announcing pandemic relief measures implying an increase to the already high scheduled market borrowing. The RBI's bond purchase programme and the status quo in monetary policy helped to limit the rise in yields to an extent.

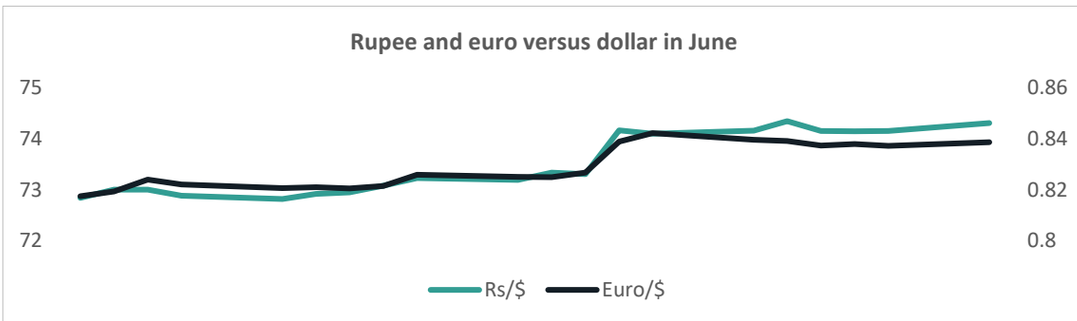
Japan: The announcement by the Bank of Japan to trim the amount of bond purchases in the coming quarter pushed up yields. Expectation over a quicker economic recovery also boosted yields.

Outlook for the benchmark Indian Government Bonds

Bond yields are likely to be pressured in July. The anticipated additional borrowings by the central government would add to the demand- supply concerns amid concerns over rising price levels. Markets would be increasingly looking towards the RBI to limit the rise in yields. We expect the 10- year GSec yields to move in the range of 6.05 % - 6.08% in July'21.

Currency update

The dollar was the clear winner this month with the currency strengthening from 1.22/euro to 1.19/euro. The turning point was the Fed commentary which warns of higher inflation leading to rate hikes next year. This was indicative of the economy picking up steam and standing firm in the global economy. Meanwhile news on infection spreading in the Euro region caused some consternation. Couple these two factors and post 15th June the dollar has been strengthening.



This has revibrated across all countries with most currencies falling on a point-to-point basis this month. Between 31st May and 28th June, 14 of the 18 currencies in the table below witnessed depreciation. The rupee was one of the less satisfactory performing currencies with 2.5% depreciation. The three currencies which fell sharper were the baht, Turkish lira and rand.

Change between 31st May and 28th June

%	Appreciation
BRL/USD	5.52
RUB/USD	1.83
MXN/USD	0.55
HKD/USD	0.01
	Depreciation
MYR/USD	0.53
JPY/USD	0.99
TWD/USD	1.23
CNY/USD	1.38
SGD/USD	1.64
KRW/USD	1.99
PHP/USD	2.17
IDR/USD	2.18
GBP/USD	2.20
EUR/USD	2.46
INR/USD	2.49
THB/USD	2.50
TRY/USD	2.54
ZAR/USD	3.56

In case of the rupee, it was surprising considering that the forex reserves have been mounting and crossed the $ 600 bn mark. FPIs while positive for the month so far have tended to be negative in most days post 15th June. But this is good for the country as with exports doing well in the first two months depreciation will provide a boost at a time when global trade is buoyant.

The question is whether or not the dollar can maintain this tempo? Here there is scepticism and we believe that this position of strength will be maintained in short run, but job creation and growth will be prime drivers of the currency. We can see it going back to the 1.20 levels in the next couple of weeks.

Gold

International gold prices eased to a monthly average of USD 1,836 per troy ounce in June after rising continuously for three consecutive months and even peaking to a four-month high of USD 1,852 per troy ounce in May.

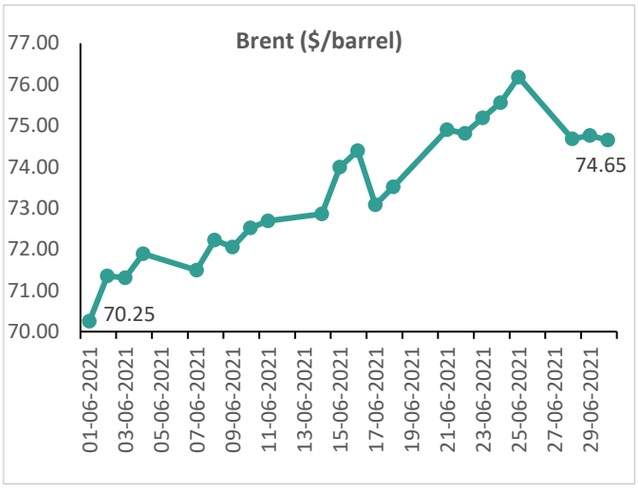
Gold prices began retreating from their highs in May during the first week of June itself. They softened to USD 1,873 per troy ounce on 3 June from USD 1,906 a troy ounce at the end of May as strong US economic data resulted in a shift towards riskier assets and lowered the appeal of gold. Prices hovered in the range of USD 1,856 – 1,895 per troy ounce during the second week of June before dropping sharply after the US Fed indicated that there could be two rate hikes by 2023. The Fed had, in March, said that it will hold rates near zero through 2023. A possible rate hike would increase the opportunity cost of holding gold and funds would flow back to the US markets thereby strengthening the dollar. This had a cascading effect on gold prices. International gold prices tumbled to USD 1,775 per troy ounce from USD 1,861 per troy ounce within a day of the Fed's announcement and proceeded to remain below USD 1,800 per troy ounce for the rest of the month.

While gold prices inched down when compared to their levels in May, they remained higher than their monthly average of February, March and April. On a y-o-y basis, international gold prices were five per cent higher during June 201 than in June 2020.

Crude Oil

June witnessed a progress in global oil market recovery, but supply constraints remain

Global economic growth and oil demand mostly move in tandem. In June 2021, a recovery in economic activities resulted in higher oil demand, but lower than required supply led to escalation in prices. The average of monthly global crude prices during this month rose to $73.4/barrel for Brent (32 months high), which translates to a rise of 7.5% m-o-m and 80% y-o-y.



The strong demand outlook from US and Europe, which witnessed the start of a summer season and ease in lockdown measures supported the upward movement. However, the spread of the new Delta variant is a cause of concern as it has already spread to nearly 90 countries. The global crude oil prices fell on 8th June, as large oil consumers like China showed signs of decelerating demand. Further, on 17th June, when the Fed signalled of possibly raising interest rates at a much faster pace, the US dollar boasted its strongest single day gain in 15 months. Due to this, commodity prices faced a headwind. However, oil prices rebounded as data release on U.S. crude oil showed, that its stockpiles dipped.

It is worrisome that investments made by companies across the energy value chain have not picked much pace recently. Some oil producers and exploration companies have reduced their drilling budgets, to conserve cash and avoid a new supply glut. The US oil inventories are depleting, and hence global supply is squeezing. With an increased investment and drilling, by US, Russia and OPEC nations, global oil supply may improve. Also, reaching a favourable nuclear deal between Iran and US could lead to higher oil supply from Iran and help control the prices.

A closer look at India shows that the retail fuel rates are escalating due to high tax rates. Even when the global oil prices were moving sideways or declined, the oil marketing companies in India decided to hike the fuel rates. While OPEC is likely to take a call on improving supply in today's meeting, the only way Indian retail prices could be brought down is by keeping tax rates on the lower side.

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