

WEEKLY WRAP

12 July 2021

Eye on CPI

Global yields fell this week on the back of concerns over delta variant. Fed signalled that change in QE will hinge upon economic recovery. China's PBOC did cut reserve ratio by 50bps to boost liquidity and growth. DXY closed lower as US jobless claims inched up and PMI disappointed. On the domestic front, RBI introduced a new benchmark security. Indian 10Y went up by 12bps ahead of CPI data today. We expect CPI at 6.6%. Our weekly economic activity tracker (WET index) was stable at 93, signalling revival in economic activity. Slow of data is awaited from US and China this week.

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Markets

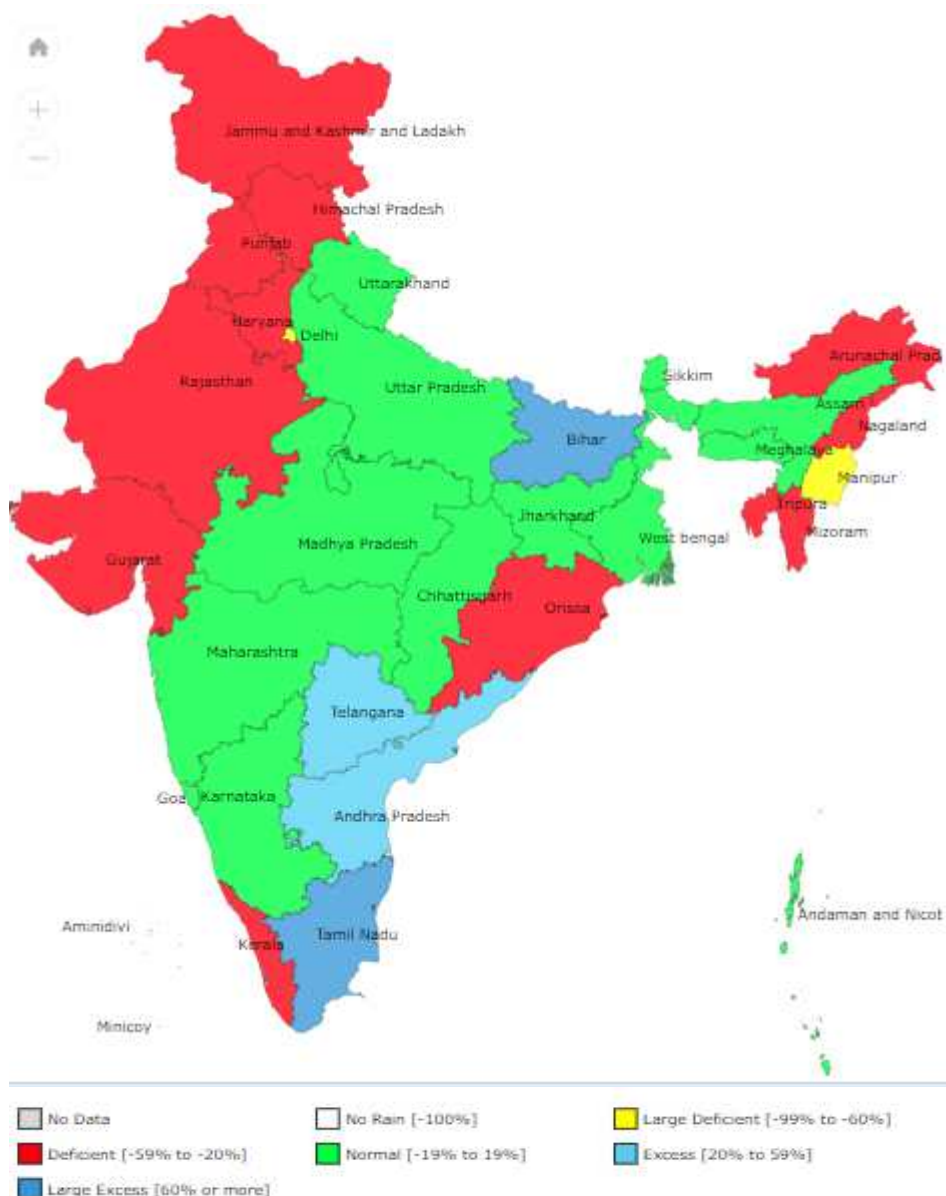
- **Bonds:** US 10Y yield fell by 5bps (1.42%) as Fed minutes pointed out that “substantial further progress” is needed before scaling back monetary stimulus. Germany's 10Y yield also fell by 5bps (-0.29%) as ECB changed its inflation target from close to or below 2% to allowing temporary movement beyond this point, giving room for more stimulus. Crude prices fell by 0.8% (US\$ 76/bbl) on demand concerns. India's 10Y yield rose by 12bps (6.19%) due to higher than expected cut off price set by RBI for the new benchmark security. System liquidity surplus was at Rs 5.6tn as on 9 Jul 2021 (Rs 5.7tn last week).
- **Currency:** DXY fell by 0.1% this week as US jobless claims rose unexpectedly. AUD depreciated by 0.5% amidst rising Covid-19 cases and lockdown. EUR rose by 0.1% as Eurozone composite PMI surged to a 15-year high in Jun'21. INR appreciated by 0.1% led by FII inflows (US\$ 199mn) and lower oil prices.
- **Equity:** Global indices closed mixed, with Nikkei and Sensex closing lower and Dow, Dax and Shanghai Comp each rising by 0.2%. FTSE closed flat. Recent surge in Covid-19 cases globally is a risk to equity markets. Sensex closed 0.2% lower, dragged by auto, IT, energy and banking stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 3mn this week versus 2.7mn last week. Cases increased in Japan, South Korea and UK. In India, cases rose at a slower pace. Our weekly economic activity tracker index was stable at 93 (100=Feb'20). Israel has fully vaccinated 60% of its population, UK at 51% and US at 48%. India is at 5.3% now.
- **Upcoming key events:** Major events this week include rate decisions of BoJ and BoK, US CPI, PPI and retail sales and China's industrial production, retail sales and trade data. In India, IIP and CPI data will be released later in the day followed by WPI. An area of concern is delay in monsoon which is now 8% below LPA (13% above normal last year) because of which sowing is lower.



Monsoon tracker

- For the period 1 Jun 2021 to 11 Jul 2021, monsoon is 8% below LPA compared with 13% above LPA last year. Parts of Central India including Madhya Pradesh, Maharashtra, Uttar Pradesh and Chhattisgarh have received normal rainfall. Telangana, Andhra Pradesh, Tamil Nadu and Bihar have received excess rainfall. On the other hand, Jammu and Kashmir, Rajasthan, Gujarat, Odisha, Punjab and parts of North Eastern region have received deficient rainfall
- Led by delay in monsoon, overall kharif sown area has fallen by (-) 10.4% as on 9 Jul 2021 compared with last year to 44mn hectares. Sown area of cotton (-) 17.5%, bajra (-) 37.8% and rice (-) 8.9% has declined the most.

Fig 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun- 11 Jul 2021

India macro developments

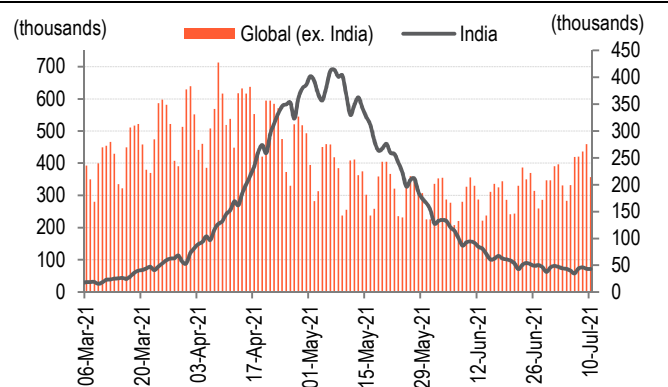
- India's foreign exchange reserves rose to a historic high of US\$ 610bn in the week ended 2 Jul 2021. Forex reserves rose by US\$ 1bn last week versus an increase of US\$ 5bn earlier. In FYTD22, India's forex reserves have increased by US\$ 30.7bn compared with US\$ 37.7bn in the same period last year.
- India's kharif sowing has been adversely impacted by the delay in South-West monsoon, with cumulative rainfall from 1 Jun to 11 Jul 2021 at 8% below LPA compared with 13% above LPA last year. The total acreage is down by 10.4% at 49mn hectares (from 55mn hectares) compared with last year as of 9 Jul 2021. The area sown under cotton (17.5%), rice (8.9%) and bajra (37.8%) saw the steepest decline compared with last year.
- India's auto sales (22.5% in Jun'21) signaled early signs of recovery on the back of pent up-demand and retail outlets reopening with gradual easing of state-wide restrictions. As per FADA, registrations of both passenger vehicles (43.5% in Jun'21 from decline of 37% in Jun'20) and two wheeler (17% in Jun'21 after declining by 41% in Jun'20) improved in Jun'21. This positive momentum is likely to continue in the coming months, with a pick-up in demand.
- India's services PMI moderated further to 41.2 in Jun'21 from 46.4 in May'21. This was the fastest pace of contraction since Jul'20, led by decline in new orders and business activity especially consumer services. Employment also fell for the seventh consecutive month. Higher input cost was passed on to consumers as firms lifted their selling price in Jun'21. Business sentiment was also down for the third month in a row.
- India's GST collections for May'21 fell to Rs 928bn from Rs 1tn in Apr'21, thus falling below the Rs 1tn mark for the first time since Sep'20. Compared to last year also (Rs 909bn) collections were only marginally better. On MoM basis, adjusted CGST fell by 49% to Rs 283bn from Rs 555bn in Apr'21. Cess collections also suffered with 3.3% decline to Rs 89bn. Adjusted SGST however rose by 21.3% to Rs 402bn from Rs 331bn in Apr'21.
- RBI reported that currency in circulation (CIC) declined by Rs 67.4bn and stood at Rs 29.7tn for the week ending 2 July 2021. Reserve money rose by 17.2% on a YoY basis, compared with 14.3% last year. On FYTD basis, reserve money increased by 3.5% against 5% increase, a year ago.

Global macro developments

- US jobless claims for the week ended 3 Jul 2021 rose by 2,000 to 373,000 compared with expectation of a decline to 350,000. Despite the marginal uptick, claims have remained near a pandemic low. The 4-week moving average of claims, fell marginally by 250 to 394,500. Jobless claims are likely to remain volatile in the coming weeks as the unemployment programmes are set to end in Sep'21.
- Europe's Jun'21 services PMIs indicate that while activity gathered pace in the Eurozone (58.3 versus 55.2 in May'21), it eased a tad in the UK (62.4 versus 62.9). In the Eurozone, new business orders rose to the highest since Jul'07, supported by international and domestic orders. As a result, employment rose at the strongest pace since Oct'18. Within the Eurozone, Germany reported record improvement with PMI (57.5 versus 52.8) reaching its highest since Mar'11.
- China's Central Bank (PBOC) has announced a 50bps cut in RRR, w.e.f. 15 July 2021. This brings down the weighted average RRR to 8.9% and is estimated to release ~1n Yuan (US\$ 154bn) in liquidity. This is expected to boost growth which is seen losing momentum recently (slower IIP, FAI and CPI). Activities of smaller firms have been hit by higher commodity prices and cut in RRR will reduce the stress due to tightening liquidity conditions and will also nudge banks towards lower interest rates over the medium term.
- Factory orders in Germany declined by 3.7% in May'21 on a MoM basis after increasing by 1.2% in Apr'21. This was led by a drop in foreign orders (-6.7%). Further, while new orders for capital and intermediated goods fell, new orders for consumer goods improved. Separately, ZEW economic sentiment index fell more than expected to 63.3 in Jul'21 (est. 75) from 79.8 in Jun'21. However, the current economic conditions index rose to at 21.9 from (-) 9.1 in Jun'21.
- US Fed minutes highlighted that economic outlook still remains uncertain and "substantial further progress" is needed to decide on the timing of scaling back asset purchase program. However, FOMC members said that this is expected to happen much earlier than anticipated. Regarding inflation, FOMC members reiterated that the spike is transient. However, labour shortages and supply bottlenecks might pose upside risk in the near term.
- US ISM services index eased to 60.1 in Jun'21 from 64 in May'21 led by sharp dip in business activity (60.4 versus 66.2) and employment (49.3 versus 55.3). While price pressures eased marginally (79.5 versus 80.6), respondents commented that supply chain bottlenecks and rising wages are impacting output prices and constraining business activity. Sector-wise, while real estate/rental services reported drop in activity, business was strong for arts, entertainment and recreation, transportation and warehousing, and wholesale and retail trade.
- China's PPI slowed marginally to 8.8% in Jun'21 from 9% in May'21. Prices of consumer goods remained much more sluggish (0.6% decline), while those of producer goods eased marginally (11.8% rise versus 12%). CPI remained muted, rising by 1.1% in Jun'21 versus 1.3% in May'21, led by 1.7% decline in food prices (0.3% rise in May'21). Non-food prices however rose by 1.7% versus 1.6% in May'21.

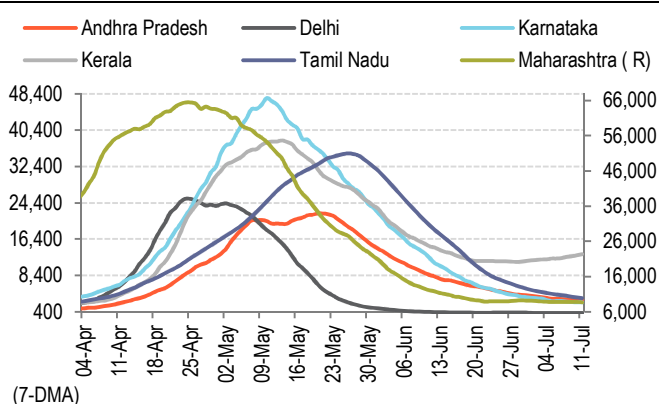
High Frequency Indicators and Weekly Activity Tracker

Fig 2 – GLOBAL COVID-19 CASES PICKED UP MARGINALLY THIS WEEK



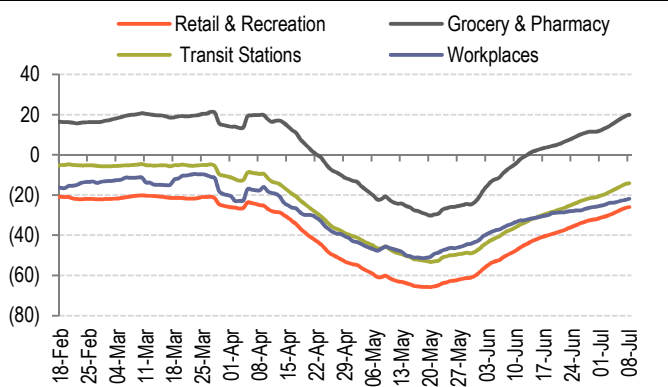
Source: CEIC, Bank of Baroda Research *Data as of 10 Jul 2021

Fig 3 – MODERATION IN COVID-19 CASES IN INDIAN STATES



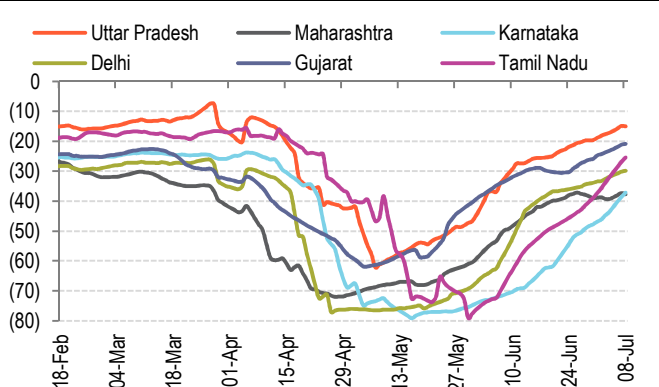
Source: CEIC, Bank of Baroda Research *Data as of 11 Jul 2021

Fig 4 – UPTICK IN GOOGLE MOBILITY INDEX



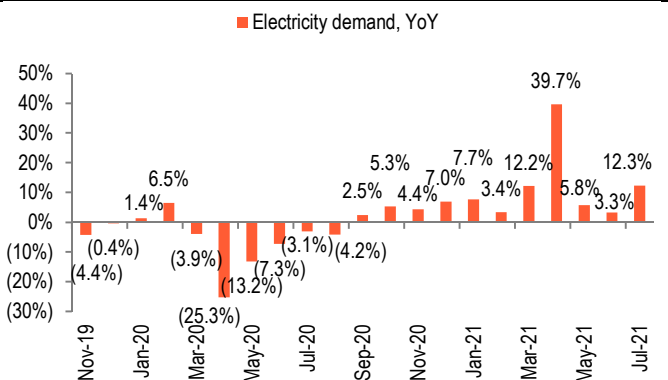
Source: CEIC, Bank of Baroda Research; *Data as of 8 Jul 2021

Fig 5 – IMPACT OF EASING LOCALISED LOCKDOWN ON MOBILITY: RETAIL AND RECREATION



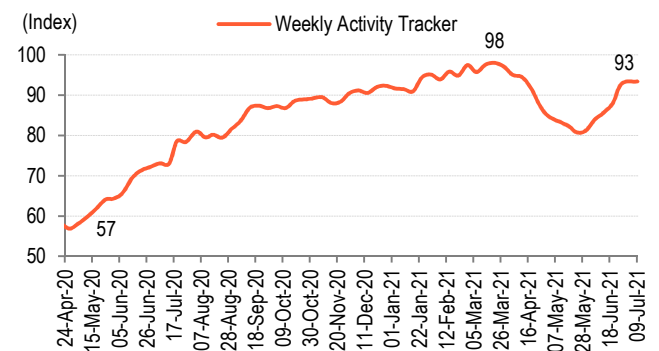
Source: CEIC, Bank of Baroda Research; *Data as of 8 Jul 2021

Fig 6 – IMPROVEMENT IN ELECTRICITY DEMAND



Source: Bloomberg, Bank of Baroda Research; *Data as of 10 Jul 2021

Fig 7 – WEEKLY ACTIVITY TRACKER SHOWING STEADY IMPROVEMENT



Source: CEIC, Bank of Baroda Research, Note: Composite weighted average index of high frequency indicators; *Data as of 9 Jul 2021

Fig 8 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

| Particulars | Current | 1W | 1M | 3M | 12M |
|---|--------------|------------|------------|-------------|-------------|
| 10Y yields (Δ bps) | | | | | |
| US | 1.37 | (5) | (28) | (33) | 68 |
| UK | 0.66 | (4) | (19) | (14) | 45 |
| Japan | 0.03 | (2) | (6) | (7) | (1) |
| Germany | (0.29) | (5) | (11) | 3 | 16 |
| India | 6.19 | 12 | 10 | 9 | 35 |
| China | 3.03 | (5) | (15) | (23) | (11) |
| 2Y yields (Δ bps) | | | | | |
| US | 0.21 | (2) | 4 | 5 | 4 |
| UK | 0.09 | 3 | 0 | 4 | 18 |
| Japan | (0.12) | 0 | 1 | 2 | 1 |
| Germany | (0.68) | 0 | (2) | 3 | 0 |
| India | 4.31 | (4) | (32) | (31) | 20 |
| China** | 2.18 | (13) | (22) | (33) | 2 |
| Currencies (Δ %) | | | | | |
| EUR | 1.1873 | 0.1 | (2.8) | (0.6) | 5.0 |
| GBP | 1.3899 | 0.5 | (2.8) | 0.4 | 9.4 |
| JPY | 110.14 | 0.8 | (0.4) | (0.4) | (2.4) |
| AUD | 0.7485 | (0.5) | (4.2) | (2.9) | 6.7 |
| INR | 74.64 | 0.1 | (2.6) | (0.2) | 0.4 |
| CNY | 6.4788 | (0.1) | (1.5) | 0.9 | 7.2 |
| Equity & Other indices (Δ %) | | | | | |
| Dow | 34,870 | 0.2 | (0.6) | 2.7 | 33.9 |
| FTSE | 7,122 | 0 | (0.7) | 1.3 | 16.2 |
| DAX | 15,688 | 0.2 | (1.6) | 1.4 | 23.5 |
| NIKKEI | 27,940 | (2.9) | (3.1) | (5.4) | 24.8 |
| Shanghai Comp | 3,524 | 0.2 | (2.1) | 1.2 | 2.2 |
| SENSEX | 52,386 | (0.2) | 0.5 | 5.7 | 43.1 |
| Brent (US\$/bbl) | 75.55 | (0.8) | 3.7 | 17.3 | 75.0 |
| Gold (US\$/oz) | 1,803 | 1.5 | (5.1) | 2.7 | 0 |
| CRB Index | 551.9 | (0.4) | 0.1 | 8.1 | 51.8 |
| Rogers Agri Index | 1,016.4 | (4.1) | (6.6) | 5.5 | 46.4 |
| LIBOR (3M)* | 0.12 | (2) | 0 | (6) | (14) |
| INR 5Y Swap* | 5.71 | 0 | 12 | 1 | 39 |
| India FII data (US\$ mn) | | | | | |
| | 8 Jul | WTD | MTD | CYTD | FYTD |
| FII-Debt | 13.6 | (2.2) | (15.1) | (3,181.9) | (1,154.7) |
| FII-Equity | (85.8) | 201.0 | (150.0) | 7,934.2 | 607.8 |

Source: Bloomberg, Bank of Baroda Research | *Indicates change in bps | **1Y yield | ^ 4.26GS2023 security

Fig 9 – DATA RELEASE CALENDAR

| Date | Event | Period | Estimate | Prior | Actual |
|---------------------------------|---|--------|----------|--------|--------|
| 12-Jul | Japan core machine orders, % MoM | May | 2.4% | 0.6% | 7.8% |
| | Japan PPI, % YoY | Jun | 4.8% | 4.9% | 5.0% |
| | India IIP, % YoY | May | 32.0% | 134.4% | -- |
| | India CPI, % YoY | Jun | 6.6% | 6.3% | -- |
| 13-Jul | China exports, % YoY | Jun | 23.0% | 27.9% | -- |
| | Germany CPI, % YoY | Jun | 2.3% | 2.3% | -- |
| | France CPI, % YoY | Jun | 1.5% | 1.5% | -- |
| | US CPI, % MoM | Jun | 0.5% | 0.6% | -- |
| 14-Jul | Singapore GDP, % YoY | Q2CY21 | 14.6% | 1.3% | -- |
| | Japan industrial production, % MoM | May | -- | (5.9%) | -- |
| | UK CPI, % YoY | Jun | 2.2% | 2.1% | -- |
| | India WPI, % YoY | Jun | 12.2% | 12.9% | -- |
| | Euro Area industrial production SA, % MoM | May | (0.2%) | 0.8% | -- |
| | US PPI final demand, % MoM | Jun | 0.5% | 0.8% | -- |
| 15-Jul | BoK 7-day repo rate, % | 15-Jul | 0.5% | 0.5% | -- |
| | China new home prices, % MoM | Jun | -- | 0.5% | -- |
| | Australia unemployment rate, % | Jun | 5.1% | 5.1% | -- |
| | China GDP, % YoY | Q2CY21 | 8.0% | 18.3% | -- |
| | China retail sales, % YoY | Jun | 10.8% | 12.4% | -- |
| | China industrial production, % YoY | Jun | 7.9% | 8.8% | -- |
| | China fixed assets ex rural YTD, % YoY | Jun | 12.0% | 15.4% | -- |
| | UK ILO unemployment rate 3mths, % | May | 4.7% | 4.7% | -- |
| | India exports, % YoY | Jun | -- | 69.4% | -- |
| | US initial jobless claims, in thousands | 10-Jul | 350.0 | 373.0 | -- |
| US industrial production, % MoM | Jun | 0.6% | 0.8% | -- | |
| 16-Jul | BOJ policy balance rate, % | 16-Jul | (0.1%) | (0.1%) | -- |
| | Singapore non-oil domestic exports, % YoY | Jun | 8.3% | 8.8% | -- |
| | Euro Area CPI, % YoY | Jun | 1.9% | 2.0% | -- |
| | US retail sales, % MoM | Jun | (0.4%) | (1.3%) | -- |

Source: Bloomberg, Bank of Baroda Research

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