

WEEKLY WRAP

14 June 2021

India's economic recovery continues

Even with US inflation at 5%, US 10Y yield fell as surge is expected to be transitory. EUR fell by 0.5% after ECB reiterated its accommodative stance and Germany's economic sentiment and factory order dropped. Economic activity continues to rebound in India with receding cases and easing off restrictions. Our weekly economic tracker shows a pickup in economic activity (at 88 from 84 WoW). Easing US yields are a positive for Indian bonds where inflation concerns have been creeping in with double-digit WPI inflation.

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Markets

- **Bonds:** Despite higher than estimated CPI inflation, US 10Y yield fell by 10bps (1.45%) during the week. Consensus expectation is that US Fed might follow ECB's tone regarding inflation spike being transient. Crude prices rose by 1.1% (US\$ 73/bbl) as global economy continued on the path to recovery. India's 10Y yield fell by 2bps (6.01%) supported by GSAP. System liquidity surplus rose to Rs 4.8tn as on 11 Jun 2020 from Rs 4.7tn in previous week.
- **Currency:** Global currencies closed lower this week. EUR fell by 0.5% as ECB is expected to continue its stance on rates and liquidity. DXY rose by 0.5% with buoyant consumer sentiment. INR depreciated by 0.1% as oil prices rose to a more than 2-year high. FII inflows were US\$ 591mn.
- **Equity:** Global indices closed mixed. While Dow and Shanghai Comp fell, FTSE and Sensex rose. Investors believe high US CPI print to be transitory and await Fed's policy decision this week. Sensex rose by 0.7% led by power, tech and metal stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose at a slower pace of 2.6mn this week versus 3mn last week led by India at 0.6mn (0.9mn last week). Our weekly economic activity tracker index rose to 88 (100=Feb'20) from 84 last week. Israel has fully vaccinated 59% of its population, US and UK at 43%. India still far lower at 3.4%.
- **Upcoming key events:** Major events this week include policy decision at US Fed and BoJ, industrial production and retail sales data from US and China. On the domestic front, CPI and WPI prints are due later today.



Monsoon tracker

- For the period 1 Jun 2021 to 13 Jun 2021, monsoon is 25% above LPA. Large part of central India continues to receive excessive rainfall, this includes Uttar Pradesh, Maharashtra, Madhya Pradesh, Telangana and other states. Jammu Kashmir, Karnataka and parts of North Eastern region including Assam and Arunachal Pradesh have received normal rains. Gujarat, Kerala, Mizoram, and Tripura have received deficient rainfall.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



India macro developments

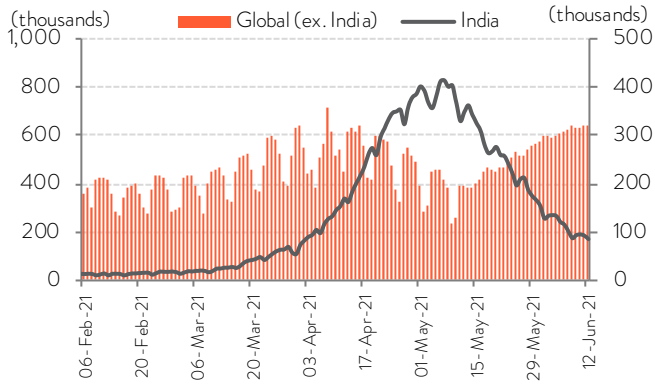
- India's Industrial output reported a 134.4% jump in Apr'21 on account of a low base (-57.3% in Apr'20). Notably, over a 2-year horizon, IIP has risen by 0.1% in Apr'21. Within this, electricity output rose by 6.8%. Intermediate and FMCG goods have increased by 11.5% and 1.6% respectively (over Apr'19). Infra/ construction is also resilient. India's industrial sector seems to have emerged stronger from the second wave.
- Government has announced MSP hike for Kharif crops for the marketing season 2021-22. In absolute terms, MSP hike ranges from Rs 20-452/quintal. For major crops such as Paddy (common), the increase was Rs 72/quintal to Rs 1,940/quintal. For pulses such as Tur, Urad, the hike was Rs 300/quintal to Rs 6,300/quintal each. Other crops which saw maximum MSP increase was Sesamum (Rs 452/quintal hike to Rs 7,307/quintal) and groundnut (Rs 275/quintal hike to Rs 5,550/quintal).
- World Bank has upgraded India's growth forecast for FY22 to 8.3% from 5.4% earlier (Jan'21). It notes that while the second-wave of Covid-19 has severely impacted growth recovery, government push for infrastructure as well as a strong rebound in manufacturing and services sector will drive growth. In FY23, growth is expected to slow down to 7.5%. Global GDP is also expected to grow at a faster pace of 5.6% in CY21 versus 4.1% earlier.
- Government of India has announced free Covid-19 vaccine at government hospitals for 18-44 age group. It will buy 75% of jabs from vaccine manufacturers, including 25% of state quota, and give it for free to states. This will entail a fiscal burden of Rs 420-450bn against BE-Rs 350bn. Centre has also extended distribution of free foodgrains (PMGKAY scheme) till Nov'21. Estimated cost which was Rs 253bn for May-Jun'21, will escalate further.
- As per news reports, Ministry of Finance (MoF) has advised all ministries to cut their non-essential expenditure by 20%, taking expenditure in FY20 as baseline. The list of "controllable expenditure" includes items like, rents, overtime, domestic/foreign travel expense, administrative expenses etc. Previously in FY21, MoF had announced upto 40% reduction in non-essential spending between Apr-Nov'20, resulting in savings of Rs ~4tn.
- According to FADA, India's auto sales in May'21 fell by 54.8% on MoM basis versus 28.1% decline in Apr'21. Within this, passenger vehicle sales fell the most by 59% versus 25.3% drop in Apr'21. Two wheeler sales were also down by 52.5% compared with 27.6% dip in Apr'21. In Q1FY22 (Apr-May), total auto sales were down by 41.5% versus 3.2% drop in Q4FY21.

Global macro developments

- CPI inflation in Germany rose to a 10-year high of 2.5% in May'21 from 2% in Apr'21 on a YoY basis. This was driven by higher energy prices (10% versus 7.9% in Apr'21). Prices of services also rose by 2.2% in May'21 compared with 1.6% in Apr'21. HICP inflation (Harmonised Index of Consumer Prices) which is used by ECB rose to 2.4% in May'21, much above ECB's inflation target of ~2%.
- China's PPI rose by 9% in May'21 (est.: 8.5%; May'20: -3.7%) following 6.8% rise in Apr'21. Apart from base effect, higher commodity prices are driving the trend. Going forward, unfavourable base, easing supply chain bottlenecks and impact of slowing credit growth may ease price pressures in coming months. Separately, CPI remains contained as it rose by 1.3% in May'21 versus 0.9% in Apr'21. Core inflation also rose to 0.9% from 0.7%.
- GDP in the Euro Area and EU contracted at a slower pace of 0.3% and 0.1% respectively in Q1CY21 against 0.6% and 0.4% decline in Q4CY20. This was driven by softer pace of decline in household consumption demand. Separately, Germany's ZEW economic sentiment fell to 79.8 in Jun'21 from 84.4 in May'21, driven by decline in expectation index.
- US consumer sentiment index (University of Michigan) rebounded to 86.4 in Jun'21 (est.: 84) from 82.9 in May'21. This was led by improved sentiment due to decline in unemployment and expectation of higher income, with the vaccine rollout and reopening of the economy. Further, consumer inflation expectations also moderated (1Y expectation fell to 4% from 4.6% earlier and 5-10Y expectation fell to 2.8% from 3% earlier).
- ECB remained dovish in its latest policy keeping rates unchanged and also sticking to its current pace of asset purchase program (€1.85tn under PEPP). It said that spike in inflation observed recently is a transient phenomenon due to a surge in energy prices. Further, growth (4.6% from 4% earlier) and inflation (1.9% from 1.5% earlier) projections have been revised upwards for CY21.
- US CPI rose by 0.6% in May'21 (est., 0.4%) compared with 0.8% in Apr'21 on a MoM basis. However, on a YoY basis CPI jumped by 5% in May'21 (est. 4.7%) to a 13-year high, due to base effect. Core CPI (excluding volatile food and energy) also rose to its highest since CY92 at 3.8% (YoY). Separately, US jobless claims for the week ended 5 Jun 2021 declined for the 6th-straight week by 9,000 to 376,000.

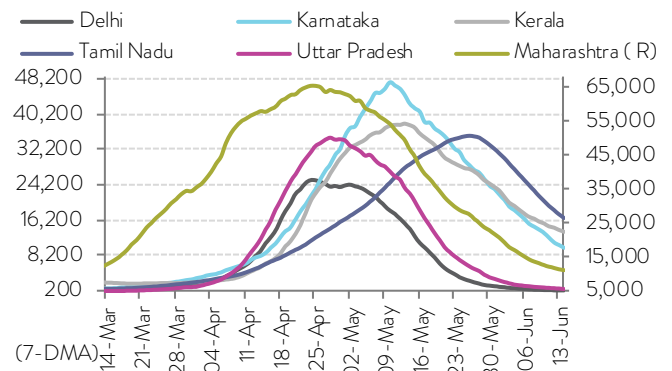
High Frequency Indicators and Weekly Activity Tracker

FIG 2 – STEADY DECLINE IN COVID-19 CASES GLOBALLY



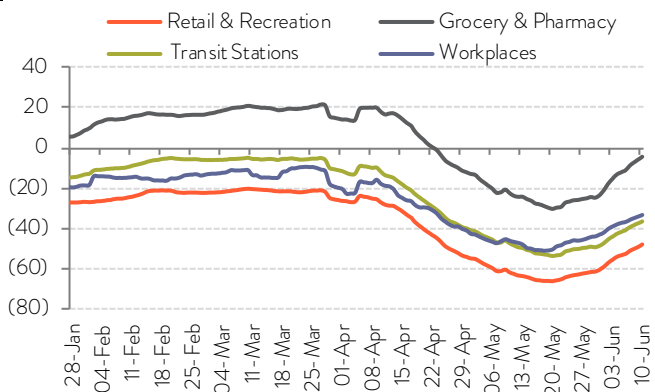
Source: Bloomberg, Bank of Baroda Research *Data as of 12 Jun 2021

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



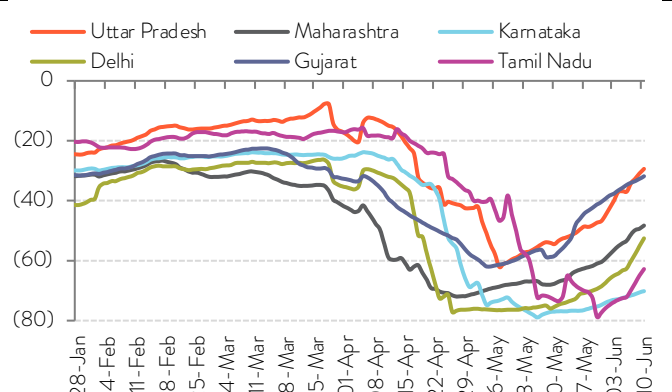
Source: CEIC, Bank of Baroda Research *Data as of 13 Jun 2021

FIG 4 – GOOGLE MOBILITY INDEX PICKING UP



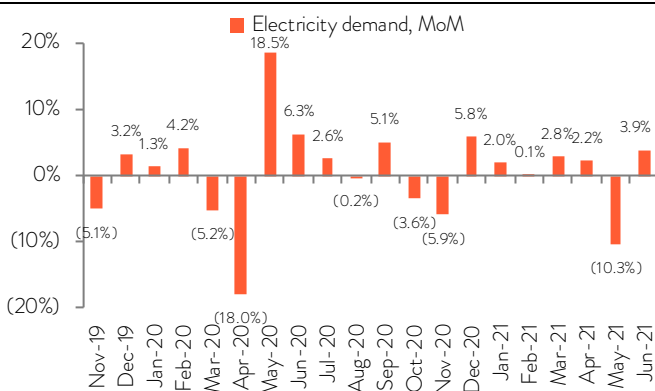
Source: CEIC, Bank of Baroda Research; *Data as of 10 Jun 2021

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



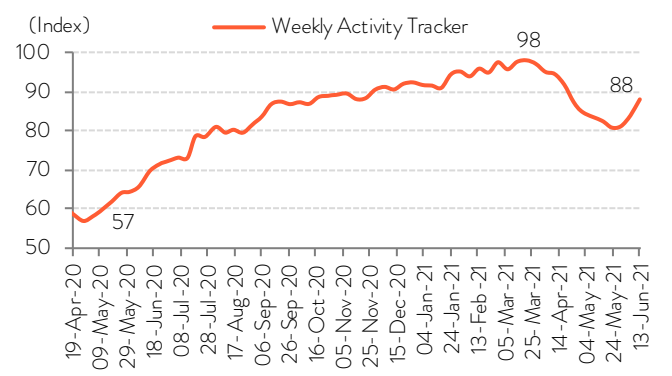
Source: CEIC, Bank of Baroda Research; *Data as of 10 Jun 2021

FIG 6 – IMPROVEMENT IN ELECTRICITY DEMAND



Source: Bloomberg, Bank of Baroda Research; *Data as of 12 Jun 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 13 Jun 2021

FIG 8 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.45	(10)	(17)	(17)	78
UK	0.71	(8)	(13)	(11)	51
Japan	0.04	(5)	(4)	(9)	2
Germany	(0.27)	(6)	(11)	3	14
India	6.01	(2)	0	(22)	23
China	3.15	2	2	(11)	38
2Y yields (Δ bps)					
US	0.15	0	(1)	0	(5)
UK	0.05	(2)	(1)	(5)	10
Japan	(0.12)	0	1	1	2
Germany	(0.68)	(1)	(2)	0	(3)
India	4.24	(9)	(12)	(70)	(20)
China**	2.44	8	4	(14)	45
Currencies (Δ %)					
EUR	1.2109	(0.5)	(0.3)	1.3	7.2
GBP	1.4107	(0.4)	(0.2)	1.3	11.9
JPY	109.66	(0.1)	(1.0)	(0.6)	(2.6)
AUD	0.7708	(0.4)	(1.7)	(0.7)	12.4
INR	73.08	(0.1)	0.4	(0.4)	3.6
CNY	6.3987	(0.1)	0.5	1.7	9.4
Equity & Other indices (Δ %)					
Dow	34,480	(0.8)	0.6	5.2	37.2
FTSE	7,134	0.9	2.7	5.5	17.4
DAX	15,693	0	3.8	8.2	31.1
NIKKEI	28,949	0	1.2	(2.6)	28.8
Shanghai Comp	3,590	(0.1)	4.3	4.0	22.9
SENSEX	52,475	0.7	6.7	3.3	56.5
Brent (US\$/bbl)	72.69	1.1	6.0	5.0	88.6
Gold (US\$/oz)	1,878	(0.7)	2.2	8.7	8.7
CRB Index	563.5	2.2	3.4	13.5	53.7
Rogers Agri Index	1,081.8	(0.5)	(2.8)	11.8	59.9
LIBOR (3M)*	0.12	(1)	(4)	(7)	(19)
INR 5Y Swap*	5.67	9	4	(24)	45
India FII data (US\$ mn)					
	10 Jun	WTD	MTD	CYTD	FYTD
FII-Debt	144.0	(237.5)	(245.7)	(2,826.3)	(799.1)
FII-Equity	197.6	828.6	1,419.5	8,005.6	679.2

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

FIG 9 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
14-Jun	Japan industrial production, % MoM	Apr	--	2.5%	--
	India WPI, % YoY Wholesale Prices YoY	May	13.4%	10.5%	--
	Euro Area industrial production SA, % MoM	Apr	0.4%	0.1%	--
	India CPI, % YoY	May	5.4%	4.3%	--
15-Jun	RBA minutes of June policy meeting				
	UK ILO unemployment rate 3months, %	Apr	4.7%	4.8%	--
	Germany CPI, % MoM	May	0.5%	0.5%	--
	France CPI, % YoY	May	1.4%	1.4%	--
	India exports, % YoY	May	--	195.7%	--
	US retail sales advance, % MoM	May	(0.6%)	0.0%	--
	US PPI final demand, % MoM	May	0.5%	0.6%	--
	US industrial production, % MoM	May	0.6%	0.7%	--
16-Jun	Japan exports, % YoY	May	50.9%	38.0%	--
	UK CPI, % MoM	May	0.3%	0.6%	--
	China retail sales, % YoY	May	14.0%	17.7%	--
	China industrial production, % YoY	May	9.2%	9.8%	--
	China fixed assets ex rural YTD, % YoY	May	17.0%	19.9%	--
	US housing starts, in mn	May	1.6	1.6	--
	US FOMC policy rate, %	16-Jun	0.25%	0.25%	--
17-Jun	Singapore non-oil domestic exports, % YoY	May	16.0%	6.0%	--
	China new home prices, % MoM	May	--	0.5%	--
	Australia unemployment rate, %	May	5.5%	5.5%	--
	Euro Area CPI, % YoY	May	2.0%	1.6%	--
	US initial jobless claims, in thousands	12-Jun	360.0	376.0	--
18-Jun	Japan CPI, % YoY	May	(0.2%)	(0.4%)	--
	Germany PPI, % MoM	May	0.7%	0.8%	--
	Euro Area current account SA, € bn	Apr	--	17.8	--
	Japan policy rate, %	18-Jun	(0.1%)	(0.1%)	--

Source: Bloomberg, Bank of Baroda

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