

WEEKLY WRAP

19 July 2021

India's economic activity improves further

Global yields fell led by US and Germany as global growth worries resurfaced. Fed Chair remained dovish and ECB also hinted at continuing with dovish policy. DXY closed 0.6% higher with supportive macro data. However, global equity markets reacted negatively to rising Covid-19 cases. Indian equity markets went up as cases continue to fall. India's 10Y rose by 3bps on the back of RBI buying off-the run securities in its G-SAP auction. Our weekly economic tracker has inched up to 94 from 93 last week (Feb'20=100), signalling further revival in economic activity.

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Markets

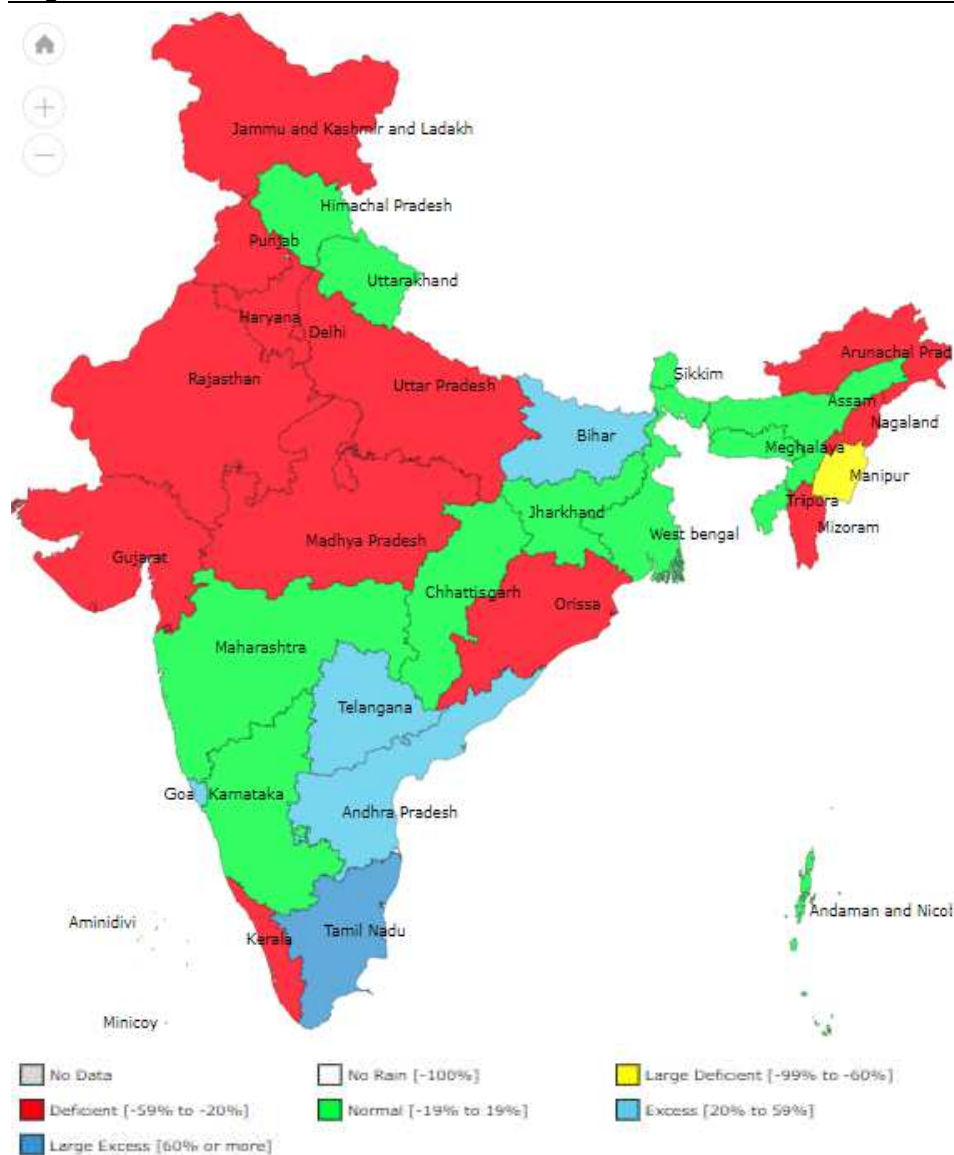
- **Bonds:** Growth worries pulled global yields lower. US 10Y yield fell by 7bps (1.29%) supported by dovish comments from Fed Chair. Germany's 10Y yield fell by 6bps (-0.35%) as ECB Board Member also spoke about monetary stimulus to support the economy. Crude prices fell by 2.6% (US\$ 74/bbl). India's 10Y yield (5.85 GS2030) rose by 3bps (6.21%) as RBI did not include on-the-run securities under current G-SAP auction. System liquidity surplus was steady at Rs 5.6tn as on 16 Jul 2021 unchanged from last week.
- **Currency:** Global currencies closed mixed. DXY rose by 0.6% as US data remained positive (jobless claims, retail sales). AUD (1.2%) and GBP (1%) fell amidst rising Covid-19 cases and a slowing global economy. INR rose by 0.1% as oil prices eased. FII outflows were muted at US\$ 84mn.
- **Equity:** Global indices closed mixed, with US and European markets closing lower and Asian markets ending in green. FTSE fell (1.6%) the most led by higher inflation, BoE Deputy Governor's comments on tightening of monetary policy and rising Covid-19 cases. Sensex rose the most by 1.4%, led by realty and cap good stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 3.5mn this week versus 3mn last week. Fresh cases increased in UK (0.3mn versus 0.2mn), US (0.2mn versus 0.1mn) and APAC (1.1mn versus 0.9mn). In India, cases rose at a slower pace of 0.27mn versus 0.29mn. Our weekly economic activity tracker index rose to 94 (100=Feb'20) from 93. Israel has fully vaccinated 60% of its population, UK is at 52% and US at 48%. India is at 5.6%.
- **Upcoming key events:** Major events this week include rate decisions of ECB and BoI, global flash PMIs and US housing data (starts and existing home sales). RBA's minutes are scheduled for release. On the domestic front, Covid-19 cases, rains and Monsoon session of Parliament will drive markets.



Monsoon tracker

- For the period 1 Jun 2021 to 18 Jul 2021, monsoon is 10% below LPA compared with 10% above LPA last year. Parts of Central and Northern India including Madhya Pradesh, Gujarat, Uttar Pradesh, Rajasthan, Punjab and Jammu and Kashmir have received deficient rainfall. Maharashtra, Karnataka, Chhattisgarh, Himachal and Uttarakhand have received normal rainfall during this period. On the other hand, Bihar, Telangana, Tamil Nadu and Andhra Pradesh have received excess rainfall. Widespread distribution of rainfall is expected in the coming days.
- Overall Kharif sown area has fallen by 11.5% as on 16 Jul'21 compared with last year, on the back of deficient monsoon. Sown area of pulses (-12%) and cereals (-12.5%) have dropped sharply. Further, sowing of cotton (-13%) and oilseeds (-13.7%) has also declined compared with last year. However, sowing of sugarcane (1.7%) and jute & mesta (0.9%) has improved.

Fig 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun- 18 Jul 2021

India macro developments

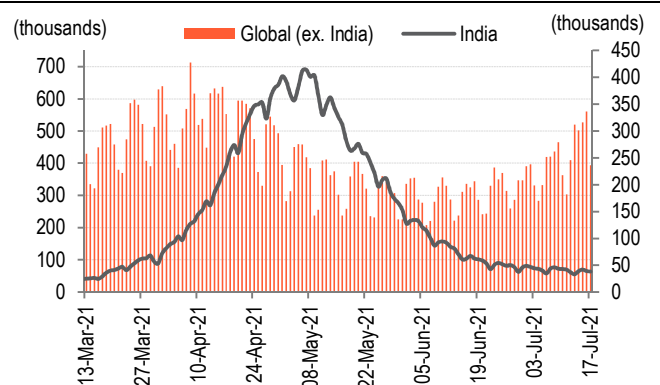
- India's industrial output slowed down to 29.3% in May'21, led by manufacturing and electricity. Over a 2-year horizon, it has contracted by 13.9% led by capital goods and durables. Separately, CPI inflation for Jun'21 eased to 6.26% with core inflation moderating to 6.2% from 6.5% in May'21. However, food inflation rose to 5.1% (+10bps MoM). Supply side pressure on core is likely to continue. Food inflation is expected to soften, but below normal monsoon is a risk.
- S&P has reaffirmed India's sovereign rating for 14th year in a row to 'BBB-' with a stable outlook on the back of gradual recovery in the economy. The agency noted that India's strong external settings is likely to help buffer the risks associated with the government's high deficits and debt stock. It also expects the economy to normalise in the coming months with GDP growth at 9.5% in FY22.
- RBI reported that currency in circulation (CIC) increased by Rs 121bn and stood at Rs 29.8tn for the week ending 9 July 2021. Reserve money rose by 16.6% on a YoY basis, compared with 13.9% last year. On FYTD basis, reserve money increased by 2.9% against 4.8% increase, a year ago.
- India's trade data showed that exports in Jun'21 rose to US\$ 32.5bn versus US\$ 21.9bn in Jun'20. Imports too were higher (US\$ 41.9bn) versus last year (US\$ 21.1bn). Over a 2-year horizon, exports have risen by 29.8% in Jun'21 versus 8.1% in May'21, led by increase in non-oil exports (27.7% versus 9.1%). Imports are also gradually improving with growth at 2% in Jun'21 versus 17.4% drop in May'21, led by recovery in non-oil-non-gold imports (11.4% versus 3% decline).
- Central government has released Rs 750bn as first batch of payment for GST compensation to states. This is under the back to back loan facility provided by the Centre, wherein it will borrow Rs 1.59tn in FY22 versus Rs 1.1tn borrowed in FY21. For raising Rs 750bn, Centre borrowed Rs 685bn in 5Y security and Rs 65bn in 2Y security. This amount is over and above the budgeted compensation (Rs 1tn) to be paid to states by the centre.
- India's foreign exchange reserves rose to a lifetime high of US\$ 611.9bn in the week ended 9 Jul 2021. Forex reserves rose by US\$ 1.9bn this week compared with an increase of US\$ 1bn in the previous week. In FYTD22, forex reserves have increased by US\$ 32.6bn compared with an accretion of US\$ 40.8bn in the same period last year.

Global macro developments

- China's exports rose by 32.2% (est.: 22.9%) versus 27.9% in May'21. Despite global semiconductor shortages and port bottleneck, export growth picked up owing to easing lockdown measures and pick up in vaccination drive, globally. Apart from this, base effect was also at play as exports in Jun'20 were up by only 0.5%. Separately, import growth eased to 36.7% (est.: 29.3%) in Jun'21 from 51.1% in May'21.
- US advance retail sales rose more than expected by 0.6% in Jun'21 (est.: 0.3% decline) against 1.7% drop seen in May'21, on MoM basis. Core retail sales also increased by 1.1% (est.: 0.4%) compared with 1.4% fall in May'21. In a separate print, University of Michigan consumer sentiment index dropped to 80.8 in Jul'21 (est.: 86.5) and against 85.5 in Jun'21, dented by higher inflation expectations.
- US CPI rose the most since CY08 by 0.9% in Jun'21 (est.: 0.5%) and against 0.6% increase in May'21, on MoM basis. Food prices rose by 0.8% from 0.4% and energy prices which was flat in May'21 shot up by 1.5%. Core CPI (excl. food and energy) also rose by 0.9% from 0.7% in May'21, driven by sharp jump in new and used vehicle prices. On YoY basis, core rose by 4.5% while headline CPI was up by 5.4%.
- US PPI rose by 1% (MoM) in Jun'21 (est.: 0.5%) and against 0.8% increase in May'21. This was led by 0.8% increase in services inflation compared with 0.6% in May'21. Faster pace of vaccination (48% of population fully vaccinated), lent support. Goods prices however moderated slightly, to 1.2% from 1.5% in May'21. On YoY basis, PPI rose to its highest since Nov'10 by 7.3% as against 6.6% in May'21.
- China's Q2CY21 GDP rose by 7.9% (est.: 8%) versus 18.3% rise in Q1, owing to base effect. However on QoQ basis, GDP was up by 1.3% versus 0.4% in Q1. Impact of base effect was also visible on other indicators such as industrial production, which in Jun'21 rose by 8.3% (est.: 7.8%) versus 8.8% in May'21. FAI growth eased to 12.6% in H1CY21 versus 15.4% in Jan-May'21. Retail sales rose by 12.1% in Jun'21 (est.: 10.8%) versus 12.4% in May'21.
- US industrial production rose at a moderate pace of 0.4% in Jun'21 (est.: 0.6%) from 0.7% in May'21 on a MoM basis. This was on account of 0.1% decline in manufacturing output following 0.9% increase in May'21, led by drop in motor vehicle production. However, mining (1.4% from 0.8%) and utilities (2.7% from -0.8%) held up. Separately, US jobless claims fell by 26k to 360k for the week ending 10 Jul 2021 versus last week. This is the lowest level since 14 Mar 2020.
- BoJ in its latest policy decision has left key yield curve control targets unchanged at (-) 0.1% (for short-term rates) and 0% (for 10Y yield). However it has revised its GDP projection downward for FY22 to 3.8% from 4% estimated in Apr'21. For FY23 projection has been revised upward to 2.7% from 2.4%. BoJ has also announced it will provide zero interest funds to financial institutions in order to boost loans for activities that help combat climate change.

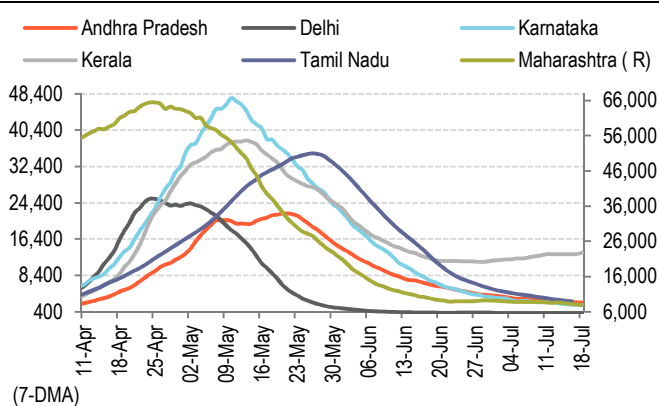
High Frequency Indicators and Weekly Activity Tracker

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



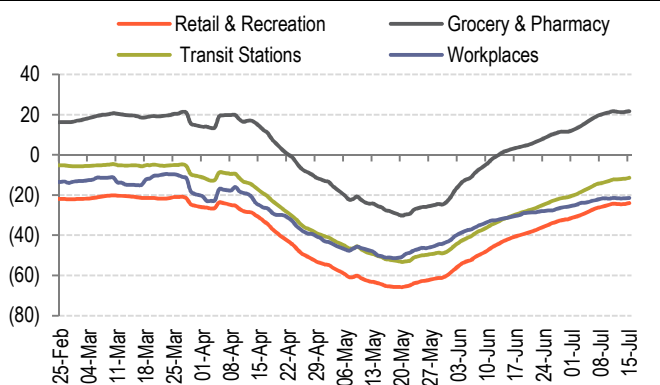
Source: CEIC, Bank of Baroda Research *Data as of 17 Jul 2021

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



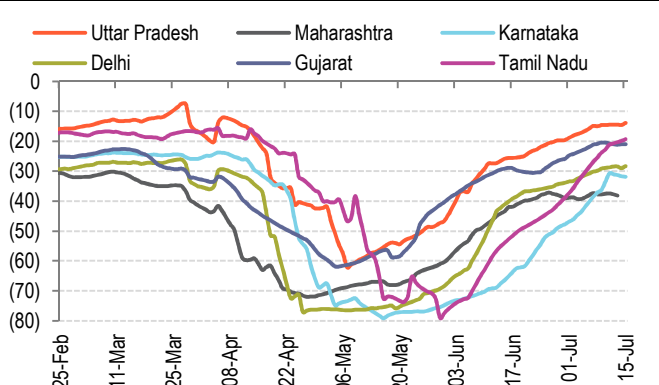
Source: CEIC, Bank of Baroda Research *Data as of 18 Jul 2021

Fig 4 – UPTICK IN GOOGLE MOBILITY INDEX



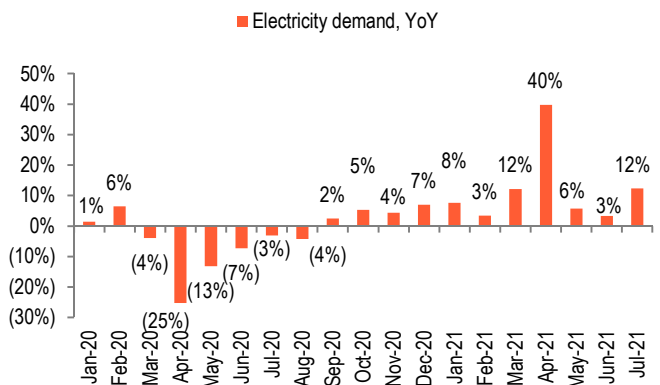
Source: CEIC, Bank of Baroda Research; *Data as of 15 Jul 2021

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



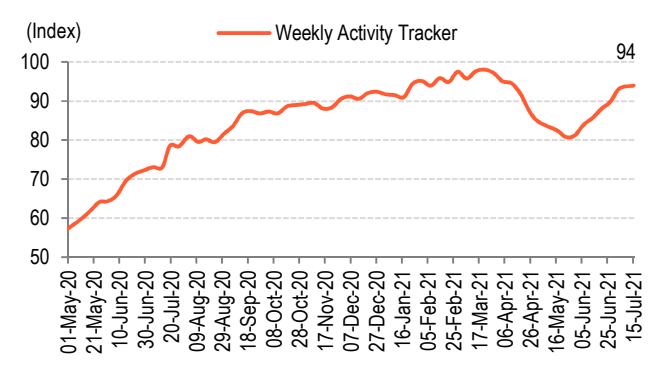
Source: CEIC, Bank of Baroda Research; *Data as of 15 Jul 2021

Fig 6 – IMPROVEMENT IN ELECTRICITY DEMAND



Source: Bloomberg, Bank of Baroda Research; *Data as of 18 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 15 Jul 2021

Fig 8 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.29	(7)	(20)	(29)	66
UK	0.63	(3)	(13)	(14)	46
Japan	0.03	(1)	(3)	(7)	0
Germany	(0.35)	(6)	(12)	(9)	9
India ^{^^}	6.21	3	17	12	41
China	2.95	(5)	(20)	(21)	(2)
2Y yields (Δ bps)					
US	0.22	1	6	6	8
UK	0.12	3	4	8	21
Japan	(0.12)	(1)	(1)	(1)	0
Germany	(0.68)	(1)	(1)	1	(2)
India	4.29	(3)	(33)	(34)	13
China ^{**}	2.02	(12)	(43)	(44)	(4)
Currencies (Δ %)					
EUR	1.1806	(0.6)	(2.6)	(1.5)	3.3
GBP	1.3767	(1.0)	(2.2)	(0.5)	9.5
JPY	110.07	0.1	0	(1.2)	(2.8)
AUD	0.7401	(1.2)	(3.7)	(4.3)	5.8
INR	74.56	0.1	(1.7)	(0.3)	0.6
CNY	6.4791	0	(1.1)	0.6	7.3
Equity & Other indices (Δ %)					
Dow	34,688	(0.5)	1.1	1.4	30.1
FTSE	7,008	(1.6)	(2.3)	(0.2)	11.4
DAX	15,540	(0.9)	(1.2)	0.5	20.3
NIKKEI	28,003	0.2	(4.9)	(5.7)	23.4
Shanghai Comp	3,539	0.4	(0.5)	3.3	10.1
SENSEX	53,140	1.4	0.7	8.8	43.5
Brent (US\$/bbl)	73.59	(2.6)	(0.5)	10.2	70.6
Gold (US\$/oz)	1,812	0.2	(2.5)	2.0	0.1
CRB Index	561.1	1.2	0.4	8.9	53.0
Rogers Agri Index	1,059.3	3.9	0.6	7.0	52.4
LIBOR (3M)*	0.13	1	1	(5)	(14)
INR 5Y Swap*	5.87	12	16	27	62
India FII data (US\$ mn)					
	15 Jul	WTD	MTD	CYTD	FYTD
FII-Debt	100.3	85.1	80.8	(3,086.0)	(1,058.7)
FII-Equity	51.4	(169.3)	(453.7)	7,630.4	304.1

Source: Bloomberg, Bank of Baroda Research | *Indicates change in bps | **1Y yield | ^ 4.26GS2023 security | ^^ 5.85GS2030 security

Fig 9 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Prior	Actual
19-Jul	Euro Area construction output, % MoM	May	--	(2.2%)	--
	US NAHB housing market index	Jul	82.0	81.0	--
20-Jul	Japan CPI, % YoY	Jun	0.2%	(0.1%)	--
	RBA minutes of July policy meeting	Jul	--	--	--
	Germany PPI, % MoM	Jun	--	1.5%	--
	Taiwan export orders, % YoY	Jun	29.9%	34.5%	--
	Euro Area current account balance, € bn	May	--	22.8	--
	US housing starts, in thousands	Jun	1,590	1,572	--
	Japan exports, % YoY	Jun	46.2%	49.6%	--
21-Jul	South Korea exports 20 days, % YoY	Jul	--	29.5%	--
	Australia retail sales, % MoM	Jun	(0.3%)	0.4%	--
	Japan machine tool orders, % YoY	Jun	--	96.6%	--
	Italy industrial sales, % MoM	May	--	3.3%	--
	France manufacturing confidence	Jul	--	107.0	--
22-Jul	Bank Indonesia 7D reverse repo, %	22-Jul	3.5%	3.5%	--
	ECB main refinancing rate, %	22-Jul	0.0%	0.0%	--
	US initial jobless claims, in thousands	17-Jul	--	360k	--
	US existing home sales, in mn	Jun	5.95	5.80	--
	Euro Area consumer confidence	Jul	(3.0)	(3.3)	--
	UK GfK consumer confidence	Jul	(8.0)	(9.0)	--
23-Jul	Markit France manufacturing PMI (flash)	Jul	--	59.0	--
	Markit France services PMI (flash)	Jul	--	57.8	--
	Markit/BME Germany manufacturing PMI (flash)	Jul	65.0	65.1	--
	Markit Germany services PMI (flash)	Jul	60.0	57.5	--
	Markit Eurozone manufacturing PMI (flash)	Jul	62.1	63.4	--
	Markit Eurozone services PMI (flash)	Jul	60.0	58.3	--
	Markit UK PMI manufacturing SA (flash)	Jul	62.0	63.9	--
	Markit/CIPS UK services PMI (flash)	Jul	62.5	62.4	--
	Markit US manufacturing PMI (flash)	Jul	62.1	62.1	--
	Markit US services PMI (flash)	Jul	64.5	64.6	--

Source: Bloomberg, Bank of Baroda Research

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