

WEEKLY WRAP

24 May 2021

India's second wave plateauing

Global yields fell on the back of dip in US housing starts and lower than expected retail sales and industrial output from China. DXY index was weak. On the domestic front, our weekly economic tracker shows economic activity has slowed down further to 79 from 81. Activity should improve next month with cases peaking. Equity markets rose on the back of reduction in cases. India's Q4FY21 GDP data will be released this week along with Centre's FY21 fiscal data. We expect GDP growth at 9.7% in FY22 from (-) 7.7% in FY21.

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Markets

- **Bonds:** Global yields broadly closed lower led by China's 10Y yield which fell by 6bps (3.07%) on the back of muted retail sales and industrial production. US 10Y yield fell by 1bps (1.62%) despite FOMC hinting at adjustment to its asset purchase program. Crude prices fell by 3.3% (US\$ 66/bbl) amidst fear of muted demand. India's 10Y yield fell by 1bps (5.98%). System liquidity surplus fell to Rs 3.7tn as on 21 May 2020 from Rs 4.2tn in previous week.
- **Currency:** Except AUD (lower) and CNY (flat), other global currencies closed higher this week. DXY fell by 0.3% amidst expectations that Fed will continue to remain dovish. EUR gained 0.3% as Eurozone's services PMI rose sharply in May'21. INR rose by 0.6% to a 2-month high supported by lower oil prices and FII inflows (US\$ 395mn).
- **Equity:** Global indices ended mixed. Weak US housing starts and subdued data from China drove these two markets lower. Sensex (3.7%) rose the most led by drop in infections in India. Banking and oil and gas stocks rose.
- **Covid-19 tracker:** Global Covid-19 cases rose by 4.2mn this week lower than 4.8mn last week. In India as well, cases rose at a slower pace of 1.8mn versus 2.4mn, WoW. Our weekly economic activity tracker index dipped to 79 (100=Feb'20) from 81 in last week. Israel has vaccinated 63% of its population (single dose) and US at 49%. India is now at 11%.
- **Upcoming key events:** US and German GDP and consumer confidence data will be released along with rate decision of BoK. In India, progress in vaccination, Covid-19 cases, GDP and fiscal data will be keenly seen.



India macro developments

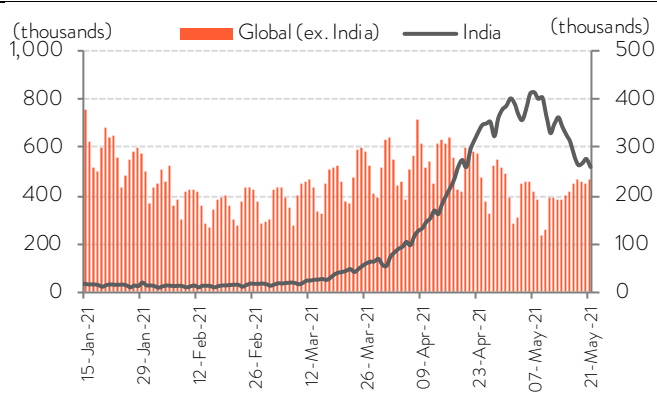
- RBI has transferred Rs 991.22bn as surplus to the government, for 9 months (Jul'20-Mar'21) against Rs 571.28bn in 2019-20 (Jul-Jun). RBI's calendar year, which was Jul-Jun previously, will now be in tune with the fiscal year (Apr-Mar). Further, the contingency risk buffer has been kept higher at 5.5% of balance sheet (4.9% previously) in view of the impact of Covid-19 pandemic. The higher surplus transfer could be a result of higher earnings from RBI's market operations.
- In order to protect farmers from the impact of rising global commodity prices, Government has hiked the fertilizer subsidy (DAP) by 140%. Global prices of phosphoric acid and ammonia used in the DAP has risen. The old price (Rs 1900/bag) excluding subsidy would have risen to Rs 2400/bag with the spike in prices, but will now be retained at Rs 1200/bag. This will cost an additional spending of Rs 147.75bn in kharif season'21.
- RBI has stated that the second wave of Covid-19 has far reaching impact on aggregate demand, especially with respect to loss of mobility, discretionary spending and employment. It has further stated that the impact of new infections should be U shaped on various sectors. However, the loss of momentum will not be as severe as seen in the first wave. Our economic activity tracker has also seen a dip of 19% as of 14 May 2021 against 3% decline in Mar'21.
- RBI reported that currency in circulation (CIC) increased by Rs 17.8bn and stood at Rs 29tn for the week ending 14 May 2021. Reserve money rose by 17.2% on a YoY basis, compared with 9.9% last year. On FYTD basis, reserve money increased by 3.9% against 2.2% increase, a year ago.
- RBI sold net US\$ 5.7bn in the spot market in Mar'21 compared with net sale of US\$ 1.2bn. In FY21, RBI bought US\$ 68.3bn in the spot market versus US\$ 45.1bn in the same period last year. In the forwards market, RBI sold US\$ 0.4bn versus net purchase of US\$ 25.8bn in Feb'21. RBI's outstanding forward position stands at US\$ 72.8bn.

Global macro developments

- Flash global manufacturing PMIs for May'21 indicated that activity remained robust in the US (61.5 versus 60.6 in Apr'21) and UK (66.1 versus 60.9), while it slowed marginally in Japan (53.1 versus 54.3) and Eurozone (62.8 versus 62.9). Growth in both the US and UK was led by higher domestic orders. Services activity rose across all regions (except Japan) as economies re-opened.
- US Jobless claims fell to new pandemic low of 444,000 in the week ending 15 May 2021 versus 478,000 in the previous week. This is the lowest since 14 Mar 2020 (256,000). Both regular applications and those under emergency federal program saw a decline. However, the 4-week moving average rose to 3.68mn versus 3.66mn in the previous week.
- Japan's exports rose to an 11-year high at 38% in Apr'21 (est. 31% rise), from an increase of 16.1% in Mar'21 due to a favourable base effect. Exports of cars, auto parts and chip-making equipment increased, suggesting a revival in global demand. Region wise, exports to US (45.1%), EU (39.6%) and Asia (32.7%) rose the most. Imports also rose by 12.8% in Apr'21 from 5.8% in Mar'21.
- Euro Area's CPI in Apr'21 rose by 1.6% on YoY basis (same as preliminary estimates) versus 1.3% in Mar'21, driven mainly by higher energy prices (10.4% versus 4.3% in Mar'21). Core inflation however eased in Apr'21 to 0.7% from 0.9% in Mar'21 as prices of services moderated (0.9% from 1.3%).
- US Fed in its latest minutes highlighted that if the economy continues to make rapid progress towards fulfilling the dual mandate of inflation (2% target) and full employment, it might consider "adjusting the pace of asset purchases". For inflation, FOMC members believe that the upside pressure is transitory. Members also highlighted that risks to growth have faded considerably in comparison to last policy.
- Euro Area GDP contracted by 0.6% in Q1CY21 on a QoQ basis, in line with the initial estimate. In Q4CY20, GDP declined by 0.7%. Except France, GDP growth declined in all major economies in the region. Separately, Euro Area's trade surplus from ROW narrowed to € 15.8bn in Mar'21 from € 29.9bn in Mar'20. While exports rose by 8.9% in Mar'21, imports rose more sharply by 19.2% in the same period.
- US housing starts fell by 9.5% in Apr'21 on a MoM basis versus 19.8% increase in Mar'21. Labour shortage has resulted in supply disruptions and increase in lumber prices (89.7% YoY), which in turn has led to increase in home prices. Building permits rose only marginally by 0.3% in Apr'21 versus 1.7% in Mar'21.

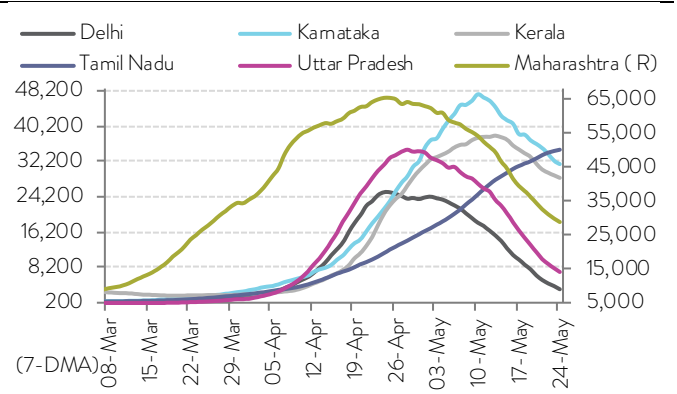
High Frequency Indicators and Weekly Activity Tracker

FIG 1 – INDIA’S COVID-19 CASES PLATEAUING



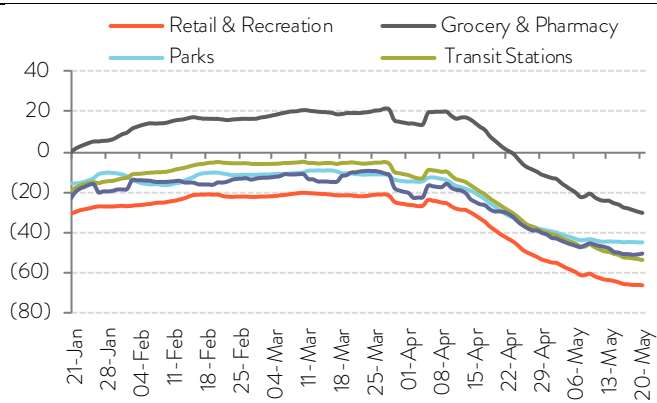
Source: Bloomberg, Bank of Baroda Research *Data as of 21 May 2021

FIG 2 – MODERATION IN COVID-19 CASES IN SEVERAL STATES



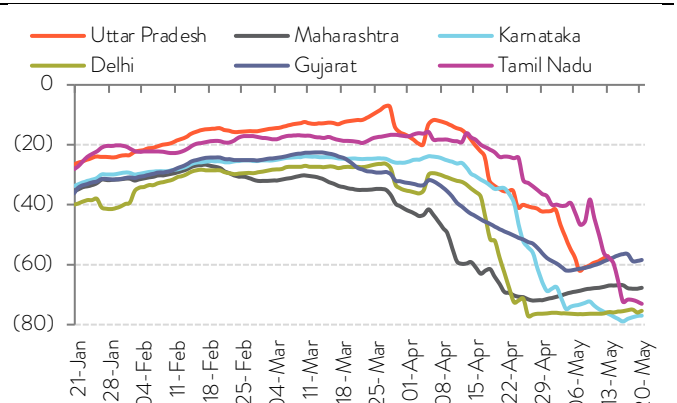
Source: CEIC, Bank of Baroda Research *Data as of 24 May 2021

FIG 3 – GOOGLE MOBILITY INDEX DIPPING



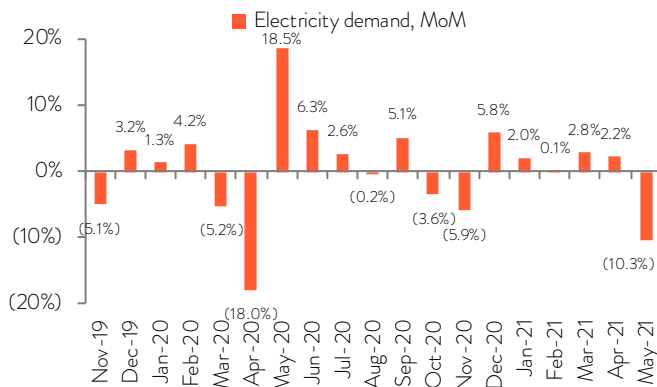
Source: CEIC, Bank of Baroda Research; *Data as of 20 May 2021

FIG 4 – IMPACT OF LOCALISED LOCKDOWN ON MOBILITY: RETAIL AND RECREATION



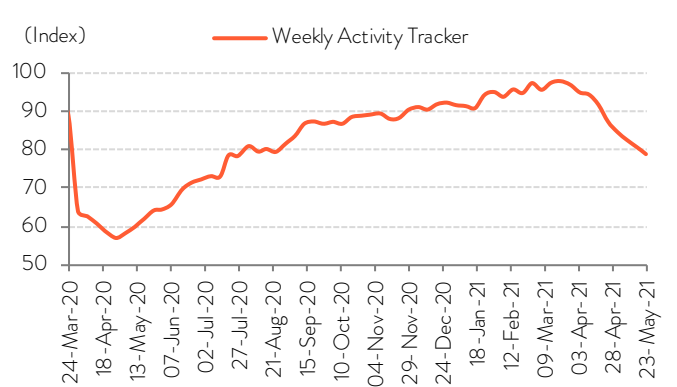
Source: CEIC, Bank of Baroda Research; *Data as of 20 May 2021

FIG 5 – ELECTRICITY DEMAND CONTINUES TO DIP



Source: Bloomberg, Bank of Baroda Research; *Data as of 24 May 2021

FIG 6 – WEEKLY ACTIVITY TRACKER SHOWING A DIP



Source: CEIC, Bank of Baroda Research, Note: Composite weighted average index of high frequency indicators; *Data as of 23 May 2021

FIG 7 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

| Particulars | Current | 1W | 1M | 3M | 12M |
|---|---------------|------------|------------|-------------|-------------|
| 10Y yields (Δ bps) | | | | | |
| US | 1.62 | (1) | 8 | 29 | 95 |
| UK | 0.83 | (3) | 9 | 13 | 66 |
| Japan | 0.08 | (1) | 1 | (3) | 8 |
| Germany | (0.13) | 0 | 12 | 18 | 37 |
| India | 5.98 | (1) | (7) | (16) | 20 |
| China | 3.07 | (6) | (9) | (20) | 41 |
| 2Y yields (Δ bps) | | | | | |
| US | 0.15 | 1 | 1 | 5 | (1) |
| UK | 0.04 | (4) | 0 | 5 | 9 |
| Japan | (0.12) | 1 | 1 | (1) | 3 |
| Germany | (0.65) | 0 | 4 | 3 | 4 |
| India | 4.29 | (4) | (27) | (25) | (22) |
| China** | 2.40 | (6) | (16) | 7 | 102 |
| Currencies (Δ %) | | | | | |
| EUR | 1.2182 | 0.3 | 1.4 | 0.5 | 11.3 |
| GBP | 1.4150 | 0.4 | 2.2 | 1.0 | 15.8 |
| JPY | 108.96 | 0.4 | (0.9) | (3.3) | (1.3) |
| AUD | 0.7732 | (0.5) | 0.3 | (1.7) | 17.8 |
| INR | 72.84 | 0.6 | 2.8 | (0.3) | 3.7 |
| CNY | 6.4340 | 0 | 0.9 | 0.4 | 9.6 |
| Equity & Other indices (Δ %) | | | | | |
| Dow | 34,208 | (0.5) | 1.2 | 8.6 | 39.8 |
| FTSE | 7,018 | (0.4) | 1.2 | 5.9 | 16.7 |
| DAX | 15,438 | 0.1 | 0.8 | 10.3 | 39.5 |
| NIKKEI | 28,318 | 0.8 | (3.0) | (5.7) | 37.8 |
| Shanghai Comp | 3,487 | (0.1) | 0.6 | (5.7) | 21.6 |
| SENSEX | 50,540 | 3.7 | 5.1 | (0.7) | 63.4 |
| Brent (US\$/bbl) | 66.44 | (3.3) | 1.6 | 5.6 | 84.2 |
| Gold (US\$/oz) | 1,881 | 2.1 | 5.5 | 5.4 | 8.9 |
| CRB Index | 540.6 | 0.5 | 3.5 | 12.4 | 46.9 |
| Rogers Agri Index | 1,052.7 | (0.9) | 1.4 | 9.7 | 58.3 |
| LIBOR (3M)* | 0.15 | (1) | (3) | (3) | (21) |
| INR 5Y Swap* | 5.65 | 0 | 17 | (28) | 46 |
| India FII data (US\$ mn) | | | | | |
| | 20 May | WTD | MTD | CYTD | FYTD |
| FII-Debt | 14.4 | 46.6 | 301.3 | (2,091.1) | (63.8) |
| FII-Equity | 30.6 | 348.5 | (432.2) | 5,405.0 | (1,921.3) |

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

FIG 8 – DATA RELEASE CALENDAR

| Date | Event | Period | Estimate | Previous | Actual |
|----------------------------------|--|----------------------------------|----------|----------|--------|
| 24-May | Singapore CPI, % YoY | Apr | 2.0% | 1.3% | -- |
| | Taiwan industrial production, % YoY | Apr | 18.0% | 16.8% | -- |
| | Taiwan unemployment rate, % | Apr | 3.7% | 3.7% | -- |
| 25-May | Singapore GDP, % YoY | Q1CY21 | 0.9% | 0.2% | -- |
| | Australia preliminary merchandise trade | Apr | -- | -- | -- |
| | Thailand customs exports, % YoY | Apr | 10.4% | 8.5% | -- |
| | Singapore industrial production, % YoY | Apr | 3.5% | 7.6% | -- |
| | Germany GDP SA, % QoQ | Q1CY21 | (1.7%) | (1.7%) | -- |
| | Germany IFO business climate | May | 98.1 | 96.8 | -- |
| | US new home sales, in thousands | Apr | 950.0 | 1,021.0 | -- |
| | US Conf. Board consumer confidence index | May | 118.9 | 121.7 | -- |
| | 26-May | France business confidence index | May | 97.0 | 95.0 |
| France consumer confidence index | | May | 97.0 | 94.0 | -- |
| US MBA mortgage applications | | 21-May | -- | 1.2% | -- |
| 27-May | China industrial profits, % YoY | Apr | -- | 92.3% | -- |
| | South Korea retail sales, % YoY | Apr | -- | 18.5% | -- |
| | Germany GfK consumer confidence index | Jun | (5.2) | (8.8) | -- |
| | Italy consumer confidence index | May | 104.0 | 102.3 | -- |
| | Hong Kong exports, % YoY | Apr | 25.0% | 26.4% | -- |
| | US durable goods orders, % MoM | Apr | 0.8% | 0.8% | -- |
| | US GDP annualized, % QoQ | Q1CY21 | 6.5% | 6.4% | -- |
| | US initial jobless claims, in thousands | 22-May | 425.0 | 444.0 | -- |
| | US pending home sales, % MoM | Apr | 0.5% | 1.9% | -- |
| 28-May | South Korea BoK 7-day repo rate, % | 27-May | 0.5% | 0.5% | -- |
| | Japan jobless rate, % | Apr | 2.7% | 2.6% | -- |
| | France PPI, % YoY | Apr | -- | 4.5% | -- |
| | France CPI, % YoY | May | 1.4% | 1.2% | -- |
| | France GDP, % QoQ | Q1CY21 | 0.4% | 0.4% | -- |
| | Euro Area consumer confidence | May | -- | (5.1) | -- |
| | US goods trade balance, US\$ bn | Apr | (92.5) | (90.6) | -- |

Source: Bloomberg, Bank of Baroda

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