

WEEKLY WRAP

26 July 2021

Global yields ease with rising Covid-19 cases

Global yields fell with rising Covid cases globally. Flash manufacturing PMI also eased (except US) in major economies such as Japan, UK and Eurozone. Services PMI strengthened in Eurozone. ECB in its recent policy hinted at “persistent accommodation” changing the inflation targeting framework to “symmetric” from close or below 2% target. On the domestic front, India’s 10Y yield rose by 2bps. Indian equity markets fell due to FII outflow. Our weekly tracker moderated to 93 (Feb’20=100) from 94 in the previous week with some moderation in mobility indicators.

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Markets

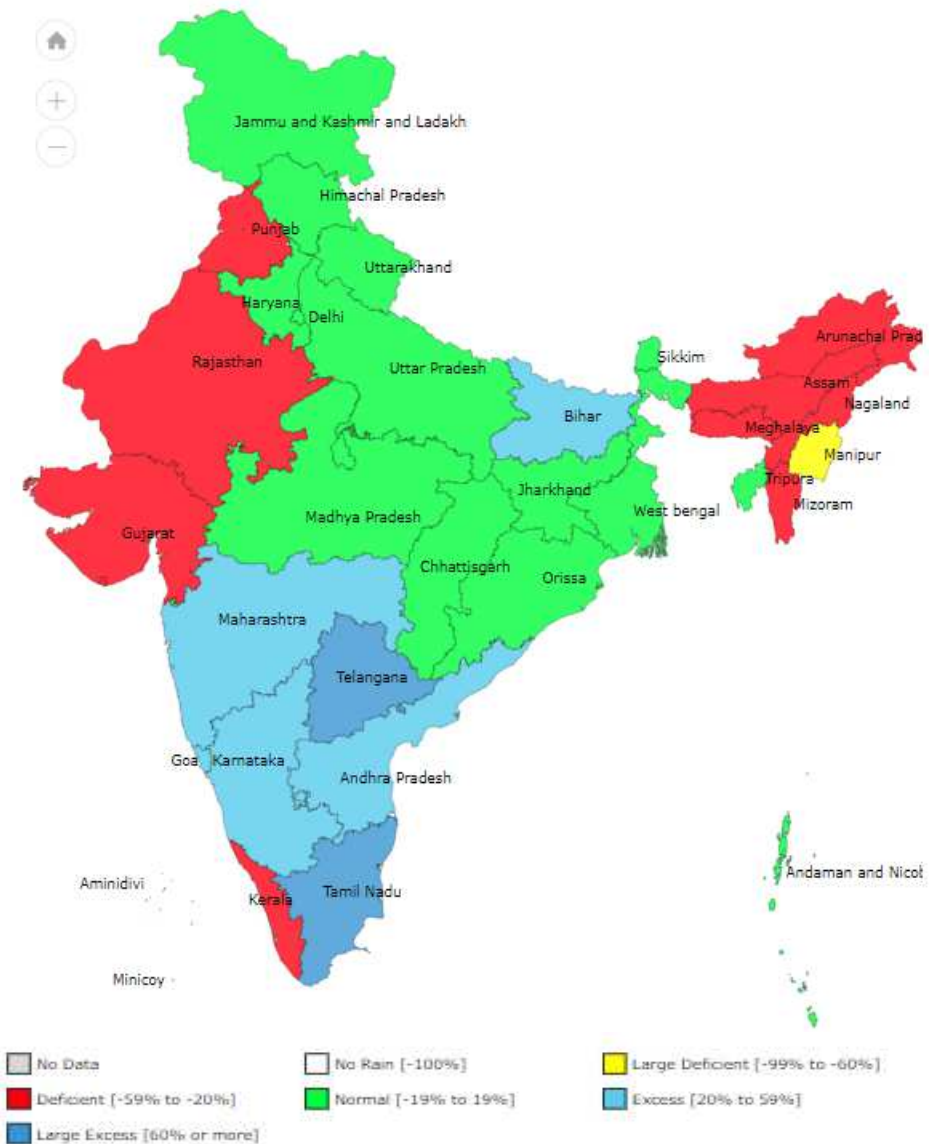
- **Bonds:** Global yields closed lower as Covid-19 cases rose globally. Germany’s 10Y yield fell the most by 7bps (-0.42%) as ECB signaled to be “persistently accommodative”. US 10Y yield fell a tad by 1bps (1.28%) eyeing Fed meeting. Crude prices rose by 0.7% (US\$ 74/bbl). India’s 10Y yield (5.85 GS2030) rose by 2bps (6.23%) due to Rs 111bn devolvement on PDs. System liquidity surplus was at Rs 5.5tn as on 23 Jul 2021 (Rs 5.6tn, last week).
- **Currency:** Except CNY (flat) and INR (higher), global currencies closed lower this week. DXY rose by 0.2% with flash manufacturing PMI rising more than expected. Investors also await Fed meeting. AUD depreciated by 0.5% as half of Australia’s population is now under lockdown. INR appreciated by 0.2% despite higher oil prices and FII outflows (US\$ 307mn).
- **Equity:** Barring Nikkei and Sensex, other global indices ended higher this week supported by dovish comments from ECB and better flash services PMI print in Eurozone. Dow (1.1%) surged the most. Sensex (0.3%) ended in red led by losses in auto and banking stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 3.2mn this week, with big jump seen in last two days (0.6mn addition). Fresh cases increased in US (0.4mn versus 0.2mn), Japan (23K versus 19K). In India, cases rose at a slower pace of 0.2mn versus 0.3mn. Our weekly economic activity tracker index moderated to 93 (100=Feb’20) from 94. UAE has fully vaccinated 68% of its population, UK is at 54% and US at 49%. India is at 6.7%.
- **Upcoming key events:** Major events this week include rate decision of US Fed, Q2CY21 GDP prints of US and Eurozone and China’s industrial profit data. Germany’s IFO index and US new home sales are also due. On the domestic front, eight core index and fiscal data will drive markets.



Monsoon tracker

- For the period 1 Jun 2021 to 25 Jul 2021, monsoon is 1% below LPA compared with 6% above LPA last year. States like Maharashtra, Telangana, Bihar and Tamil Nadu have received excess rainfall. This in turn has resulted in flood like situation in some parts of Maharashtra. Rajasthan, Gujarat, Kerala and North Eastern states have received deficient rainfall. However, Jammu and Kashmir, Himachal Pradesh, Uttar Pradesh, Madhya Pradesh and Odisha have received normal rainfall during this period.
- Overall kharif sown area has fallen by (-) 8.9% as on 23 Jul 2021 compared with last year. Sown area of oilseeds (-10.4%) and pulses (-10.2%) has dropped sharply. Further, sowing of cotton (- 7.7%) and rice (-6.8%) has declined compared with last year. However, sowing of sugarcane (1.7%) and jute & mesta (0.6%) has improved

Fig 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun- 25 Jul 2021

India macro developments

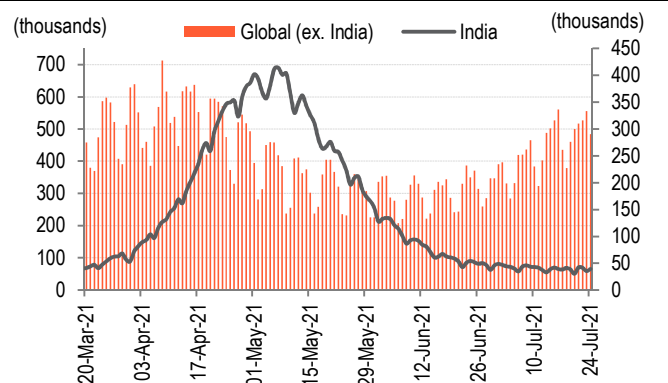
- ADB has revised India's growth forecast for FY22 lower to 10% from 11% estimated earlier due to the second wave of Covid-19. For FY23, growth estimate has been revised upward to 7.5% from 7% earlier on expectations of substantial progress in vaccination. Inflation in FY22 is also expected higher at 5.5% (+0.3%) and 4.8% (unchanged) in FY23. In CY21, growth in Asia is expected at 7.2% from 7.3% earlier led by renewed virus outbreaks.
- As per CMIE data, unemployment rate in India (30-day moving average) dropped to its lowest since Apr'21 at 7.1% as of 25 Jul 2021 from 7.4% in the previous week. This was led by moderation in rural unemployment rate (6.5% from 7%). Urban unemployment rose to 8.4% from 8.3% in the previous week. With vaccination gaining pace (6.7% population-fully vaccinated) and government's current stimulus, this data would improve further in the near term.
- RBI reported that currency in circulation (CIC) declined by Rs 79.5bn and stood at Rs 29tn for the week ending 16 Jul 2021. Reserve money rose at a faster pace by 17.1% on a YoY basis, compared with 13.9% last year. On financial year basis, reserve money increased by 3.7% from 5.1% increase, a year ago.
- India's foreign exchange reserves rose to a fresh record high of US\$ 612.7bn in the week ended 16 Jul 2021. Forex reserves rose by US\$ 0.8bn last week, lower compared with an accretion of US\$ 1.9bn in the previous week. In FYTD22, forex reserves have risen by US\$ 33.4bn compared with an accretion of US\$ 42.1bn in the same period last year.
- India's exports have risen by 45.1% to US\$ 22.5bn between 1-21 Jul 2021 on a YoY basis. In Jun'21 exports had risen by 48.3% to US\$ 32.5bn. The increase in Jul'21 was led by gems and jewellery, petroleum and engineering goods. Country-wise, exports to Brazil, UAE and US surged the most in Jul'21 so far. Imports on the other hand rose by 64.8% in Jul'21 (1-21 Jul) to US\$ 31.8bn compared with an increase of 98.3% (US\$ 41.8bn) in Jun'21.
- As economic activity normalises, both toll collection and e-way bills generation were seen steadying in Jul'21 (MTD basis). On MoM basis, toll collections rose by 21.6% (till 25 Jul 2021), compared with 37.1% in Jun'21 in the same period. E-way bills generation growth also moderated to 5.6% (till 18 Jul 2021) following 19% rebound seen in Jun'21 (till 20 Jun 2021). Railway freight however saw contraction of 10.1% in Jul'21 (till 25 Jul 2021) compared with 1.5% increase during the same period in Jun'21.

Global macro developments

- Barring US (63.1 in Jul'21 versus 62.1 in Jun'21), flash manufacturing PMIs in Jul'21 eased elsewhere in Japan (50.5 versus 50.7), UK (60.4 versus 63.9) and Eurozone (62.6 versus 63.4). Rising Covid-19 cases and shortage of raw materials were cited as key reasons for this. On the other hand, flash services PMI for Eurozone continued to inch up (60.4 versus 58.3), while it eased sharply in Japan (46.4 versus 48), US (59.8 versus 64.6) and UK (57.8 versus 62.4).
- US existing home sales rose by 1.4% in Jun'21 on MoM basis following 0.9% decline in May'21. Sales rebounded despite median prices hitting a record high of US\$ 363,300 (23.4% YoY increase) in Jun'21. Inventory of homes rose marginally to 2.6 months from 2.5 months in May'21. A 6-7 months' supply is considered healthy. Increase in prices is owing to supply chain disruptions, pushing the cost of lumber and concrete higher. Separately, initial jobless claims for the week ending 17 Jul 2021 rose by 51k from last week to 419k (est.: 350k). The 4-week moving average was at 3.34mn (lowest since Mar'21).
- UK's Gfk consumer confidence index rose to (-) 7 in Jul'21 from (-) 9 in Jun'21 est.: (-) 8, indicating confidence back to pre-pandemic levels (Feb'20). The jump was driven by an increase of 7 points in major purchase index (2 from -5). Resurgence in Covid-19 cases and expectation of higher inflation impacted the future (next 12 months) personal finance situation index (down 1 point) and the general economic situation index (down 3 points).
- ECB in its recent policy kept key rates unchanged and tweaked its guidance towards a "symmetric" 2% inflation target from "below but close to 2%" earlier, over the medium term. This was in line with the decision taken in its Frankfurt meeting which gives ECB room for more stimulus. Bond purchase program has been kept unchanged at € 1.85tn (US\$ 2.2tn). Inflation trajectory is at 1.9% for CY21, followed by a decrease to 1.5% and 1.4% in CY22 and CY23 respectively.
- RBA in its minutes emphasized that it expects no rate hikes before CY24 unless actual inflation is sustainably within 2-3% target. The board noted that there should be a flexibility to raise or reduce weekly bond purchases. In light of this, weekly bond purchases have already been reduced from AUD 5bn to AUD 4bn. It also expects the CPI to rise temporarily above the target but is likely to decline subsequently.
- Japan's exports rose by 48.6% in Jun'21 on YoY basis versus 49.6% in May'21, mainly owing to base effect. Exports to US (86%) and China (28%) rose the most, driven by shipments of cars, computer parts and semiconductor making equipment. Imports improved much sharply, rising by 32.7% in Jun'21 versus 27.9%, owing to base effect and commodity prices. On MoM basis, exports showed turnaround, rising by 15.4% in Jun'21 following 12.8% drop in May'21. Improving domestic demand also led to 6% rise in imports versus 7% decline.

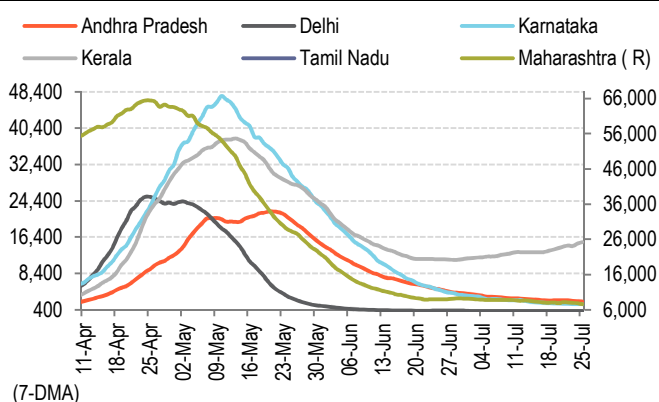
High Frequency Indicators and Weekly Activity Tracker

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



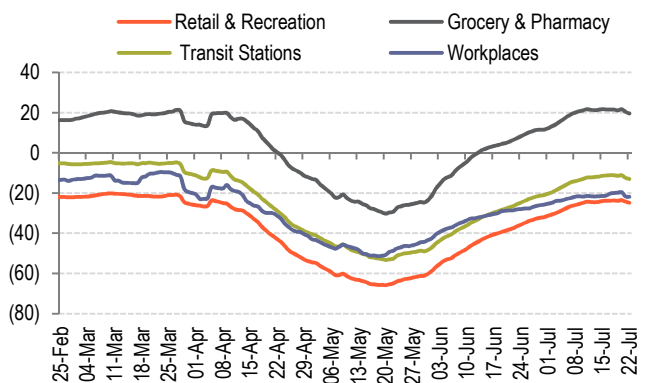
Source: CEIC, Bank of Baroda Research *Data as of 24 Jul 2021

Fig 3 – MODERATION IN COVID-19 CASES IN INDIAN STATES, BARRING KERALA



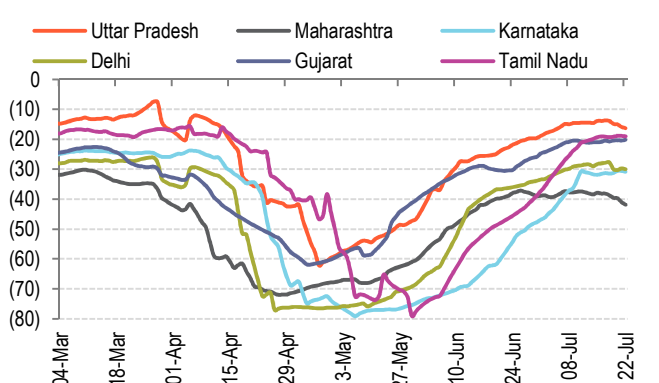
Source: CEIC, Bank of Baroda Research *Data as of 25 Jul 2021

Fig 4 – MODERATION IN GOOGLE MOBILITY INDEX



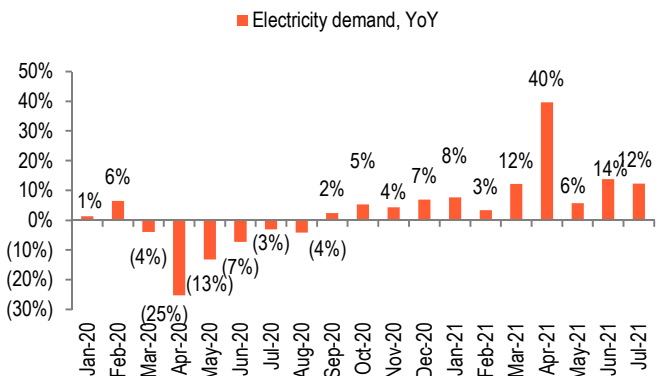
Source: CEIC, Bank of Baroda Research; *Data as of 22 Jul 2021

Fig 5 – SIMILAR MOVEMENT FOR RETAIL AND RECREATION



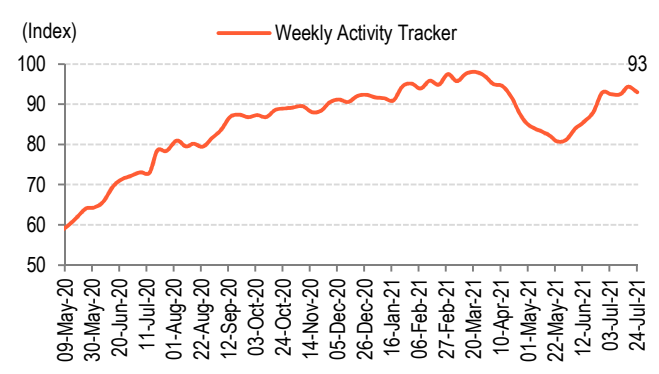
Source: CEIC, Bank of Baroda Research; *Data as of 22 Jul 2021

Fig 6 – ELECTRICITY DEMAND EASES



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

Fig 7 – WEEKLY ACTIVITY TRACKER MODERATED TO 93 FROM 94 LAST WEEK



Source: CEIC, Bank of Baroda Research, Note: Composite weighted average index of high frequency indicators;

Fig 8 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.28	(1)	(22)	(28)	69
UK	0.58	(4)	(16)	(16)	44
Japan	0.02	(1)	(4)	(5)	0
Germany	(0.42)	(7)	(23)	(16)	3
India ^{^^}	6.23	2	22	19	41
China	2.91	(4)	(18)	(26)	4
2Y yields (Δ bps)					
US	0.20	(2)	(7)	4	5
UK	0.08	(4)	1	4	17
Japan	(0.13)	0	(2)	0	0
Germany	(0.73)	(4)	(8)	(4)	(8)
India	4.25	(4)	(52)	(26)	8
China ^{**}	1.95	(7)	(45)	(45)	(31)
Currencies (Δ %)					
EUR	1.1771	(0.3)	(1.3)	(2.7)	1.0
GBP	1.3748	(0.1)	(1.2)	(0.9)	7.5
JPY	110.55	(0.4)	0.3	(2.5)	(4.2)
AUD	0.7366	(0.5)	(2.9)	(4.8)	3.7
INR	74.41	0.2	(0.3)	0.8	0.6
CNY	6.4813	0	(0.1)	0.2	7.7
Equity & Other indices (Δ %)					
Dow	35,062	1.1	2.5	3.0	32.5
FTSE	7,028	0.3	(1.2)	1.3	14.8
DAX	15,669	0.8	0.5	2.6	22.1
NIKKEI	27,548	(1.6)	(4.6)	(5.1)	21.1
Shanghai Comp	3,550	0.3	(0.5)	2.2	11.1
SENSEX	52,976	(0.3)	0.5	10.6	38.9
Brent (US\$/bbl)	74.10	0.7	(1.9)	12.1	71.0
Gold (US\$/oz)	1,802	(0.5)	1.5	1.4	(5.3)
CRB Index	559.7	(0.2)	1.1	6.7	49.8
Rogers Agri Index	1,058.3	(0.1)	3.1	1.3	52.5
LIBOR (3M)*	0.13	(1)	(2)	(5)	(12)
INR 5Y Swap*	5.83	(4)	15	31	60
India FII data (US\$ mn)					
	22 Jul	WTD	MTD	CYTD	FYTD
FII-Debt	(116.7)	(210.4)	(153.7)	(3,320.5)	(1,293.2)
FII-Equity	579.6	(96.8)	(607.3)	7,476.9	150.6

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	Previous	Actual
26-Jul	Jibun Bank Japan manufacturing PMI (flash)	Jul	--	52.4	52.2
	Jibun Bank Japan services PMI (flash)	Jul	--	48.0	46.4
	Singapore industrial production, % YoY	Jun	27.2%	30.0%	--
	Germany IFO business climate index	Jul	102.5	101.8	--
	US new home sales, in thousands	Jun	800.0	769.0	--
27-Jul	South Korea GDP, % YoY	Q2CY21	6.0%	1.9%	--
	China industrial profits, % YoY	Jun	--	36.4%	--
	US durable goods orders, % MoM	Jun	2.0%	2.3%	--
	US Conference Board consumer confidence index	Jul	124.0	127.3	--
28-Jul	Australia CPI, % YoY	Q2CY21	3.7%	1.1%	--
	Germany GfK consumer confidence	Aug	1.0	(0.3)	--
	France consumer confidence	Jul	102.0	102.0	--
	Italy consumer confidence index	Jul	115.5	115.1	--
	US goods trade balance, US\$ bn	Jun	(88.0)	(88.1)	--
	US FOMC rate decision, %	28-Jul	0.25%	0.25%	--
29-Jul	France PPI, % YoY	Jun	--	7.2%	--
	Germany unemployment change, in thousands	Jul	(28.0)	(38.0)	--
	Italy PPI, % MoM	Jun	--	1.3%	--
	Euro Area consumer confidence index	Jul	--	(4.4)	--
	Germany CPI, % YoY	Jul	3.2%	2.3%	--
	US initial jobless claims, in thousands	24-Jul	380.0	419.0	--
	US GDP annualized, % QoQ	Q2CY21	8.5%	6.4%	--
30-Jul	South Korea industrial production, % YoY	Jun	9.6%	15.6%	--
	Japan industrial production, % MoM	Jun	5.0%	(6.5%)	--
	Japan retail sales, % YoY	Jun	0.2%	8.2%	--
	France GDP, % QoQ	Q2CY21	0.8%	(0.1%)	--
	France CPI, % YoY	Jul	1.1%	1.5%	--
	Germany GDP SA, % QoQ	Q2CY21	2.1%	(1.8%)	--
	Italy GDP WDA, % QoQ	Q2CY21	1.3%	0.1%	--
	Euro Area unemployment rate, %	Jun	7.9%	7.9%	--
	Euro Area CPI, % MoM	Jul	(0.3%)	0.3%	--
	Euro Area GDP SA, % QoQ	Q2CY21	1.5%	(0.3%)	--
	India fiscal deficit, Rs crore	Jun	--	44,475.0	--
	India core sector output, % YoY	Jun	--	16.8%	--

Source: Bloomberg, Bank of Baroda Research

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