

WEEKLY WRAP

28 June 2021

Global and Indian yields inching up

Global economic activity remained buoyant. Consumer sentiment in US and Germany improved. US 10Y rose by 9bps on the back of tilt in US monetary policy. However, Fed Chair downplayed inflation as transitory. Even, BoE said it is transient. On the domestic front, weekly economic activity tracker has improved to 89 from 88 last week (Feb'20=100). Indian 10Y yield is gradually inching up. Rising oil prices, core retail inflation and higher than estimated borrowing by government implies upward trajectory to continue. However, normal monsoon is positive.

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Markets

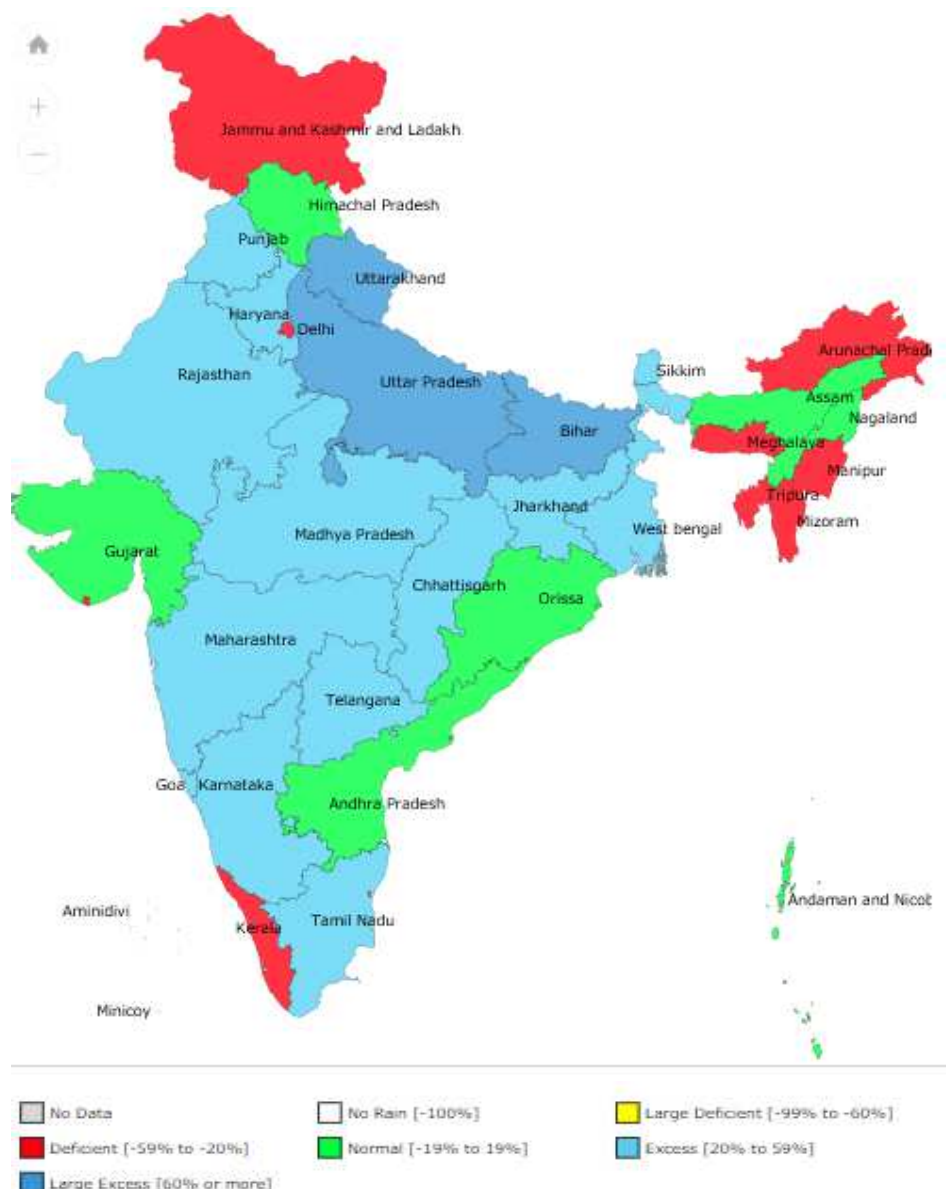
- **Bonds:** US 10Y yield rose by 9bps (1.52%) as markets price in front-loading of rate hikes by FOMC. Germany's 10Y yield rose by 5bps (-0.16%) as macro prints (flash PMI, consumer sentiment index) remained buoyant. Crude prices rose by 3.6% (US\$ 76/bbl) ahead of OPEC+ meeting scheduled on 1 Jul 2021. India's 10Y yield rose by 2bps (6.03%). Higher inflation print and subsequent devolvement on PDs explains the move. System liquidity surplus rose to Rs 4.6tn as on 25 Jun 2021 from Rs 4.2tn last week.
- **Currency:** After rising to a 2-month high last week, DXY fell by 0.4% in the week as Fed Chair played down rising inflation as transitory. EUR rose by 0.6% led by positive data (consumer confidence, manufacturing and services PMI). INR depreciated by 0.4% as oil prices firmed up. FII outflows were US\$ 372mn.
- **Equity:** Global indices ended higher as global economy continues to show improvement. BoE decided to continue monetary stimulus amidst rising Covid-19 cases. Dow (3.4%) and Shanghai Comp (2.3%) rose the most. Sensex (1.1%) too gained, led by capital goods and metal stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 2.6mn this week versus 2.5mn last week. Fresh cases increased in UK (0.1mn versus 64k). In India, cases rose by 0.35mn versus 0.4mn in the previous week. Our weekly economic activity tracker index rose to 89 (100=Feb'20) from 88. Israel has fully vaccinated 60% of its population, UK at 48% and US at 46%. India is at 4%.
- **Upcoming key events:** Major data release this week includes US non-farm payrolls and final global manufacturing PMIs. On the domestic front, fiscal, BoP and core industry data is due for release. Monsoon is progressing well and is 18% above LPA as of now.



Monsoon tracker

- For the period 1 Jun 2021 to 27 Jun 2021, monsoon is 18% above LPA compared with 22% last year. Large part of central India continue to receive excessive rainfall, this includes Madhya Pradesh, Maharashtra and Goa. Uttar Pradesh, Bihar and Uttarakhand have received excess rainfall. Odisha and Gujarat have received normal rains. Delhi, Jammu and Kashmir and Kerala on the other hand have received deficient rainfall.

Fig 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun-27 Jun 2021

India macro developments

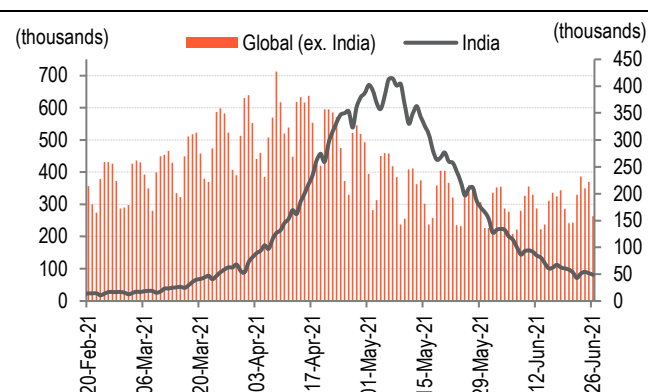
- As per CMIE data, unemployment rate in India (30-day moving average) dropped to 9.9% as of 25 Jun 2021 from 11.1% in the previous week. This was led by moderation in both urban (11.5% from 13.6%) and rural unemployment rate (9.1% from 10%). With the gradual lifting of lockdown restrictions across States and expectation of another Rs 3tn stimulus package by the government, this print is likely to improve further in the near term.
- As per news reports, Finance Ministry could seek Cabinet nod for offering sovereign guarantee to the bad bank proposed in the budget. This is expected to cost around Rs 306bn to the exchequer over five years. Under this, government will offer guarantee on the security receipts (SRs) issued by the National Asset Reconstruction Company (NARCL) while acquiring bad loans from lenders. This move is likely to make the resolution process viable.
- FDI equity inflows into India rose by 60% to US\$ 4.4bn in Apr'21 on a YoY basis. Mauritius remained the top investing country accounting for about 21% of the total equity inflows in Apr'21, followed by Singapore (21%) and Japan (11%). Sectorwise, inflows into computer hardware and software received about 24% of the total inflows, followed by services sector at 23%.
- India's forex reserves fell by US\$ 4.1bn in the week ended 18 Jun 2021 from a record high of US\$ 608.1bn last week. In FYTD22, India's forex reserves have risen by US\$ 24.6bn versus US\$ 30bn in the same period last year. Import cover stands at 15months.
- As per news reports, 40 large CPSEs (with annual capex budget more than Rs 5bn) have achieved 10% (Rs 630bn) of their capex spending target for FY22 (Rs 6.3tn) in Apr-May'21. This is higher compared with 2% target achieved during the same time last year. So far the biggest spenders have been Railways (13% of FY22 target), NHAI (12%), ONGC (12%), NTPC (10%) and IOCL (7%). Ministry of Finance has reportedly asked CPSEs to meet their budgeted targets by Q3FY22.
- India's economic activity is beginning to rebound as seen in the trend of E-way bills and fuel consumption in Jun'21. On MoM basis, E-way bills generated till 20 Jun 2021 rose to 33.7mn (+21%) compared with 28.3mn in the same period in May'21 (-21%). Fuel demand also posted first MoM increase since Mar'21 during 1-15 Jun 2021. News reports indicate that petrol sales rose by 13% while diesel consumption was up by 12% versus 17% decline in whole of May'21.

Global macro developments

- US GDP in Q1CY21 rose by 6.4%, unchanged from its previous estimate and against 4.3% growth seen in Q4CY20. The upward revisions to non-residential fixed investment, private inventory investment, and exports were offset by an upward revision to imports. Separately, durable goods orders rose by 2.3% (est.: 3%) from 0.8% decline in Apr'21. However, core capital goods orders fell by 0.1% from 2.7% increase in Apr'21. US jobless claims on the other hand, fell by 7000 to 411,000 for the week ending 19 Jun 2021.
- US University of Michigan consumer sentiment index rose to 85.5 in Jun'21 (est.: 86.8) from 82.9 in May'21. This is the second highest level recorded since the onset of pandemic. Elsewhere in Germany too, GfK consumer confidence is expected to improve to (-) 0.3 in Jul'21 (est.: -3.3) from (-) 6.9 in Jun'21, highest level since Aug'20. In UK as well, GfK consumer confidence index was at its post Covid-19 high of (-) 9 in Jun'21, unchanged from May'21. All the consumers were cautious about higher price increase in the coming months.
- Japan's flash manufacturing PMI fell to 49.1 in Jun'21 from 53.7 in May'21, as Covid-19 restrictions and severe supply chain pressures took a toll on output. New orders declined for the 2nd consecutive month in Jun'21 (fastest pace since Feb'21). Despite this, employment rose as companies remained optimistic about future outlook. Services PMI came in at 47.2 in Jun'21 versus 46.5 in May'21. New orders declined at an unchanged pace but job creation continued, on hopes of revival in demand due vaccination drive.
- Bank of England (BoE) in its policy meet unanimously voted to keep the policy rate on hold at 0.1% and also voted (8-1) to continue with its bond purchase program (US\$1.2 tn) till the end of the year. It stated that the inflation is likely to spike to 3% in the coming months along with strong GDP growth. However, this spike in inflation is likely to be transitory and will fade over time with inflation returning back to its target of 2% in medium term.
- China's Central Bank (PBOC) in its latest decision left the key policy rate unchanged. The 1Y loan prime rate (LPR) remains unchanged at 3.85% and 5Y at 4.65%. However, PBOC has changed the way deposit rates are calculated by the banks by setting new ceilings, that will help lower the fundraising cost for them. News reports indicate that this will lower banks' costs by 0.7bps in CY21, by 1.7bps in CY22 and by 3bps in CY23.
- As per UNCTAD's World Investment report, global FDI flows have fallen by ~35% to US\$ 1tn in CY20 from US\$ 1.5tn in CY19. This was skewed towards developed economies (58% drop in FDI). However, within developing economies, it fell at a softer pace of 8%, due to resilient flows in Asia. In China, FDI flows rose by 6% to US\$ 149bn. In India, it rose to US\$ 64bn in CY20 from US\$ 51bn in CY19, led by acquisitions in ICT.

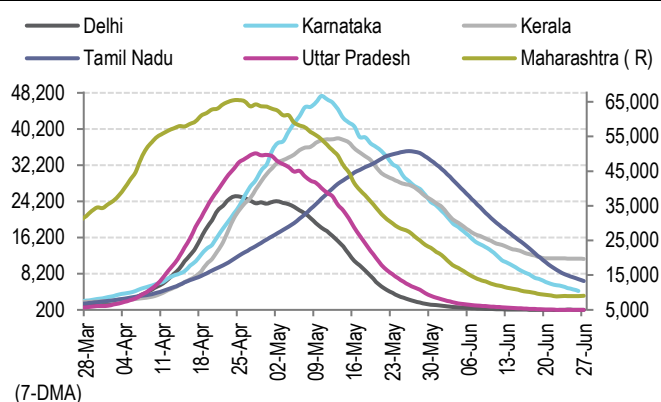
High Frequency Indicators and Weekly Activity Tracker

Fig 2 – GLOBAL COVID-19 CASES STEADY



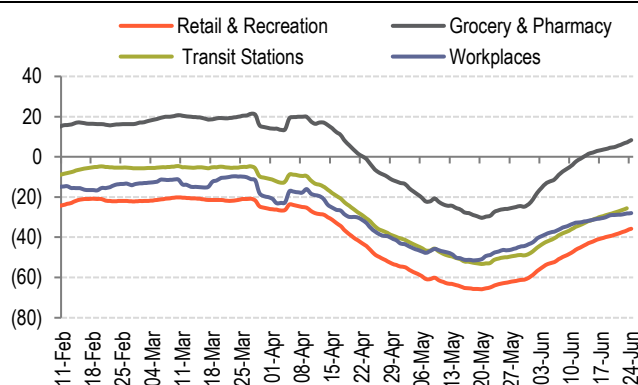
Source: CEIC, Bank of Baroda Research *Data as of 26 Jun 2021

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



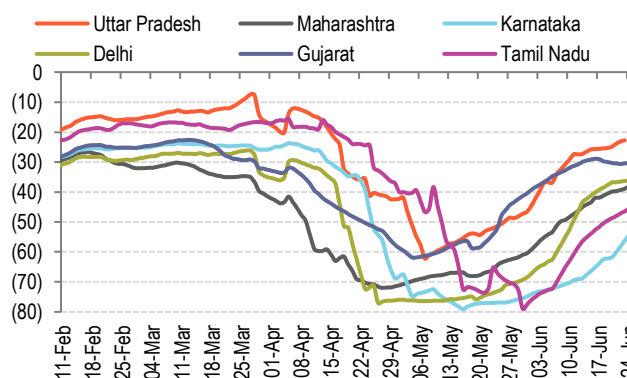
Source: CEIC, Bank of Baroda Research *Data as of 27 Jun 2021

Fig 4 – GOOGLE MOBILITY INDEX PICKING UP



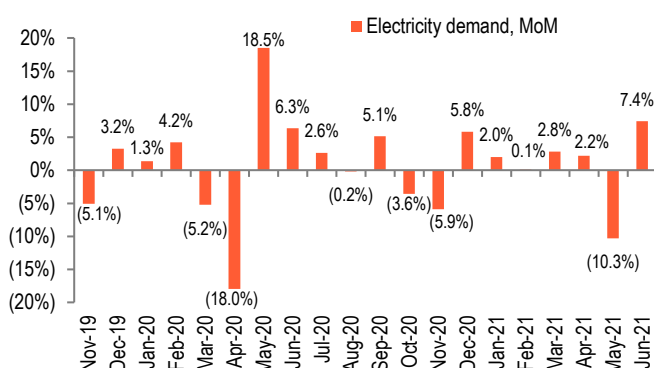
Source: CEIC, Bank of Baroda Research; *Data as of 24 Jun 2021

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



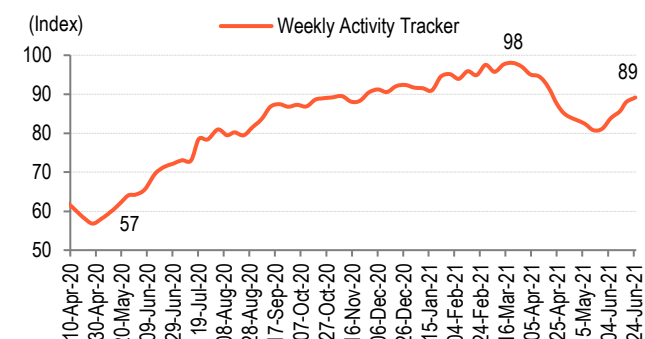
Source: CEIC, Bank of Baroda Research; *Data as of 24 Jun 2021

Fig 6 – IMPROVEMENT IN ELECTRICITY DEMAND



Source: Bloomberg, Bank of Baroda Research; *Data as of 27 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 25 Jun 2021

Fig 8 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.52	9	(3)	(15)	84
UK	0.78	3	(1)	2	62
Japan	0.05	(1)	(3)	(4)	3
Germany	(0.16)	5	1	19	31
India	6.03	2	6	(9)	14
China	3.10	(5)	2	(10)	23
2Y yields (Δ bps)					
US	0.27	1	12	13	8
UK	0.08	(5)	7	2	16
Japan	(0.11)	1	1	2	1
Germany	(0.65)	2	2	7	4
India	4.55	13	26	(6)	24
China**	2.38	(9)	6	(19)	20
Currencies (Δ %)					
EUR	1.1935	0.6	(2.6)	1.2	6.4
GBP	1.3879	0.5	(1.9)	0.7	11.8
JPY	110.75	(0.5)	(1.8)	(1.0)	(3.3)
AUD	0.7590	1.5	(2.1)	(0.6)	10.2
INR	74.20	(0.4)	(2.0)	(2.3)	1.9
CNY	6.4562	0	(0.7)	1.3	8.8
Equity & Other indices (Δ %)					
Dow	34,434	3.4	0.4	4.1	33.7
FTSE	7,136	1.7	1.5	5.9	16.1
DAX	15,608	1.0	0.9	5.8	28.2
NIKKEI	29,066	0.4	1.8	(0.4)	30.6
Shanghai Comp	3,608	2.3	0.7	5.5	21.1
SENSEX	52,925	1.1	4.5	8.0	51.9
Brent (US\$/bbl)	76.18	3.6	11.0	18.0	85.6
Gold (US\$/oz)	1,781	1.0	(6.2)	2.8	1.0
CRB Index	552.8	(0.3)	2.9	8.4	52.7
Rogers Agri Index	1,017.3	(1.0)	(1.9)	7.5	52.8
LIBOR (3M)*	0.15	1	1	(5)	(16)
INR 5Y Swap*	5.69	(1)	2	(15)	44
India FII data (US\$ mn)					
	24 Jun	WTD	MTD	CYTD	FYTD
FII-Debt	(49.0)	(12.7)	(380.7)	(2,961.3)	(934.0)
FII-Equity	(105.1)	(358.9)	1,388.3	7,974.4	648.1

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

Fig 9 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
28-Jun	Malaysia exports, % YoY	May	57.5%	63.0%	--
	Hong Kong exports, % YoY	May	23.6%	24.4%	--
	US Dallas Fed manufacturing activity	Jun	32.5	34.9	--
29-Jun	Japan retail sales, % YoY	May	8.1%	12.0%	--
	France ILO unemployment rate, %	Q1CY21	8.0%	8.0%	--
	France consumer confidence	Jun	100.0	97.0	--
	Euro Area consumer confidence	Jun	--	(3.3)	--
	Germany CPI, % MoM	Jun	0.4%	0.5%	--
30-Jun	South Korea industrial production, % YoY	May	18.3%	12.4%	--
	Japan industrial production, % MoM	May	(2.1%)	2.9%	--
	China non-manufacturing PMI	Jun	55.3	55.2	--
	China manufacturing PMI	Jun	50.8	51.0	--
	Japan housing starts, % YoY	May	8.4%	7.1%	--
	UK GDP, % QoQ	Q1CY21	(1.5%)	(1.5%)	--
	France PPI, % YoY	May	--	7.3%	--
	France CPI, % YoY	Jun	1.5%	1.4%	--
	Thailand exports, % YoY	May	--	19.1%	--
	Italy CPI EU harmonized, % YoY	Jun	1.4%	1.2%	--
	Euro Area CPI, % MoM	Jun	0.2%	0.3%	--
	India fiscal deficit, Rs Crore	May	--	78,699.0	--
	India core industries output, % YoY	May	--	56.1%	--
	US ADP employment change, in thousands	Jun	550.0	978.0	--
	US pending home sales, % MoM	May	(1.0%)	(4.4%)	--
	India current account balance, US\$ bn	Q4FY21	(7.6)	(1.7)	--
01-Jul	Caixin China manufacturing PMI Mfg	Jun	51.9	52.0	--
	Markit India manufacturing PMI Mfg	Jun	--	50.8	--
	Germany retail sales, % MoM	May	4.6%	(5.5%)	--
	Markit Italy manufacturing PMI	Jun	62.3	62.3	--
	Markit France manufacturing PMI	Jun	58.6	58.6	--
	Markit/BME Germany manufacturing PMI	Jun	64.9	64.9	--
	Markit Eurozone manufacturing PMI	Jun	63.1	63.1	--
	Euro Area unemployment rate, %	May	8.0%	8.0%	--
	US initial jobless claims, in thousands	26-Jun	389.0	411.0	--
	Markit US manufacturing PMI	Jun	62.6	62.6	--
	US ISM manufacturing PMI	Jun	61.0	61.2	--
02-Jul	Euro Area PPI, % YoY	May	9.5%	7.6%	--
	US change in nonfarm payrolls, in thousands	Jun	700.0	559.0	--
	US unemployment rate, %	Jun	5.7%	5.8%	--
	US trade balance, US\$ bn	May	(71.3)	(68.9)	--
	US durable goods orders, % MoM	May	--	2.3%	--

Source: Bloomberg, Bank of Baroda Research

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