

WEEKLY WRAP

02 August 2021

RBI policy to guide markets

Rising Covid-19 cases globally, Fed's dovish comments and lower than estimated US macro data drove global yields lower. Equity markets too fell led by China's regulatory crackdown. While DXY fell, EUR gained with Euro Area reporting better than estimated Q2CY21 GDP. On the domestic front, India's 10Y yield fell by 3bps. Buoyant tax collections, in particular corporate tax collections bode well for the fiscal picture. Our weekly tracker moderated to 93 (Feb'20=100) from 94 last week. Focus will be on global and domestic PMIs and central banks, in particular RBI.

Sameer Narang | Aditi Gupta
 chief.economist@bankofbaroda.com

Markets

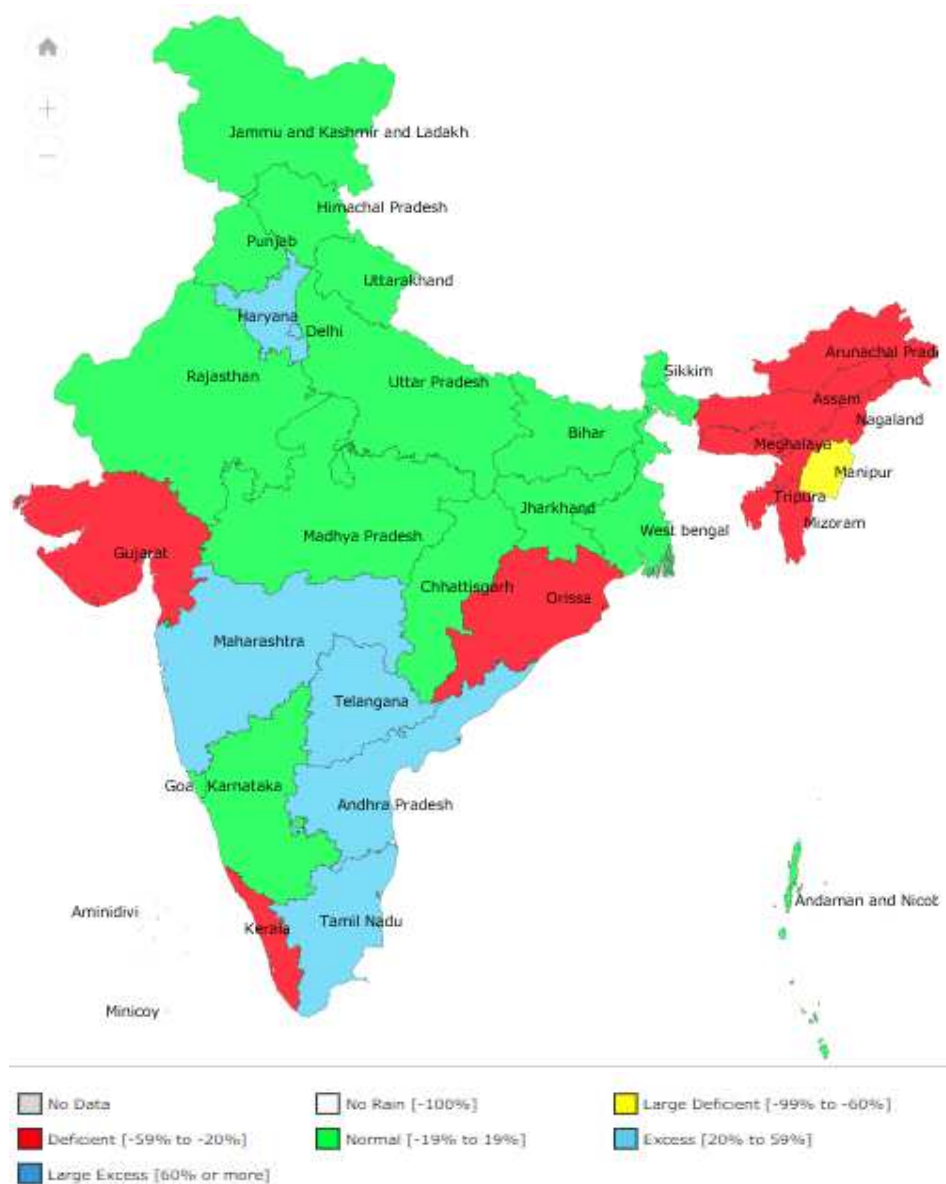
- **Bonds:** Global yields closed lower with rising Covid-19 cases. US 10Y yield fell by 5bps (1.22%) as Fed remained dovish in its recent policy. New home sales and GDP missed estimates. Crude prices rose by 3% (US\$ 76/bbl) due to drawdown in US inventories. India's benchmark 10Y yield (6.10GS2031) fell by 3bps (6.2%) supported by better auction results. System liquidity surplus was at Rs 6.1tn as on 30 Jul 2021 versus Rs 5.5tn last week.
- **Currency:** Except INR (flat) and AUD (lower), global currencies closed higher. DXY fell by 0.7% as Fed refrained from providing a timeline of easing monetary stimulus. US data (new home sales, GDP, durable goods) was also weaker than expected. EUR rose by 0.8% as Euro Area Q2CY21 GDP rose more than expected. GBP rose by 1.1% as fresh cases showed deceleration. INR closed flat despite higher oil prices and FII outflows.
- **Equity:** Barring FTSE, other global indices ended the week lower amidst rising Covid-19 cases globally. Shanghai Comp fell by 4.3% amidst concerns over regulatory crackdown. While dovish comments by Fed will boost markets, corporate earnings results and commentary will drive stock prices. Sensex fell by 0.7%, led by decline in power and banking stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 4.1mn versus 3.7mn (WoW). Cases rose in US (0.5mn vs 0.3mn) and Japan (52K vs 28K). In India, cases rose by 0.28mn vs 0.27mn. Our weekly economic activity tracker index fell to 93 (100=Feb'20) from 94. UAE has fully vaccinated 70% of its population, UK at 56% and US at 49%. India is at 7.2%.
- **Upcoming key events:** Major events this week include rate decision of BoE, RBA and BoT. In addition, global manufacturing and services PMIs, US non-farm payrolls and Indonesia's Q2 GDP will also be released. On the domestic front, PMIs and RBI policy decision is keenly awaited.



Monsoon tracker

- For the period 1 Jun 2021 to 30 Jul 2021, monsoon is 1% below LPA compared with 1% above LPA last year. States like Maharashtra, Telangana, Andhra Pradesh and Tamil Nadu have received excess rainfall. Rajasthan, Madhya Pradesh, Uttar Pradesh, Punjab and Bihar have received normal rainfall. However, Gujarat, Kerala, Orissa and North Eastern Region have received deficient rainfall during this period.
- Overall kharif sown area has fallen by 4.7% as on 30 Jul 2021 compared with last year. Sown area of cotton and oilseeds has dropped sharply by 8.7% and 5.5% respectively. Further, decline is also visible in sowing area of rice (down by 4%) and pulses (down by 3%) compared with last year. However, sowing of sugarcane (1.6%) and jute & mesta (1.2%) has improved.

Fig 1 – Distribution pattern of south-west monsoon



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

India macro developments

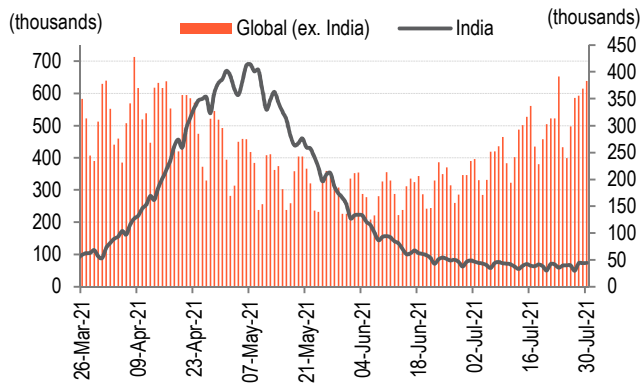
- Government of India has reduced the basic customs duty on import of lentils (except US) to 0% from 10%. Agriculture infrastructure development cess has been halved to 10%. Pulses with a weight of 2.4% in the CPI basket posted double digit inflation during Oct'19-Mar'21. While it eased in Apr'21, it quickly reverted back to its upward trajectory with recent Jun'21 print at 10% on YoY basis. The reduction in duty is likely to keep price in check.
- IMF has slashed India's growth forecast for FY22 to 9.5% from 12.5% earlier. The downgrade is due to the severe second-wave of Covid-19 and the resulting dent in confidence. For FY23, growth is expected at 8.5% (+1.6%). Global growth forecast for CY21 has been kept unchanged at 6%, as upward revisions in advanced economies offset the downward revisions in countries which experienced fresh waves of infections.
- Cabinet has cleared the Deposit Insurance and Credit Guarantee Corporation (DICGC) Bill and Limited Liability Partnership (LLP) Amendment Bill. In an effort to protect the interest of depositors, it will cover banks placed under moratorium and will enable depositors to withdraw up to Rs 0.5mn in 90 days. This measure will cover 98.3% of all deposit accounts and 50.9% in value terms, in comparison to global standard of 80% and 20-30% respectively.
- Union Cabinet has approved amendments to the General Insurance Business (Nationalisation) Act (GIBNA). It is likely to be tabled in the Parliament in the monsoon session. As per reports, LIC's IPO may be launched early next year and 10% stake sale will fetch Rs 1-1.5tn to the exchequer. Government is also expected to divest stake (through OFS) in National Fertilizers Ltd., Mishra Dhatu Nigam Ltd. And Rashtriya Chemicals and Fertilizers Ltd., in Q3FY22.
- RBI's newly constructed digital payment index has risen sharply by 30.2% in FY21 signaling the 'rapid adoption and deepening of digital payments' in India. The new index is based on 5 parameters including: Payment enablers (weight 25%), payment infrastructure-demand-side (10%), payment infrastructure-supply side (15%), payment performance (45%) and consumer centricity (5%). The base year has been taken as Mar'18 and it is expected to be published on a semi-annual basis with a lag of 4-months.
- Central government's fiscal deficit (12MMA, % of GDP) improved to 6.7% in Q1FY22 from 7.1% in Apr-May'21. The improvement was led by sharp recovery in tax collections. Over the 2-year horizon, gross tax collections rose to Rs 5.3tn versus Rs 4tn in Q1FY20, owing to sharp pick up in direct tax collections (Rs 2.5tn versus Rs 1.7tn) and indirect tax collections (Rs 2.9tn versus Rs 2.3tn). Overall expenditure also rose, albeit less sharply (Rs 8.2tn versus Rs 7.2tn). Within this, capex remains strong at Rs 1.1tn versus Rs 630bn.

Global macro developments

- South Korea's GDP growth rose to a more than 10-year high of 5.9% in Q2CY21 (est. 6%) from an increase of 1.9% in Q1 on a YoY basis led by a pickup in consumption demand (4.1% versus 1.5% in Q1). Exports of goods and services also picked up sharply to 22.4% in Q2 from 5.1% in Q1. Investment demand however decelerated. Growth is however likely to slow down in Q3 amidst the worst outbreak of Covid-19 and strict social distancing measures.
- China's industrial profits eased in Jun'21 to 20% (YoY) following 36.4% rise in May'21, owing to base effect. Within this, private firms and small businesses have seen a smaller rebound compared with SOEs. In H1CYTD21, profits of SOEs rose by 110% versus headline print of 66.9%. The uneven recovery is attributed to rise in international commodity prices and supply chain bottlenecks. Over a 2 year horizon (versus H1CY19), profits in H1CY21 rose by 45.5%.
- US durable goods orders rose by 0.8% in Jun'21 (MoM) from a 3.2% rise in May'21. The slowdown was most visible in transportation equipment (2.1% versus 10%), led by motor vehicle and parts (0.3% drop versus 2% increase). Core orders registered steady growth of 0.5%. Separately, US Conference Board consumer confidence index rose to 129.1 in Jul'21 from 128.9 in Jun'21. Expectations of both future income and jobs improved.
- Australia's CPI rose at its fastest pace in over 13 years to 3.8% in Q2CY21 (1.1% in Q1CY21) on a YoY basis, largely owing to base effect. The spike in prices were led by transport (10.7% in Q2 from 0.4% in Q1) and health (4.8% in Q2 from 3% in Q1) on the back of strong demand and supply side bottlenecks. Within transport, automotive fuel (+6.5%) was the biggest contributor due to recovery in global oil prices.
- US Fed has left the target range for federal funds rate at 0-0.25% and informed that the economy is making progress towards its goals of full employment and 2% average inflation. It reiterated that current pickup in inflation is transitory and US is still away from making substantial progress towards full employment goal. Going forward, with increase in vaccination rates, each wave of Covid-19 is expected to have less economic impact on the economy.
- US GDP rose by 6.5% in Q2CY21 (est. 8.5%) versus 6.3% in Q1. Gross private domestic investment fell by 3.5% from 2.3% decline in Q1. On the other hand, personal consumption expenditure rose by 11.8% from 11.4% in Q1, led by services (12% versus 3.9%). Exports increased by 6% from 2.9% decline in Q1. Imports rose at a softer pace of 7.8% from 9.3% in Q1. In a separate print, US jobless claims fell by 24K to 400K for the week ending 24 Jul 2021.
- China's official manufacturing PMI eased to 50.4 in Jul'21 from 50.9 in Jun'21. The sub-index for production eased to 51 (51.9 in Jun'21) while new orders index dropped to 50.9 (51.5 in Jun'21). Within new orders, export order index fell to 47.7 and import order index was down to 49.4. Extreme weather (flood in Henan province) and bottlenecks at major ports impacted the activity in Jul'21. Non-manufacturing PMI also eased in Jul'21, to 53.3 from 53.5 in Jun'21.

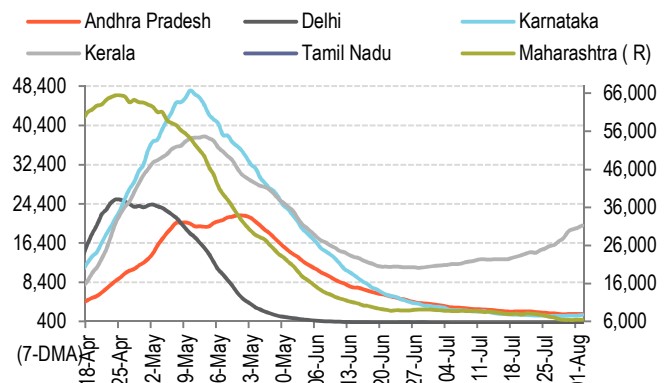
High frequency indicators and weekly activity tracker

Fig 2 – Global Covid-19 cases picked up further this week



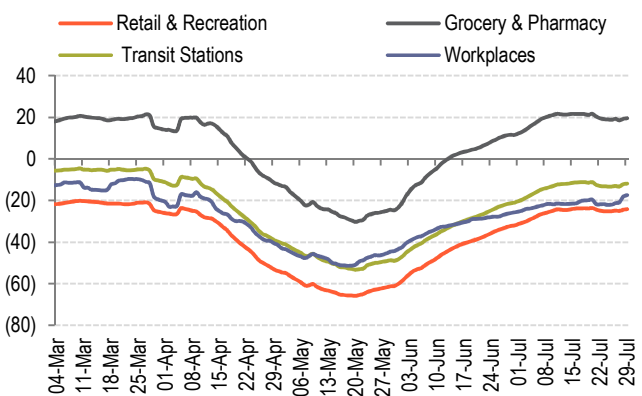
Source: CEIC, Bank of Baroda Research *Data as of 30 Jul 2021

Fig 3 – Covid-19 cases in Kerala accelerating



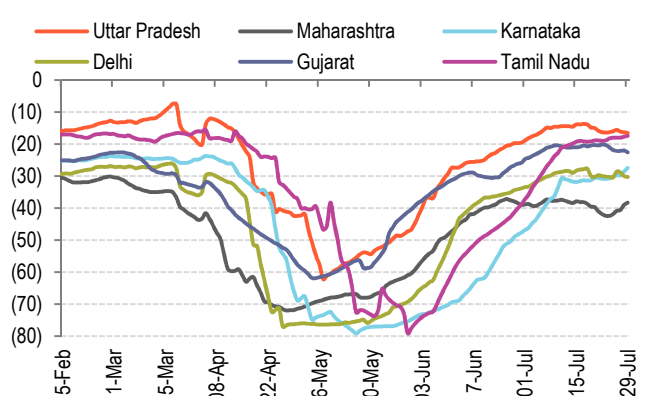
Source: CEIC, Bank of Baroda Research *Data as of 1 Aug 2021

Fig 4 – Google mobility index moderating



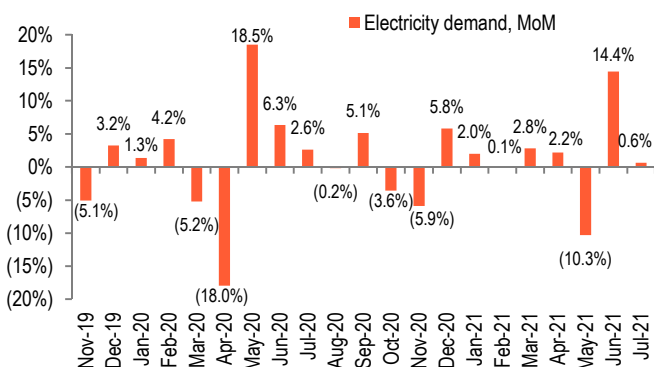
Source: CEIC, Bank of Baroda Research; *Data as of 29 Jul 2021

Fig 5 – Moderation in mobility in retail and recreation across states



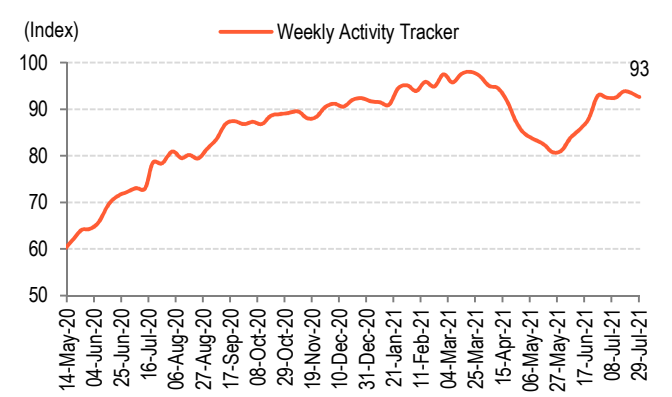
Source: CEIC, Bank of Baroda Research; *Data as of 29 Jul 2021

Fig 6 – Electricity demand eases



Source: Bloomberg, Bank of Baroda Research; *Data as of 30 Jul 2021

Fig 7 – Weekly activity tracker moderated to 93 from 95 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	1.22	(5)	(25)	(40)	69
UK	0.57	(2)	(17)	(28)	46
Japan	0.02	0	(4)	(8)	0
Germany	(0.46)	(4)	(29)	(26)	6
India ^{^^}	6.20	(3)	17	17	37
China	2.86	(6)	(25)	(30)	(12)
2Y yields (Δ bps)					
US	0.18	(1)	(7)	3	8
UK	0.06	(2)	(0)	(2)	13
Japan	(0.12)	1	(1)	1	0
Germany	(0.76)	(4)	(11)	(8)	(5)
India	4.23	(2)	(54)	(23)	4
China ^{**}	2.00	5	(41)	(40)	(25)
Currencies (Δ %)					
EUR	1.1870	0.8	(0.2)	(1.2)	0.8
GBP	1.3904	1.1	0.5	0.6	6.3
JPY	109.72	0.8	0.7	(0.4)	(3.7)
AUD	0.7344	(0.3)	(2.2)	(4.8)	2.8
INR	74.42	0	(0.3)	(0.4)	0.5
CNY	6.4614	0.3	0	0.2	7.4
Equity & Other indices (Δ %)					
Dow	34,935	(0.4)	1.9	3.1	32.2
FTSE	7,032	0.1	(0.8)	0.9	19.2
DAX	15,544	(0.8)	(0.9)	2.7	26.2
NIKKEI	27,284	(1.0)	(5.3)	(5.3)	25.7
Shanghai Comp	3,397	(4.3)	(4.9)	(1.4)	2.6
SENSEX	52,587	(0.7)	0.1	7.8	39.8
Brent (US\$/bbl)	76.33	3.0	2.1	13.5	76.3
Gold (US\$/oz)	1,814	0.7	3.0	2.5	(8.2)
CRB Index	562.2	0.4	1.0	5.7	48.8
Rogers Agri Index	1,059.5	0.1	2.3	(0.9)	51.4
LIBOR (3M)*	0.13	0	(2)	(5)	(12)
INR 5Y Swap*	5.80	(3)	9	16	66
India FII data (US\$ mn)					
	29 Jul	WTD	MTD	CYTD	FYTD
FII-Debt	4.0	19.5	(102.0)	(3,268.8)	(1,241.5)
FII-Equity	(24.6)	(726.0)	(1,362.2)	6,722.0	(604.3)

Source: Bloomberg, Bank of Baroda Research | *Indicates change in bps | **1Y yield | ^ 4.26GS2023 | ^^ 6.10GS2031

Fig 9 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
02-Aug	Jibun Bank Japan manufacturing PMI	Jul	--	52.2	--
	Caixin China manufacturing PMI	Jul	51.0	51.3	--
	Markit India manufacturing PMI	Jul	--	48.1	--
	Germany retail sales, % MoM	Jun	2.0%	4.6%	--
	Markit Italy manufacturing PMI	Jul	61.5	62.2	--
	Markit France manufacturing PMI	Jul	58.1	58.1	--
	Markit/BME Germany manufacturing PMI	Jul	65.6	65.6	--
	Markit Eurozone manufacturing PMI	Jul	62.6	62.6	--
	Markit US manufacturing PMI	Jul	63.1	63.1	--
	US ISM manufacturing index	Jul	60.9	60.6	--
03-Aug	South Korea CPI, % YoY	Jul	2.4%	2.4%	--
	RBA cash rate target, %	03-Aug	0.1%	0.1%	--
	Eurozone PPI, % YoY	Jun	10.3%	9.6%	--
	US factory orders, % MoM	Jun	1.0%	1.7%	--
	US durable goods orders, % MoM	Jun	0.8%	0.8%	--
04-Aug	Jibun Bank Japan services PMI	Jul	--	46.4	--
	Australia retail sales % MoM	Jun	(1.8%)	(1.8%)	--
	Caixin China services PMI	Jul	50.5	50.3	--
	Markit India services PMI	Jul	--	41.2	--
	BoT benchmark interest rate, %	04-Aug	0.5%	0.5%	--
	Markit France services PMI	Jul	57.0	57.0	--
	Markit Germany services PMI	Jul	62.2	62.2	--
	Markit Eurozone services PMI	Jul	60.4	60.4	--
	Markit/CIPS UK services PMI	Jul	57.8	57.8	--
	US ADP employment change, in thousands	Jul	650.0	692.0	--
	Markit US services PMI	Jul	59.8	59.8	--
	US ISM services index	Jul	60.5	60.1	--
05-Aug	Australia trade balance, AUD mn	Jun	10,200.0	9,681.0	--
	Indonesia GDP, % YoY	Q2CY21	6.5%	(0.7%)	--
	Germany factory orders, % MoM	Jun	2.0%	(3.7%)	--
	France industrial production, % MoM	Jun	0.6%	(0.3%)	--
	Bank of England bank rate, %	05-Aug	0.1%	0.1%	--
	US initial jobless claims, in thousands	31-Jul	382.0	400.0	--
06-Aug	South Korea BoP current account balance, \$mn	Jun	--	10,761.2	--
	RBA monetary policy minutes	--	--	--	--
	RBI repo rate, %	06-Aug	4.0%	4.0%	--
	Germany industrial production SA, % MoM	Jun	0.6%	(0.3%)	--
	Italy industrial production, % MoM	Jun	1.0%	(1.5%)	--
	US change in nonfarm payrolls, in thousands	Jul	900.0	850.0	--
	China BoP current account balance, US\$ bn	Q2CY21	--	69.4	--

Source: Bloomberg, Bank of Baroda Research

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com