

WEEKLY WRAP

30 August 2021

Global markets rally, India's activity improving

Global yields rose as Fed Chair indicated that US Fed may start tapering asset purchases later this year. ECB suggested that impact of Delta variant is likely to be limited. Global currencies rallied. Brent rebounded by 11.5% in the week. Equity markets too saw an upmove. This week the focus will be on US jobs report and PMIs. In India, Q1FY22 GDP data will be released which will show the impact of second wave on growth. We expect GDP growth at 19.5%. Economic activity continues to see improvement with our weekly tracker now just 3% below Feb'20 baseline.

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Markets

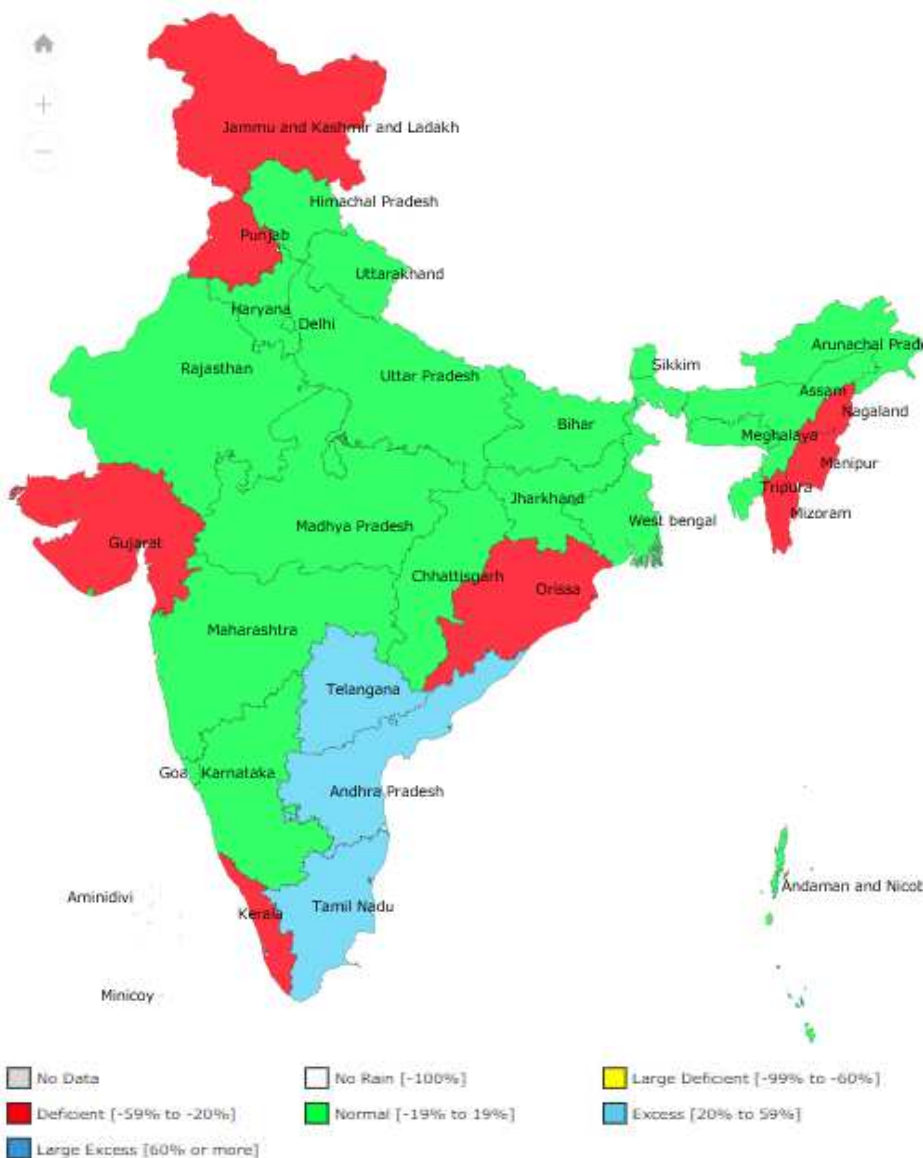
- **Bonds:** Global yields closed higher. Germany's 10Y yield rose the most by 7bps as ECB Chief Economist downplayed the economic impact from Delta variant. US 10Y yield rose by 5bps (1.31%) supported by better new home sales data. Crude prices rose by 11.5% due to supply disruptions from Hurricane Ida. India's 10Y yield rose by 2bps (6.26%). System liquidity surplus rose to Rs 7.5tn as on 27 Aug 2021 versus Rs 6.9tn last week.
- **Currency:** Except JPY, other global currencies closed higher. After rising to a 9-month high last week, DXY fell by 0.9% as Fed Chair pushed back the possibility of rate hikes. Lower than expected US services and manufacturing PMI also impacted US\$. AUD rose by 2.5%. INR appreciated by 1% to a more than 2-month high supported by FII inflows (US\$ 831mn).
- **Equity:** Global indices ended higher with Asian markets rising the most. Shanghai Comp was up by 2.8% followed by Nikkei and Sensex. Dow too rose by 1% as Fed Chair Powell commented that timing of tapering will not signal timing of rate hikes. Rates are still expected to remain at record low. Sensex rose by 1.4% led by oil and gas, power and capital good stocks.
- **Covid-19 tracker:** Global Covid-19 cases fell to 4.6mn versus 4.7mn last week. While cases fell in Japan (0.15mn versus 0.16mn) and France (0.13mn versus 0.23mn), increase was seen in US (1.1mn versus 1mn) and Germany (64K versus 48K). In India, cases rose by 0.27mn versus 0.23mn. Our weekly economic activity tracker index (Feb'20=100) was stable at 97. UAE has fully vaccinated 74% of its population, UK at 62% and US at 51%. India is at 10%.
- **Upcoming key events:** Major events include global manufacturing and services PMIs and Q2CY21 GDP prints of France, Italy, Korea and Australia. In addition, US non-farm payrolls and factory orders are also due. In India, Q1FY22 GDP data, fiscal deficit and eight core index are due this week.



Monsoon tracker

- For the period 1 Jun 2021 to 29 Aug 2021, monsoon is 10% below LPA compared with 5% above LPA last year. Large part of central and southern India including states such as Maharashtra, Rajasthan, Uttar Pradesh, Chhattisgarh and Karnataka have received normal rainfall. Telangana, Andhra Pradesh and Tamil Nadu have received excessive rainfall during this period. However, Gujarat, Kerala, Jammu and Kashmir, Orissa and some North-Eastern states have received deficient rainfall.
- Overall kharif sown area has fallen by 1.7% as on 27 Aug 2021 compared with last year. This is led by decline in sown area of cotton (8.6%) and oilseeds (1.9%). Moreover, sowing of rice has also declined by 0.3% compared with last year. However, improvement is seen in the sowing area of sugarcane (4.6%), pulses (0.9%) and jute & mesta (0.4%).

Fig 1 – Distribution pattern of south-west monsoon



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun- 29 Aug 2021

India macro developments

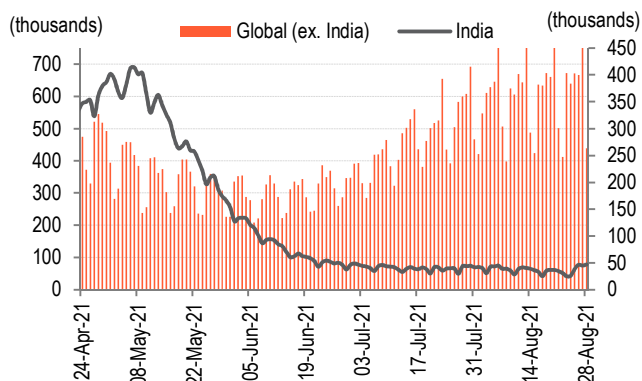
- In an effort to crowd in private investment, government has unveiled a National Monetisation Plan (NMP) of brownfield assets, to generate upfront revenue of Rs 6tn between FY22-25. This proposal covers asset handling of roads, railways, airports, stadiums, power transmission lines and gas pipelines. Under this plan, assets will be monetised through "structured contractual partnership". Notably, it involves monetisation of rights and not ownership. This is likely to ease the fiscal burden of the government (4.5% fiscal deficit target by FY26).
- Weekly GST e-way bill generation data shows that after a slow start in Aug'21, activity has gathered momentum. In Aug'21 so far (as of 22 Aug 2021), 45.6mn bills have been generated versus 49.6mn in Jul'21 (as of 25 Jul'21). The average run-rate of daily e-way bills generated has increased to 2.07mn (+4.4% MoM) in the first 22 days of Aug'21 versus 1.98mn in the first 25 days of Jul'21.
- RBI reported that currency in circulation (CIC) declined by Rs 64bn and stood at Rs 29.5tn for the week ending 20 Aug 2021. Reserve money rose by 16.7% on a YoY basis, compared with 15% last year. On FYTD basis, reserve money increased by 3.5% against 5.4% increase, a year ago.
- In an effort to improve digital penetration in the economy, RBI has extended the scheme for encouraging deployment of Point of Sale (PoS) infrastructure to street vendors covered under the PM SVANidhi programme in Tier-1 and Tier-2 centres. Previously, it was available for Tier 3-Tier 6 centres only. The Payments Infrastructure Development Fund (PIDF) was created with a corpus of Rs 3.45bn for digital payments facilitating the beneficiaries under PM SVANidhi.
- FDI inflows into India rose to US\$ 22.5bn in Q1FY22 compared with US\$ 11.8bn in Q1FY21. FDI equity inflows rose sharply by 168% to US\$ 17.6bn in Q1 on a YoY basis. Sector wise, automobile industry (27%) received the highest share of total FDI inflows in this period, followed by computer hardware and software at 17% and service sector at 11%. State-wise, majority of the inflows were concentrated in Karnataka (48%), Maharashtra (23%) and Delhi (11%).
- India's foreign exchange reserves fell to US\$ 616.9bn as on 20 Aug 2021. Forex reserves fell by US\$ 2.5bn versus a decline of US\$ 2.1bn, on a WoW basis. In FYTD22, foreign exchange reserves have increased by US\$ 37.6bn, lower than the accretion of US\$ 62bn in the same period last year.

Global macro developments

- Flash PMIs for the US (61.2 in Aug'21 versus 63.4 in Jul'21), UK (60.1 versus 60.4) and Eurozone (61.5 versus 62.8) showed that manufacturing activity eased across regions in Aug'21. Severe shortage of raw material impacted activity in the US and UK. In US, increased cost burden and spread of Delta variant also impacted activity. Services sector too showed similar trend with activity slowing across the board. Labour shortage remained a key concern for all.
- Germany's GDP growth accelerated to 1.6% in Q2CY21 (est.: 1.5%) versus 2% contraction in Q1, on a QoQ basis. This was led by pickup in household consumption demand (3.2% increase versus 5.2% decline), government consumption demand (1.8% increase versus 0.7% decline) and gross fixed capital formation (0.5% increase versus 0.7% decline). Export and import growth however moderated to 0.5% (from 1.4%) and 2.1% (from 4.2%) respectively.
- US durable goods orders fell by 0.1% in Jul'21 (est. -0.3%) compared with an increase of 0.8% in Jun'21 on a MoM basis. This was led by a 2.2% decline in transport equipment versus an increase of 1.4% in Jun'21. Orders for core capital goods was flat (0%) in Jul'21 (est. 0.5%) following an increase of 1% in Jun'21. This was attributed to supply chain bottlenecks and shift in demand towards services.
- Central Bank of Korea (BoK) increased its policy rate by 25bps to 0.75% in its latest meeting, a first in nearly 3 years. It informed that the decision was not unanimous and some members argued to keep rates steady in view of rising Covid-19 cases. However, rising inflation, surge in home prices and household debt, necessitated the increase in policy rate. While inflation forecast was revised upward to 2.1% (2% target of the Central Bank), growth forecast was left unchanged at 4% for CY21.
- US GDP growth was revised up to 6.6% in Q2CY21 from an initial estimate of 6.5% and 6.3% in Q1CY21. This was led by upward revisions to non-residential fixed investment and exports. However, private inventory investment and government spending were revised downwards. Separately, US jobless claims for the week ended 21 Aug 2021 rose for the first time in 5 weeks to 353k (est. 350k) from 349k. Despite this, claims still remain at a pre-pandemic low. In fact, the 4-week moving average of claims fell to 367k, a new pandemic low.
- China's industrial profits moderated to 16.4% in Jul'21, from 20% in Jun'21. While this was partly owing to base effect, elevated commodity prices and supply chain bottlenecks also contributed to slowing profit growth. Shortage of computer chips has led to 4th consecutive decline in automobile production. However, profits of pharmaceuticals, mining and raw material manufacturing were robust. The unevenness in recovery has raised hopes for government stimulus in near-term.

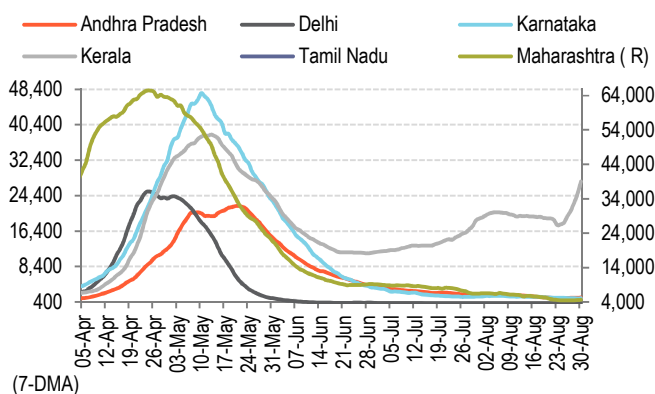
High frequency indicators and weekly activity tracker

Fig 2 – Global Covid-19 moderate



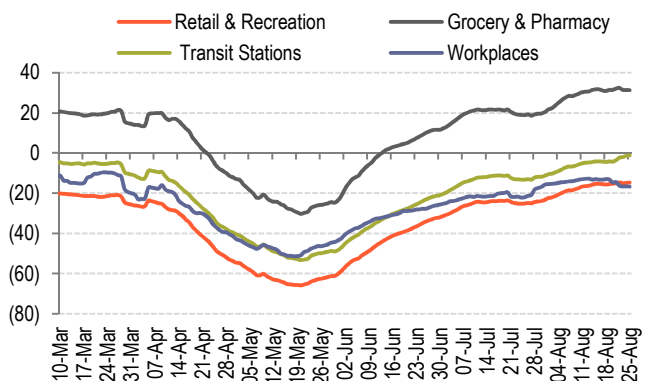
Source: CEIC, Bank of Baroda Research *Data as of 28 Aug 2021

Fig 3 – Covid-19 cases pickup marginally, led by Kerala



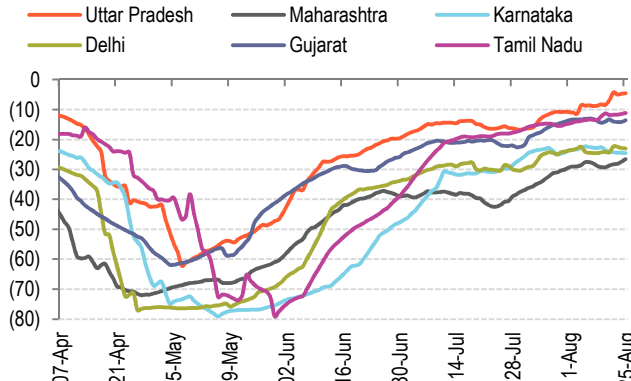
Source: CEIC, Bank of Baroda Research *Data as of 30 Aug 2021

Fig 4 – Google mobility index steady



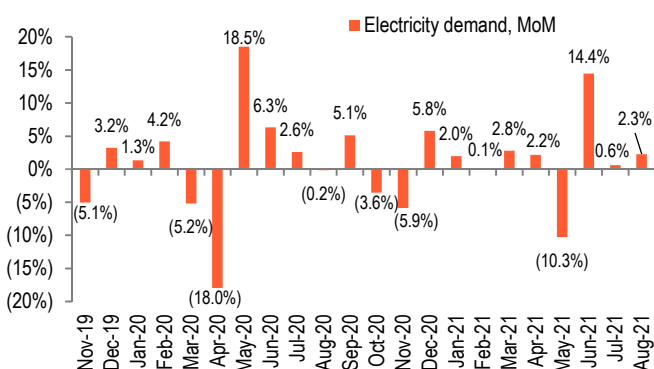
Source: CEIC, Bank of Baroda Research; *Data as of 25 Aug 2021

Fig 5 – Similar trend in retail and recreation



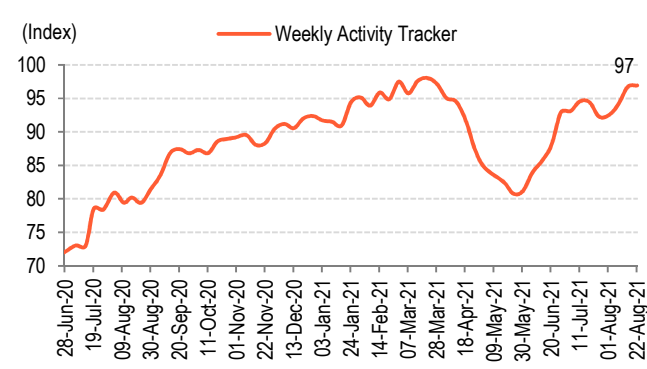
Source: CEIC, Bank of Baroda Research; *Data as of 25 Aug 2021

Fig 6 – Electricity demand improves



Source: Bloomberg, Bank of Baroda Research; *Data as of 28 Aug 2021

Fig 7 – Weekly activity tracker stable at 97



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	1.31	5	4	(29)	59
UK	0.58	5	1	(22)	27
Japan	0.03	2	1	(6)	(3)
Germany	(0.42)	7	3	(24)	(1)
India ^{^^}	6.26	2	6	25	11
China	2.87	3	(2)	(22)	(20)
2Y yields (Δ bps)					
US	0.22	(1)	1	7	9
UK	0.12	2	4	6	18
Japan	(0.11)	1	2	1	0
Germany	(0.74)	1	2	(7)	(7)
India	4.13	1	(11)	(14)	(35)
China ^{**}	2.27	36	28	(9)	(25)
Currencies (Δ %)					
EUR	1.1795	0.8	(0.8)	(3.3)	(0.9)
GBP	1.3764	1.0	(1.4)	(3.0)	3.1
JPY	109.84	(0.1)	(0.3)	0	(4.2)
AUD	0.7312	2.5	(1.1)	(5.2)	(0.7)
INR	73.69	1.0	0.8	(1.7)	(0.4)
CNY	6.4720	0.5	(0.2)	(1.6)	5.7
Equity & Other indices (Δ %)					
Dow	35,456	1.0	1.1	2.7	23.7
FTSE	7,148	0.8	1.0	1.8	19.9
DAX	15,852	0.3	1.4	2.1	21.6
NIKKEI	27,641	2.3	(0.5)	(5.2)	20.8
Shanghai Comp	3,522	2.8	3.2	(2.2)	3.5
SENSEX	56,125	1.4	6.6	9.1	42.2
Brent (US\$/bbl)	72.70	11.5	(4.4)	4.4	61.4
Gold (US\$/oz)	1,818	2.0	(0.6)	(4.5)	(7.5)
CRB Index	561.2	0.2	(0.5)	2.3	42.8
Rogers Agri Index	1,089.9	2.3	1.4	3.4	47.7
LIBOR (3M)*	0.12	(1)	(1)	(1)	(12)
INR 5Y Swap*	5.73	(10)	(6)	1	1
India FII data (US\$ mn)					
	26 Aug	WTD	MTD	CYTD	FYTD
FII-Debt	(8.7)	1,441.5	1,539.8	(1,713.4)	313.8
FII-Equity	(304.3)	(610.2)	477.9	6,856.1	(470.3)

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	
30-Aug	Japan retail sales, % YoY	Jul	2.1%	0.1%	2.4%	
	Euro Area consumer confidence	Aug	--	(5.3)	--	
	Germany CPI, % YoY	Aug	3.9%	3.8%	--	
31-Aug	Japan industrial production, % MoM	Jul	(2.4%)	6.5%	--	
	China official non-manufacturing PMI	Aug	52.0	53.3	--	
	China official manufacturing PMI	Aug	50.2	50.4	--	
	France CPI, % YoY	Aug	1.7%	1.2%	--	
	France GDP, % QoQ	Q2CY21	0.9%	0.9%	--	
	Euro Area CPI, % MoM	Aug	0.2%	(0.1%)	--	
	India fiscal deficit, Rs crore	Jul	--	1,51,071.0	--	
	India GDP, % YoY	Q2CY21	21.1%	1.6%	--	
	India eight infrastructure industries index, % YoY	Jul	--	8.9%	--	
	US conf. board consumer confidence index	Aug	123.0	129.1	--	
01-Sep	Japan Jibun Bank manufacturing PMI	Aug	--	52.4	--	
	Australia GDP, SA, % QoQ	Q2CY21	0.5%	1.8%	--	
	India Markit manufacturing PMI	Aug	--	55.3	--	
	Germany retail sales, % MoM	Jul	(1.0%)	4.5%	--	
	Markit France manufacturing PMI	Aug	57.3	57.3	--	
	Markit/BME Germany manufacturing PMI	Aug	62.7	62.7	--	
	Markit Eurozone manufacturing PMI	Aug	61.5	61.5	--	
	Markit UK manufacturing PMI	Aug	60.1	60.1	--	
	Euro Area unemployment rate, %	Jul	7.6%	7.7%	--	
	US ADP employment change, in thousands	Aug	638.0	330.0	--	
	Markit US manufacturing PMI	Aug	61.2	61.2	--	
	US ISM manufacturing index	Aug	58.5	59.5	--	
	02-Sep	S. Korea GDP, % YoY	Q2CY21	5.9%	5.9%	--
		US initial jobless claims, in thousands	01-Aug	345.0	353.0	--
US trade balance, US\$ bn		Jul	(71.0)	75.7	--	
US durable goods orders, % MoM		Jul	(0.1%)	(0.1%)	--	
03-Sep	Jibun Bank Japan services PMI	Aug	--	43.5	--	
	Markit India services PMI	Aug	--	45.4	--	
	Markit France services PMI	Aug	56.4	56.4	--	
	Markit Germany services PMI	Aug	61.5	61.5	--	
	Markit Eurozone services PMI	Aug	59.7	59.7	--	
	Markit/CIPS UK services PMI	Aug	55.5	55.5	--	
	Euro Area retail sales, % MoM	Jul	0.0%	1.5%	--	
	US change in nonfarm payrolls, in thousands	Aug	750.0	943.0	--	
	US unemployment rate, %	Aug	5.2%	5.4%	--	
	Markit US services PMI	Aug	55.2	55.2	--	
US ISM services index	Aug	62.0	64.1	--		

Source: Bloomberg, Bank of Baroda Research

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