

WEEKLY WRAP

31 May 2021

Indian states to begin phased reopening

US yields fell on the back of lower than estimated home sales and durables goods orders. DXY index was flat with economic sentiment in Europe improving. Oil prices rose by 5%. On the domestic front, our weekly economic tracker shows economic activity picking up, with index at 81 versus 79. Activity should improve further with cases coming down. India's 10Y yields rose as centre's borrowing may increase to compensate the states for GST shortfall. This week, Q4 GDP, FY21 fiscal deficit and RBI policy is awaited.

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Markets

- **Bonds:** Global yields closed mixed this week. US 10Y yield fell by 3bps (1.59%) led by lower than estimated US new and pending home sales. Crude prices rose by 4.8% (US\$ 69.7/bbl). India's 10Y yield rose by 3bps (6%) on news of higher than planned borrowing by central government. System liquidity surplus rose to Rs 4tn as on 28 May 2021 from Rs 3.7tn in previous week.
- **Currency:** Except JPY and AUD (lower), other global currencies closed higher this week. DXY closed flat. GBP rose by 0.3% amidst expectations of a rate hike in CY22. JPY depreciated sharply by 0.8% as lockdown restrictions are likely to extend further. INR rose by 0.5% to a 2-month high as Covid-19 cases continued to dip. FII inflows were US\$ 177mn.
- **Equity:** Global indices ended higher, led by drop in Covid-19 cases globally. Jobless print in US was better than estimated. Shanghai Comp surged by 3.3%, followed by Nikkei (2.9%). Sensex (1.7%) too ended in green led by real estate and tech stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose at a slower pace by 3.7mn this week versus 4mn last week. India added 1.5mn cases versus 2mn WoW. Our weekly economic activity tracker index rose to 81 (100=Feb'20) from 79 last week. Israel has vaccinated 63% of its population (single dose), UK at 57% and US at 50%. India is now at 12%.
- **Upcoming key events:** Markets await manufacturing and services PMI data of major global economies and payroll data of US. On the domestic front, GDP data, fiscal estimates and RBI's policy decision will be key to watch.



India macro developments

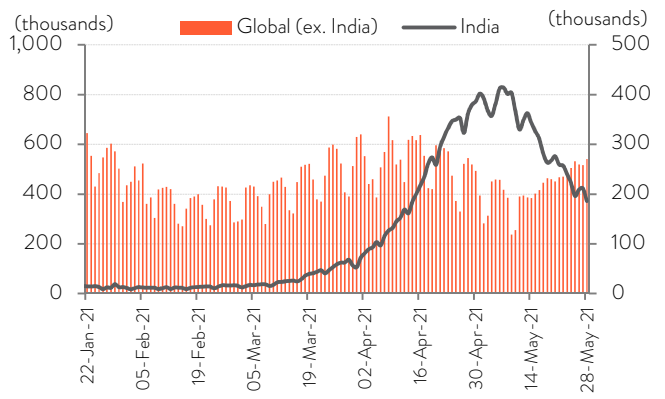
- RBI reported that currency in circulation (CIC) increased by Rs 63.3bn and stood at Rs 29.4tn for the week ending 21 May 2021. Reserve money rose by 17.4% on a YoY basis, compared with 12.8% last year. On FYTD basis, reserve money increased by 4.9% against 3% increase, a year ago.
- As per news reports, GST compensation to states in FY22 is estimated to shoot upto Rs 2.69tn compared with budgeted Rs 1.11tn. The excess Rs 1.58tn will have to be met through market borrowings. In FY21, Centre had borrowed from markets Rs 1.1tn on behalf of states to meet the shortfall in GST compensation.
- FDI inflows into India rose by 10% to a historic high of US\$ 81.7bn in FY21 versus US\$ 74.4bn in FY20. FDI equity inflows rose by 19% to US\$ 59.6bn. Singapore remained the biggest source of FDI inflows with a share of 29% followed by US at 23%. However, FDI inflows from Saudi Arabia jumped the most to US\$ 2.8bn from US\$ 89.9mn in FY20. Sector wise, computer hardware and software attracted 44% of total FDI inflows.
- RBI's balance sheet expanded by 7% in FY21 (Jul'20-Mar'21) to Rs 57tn (29% of GDP) as against 30% increase last year (Jul'19-Jun'20, 26% of GDP). On the liability side, while deposits with RBI increased (excess liquidity), provisions fell sharply (INR, gold and interest rates). Asset side saw increase in domestic and foreign securities (FX reserves, OMOs). Loans to SCBs fell. Even in a shorter accounting period, RBI's surplus increased to Rs 991bn from Rs 571bn last year due to higher other income (trading) and lower provisions.
- GST Council in its latest meeting has decided to exempt IGST on import of Covid-19 relief material (including equipment) until 31 Aug 2021. Another key decision was to reduce the compliance burden of small and medium-sized taxpayers. They will be able to file pending returns and avail benefits of amnesty scheme with reduced late fees. FM also stated that rough estimates show that centre will have to borrow additional Rs 1.58tn to pay to states for the shortfall in compensation cess.
- India's forex reserves rose to a historic high of US\$ 592.9bn in the week ended 21 May 2021. On a weekly basis, forex reserves rose by US\$ 2.9bn compared with US\$ 0.6bn last week. In FYTD22, forex reserves have increased by US\$ 13.6bn versus US\$ 14.5bn accretion in the same period last year.

Global macro developments

- Central Bank of Korea has decided to keep the policy rate unchanged at 0.5% for now. It has also revised upward its GDP forecast for CY21 to 4% from 3% projected in Feb'21. The Bank has also signalled possible shift in accommodative stance in the remaining part of CY21, depending upon trajectory of Covid-19 cases and sustained economic recovery.
- US GDP rose at an unrevised pace of 6.4% in Q1CY21 from 4.3% in Q4CY20. The upward revision in consumer spending was offset by downward revision in exports. In a separate print, US durable goods orders fell by 1.3% in Apr'21 from 1.3% increase in Mar'21, driven by computer chip shortage. US jobless claims on the other hand, fell to a new pandemic low of 406,000 for the week ending 22 May 2021 from 444,000.
- China's industrial profits rose by 57% YoY in Apr'21 from 92.3% in Mar'21 as base effect begins to normalise. However, the recovery is seen to be uneven. Most of the improvement is attributed to higher profits of chemical products and metal processing firms, which in turn is led by higher internal commodity prices. In CYTD21 (Jan-mid-May) prices of China's steel products has risen by 30% YoY. On the other hand, garment and textile manufacturing firms are yet to reach their pre-pandemic profit levels.
- US mortgage applications declined by 4.2% for the week ending 21 May 2021 against 1.2% increase in the previous week. This was on account of tight supply and rising rates. New home sales also reported a decline of 5.9% in Apr'21. The 30-year fixed mortgage rate rose to 3.18% last week from 3.15% earlier
- As per Australia's preliminary trade estimates, exports remained flat at \$36bn in Apr'21 on a MoM basis despite increase in exports of medicinal & pharma products (55%), petroleum (8%) and coal (1%). However, imports declined by 7% to \$26bn in Apr'21 driven by sharp drop in non-monetary gold (-46%) and transport equipment (-34%). Thereby, the trade surplus expanded to \$10.1bn, 3rd highest on record.
- Singapore's GDP rose by 1.3% on YoY basis in Q1CY21 versus 0.2% increase as per preliminary estimates and 2.4% decline in Q4CY20. The push was provided by resumption in global demand leading to 10.7% increase in manufacturing activity (7.5% in advance estimate). However, both construction (22.7% versus 20.2% drop in AE) and services output continued to contract (0.5% versus 1.2% drop in AE) in Q1CY21.

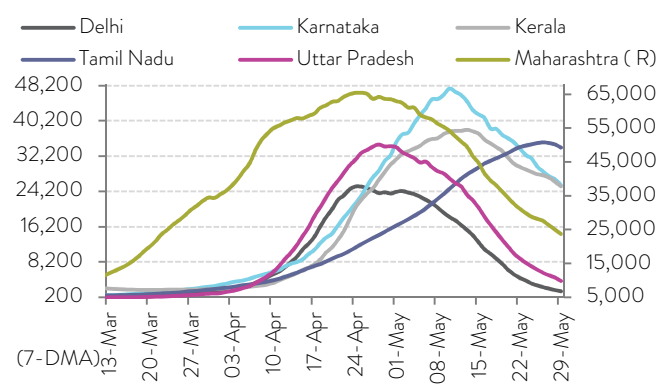
High Frequency Indicators and Weekly Activity Tracker

FIG 1 – INDIA’S COVID-19 CASES EASING



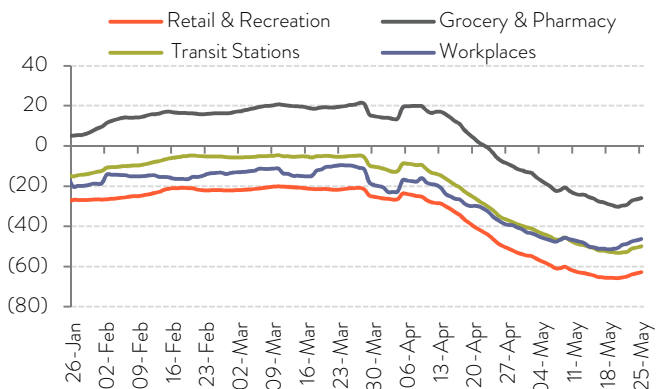
Source: Bloomberg, Bank of Baroda Research *Data as of 28 May 2021

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



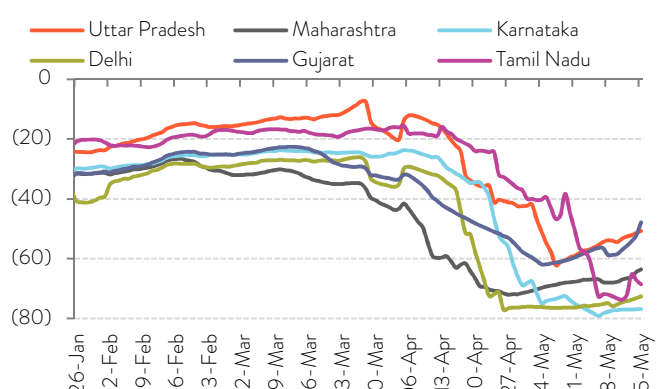
Source: CEIC, Bank of Baroda Research *Data as of 29 May 2021

FIG 3 – GOOGLE MOBILITY INDEX SHOWING SIGNS OF IMPROVEMENT



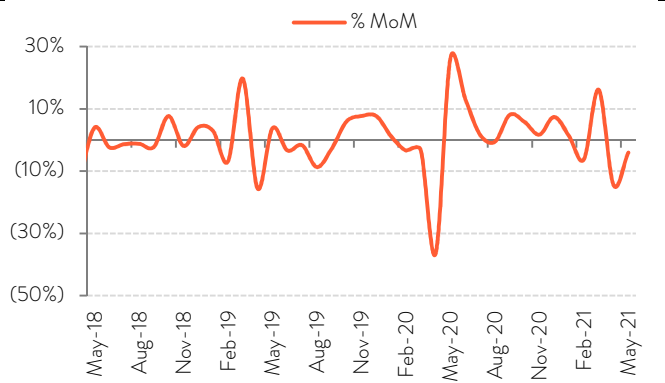
Source: CEIC, Bank of Baroda Research; *Data as of 25 May 2021

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



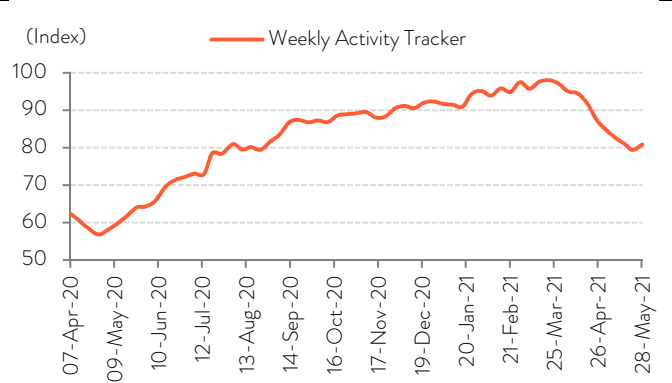
Source: CEIC, Bank of Baroda Research; *Data as of 25 May 2021

FIG 5 – RAIL FREIGHT VOLUMES IMPROVING



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

FIG 6 – WEEKLY ACTIVITY TRACKER SHOWING PICK UP IN ACTIVITY



Source: CEIC, Bank of Baroda Research, Note: Composite weighted average index of high frequency indicators; *Data as of 28 May 2021

FIG 7 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.59	(3)	(3)	19	94
UK	0.80	(3)	2	(2)	61
Japan	0.08	0	0	(8)	8
Germany	(0.18)	(5)	7	8	26
India	6.00	3	(5)	(23)	24
China	3.09	2	(11)	(19)	40
2Y yields (Δ bps)					
US	0.14	(1)	(4)	1	(2)
UK	0.06	2	0	(7)	11
Japan	(0.12)	0	1	(2)	3
Germany	(0.66)	(1)	3	0	(0)
India	4.27	(2)	(23)	(45)	(12)
China**	2.36	(10)	(4)	(20)	80
Currencies (Δ %)					
EUR	1.2192	0.1	0.8	1.0	9.8
GBP	1.4188	0.3	2.0	1.8	14.9
JPY	109.85	(0.8)	(1.1)	(3.1)	(1.9)
AUD	0.7712	(0.3)	(0.7)	0.1	15.7
INR	72.45	0.5	3.0	1.4	4.2
CNY	6.3685	1.0	1.8	1.7	10.8
Equity & Other indices (Δ %)					
Dow	34,529	0.9	1.6	11.6	36.0
FTSE	7,023	0.1	1.1	8.3	15.6
DAX	15,520	0.5	1.8	12.6	33.9
NIKKEI	29,149	2.9	0.5	0.6	33.2
Shanghai Comp	3,601	3.3	4.6	2.6	26.2
SENSEX	51,423	1.7	5.1	4.7	58.6
Brent (US\$/bbl)	69.63	4.8	4.8	5.3	97.1
Gold (US\$/oz)	1,904	1.2	7.2	9.8	10.0
CRB Index	548.5	1.5	2.5	12.7	49.4
Rogers Agri Index	1,054.1	0.1	(1.4)	8.6	57.5
LIBOR (3M)*	0.13	(1)	(4)	(5)	(21)
INR 5Y Swap*	5.72	7	19	(14)	59
India FII data (US\$ mn)					
	27 May	WTD	MTD	CYTD	FYTD
FII-Debt	(130.9)	(188.5)	72.8	(2,319.5)	(292.2)
FII-Equity	6.1	365.5	(21.1)	5,816.0	(1,510.3)

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

FIG 8 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
31-May	South Korea industrial production, % YoY	Apr	11.3%	4.7%	--
	Japan industrial production, % MoM	Apr	4.0%	1.7%	--
	Japan retail sales, % YoY	Apr	15.3%	5.2%	--
	China non-manufacturing PMI	May	55.1	54.9	--
	China manufacturing PMI	May	51.2	51.1	--
	India fiscal deficit, Rs crore	Mar	--	1,71,543	--
	India GDP, % YoY	Q4FY21	0.9%	0.4%	--
	India GDP annual estimate, % YoY	FY21	(7.5%)	(8.0%)	--
	Germany CPI, % YoY	May	2.3%	2.0%	--
	Germany retail sales, % MoM	Apr	(2.2%)	7.7%	--
1-Jun	South Korea exports, % YoY	May	47.2%	--	--
	Jibun Bank Japan manufacturing PMI	May	--	52.5	--
	Caixin China manufacturing PMI	May	51.9	51.9	--
	RBA cash rate target, %	01-Jun	0.10%	0.10%	--
	Markit India manufacturing PMI	May	--	55.5	--
	Markit France manufacturing PMI	May	59.2	59.2	--
	Markit/BME Germany manufacturing PMI	May	64.0	64.0	--
	Markit Eurozone manufacturing PMI	May	62.8	62.8	--
	Markit UK PMI manufacturing SA	May	66.1	66.1	--
	Euro Area unemployment rate, %	Apr	8.1%	8.1%	--
	Italy GDP WDA, % QoQ	Q1CY21	(0.4%)	(0.4%)	--
	Euro Area CPI estimate, % YoY	May	1.9%	1.6%	--
	Markit US manufacturing PMI	May	61.5	61.5	--
	US ISM manufacturing PMI	May	61.0	60.7	--
2-Jun	South Korea CPI, % YoY	May	2.7%	2.3%	--
	Australia GDP SA, % QoQ	Q1CY21	1.1%	3.1%	--
	Euro Area PPI, % YoY	Apr	7.4%	4.3%	--
3-Jun	Jibun Bank Japan services PMI	May	--	45.7	--
	Australia exports, % MoM	Apr	6.0%	(2.0%)	--
	Australia retail sales, % MoM	Apr	1.1%	1.1%	--
	Caixin China services PMI	May	56.0	56.3	--
	Markit India services PMI	May	--	54.0	--
	Markit France services PMI	May	56.6	56.6	--
	Markit Germany services PMI	May	52.8	52.8	--
	Markit Eurozone services PMI	May	55.1	55.1	--
	Markit/CIPS UK services PMI	May	61.8	61.8	--
	US initial jobless claims, in thousands	29-May	--	406.0	--
4-Jun	Thailand CPI, % YoY	May	3.1%	3.4%	--
	India RBI repo rate, %	04-Jun	4.0%	4.0%	--
	Singapore retail sales, % YoY	Apr	60.5%	6.2%	--
	Euro Area retail sales, % MoM	Apr	(1.4%)	2.7%	--
	US change in nonfarm payrolls, in thousands	May	663.0	266.0	--
	US unemployment rate, %	May	5.9%	6.1%	--
	US durable goods orders, % MoM	Apr	--	(1.3%)	--

Source: Bloomberg, Bank of Baroda

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