

WEEKLY WRAP

06 September 2021

Yield convergence between AEs and EMs

With US payroll data missing estimates, US\$ underperformed. DXY index fell by 0.5%. Yields in advanced economies were higher led by UK where PMI data shows activity holding up. However, yield in China and India fell. In India's case yield fell on anticipation of lower borrowing led by better than expected tax collections. India's economy bounced back sharply to grow by 20.1% in Q1 on a low base of (-) 24.4% last year. After a surprise rate hike by South Korea, commentary from ECB and Australia will be keenly watched this week along with slew of global data.

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Markets

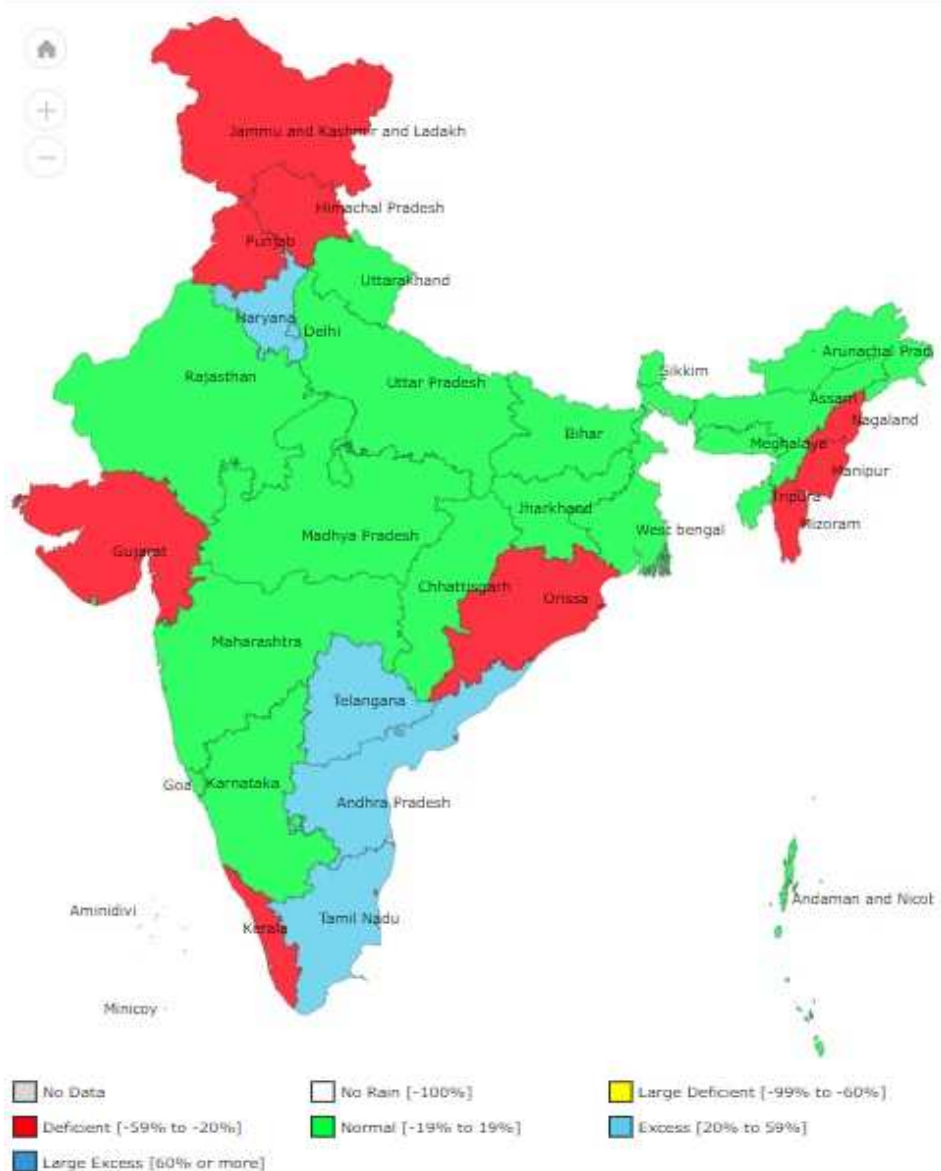
- **Bonds:** Long-end yields in advanced economies rose led by UK where 10Y yield rose by 14bps (0.72%) as manufacturing PMI data showed activity remains robust. US 10Y yield rose by 2bps (1.32%) despite Fed Chair's dovish comments and lower than expected payroll additions. China's 10Y fell by 4bps (2.83%) as economic activity slowed down. India's 10Y yield fell by 10bps (6.16%) supported by news reports of lower borrowing in H2 and strong demand in auctions. System liquidity surplus rose to Rs 8.8tn as on 3 Sep 2021 (Rs 7.5tn last week).
- **Currency:** Global currencies closed higher this week. DXY fell by 0.5% as US non-farm payroll data missed expectations. AUD (2%) and INR (0.9%) gained the most. Gains in rupee were also supported by dip in international oil prices (0.1%) and FII inflows (US\$ 1.34bn)
- **Equity:** Global indices ended mixed with Asian markets closing higher and US and European markets closing in red. Dax (0.4%) and Dow (0.2%) fell the most as US jobs data disappointed and Germany's national election looms. Nikkei (5.4%) and Sensex (3.6%) rose the most. Gain in Sensex was led by realty, consumer durables and power sector stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose at a moderate pace of 4.4mn versus 4.6mn last week. Fresh cases declined in Japan (0.13mn versus 0.16mn), whereas they increased in the US (1.15mn versus 1.09mn). Our weekly economic activity tracker index rose to 97 (100=Feb'20) from 96. US has now fully vaccinated 52% of its population. UK is at 63%. India: 11%.
- **Upcoming key events:** Major events this week include rate decisions by Australia, ECB and Malaysia. In addition, slew of data is awaited from China (trade, CPI, PPI), US (PPI) and Eurozone (GDP) which will tell us state of global economy. India's IIP data will also be released.



Monsoon tracker

- For the period 1 Jun 2021 to 5 Sep 2021, monsoon is 9% below LPA compared with 5% above LPA last year. Parts of Central and North Eastern region have received normal rainfall. Haryana, Tamil Nadu, Telangana and Andhra Pradesh have received excess rainfall. However, Gujarat, Odisha, Kerala, Jammu and Kashmir, Punjab and Himachal Pradesh continue to receive deficient rainfall during this period.
- Overall kharif sown area has fallen by 1.6% as on 3 Sep 2021 compared with last year. This is led by decline in sown area of cotton (6.6%) and oilseeds (1.7%). Moreover, sowing of cereals has also declined by 0.6% compared with last year. However, improvement is seen in the sowing area of sugarcane (1.4%), pulses (1.2%) and jute & mesta (1.2%).

Fig 1 – Distribution pattern of south-west monsoon



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun- 5 Sep 2021

India macro developments

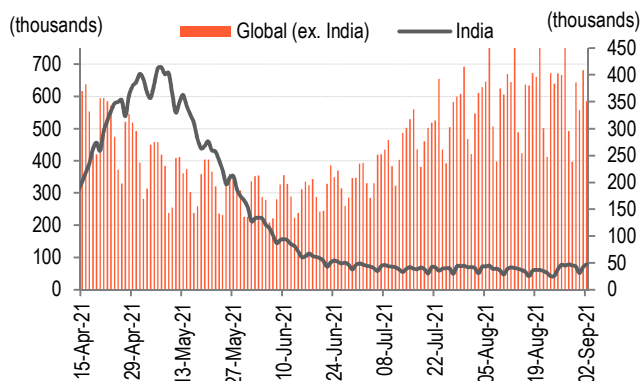
- India's services PMI rebounded sharply in Aug'21 to 56.7 from 45.4 in Jul'21, led by pick up in new orders and improved demand conditions. Domestic new orders increased while export orders continued to contract at a faster pace. Employment however continued to decline, albeit at a slower pace. Elevated input price inflation to increase in output prices, however the increase was only marginal and weakest since Mar'21. Future business sentiment index rose to its highest in 5 months, a marked change from downbeat assessment in Jul'21.
- India's exports from Special Economic Zones (SEZs) rose by 41.5% on a YoY basis to Rs 2.15tn in Q1FY22. This was led by higher exports of drugs and pharmaceuticals, engineering goods and gems and jewellery. In FY21, exports from SEZs fell to Rs 7.6tn from Rs 7.97tn in FY20 due to Covid-19. As on 30 Jun 2021, 267 out of a total of 427 SEZs approved by the government are operational. Further, about Rs 6.25tn has been invested in these SEZs which employ about 2.5mn people.
- India's manufacturing PMI expanded at a much slower pace of 52.3 in Aug'21 from 55.3 in Jul'21, signalling 'signs of weakness due to pandemic'. New orders expanded for the 2nd straight month at a much softer pace. Manufacturer's cost burden have risen for 13th straight month on account of supply side bottlenecks (scarcity of raw material and transportation). While the 1-year outlook for production remained positive, confidence level has faded.
- India's economy reported a sharp rebound at 20.1% in Q1FY22 over a low base of (-) 24.4% last year. Exports and investment demand led the uptick. Consumption is recovering at a slower pace and likely to do so in the near-term as well. Construction and manufacturing are the GVA growth drivers and will continue to do well in the near-term. Contact intensive trade, hotels category are expected to rebound with a lag.
- Centre's fiscal deficit (% of GDP) eased sharply to 6.1% in Jul'21 (12MMA basis) from 6.7% in Jun'21, owing to improvement in revenue collections and steady expenditure growth. In FYTD22 (Apr-Jul), centre's net revenue has jumped to Rs 6.7tn versus Rs 2.3tn in FYTD21 and Rs 3.8tn in FYTD20. The increase is led by both direct (Rs 3tn in FYTD22 versus Rs 2.2tn in FY20) and indirect tax collections (Rs 3.9tn versus Rs 3.2tn). Overall expenditure is broadly steady at Rs 10tn versus 10.5tn in FYTD21 and Rs 9.5tn in FYTD20.
- India's GST collections for Jul'21 remained broadly steady at Rs 1.1tn versus Rs 1.2tn in Jun'21. Adjusted CGST rose to Rs 479bn in Jul'21 from Rs 337bn in Jun'21, while adjusted SGST eased from Rs 696bn in Jun'21 to Rs 601bn in Jul'21. On FYTD basis (Apr-Jul), total collections are at Rs 4.2tn versus Rs 3.3tn in FYTD21 and Rs 4tn in FYTD20 (pre-pandemic). Current monthly run rate is also higher at Rs 1.1tn versus Rs 1tn in FYTD20.

Global macro developments

- US nonfarm payroll addition rose at a less than expected pace of 235K in Aug'21 (est.: 733K) and also far lower compared to 1053K addition in Jul'21. Employment in leisure and hospitality sector was unchanged, after increasing by an average of 350K/month over the last six months. Unemployment rate and labour force participation rate was at 5.2% and 61.7 respectively. Average hourly earnings on MoM basis however rose to 0.6% from 0.4% earlier.
- US jobless claims for the week ended 28 Aug 2021 fell by 14,000 to 340,000 a new pandemic low signalling steady rebound in the overall economic activity. Despite concerns over new variation of Covid-19, increasing pace of vaccinations have provide support to the labour market and as a result has boosted hiring due to higher demand. The 4-week moving average of claims, fell by 11,750 to 355,000.
- Japan's industrial production fell by 1.5% in Jul'21 (est.: 2.5% drop) following a 6.5% increase in Jun'21, on MoM basis. This was on account of decline in production of autos, including passenger cars and small buses. In a separate print, jobless rate softened to 2.8% from 2.9% in Jun'21. However, with moderation in Covid-19 cases in the region (0.15mn weekly increase versus 0.16 mn earlier), macro prints are likely to show improvement in the near term.
- China's official manufacturing PMI moderated to 50.1 in Aug'21 from 50.4 in Jul'21. Services activity was impacted considerably as PMI print fell to 47.5 from 53.3 in Jul'21. Virus concerns coupled with supply chain bottlenecks were attributed for this decline. Both new orders and export orders softened pointing towards weakening demand conditions.
- US Conference Board consumer confidence index dropped to 113.8 in Aug'21 (est.: 123) from 125.1 in Jul'21. The 6-month low reading was driven by surge in Covid-19 cases and rising prices of food and fuel. As consumers became less certain about future job prospects and income, expectations index also fell to 7-month low of 91.4 from 103.8 in Jul'21. Consumers indicated that they were less likely to spend on homes, autos and major appliances in the near-term.
- Global manufacturing PMI index eased to 54.1 in Aug'21 from 55.4 in Jul'21 as activity slowed in 24 out 31 countries surveyed. Eurozone PMI slipped to 6-month low of 61.4 in Aug'21 from 62.8 in Jun'21 owing to severe supply constraints. However, new orders continued to improve for the 14th consecutive month, leading to sharp rise in backlog of orders. Elevated input prices also led to increase in selling prices. Separately, US ISM manufacturing index rose to 59.9 from 59.5 as new orders and production inched up, while employment fell.
- Japan services PMI index fell sharply in Aug'21 to 42.9 from 47.4 in Jul'21 (steepest decline since May'20). With continued Covid-19 restrictions in place and surge in daily infections, demand faltered, leading to sharp decline in new orders. Input prices rose for the 9th consecutive months, while selling prices reduced for the 1st time in 5 months to stimulate demand. However, 12 month ahead businesses sentiment index remained positive and employment rose, as business expect increased rate of vaccination to improve demand in future.

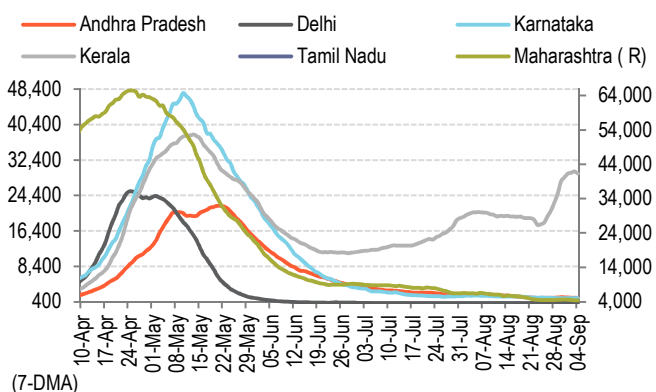
High frequency indicators and weekly activity tracker

Fig 2 – Global Covid-19 moderate



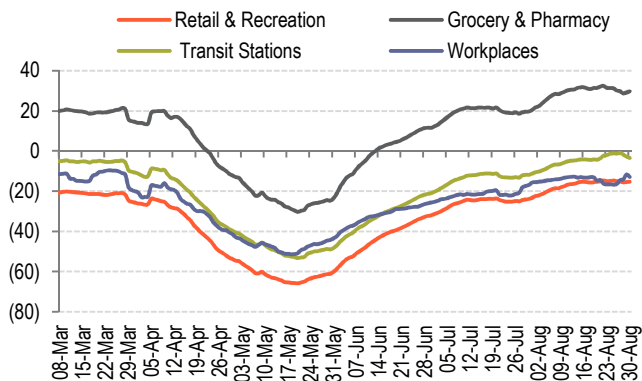
Source: CEIC, Bank of Baroda Research *Data as of 2 Sep 2021

Fig 3 – Covid-19 cases inch up, led by Kerala



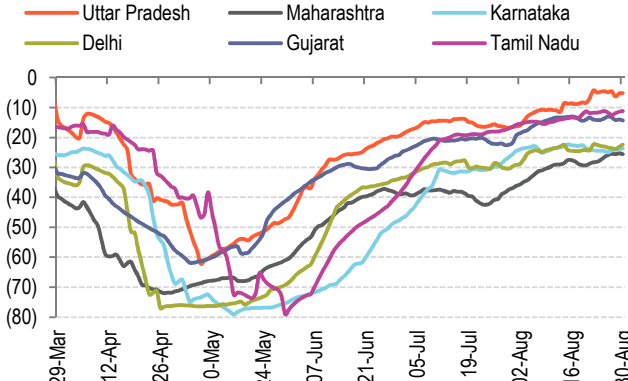
Source: CEIC, Bank of Baroda Research *Data as of 4 Sep 2021

Fig 4 – Google mobility index steady



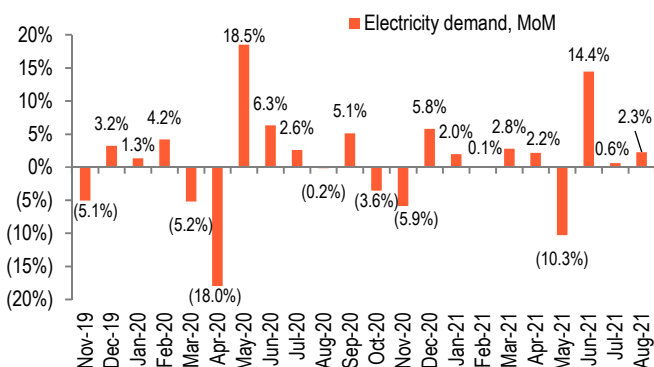
Source: CEIC, Bank of Baroda Research; *Data as of 30 Aug 2021

Fig 5 – Uptick in retail and recreation mobility index



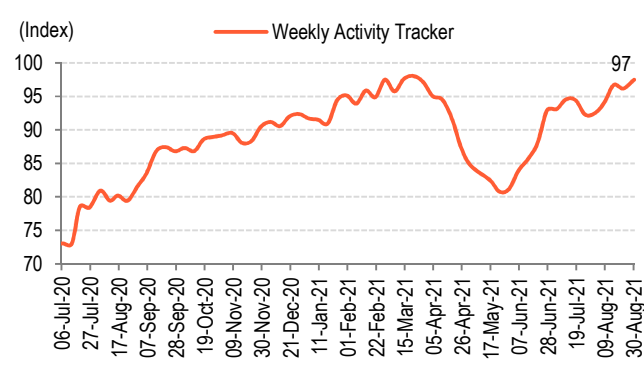
Source: CEIC, Bank of Baroda Research; *Data as of 30 Aug 2021

Fig 6 – Electricity demand improves



Source: Bloomberg, Bank of Baroda Research; *Data as of 31 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	1.32	2	15	(23)	60
UK	0.72	14	20	(7)	45
Japan	0.04	2	3	(5)	0
Germany	(0.36)	6	12	(15)	11
India ^{^^}	6.16	(10)	(4)	13	23
China	2.83	(4)	0	(30)	(30)
2Y yields (Δ bps)					
US	0.21	(1)	4	6	6
UK	0.20	8	14	13	27
Japan	(0.12)	(2)	(1)	(1)	(1)
Germany	(0.71)	3	6	(4)	(1)
India	4.07	(7)	(14)	(59)	(27)
China ^{**}	2.25	(2)	31	(11)	(35)
Currencies (Δ %)					
EUR	1.1880	0.7	0.1	(2.4)	0.4
GBP	1.3871	0.8	(0.3)	(2.0)	4.5
JPY	109.71	0.1	(0.6)	(0.2)	(3.3)
AUD	0.7460	2.0	0.9	(3.6)	2.4
INR	73.02	0.9	1.7	0	0.2
CNY	6.4552	0.3	0.2	(0.9)	5.7
Equity & Other indices (Δ %)					
Dow	35,369	(0.2)	0.7	1.8	25.7
FTSE	7,138	(0.1)	0.5	1.0	23.1
DAX	15,781	(0.4)	1.5	0.6	22.9
NIKKEI	29,128	5.4	5.4	0.6	25.5
Shanghai Comp	3,582	1.7	3.9	(0.3)	6.7
SENSEX	58,130	3.6	8.0	11.6	51.5
Brent (US\$/bbl)	72.61	(0.1)	0.3	1.0	70.2
Gold (US\$/oz)	1,828	0.6	1.0	(3.4)	(5.5)
CRB Index	558.0	(0.6)	(0.5)	1.2	40.0
Rogers Agri Index	1,079.2	(1.0)	1.4	(0.7)	46.6
LIBOR (3M)*	0.12	0	0	(1)	(13)
INR 5Y Swap*	5.80	7	1	22	26
India FII data (US\$ mn)					
	2 Sep	WTD	MTD	CYTD	FYTD
FII-Debt	(9.7)	450.6	192.7	(1,221.2)	806.1
FII-Equity	182.9	888.3	270.5	7,661.0	334.7

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
06-Sep	Melbourne institute inflation, % MoM	Aug	--	0.5%	--
	Thailand CPI, % YoY	Aug	0.4%	0.5%	--
	Germany factory orders, % MoM	Jul	(0.7%)	4.1%	--
07-Sep	RBA cash rate target	07-Sep	0.1%	0.1%	--
	Germany industrial production, SA, % MoM	Jul	0.9%	(1.3%)	--
	Taiwan CPI, % YoY	Aug	1.9%	2.0%	--
	Taiwan exports, % YoY	Aug	22.8%	34.7%	--
	Germany ZEW survey expectations index	Sep	3,050.0%	4,040.0%	--
	Eurozone GDP, SA, % QoQ	Q2CY21	2.0%	2.0%	--
	China exports, % YoY	Aug	17.2%	19.3%	--
08-Sep	Japan BoP current account balance, ¥ bn	Jul	2,288.2	905.1	--
	Japan GDP, SA, % QoQ	Q2CY21	0.4%	0.3%	--
	France trade balance, EUR mn	Jul	(6,147)	(5,819)	--
	Italy retail sales, % MoM	Jul	(0.2%)	0.7%	--
	US MBA mortgage applications	03-Sep	--	(2.4%)	--
09-Sep	China CPI, % YoY	Aug	1.0%	1.0%	--
	China PPI, % YoY	Aug	9.0%	9.0%	--
	Germany trade balance, EUR bn	Jul	14.6	16.2	--
	Japan machine tool orders, % YoY	Aug	--	93.4%	--
	Malaysia BNM overnight policy rate	01-Sep	1.8%	1.8%	--
	ECB main refinancing rate	01-Sep	0.0%	0.0%	--
	US initial jobless claims, in thousands	01-Sep	335	340	--
	China new Yuan loans, CNY bn	Aug	1,325	1,083	--
10-Sep	Germany CPI, % YoY	Aug	3.9%	3.9%	--
	UK industrial production, % MoM	Jul	0.4%	(0.7%)	--
	UK trade balance, £ mn	Jul	(1,600)	(2,514)	--
	France industrial production, % MoM	Jul	0.4%	0.5%	--
	Italy industrial production, % MoM	Jul	0.0%	1.0%	--
	India industrial production, % YoY	Jul	9.5%	13.6%	--
	US PPI final demand, % MoM	Aug	0.6%	1.0%	--
	US University of Michigan consumer sentiment index	Aug	70.6	70.2	--

Source: Bloomberg, Bank of Baroda Research

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