

## WEEKLY WRAP

09 August 2021

**Inflation back in focus**

US yields rose on the back of better than estimated data (payroll, factory orders, services PMI surprised positively). DXY too rose in sync. Global equity indices rebounded and ended in green. Consensus on higher rates in US is yet to emerge. RBI revised its inflation forecast to 5.7% in FY22. Indian yields edged up. Notably, resolution on accommodative stance was passed by 5:1 vote. Thus signs of an eventual turn in monetary policy are emerging. Another wave of Covid-19 remains a risk to this view. India's industrial output and inflation data is to be released this week.

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**Markets**

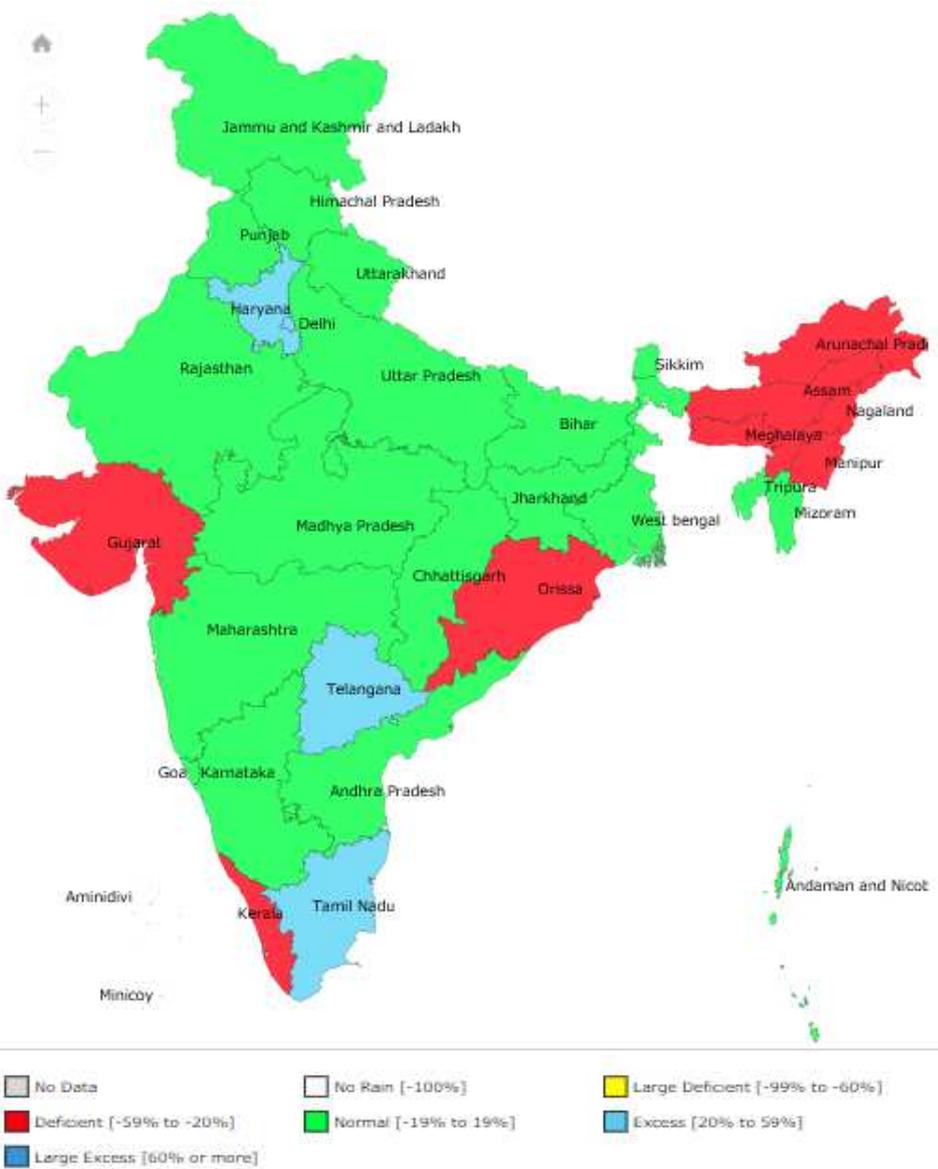
- **Bonds:** US 10Y yield rose the most by 7bps (1.3%) supported by better than expected US jobs data and hawkish comments from one of the Fed officials. UK's 10Y yield rose by 5bps (0.61%) as BoE also signalled "modest tightening" on the back of inflationary pressures. Crude prices fell by 7.4% (US\$ 71/bbl) due to rising Covid-19 cases globally. India's 10Y yield rose by 3bps (6.23%) as RBI raised inflation projections for FY22. System liquidity surplus rose to Rs 7tn as on 6 Aug 2021 from Rs 6.5tn last week.
- **Currency:** Except AUD and INR (higher), other global currencies closed lower this week. DXY rose by 0.7% as US non-farm payrolls rose more than expected in Jul'21. EUR depreciated by 0.9% as Germany's industrial production fell unexpectedly in Jun'21. INR appreciated by 0.4% supported by lower oil prices and FII inflows (US\$ 495.8mn).
- **Equity:** Global indices ended higher this week supported by unchanged policy stance of global central banks (BoE, RBA, BoT) and better than expected US data (ISM services, factory orders and non-farm payrolls). Dow was up by 0.8%, while FTSE rose by 1.3%. Sensex (3.2%) surged the most, led by banking, tech and auto stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 4.4mn versus 4.1mn last week. Fresh cases increased in US (0.75mn versus 0.54mn) and Japan (88K versus 52K). In India, cases rose at a faster pace of 0.284mn versus 0.279mn last week. Our weekly economic activity tracker index fell to 92 (100=Feb'20) from 93. Canada has fully vaccinated 61% of its population, UK at 57% and US at 50%. India is at 8%.
- **Upcoming key events:** Major events include US CPI, UK industrial production and Q2CY21 GDP. In addition investors will track US Jackson Hole meeting for policy cues. India's IIP and CPI data will be released.



### Monsoon tracker

- For the period 1 Jun 2021 to 8 Aug 2021, monsoon is 4% below LPA compared with 1% below LPA last year. States like Gujarat, Odisha, Kerala and North Eastern region of the country have received deficit rainfall. Central and Northern part of India such as Maharashtra, Madhya Pradesh, Chattisgarh and Uttar Pradesh have received normal rainfall. However, Telangana, Haryana and Tamil Nadu continue to receive excess rainfall. IMD in its updated forecast expects the South-West monsoon to be normal for the remaining season (Aug-Sep) with a 'tendency to be on the positive side of normal'.
- Overall kharif sown area has fallen by 2.4% as on 6 Aug 2021 compared with last year. Sown area of cotton and oilseeds continues to drop by 6% and 3.5% respectively. Further, decline is also visible in sowing area of rice (down by 2.7%). However, sowing of pulses (1.9%) and sugarcane (1.5%) has improved.

**Fig 1 – Distribution pattern of south-west monsoon**



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun- 8 Aug 2021

## India macro developments

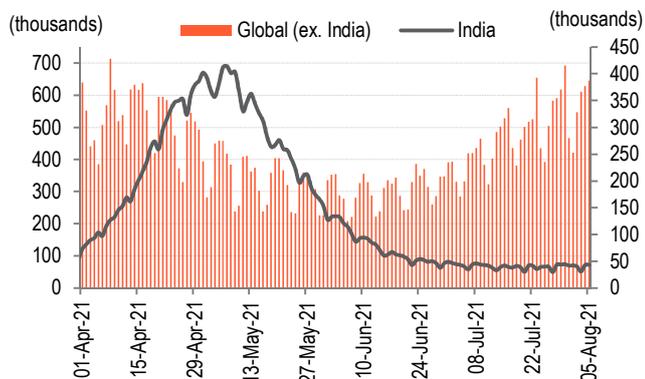
- RBI's consumer confidence remained weak in Jul'21 at 48.6 from 48.5 in May'21 (all time-low), as households reported higher prices and lower income compared with last year. However, consumers remained optimistic for the future with the index inching up to 104 (96.4 in May'21) in Jul'21. Overall sentiments on spending largely remained unchanged as the increase in essential spending was offset by a dip in non-essential spending. Additionally, consumers expect further contraction in discretionary expenditure in the year ahead.
- Government of India has introduced Taxation Laws (Amendment) Bill, 2021 to scrap the retrospective tax law. Under this amendment, no tax demand shall be raised in future for any indirect transfer of Indian assets if the transaction was before 28 May 2012 (date of introduction). This is likely to benefit as many as 17 entities, from whom Rs 1.1tn was sought through this legislation. Centre has said it will refund about Rs 81bn. This move is likely to boost foreign investment.
- RBI reported that currency in circulation (CIC) declined by Rs 214bn and stood at Rs 29.5tn for the week ending 30 July 2021. Reserve money rose by 16.8% on a YoY basis, compared with 15.4% last year. On FYTD basis, reserve money increased by 3.2% against 5% increase, a year ago
- India's services PMI remained in contraction for the third month in a row, albeit at a softer pace. The print was at 45.4 in Jul'21 against 41.2 in Jun'21. Business activity, new orders and employment all showed contraction, but the pace softened compared to Jun'21. Input prices rose sharply and remained above long-term average. Even pass through to consumers was visible as output charges also rose at quicker pace in Jul'21- fastest in past five months. Sector wise consumer services was the worst hit, showing the impact of pandemic on demand.
- Total e-way bills generated in Jul'21 rose to 64.2mn (+17.3% MoM), highest in FYTD22 and up from 54.7mn in Jun'21. In weekly comparison, while activity was off to a slow start in the 1st week of Jul'21 with only 7mn bills generated, compared with 9mn generated in the 1st week of Jun'21, momentum gained towards the end of Jul'21. Average daily e-way bill generation rose to 2.43mn in the last week of July'21 compared with 2.33mn generated in the previous week and also highest since the week ending 16 May 2021.
- India's manufacturing PMI rebounded sharply to a 3-month high of 55.3 in Jul'21 from 48.1 in Jun'21. The recovery was led by improved domestic demand conditions and easing of lockdown restrictions. The index moved back into expansion as international demand strengthened, resulting in higher new export orders. Further, manufacturing jobs have also shown an improvement after a gap of over 15 months.

## Global macro developments

- Labour market scenario in the US remained buoyant as non-farm payroll rose more than anticipated by 943k in Jul'21 (est: 870k) and against 938k addition in Jun'21. Sector-wise, leisure and hospitality, education, professional and business services contributed the most. Unemployment rate edged down to 5.4% from 5.9%. Labour force participation rate rose to 61.7% from 61.6%. Even average hourly earnings rose by 4% versus 3.7%, on YoY basis.
- JP Morgan global services PMI eased to 56.3 in Jul'21 from 57.5 in Jun'21 as activity slowed in APAC, led by Japan (47.4 vs 48) and Australia (44.2 vs 56.8). In UK too activity slowed (59.6 versus 62.4 in Jun'21). Elsewhere in Eurozone and US, PMI improved. Eurozone PMI rose to 59.8 in Jul'21 from 58.3 in Jun'21, as activity in Germany bounced back (61.8 versus 57.5). US ISM services index too jumped to 64.1 from 60.1 in Jun'21. In both US and Eurozone, new orders remained strong while input prices were seen stabilizing
- Japan's services PMI slipped further in the contraction territory to 47.4 in Jul'21 from 48 in Jun'21. The index has remained below 50 for the 18th consecutive month. With Covid-19 restrictions in place, new orders declined. Employment also dipped for the first time since Dec'20. Firms also reported an increase in input costs. On the other hand, Caixin's services PMI index for China rose to 54.9 in Jul'21 from a 14-month low of 50.3 in Jun'21, led by a steep increase in new orders.
- US factory orders rose more than estimated by 1.5% in Jun'21 (est.: 1%) from 2.3% in May'21, on MoM basis. This was led by gains in machinery, computers and electronic products, electrical equipment and appliances. Orders for non-defense capital goods excluding aircraft (proxy of business spending) also rose by 0.7% in Jun'21 from 0.5% in May'21.
- Manufacturing activity in major economies eased in Jul'21. In the US, ISM index moderated to 59.5 in Jul'21 from 60.6 in Jun'21. In Eurozone (62.8 from 63.4) and UK (60.4 from 63.9) as well, it edged down, led by easing pace of output growth and new orders. Employment conditions however remained robust in all the economies. Input cost on the other hand shot up to record levels due to supply-side bottlenecks.
- BoE in its latest policy has left its policy rate unchanged at 0.1%. The asset purchase programme was also left unchanged at £ 875bn by a 7-1 vote. However, it noted that "modest tightening" might be needed as inflation is expected to reach above 4% in Q4CY21, much above the bank's target of 2% in the medium term. It also stated that it will reduce the stock of bond purchase programme "when bank rate has reached 0.5%, if appropriate given the economic circumstances". BoE also maintained its growth forecast for CY21 at 7.25% and for CY22 at 6%.

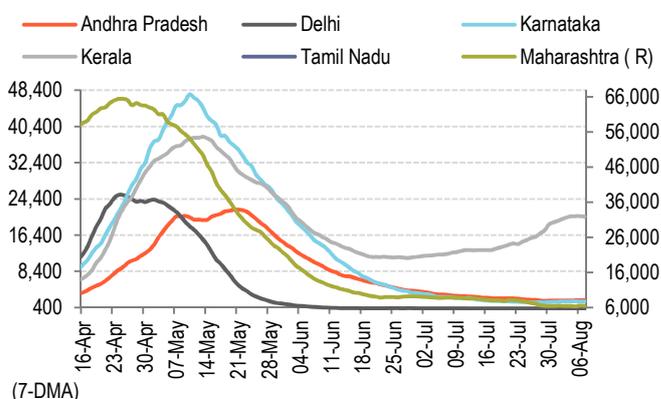
## High frequency indicators and weekly activity tracker

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



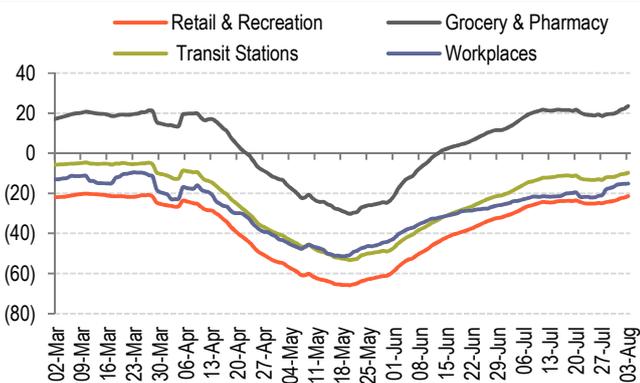
Source: CEIC, Bank of Baroda Research \*Data as of 5 Aug 2021

**Fig 3 – Covid-19 cases in Kerala remain worrisome**



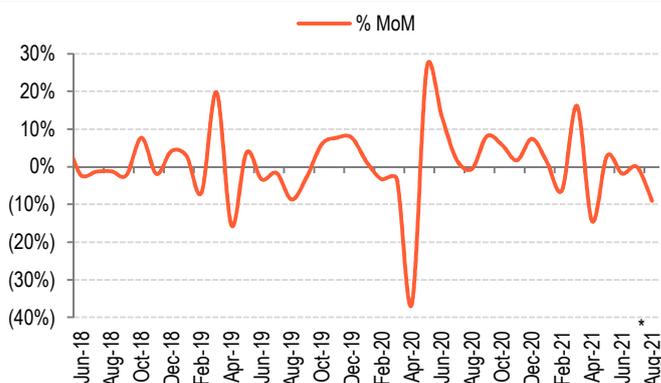
Source: CEIC, Bank of Baroda Research \*Data as of 6 Aug 2021

**Fig 4 – Google mobility index inching up**



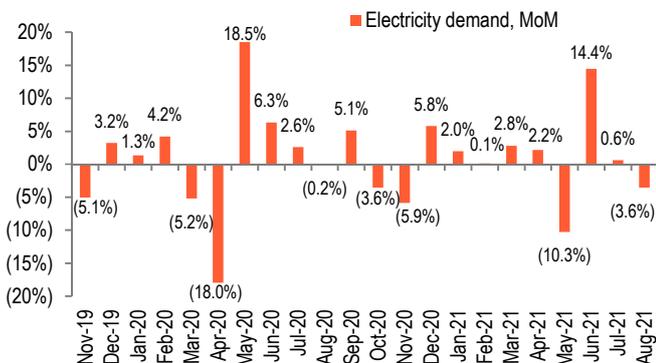
Source: CEIC, Bank of Baroda Research; \*Data as of 3 Aug 2021

**Fig 5 – Moderation in railway freight**



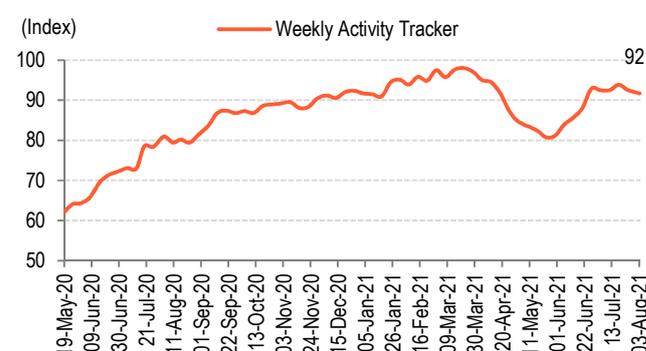
Source: CEIC, Bank of Baroda Research; \*Data as of 6 Aug 2021

**Fig 6 – Electricity demand eases**



Source: Bloomberg, Bank of Baroda Research; \*Data as of 6 Aug 2021

**Fig 7 – Weekly activity tracker moderated to 92 from 93 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
<b>10Y yields (Δ bps)</b>					
US	1.30	7	(5)	(28)	73
UK	0.61	5	(2)	(16)	47
Japan	0.02	(1)	(3)	(7)	0
Germany	(0.46)	1	(19)	(24)	5
India <sup>^^</sup>	6.23	3	6	22	40
China	2.82	(4)	(28)	(34)	(17)
<b>2Y yields (Δ bps)</b>					
US	0.21	2	(1)	6	8
UK	0.14	8	9	11	16
Japan	(0.12)	(1)	(1)	1	(1)
Germany	(0.76)	1	(8)	(7)	(7)
India	4.25	2	(14)	(9)	3
China <sup>**</sup>	1.92	(8)	(36)	(47)	(31)
<b>Currencies (Δ %)</b>					
EUR	1.1762	(0.9)	(0.5)	(3.3)	(0.2)
GBP	1.3872	(0.2)	0.5	(0.8)	6.3
JPY	110.25	(0.5)	0.3	(1.5)	(4.1)
AUD	0.7356	0.2	(1.9)	(6.2)	2.8
INR	74.15	0.4	0.5	(0.9)	1.0
CNY	6.4831	(0.3)	(0.1)	(0.8)	7.0
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	35,209	0.8	1.8	1.2	28.3
FTSE	7,123	1.3	0.3	(0.1)	18.1
DAX	15,761	1.4	1.6	2.3	24.4
NIKKEI	27,820	2.0	(2.9)	(5.2)	24.6
Shanghai Comp	3,458	1.8	(2.0)	1.2	3.1
SENSEX	54,278	3.2	2.7	10.3	42.7
Brent (US\$/bbl)	70.70	(7.4)	(5.1)	3.5	59.2
Gold (US\$/oz)	1,763	(2.8)	(1.9)	(3.7)	(13.4)
CRB Index	560.3	(0.3)	1.5	3.2	48.0
Rogers Agri Index	1,068.0	0.8	4.5	(4.9)	54.5
LIBOR (3M)*	0.13	1	(1)	(3)	(13)
INR 5Y Swap*	5.90	10	12	30	67
<b>India FII data (US\$ mn)</b>					
	<b>5 Aug</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	8.2	19.1	19.1	(3,234.1)	(1,206.8)
FII-Equity	(73.1)	476.7	476.7	6,854.9	(471.4)

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
09-Aug	China CPI, % YoY	Jul	0.8%	1.1%	--
	China PPI, % YoY	Jul	8.8%	8.8%	--
	Germany exports SA, % MoM	Jun	0.3%	0.3%	--
	Taiwan exports, % YoY	Jul	33.4%	35.1%	--
10-Aug	Japan current account balance, ¥ bn	Jun	846.2	1,979.7	--
	Germany ZEW survey expectations	Aug	55.0	63.3	--
	China FDI YTD, % YoY CNY	Jul	--	28.7%	--
11-Aug	South Korea unemployment rate SA, %	Jul	3.9%	3.7%	--
	Singapore GDP, % YoY	2Q F	14.3%	14.3%	--
	Japan machine tool orders, % YoY	Jul P	--	96.6%	--
	Germany CPI, % YoY	Jul F	3.8%	3.8%	--
	US CPI, % MoM	Jul	0.5%	0.9%	--
12-Aug	Japan PPI, % YoY	Jul	5.0%	5.0%	--
	UK GDP, % QoQ	2Q P	4.8%	(1.6%)	--
	UK industrial production, % MoM	Jun	0.3%	0.8%	--
	BSP overnight borrowing rate, %	01-Aug	2.0%	2.0%	--
	India IIP, % YoY	Jun	13.5%	29.3%	--
	India CPI, % YoY	Jul	5.8%	6.3%	--
	US PPI final demand, % MoM	Jul	0.6%	1.0%	--
	US initial jobless claims, in thousands	01-Aug	375k	385k	--
13-Aug	India exports, % YoY	Jul	--	48.3%	--
	Malaysia GDP, % YoY	2Q	13.7%	(0.5%)	--
	France CPI, % YoY	Jul F	1.2%	1.2%	--
	Hong Kong GDP, % YoY	2Q F	7.5%	7.5%	--
	Euro Area trade balance SA, € bn	Jun	10.8b	9.4b	--
	US University of Michigan consumer sentiment index	Aug P	81.2	81.2	--

Source: Bloomberg, Bank of Baroda Research

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