FIRST LIGHT

13 September 2021

RESEARCH

BOB Economics Research | Monthly Chartbook

India's improving Vaccination rate to boost growth

BOB Economics Research | IIP

Industrial activity continues to recover

SUMMARY

India Economics: Monthly Chartbook

India's vaccinations run-rate (7-DMA) has increased to 7.5mn. At this pace, as much as 60% of the country will be fully vaccinated by Dec'21. This implies urban economic activity will also normalise in coming months. While near-term rural demand may be impacted by erratic monsoon rains, winter crop outlook looks far better. Government tax collections remain buoyant and give room for accelerated capex spending on roads and railways. Export demand too remains healthy and likely to continue. With food prices moderating, inflation may undershoot RBI's revised trajectory. The above backdrop gives room for yields to remain rangebound between 6.1% and 6.3%. While global central banks are looking at tapering QE injections, RBI is likely to reduce liquidity and then wedge between reverse repo and repo rate in Q4FY22.

Click here for the full report.

India Economics: IIP

Industrial output increased by 11.5% in Jul'21 from 13.6% in Jun'21. Electricity output expanded at a faster pace than Jun'21. Adjusting for the base, even mining and manufacturing output have been resilient. Capital and primary goods maintained sequential momentum. Only FMCG output has shown a contraction. Steady opening up of domestic economy and exports are likely to ensure that industrial activity improves further. Recovery in capital goods and durables will take time as these segments are 18.6% and 26.4% below Jul'19 level.

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.34	(4bps)	4bps	64bps
India 10Y yield (%)	6.19	(1bps)	(4bps)	20bps
USD/INR	73.60	(0.3)	0.7	(0.1)
Brent Crude (US$/bbl)	72.60	1.3	2.7	78.0
Dow	35,031	(0.2)	(0.5)	25.4
Shanghai	3,675	0.0	6.3	12.9
Sensex	58,250	(0.1)	7.3	52.5
India FII (US$ mn)	**07-Sep**	**MTD**	**CYTD**	**FYTD**
FII-D	22.4	213.2	(1,200.7)	826.6
FII-E	87.7	328.8	7,719.3	393.0

Source: Bank of Baroda Economics Research

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India's improving Vaccination rate to boost growth

India's vaccinations run-rate (7-DMA) has increased to 7.5mn. At this pace, as much as 60% of the country will be fully vaccinated by Dec'21. This implies urban economic activity will also normalise in coming months. While near-term rural demand may be impacted by erratic monsoon rains, winter crop outlook looks far better. Government tax collections remain buoyant and give room for accelerated capex spending on roads and railways. Export demand too remains healthy and likely to continue. With food prices moderating, inflation may undershoot RBI's revised trajectory. The above backdrop gives room for yields to remain rangebound between 6.1% and 6.3%. While global central banks are looking at tapering QE injections, RBI is likely to reduce liquidity and then wedge between reverse repo and repo rate in Q4FY22.

Better outlook on rural demand: Monsoon was 24% below LPA in Aug'21 with poor rains seen in Punjab, Gujarat and North-East. Kharif sowing is 1.1% below last year's level led by 6.6% decline in cotton and 1.7% fall in edible oils. This will impact production of pandemic resilient agri sector. However, rains in Sep'21 are better. Winter crops sowing should be normal on the back of reservoirs being 94% of 10-year average (80% last year). Government has hiked MSP for mustard (8.6%) and lentils (7.8%) which are seeing highest demand supply mismatch in the country. Thus, outlook on rural demand remains far better than urban which is yet to normalise.

Centre's tax collections remain buoyant: Centre's gross tax collections over a 2-year horizon have jumped by 29.1% to Rs 7tn in FYTD22. This is led by 65% rise in corporate tax collections (at Rs 1.5tn) followed by 25% rise in income tax collections (at Rs 1.6tn). Indirect taxes rose by 21% at Rs 3.9tn. Spending on the other hand is up by 6% over a 2-year horizon, led by capex (+19.4%). Revenue spending is up by 4.3%. In case of states, tax revenue growth has slipped marginally below (-0.8%) pre-pandemic levels at Rs 4.16tn (Rs 4.19tn in FYTD20). However, spending is up by 12.1%, led by 11% rise in revenue expenditure and 8.6% increase in capex. This has been supported by 85% jump in capital receipts (borrowings and loans).

Yields to remain rangebound: With robust tax collections, India's 10Y yield has fallen in Sep'21 compared with higher yields in most global markets. Retail inflation may also be lower than RBI's revised trajectory with food prices showing some moderation. Globally, Korea (BoK) raised rates for the first time in 3-years. US Fed is looking at tapering its bond purchases as early as Oct'21. However, spread of delta variant has led to moderation in oil demand and prices. The above backdrop favours 10Y yield to remain rangebound between 6.1-6.3% range. H2 Borrowing calendar will be most important driver in near-term.

INR appreciates: INR rose by 1.9% in Aug'21 supported by FII inflows of US$ 2.9bn. Softer oil prices (down by 5.1% in Aug'21 MoM) also supported INR. Trade deficit expanded in Aug'21 led by gold imports. While imports are likely to expand further as economic activity improves, strong export momentum is likely to keep trade deficit contained at US$ 150bn in FY22. This implies that CAD will remain contained at ~1% of GDP in FY22. This should support INR in 73-75/$ in the near term.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

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IIP

11 September 2021

Industrial activity continues to recover

Industrial output increased by 11.5% in Jul'21 from 13.6% in Jun'21. Electricity output expanded at a faster pace than Jun'21. Adjusting for the base, even mining and manufacturing output have been resilient. Capital and primary goods maintained sequential momentum. Only FMCG output has shown a contraction. Steady opening up of domestic economy and exports are likely to ensure that industrial activity improves further. Recovery in capital goods and durables will take time as these segments are 18.6% and 26.4% below Jul'19 level.

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KEY HIGHLIGHTS

- Industrial activity eased marginally to 11.5% in Jul'21 from 13.6% in Jun'21.
- Electricity output maintained sequential momentum.
- Capital and primary goods grew at a faster pace than Jun'21.

IIP moderates: Industrial output eased marginally to 11.5% in Jul'21 from 13.6% in Jun'21. While mining and manufacturing output eased to 19.5% (from 23.1% in Jun'21) and 10.5% (13% in Jun'21) respectively, electricity output actually inched up to 11.1% in Jul'21 (8.3% in Jun'21). Adjusting for the base effect, even mining and manufacturing have been resilient in Jul'21. Over a 2-year horizon, IIP index is now only 0.3% lower and seems to have recouped the impact of second wave. Electricity and Mining output are now in positive territory over a 2-year period. Manufacturing output is still 2.1% below Jul'19 level.

FMCG output declines: Capital goods output rose by 29.5% in Jul'21 from 26.6% in Jun'21. Same was the case with primary goods index which increased by 12.4% in Jul'21 from 12% in Jun'21. While intermediate goods (14.1% versus 22.7%), infrastructure (11.6% versus 19.8%) and durables goods (20.2% versus 27.9%) segments seem to be losing momentum in Jul'21 versus Jun'21, adjusted for the base all these segments have been resilient. Only consumer non-durables output reported a decline in Jul'21 at 1.8% versus a decline of 4.3% in Jun'21. Over a 2-year horizon (pre-pandemic level), consumer durables (down by 26.4%) and capital goods (down by 18.6%) have shown the sharpest decline.

Rebound to sustain: During Apr-Jul'21, IIP rose by 34.1% compared with a decline of 29.3% in the same period over the previous year. The low base will also ensure higher growth rate in H1 (-20.7% in Apr-Sep'20). A steady pace of vaccination with as much as 60% of the country being vaccinated by Dec'21 and sustained growth in exports implies underlying revival in industrial output is likely to sustain. However, concerns over 3rd wave remains a risk to our view.

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Note: Recommendation structure changed with effect from 21 June 2021

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