

RESEARCH
BOB Economics Research | Weekly Wrap

Global equities and yields inch up

BOB Economics Research | WPI

Rising WPI to find its way into CPI

SUMMARY
India Economics: Weekly Wrap

Global equities continued to move higher on the back of US stimulus, global vaccination drive and economic recovery. US 10Y yield rose by 6bps and is now at 1.62%. Central banks will be in focus this week with policy meetings of Fed, BoE and BoJ this week. On the domestic front, CPI inflation breached 5% led by rising food and core inflation. On the other hand, industrial production contracted by 1.6% dragged down by capital goods and FMCG. Higher oil prices, rising inflation and falling IIP makes RBI's task difficult.

[Click here for the full report.](#)

India Economics: WPI

WPI accelerated to a 27-month high of 4.1% in Feb'21 led by higher food, fuel and manufactured products inflation. Rising oil (+8% MoM in Mar'21) and commodity prices (+2% MoM) indicate this trend will sustain in the coming months. Thus WPI inflation is likely to show elevated prints compared with a decline of 0.9% in H1FY21. Some of it will find its way into retail inflation as well as seen in higher prices of petroleum products and consumer goods implying upward risk to our CPI projection of 4.6% in FY22.

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TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
GAIL	Buy	160
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	480
Transport Corp	Buy	330
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.62	9bps	46bps	82bps
India 10Y yield (%)	6.23	(1bps)	27bps	0bps
USD/INR	72.79	0.2	0.1	1.9
Brent Crude (US\$/bbl)	69.22	(0.6)	13.2	108.4
Dow	32,779	0.9	4.3	54.6
Shanghai	3,453	0.5	(5.5)	18.1
Sensex	50,792	(1.0)	(1.4)	55.0
India FII (US\$ mn)	10 Mar	MTD	CYTD	FYTD
FII-D	(65.2)	(1,178.6)	(2,662.8)	(6,756.4)
FII-E	92.9	1,043.5	6,037.3	36,013.1

Source: Bank of Baroda Economics Research

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WEEKLY WRAP

15 March 2021

Global equities and yields inch up

Global equities continued to move higher on the back of US stimulus, global vaccination drive and economic recovery. US 10Y yield rose by 6bps and is now at 1.62%. Central banks will be in focus this week with policy meetings of Fed, BoE and BoJ this week. On the domestic front, CPI inflation breached 5% led by rising food and core inflation. On the other hand, industrial production contracted by 1.6% dragged down by capital goods and FMCG. Higher oil prices, rising inflation and falling IIP makes RBI's task difficult.

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Markets

- **Bonds:** Globally, 10Y yields closed higher. UK 10Y yield rose the most (by 7bps), followed by US (by 6bps). High vaccination rates (35% in UK and 21% in US) along with passage of US fiscal stimulus explain the upward momentum. Crude prices fell by 0.2% (US\$ 69/bbl). India's 10Y yield closed flat at 6.23%. However, 2Y yield went up by 10bps. System liquidity surplus was at Rs 5.7tn versus Rs 5.8tn in the previous week.
- **Currency:** Global currencies closed higher amidst an improvement in risk-sentiment as US fiscal stimulus bill was passed. Safe-haven JPY and DXY fell by 0.7% and 0.3% respectively. EUR rose by 0.3% as industrial production rose more than expected in Jan'21. INR appreciated by 0.3% as oil prices fell. FII outflows were US\$ 120mn versus US\$ 15mn last week.
- **Equity:** US markets continued their upward climb led by global inflows into US equity markets. Apart from China, other Asian and European markets also moved higher in-line with US. Sensex rose by 0.8% supported by real estate and auto stocks.
- **Covid-19 tracker:** Global cases rose by 2.63mn in the week, higher than 2.42mn last week led by France and Germany. India added 130k cases in the week versus 98k last week. Israel has managed to vaccinate a majority of its population followed by UAE and UK.
- **Upcoming key events:** Globally, policy decisions of Fed, BoE and BoJ will be in focus this week. US industrial production and retail sales data is also due. In India, trade data will be released.



WHOLESALE INFLATION

15 March 2021

Rising WPI to find its way into CPI

WPI accelerated to a 27-month high of 4.1% in Feb'21 led by higher food, fuel and manufactured products inflation. Rising oil (+8% MoM in Mar'21) and commodity prices (+2% MoM) indicate this trend will sustain in the coming months. Thus WPI inflation is likely to show elevated prints compared with a decline of 0.9% in H1FY21. Some of it will find its way into retail inflation as well as seen in higher prices of petroleum products and consumer goods implying upward risk to our CPI projection of 4.6% in FY22.

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Food inflation resurges: After falling to a 26-month low of (-) 0.3% in Jan'21, food inflation rose sharply to 3.3% in Feb'21. While prices of fruits continued to rise (9.5% in Feb'21 versus 3.1% in Jan'21), vegetable prices contracted at a slower pace (decline of 2.9% in Feb'21 versus dip of 20.8% in Jan'21). Within vegetables, prices of onion rose steeply by 31.3% (decline of 32.6% in Jan'21). Tomato prices also rose by 3.2% (12.2% drop in Jan'21). The decline in cereal prices moderated to 6.6% versus 7.3% in Jan'21 on the back of a 10.6% decline in wheat prices versus dip of 11.6% in Jan'21. Prices of eggs rose by 4.2% in Feb'21 from 1.1% in Jan'21.

Fuel and power inflation picks up: Fuel and power inflation rose by 0.6% in Feb'21 after 11-consecutive months of decline (4.8% decline in Jan'21). Mineral oil index inched up by 0.9% from a decline of 8.7% in Jan'21 led by broad based increase in petrol, HSD, Naptha and Bitumen. Higher international oil prices which were up by 12.3% in Feb'21 (YoY) versus decline of 13.1% in Jan'21 explain the increase. With oil prices averaging US\$ 67/bbl now, compared with US\$ 33/bbl in Q1FY21, upward pressure is likely to sustain in coming months as well.

Core inflation solidifies: Core inflation rose to its highest level in 2011-12 series at 5.5% in Feb'21 from 5.1% in Jan'21. Manufactured products inflation rose by 70bps to 5.8% from 5.1% in Jan'21. Of the 22 commodities, prices of 14 commodities rose, with basic metals, textiles, rubber items and fabricated metal products taking the lead. With international commodity prices firming up by 2% MoM in Mar'21 on top of 6% MoM in Feb'21, we expect core and manufactured product inflation to remain on the higher side. In a nutshell, food, fuel and manufactured products—all three components of WPI—are pointing towards elevated inflation in coming months.



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BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

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SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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