FIRST LIGHT

09 March 2021

RESEARCH

BOB Economics Research | Monthly Chartbook

Rising oil prices a worry

BOB Economics Research | Weekly Wrap

US yields move up as economy rebounds

SUMMARY

India Economics: Monthly Chartbook

A government driven capex cycle is holding ground with general government capex spending up by 123.6% in Jan'21 (50.4% in Dec'20). This trend is likely to play out in FY22 as well since private capex will pick-up with a lag. Private consumption is steady as seen in non-oil imports and logistics activity. While Centre's revenues are showing an uptrend, domestic 10Y yield has risen by 33bps in Feb'21 (MoM). As against this, US 10Y has increased by 34bps. Oil prices by 12.6%. Global food prices by 2.5%. INR did depreciate in Feb'21 after 3 months of steady appreciation. Higher oil prices are likely to put more downward pressure on INR. It will also be inflationary. As of now we expect inflation at 4.6% in FY22.

Click here for the full report.

India Economics: Weekly Wrap

US economy is showing a strong rebound with payrolls and manufacturing activity surprising positively thus driving US 10Y higher. Powell too spoke on temporary inflation pressures. However, yields in RoW were lower even as oil prices inched up by 5% (US$ 69/bbl) on extension of supply cuts till Apr'21. DXY gained 1.2% and equities too inched up amidst higher volatility. Higher oil prices are a negative for Indian yields. India's 10Y yield was stable as RBI announced special OMO. This week CPI is expected at 5.02%.

Click here for the full report.

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 (%)	1.57	0bps	47bps	80bps
India 10Y yield (%)	6.23	2bps	10bps	5bps
USD/INR	73.03	(0.3)	(0.1)	1.0
Brent Crude (US$/bbl)	69.36	3.9	20.7	53.2
Dow	31,496	1.9	2.6	21.8
Shanghai	3,502	0	(0.9)	15.4
Sensex	50,405	(0.9)	1.2	34.1
India FII (US$ mn)	**4 Mar**	**MTD**	**CYTD**	**FYTD**
FII-D	(21.9)	(647.2)	(2,131.4)	(6,225.0)
FII-E	186.8	996.9	5,990.7	35,966.5

Source: Bank of Baroda Economics Research

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Rising oil prices a worry

A government driven capex cycle is holding ground with general government capex spending up by 123.6% in Jan'21 (50.4% in Dec'20). This trend is likely to play out in FY22 as well since private capex will pick-up with a lag. Private consumption is steady as seen in non-oil imports and logistics activity. While Centre's revenues are showing an uptrend, domestic 10Y yield has risen by 33bps in Feb'21 (MoM). As against this, US 10Y has increased by 34bps. Oil prices by 12.6%. Global food prices by 2.5%. INR did depreciate in Feb'21 after 3 months of steady appreciation. Higher oil prices are likely to put more downward pressure on INR. It will also be inflationary. As of now we expect inflation at 4.6% in FY22.

States and Centre up the ante: Both Centre and States have shown a penchant for capital spending in Jan'21. Centre's capex on 3-MMA basis is up by 148% (Rs 0.8tn shy of FY21RE) and that of states is up by 12.2% compared with 5.3% increase seen in Dec'20. Centre's revenue spending is up by 39.5% in Jan'21. In Feb-Mar'21, Centre will have to spend Rs 8.6tn to meet its FY21RE. Tax revenues have been buoyant led by 38.7% rise in indirect tax collections. In case of states, tax revenues are muted (despite pick-up in stamp duty collections). Grants from centre and market borrowings have risen (+39% in Apr'20-Feb'21).

Sustainable recovery: Private and government consumption rebounded in Q3 at (-) 2.3% from (-) 11.3% in Q2FY21 and (-) 1.1% from (-) 24% in Q2FY21 respectively. While auto sales have decelerated in Jan'21, electronic imports and e-way bills have gained traction. Non-oil-non-gold imports continue to expand. On the agri front, record output is expected in foodgrain production (2nd AE) for the crop year 2020-21. Further, rural wages are again inching up. Terms of trade are favourable for paddy but not so much for wheat.

Yields climbing higher: Post Centre's announcement of revised borrowing program, rising oil prices and global yields, Indian yields have risen to the highest level since Apr'20 (33bps increase in Feb'21 to 6.23%). Despite RBI's announcement of special OMOs and OMOs (Rs 200bn) in Feb'21 and elevated surplus liquidity of Rs 5.8tn, yields are inching up. Even softening headline CPI at 4.1% did not manage to cool yields. Much of this rise in domestic yield is also attributable to global yields especially US 10Y yield, which rose by 34bps and 16bps respectively in Feb'21 and Mar'21, on the back of reflation trade amidst reopening of the economy. Notably, global commodity prices have surged in Feb'21 by 6.1% MoM.

Rising yields and oil prices to limit gains in INR: After appreciating for 3 straight months, INR depreciated by 0.7% in Feb'21. This was led by higher oil prices and rising US10Y yields even as FII inflows continued at US$ 2bn in Feb'21 (US$ 1.5bn in Jan'21). Rising US yields have given a leg-up to DXY index (+0.3% in Feb'21). US and UK are far ahead of other large countries in vaccination. DXY may see some more upmove before vaccinations catch-up in other countries. We believe INR may be under pressure in near-term due to rising global yields and higher oil prices. Buoyant foreign inflows, software exporst and remittances should ease pressure on INR.

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WEEKLY WRAP

08 March 2021

US yields move up as economy rebounds

US economy is showing a strong rebound with payrolls and manufacturing activity surprising positively thus driving US 10Y higher. Powell too spoke on temporary inflation pressures. However, yields in RoW were lower even as oil prices inched up by 5% (US$ 69/bbl) on extension of supply cuts till Apr'21. DXY gained 1.2% and equities too inched up amidst higher volatility. Higher oil prices are a negative for Indian yields. India's 10Y yield was stable as RBI announced special OMO. This week CPI is expected at 5.02%.

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Markets

- **Bonds:** US 10Y yield rose by 16bps to 1.57% led by higher than estimated manufacturing activity as well as payrolls. Fed Chair hinted at temporary price pressures with reopening of the economy. However, global yields were lower on account of dip in China's PMIs. Europe's services activity is impacted by Covid-19. Even so, oil prices rose by 4.9% (US$ 69/bbl) as OPEC+ will not increase supply till Apr'21. India's 10Y yield closed flat at 6.23% supported by RBI's special OMO. System liquidity surplus fell to Rs 5.8tn as on 5 Feb 2021, versus Rs 6tn in the previous week.

- **Currency:** Except INR, other global currencies closed lower against the dollar. DXY rose by 1.2% to a 4-month high as US 10Y yield inched up. JPY depreciated by 1.6% to a 9-month low. INR appreciated by 0.6% even as oil prices rose by 4.9% in the week, led by FII inflows of US$ 350mn.

- **Equity:** Barring Nikkei and Shanghai Comp, other global indices ended higher this week. Sensex (2.7%) surged the most led by power and auto stocks. This was followed by FTSE and Dow gaining by 2.3% and 1.8% respectively on the back of rapid vaccination in US and UK.

- **Covid-19 tracker:** Global cases rose by 2.69mn in the week similar to last week. India added 129k cases in the week versus 100k last week. As much as 25.6% of US, 33.5% of UK and 1.4% of India's population has been vaccinated.

- **Upcoming key events:** Globally, CPI prints of China, US and Germany and policy decision of ECB will be in focus. Industrial production data of European economies is also due. In India, CPI and IIP data will be released.

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BUY – Expected return >+15%

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

REDUCE – Expected return from -5% to +5%

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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