

MACRO DAILY

14 September 2021

Macro developments

- As per news reports, government is expected to borrow additional Rs 840bn in H2FY22 to meet GST shortfall of States. Centre has already paid Rs 750bn to States for the same. Till now, government borrowing stood at Rs 6.09tn in H1FY22 (till 9th Sep) against budgeted Rs 7.24tn (Overall target-Rs 12.05tn in FY22). Surplus liquidity in the system has also swelled to an average of Rs 8.7tn (1-13th Sep), even higher than the phase of demonetisation.
- India's CPI inflation moderated to 5.3% in Aug'21 led by food which softened to 3.1% (4% in Jul'21). Core inflation eased by 10bps to 5.9%. A favourable base and uptick in rainfall in Sep'21 bodes well for inflation outlook. CPI is expected to average 5.5% in FY22 (RBI: 5.7%). However, core inflation is likely to remain sticky with an impending increase when contact intensive services sector opens up. We expect RBI to remain on hold this year and raise reverse repo rate in Q4FY22.
- Germany's WPI eased to 0.5% on MoM basis in Aug'21 compared with 1.1% rise in Jul'21. This was owing to drop in prices of clothing and footwear (0.1% in Aug'21 versus 0.3% in Jul'21), electronic household appliances, medical products and I&C equipment (0.1% versus 0.2%). However on YoY basis, WPI rose to 12.3% from 11.3% in Jul'21, highest since Oct'74 (first oil crisis). Increase in prices of food, pharma goods and machinery continued.

Markets

- Bonds:** Global yields closed mixed. Investors kept an eye on local restrictions in China due to rising Covid cases, ECB's hawkish statement and also awaiting inflation data in the US. While US 10Y yield fell by 2bps (1.33%), Germany's 10Y yield closed stable at (0.33%) and China's 10Y yield rose by 2bps to 2.89%. Crude prices rose by 0.8% (US\$ 74/bbl) amidst supply disruption in the US. India's 10Y yield rose a tad by 1bps (6.19%) and is trading flat today.
- Currency:** Global currencies traded in a narrow range ahead of US inflation report. DXY rose by 0.1%. EUR, GBP and JPY closed flat. AUD rose the most by 0.2%. On the other hand, INR depreciated by 0.2% as oil prices increased. However, it is trading higher today while other Asian currencies are trading lower.
- Equity:** Barring Sensex, other global indices ended higher as investors awaited US inflation print. Dow (0.8%) rebounded sharply led by gains in energy stocks. European indices too gained by 0.6% each. However, Sensex (0.2%) ended in red and was dragged lower by banking and consumer durable stocks. It is trading higher today, while other Asian stocks are trading mixed.

Dipanwita Mazumdar

dipanwita.mazumdar@bankofbaroda.com

Sameer Narang

+91 22 6698 5713

sameer.narang@bankofbaroda.com



Fig 1 – Movement in key global asset classes

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	1.33	(2)	0	5	(17)	65
UK	0.75	(1)	5	17	0	55
Japan	0.05	0	0	2	1	3
Germany	(0.33)	0	4	14	(8)	15
India ^{AA}	6.19	1	2	(5)	19	16
China	2.89	2	6	0	(26)	(26)
2Y yields (Δ bps)						
US	0.21	0	1	1	6	8
UK	0.23	(1)	5	9	16	33
Japan	(0.10)	2	2	2	1	2
Germany	(0.71)	0	1	3	(3)	0
India ^A	4.12	4	5	(7)	(47)	(37)
China	2.27	2	2	23	(17)	(35)
Currencies (Δ %)						
EUR	1.1811	0	(0.5)	0.1	(2.5)	(0.5)
GBP	1.3838	0	0	(0.2)	(1.9)	7.7
JPY	109.99	0	(0.1)	(0.4)	0.1	(4.0)
AUD	0.7369	0.2	(0.9)	0	(4.4)	1.1
INR	73.68	(0.2)	(0.8)	0.8	(0.6)	(0.3)
CNY	6.4518	(0.1)	0.1	0.4	(0.8)	5.3
Equity & Other indices (Δ %)						
Dow	34,870	0.8	(1.4)	(1.8)	1.4	24.6
FTSE	7,068	0.6	(1.7)	(2.1)	(1.1)	17.3
DAX	15,701	0.6	(1.4)	(1.7)	0.2	19.0
NIKKEI	30,447	0.2	2.7	8.8	4.4	29.2
Shanghai Comp	3,715	0.3	2.6	5.7	3.5	13.3
SENSEX	58,178	(0.2)	(0.2)	4.9	10.7	50.1
Brent (US\$/bbl)	73.51	0.8	1.8	4.1	0.9	85.6
Gold (US\$/oz)	1,794	0.3	(1.6)	0.8	(3.9)	(8.3)
CRB Index	555.1	(0.2)	(0.5)	(1.6)	(1.3)	37.1
Rogers Agri Index	1,052.7	(0.1)	(2.5)	(4.6)	(0.5)	41.2
LIBOR (3M)*	0.12	0	0	(1)	0	(12)
INR 5Y Swap*	5.74	(3)	(4)	(10)	8	16
India FII data (US\$ mn)						
	9 Sep	8 Sep	WTD	MTD	CYTD	FYTD
FII-Debt	157.7	(42.9)	168.2	328.1	(1,085.8)	941.5
FII-Equity	161.4	(112.7)	193.9	377.5	7,768.1	441.7

Source: Bloomberg, Bank of Baroda Research | *Indicates change in bps | **6.10GS2031, ^ 4.26GS2023 security

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com