

MACRO DAILY

16 September 2021

Macro developments

- With the objective of creating a manufacturing hub, Government of India has approved the PLI scheme in auto and drone industries with the total allocation of Rs 260.6bn. The scheme is expected to generate employment opportunity for over 0.7mn in the auto sector and provide an investment opportunity of over Rs 425bn in the next 5 years. PLI scheme for drones will result in fresh investment of Rs 50bn in 3-years and incremental production of Rs 15bn.
- In line with expectations, US industrial production eased to 0.4% in Aug'21 from 0.8% in Jul'21. Official estimates show that shutdowns related to Hurricane Ida impacted the gains in production by 0.3pp. Industry wise, mining growth contracted (-0.6% versus 1%) while manufacturing output slowed (0.2% versus 1.6%). Segment wise, production of only consumer goods rose while that of business equipment and non-industrial supplies eased. Compared with pre-pandemic levels (Feb'20), overall production was up by 0.3% in Aug'21.
- Japan's exports slowed down to 26.2% in Aug'21 (est. 34.1%) from 37% in Jul'21 on a YoY basis. This was led by moderation in car shipments to US and Europe. Despite the moderation, exports are up by 11.8% from Aug'19 levels, supported by strong external demand. Imports rose sharply by 44.7% in Aug'21 (est. 40%) on a YoY basis from 28.5% in Jul'21, led by strong demand for fuel and medical goods. Hence, trade deficit expanded to a more than 9-year high at ₹ 635.4bn in Aug'21 versus a surplus of ₹ 439.4bn in Jul'21.

Dipanwita Mazumdar

dipanwita.mazumdar@bankofbaroda.com

Sameer Narang

+91 22 6698 5713

sameer.narang@bankofbaroda.com

Markets

- Bonds:** Global yields closed mixed. UK 10Y yield rose the most by 4bps (0.78%) as its inflation print rose to a 9-year high in Aug'21. US 10Y yield rose by 2bps (1.3%). Japan's 10Y yield fell by 2bps (0.04%) amidst political developments. Crude prices rose by 2.5% (US\$ 75/bbl) due to supply disruptions. India's 10Y yield fell by 4bps (6.16%) on expectation of inclusion of the current benchmark paper in the next round of G-SAP. It is trading at 6.17%.
- Currency:** Global currencies ended higher against the dollar. DXY fell by 0.1%. JPY and INR gained the most (0.3% each) followed by GBP and AUD (0.2% each). Investors await US Fed policy decision due next week. INR is trading further higher today while other Asian currencies are trading mixed.
- Equity:** Barring Dow and Sensex, global indices ended lower as investor monitored global data print (UK inflation and China's retail sales). Dax (0.7%) dropped the most followed by Nikkei (0.5%). On the other hand, Sensex (0.8%) ended in green led by power and technology stocks. It is trading higher today while other Asian stocks are trading mixed.



Fig 1 – Movement in key global asset classes

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	1.30	2	(4)	2	(28)	60
UK	0.78	4	3	21	4	57
Japan	0.04	(2)	(1)	1	(2)	2
Germany	(0.31)	3	2	16	(6)	18
India ^{AA}	6.16	(4)	(3)	(8)	12	17
China	2.90	1	3	1	(27)	(23)
2Y yields (Δ bps)						
US	0.21	0	(1)	0	1	7
UK	0.26	3	5	13	19	33
Japan	(0.13)	(1)	(1)	(1)	(1)	1
Germany	(0.70)	0	(1)	4	(2)	(1)
India ^A	4.10	(3)	3	(9)	(56)	(35)
China	2.34	7	8	30	(13)	(28)
Currencies (Δ %)						
EUR	1.1817	0.1	0	0.2	(1.5)	0.0
GBP	1.3840	0.2	0.5	(0.2)	(1.1)	6.7
JPY	109.38	0.3	0.8	0.2	1.2	(4.2)
AUD	0.7333	0.2	(0.4)	(0.5)	(3.6)	0.4
INR	73.49	0.3	0.2	1.0	(0.2)	0
CNY	6.4325	0.1	0.5	0.7	(0.5)	4.8
Equity & Other indices (Δ %)						
Dow	34,814	0.7	(0.6)	(2.0)	2.3	24.2
FTSE	7,016	(0.2)	(1.1)	(2.8)	(2.3)	15.4
DAX	15,616	(0.7)	0	(2.3)	(0.6)	17.8
NIKKEI	30,512	(0.5)	1.1	9.1	4.2	30.0
Shanghai Comp	3,656	(0.2)	(0.5)	4.0	3.9	11.3
SENSEX	58,723	0.8	0.8	5.9	11.8	49.4
Brent (US\$/bbl)	75.46	2.5	3.9	6.9	1.4	78.7
Gold (US\$/oz)	1,794	(0.6)	0.3	0.8	(1.0)	(8.4)
CRB Index	557.8	0.5	0.6	(1.2)	(0.3)	37.2
Rogers Agri Index	1,075.7	1.4	1.3	(2.5)	2.9	43.7
LIBOR (3M)*	0.12	0	0	(1)	(1)	(12)
INR 5Y Swap*	5.74	2	(5)	(11)	3	19
India FII data (US\$ mn)						
	14 Sep	13 Sep	WTD	MTD	CYTD	FYTD
FII-Debt	(50.7)	34.7	(16.1)	312.0	(1,101.9)	925.4
FII-Equity	221.4	191.7	413.1	790.6	8,181.1	854.8

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