

## WEEKLY WRAP

01 November 2021

**Fed to guide markets**

The spike in inflation print for both US and Euro Area has created a plausible case for rollback of asset purchases much-earlier than anticipated. However, dovish comments by BoJ and ECB has created a policy dilemma. Both US and UK's 10Y yields dropped lower. Even global currencies depreciated as DXY rose by 0.5%. Lower US jobless claims and higher consumer confidence index, pushed global equity indices up with the exception of Asian indices. On the domestic front, our weekly index inched up to 101. Markets will shift focus towards Fed policy meet.

**Jahnavi**

+9122 6698 5218

jahnavi@bankofbaroda.com

**Markets**

- **Bonds:** UK's 10Y yield fell the most by 11bps (1.03%) as government slashed planned debt sales (nearly £ 60bn). US 10Y yield fell by 8bps (1.55%) as investors monitored slightly dovish policy of BoJ and ECB with comments on inflation returning to the target. Crude prices fell by 1.3% (US\$ 84/bbl) due to rising US inventory and ahead of OPEC+ meeting (4 Nov). India's 10Y yield rose by 2bps (6.39%) tracking OIS rates. System liquidity surplus rose to Rs 7tn as on 29 Oct 2021 versus Rs 6.6tn last week.
- **Currency:** Except INR (flat) and CNY (higher), other global currencies closed lower this week. DXY rose by 0.5% as US consumer confidence rose unexpectedly in Oct'21. EUR fell by 0.7% on the back of dovish comments from ECB even as inflation accelerated further. INR closed flat supported by lower oil prices, despite FII outflows of US\$ 1.2bn.
- **Equity:** Barring Shanghai Comp and Sensex, other global indices ended higher led by developments in the US (US\$ 1.75tn social spending deal announced by the President). Sensex (2.5%) fell the most amidst heavy sell-off. It was dragged down by power, banking and oil and gas stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 3.03mn versus 2.92mn last week. Cases rose in Germany (0.13mn versus 95K), and Russia (0.26mn versus 0.24mn). In India, cases rose at a slower pace of 103K versus 106K. Our weekly economic activity tracker rose to 101 versus 99 in the previous week (100=Feb'20). US has fully vaccinated 57% of its population, Germany at 66% and Russia at 32.3%. India is at 26%.
- **Upcoming key events:** Major events this week include policy decisions of US Fed and BoE. Apart From this manufacturing PMI data (US, Eurozone, UK) will also be released. Markets will also monitor US jobs report. Domestic market will monitor earnings data and pace of vaccination.



## India macro developments

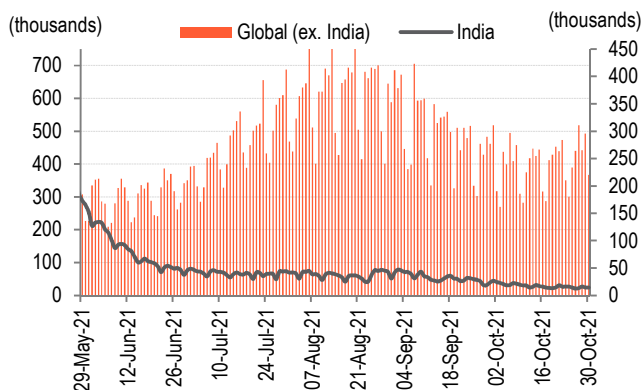
- Government of India's fiscal deficit remained unchanged from last month at 6.5% in Sep'21 (12MMA basis). While centre's revenue continued to increase at a robust pace, spending also picked up in Sep'21. Gross tax revenue has risen to Rs 11.8tn in H1FY22 versus Rs 7.2tn in H1FY21 and Rs 9.2tn over 2 year horizon (H1FY20). Both direct (Rs 5.8tn as of Sep'21 versus Rs 3.7tn as of Aug'21) and indirect tax collections (Rs 6tn versus Rs 4.9tn) have registered sharp improvement in the month. Spending was up by 9.9% as of Sep'21 versus 2.3% rise as of Aug'21, led by revenue spending (6.3% versus 0.8% decline).
- India's gold demand has surged by 47% (YoY) in Q2FY22 to 139.1tonnes compared with 94.6tonnes in Q2FY21 as per a report by World Gold Council (WGC). Apart from a positive base effect, demand has also been boosted by positive consumer sentiment on the back of declining Covid-19 cases and improvement in vaccination rates. The report further notes that, with the upcoming festive season, gold demand is likely to see a further boost and is expected to return to pre-pandemic level.
- India's eight core output moderated to 4.4% in Sep'21 from 11.5% in Aug'21, slowest pace of growth in over 7-months. This was led by coal (8.1% versus 20.6% in Aug'21), electricity (0.3% versus 16%) and refinery products (6% versus 9.1%). However, natural gas output remained a bright spot as it improved by 27.5% from 20.7% in Aug'21. The impact of semiconductor shortage is likely to adversely impact IIP growth in Sep'21.
- As per CMIE data, India's unemployment rate shot up to 7.97% as on 26 Oct 2021 from 7.53% in the previous week. This was led by inching up of rural unemployment rate to 8.14% from 7.45% in the previous week. Urban unemployment rate, moderated to 7.6% from 7.72%. Notably, MGNREGA has already seen a decline in work demand due to shift towards other non-farm jobs on account of normalisation of economic activity.
- India's fiscal deficit remained unchanged at 6.5% in Sep'21 (12MMA basis). Both centre's revenue and spending picked up in Sep'21. Gross tax revenue rose to Rs 11.8tn in H1FY22 versus Rs 7.2tn in H1FY21 and Rs 9.2tn over 2 year horizon (H1FY20). Both direct (Rs 5.8tn as of Sep'21 versus Rs 3.7tn as of Aug'21) and indirect tax collections (Rs 6tn versus Rs 4.9tn) have registered improvement. Spending was up by 9.9% as of Sep'21 (FYTD) versus 2.3% rise in Aug'21, led by revenue spending (6.3% versus 0.8% decline).
- As per news reports, Finance Minister of India has directed Department of Telecom and Ministry of Civil Aviation to substantially increase their capex spending going forward. So far, Department of Telecom has utilized only 2% of their budgeted capex of Rs 259bn. On the other hand, Ministry of Civil Aviation has spent Rs 18.8bn till Aug'21 versus BE of Rs 0.4bn. For FY23, the Ministry has been directed to enhance the BE significantly. Centre has so far utilized 31% of its budgeted capex till Aug'21 versus 32.6% utilized till Aug'20.

## Global macro developments

- According to primary estimates, US GDP growth in Q3CY21 rose by 2% (QoQ, annualised) compared with est.: 2.8% and 6.7% rise in Q2. Sharp moderation was seen in PCE (1.6% in Q2 versus 12% in Q2). This was owing to rise in Covid-19 cases in Q3 and higher prices due to supply shortages. Both export and import of goods contracted in Q3, by 5.1% and 0.1% respectively. On the other hand, private investment (11.7% versus -3.9%) and government spending (0.8% versus -2%) improved significantly.
- ECB in its latest policy kept rates unchanged. The statement was dovish and it down played the chances of a rate hike in CY22. Further, it viewed that decline in inflation trajectory would take longer than expected. This will be on account of elevated energy prices and supply constraints. Inflation is estimated to be at 2.2%, 1.7% and 1.5% respectively, in CY21, CY22 and CY23, thus gradually settling to the target once the transitory effect dissipates.
- Bank of Japan (BoJ) in its latest policy stayed put on rates and maintained its pace of asset purchase. However, contrary to major central banks, BoJ sounded dovish as it slashed its inflation projection to 0% from 0.6% earlier in FY21 (Apr'21-Mar'22). In FY22 and FY23 as well, inflation is estimated to be below its 2% target at 0.9% and 1% respectively. GDP forecast has also been slashed to 3.4% (3.8% earlier) in FY21. Elsewhere, Bank of Canada ended its QE program and sounded hawkish on the back of accelerated inflation (5% by the end of CY21).
- US durable goods orders fell (MoM) by 0.4% in Sep'21 (est.: 1.1% decline) following 1.3% rise in Aug'21. The decline was led by aircraft and parts (-27.9% versus 63.9%) and transportation equipment (-2.3% versus 3.8%). Supply side issues (logistics and shortage of raw material) remain key concerns. Excluding transportation, new orders rose by 0.4% in Sep'21 versus 0.3% in Aug'21. Core orders (proxy for business investment) also rose by 0.8% from 0.5% in Aug'21.
- China's industrial profits rose by 16.3% in Sep'21 compared with 10.1% rise in Aug'21. Marked improvement is led by mining and raw material industries, which have seen sharp rise in prices. However, profits of other downstream manufacturing industries have suffered due to higher prices. Profits of power firms have fallen the most in CYTD21 (Jan-Sep) by 24.6%. To deal with this, from Oct'21 government has allowed retail power prices to increase upto 20%.
- US Conference Board consumer confidence rose unexpectedly to 113.8 in Oct'21 (est. 108.5) from 109.8 in Sep'21. Consumer sentiment were buoyed by improvement in labour market prospects even as inflation expectations rose to a 13-year high. The survey showed that consumers are more willing to spend on items such as automobiles and consumer durables. Separately, US new home sales rose by 14% (MoM) in Sep'21 to a 6-month high of 800k units (est. 756k) compared with 702k in Aug'21.

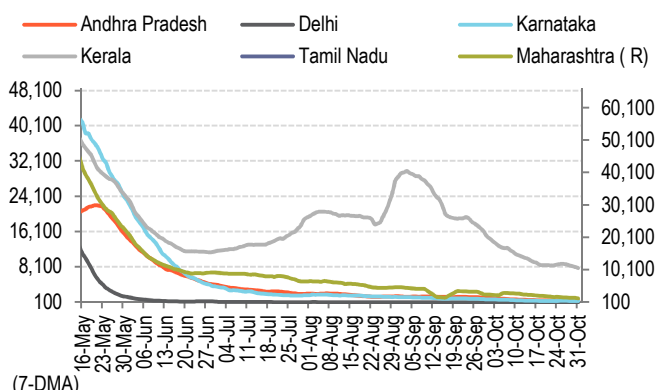
## High frequency indicators and weekly activity tracker

**Fig 1 – Global Covid-19 cases plateauing**



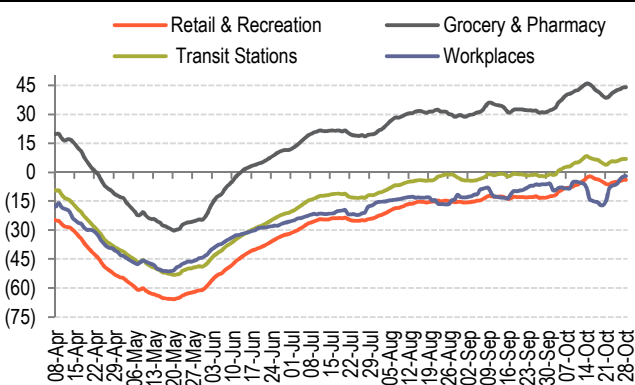
Source: CEIC, Bank of Baroda Research; Data as of 30 Oct 2021

**Fig 2 – Covid-19 cases in India also on a downtrend**



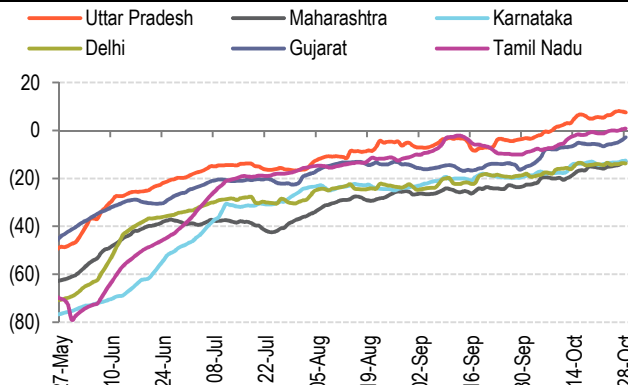
Source: CEIC, Bank of Baroda Research; Data as of 31 Oct 2021

**Fig 3 – Google mobility index inch up**



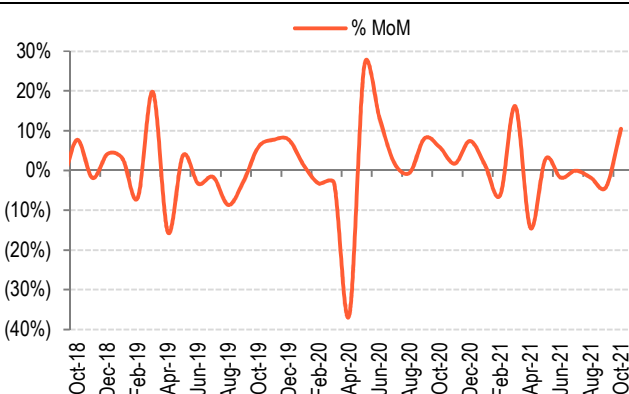
Source: CEIC, Bank of Baroda Research; Data as of 28 Oct 2021

**Fig 4 – ...led by uptick in retail and recreation index**



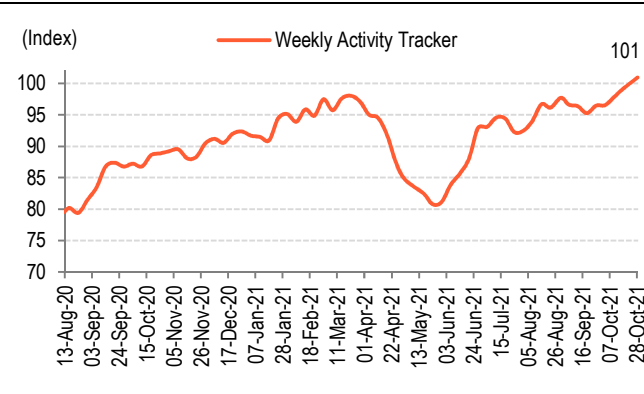
Source: CEIC, Bank of Baroda Research; Data as of 28 Oct 2021

**Fig 5 – Rail freight seen improving in Oct'21**



Source: Bloomberg, Bank of Baroda Research

**Fig 6 – Weekly activity tracker improves to 101**



Source: CEIC, Bank of Baroda Research, Note: Composite weighted average index of high frequency indicators

Fig 7 – Movement in key global asset classes

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	1.55	(8)	1	33	68
UK	1.03	(11)	4	47	77
Japan	0.10	0	1	8	6
Germany	(0.11)	0	9	36	52
India <sup>AA</sup>	6.39	2	16	18	50
China	2.97	(3)	9	12	(22)
<b>2Y yields (Δ bps)</b>					
US	0.50	4	20	31	34
UK	0.71	5	30	65	74
Japan	(0.10)	1	2	2	2
Germany	(0.59)	5	10	18	21
India	4.46	8	32	23	27
China <sup>**</sup>	2.23	(6)	(11)	23	(49)
<b>Currencies (Δ %)</b>					
EUR	1.1558	(0.7)	(1.1)	(2.6)	(0.8)
GBP	1.3682	(0.5)	1.1	(1.6)	5.7
JPY	113.95	(0.4)	(2.2)	(3.9)	(8.9)
AUD	0.7518	0.7	3.9	2.4	7.0
INR	74.88	0	(1.1)	(0.6)	(1.0)
CNY	6.4056	(0.3)	0.8	0.9	4.3
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	35,820	0.4	4.4	2.5	35.2
FTSE	7,238	0.5	3.0	2.9	29.8
DAX	15,689	0.9	2.9	0.9	35.8
NIKKEI	28,893	0.3	(4.3)	5.9	25.7
Shanghai Comp	3,547	(1.0)	(1.5)	4.4	10.0
SENSEX	59,307	(2.5)	(0.6)	12.8	49.7
Brent (US\$/bbl)	84.38	(1.3)	6.7	10.5	125.3
Gold (US\$/oz)	1,783	(0.5)	2.8	(1.7)	(5.1)
CRB Index	571.2	0.5	2.8	1.6	39.5
Rogers Agri Index	1,144.2	1.8	5.1	8.0	46.1
LIBOR (3M)*	0.13	1	0	1	(8)
INR 5Y Swap*	5.92	(1)	14	12	73
<b>India FII data (US\$ mn)</b>					
	<b>28 Oct</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	(68.2)	(44.3)	(173.5)	(98.5)	1,928.8
FII-Equity	(325.6)	(1,124.9)	(1,539.1)	6,990.9	(335.5)

Source: Bloomberg, Bank of Baroda Research | \*Indicates change in bps | \*\*1Y yield

Fig 8 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
01-Nov	Markit Australia manufacturing PMI	Oct F	--	57.3	--
	Jibun Bank Japan manufacturing PMI	Oct F	--	53.0	--
	Caixin China manufacturing PMI	Oct	50.0	49.6	49.2
	Markit India manufacturing PMI	Oct	--	53.7	--
	Germany retail sales, % MoM	Sep	0.4%	1.1%	--
	Hong Kong GDP, % YoY	3Q A	5.7%	7.6%	--
	Markit UK PMI manufacturing SA	Oct F	57.7	57.7	--
	Markit US manufacturing PMI	Oct F	59.2	59.2	--
	US ISM manufacturing	Oct	60.5	61.1	--
02-Nov	South Korea CPI, % YoY	Oct	3.2%	2.5%	--
	RBA cash rate target, %	01-Nov	0.1%	0.1%	--
	Markit Italy manufacturing PMI	Oct	59.6	59.7	--
	Markit France manufacturing PMI	Oct F	53.5	53.5	--
	Markit/BME Germany manufacturing PMI	Oct F	58.2	58.2	--
	Markit Eurozone manufacturing PMI	Oct F	58.5	58.5	--
03-Nov	Markit Australia services PMI	Oct F	--	52.0	--
	Jibun Bank Japan services PMI	Oct F	--	50.7	--
	Caixin China services PMI	Oct	53.5	53.4	--
	Markit India services PMI	Oct	--	55.2	--
	Markit/CIPS UK services PMI	Oct F	58.0	58.0	--
	US durable goods orders, % MoM	Sep F	(0.4%)	(0.4%)	--
	Markit US services PMI	Oct F	58.2	58.2	--
	US FOMC rate decision (upper bound), %	01-Nov	0.25%	0.25%	--
04-Nov	Germany factory orders, % MoM	Sep	1.9%	(7.7%)	--
	Markit Italy services PMI	Oct	54.5	55.5	--
	Markit France services PMI	Oct F	56.6	56.6	--
	Markit Germany services PMI	Oct F	52.4	52.4	--
	Markit Eurozone services PMI	Oct F	54.7	54.7	--
	Euro Area PPI, % YoY	Sep	15.4%	13.4%	--
	Bank of England bank rate, %	01-Nov	0.25%	0.10%	--
	US initial jobless claims, in thousands	01-Oct	275k	281k	--
	US trade balance, US\$ bn	Sep	-\$79.9b	-\$73.3b	--
05-Nov	RBA statement on monetary policy				
	Indonesia GDP, % YoY	3Q	3.7%	7.1%	--
	Germany industrial production SA, % MoM	Sep	1.0%	(4.0%)	--
	France industrial production, % MoM	Sep	0.0%	1.0%	--
	Italy retail sales, % MoM	Sep	0.2%	0.4%	--
	Euro Area retail sales, % MoM	Sep	0.3%	0.3%	--
	US change in nonfarm payrolls, in thousands	Oct	450k	194k	--
	US unemployment rate, %	Oct	4.7%	4.8%	--

Source: Bloomberg, Bank of Baroda Research

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For further details about this publication, please contact:

### **Economics Research Department**

Bank of Baroda

+91 22 6698 5218

[chief.economist@bankofbaroda.com](mailto:chief.economist@bankofbaroda.com)