

WEEKLY WRAP

13 December 2021

Eyes on global central banks rate decisions

Inflation in the US still remains a cause of concern. Fed Chair commented that the spike is not transitory. Thus US 10Y yield rose by 14bps. Equity markets in the week were supported by fading concerns over Omicron strain and better macro prints globally (Germany's industrial production, US jobless claims and consumer sentiment index). On the domestic front, RBI stayed put on rates and sounded dovish. We expect reverse repo hike to begin in Q4FY22. In the current week, markets eye major central banks policy decisions (US Fed, ECB, BoE and BoJ).

Dipanwita Mazumdar

+9122 6698 5794

dipanwita.mazumdar@bankofbaroda.com

Markets

- **Bonds:** US 10Y yields rose by 14bps (1.48%) as Fed Chair commented that inflation spike is not transitory. China's 10Y yield fell by 3bps (2.88%) as PPI print eased in Nov'21. Crude prices rose by 7.5% (US\$ 75/bbl) amidst fading concerns over Omicron strain and reports of China's fiscal stimulus. India's 10Y yield closed flat (6.37%) as RBI remained dovish. System liquidity surplus moderated to Rs 8.2tn as on 10 Dec 2021 versus Rs 8.4tn last week.
- **Currency:** Global currencies closed mixed this week. DXY ended the week flat awaiting US Fed meeting. EUR also closed flat supported by better than expected data (Germany industrial production, exports). While JPY fell by 0.6%, AUD rose by 2.4% as risk-sentiment improved. INR depreciated by 0.8% to an 18-month low as oil prices rose by 7.5% in the week.
- **Equity:** Global indices ended higher this week as fear surrounding the impact of new Covid-19 variant subsided. Amongst other indices, Dow (4%) surged the most led by strong data print followed by Dax (3%). Sensex (1.9%) too ended in green led by strong gains in real estate and metal stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 4.3mn versus 4.4mn last week. Cases eased in US (0.8mn versus 0.9mn), Germany (0.3mn versus 0.4mn) and APAC (0.32mn versus 0.33mn). However, cases are continuing to rise in UK, France and Japan. In India, cases rose by 49K versus 61K. Weekly tracker was stable at 101. US has fully vaccinated 60% of its population, France at 71%, UK at 69% and India is above 50%.
- **Upcoming key events:** Major events this week include Central Bank policy decisions of US Fed, BoE, ECB, BoJ, Philippines, Indonesia and Taiwan. In addition, flash PMIs, retail sales of US and China and US PPI will also be in focus. Domestic markets await CPI print later in the day and WPI tomorrow.



India macro developments

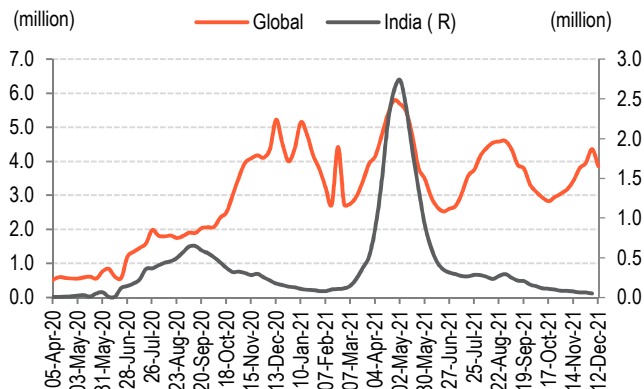
- RBI maintained status quo on rates. Both growth and inflation forecast was retained at 9.5% and 5.3% respectively, for FY22. 14-day VRRR was established as the main liquidity tool. RBI's approach has been 'patient' due to uncertainties surrounding Omicron and both upside and downside risks to inflation outlook. Thus it remained on the path of normalisation w.r.t. liquidity, but chose to remain dovish on rates. We expect reverse repo hike to begin in Q4FY22 followed by policy rate hike from Q1FY23.
- Industrial output moderated to 3.2% in Oct'21 from 3.3% in Sep'21. Manufacturing output eased to an 8-month low. However, both mining and electricity expanded at a faster pace. Only production of primary goods and consumer non-durables rose, while others fell. The dip in high frequency indicators continue to impinge on the recovery with further prospects of downward bias emanating from new Covid-19 variant.
- As per AMFI data, net inflows in mutual funds (MFs) rose to Rs 462bn in Nov'21 as against Rs 383bn in Oct '21. Equity inflows rose to Rs 116bn from Rs 60bn inflow seen in Oct'21. Debt inflows also rose to Rs 149bn as against Rs 119bn in Oct'21. Assets under management (AUM) of MFs was stable at Rs 37.3tn.
- India's exports rose by 44.2% (YoY) to US\$ 8.5bn between 1-7 Dec 2021, following a 26.5% rise in Nov'21. Non-oil exports rose by 28.6% in Dec'21 versus 18.1% in Nov'21. Exports of engineering goods and gems and jewellery improved. Further, while exports to US and Australia rose, exports to China fell. Imports rose by 45.3% to US\$ 14.1bn in Dec'21 (1-7 Dec), following an increase of 57.2% in Nov'21. Non-oil imports rose by 34.6% in Dec'21 versus 39.9% in Nov'21.
- RBI's forward-looking surveys revealed that consumer confidence recovered from its historically low level in Jul'21 (48.6) to 62.3 in Nov'21, as consumers became more optimistic about household income and employment scenario. On the price front, RBI did an extension survey post the reduction in excise duty and dip in global commodity prices. Median inflation perceptions declined by 30bps to 10.1% for current inflation and by 110bps and 140bps for 3-months and one-year ahead.
- As per news reports, India signed two loan agreements of Rs 21bn with ADB. It concerns infrastructure projects relating to affordable housing in Tamil Nadu and a water sanitation program in Uttarakhand. Notably, over a two-year horizon, investment demand has also picked up by 1.5% in Q2 against 17.1% decline seen in Q1FY22. Further, accelerated pace of vaccination (~50% fully vaccinated), infra push through the GATI plan and sector specific benefic through the PLI scheme are likely to boost investment demand in the near term.
- Government of India has increased the deposit insurance cover to Rs 0.5mn/depositor/bank as against Rs 0.1mn earlier. Further, the time limit for the amount to be refunded to the depositor has been fixed at 90 days, which was not mentioned earlier. Thus, the coverage of the scheme has now been extended to about 98.1% of the accounts, as against the international benchmark of 80%.

Global macro developments

- US CPI shot up to 6.8% in Nov'21 (highest since Nov'82) from 6.2% in Oct'21, led by surge in prices of energy (33.3% versus 30% in Oct'21) and food (6.1% versus 5.3%). Core CPI too rose in Nov'21 to 4.9% from 4.6% in Oct'21, owing to higher cost of used cars and truck prices (31.4% versus 26.4% in Oct'21), rentals (3.8%; highest since CY07 and 3.5% in Oct'21) and apparels (5% versus 4.3%). Both revival in demand and supply chain bottlenecks are contributing to higher inflation.
- US jobless claims fell by 43,000 to a 52-year low of 184,000 (est. 220,000), in the week ended 4 Dec 2021. A part of the decline can be attributed to difficulty in adjusting seasonal data around the holiday season. The data suggests a further tightening of the labour market amidst shortages of workers. Jobless claims have fallen sharply since a record-high of 6.15mn in Apr'20. The four-week moving average of claims also fell by 21,250 to 218,750.
- Germany's exports in Oct'21 rose by 8.1% (YoY) versus 7.2% rise in Sep'21. Even compared with Feb'20 (pre-pandemic) exports were up by 3.8% in Oct'21 versus 0.7% decline in Sep'21. On YoY basis, recovery was led by higher exports to Eurozone countries (12.8% versus 9.2%), while exports to rest of the world, including UK (-11.5% versus -10%) and non-Eurozone EU member states (9% versus 9.4%) eased. Imports too rose in Oct'21 (17.3%) from Sep'21 (12.9%).
- Germany's ZEW economic sentiment index dipped to 29.9 in Dec'21 (est. 25.4) from 31.7 in Nov'21 due to a resurgence in Covid-19 cases. Persistent supply chain bottlenecks remain a key risk to the growth outlook. The current situation index fell to (-) 7.4 from 12.5 in Nov'21. Separately, industrial production rose by 2.8% in Oct'21 (est. 1% increase), from a decline of 0.5% in Sep'21 (MoM).
- Japan's economy shrank at a much faster pace than anticipated in Jun-Sep'21 at an annualised pace of 3.6% (versus decline of 3% estimated earlier) on a quarterly basis compared with an expansion of 0.5% in Apr-Jun'21. The downward revision was led by sharp dip in private consumption (down by 1.3% from earlier estimate of 1.1%) as the spending on durable goods and services took a hit. Expenditure on durable goods registered the steepest fall since FY94, falling to 16.3%. Some analyst expect the new variant could pose a downside risk to exports, though the promised stimulus package could boost GDP.
- China's PPI cooled from 26-year high of 13.5% in Oct'21 to 12.9% (est.: 12.1%) in Nov'21. Softening was on account of policy measures taken by the government (restricting price hike of raw materials). Easing was mainly visible in coal mining, ferrous and non-ferrous metal smelting, and rolling processing industry. On the other hand, CPI soared to 2.3% (est.: 2.5%) in Nov'21 from 1.5% in Oct'21, due to unfavourable base. In addition, food prices inched up (1.6% versus -2.4%), on the back weaker decline in prices of pork and jump in prices of vegetables and oils.

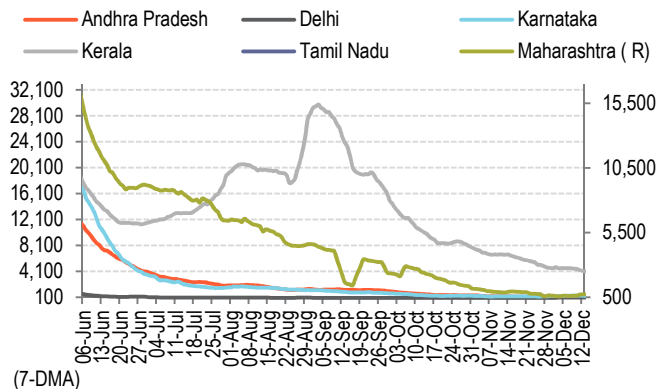
High frequency indicators and weekly activity tracker

Fig 1 – Global Covid-19 cases moderated



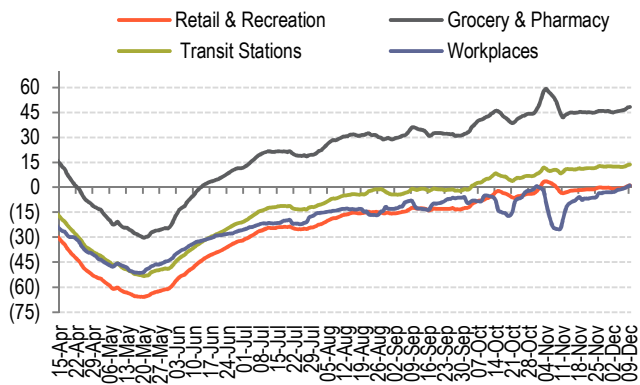
Source: CEIC, Bank of Baroda Research

Fig 2 – Covid-19 cases in India inched down



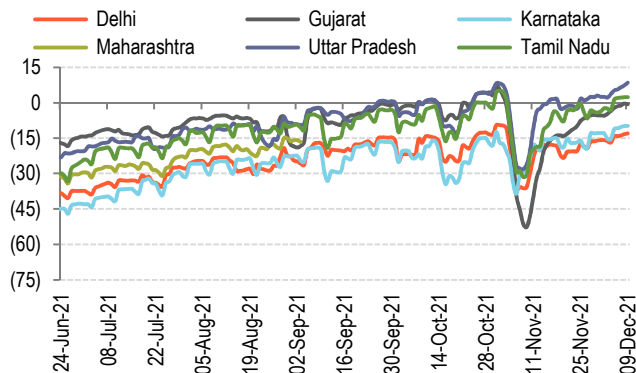
Source: CEIC, Bank of Baroda Research

Fig 3 – Google mobility index improves...



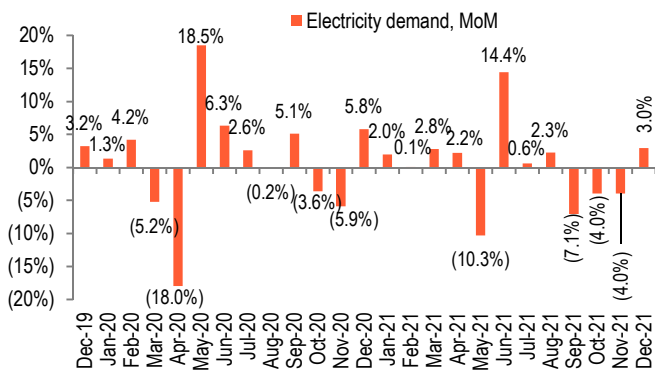
Source: CEIC, Bank of Baroda Research

Fig 4 – ...supported by workplace mobility



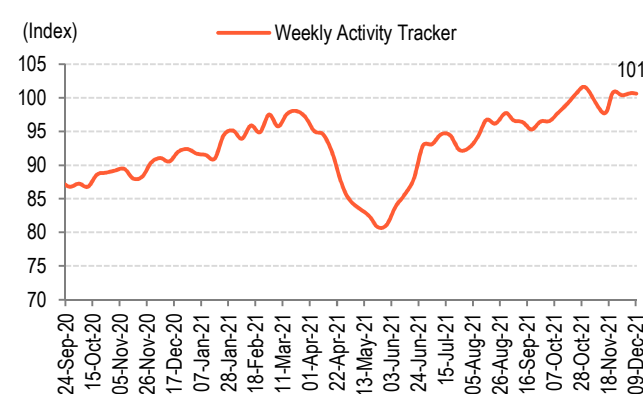
Source: CEIC, Bank of Baroda Research

Fig 5 – Electricity demand also improves



Source: Bloomberg, Bank of Baroda Research

Fig 6 – Weekly activity tracker stable at 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
10Y yields (Δ bps)					
US	1.48	14	(7)	14	59
UK	0.74	(1)	(18)	(2)	57
Japan	0.06	0	(1)	1	4
Germany	(0.35)	4	(12)	(2)	29
India	6.37	0	0	19	47
China	2.88	(3)	(6)	0	(44)
2Y yields (Δ bps)					
US	0.65	7	14	44	54
UK	0.43	(5)	(14)	20	54
Japan	(0.10)	1	1	2	3
Germany	(0.69)	5	0	1	9
India	4.50	(8)	(5)	42	58
China	2.50	(1)	3	1	(46)
Currencies (Δ %)					
EUR	1.1313	0	(1.2)	(4.2)	(6.6)
GBP	1.3273	0.3	(0.7)	(4.1)	0.4
JPY	113.44	(0.6)	0.5	(3.2)	(9.0)
AUD	0.7172	2.4	(1.7)	(2.5)	(4.8)
INR	75.79	(0.8)	(1.7)	(3.1)	(2.9)
CNY	6.3700	0.1	0.3	1.2	2.7
Equity & Other indices (Δ %)					
Dow	35,971	4.0	0.1	3.9	19.7
FTSE	7,292	2.4	(1.3)	3.7	11.4
DAX	15,623	3.0	(2.9)	0.1	19.1
NIKKEI	28,438	1.5	(2.9)	(6.4)	6.7
Shanghai Comp	3,666	1.6	3.8	(1.0)	9.5
SENSEX	58,787	1.9	(1.9)	0.8	27.5
Brent (US\$/bbl)	75.15	7.5	(9.3)	3.1	50.4
Gold (US\$/oz)	1,783	0	(4.3)	(0.3)	(3.1)
CRB Index	570.8	0.4	0	2.6	31.0
Rogers Agri Index	1,164.2	0.5	0.1	10.4	40.1
LIBOR (3M)*	0.20	1	4	8	(2)
INR 5Y Swap*	5.67	(2)	(21)	(10)	44
India FII data (US\$ mn)					
	9 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	(50.8)	(211.7)	(230.3)	(146.9)	1,880.3
FII-Equity	1,052.7	500.9	(301.5)	5,201.0	(2,125.3)

Source: Bloomberg, Bank of Baroda Research | *Indicates change in bps

Fig 8 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
13-Dec	Italy unemployment rate quarterly, %	Q3CY21	9.4%	9.8%	--
	India CPI, % YoY	Nov	5.1%	4.5%	--
14-Dec	Japan industrial production, % MoM	Oct	--	1.1%	--
	India WPI, % YoY	Nov	12.0%	12.5%	--
	Euro Area industrial production SA, % MoM	Oct	1.3%	(0.2%)	--
	US PPI final demand, % MoM	Nov	0.5%	0.6%	--
15-Dec	China new home prices, % MoM	Nov	--	(0.3%)	--
	China retail sales, % YoY	Nov	4.7%	4.9%	--
	China industrial production, % YoY	Nov	3.7%	3.5%	--
	China fixed assets ex rural YTD, % YoY	Nov	5.4%	6.1%	--
	UK CPI, % YoY	Nov	4.8%	4.2%	--
	India exports, % YoY	Nov	--	43.1%	--
	US retail sales advance, % MoM	Nov	0.8%	1.7%	--
	US FOMC rate decision (upper bound), %	15-Dec	0.3%	0.3%	--
16-Dec	New Zeland GDP SA, % QoQ	Q3CY21	(4.1%)	2.8%	--
	Markit Australia manufacturing PMI (flash)	Dec	--	59.2	--
	Japan exports, % YoY	Nov	21.0%	9.4%	--
	Jibun Bank Japan services PMI (flash)	Dec	--	53.0	--
	Jibun Bank Japan manufacturing PMI (flash)	Dec	--	54.5	--
	Australia unemployment rate, %	Nov	5.0%	5.2%	--
	Markit/BME Germany manufacturing PMI (flash)	Dec	57.0	57.4	--
	Markit Germany services PMI (flash)	Dec	51.0	52.7	--
	Markit Eurozone manufacturing PMI (flash)	Dec	57.9	58.4	--
	Markit Eurozone services PMI (flash)	Dec	54.3	55.9	--
	Markit UK PMI manufacturing SA (flash)	Dec	57.6	58.1	--
	Markit/CIPS UK services PMI (flash)	Dec	57.0	58.5	--
	Bank of England bank rate, %	16-Dec	0.10%	0.10%	--
	ECB main refinancing rate, %	16-Dec	0.00%	0.00%	--
	US initial jobless claims, in thousands	11-Dec	195.0	184.0	--
	US housing starts, in mn	Nov	1.6	1.5	--
	US industrial production, % MoM	Nov	0.7%	1.6%	--
	Markit US manufacturing PMI (flash)	Dec	58.5	58.3	--
	Markit US services PMI (flash)	Dec	58.7	58.0	--
	Taiwan CBC benchmark interest rate, %	16-Dec	1.125%	1.125%	--
17-Dec	UK GfK consumer confidence	Dec	(17.0)	(14.0)	--
	Germany PPI, % MoM	Nov	1.4%	3.8%	--
	Germany IFO business climate	Dec	95.2	96.5	--
	Euro Area CPI, % YoY	Nov	4.9%	4.9%	--
	BOJ policy balance rate, %	17-Dec	(0.1%)	(0.1%)	--

Source: Bloomberg, Bank of Baroda Research

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5794

chief.economist@bankofbaroda.com