

WEEKLY WRAP

13 September 2021

Inflation data to guide markets

Global yields inched up led by China where producer prices increased at the highest pace since Aug'08. Yields rose in US and Europe with both central banks looking at tapering in CY21. DXY rose by 0.5% as weekly Covid-19 cases in US fell to 1mn and are seeing an upward trajectory in UK and Germany. India's Covid-19 cases fell. Rainfall picked up (now 6% below LPA from 9% below LPA last week). Despite this, 10Y yield rose by 2bps. India's retail (our est.: 5.45%) and wholesale inflation (our est.: 10.5%) data will be released today and tomorrow respectively.

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Markets

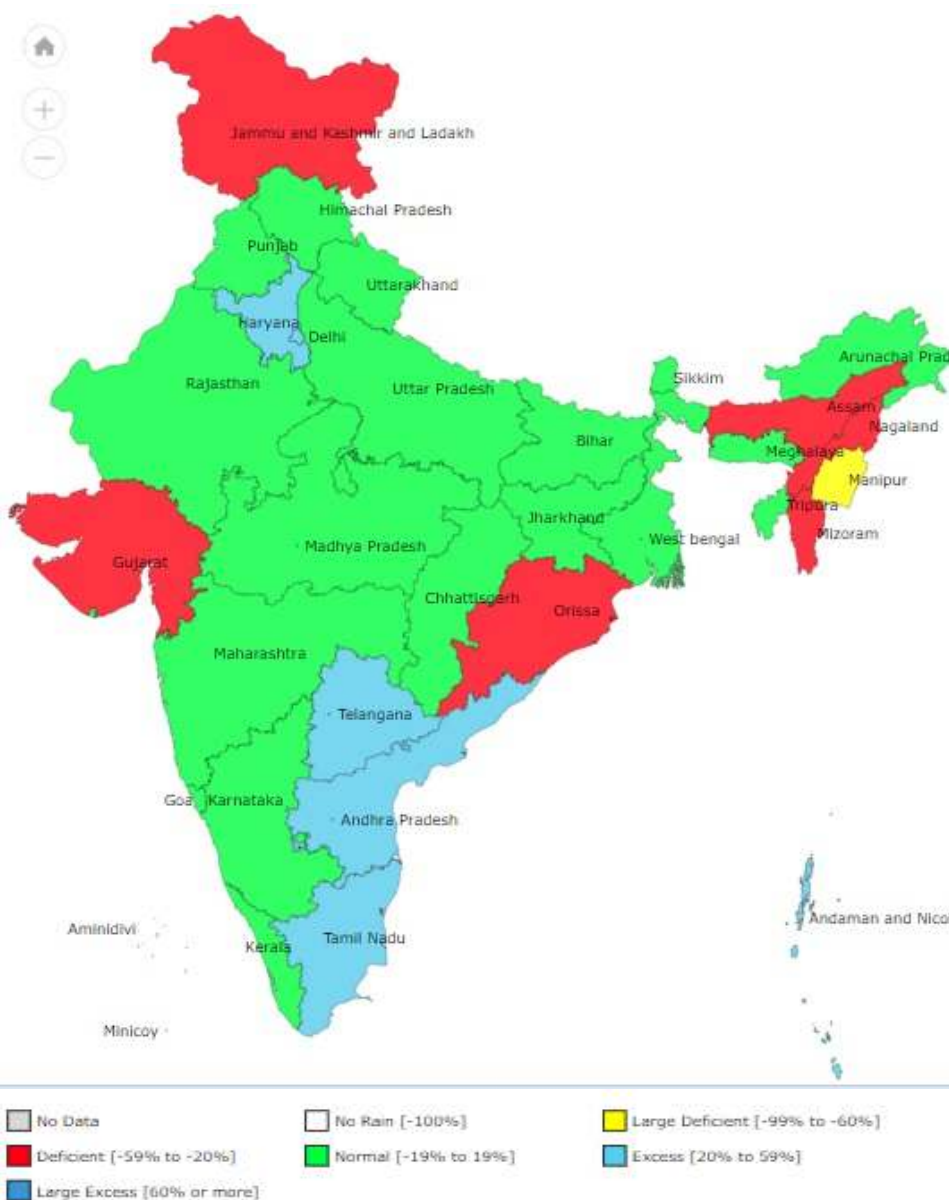
- **Bonds:** Global 10Y yields closed higher. China's 10Y yield rose the most by 4bps (2.87%) as PPI rose by highest level since Aug'08. Germany's 10Y yield rose by 3bps (-0.33%) as ECB indicated tapering of its asset purchase program. US 10Y yield rose by 2bps (1.34%) as Fed presidents signalled tapering to begin in CY21. Crude prices rose by 0.4% (US\$ 73/bbl) amidst supply concerns in the US. India's 10Y yield rose by 2bps (6.18%). System liquidity surplus was at Rs 7.8tn as on 9 Sep 2021 versus Rs 9.1tn last week.
- **Currency:** Except China, global currencies closed lower this week. DXY rose by 0.6% on the back of stronger than expected jobs data (jobless claims fell), signalling early signs of recovery. EUR fell by 0.6%. ECB noted that it will begin trimming of PEPP program in the coming quarter. INR fell by 0.7% as oil prices rose by 0.4%. FPI inflows were US\$ 43mn in the week.
- **Equity:** While Nikkei rose by 4.2% followed by Shanghai Comp at 3.4%, Dow and European indices ended in red. US Fed and ECBs tapering seems to have had an impact on equity markets in US and Europe. Sensex rose by 0.3% led by gains in consumer durables and real estate stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose at a slower pace of 4mn versus 4.3mn last week. Cases showed moderation in the US (1mn increase versus 1.1mn) and Japan (66K versus 110k) and France (69K versus 94k). In India, cases rose by 0.25mn versus 0.29mn. Our weekly economic activity tracker index moderated to 97 (100=Feb'20) from 98. UK has fully vaccinated 64% of its population, Germany at 61% and US at 53%. India is at 13%.
- **Upcoming key events:** Major events this week include US CPI, retail sales, and industrial production and China's retail sales, industrial production and FAI data. In addition, UK and Euro Area CPI are also due. In India, CPI and WPI data will be released.



Monsoon tracker

- For the period 1 Jun 2021 to 12 Sep 2021, monsoon is 6% below LPA compared with 9% above LPA last year (1 Sep 2020). Central and western part of India including states such as Maharashtra, Rajasthan, Uttar Pradesh, Chhattisgarh, Punjab, Himachal and Karnataka have received normal rainfall. On the other hand, states such as Telangana, Andhra Pradesh and Tamil Nadu have received excessive rainfall during this period. However, Gujarat, Odisha, Jammu and Kashmir, and parts of North Eastern Region have received deficient rainfall.
- Overall Kharif sown area has fallen by (-) 0.9% as on 10 Sep 2021 compared with last year. Sown area of cotton (-5.8%) and oilseeds (-1.6%) continues to decline. However, on the bright side, sowing of pulses (1.9%), sugarcane (1.4%) and jute & mesta (0.4%) have improved further.

Fig 1 – Distribution pattern of south-west monsoon



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun- 12 Sep 2021

India macro developments

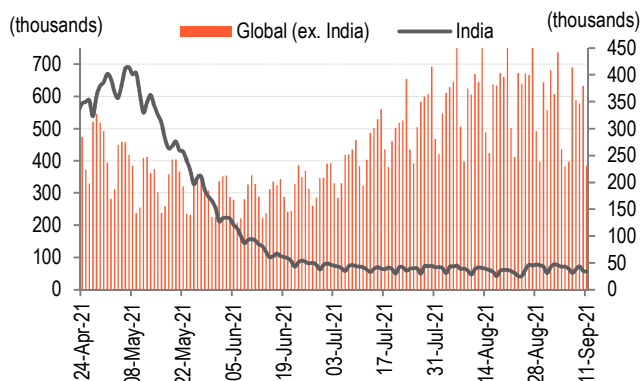
- According to SIAM, total auto sales declined by 11.4% in Aug'21 from 4% increase in Jul'21 led by shortage of semiconductor which has already impacted the overall production. Passenger car sales contracted by 13% in Aug'21 compared with an increase of 26.6% in Jul'21. Two-wheeler sales declined at a much sharper pace by 14.6% in Aug'21 (-2.1% in Jul'21). However, the only bright spot was three-wheeler sales registering an improvement of 59.7% in Aug'21 (40.5% in Jul'21).
- Government of India has procured over 89mn metric tonne (+16% YoY) of paddy this year (a record high) in the ongoing Kharif marketing season, as of 5 Sep 2021. This includes over 71.8mn metric tonne procured in Kharif sowing season and 17.1mn metric tonne procured in previous Rabi season. This is likely to benefit over 13mn farmers with the MSP value of Rs 1.68tn.
- As per FADA, India's auto sales rose at a much slower pace of 14.5% in Aug'21 from 34.1% in Jul'21. Even PV and two-wheeler sales moderated to 38.7% (63% in Jul'21) and 6.6% (28% in Jul'21) respectively in Aug'21. Auto retail sales declined over a 2-year horizon by 14.7% in Aug'21, signalling subdued demand. Further, shortage of semi-conductors has added to supply side challenges. This is likely to pose additional risk in the upcoming festive season.
- In order to encourage crop diversification and boost production, Government of India has increased MSP for Rabi crops for marketing season 2022-23 (beginning 1 Apr 2022). Higher MSP will also ensure farmers receive remunerative prices for their crops. Sharpest increase has been seen for mustard and rapeseed crops (8.6%), followed by lentils (7.8%). MSP for barley and wheat has been hiked by 2.2% and 2% respectively.
- As per AMFI data, net inflows in mutual funds moderated to Rs 330bn in Aug'21 from Rs 1.1tn in Jul'21. This was on account of Rs 54bn outflows in the debt segment as against Rs 639bn inflows in Jul'21. Equity inflows also moderated to Rs 90bn from Rs 214bn. AUM of mutual funds however rose to Rs 36.6tn from Rs 35.3tn in Jul'21.
- India's industrial output increased by 11.5% in Jul'21 from 13.6% in Jun'21. Electricity output expanded at a faster pace than Jun'21. Adjusting for the base, even mining and manufacturing output have been resilient. Capital and primary goods maintained sequential momentum. Only FMCG output has shown a contraction. Steady opening up of domestic economy and exports are likely to ensure that industrial activity improves further. Recovery in capital goods and durables will take time as these segments are 18.6% and 26.4% below Jul'19 level.

Global macro developments

- China's exports surprised positively, rising by 25.6% in Aug'21 (est.: 17.3%) from 19.3% in Jul'21. The rebound was driven by higher exports of electronics, furniture and recreational products. In addition, clearing of congestion at some ports, which had earlier been shut down for 2 weeks due to surge in Covid-19 cases also helped. Imports too improved in Aug'21, rising by 33.1% (est.: 26.9%) from 28.1% in Jul'21. While semi-conductor imports continued to decline, that of agriculture commodities, industrial metals, and oil rose sharply.
- Germany's factory orders rose unexpectedly by 3.4% in Jul'21 versus an estimated decline of 0.7% on a MoM basis. In Jun'21, factory orders had risen by 4.6%. The level of new orders inched up to a record high in Jul'21, led by a surge in foreign orders (8% increase MoM). Orders from the shipbuilding sector rose steeply. Orders for consumer goods (7.5%) and capital goods (5.4%) also increased.
- Japan's annualised Q2CY21 GDP (final) has been revised upwards to 1.9% (QoQ) versus 1.3% as per preliminary estimate (PE) and 3.9% decline in Q1. The upward revision was driven by private non-residential investment (2.3% versus 1.7% PE) and government consumption (1.3% versus 0.5%). Private consumption was also revised marginally upwards to 0.9% from 0.8% earlier. Public investment on the other hand was revised downward to (-) 1.7% from (-) 1.5% earlier.
- Industrial production in Germany bounced back to 1% in Jul'21 (est.: 0.8%) from a decline of 1% in Jun'21 on a MoM basis. This was led by higher production of capital (3.2%) and consumer (0.9%) goods. Separately, ZEW investors' economic sentiment index declined for the fourth straight month to 26.5 in Sep'21 (est. 30.3), from 40.4 in Aug'21. Chip shortages in the automotive sector and scarcity of raw materials in the construction sector weighed on sentiments.
- China's PPI rose by 9.5% in Aug'21 (highest since Aug'08) from 9% in Jul'21. This was owing to elevated global commodity prices, in particular prices of coal, chemicals and steel. However, going forward analysts expect PPI to begin easing as dip in credit growth and restrictions in the real estate sector will weigh in on global coal and metal prices. On the other hand, CPI eased to 0.8% in Aug'21 from 1% in Jul'21 as both food (led by pork) and non-food prices (led by travel services) softened. Core inflation also eased to 1.2% from 1.3% in Jul'21.
- US PPI rose by 0.7% in Aug'21 (est.: 0.6%) against 1% increase in Jul'21, on MoM basis. This was led by 1% jump in goods (+0.6% in Jul'21) and 0.7% increase in services inflation (+1.1% in Jul'21). Core inflation rose by 0.3% against 0.9% increase in Aug'21. On YoY basis, PPI showed biggest gain in nearly 11-years rising by 8.3% (7.8% in Jul'21), due to supply chain bottleneck.
- Japan's PPI (MoM) came in flat (0%) in Aug'21 after rising by 1.1% in Jul'21. Increase in prices of lumber and wood products, iron and steel, and metal products was countered by dip in prices of petroleum products, agriculture products and non-ferrous metals. Even export price index eased to 0.3% in Aug'21 from 0.7% in Jul'21. Import price index remained steady at 2.2%. In YoY terms too PPI (5.5% versus 5.6%) and export prices eased (8.7% versus 9%).

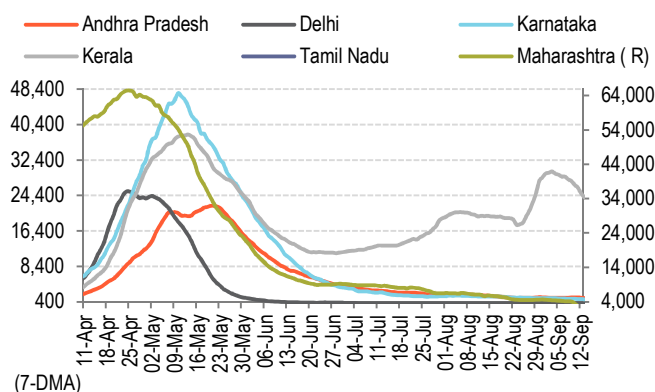
High frequency indicators and weekly activity tracker

Fig 2 – Global Covid-19 moderate further



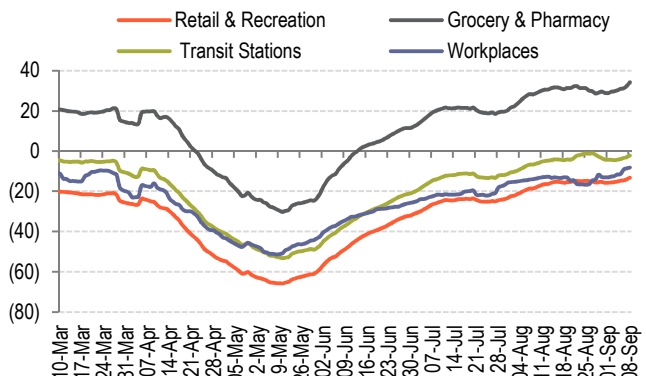
Source: CEIC, Bank of Baroda Research; Data as of 11 Sep 2021

Fig 3 – Covid-19 cases decline, led by Kerala



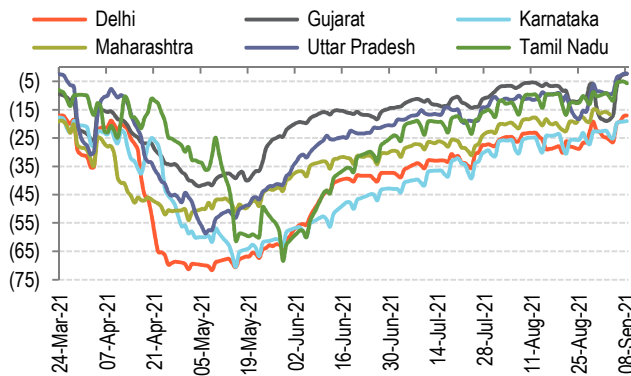
Source: CEIC, Bank of Baroda Research; Data as of 12 Sep 2021

Fig 4 – Google mobility index stable



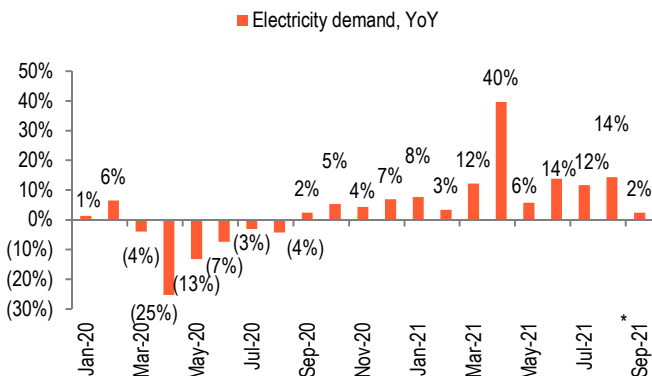
Source: CEIC, Bank of Baroda Research; Data as of 8 Sep 2021

Fig 5 – Downtick seen in workplace mobility index



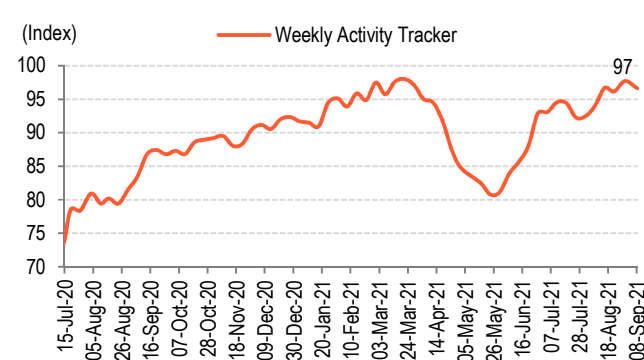
Source: CEIC, Bank of Baroda Research; Data as of 8 Sep 2021

Fig 6 – Electricity demand seen slowing



Source: Bloomberg, Bank of Baroda Research; *Data as of 12 Sep 2021

Fig 7 – Weekly activity tracker moderates marginally



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

Fig 8 – Movement in key global asset classes

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.34	2	(2)	(11)	68
UK	0.76	4	16	5	58
Japan	0.05	1	2	1	2
Germany	(0.33)	3	13	(6)	15
India ^{AA}	6.18	2	(5)	17	14
China	2.87	4	0	(28)	(28)
2Y yields (Δ bps)					
US	0.21	1	(1)	7	9
UK	0.23	4	8	18	36
Japan	(0.12)	0	(1)	0	0
Germany	(0.70)	0	4	(2)	(1)
India	4.08	2	(11)	(49)	(40)
China ^{**}	2.27	2	24	(17)	(34)
Currencies (Δ %)					
EUR	1.1814	(0.6)	0.7	(2.4)	(0.3)
GBP	1.3839	(0.2)	0.2	(1.9)	8.2
JPY	109.94	(0.2)	0.4	(0.3)	(3.6)
AUD	0.7356	(1.4)	0.3	(4.6)	1.0
INR	73.50	(0.7)	1.0	(0.6)	0.1
CNY	6.4443	0.2	0.5	(0.7)	5.7
Equity & Other indices (Δ %)					
Dow	34,608	(2.2)	(2.5)	0.4	25.1
FTSE	7,029	(1.5)	(2.3)	(1.5)	16.5
DAX	15,610	(1.1)	(2.1)	(0.5)	18.2
NIKKEI	30,382	4.3	8.4	5.0	29.8
Shanghai Comp	3,703	3.4	5.1	3.2	13.6
SENSEX	58,305	0.3	6.3	11.1	50.1
Brent (US\$/bbl)	72.92	0.4	2.3	0.3	83.1
Gold (US\$/oz)	1,788	(2.2)	2.0	(4.8)	(7.9)
CRB Index	556.2	(0.3)	(1.2)	(1.3)	38.7
Rogers Agri Index	1,054.2	(2.3)	(3.4)	(2.5)	42.1
LIBOR (3M)*	0.12	0	(1)	0	(13)
INR 5Y Swap*	5.77	(3)	(6)	11	19
India FII data (US\$ mn)					
	8 Sep	WTD	MTD	CYTD	FYTD
FII-Debt	(42.9)	10.5	170.3	(1,243.5)	783.7
FII-Equity	(112.7)	32.5	216.1	7,606.6	280.3

Source: Bloomberg, Bank of Baroda Research | *Indicates change in bps | **1Y yield | ^ 4.26GS2023 | ^^ 6.10GS2031

Fig 9 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
13-Sep	Japan PPI, % YoY	Aug	5.6%	5.6%	5.5%
	Germany PPI, % MoM	Aug	--	1.1%	--
	Italy unemployment rate	Q2CY21	10.0%	10.4%	--
	India CPI, % YoY	Aug	5.6%	5.6%	--
	US monthly fiscal balance, \$bn	Aug	(175)	(200)	--
	Bank of France industrial sentiment index	Aug	105	105	--
14-Sep	New Zealand REINZ home sales, % YoY	Aug	--	(11.7%)	--
	Australia NAB business confidence index	Aug	--	(8.0)	--
	Japan industrial production, % MoM	Jul	--	(1.5%)	--
	UK jobless claims, change, in thousands	Aug	--	(7.8)	--
	UK ILO unemployment rate, 3 months	Jul	4.6%	4.7%	--
	India WPI, % YoY	Aug	10.8%	11.2%	--
	Spain CPI, % YoY	Aug	3.3%	3.3%	--
	US CPI, % MoM	Aug	0.4%	0.5%	--
15-Sep	S.Korea unemployment rate, SA	Aug	3.5%	3.3%	--
	Japan core machine orders, % MoM	Jul	2.5%	(1.5%)	--
	China retail sales, % YoY	Aug	7.0%	8.5%	--
	China industrial production, % YoY	Aug	5.8%	6.4%	--
	China fixed assets ex-rural, YTD % YoY	Aug	9.0%	10.3%	--
	Indonesia exports, % YoY	Aug	36.9%	29.3%	--
	UK CPI, % YoY	Aug	2.9%	2.0%	--
	France CPI, % YoY	Aug	1.9%	1.9%	--
	Italy CPI (EU Harmonized), % YoY	Aug	2.6%	2.6%	--
	Euro Area industrial production, SA, % MoM	Jul	0.6%	(0.3%)	--
	US MBA mortgage applications, % MoM	10-Sep	--	(1.9%)	--
	India exports, % YoY	Aug	--	49.9%	--
	US industrial production, % MoM	Aug	0.4%	0.9%	--
16-Sep	New Zealand GDP, SA, % QoQ	Q2CY21	1.1%	1.6%	--
	Japan trade balance (adjusted), ¥bn	Aug	96.5	52.7	--
	Australia unemployment rate	Aug	5.0%	4.6%	--
	US retail sales (advance), % MoM	Aug	(0.8%)	(1.1%)	--
	US initial jobless claims, in thousands	11-Sep	320	310	--
17-Sep	Singapore non-oil domestic exports, % YoY	Aug	9.1%	12.7%	--
	UK retail sales (inc auto fuel), % MoM	Aug	0.8%	(2.5%)	--
	Euro Area CPI, % YoY	Aug	3.0%	2.2%	--
	US University of Michigan consumer sentiment index	Sep	72	70	--

Source: Bloomberg, Bank of Baroda Research

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