WEEKLY WRAP

15 November 2021

Inflation spike seen worldwide

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Inflationary pressures remained elevated globally. In the US, CPI rose to 31-year high in Oct'21. As a result, US 10Y yield shot up by 11bps. Even Japan's PPI rose to a 40-year high in Oct'21. However, central bank officials of major economies have commented on inflation spike being transitory. On the domestic front too, despite a favourable base, CPI inched up to 4.5% against 4.3% in Sep'21 and a considerable pressure on core is seen. Even WPI has shot up to 12.5%. In the current week, markets will monitor yield movement amidst lack of support from RBI.

Markets

- **Bonds:** Global 10Y yields closed higher. US 10Y yield rose the most by 11bps (1.56%) as CPI data rose to its 31-year high in Oct'21. Buoyant labour market conditions also raised expectations of a rate hike. UK's 10Y yield rose by 7bps (0.91%) as markets are anticipating rate hike in Dec'21. Crude prices fell by 0.7% (US$ 82/bbl) supported by rising rig count in the US. India's 10Y yield rose by 1bps (6.37%). System liquidity surplus rose to Rs 8.2tn as on 12 Nov 2021 versus Rs 6.9tn last week.

- **Currency:** Except CNY (higher) and INR (flat) other global currencies closed lower this week. DXY rose by 0.9% this week as higher than expected inflation in the US raised expectations of rate hike by Fed. AUD fell the most by 0.9% as Australia's unemployment rate rose more than expected. INR closed flat supported by lower oil prices.

- **Equity:** Barring Nikkei (flat) and Dow (lower), other global indices ended higher. Investors reacted to sharp jump in US inflation, better than estimated corporate earnings results and ECB official's comments on inflation and policy support. Sensex rose the most by 1.5%, led by capital goods, oil and gas, power and real estate stocks.

- **Covid-19 tracker:** Global Covid-19 cases rose by 3.4mn versus 3.2mn last week. Cases rose in the US (0.59mn versus 0.51mn), Germany (0.26mn versus 0.19mn), and UK (0.26mn versus 0.25mn). In India cases rose at a slower pace of 81K versus 84K. Our weekly economic activity tracker has dipped to 98 from 101 (100=Feb'20). US has fully vaccinated 58% of its population, Germany at 67% and UK at 67%. India is at ~31%.

- **Upcoming key events:** Markets will monitor US retail sales, industrial production, housing starts data and policy decisions of Indonesia and Philippines. Domestic markets will monitor earnings and vaccination data.

India macro developments

- IIP growth slowed to 3.1% in Sep'21 from 12% in Aug'21, owing to base effect. This was broad-based, with production of consumer durables and non-durables falling the most. However, over a 2-year horizon, output was up by 4.1% in Sep'21 (4% in Aug'21). CPI inched up to 4.5% in Oct'21 versus 4.3% in Sep'21, despite favourable base. Core inflation rose by 30bps, led by transport and communication. We expect RBI to continue the process of normalisation by raising reverse repo rate in Q4FY22.

- As per news reports, India's peak power demand deficit has almost been wiped out in FY21. It was at 0.4% against peak deficit of 16.6% in FY08. In FYTD22 (Apr-Oct'21), the deficit has been at slightly higher at 1.2% due to pressure of monsoon on output. However, government schemes such as Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) and Integrated Power Development Scheme (IPDS) will contributed significantly in improving power infrastructure in the near term.

- As per news reports, India's coal import fell by 12% on YoY basis to 94.15mn in FYTD22 (Apr-Aug'21) against 107.01mt in the same period of FY20 (pre-Covid). This is on account of reduction in the import of non-coking coal which fell by 16.1% on YoY basis, to 70.85mn in FYTD22 against 84.44mt in the same period of FY20. Thus the sizeable reduction of import dependence has resulted in increased amount of financial savings as coal prices are escalating.

- As per AMFI data, net inflows under mutual funds rose to Rs 383bn in Oct'21 from Rs 473bn outflows in Sep'21. This was led by higher debt inflows which were at Rs 119bn in Oct'21 against Rs 690bn outflows seen in Sep'21. Equity inflows on the other hand, moderated to Rs 60bn from Rs 74bn in Sep'21. Asset under Management (AUM) rose to Rs 37.3tn against Rs 36.7tn in Sep'21.

- As per news reports, Government of India's gross indirect tax collections in FYTD22 so far (Apr-Oct) have risen by 51% on YoY basis to Rs 7.4tn versus BE of Rs 11.1tn (+3%). Even over a 2-year horizon, tax collections are up by 41%. On a monthly basis, this translates into a run-rate of Rs 1.1tn in FYTD22 versus Rs 0.7tn in FYTD21 and Rs 0.8tn in FYTD20. Apart from GST, both excise duty (+33% versus BE of -14%) and customs (more than double in YoY terms) collections have also remained buoyant.

- India's seven states, namely Chhattisgarh, Kerala, Madhya Pradesh, Meghalaya, Punjab, Rajasthan and Telangana have achieved their capital spending target till Sep'21. Thus, as an incentive, they have received an approval for additional Rs 166.91bn market borrowing. This is equivalent to 0.5% of their GSDP. For this incremental borrowing, states were required to achieve at least 15% of the target set for FY22 by Jun'21, 45% by Sep'21, 70% by Dec'21 and 100% by Mar'22.

Global macro developments

- US CPI accelerated to a 4-month high of 0.9% in Oct'21 (est. 0.6%) from 0.4% in Sep'21 on a MoM basis. The increase was broad based with energy prices leading the increase at 4.8% versus 1.3% in Sep'21. Core CPI (ex. food and energy) rose by 0.6% in Oct'21 from 0.2%. On a YoY basis, CPI inflation rose to a 31-year high of 6.2% from 5.4% in Sep'21. Separately, US jobless claims for the week ended 6 Nov 2021, fell by 4,000 to a fresh pandemic-low of 267,000 suggesting sustained recovery in labour market.

- Germany's exports declined by 0.7% in Sep'21, following a 1.2% decline in Aug'21. This was due to supply-chain bottlenecks and global semi-conductor shortage. Imports rose marginally by 0.1% in Sep'21 from 3.5% in Aug'21. Compared with Feb'20 (pre-pandemic), exports are down by 0.3% while imports are higher by 7.8%. Separate data showed that Germany's economic sentiment index jumped unexpectedly to 31.7 in Nov'21 (est. 20) from 22.3 in Oct'21 as investors were more upbeat about the next 6-months.

- UK's GDP rose at a softer pace of 1.3% in Q3CY21 (est.: 1.5%) and against 5.5% in Q2CY21, on QoQ basis. Private consumption moderated to 2% against 7.2% in Q2. Government spending also edged down to 0.9% from 8.1%. Exports fell by 1.9% against 6.2% increase in Q2. In a separate print, industrial production fell by 0.4% in Sep'21 (est.: +0.2%) and against 0.8% increase in Aug'21, dragged down by manufacturing sector (0.1% decline against 0.5% increase in Aug'21).

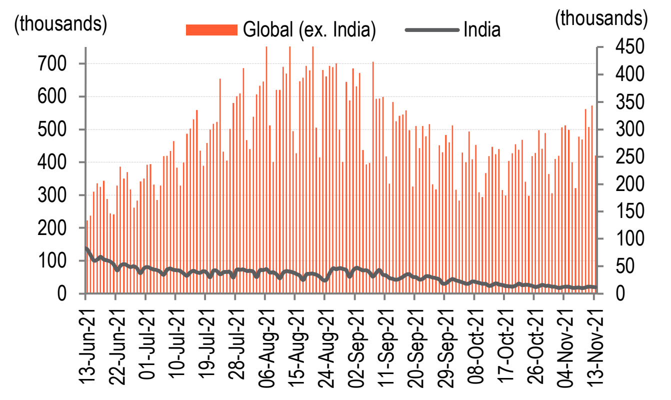
- Japan's GDP contracted sharply by 3% in Q3CY21 (est. 0.7% decline) following 1.5% increase in Q2 on a YoY basis. This was led by a decline in household consumption due to a resurgence in Covid-19 cases and imposition of emergency measures. Business investment growth and exports also contracted due to supply chain bottlenecks. On a QoQ basis, GDP declined by 0.8% in Q3.

- China's PPI inflation edged up to a 26-year high of 13.5% in Oct'21 (est., 12.3%) from 10.7% in Sep'21 on a YoY basis due to energy shortages. Prices in coal-mining sector rose by 103.7%, followed by a 59.7% increase in prices in oil and gas extraction industries. CPI inflation also accelerated to a 13-year high of 1.5% (est., 1.4%) from 0.7% in Sep'21 (YoY) led by higher fuel prices (31.4%).

- China's industrial output rose more than expected (3%) in Oct'21 to 3.5% compared with 3.1% increase in Sep'21. This was supported by mining and utility industries. Electricity shortage eased and power supply rose by 11.1% in Oct'21. Retail sales too exceeded market expectation of 3.5% and rose by 4.9% in Oct'21 versus 4.4% in Sep'21. Revival was seen in catering and accommodation despite localized Covid-19 restrictions. On the other hand, FAI growth slowed to 6.1% between Jan-Oct'21 (est.: 6.2%) from 7.3% in Jan-Sep'21.

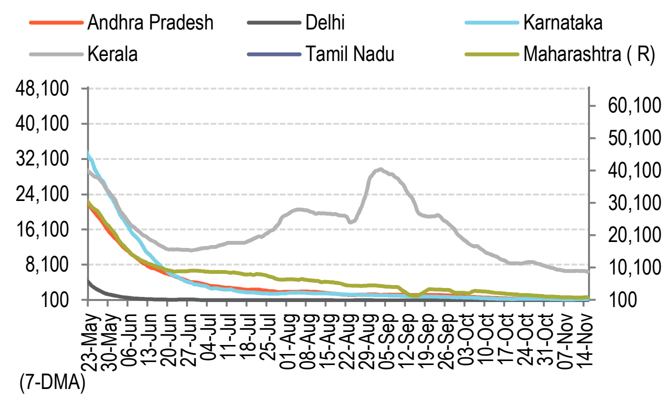
High frequency indicators and weekly activity tracker

Fig 1 – Global Covid-19 cases inched up



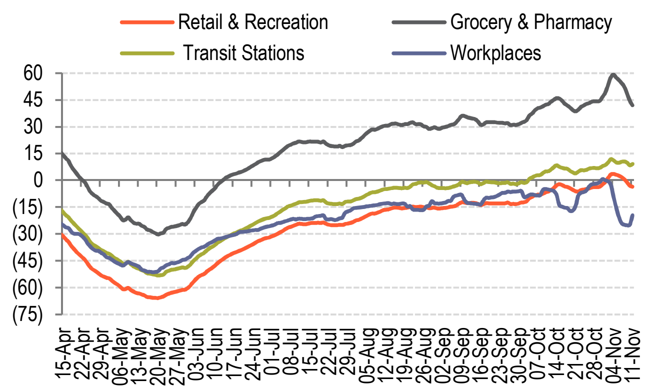
Source: CEIC, Bank of Baroda Research

Fig 2 – However, Covid-19 cases in India on a downtrend



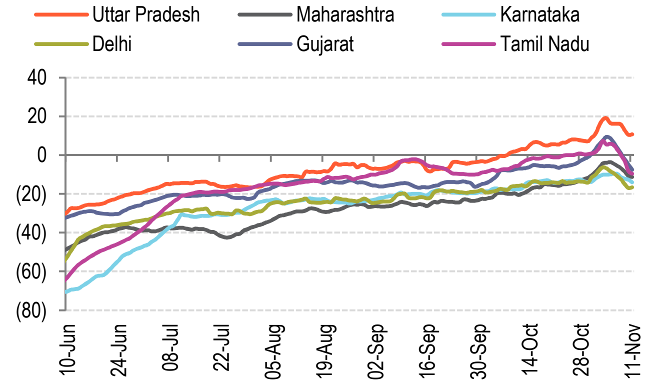
Source: CEIC, Bank of Baroda Research

Fig 3 – Google mobility index moderate



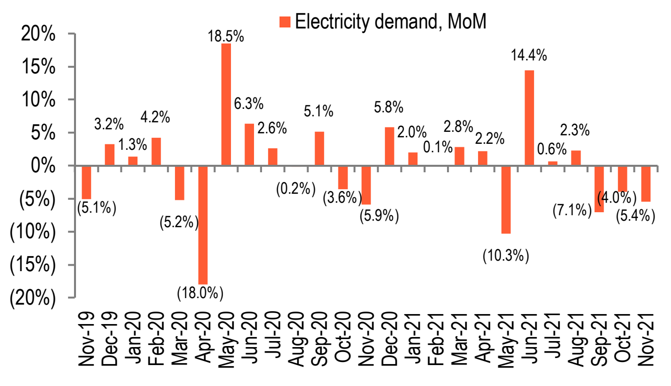
Source: CEIC, Bank of Baroda Research

Fig 4 – …led by retail and recreation index



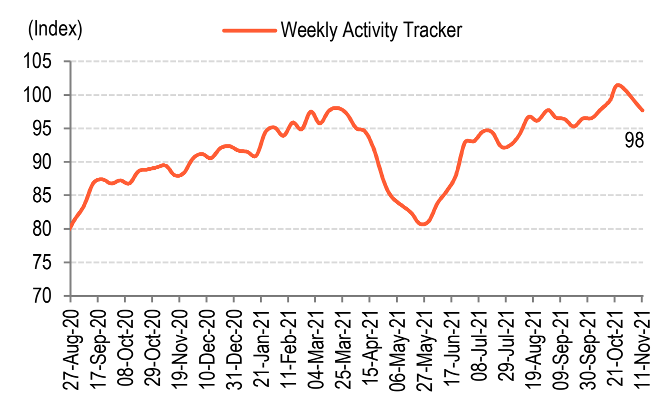
Source: CEIC, Bank of Baroda Research

Fig 5 – Electricity demand seen declining



Source: Bloomberg, Bank of Baroda Research; Data as of 14 Nov 2021

Fig 6 – Weekly activity tracker fell to 98 from 101 in the previous week



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	1.56	11	5	28	67
UK	0.91	7	(13)	34	58
Japan	0.08	2	(1)	5	5
Germany	(0.26)	2	(7)	21	29
India^^	6.37	1	4	13	49
China	2.94	5	(2)	4	(34)
2Y yields (Δ bps)					
US	0.51	11	15	30	33
UK	0.53	12	1	39	55
Japan	(0.11)	(1)	(1)	0	2
Germany	(0.74)	(1)	(5)	0	(2)
India	4.56	13	25	37	46
China**	2.31	1	3	27	(51)
Currencies (Δ %)					
EUR	1.1445	(1.1)	(1.3)	(3.0)	(3.3)
GBP	1.3414	(0.6)	(1.9)	(3.3)	1.7
JPY	113.89	(0.4)	(0.2)	(3.9)	(8.9)
AUD	0.7332	(0.9)	(1.1)	(0.5)	0.9
INR	74.44	0	1.1	(0.3)	0.2
CNY	6.3797	0.3	0.9	1.5	3.4
Equity & Other indices (Δ %)					
Dow	36,100	(0.6)	3.4	1.6	22.5
FTSE	7,348	0.6	1.9	1.8	16.3
DAX	16,094	0.2	4.1	0.7	23.1
NIKKEI	29,610	0	3.7	5.8	16.6
Shanghai Comp	3,539	1.4	(0.5)	0.6	6.9
SENSEX	60,687	1.5	(1.0)	9.5	39.7
Brent (US$/bbl)	82.17	(0.7)	(2.2)	16.4	92.1
Gold (US$/oz)	1,865	2.6	3.8	4.8	(1.3)
CRB Index	570.6	0.5	1.1	1.1	37.3
Rogers Agri Index	1,168.7	2.9	5.5	5.9	43.8
LIBOR (3M)*	0.16	1	3	3	(7)
INR 5Y Swap*	5.89	2	9	5	76
India FII data (US$ mn)	**11 Nov**	**WTD**	**MTD**	**CYTD**	**FYTD**
FII-Debt	(19.0)	(28.4)	90.7	20.4	2,047.6
FII-Equity	505.4	53.2	103.1	6,361.6	(964.7)

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

Fig 8 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
15-Nov	Japan GDP SA, % QoQ	Q3CY21	(0.2%)	0.5%	(0.8%)
	China retail sales, % YoY	Oct	3.7%	4.4%	4.9%
	China industrial production, % YoY	Oct	3.0%	3.1%	3.5%
	China fixed assets ex rural YTD, % YoY	Oct	6.2%	7.3%	6.1%
	Thailand GDP, % YoY	Q3CY21	(1.3%)	7.5%	(0.3%)
	Japan industrial production, % MoM	Sep	--	(5.4%)	(5.4%)
	India WPI, % YoY	Oct	11.1%	10.7%	12.5%
	Euro Area trade balance SA, € bn	Sep	11.5b	11.1b	--
	India exports, % YoY	Oct	--	22.6%	--
16-Nov	RBA minutes of Nov. policy meeting		--	--	--
	France CPI, % YoY	Oct	2.6%	2.6%	--
	Italy CPI EU harmonized, % YoY	Oct	3.1%	3.1%	--
	Euro Area GDP SA, % QoQ	Q3CY21	2.2%	2.2%	--
	US retail sales advance, % MoM	Oct	1.3%	0.7%	--
	US industrial production, % MoM	Oct	0.8%	(1.3%)	--
17-Nov	Japan exports, % YoY	Oct	10.5%	13.0%	--
	Japan core machine orders, % MoM	Sep	1.5%	(2.4%)	--
	Singapore non-oil domestic exports, % YoY	Oct	18.0%	12.3%	--
	UK CPI, % YoY	Oct	3.9%	3.1%	--
	Euro Area CPI, % YoY	Oct	4.1%	3.4%	--
	US housing starts, in mn	Oct	1.58	1.56	--
18-Nov	Phillippines BSP overnight borrowing rate, %	18-Nov	2.0%	2.0%	--
	Bank Indonesia 7D reverse repo rate, %	18-Nov	3.5%	3.5%	--
	US initial jobless claims, in thousands	13-Nov	260k	267k	--
	Singapore GDP, % YoY	Q3CY21	6.5%	6.5%	--
19-Nov	Japan CPI, % YoY	Oct	0.2%	0.2%	--
	Germany PPI, % MoM	Oct	1.9%	2.3%	--
	Euro Area current account SA, € bn	Sep	--	13.4b	--
	Italy industrial sales, % MoM	Sep	--	0.8%	--

Source: Bloomberg, Bank of Baroda Research

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