

WEEKLY WRAP

18 October 2021

RBI minutes in focus

Risk sentiment improved on the back of strong global macro prints (China exports, UK industrial production, US retail sales). Strong corporate earnings reports drove equities higher. CPI inflation in US rose more than expected. FOMC minutes hinted that the Fed may begin its tapering in mid-Nov'21. In India, CPI and WPI inflation eased in Sep'21 and IIP growth improved. Weaker than expected data from China and oil prices will remain a key drivers for markets this week. On the domestic front, RBI minutes will also be in focus.

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Markets

- **Bonds:** Global yields closed mixed in the week. UK's 10Y yield fell the most by 5bps (1.11%), followed by US 10Y yield declining by 4bps (1.57%). Investor sentiments were impacted by key data releases of the US (PPI, jobless claims, retail sales, CPI) and also FOMC minutes. Crude prices rose to a 3-year high (3%; US\$ 84.9/bbl) due to supply deficit. Thus, India's 10Y yield rose by 6bps. Demand was also weak at RBI auction. System liquidity surplus eased to Rs 7.1tn (14 Oct 2021) versus Rs 7.5tn last week.
- **Currency:** Except JPY and INR (lower), other global currencies closed higher this week amidst a rebound in risk-sentiment. Safe-haven JPY fell by 1.8% to a 3-year low. DXY also dipped by 0.1% despite strong US data (retail sales, jobless claims). AUD rose the most by 1.5%. INR depreciated further by 0.6% as oil prices hovered around a 3-year high.
- **Equity:** Barring Shanghai Comp, other global indices ended higher as investors monitored corporate earnings, Fed minutes and resilient US retail sales. Nikkei (3.6%) rose the most followed by Dax (2.5%). Sensex rose by 2.7% to a record-high led by a rally in auto and metal stocks.
- **Covid-19 tracker:** Global Covid-19 cases moderated to 2.8mn versus 3mn last week. Cases moderated in US (0.6mn versus 0.7mn), APAC (0.5mn versus 0.6mn) and Africa (42K versus 52K). In India, cases rose at a slower pace (0.12mn versus 0.15mn). Our weekly economic activity tracker rose to 99 (100=Feb'20). UK has fully vaccinated 66.4% of its population, Germany at 65% and US at 56%. India is at 23.1%.
- **Upcoming key events:** Major events this week include flash global manufacturing and services PMIs and US industrial production. In addition, minutes of RBA policy meet, UK CPI and Germany Gfk consumer confidence index are also due. In India, markets await RBI's policy minutes.



India macro developments

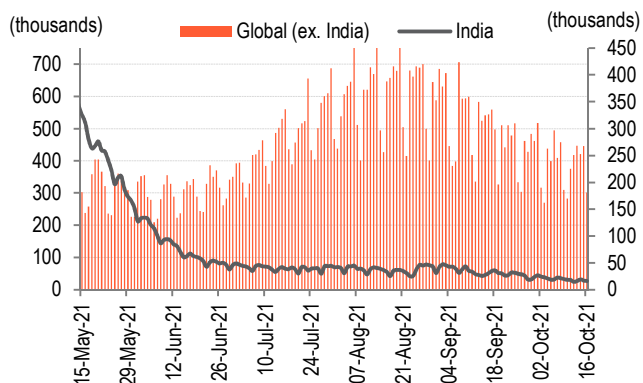
- India's daily average e-way bill generation rose to 2.2mn as of 10 Oct 2021, compared with 2.1mn as of 12 Sep 2021 and 2mn as of 8 Aug 2021. The 6.8% MoM jump in Oct'21 can be attributed to increased activity ahead of festive season. With easing of lockdown restrictions and plateauing of Covid-19 cases, e-way bill generation in Sep'21 was up 18.8% compared with Feb'20 levels and by 29.6% over a 2-year horizon (Sep'19).
- IMF has retained India's growth forecast for FY22 and FY23 at 9.5% and 8.5% respectively. Inflation is expected at 5.6% in FY22 before decelerating to 4.9% in FY23. Global growth is estimated lower at 5.9% in CY21 (6% earlier), led by slowdown in advanced economies (AEs) due to supply chain disruptions. Growth estimate for AEs has been cut by 40bps to 5.2% in CY21 led by US (6% versus 7% earlier).
- RBI reported that currency in circulation (CIC) increased by Rs 238bn and stood at Rs 29.4tn for the week ending 8 Oct 2021. Reserve money rose by 14.2% on a YoY basis, compared with an increase of 13.9% last year. On FYTD basis, reserve money increased by only 2.1% against 6.2% increase a year ago.
- WPI inflation moderated to a 6-month low of 10.6% in Sep'21 from 11.4% in Aug'21. Both food and fuel and power inflation eased in Sep'21. Moderation in food inflation was led by vegetables. However, fuel and power inflation, despite easing, remained entrenched at elevated levels. Manufactured inflation remained steady. WPI inflation is expected to pick-up once base effect wanes. Concerns over high international commodity prices and energy crisis adds to the upside risk.
- IIP growth improved to 11.9% in Aug'21 (11.5% in Jul'21). Both mining and electricity output expanded at a faster pace. Notably, over a 2-year horizon, output is up by 3.9% in Aug'21 (contraction of 0.3% in Jul'21). CPI inflation cooled off to 4.3% in Sep'21 led by food inflation at 0.7% (240bps MoM decline). Vegetable prices contracted sharply (22.5%) led by base effect. However, core remained sticky at 5.8%. We expect inflation at 5.5% in FY22 (RBI: 5.3%) and RBI to hike reverse repo rate in Q4FY22.
- India's trade deficit widened to a record high of US\$ 22.6bn in Sep'21 from US\$ 13.8bn in Aug'21. This was led by higher imports at US\$ 56.4bn (record-high) from US\$ 47.1bn in Aug'21. Within imports, oil and non-oil-non-gold imports led the increase. Gold imports moderated. Exports improved marginally to US\$ 33.8bn from US\$ 33.3bn in Aug'21. Going ahead, elevated oil prices may imply a higher import bill. However, CAD is likely to remain contained at ~1% of GDP in FY22, supported by resilient exports and buoyant software receipts.

Global macro developments

- US retail sales moderated to 0.7% in Sep'21 from 0.9% in Aug'21 on a MoM basis. Despite the moderation, retail sales remained above estimates and showed resilience with motor sales increasing by 0.5% from a decline of 3.3% in Aug'21. Sales for electronics also contracted at a much slower pace of 0.9% (4.3% in Aug'21). Sales for clothing and gasoline was also up by 1.1% and 1.8% respectively in Sep'21. However, sales at grocery stores and furniture moderated, with concerns over rising prices.
- Germany's Zew economic sentiment index worsened to 22.3 (5-month low) in Oct'21 from 26.5 in Sep'21 as the overall economic outlook dimmed on the back of 'supply bottlenecks for raw materials and intermediate products'. The current situation index dropped to 21.6 in Oct'21 (est. 29.5) from 31.9 in Sep'21. Even for Eurozone, the current situation index fell to 15.9 in Oct'21, down by 6.6 points from Sep'21. Inflation expectations moderated for Eurozone.
- China's exports surprised positively and rose by 28.1% in Sep'21 (est.: 21.5%) from 25.6% in Aug'21. This could be attributed to frontloading of orders ahead of Christmas. However, going ahead, exports are expected to moderate owing to the impact of power rationing, supply chain bottlenecks and softening demand. As a sign of cooling domestic demand, led by reeling construction sector, China's imports eased to 17.6% in Sep'21 (est.: 20.9%) from 33.1% in Aug'21. Elevated global commodity prices have also led to lower import volumes.
- FOMC minutes suggested that the Fed may begin tapering its asset purchase program by mid-Nov'21. To begin with, Fed is likely to reduce the purchase of treasury bills and mortgage backed securities by US\$ 10bn and US\$ 5bn per month respectively. Further, several MPC members raised concerns over rising inflation. Separately, US CPI inflation edged up to 0.4% in Sep'21 (est. 0.3%) from 0.3% in Aug'21(MoM). This was led by higher food prices (0.9% versus 0.4%) and rent (0.4% from 0.3%). On a YoY basis, inflation rose to 5.4% from 5.3% in Aug'21.
- China's PPI rose by 10.7% in Sep'21 (highest since Nov'95 and est.: 10.5%) versus 9.5% in Aug'21, owing to sharp rise in global coal, oil and natural gas prices. Separately, CPI cooled down to 0.7% in Sep'21 from 0.8% in Aug'21, as pork prices eased. The gap between PPI and CPI is now at its highest since CY93, implying that producers will soon have to push rising cost pressures onto the consumers. However, with food inflation keeping headline CPI in check, there is still room for PBOC to act on monetary stimulus to avoid stagflation.
- China's Q3CY21 GDP rose by 4.9% compared with est.: 5% and 7.9% rise in Q2. The slowdown was visible across the board-industry, services and construction. Services sector suffered the most owing to localised lockdown restrictions in Q3, but is expected to rebound in Q4, as retail sales have started to pick up (4.4% in Sep'21 versus 2.5% in Aug'21). However, industrial output remains weak with 3.1% rise in Sep'21 versus 5.3% in Aug'21. Growth in FAI has also slowed in Jan-Sep'21 to 7.3% versus 7.9% in Jan-Aug'21.

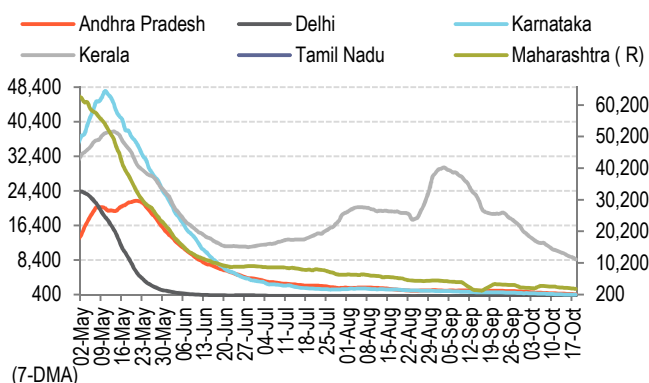
High frequency indicators and weekly activity tracker

Fig 1 – Global Covid-19 cases plateauing



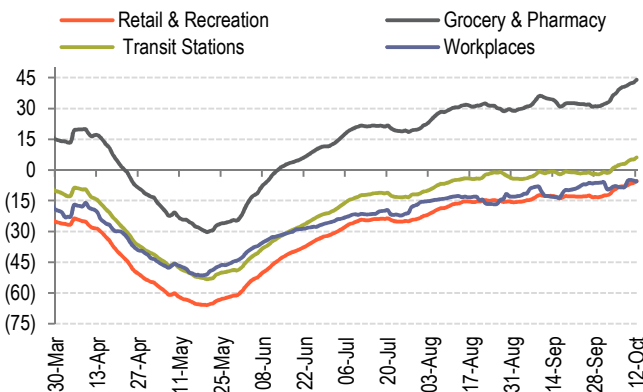
Source: CEIC, Bank of Baroda Research; Data as of 16 Oct 2021

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



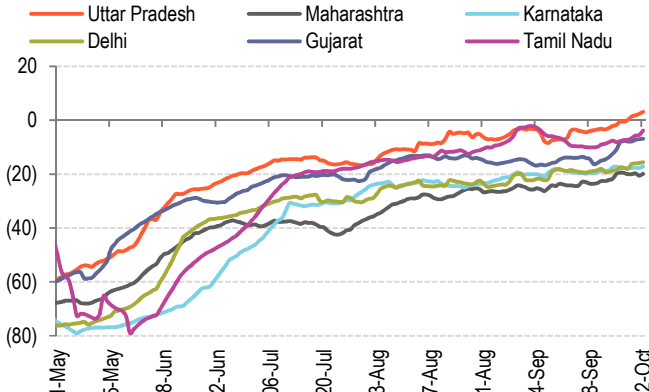
Source: CEIC, Bank of Baroda Research; Data as of 17 Oct 2021

Fig 3 – Google mobility index improves significantly



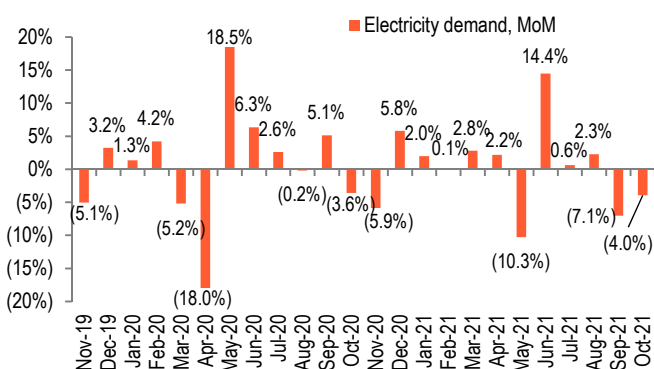
Source: CEIC, Bank of Baroda Research; Data as of 12 Oct 2021

Fig 4 – ...Similar movement in retail and recreation



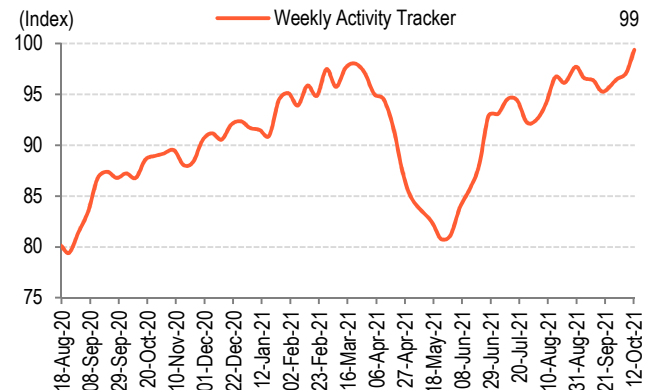
Source: CEIC, Bank of Baroda Research; Data as of 12 Oct 2021

Fig 5 – Slower pace of contraction in electricity demand



Source: Bloomberg, Bank of Baroda Research; *Data as of 16 Oct 2021

Fig 6 – Weekly activity tracker picks up to 99



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	1.57	(4)	29	28	82
UK	1.11	(5)	37	48	92
Japan	0.08	0	3	6	6
Germany	(0.17)	(2)	17	19	46
India	6.33	6	13	12	39
China	2.99	9	10	4	(23)
2Y yields (Δ bps)					
US	0.39	8	19	17	25
UK	0.58	4	35	46	64
Japan	(0.11)	(1)	1	1	2
Germany	(0.68)	1	2	1	10
India	4.31	4	18	3	6
China**	2.29	0	(2)	28	(42)
Currencies (Δ %)					
EUR	1.1601	0.3	(1.7)	(1.7)	(1.0)
GBP	1.3751	1.0	(0.4)	(0.1)	6.5
JPY	114.22	(1.8)	(4.1)	(3.8)	(8.4)
AUD	0.7421	1.5	1.4	0.3	4.8
INR	75.26	(0.6)	(2.1)	(0.9)	(2.6)
CNY	6.4356	0.1	0	0.7	3.9
Equity & Other indices (Δ %)					
Dow	35,295	1.6	2.1	1.7	23.4
FTSE	7,234	2.0	2.8	3.2	22.2
DAX	15,587	2.5	(0.9)	0.3	20.7
NIKKEI	29,069	3.6	(5.2)	3.8	24.2
Shanghai Comp	3,572	(0.6)	(2.5)	0.9	7.1
SENSEX	61,306	2.7	5.3	15.4	53.3
Brent (US\$/bbl)	84.86	3.0	15.3	15.3	97.7
Gold (US\$/oz)	1,768	0.6	(2.0)	(2.5)	(6.9)
CRB Index	567.0	0.8	2.2	1.1	37.8
Rogers Agri Index	1,117.8	(0.5)	5.4	5.5	42.9
LIBOR (3M)*	0.12	0	0	(1)	(10)
INR 5Y Swap*	5.80	(3)	8	(7)	52
India FII data (US\$ mn)					
	13 Oct	WTD	MTD	CYTD	FYTD
FII-Debt	8.5	(92.0)	(264.6)	(189.6)	1,837.7
FII-Equity	166.4	157.0	300.9	8,830.8	1,504.5

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

Fig 8 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
18-Oct	New Zealand CPI, % QoQ	Q3CY21	1.5%	1.3%	2.2%
	Singapore non-oil domestic exports, % YoY	Sep	8.4%	2.7%	12.3%
	China GDP, % YoY	Q3CY21	5.0%	7.9%	4.9%
	China retail sales, % YoY	Sep	3.5%	2.5%	4.4%
	China industrial production, % YoY	Sep	3.8%	5.3%	3.1%
	China fixed assets ex rural YTD, % YoY	Sep	7.8%	7.9%	7.3%
	US industrial production, % MoM	Sep	0.2%	0.4%	--
19-Oct	RBA minutes of Oct. policy meeting	Oct	--	--	--
	US housing starts, in mn	Sep	1.6	1.6	--
20-Oct	Japan exports, % YoY	Sep	10.3%	26.2%	--
	UK CPI, % YoY	Sep	3.2%	3.2%	--
	Germany PPI, % MoM	Sep	1.1%	1.5%	--
	Euro Area current account balance SA, € bn	Aug	--	21.6	--
	Euro Area CPI, % YoY	Sep F	3.4%	3.0%	--
21-Oct	South Korea PPI, % YoY	Sep	--	7.3%	--
	South Korea exports 20 days, % YoY	Oct	--	22.9%	--
	France manufacturing confidence	Oct	105.0	106.0	--
	US initial jobless claims, in thousands	01-Oct	300.0	293.0	--
	US existing home sales, in mn	Sep	6.08m	5.88m	--
	Euro Area consumer confidence	Oct	(5.0)	(4.0)	--
22-Oct	Markit Australia services PMI (flash)	Oct	--	45.5	--
	Markit Australia manufacturing PMI (flash)	Oct	--	56.8	--
	UK GfK consumer confidence	Oct	(16.0)	(13.0)	--
	Japan CPI, % YoY	Sep	0.2%	(0.4%)	--
	Jibun Bank Japan manufacturing PMI (flash)	Oct	--	51.5	--
	Jibun Bank Japan services PMI (flash)	Oct	--	47.8	--
	Markit France manufacturing PMI (flash)	Oct	54.0	55.0	--
	Markit France services PMI (flash)	Oct	55.5	56.2	--
	Markit/BME Germany manufacturing PMI (flash)	Oct	56.6	58.4	--
	Markit Germany services PMI (flash)	Oct	55.2	56.2	--
	Markit Eurozone manufacturing PMI (flash)	Oct	57.0	58.6	--
	Markit Eurozone services PMI (flash)	Oct	55.4	56.4	--
	Markit UK manufacturing PMI SA (flash)	Oct	56.0	57.1	--
	Markit/CIPS UK services PMI (flash)	Oct	54.5	55.4	--
	RBI minutes of Oct. policy meeting	08-Oct	--	--	--
	Markit US manufacturing PMI (flash)	Oct	60.5	60.7	--
Markit US services PMI (flash)	Oct	55.2	54.9	--	

Source: Bloomberg, Bank of Baroda Research

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