

## WEEKLY WRAP

20 December 2021

**Omicron spooks markets**

Major central banks remained fairly hawkish due to rising inflation. BoE became the 1<sup>st</sup> central bank in AE to raise rates in CY21. Further, while US Fed signalled 3-rate hikes in CY22, ECB and BoJ reduced their asset purchases. Rising concerns over Omicron drove global currencies and equities lower. With rising Covid-19 cases, services activity in Eurozone contracted in Dec'21. Even in US and Japan, manufacturing and services PMI decelerated. In India, economic activity continued to show momentum. RBI minutes will shed more light on the normalisation path.

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**Markets**

- **Bonds:** Global yields closed mixed. Despite Fed's hawkish policy, US 10Y yields fell by 8bps (1.4%) as macro prints remained muted. UK's 10Y yield rose by 2bps (0.76%) as BoE raised policy rate by 15bps to 0.25%. Crude prices fell by 2.2% (US\$ 74/bbl) as concerns resurfaced over rising Omicron cases. India's 10Y yield rose by 4bps (6.41%) as RBI had set a lower than expected cut off price in the current auction. System liquidity surplus moderated to Rs 6.2tn as on 17 Dec 2021 versus Rs 8.2tn last week.
- **Currency:** Global currencies closed lower this week amidst concerns over Omicron. DXY rose by 0.5% as Fed signalled 3 rate hikes in CY22. AUD fell the most by 0.7%. GBP also fell by 0.2% despite a surprise rate hike by BoE. INR depreciated by 0.4% led by FII outflows, even as oil prices were lower.
- **Equity:** Barring Nikkei, other global indices ended lower this week as fears of spread of new Covid-19 variant resurfaced. Investors also monitored comments by central banks over spike in inflation. Sensex fell by 3%, led by subdued global cues. Real estate and banking stocks fell the most.
- **Covid-19 tracker:** Global Covid-19 cases rose by 4.5mn versus 4.3mn last week. Cases rose in UK (0.5mn versus 0.4mn), US (0.9mn versus 0.8mn), Italy (0.2mn versus 0.1mn) and Spain (0.2mn versus 87K). However in India, cases rose at a slower pace of 42K versus 56K. Weekly tracker rose to 102 from 101 in the previous week. UK has fully vaccinated 69% of its population, US at 61%, Italy at 74% and India is at ~ 57%.
- **Upcoming key events:** Major events this week include macro prints from US (GDP, durable goods orders, home sales), UK's Q3CY21 GDP print, minutes of RBA's Dec policy and Bank of Thailand's policy decision. Apart from RBI minutes, domestic markets will also monitor the trajectory of domestic and global Covid-19 cases.



## India macro developments

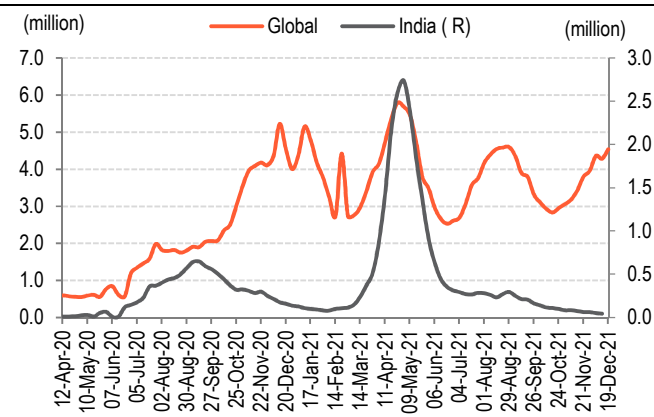
- FDI inflows into India fell to US\$ 13.6bn in Q2FY22 compared with US\$ 17.6bn in Q1FY22. On a YoY basis, FDI inflows fell by 42%. However, over a 2-year horizon FDI inflows are up by 39.1%. In H1FY22, total FDI inflows stand at US\$ 31.2bn compared with US\$ 30bn in the same period last year. Singapore remained the top source for FDI inflows into India in Q2, accounting for 35% of the total FDI inflows. Sectorwise, computer hardware and software (29.9%) and trading (10.7%), accounted for the bulk of FDI inflows in Q2FY22.
- India's CPI inflation rose to 4.9% in Nov'21 from 4.5% in Oct'21 led by food inflation (1.9% versus 0.8% in Oct'21). Core inflation however eased by 10bps to 6.1%, due to lower oil prices. Going forward, we expect core inflation to remain sticky due to pent-up demand. Overall, we expect CPI inflation at 5.5% in FY22. While RBI remained dovish in Oct'21 meet, it is likely to be watchful of the rising inflation. Thus RBI is likely to raise reverse repo rate in Q4FY22, followed by a hike in repo rate in Q1FY23.
- India's trade deficit widened to a historic high of US\$ 22.9bn in Nov'21 from US\$ 19.7bn in Oct'21, as per final estimates. This was led by a slowdown in exports (27.2% versus 43% in Oct'21). Both oil and non-oil exports eased. Imports also moderated (56.6% from 62.5% in Oct'21), led by gold. Non-oil-non-gold imports also eased marginally. In FYTD22, trade deficit is already above the pre-pandemic level. Overall, we expect CAD at 1.5% of GDP in FY22 (surplus of 0.9% in FY21).
- In order to boost the manufacturing sector, Union Cabinet has approved the PLI scheme for semiconductors worth Rs 760bn to be spread across 6-years. Under this, the government is expected to set up the entire ecosystem including design, fabrication, packaging, testing. Over 20 units are likely to be established in the next 2-years. An incentive of 50% on eligible expenditure and 4%-6% on net sales for the next 5-years will be given under the design scheme.
- 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%.
- As per news reports, advance tax collections in India have risen by 90% (YoY) in Q3FY22 (till 16 Dec 2021) to Rs 941bn from Rs 495bn in Q3FY21. Both corporate (Rs 544bn versus Rs 311bn) and income tax (+115% to Rs 397bn) collections have seen sharp rise. Within corporate tax, recovery is broad based, except certain sectors such as automobiles. In FYTD so far, advance tax collections are at Rs 3.45tn versus Rs 2.08tn in the same period last year. Net direct tax collections in FYTD22 have also been higher at Rs 8.3tn versus Rs 5tn last year.

## Global macro developments

- US PPI rose more than expected by 0.8% in Nov'21 (est.: 0.5%) and against 0.6% in Oct'21, on MoM basis. PPI excl. food, energy and trade also rose by 0.7% from 0.4% in Oct'21. Sharpest increase was visible in transportation and warehousing (1.9% versus 1.1%). On a YoY basis, PPI rose to its highest since Nov'10 to 9.6% against 8.8% in Oct'21. Fed's upcoming policy is likely to be mindful of these developments along with tighter labour market conditions.
- China's industrial production rose (3.8%) more than expected (3%) in Nov'21 from Oct'21 (3.5%), while retail sales and FAI growth moderated. Within industrial production too, performance was divergent with production of crude steel and construction rebar steel falling (due to weak property sector demand) and that of hot rolled coil (used in auto production) rising. Separately, FAI growth eased to 5.2% in Jan-Nov'21 from 6.1% in Jan-Oct'21, dragged by property investment (6% versus 7.2%). Retail sales were also down to 3.9% in Nov'21 from 4.9% in Oct'21 led by restaurant and catering sector (-2.7%), amidst rising Covid-19 cases.
- US Fed remained hawkish and reduced the pace of its asset purchase program. It proposed that buying will be US\$ 60bn/month from Jan'22, versus current pace of US\$ 90bn. FOMC projection also reflected 3 rate hikes in CY22. Fed fund rate estimate (median) has been revised up to 0.9% in CY22 (from 0.3%) and 1.6% (from 1%) in CY23. Core PCE is expected to be elevated at 2.7% in CY22 and 2.3% in CY23 (above target). Separately, US retail sales moderated to 0.3% (est.: 0.8%) from 1.8% in Oct'21, dragged down by higher inflation expectations.
- Japan's exports rose by 20.5% in Nov'21 on a YoY basis (est. 21%), from 9.4% in Oct'21. Auto exports rose by 4.1%, registering the first increase in 3-months. Gains were also seen in export of steel, semiconductor equipment and chips. Imports rose much sharply by 43.8% from 26.7% in Oct'21, leading to a trade deficit of ¥ 954.8bn (highest since Jan'20). Separately, flash PMI for Dec'21, signaled moderation in both manufacturing (53.3 in Dec'21 from 54) and services (51.1 in Dec'21 from 53) activity, led by softening output and new orders growth.
- US industrial production moderated to 0.5% in Nov'21 (est. 0.7%) from 1.7% in Oct'21, led by manufacturing (0.7% versus 1.4% in Oct'21). Auto production slowed down to 2.2% in Nov'21 from 10.1%. Separately, US manufacturing PMI fell to a 1-year low of 57.8 in Dec'21 (from 58.3). Services PMI too inched down to a 3-month low of 57.5 from 58 in Nov'21. Separate data also showed that jobless claims for the week ended 11 Dec 2021 rose by 18k to 206k. Further, US housing starts rose by 11.8% to 1.7mn (highest since Mar'21) from 1.5mn in Oct'21.
- Bank of England (BoE) raised policy rate to 0.25% (+15bps) due to mounting inflation pressures (CPI rose to a 10-year high of 5.1% in Nov'21). Inflation is expected to remain around 5%, before peaking at 6% in Apr'22. Separately, while ECB kept rates steady, it reduced its bond buying under PEPP from Q1CY23. However, bond buying under APP will remain supportive. It expects inflation at 3.2% in CY22. Even BoJ signaled lowering its holdings of corporate bonds and CPs from Apr'22 onwards, while extending a program for lending to small business (by 6-months). Taiwan's central bank held rate steady at 1.125%, but raised its inflation projection (1.59% CY22 from 0.92%).

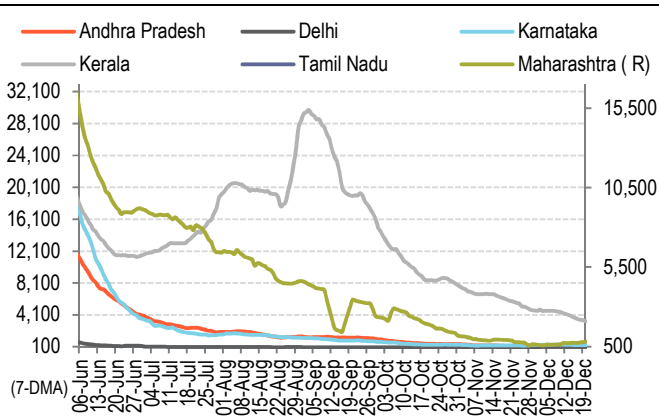
## High frequency indicators and weekly activity tracker

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



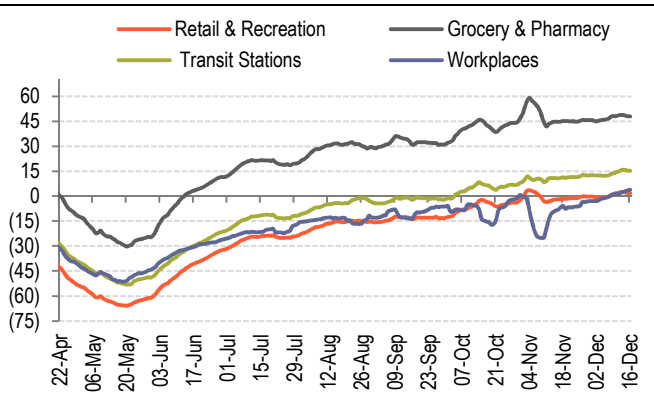
Source: CEIC, Bank of Baroda Research

**Fig 2 – Covid-19 cases in India inching down**



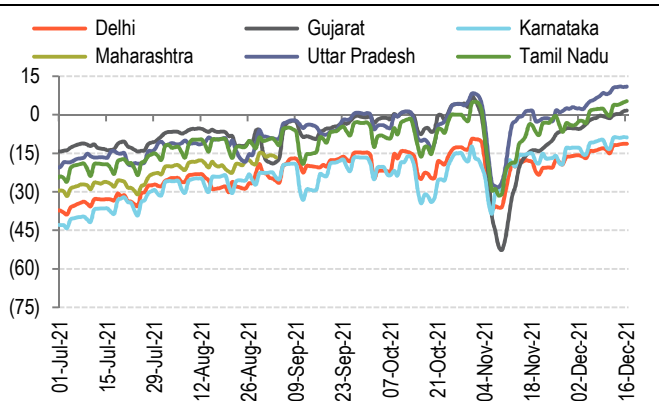
Source: CEIC, Bank of Baroda Research

**Fig 3 – Google mobility index improves...**



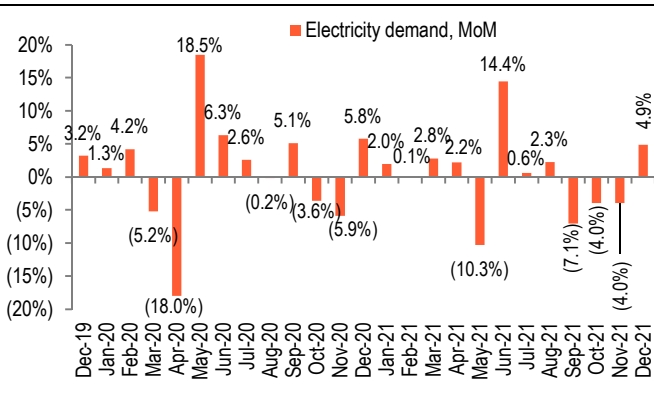
Source: CEIC, Bank of Baroda Research

**Fig 4 – ...supported by workplace mobility**



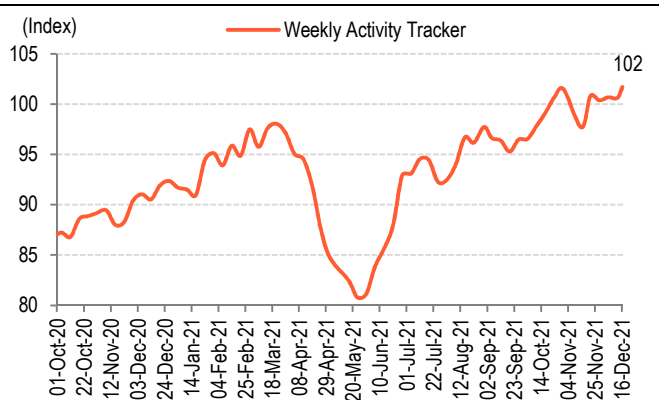
Source: CEIC, Bank of Baroda Research

**Fig 5 – Electricity demand also improving**



Source: Bloomberg, Bank of Baroda Research

**Fig 6 – Weekly activity tracker improves to 102**



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	1.40	(8)	(23)	4	46
UK	0.76	2	(23)	(9)	51
Japan	0.05	(1)	(3)	(1)	4
Germany	(0.38)	(3)	(14)	(10)	19
India	6.41	4	5	24	50
China	2.90	2	(2)	2	(41)
<b>2Y yields (Δ bps)</b>					
US	0.64	(2)	12	42	52
UK	0.51	8	(10)	22	59
Japan	(0.11)	(1)	0	2	2
Germany	(0.72)	(3)	1	(3)	1
India	4.52	(7)	(1)	44	64
China	2.47	(3)	(4)	(4)	(45)
<b>Currencies (Δ %)</b>					
EUR	1.1240	(0.6)	(0.7)	(4.1)	(8.3)
GBP	1.3245	(0.2)	(1.4)	(3.6)	(2.1)
JPY	113.63	(0.2)	1.0	(3.4)	(10.0)
AUD	0.7125	(0.7)	(2.4)	(1.9)	(6.5)
INR	76.09	(0.4)	(2.3)	(3.5)	(3.4)
CNY	6.3754	(0.1)	0.3	1.4	2.5
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	35,365	(1.7)	(2.1)	2.3	17.2
FTSE	7,270	(0.3)	(0.8)	4.4	11.3
DAX	15,532	(0.6)	(4.4)	0.3	13.9
NIKKEI	28,546	0.4	(4.2)	(6.4)	6.7
Shanghai Comp	3,632	(0.9)	3.1	0.5	7.0
SENSEX	57,012	(3.0)	(5.5)	(3.4)	21.4
Brent (US\$/bbl)	73.52	(2.2)	(10.8)	(2.4)	40.7
Gold (US\$/oz)	1,798	0.9	(2.8)	2.5	(4.4)
CRB Index	569.2	(0.3)	0.1	2.5	29.9
Rogers Agri Index	1,168.3	0.4	0.3	9.1	37.5
LIBOR (3M)*	0.21	2	5	9	(2)
INR 5Y Swap*	5.68	1	(22)	(8)	35
<b>India FII data (US\$ mn)</b>					
	<b>16 Dec</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	(80.2)	(264.2)	(595.6)	(512.3)	1,515.0
FII-Equity	(63.4)	(669.6)	(1,093.0)	4,409.5	(2,916.9)

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

Fig 8 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
20-Dec	New Zealand trade balance, NZD mn	Nov	--	(1,286.0)	--
	Taiwan export orders, % YoY	Nov	4.5%	14.6%	--
	Euro Area current account, SA, €bn	Oct	--	18.7	--
	Philippines BoP, US\$ mn	Nov	--	1,141.0	--
21-Dec	S.Korea, PPI, % YoY	Nov	--	8.9%	--
	S. Korea exports, 20 Days, % YoY	Dec	--	27.6%	--
	RBA minutes of Dec policy meeting	Dec	--	--	--
	Germany GfK consumer confidence index	Jan	(2.7)	(1.6)	--
	Italy PPI, % MoM	Nov	--	9.4%	--
	US current account balance, US\$bn	Q3CY21	(206.0)	(190.3)	--
	Euro Area consumer confidence index	Dec	(8.1)	(6.8)	--
22-Dec	UK current account balance, £bn	Q3CY21	(15.6)	(8.6)	--
	BoT benchmark interest rate, %	22-Dec	0.5%	0.5%	--
	UK GDP, % QoQ	Q3CY21	1.3%	1.3%	--
	France PPI, % YoY	Nov	--	14.9%	--
	RBI minutes of policy meeting	Oct	--	--	--
	Taiwan unemployment rate, %	Nov	--	3.8%	--
	US MBA mortgage applications, % MoM	17-Dec	--	(4.0%)	--
	US GDP, annualized % QoQ (final)	Q3CY21	2.1%	2.1%	--
	US conference board consumer confidence	Dec	111.0	109.5	--
	US existing home sales, in mn	Nov	6.5	6.3	--
23-Dec	Thailand customs exports, % YoY	Nov	--	17.40%	--
	Japan machine tool orders, % YoY	Nov	--	64.00%	--
	Taiwan industrial production, % YoY	Nov	--	11.25%	--
	Italy consumer confidence index	Dec	116.3	117.5	--
	Italy manufacturing confidence index	Dec	115.3	116.0	--
	US initial jobless claims, in thousands	18-Dec	205.0	206.0	--
	US durable goods orders, % MoM	Nov	2.00%	(0.40%)	--
	US University of Michigan consumer sentiment index	Dec	70.4	70.4	--
	US new home sales, in thousands	Nov	770.0	745.0	--
24-Dec	Japan CPI, % YoY	Nov	0.5%	0.1%	--
	Japan services PPI, % YoY	Nov	1.0%	1.0%	--
	Malaysia CPI, % YoY	Nov	3.2%	2.9%	--
	Singapore industrial production, % YoY	Nov	--	16.9%	--
	Netherland GDP, % QoQ	Q3CY21	1.9%	1.9%	--

Source: Bloomberg, Bank of Baroda Research

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