

## WEEKLY WRAP

20 September 2021

**Fed, BoJ and BoE decisions awaited**

Global yields inched up led by UK and Germany. Inflation print in the UK soared to a 9-year high in Aug'21. However, China's incremental data suggests economy is slowing down. In the US, retail sales surprised positively while jobless claims were disappointing. India's retail inflation softened led by food inflation. However, WPI remains elevated. Indian yields dropped after news reports suggest lower borrowing by Centre in H2. This week US Fed, BoJ and BoE will announce rate decisions. Focus will be on US Fed's taper trajectory after a disappointing payroll print.

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**Markets**

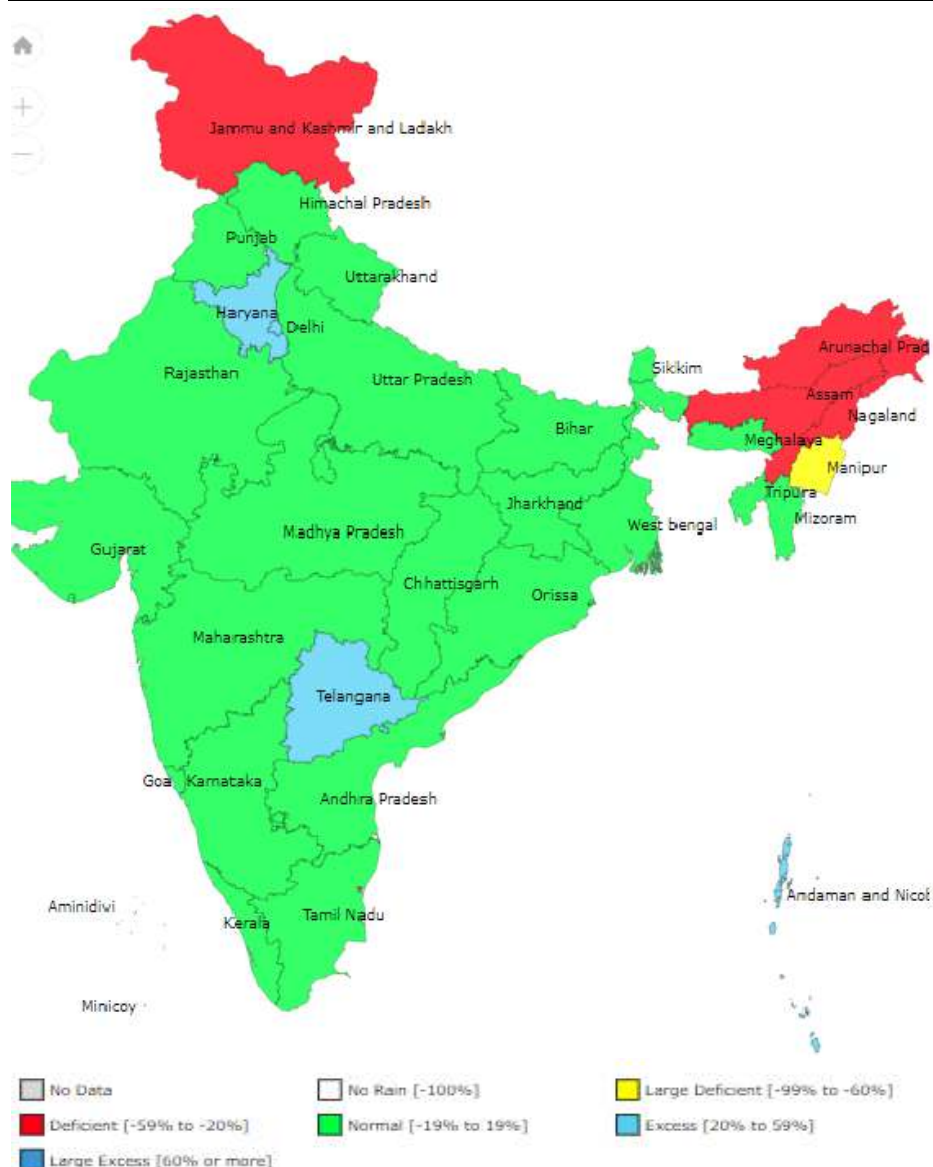
- **Bonds:** UK's 10Y yield rose the most by 9bps (0.85%) as inflation data in Aug'21 soared to a 9-year high. Germany's 10Y yield rose by 5bps (-0.28%) as ECB signalled tapering. Crude prices rose by 3.3% (US\$ 75/bbl) amidst supply concerns on the back of Hurricane Ida. India's 10Y yield fell a tad by 1bps (6.17%) supported by softer CPI print and news reports of lower than budgeted H2 borrowing. System liquidity surplus fell to Rs 6.7tn as on 17 Sep 2021 versus Rs 7.8tn last week.
- **Currency:** Except JPY and INR (flat), other global currencies closed lower this week. DXY rose by 0.7% as US retail sales surprised positively. CNY fell by 0.3% as China's macro data was weaker than expected. INR closed flat supported by FII inflows (US\$ 872mn) even as oil prices inched up by 3.3%.
- **Equity:** Barring Sensex and Nikkei, other global indices ended in red. Weaker than expected macro data in China (retail sales, FAI, IP) and drop in UK's retail sales, pointed towards slowing global recovery. Sensex rose the most by 1.2%, led by gains in banking and auto stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose at a slower pace of 3.87mn versus 3.98mn last week. Cases showed moderation in UK (0.2mn increase versus 0.26mn), Japan (44K versus 79K) and Germany (65K versus 75k). In India, cases rose by 0.21mn versus 0.27mn. Our weekly economic activity tracker rose to 97 (100=Feb'20) from 96. UK has fully vaccinated 65% of its population, Germany at 63% and US at 54%. India is at 16.8%.
- **Upcoming key events:** Major events this week include rate decisions of US Fed, BoJ and BoE. In addition, global flash PMIs, US home sales and Germany's IFO business climate index are also due. In India, progress of monsoon and pace of vaccination drive will be watched closely.



## Monsoon tracker

- For the period 1 Jun 2021 to 19 Sep 2021, monsoon is 4% below LPA compared with 7% above LPA last year (9 Sep 2020). Apart from certain regions in the North Eastern belt and Jammu Kashmir, large part of the country with states like Maharashtra, Gujarat, Kerala, Tamil Nadu, Uttar Pradesh and Karnataka have received normal rainfall. Haryana and Telangana have been on the receiving-end with excessive rainfall during the same period.
- Overall Kharif sown area has fallen by (-) 0.8% as on 17 Sep 2021 compared with last year. Sown area of cotton (-5.8%) and oilseeds (-1.3%) continues to decline. However, on the bright side, sowing of pulses (2.1%), sugarcane (1.6%) and jute & mesta (1.2%) have improved further.

**Fig 1 – Distribution pattern of south-west monsoon**



## India macro developments

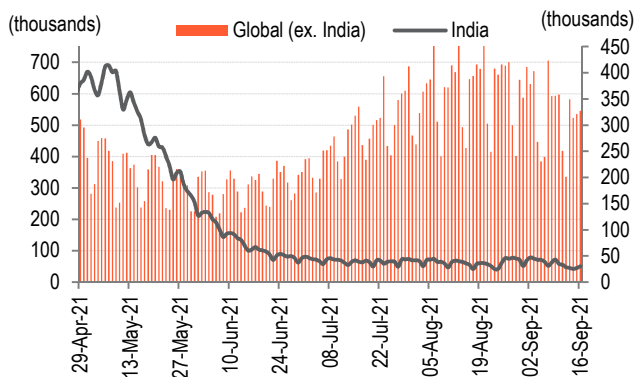
- Government of India (Gol) has approved sovereign guarantee of Rs 306bn for security receipts (SRs) issued by NARCL for acquiring of stressed loan assets. Gol aims to transfer Rs 2tn worth NPAs in phases, with Rs 900bn worth NPAs being transferred in phase 1. For the assets transferred, banks will get 15% upfront cash and 85% as SR. The sovereign guarantee will be valid for 5 years contingent upon resolution or liquidation of the asset. It is intended to cover the shortfall between face value of the SRs and actual realisation.
- As per news reports, government is expected to borrow additional Rs 840bn in H2FY22 to meet GST shortfall of States. Centre has already paid Rs 750bn to States for the same. Till now, government borrowing stood at Rs 6.35tn in H1FY22 (till 17<sup>th</sup> Sep) against budgeted Rs 7.24tn (Overall target-Rs 12.05tn in FY22). Surplus liquidity in the system has also swelled to an average of Rs 8.5tn (1-16<sup>th</sup> Sep), even higher than the phase of demonetisation.
- India's CPI inflation moderated to 5.3% in Aug'21 led by food which softened to 3.1% (4% in Jul'21). Core inflation eased by 10bps to 5.9%. A favourable base and uptick in rainfall in Sep'21 bodes well for inflation outlook. CPI is expected to average 5.5% in FY22 (RBI: 5.7%). However, core inflation is likely to remain sticky with an impending increase when contact intensive services sector opens up. We expect RBI to remain on hold this year and raise reverse repo rate in Q4FY22.
- India's trade deficit widened to US\$ 13.8bn in Aug'21 versus US\$ 11bn in Jul'21 led by a surge in gold imports. Exports moderated to 45.8% in Aug'21 from 49.9% in Jul'21 led by deceleration in oil and gems and jewellery exports. Imports also slowed to 51.8% in Aug'21 from 63% in Jul'21 as oil imports dipped. In FYTD22, while exports are up by 23.3% over a 2-year horizon, imports have increased by only 4.4%. Non-oil-non-gold imports are up by 3.9% (2-year). We expect trade deficit at US\$ 150bn and INR in 73-75/\$ in FY22.
- With the objective of creating a manufacturing hub, Government of India has approved the PLI scheme in auto and drone industries with the total allocation of Rs 260.6bn. The scheme is expected to generate employment opportunity for over 0.7mn in the auto sector and provide an investment opportunity of over Rs 425bn in the next 5 years. PLI scheme for drones will result in fresh investment of Rs 50bn in 3-years and incremental production of Rs 15bn.
- RBI bought US\$ 7.2bn in the spot market (net) in Jul'21 compared with a record purchase of US\$ 18.6bn in Jun'21. In FYTD22, RBI has bought US\$ 35.9bn in the spot market versus US\$ 29bn in the same period last year. In the forwards market, RBI sold US\$ 0.6bn in Jul'21 versus sale of US\$ 10.3bn in Jun'21. RBI's net outstanding forward position stands at US\$ 49bn as of Jul'21.

## Global macro developments

- US jobless claims for the week ended 11 Sep 2021 rose by 20,000 to 332,000 compared with expectation of 328,000. The uptick signals a disruption in the ongoing labour market recovery amidst surge in delta variant cases and hurricane Ida. The 4-week moving average of claims, fell by 4,250 to 335,750 (lowest since Mar'20). Separately, US retail sales surprised positively as it rose by 0.7% in Aug'21 (est.: -0.7%) compared with a decline of 1.8% in Jul'21 on a MoM basis.
- US CPI softened to 0.3% in Aug'21 (est.:0.4%) compared to 0.5% in Jul'21, on MoM basis. This was on account of tumbling prices of used motor vehicles. Food inflation edged down to 0.4% (0.7% in Jul'21). Even core decelerated to 0.1% from 0.3%. On YoY basis, CPI and core were at 5.3% and 4% respectively.
- In line with expectations, US industrial production eased to 0.4% in Aug'21 from 0.8% in Jul'21. Official estimates show that shutdowns related to Hurricane Ida impacted the gains in production by 0.3pp. Industry wise, mining growth contracted (-0.6% versus 1%) while manufacturing output slowed (0.2% versus 1.6%). Segment wise, production of only consumer goods rose while that of business equipment and non-industrial supplies eased. Compared with pre-pandemic levels (Feb'20), overall production was up by 0.3% in Aug'21.
- Germany's WPI eased to 0.5% on MoM basis in Aug'21 compared with 1.1% rise in Jul'21. This was owing to drop in prices of clothing and footwear (0.1% in Aug'21 versus 0.3% in Jul'21), electronic household appliances, medical products and I&C equipment (0.1% versus 0.2%). However on YoY basis, WPI rose to 12.3% from 11.3% in Jul'21, highest since Oct'74 (first oil crisis). Increase in prices of food, pharma goods and machinery continued.
- Japan's exports slowed down to 26.2% in Aug'21 (est. 34.1%) from 37% in Jul'21 on a YoY basis. This was led by moderation in car shipments to US and Europe. Despite the moderation, exports are up by 11.8% from Aug'19 levels, supported by strong external demand. Imports rose sharply by 44.7% in Aug'21 (est. 40%) on a YoY basis from 28.5% in Jul'21, led by strong demand for fuel and medical goods. Hence, trade deficit expanded to a more than 9-year high at ¥ 635.4bn in Aug'21 versus a surplus of ¥ 439.4bn in Jul'21.
- China's economy weakened further led by stringent lockdown restrictions and global semiconductor shortages. Retail sales softened to 2.5% in Aug'21 from 8.5% in Jul'21. Moreover, with surge in delta variant, consumer spending has taken a hit and recent crackdown on property and educational services has also weighed on consumer sentiments. Further, China's industrial output also moderated to 5.3% in Aug'21 (slowest pace since Jul'20) from 6.4% in Jul'21. Fixed investment too slowed to 8.9% in CYTD21 (Jan-Aug) from 10.3% (Jan-Jul'21).

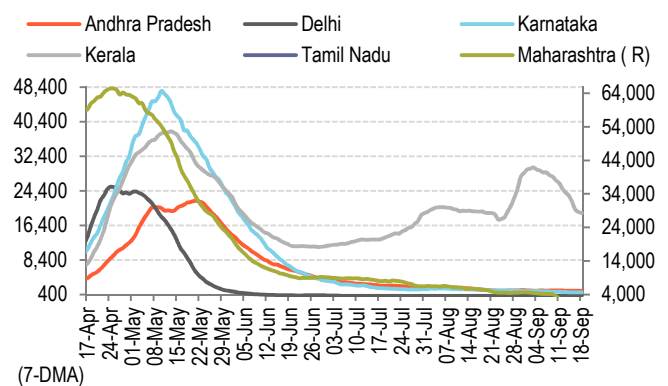
## High frequency indicators and weekly activity tracker

**Fig 2 – Global Covid-19 moderate further**



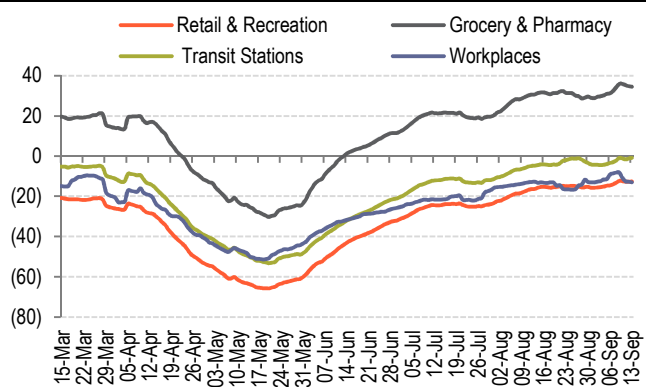
Source: CEIC, Bank of Baroda Research; Data as of 16 Sep 2021

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



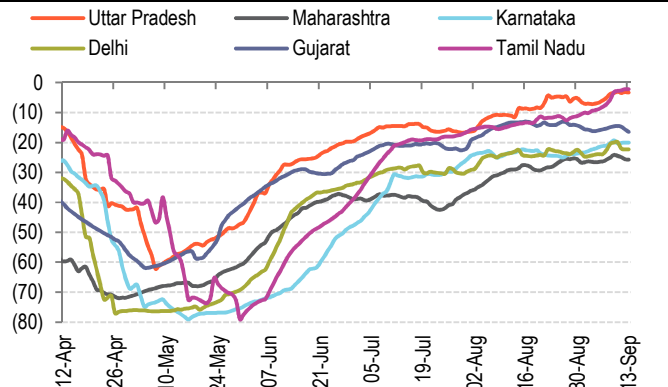
Source: CEIC, Bank of Baroda Research; Data as of 18 Sep 2021

**Fig 4 – Google mobility index moderates**



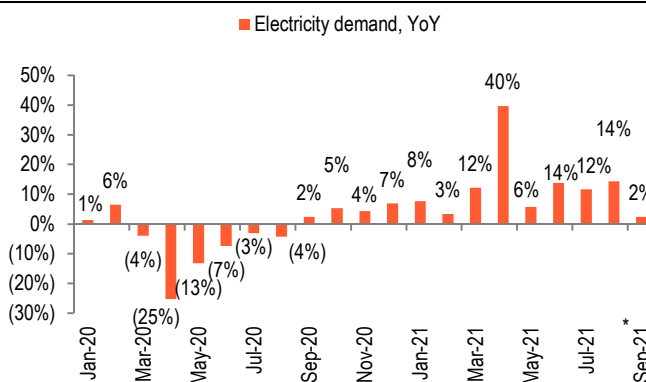
Source: CEIC, Bank of Baroda Research; Data as of 13 Sep 2021

**Fig 5 – Downtick seen in retail mobility index**



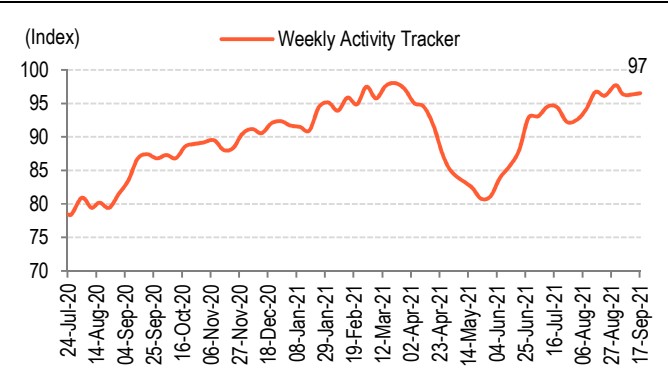
Source: CEIC, Bank of Baroda Research; Data as of 13 Sep 2021

**Fig 6 – Electricity demand seen slowing**



Source: Bloomberg, Bank of Baroda Research; \*Data as of 17 Sep 2021

**Fig 7 – Weekly activity tracker was at 97**



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
<b>10Y yields (Δ bps)</b>					
US	1.36	2	10	(8)	67
UK	0.85	9	28	9	66
Japan	0.05	1	4	(1)	4
Germany	(0.28)	5	19	(8)	21
India <sup>^^</sup>	6.17	(1)	(7)	16	15
China	2.88	1	0	(27)	(24)
<b>2Y yields (Δ bps)</b>					
US	0.22	1	1	(3)	8
UK	0.29	6	14	16	40
Japan	(0.12)	0	0	0	2
Germany	(0.70)	1	4	(3)	0
India	4.08	0	(9)	(60)	(36)
China <sup>**</sup>	2.33	6	39	(14)	(28)
<b>Currencies (Δ %)</b>					
EUR	1.1725	(0.8)	0.1	(1.2)	(1.0)
GBP	1.3741	(0.7)	0	(0.5)	6.4
JPY	109.93	0	(0.3)	0.3	(5.1)
AUD	0.7279	(1.0)	0.4	(2.7)	(0.1)
INR	73.49	0	1.2	0.5	0
CNY	6.4661	(0.3)	0.3	(0.2)	4.5
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	34,585	(0.1)	(2.1)	3.9	25.0
FTSE	6,964	(0.9)	(3.0)	(0.8)	15.9
DAX	15,490	(0.8)	(2.7)	0.3	18.1
NIKKEI	30,500	0.4	11.2	5.3	30.6
Shanghai Comp	3,614	(2.4)	4.8	2.5	8.3
SENSEX	59,016	1.2	5.8	12.7	51.9
Brent (US\$/bbl)	75.34	3.3	9.1	2.5	74.6
Gold (US\$/oz)	1,754	(1.9)	(1.8)	(0.6)	(10.1)
CRB Index	555.5	(0.1)	(1.9)	0.2	35.4
Rogers Agri Index	1,071.2	1.6	(1.9)	4.2	40.5
LIBOR (3M)*	0.12	1	(1)	(1)	(10)
INR 5Y Swap*	5.76	(1)	(4)	6	17
<b>India FII data (US\$ mn)</b>					
	<b>16 Sep</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	124.6	95.0	423.1	(990.8)	1,036.5
FII-Equity	250.5	776.6	1,154.1	8,544.7	1,218.3

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	
20-Sep	Germany PPI, % MoM	Aug	0.8%	1.9%	--	
	Hong Kong CPI composite, % YoY	Aug	1.6%	3.7%	--	
	US NAHB housing market index	Sep	74.0	75.0	--	
21-Sep	RBA Minutes of Sep. policy meeting	--	--	--	--	
	Japan machine tool orders, % YoY	Aug	--	86.2%	--	
	OECD interim economic outlook	--	--	--	--	
	US current account balance, US\$ bn	Q2CY21	(191.0)	(195.7)	--	
	US housing starts, in mn	Aug	1.6	1.5	--	
22-Sep	Italy industrial sales, % MoM	Jul	--	3.1%	--	
	US MBA mortgage applications	17-Sep	--	0.3%	--	
	US existing home sales, in mn	Aug	5.9	6.0	--	
	Euro Area consumer confidence	Sep	(5.9)	(5.3)	--	
	FOMC rate decision (upper bound), %	22-Sep	0.25%	0.25%	--	
	BOJ policy balance rate, %	22-Sep	--	(0.1%)	--	
23-Sep	Markit Australia services PMI (flash)	Sep	--	42.9	--	
	Markit Australia manufacturing PMI (flash)	Sep	--	52.0	--	
	South Korea exports 20 days, % YoY	Sep	--	40.9%	--	
	Singapore CPI, % YoY	Aug	2.4%	2.5%	--	
	France manufacturing confidence	Sep	109.0	110.0	--	
	Markit France manufacturing PMI (flash)	Sep	57.0	57.5	--	
	Markit France services PMI (flash)	Sep	56.3	56.3	--	
	Markit/BME Germany manufacturing PMI (flash)	Sep	61.4	62.6	--	
	Markit Germany services PMI (flash)	Sep	60.3	60.8	--	
	Markit Eurozone manufacturing PMI (flash)	Sep	60.4	61.4	--	
	Markit Eurozone services PMI (flash)	Sep	58.5	59.0	--	
	Markit UK PMI manufacturing SA (flash)	Sep	59.0	60.3	--	
	Markit/CIPS UK services PMI (flash)	Sep	55.0	55.0	--	
	Bank of England bank rate, %	23-Sep	0.1%	0.1%	--	
	US initial jobless claims, in thousands	18-Sep	320.0	332.0	--	
	Markit US manufacturing PMI (flash)	Sep	60.8	61.1	--	
	Markit US services PMI (flash)	Sep	55.0	55.1	--	
	24-Sep	UK GfK consumer confidence	Sep	(7.0)	(8.0)	--
		Japan CPI, % YoY	Aug	(0.3%)	(0.3%)	--
		Jibun Bank Japan manufacturing PMI (flash)	Sep	--	52.7	--
Jibun Bank Japan services PMI (flash)		Sep	--	42.9	--	
Singapore industrial production, % YoY		Aug	8.1%	16.3%	--	
Germany IFO business climate index		Sep	98.9	99.4	--	
Italy manufacturing confidence index		Sep	112.7	113.4	--	
US new home sales, in thousands		Aug	710.0	708.0	--	

Source: Bloomberg, Bank of Baroda Research

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