

## WEEKLY WRAP

22 November 2021

**Global Covid-19 cases rise**

Global yields closed lower amidst rising Covid-19 cases in Europe (2.8mn increase versus 2.2mn last week). Crude prices also dipped by 4% (US\$ 79/bbl) as Austria re-imposed lockdown restrictions. On the other hand, US retail sales and industrial production surprised positively. Thus, DXY gained. Inflationary pressures remained elevated as UK CPI and Germany's PPI rose more than expected. On the domestic front, 10Y yield edged down and INR appreciated, led by lower oil prices. FOMC minutes will drive global markets this week.

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**Markets**

- **Bonds:** Except Japan (stable), global 10Y yields closed lower due to rising cases in Europe. Germany's 10Y yield fell by 8bps (-0.34%) as ECB President indicated that it is unlikely to tighten monetary policy due to uncertain growth outlook. US 10Y yield fell by 2bps (1.55%) as housing starts data was muted. Crude prices fell by 4% (US\$ 79/bbl) over lockdown restrictions in Austria. Thus, India's 10Y yield fell by 2bps (6.34%). System liquidity surplus fell to Rs 6.8tn as on 18 Nov 2021 versus Rs 8.3tn last week.
- **Currency:** Except GBP and INR (higher) other global currencies closed lower this week. DXY rose by 0.9% to a 16-month high supported by better than expected US data (retail sales and industrial production). GBP rose by 0.3% amidst expectations of rate hikes by BoE. EUR fell by 1.4% amidst rising Covid-19 cases. INR appreciated by 0.4% as oil prices fell.
- **Equity:** Global indices ended mixed on the back of growing concerns over spike in inflation print (UK and Eurozone CPI). FTSE (1.7%) dropped the most. Dow too fell by 1.4%, led by disappointing US housing starts data print. Sensex (0.5%) also ended in red and was dragged down by metal stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 4.1mn versus 3.4mn last week. Cases rose in the US (0.67mn versus 0.55mn), Germany (0.33mn versus 0.25mn), and France (0.11mn versus 61K) and UK (0.28mn versus 0.25mn). In India cases rose at a slower pace of 75K versus 80K. Weekly tracker rose to 101 from 98 in the previous week. US has fully vaccinated 58% of its population, Germany at 68% and UK at 68%. India is at ~32.7%.
- **Upcoming key events:** Major events this week include global flash manufacturing and services PMI and Germany's IFO business climate. Fed minutes will also be in focus. Apart from this GDP print of US, Germany and Singapore will be released. Domestic market will monitor pace of vaccination.



## India macro developments

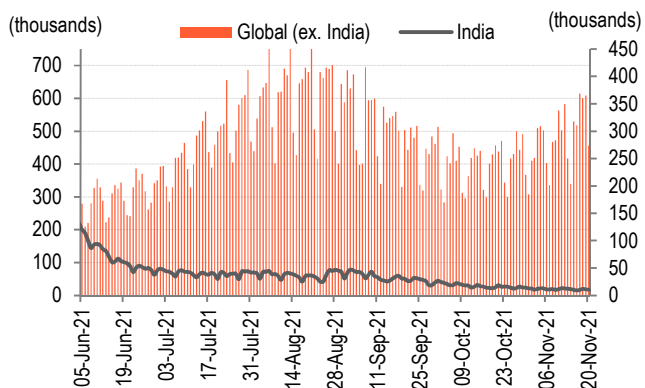
- Union government of India (Gol) has announced that it will release Rs 951bn to states in Nov'21 as the tax devolution amount. Gol shares 41% of the gross tax collected with states in 14 instalments. For Nov'21, instead of regular monthly instalment of Rs 475bn, additional Rs 475bn will also be disbursed to states. Front-loading of revenue collections will aid states' capital spending plans.
- India's trade deficit receded from a record high of US\$ 22.6bn in Sep'21 to US\$ 19.7bn in Oct'21, led by higher exports (43.1% in Oct'21 from 22.6%). Both oil and non-oil exports increased. On the other hand, imports moderated to 62.5% in Oct'21 (84.8% in Sep'21), as oil imports dipped. Non-oil-non-gold imports were buoyant and rose to a historic high of US\$ 35.8bn in Oct'21 (40.1%). Imports are likely to remain elevated due to higher oil prices and recovery in domestic demand.
- Fitch has retained India's rating at BBB-, with a negative outlook, in contrast with S&P and Moody's whose outlook has been stable. The rationale behind this has been the elevated level of general government debt which rose to 89.6% of GDP in FY21, the highest among 'BBB' emerging-market sovereigns. However, on other macro parameters, India has fared well. GDP is expected at 8.7% in FY22 and will rise further to 10% in FY23. General government deficit is also expected to narrow down to 10.6% of GDP in FY22 from 13.6% in FY21.
- RBI reported that currency in circulation (CIC) increased by Rs 40bn and stood at Rs 29.9tn for the week ending 12 Nov 2021. Reserve money rose by 12.3% on a YoY basis, compared with 15.2% last year. On FYTD basis, reserve money increased by 3.4% against 9.4% increase, a year ago.
- India's privatization program is expected to get a big boost in Q4FY22, as DIPAM is expected to close the privatization deal for 5-6 companies between Dec'21 and Jan'22. BPCL, BEML, Shipping Corp, Pawan Hans, Central Electronics and NINL will be the front-runners. LIC IPO is expected to hit the markets in Q1FY23. So far, only Rs 93bn has been collected through minority stake sales in PSUs and sale of SUUTI in Axis Bank versus BE of Rs 1.75tn.
- RBI bought US\$ 0.8bn in the spot market (net) in Sep'21 compared with US\$ 3.7bn in Aug'21. In H1FY22, RBI has bought US\$ 40.4bn in the spot market, lower compared with US\$ 42.5bn in the same period last year. RBI did not make any fresh purchase in the forwards market in Sep'21. As a result, RBI's net outstanding forward position remained unchanged at US\$ 49.6bn as of Sep'21.
- Government of India has repealed the three farm laws namely 1) Farmers Produce Trade and Commerce Act, aimed at allowing trade in agricultural produce outside existing APMC, 2) Farmers Agreement on Price Assurance and Farm Services Act, which provided a framework for contract farming and 3) Essential Commodities (Amendment) Act, aimed at removing commodities (cereals, pulses, oilseeds, edible oils, onion, potato) from the list of essential commodities. These laws were part of the third tranche under Aatmanirbhar Bharat Abhiyaan, which were approved as ordinance on 3 Jun 2020.

## Global macro developments

- RBA's minutes of its latest policy meeting indicate that the Central Bank intends to keep the cash rate at its current level (0.1%) until CY24. Members believe that until then inflation is not expected to "sustainably" reach within the targeted band of 2-3%. Although members also noted that risks to inflation were changing, and highlighted that risks were tilted towards the upside. Global supply chain pressures and wage response to low unemployment, were sighted as key worries.
- US retail sales rose to its highest since Mar'21 and increased by 1.7% in Oct'21 (est.: 1.4%) from 0.8% in Sep'21 (MoM). While sales at gasoline stations jumped 3.9% due to higher prices, sales at auto dealerships also increased by 1.8%. Separately, US industrial production increased by 1.6% (est., +0.9%) to a 7-month high, versus a decline of 1.3% in Sep'21 (MoM). Manufacturing production rebounded and rose by 1.2% from a decline of 0.7% in Sep'21. Production of consumer goods rose by 1.4% led by auto products (up by 11%).
- Japan's exports eased to 9.4% in Oct'21 (est.: 9.9%) versus 13% rise in Sep'21. The slowdown shows the impact of supply chain bottlenecks on Japan's auto industry. Overall shipments of cars fell by 37% in Oct'21. Exports to China also slowed to 9.5% in Oct'21 (12M basis) from 10.3% in Sep'21 and auto exports fell by 46.8%. Exports to another key market, US, eased to 0.4% with car exports down by 46.4%. With weak domestic demand, imports too eased to 26.7% versus est.: 31.9% increase, bringing trade deficit down to ¥67.4bn versus est.: ¥310bn.
- UK's CPI rose to a 10-year high of 4.2% in Oct'21 (est.: 3.9%) from 3.1% in Sep'21 on a YoY basis. This was led by a surge in prices of electricity, gas and fuel (22.9% in Oct'21 versus 2.8% in Sep'21). Separately, CPI inflation in the Euro Area also jumped to 4.1% in Oct'21 from 3.4% in Sep'21 (YoY). This was due to higher energy prices (23.7% in Oct'21 versus 17.6% in Sep'21). Core inflation (ex. energy and food) rose by 2.1% versus 1.9% in Sep'21.
- US housing starts fell by 0.7% to a seasonally adjusted annual rate of 1.52mn units in Oct'21 (est.: 1.58mn units) against 1.53mn units in Sep'21. This has been on account of material bottlenecks, labour shortages and Hurricane Ida, which caused some disruption in late Aug'21. Notably, housing starts scaled to its near 14.5 year high in Mar'21 at 1.73mn units.
- Japan's CPI moderated to 0.1% in Oct'21 from 0.2% in Sep'21. This was led by contraction in prices of clothing (-0.3% vs 0.7%), medical care (-0.3% vs -0.2%) and communications (-7.5% vs -6.4%). However, prices of food, housing, fuel and furniture were up in Oct'21. Core CPI, excluding volatile food prices but including fuel prices, was up by 0.1% in Oct'21 unchanged from Sep'21.

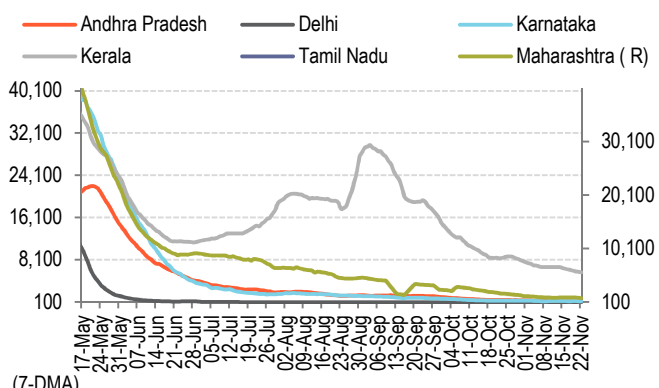
## High frequency indicators and weekly activity tracker

**Fig 1 – Global Covid-19 cases inching up**



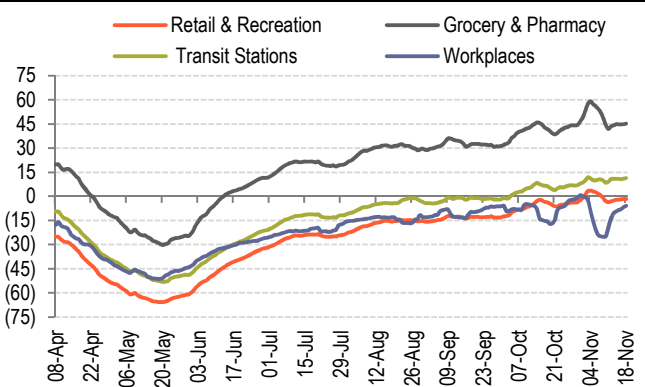
Source: CEIC, Bank of Baroda Research

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



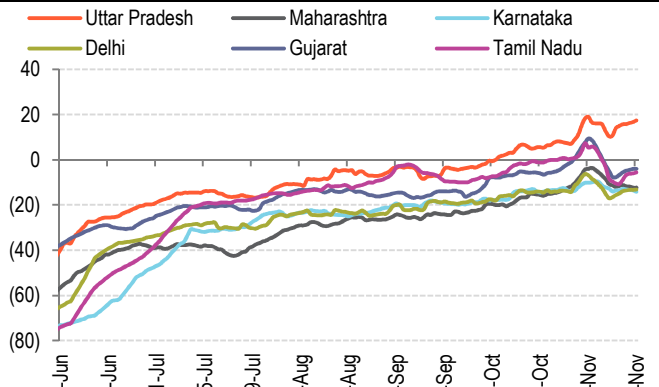
Source: CEIC, Bank of Baroda Research

**Fig 3 – Google mobility index picking up**



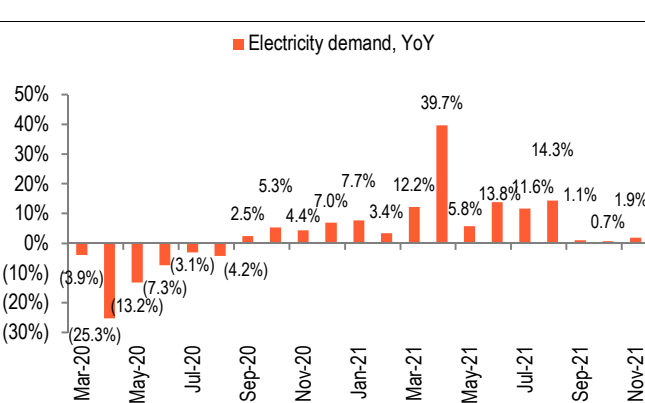
Source: CEIC, Bank of Baroda Research

**Fig 4 – ...led by retail and recreation index**



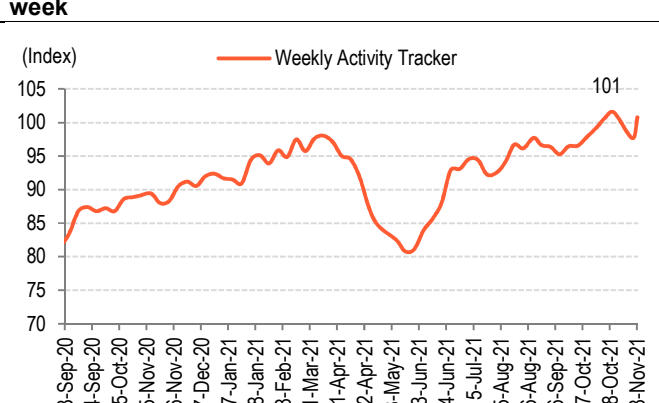
Source: CEIC, Bank of Baroda Research

**Fig 5 – Electricity demand improves**



Source: Bloomberg, Bank of Baroda Research; Data as of 21 Nov 2021

**Fig 6 – Weekly activity tracker rose to 101 from 98 last 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
<b>10Y yields (Δ bps)</b>					
US	1.55	(2)	(9)	29	72
UK	0.88	(4)	(29)	36	58
Japan	0.08	0	(1)	7	7
Germany	(0.34)	(8)	(24)	15	24
India <sup>AA</sup>	6.34	(2)	(4)	11	47
China	2.93	(1)	(8)	8	(41)
<b>2Y yields (Δ bps)</b>					
US	0.51	0	11	28	35
UK	0.49	(4)	(24)	39	53
Japan	(0.12)	0	(1)	0	2
Germany	(0.78)	(4)	(15)	(3)	(3)
India	4.52	(3)	21	40	51
China <sup>**</sup>	2.51	4	(6)	5	(61)
<b>Currencies (Δ %)</b>					
EUR	1.1290	(1.4)	(2.9)	(3.5)	(4.8)
GBP	1.3451	0.3	(2.5)	(1.3)	1.3
JPY	113.99	(0.1)	0.3	(3.8)	(9.8)
AUD	0.7235	(1.3)	(3.2)	1.4	(0.9)
INR	74.24	0.4	1.5	0.2	0
CNY	6.3871	(0.1)	(0.1)	1.8	2.7
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	35,602	(1.4)	0.4	1.4	21.7
FTSE	7,224	(1.7)	0.1	1.9	13.7
DAX	16,160	0.4	4.2	2.2	23.0
NIKKEI	29,746	0.5	1.8	10.1	16.5
Shanghai Comp	3,560	0.6	(0.9)	3.9	5.4
SENSEX	59,636	(0.5)	(3.4)	7.8	36.8
Brent (US\$/bbl)	78.89	(4.0)	(7.3)	21.0	75.5
Gold (US\$/oz)	1,846	(1.0)	4.3	3.6	(1.4)
CRB Index	569.0	(0.3)	0.1	1.6	34.4
Rogers Agri Index	1,178.2	0.8	5.4	10.6	42.4
LIBOR (3M)*	0.16	0	3	3	(5)
INR 5Y Swap*	5.92	4	7	9	83
<b>India FII data (US\$ mn)</b>					
	<b>17 Nov</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	8.5	62.5	330.3	260.0	2,287.3
FII-Equity	152.6	2,189.3	2,621.0	8,879.6	1,553.3

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

Fig 8 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
22-Nov	Taiwan unemployment rate, %	Oct	3.8%	3.9%	--
	Hong Kong CPI composite, % YoY	Oct	1.9%	1.4%	--
	US existing home sales, in mn	Oct	6.18	6.29	--
	Euro Area consumer confidence	Nov	(5.5)	(4.8)	--
	South Korea retail sales, % YoY	Oct	--	8.2%	--
23-Nov	South Korea consumer confidence	Nov	--	106.8	--
	Markit Australia services PMI (flash)	Nov	--	51.8	--
	Markit Australia manufacturing PMI (flash)	Nov	--	58.2	--
	Singapore CPI, % YoY	Oct	2.9%	2.5%	--
	Markit France manufacturing PMI (flash)	Nov	53.0	53.6	--
	Markit France services PMI (flash)	Nov	55.0	56.6	--
	Markit/BME Germany manufacturing PMI (flash)	Nov	56.7	57.8	--
	Markit Germany services PMI (flash)	Nov	51.5	52.4	--
	Markit Eurozone manufacturing PMI (flash)	Nov	57.3	58.3	--
	Markit Eurozone services PMI (flash)	Nov	53.5	54.6	--
	Markit UK PMI manufacturing PMI (flash)	Nov	57.3	57.8	--
	Markit/CIPS UK services PMI (flash)	Nov	58.2	59.1	--
	Markit US manufacturing PMI (flash)	Nov	59.1	58.4	--
	Markit US services PMI (flash)	Nov	59.0	58.7	--
24-Nov	Singapore GDP, % YoY	Q3CY21	6.5%	6.5%	--
	Jibun Bank Japan manufacturing PMI (flash)	Nov	--	53.2	--
	Jibun Bank Japan services PMI (flash)	Nov	--	50.7	--
	RBNZ official cash rate, %	24-Nov	0.75%	0.50%	--
	France manufacturing confidence	Nov	106.0	107.0	--
	Germany IFO business climate	Nov	96.7	97.7	--
	US initial jobless claims, in thousands	20-Nov	261.0	268.0	--
	US advance goods trade balance, US\$ bn	Oct	(95.0)	(96.3)	--
	US GDP annualized, % QoQ	Q3CY21	2.2%	2.0%	--
	US durable goods orders, % MoM	Oct P	0.2%	(0.3%)	--
US FOMC meeting minutes	03-Nov	--	--	--	
25-Nov	Japan machine tool orders, % YoY	Oct	--	81.5%	--
	Germany GDP SA, % QoQ	Q3CY21	1.8%	1.8%	--
	Germany GfK consumer confidence	Dec	(1.0)	0.9	--
	BoK 7-day repo rate, %	25-Nov	1.00%	0.75%	--
26-Nov	Australia retail sales, % MoM	Oct	2.5%	1.3%	--
	Singapore industrial production, % YoY	Oct	14.4%	(3.4%)	--
	France consumer confidence	Nov	98.0	99.0	--
	Italy consumer confidence index	Nov	117.0	118.4	--
	China industrial profits, % YoY	Oct	--	16.3%	--

Source: Bloomberg, Bank of Baroda Research

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