

## WEEKLY WRAP

27 December 2021

**Progress of Omicron: key watchable**

Global yields and equities rose as macro prints from US indicated that recovery remains on track so far. Consumer confidence in US jumped sharply, new and existing home sales rose, jobless claims were steady and Q3 GDP was revised upwards. Further, as fears of severity of Omicron variant receded, risk-sensitive currencies gained and DXY fell by 0.6%. On the domestic front, surprise 3-day VRRR by RBI impacted 10Y yield. Going ahead, government's announcement of allowing booster doses is likely to have positive impact on markets and economy.

Sonal Badhan

+9122 6698 5794

sonal.badhan@bankofbaroda.com

**Markets**

- **Bonds:** Except China (lower), global yields closed higher. UK's 10Y yield rose the most (+17bps), followed by Germany (+13bps), as concerns over elevated inflation persist. US 10Y yield rose by 8bps (1.49%) as major macro prints remained optimistic. Crude prices rose by 3.6% (US\$ 76/bbl) over news reports of reduced hospitalisation rate from Omicron. India's 10Y yield rose by 5bps (6.46%) as RBI conducted surprise 3-day VRRR. System liquidity surplus rose to Rs 6.3tn as on 24 Dec 2021 (Rs 6.2tn last week).
- **Currency:** Except JPY (lower), global currencies closed higher this week over positive news of discovery of drug to treat Omicron and also the virus being less fatal. As a result, DXY fell by 0.6%. INR rose the most (+1.4%), even as oil prices inched up.
- **Equity:** Barring Shanghai Comp, other global indices ended higher as investors monitored the news of vaccine efficiency. Dow (1.7%) gained the most led by positive data (consumer confidence, home sales and US GDP). Sensex (0.3%) too ended higher led by IT and consumer durable stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 5.19mn versus 4.55mn last week. Cases rose in the US (1.4mn versus 0.95mn), Italy (0.26mn versus 0.16mn), France (0.49mn versus 0.37mn) and Spain (0.26mn versus 0.17mn). In India, cases rose by 40K versus 49K. Weekly tracker rose to 103 from 102 in the previous week. UK has fully vaccinated 69% of its population, US at 61%, Italy at 74% and India is at ~60%.
- **Upcoming key events:** Major events this week include macro prints from US (trade balance, wholesale inventories, and jobless claims) and PMI data of China and India. Apart from the PMI, domestic markets also await fiscal, eight core and BoP data this week.



## India macro developments

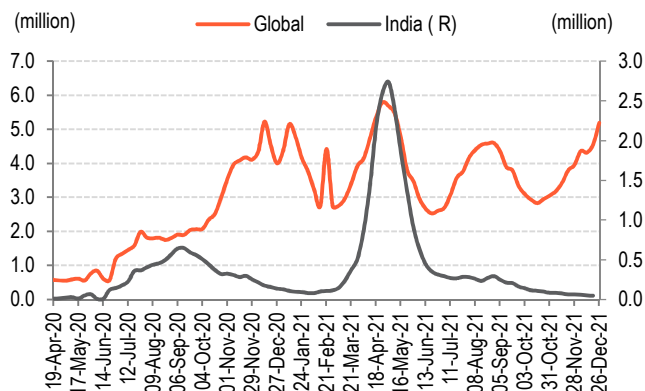
- RBI announced a surprise 3-day variable rate reverse repo auction on 20 Dec 2021. The last auction conducted for this tenor was on 21 Sep 2021. Out of Rs 2tn notified amount, offers for only Rs 811.6bn were received, at the cut-off rate of 3.99%. Thus, yields across major tenors shot up, especially 3-8Y (+6bps: 3Y and 4Y, +7bps: 7Y, +11bps: 8Y, +2bps: 10Y). This signals further normalisation through gradual absorption of surplus liquidity in the system (currently at Rs 6.3tn as against its high of Rs 9tn seen in Sep'21).
- India's Union Minister for Road Transport and Highway informed that government expects toll revenue of NHAI to jump sharply in the coming years. It is estimated that revenue from NHAI will rise to Rs 1.4tn in the next three years, compared with Rs 400bn at present, on the back of rising traffic density. Addressing the issue of faster settlement of claims through reconciliation, the minister added that NHAI's CCIE will clear cases within 3 months, thus attracting greater private investment.
- In order to make Indian ports more competitive, the Union Minister announced new tariff guidelines for Public Private Partnership projects in major ports. New guidelines will allow concessionaires at major ports to set tariffs according to market dynamics. The biggest benefit will be to provide a level playing field to PPP concessionaires (previously there were constraints) and thereon allow them to compete with private ports. Further, the royalty payable on trans-shipment cargo will be 1.0 time (1.5 times previously) for the normal container.
- As per Federation of Indian export organisations (FIEO), exports are expected to rise by 38% by the end of FY22 at US\$ 400bn compared with US\$ 290.6bn in FY21. FIEO also noted that emergence of new Covid-19 variant and supply side challenges will remain a decisive factor in the coming year. Thereby, it expects exports to grow at a much slower pace of 15-17.5% in FY23. Notably, increase in global trade in CY21 led by surge in commodity prices might not provide 'tailwind to our exports', going forward.
- As per CMIE data, unemployment rate in India inched up to 7.73% (30-day moving average) as on 24 Dec 2021 compared to 7.56% in the previous week. Both rural and urban unemployment inched up to 7.09% and 9.12% respectively against 6.86% and 9.09% seen in the previous week. With increasing Covid-19 cases, there is likely to be strain on the print in the near term.
- RBI reported that currency in circulation (CIC) declined by Rs 21.7bn and stood at Rs 29.9tn for the week ending 17 Dec 2021. Reserve money rose by 13.4% on a YoY basis, compared with 14.8% last year. On FYTD basis, reserve money increased by 5.2% against 10.3% increase, a year ago.

## Global macro developments

- China's industrial profits rose by 9% in Nov'21, much slower than 24.6% rise recorded in Oct'21. Most of the cooling off can be explained by dip in commodity prices (raw materials), weak consumer demand and faltering demand of property sector (steel, cement, glass). On CYTD basis too, profit growth eased to 38% between Jan-Nov'21 from 42.2% between Jan-Oct'21.
- RBA in its minutes reiterated to maintain highly supportive monetary conditions as emergence of Omicron remains a source of uncertainty, though it is not expected to derail the recovery. Members noted that while inflation has risen (little above 2%), it remains low in underlying terms (forecast to reach 2.5% over CY23). Members also observed that bond purchase programme continues to provide support to the economy by lowering funding cost and supporting asset value.
- Germany's GfK consumer confidence dropped sharply from (-) 1.8 points in Dec'21 to (-) 6.8 points in Jan'22. This was owing to recent spike in Covid-19 cases, leading to re-imposition of restrictions, and higher prices. Further, the recent ruling of 2G, which requires consumers to either be fully vaccinated or completely recovered, also adversely impacted retail business during the holiday period.
- US GDP rose by 2.3% in the final estimate of Q3, slightly higher than its second estimate of 2.1%, but lower compared to 6.7% increase in Q2. PCE softened to 2% against 12% in Q2. Gross private domestic investment picked up by 12.4% against 3.9% decline in Q2. Exports fell by 5.3% (+7.6% in Q2), while imports moderated by 4.7% (7.1% in Q2). Separately, consumer confidence index for Dec'21 improved to 115.8 from 111.9 in Nov'21, driven by better expectation over short term growth prospects.
- As per revised print for UK GDP, growth in Q3CY21 was at 1.1% compared with 1.3% as per preliminary estimates and also down from 5.4% in Q2. The downward revision was mainly on account of production output (fell by 0.1% versus 0.8% rise estimated earlier), driven by electricity, gas, steam and manufacturing. Services output also eased to 1.4% from 1.6% estimated earlier, led by wholesale and retail trade and health and social work activities.
- Durable goods orders in the US rose by 2.5% in Nov'21 (est.: 2%) from 0.1% in Oct'21. This was on account of uptick in orders for transportation equipment (6.5% versus -0.3% in Oct'21). However, core orders (non-defence capital goods excl. aircraft) edged down by 0.1% from 0.9% increase in Oct'21. Separately, US jobless claims remained unchanged at 205K for the week ending 18 Dec 2021. University of Michigan consumer sentiment index rose to 70.6 in Dec'21 from 67.4 in Nov'21, supported by upbeat outlook of the economy. US new home sales rose by 12.4% to 744K (est.: 770K) and against 662K in Oct'21.
- Japan's CPI (YoY) rose sharply by 0.6% in Nov'21 from 0.1% in Oct'21, owing to steep jump in energy prices (9.2% versus 6.4%). Food prices also inched up to 1.4% from 0.5%. Core CPI (ex-fresh food) rose by 0.5% versus 0.1%. Even excluding energy, CPI fell less sharply by 0.6% in Nov'21 compared with 0.7% in Oct'21. Amongst other items, prices of clothing and footwear (0.1% versus -0.2%), education (1.2% versus 1.1%) and medical (-0.2% versus -0.3%) rose the most.

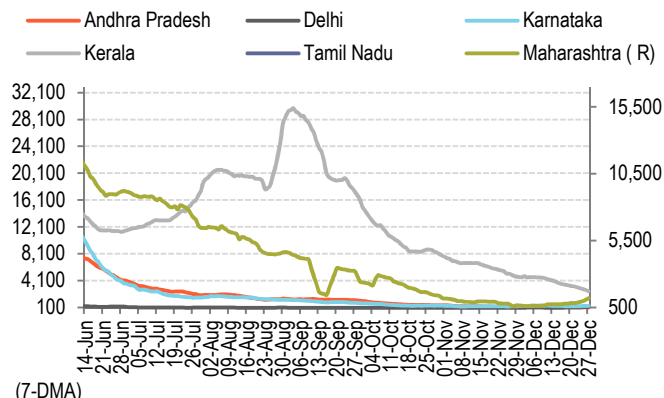
## High frequency indicators and weekly activity tracker

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



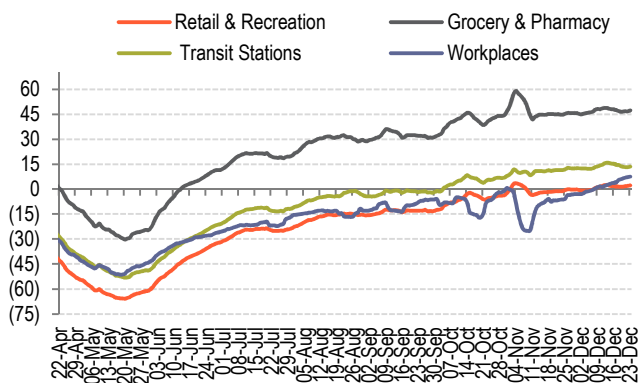
Source: CEIC, Bank of Baroda Research

**Fig 2 – Covid-19 cases in Maharashtra seen picking up**



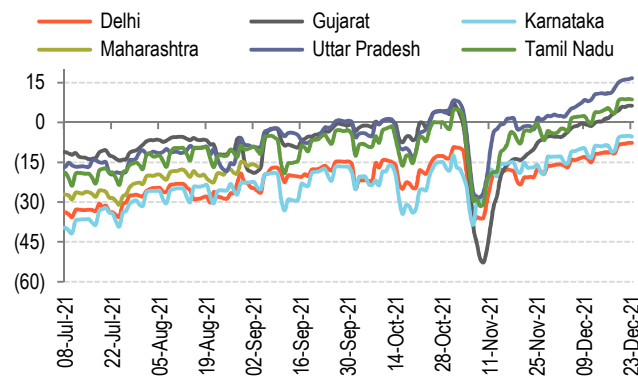
Source: CEIC, Bank of Baroda Research

**Fig 3 – Google mobility index improved further...**



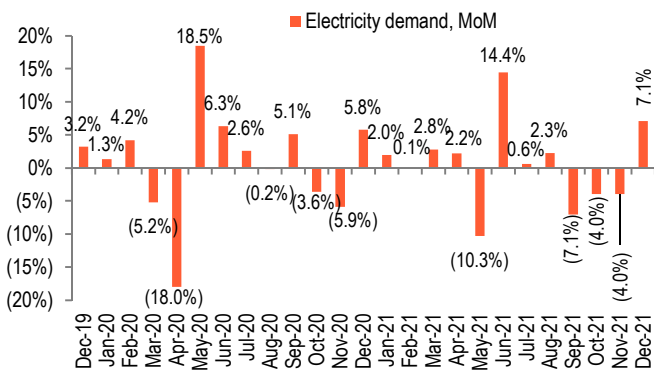
Source: CEIC, Bank of Baroda Research

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



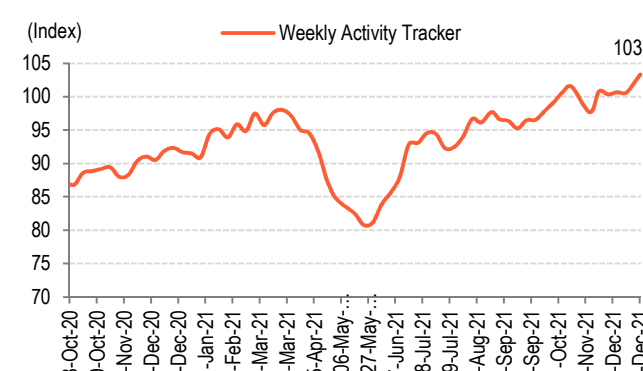
Source: CEIC, Bank of Baroda Research

**Fig 5 – Electricity demand also picked up**



Source: Bloomberg, Bank of Baroda Research; Data as of 26 Dec 2021

**Fig 6 – Weekly activity tracker up at 103**



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	1.49	8	(14)	4	57
UK	0.93	17	(4)	0	67
Japan	0.07	2	(2)	1	5
Germany	(0.25)	13	0	(2)	30
India	6.46	5	10	28	58
China	2.83	(7)	(6)	(4)	(37)
<b>2Y yields (Δ bps)</b>					
US	0.69	5	5	42	57
UK	0.67	16	9	28	79
Japan	(0.06)	4	6	4	7
Germany	(0.68)	4	6	1	3
India	4.52	(1)	(6)	36	63
China	2.49	2	1	1	(33)
<b>Currencies (Δ %)</b>					
EUR	1.1319	0.7	1.0	(3.4)	(7.2)
GBP	1.3386	1.1	0.5	(2.1)	(1.3)
JPY	114.38	(0.7)	0.8	(3.3)	(10.6)
AUD	0.7221	1.3	0.4	(0.6)	(5.0)
INR	75.02	1.4	(0.7)	(1.8)	(2.0)
CNY	6.3677	0.1	0.3	1.5	2.7
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	35,951	1.7	0.4	3.3	19.0
FTSE	7,372	1.4	0.8	4.5	13.4
DAX	15,756	1.4	(1.0)	1.4	16.0
NIKKEI	28,783	0.8	(2.4)	(4.8)	7.9
Shanghai Comp	3,618	(0.4)	0.9	0.1	7.6
SENSEX	57,124	0.2	(2.8)	(4.9)	21.6
Brent (US\$/bbl)	76.14	3.6	(7.4)	(2.5)	48.4
Gold (US\$/oz)	1,817	1.1	1.6	3.8	(3.5)
CRB Index	574.0	1.1	0.3	3.8	30.3
Rogers Agri Index	1,197.2	2.5	0.2	10.5	38.7
LIBOR (3M)*	0.22	1	4	9	(2)
INR 5Y Swap*	5.73	5	(21)	(3)	47
<b>India FII data (US\$ mn)</b>					
	<b>23 Dec</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	(166.4)	(434.3)	(1,021.3)	(938.0)	1,089.3
FII-Equity	41.8	(462.8)	(1,666.1)	3,836.4	(3,489.9)

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

Fig 8 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
27-Dec	Japan retail sales, % YoY	Nov	1.7%	0.9%	1.9%
	China industrial profits, % YoY	Nov	--	24.6%	9.0%
	Vietnam CPI, % YoY	Dec	2.3%	2.1%	--
	Vietnam retail sales YTD, % YoY	Dec	--	(8.7%)	--
	S. Korea retail sales, % YoY	Nov	--	14.4%	--
28-Dec	S. Korea consumer confidence index	Dec	--	107.6	--
	Japan industrial production, % MoM	Nov	2.9%	(4.1%)	--
	Spain retail sales, % YoY	Nov	--	(2.5%)	--
	Hong Kong exports, % YoY	Nov	0.2%	21.4%	--
29-Dec	US wholesale inventories, % MoM	Nov	1.7%	2.3%	--
	US advance goods trade balance, US\$ bn	Nov	(89.0)	(82.9)	--
	US retail inventories, % MoM	Nov	0.5%	0.1%	--
	US pending home sales, % MoM	Nov	0.5%	7.5%	--
	Euro Area money supply, % YoY	Nov	7.6%	7.7%	--
30-Dec	S. Korea manufacturing business survey	Jan	--	0.9	--
	S. Korea industrial production, % YoY	Nov	3.4%	4.5%	--
	UK Nationwide House price index, % MoM	Dec	0.5%	0.9%	--
	Thailand BoP current account balance, US\$ mn	Nov	(825)	(1,058)	--
	Thailand foreign reserves, US\$ bn	24-Dec	--	242.8	--
	India BoP current account balance, US\$ bn	Q3CY21	(10.9)	(6.5)	--
	Spain CPI, % YoY	Dec	5.6%	5.5%	--
31-Dec	US initial jobless claims, in thousands	25-Dec		205	--
	China non-manufacturing PMI	Dec	52	52.3	--
	China manufacturing PMI	Dec	50	50.1	--
	China BoP current account balance, US\$ bn	Q3CY21	--	80.1	--
	India fiscal deficit, Rs cr	Nov	--	20,175	--
	India eight core, % YoY	Oct	--	7.5%	--
	India manufacturing PMI	Dec	--	57.6	--
	S. Korea exports, % YoY	Dec	24%	32%	--

Source: Bloomberg, Bank of Baroda Research

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For further details about this publication, please contact:

**Economics Research Department**

Bank of Baroda

+91 22 6698 5794

[chief.economist@bankofbaroda.com](mailto:chief.economist@bankofbaroda.com)