

## WEEKLY WRAP

27 September 2021

**All eyes on Centre's H2 borrowings**

Global yields and equities inched up this week. Both US Fed and BoE indicated a hawkish tilt with 9 Fed members expecting a rate hike in CY22 and 2 members of BoE voting for early tapering. Risks following bankruptcy of Evergrande drove the volatility in global currencies. DXY rose by 0.1%. Flash PMIs also indicated slowdown in both manufacturing and services activity across Eurozone, US and Japan. In India, Sensex reached record high as pace of vaccination increased and Covid-19 curve flattened. This week, yields will be driven by Centre's H2 borrowing plan.

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**Markets**

- **Bonds:** Except China (lower), global yields closed higher. US 10Y yield rose the most by 9bps (1.45%) as Fed projections signalled rate hike in CY22 and statement added that asset tapering may begin "soon". UK 10Y yield rose by 8bps (0.93%) as BoE raised inflationary concerns. Crude prices rose by 3.7% (US\$ 78.1/bbl-highest since Oct'18) due to supply constraints. India's 10Y yield rose by 1bps (6.18%) ahead of centre's H2 borrowing calendar. System liquidity surplus rose to Rs 7.5tn (26 Sep 2021) versus Rs 7.1tn last week.
- **Currency:** Except EUR, AUD and CNY (flat), other global currencies closed lower this week. DXY rose by 0.1% as US Fed hinted at rate hike prospects. JPY fell by 0.7% as BoJ continued its stimulus and signalled risks to growth. INR fell by 0.3% as oil prices rose by 3.7%.
- **Equity:** Global indices ended mixed amidst concerns surrounding Evergrande restructuring. Investors monitored rate decisions of Fed and BoE, which signalled possible tapering in the coming months. Sensex surged the most (1.7%) as it clocked a record high led by double digit gains in realty stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose at a slower pace of 3.3mn versus 3.9mn last week. Cases showed moderation in US (0.8mn increase versus 1.1mn), Japan (17K versus 36K) and Germany (54K versus 63K). In India, cases rose by 0.2mn versus 0.21mn. Our weekly economic activity tracker was down to 95 from 96 (100=Feb'20). UK has fully vaccinated 66% of its population, Germany at 63% and US at 55%. India is at 18.7%.
- **Upcoming key events:** Major events this week include data from US (GDP, durable goods orders, consumer confidence), UK's GDP print, Germany's consumer confidence index and Bank of Thailand's policy rate. In India, eight core index, fiscal deficit, BoP and centre's H2 borrowing plan are awaited.



### Monsoon tracker

- For the period 1 Jun 2021 to 26 Sep 2021, monsoon is 2% below LPA compared with 8% above LPA last year. Large part of central and southern India including states such as Maharashtra, Rajasthan, Uttar Pradesh, Chhattisgarh, Andhra Pradesh and Karnataka have received normal rainfall. Telangana, Haryana and Tamil Nadu are the only exception and have received excessive rainfall during this period. However, Jammu and Kashmir, and North Eastern Region have received deficient rainfall.
- Overall kharif sown area has fallen by (-) 0.5% as on 24 Sep 2021 compared with last year. Sown area of cotton (-6.1%) and oilseeds (-1.3%) has declined the most. However, on the bright side sowing of pulses (2.1%), sugarcane (2%), rice (1.4%) and jute & mesta (1%) have improved further compared with last year.

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



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun- 26 Sep 2021

## India macro developments

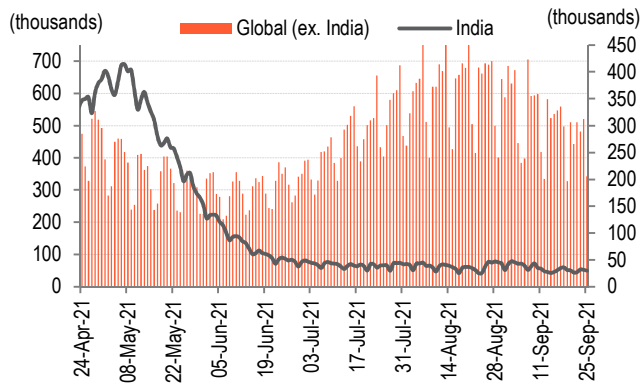
- Net EPFO subscribers in India rose to 1.5mn in Jul'21 from 1.1mn in Jun'21, with new subscribers inching up to 0.9mn from 0.85mn in Jun'21. In FYTD22 so far (Apr-Jul) new subscribers have increased by 3.2mn versus 1.8mn increase in FYTD21 and 4.5mn in FYTD20 (pre-pandemic). Net subscribers on the other hand are far above (4.1mn in FYTD22) than the pre-pandemic levels of 2.1mn in FYTD20. State-wise, Maharashtra, Haryana and Gujarat lead the additions in net subscriber base.
- ADB has downgraded India's GDP growth forecast for FY22 to 10% from 11% estimated earlier mainly due to the impact of the second-wave of Covid-19. Inflation forecast has been revised upwards to 5.5% for FY22 from 5.2% earlier led by rising input costs. Separately, OECD has also trimmed India's growth forecast to 9.7% in FY22 versus 9.9% earlier and revised inflation forecast upwards to 5.9% (5.4% earlier). Both organisations noted that despite higher growth rates, India's output still remains below pre-pandemic levels.
- As per the first advance estimates for kharif crops, foodgrain production is expected to clock a record production of 150.5mt (million tonne) in the crop year 2021-2022 (up by 0.6% compared with last year). The improvement is on the back of pickup in monsoon activity in Sep'21 (only 4% below LPA) and higher rice output (up by 2.5%). Notably, output of pulses (8.7%), sugarcane (5%) and cotton (2.4%) is expected to increase. However, production of coarse cereals is expected to drop by 6.7% in the same period. As of now (17 Sep 2021), overall kharif sowing is down by 0.8% compared with last year.
- RBI reported that currency in circulation (CIC) declined by Rs 123bn and stood at Rs 29.4tn for the week ending 17 Sep 2021. Reserve money rose by 15.2% on a YoY basis, compared with 14.8% last year. On FYTD basis, reserve money increased by 3.1% against 6.3% increase, a year ago.
- India's exports are expected to reach US\$ 190bn in H1FY22 registering a growth rate of over 51% on a YoY basis and 19% on a 2-year basis. The strong export performance can be attributed to demand from advanced countries and higher commodity prices. In FYTD22 (Apr-Aug'21), exports have risen to US\$ 164.2bn registering a growth of 82.8% (YoY) and 23.3% (2-year). Notably, government has set an ambitious target of US\$ 400bn exports in FY22.
- As per CMIE data, unemployment rate in India (30-day moving average) dropped to its lowest since 4 Aug 2021 to 7.12% as of 24 Sep 2021 from 7.57% in the previous week. This was led by moderation in both urban (8.88% from 9.05%) and rural unemployment rate (6.32% from 6.88%). Further with vaccination gaining pace and Covid-19 curve flattening, this print is likely to improve further in the near term.

## Global macro developments

- RBA in its minutes highlighted that global economic recovery remains uncertain. On domestic front, members expect GDP to decline materially in Q3CY21 (impact of delta variant). Improvement in labour market is also expected to be delayed. In the base case, activity was expected to return to its pre-delta path in H2CY22, with health situation being the key risk. Against this backdrop, asset purchases would be at AUD 4bn/week till at least Feb'22 (versus AUD 5bn/week till Nov'21).
- Bank of Japan (BoJ) voted 8-1 to keep policy rate unchanged at (0.1%) and the target for 10Y government bond yield at ~0%. The current pace of asset purchase was also retained. The statement also reiterated further monetary stimulus. This is on the back of weakening economic activity. On growth front, BoJ commented that "it remained in a severe state due to the impact of the pandemic."
- US Fed in its recent policy showed a hawkish bias, with 9 out of 18 Fed officials expecting a rate hike in CY22. FOMC projections also elucidate the same with inflation (PCE) estimate for CY21 revised sharply upwards to 4.2% from 3.4% earlier. The statement also notes that "moderation in the pace of asset purchases may soon be warranted". Projection for unemployment rate in CY21 has been revised upwards to 4.8% from 4.5% earlier. However, GDP forecast has been revised downwards to 5.9% from 7% earlier.
- Japan's services PPI eased marginally to 1% in Aug'21 from 1.1% in Jul'21. This was led by moderation in advertising (9.4% in Aug'21 from 9.9%), civil engineering, and agricultural services (2.4% in Aug'21 from 3.1%). Leasing and rental services contracted further. On the other hand, prices of financial (+0.8% in Aug'21 from -0.1%) and transportation and postal services (1.7% in Aug'21 from 1.6%) rose.
- Bank of England (BoE) kept policy rate unchanged and maintained its asset purchase program at £ 895bn. However, there was a hawkish tilt in the policy as 2 MPC members voted for early tapering. CPI inflation is likely to remain elevated at 4% in Q4CY21, with upside risks due to higher energy prices. Growth forecast for Q3CY21 has been revised down to 2.1% from 2.9%. Labour market uncertainty persists due to closure of the furlough scheme in Sep'21.
- Global flash PMIs indicate that both manufacturing and services activity slowed in the US, Eurozone and UK in Sep'21. US manufacturing PMI is down to 60.5 from 61.1 in Aug'21, while services PMI is at 54.4 versus 55.1. Services activity was marred by slowdown in new export orders, while shortage of raw materials impacted manufacturing sector. In Eurozone, apart from supply bottlenecks, slowdown in new orders and employment in both manufacturing (58.7 versus 61.4) and services (56.3 versus 59) impacted the headline prints.
- New home sales growth in the US eased to 1.5% (MoM) in Aug'21 from 6.4% in Jul'21. On YoY basis, sales were down by 13.4% in Aug'21 as median prices remained high and were up by 14.9% in Aug'21. Prices have been impacted by falling inventory, which in turn is under pressure due to shortage of raw material and labour. In Aug'21 inventory of homes (1.29mn) was down to 2.6 months compared with 3 months in Aug'20. Steady demand and lower mortgage rates are expected to boost sales with replenishing inventories and softening prices.

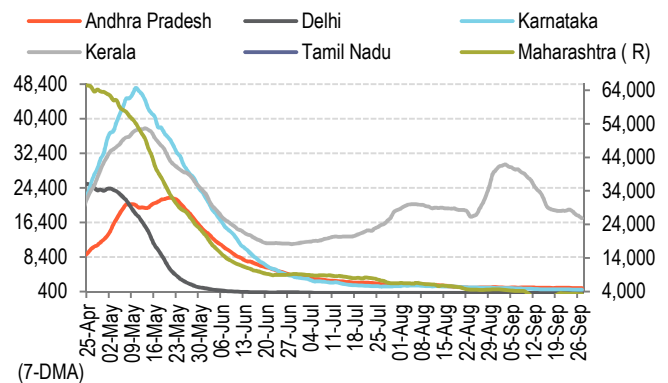
## High frequency indicators and weekly activity tracker

**Fig 2 – Global Covid-19 continue to moderate**



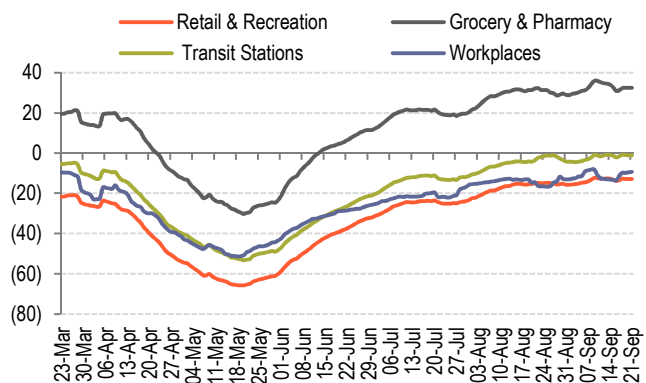
Source: CEIC, Bank of Baroda Research; Data as of 25 Sep 2021

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



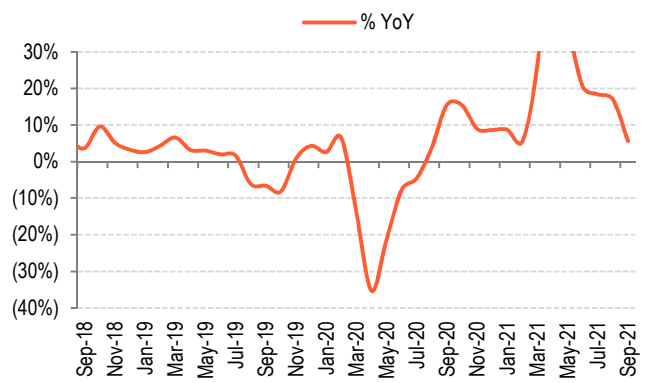
Source: CEIC, Bank of Baroda Research; Data as of 26 Sep 2021

**Fig 4 – Google mobility index steady**



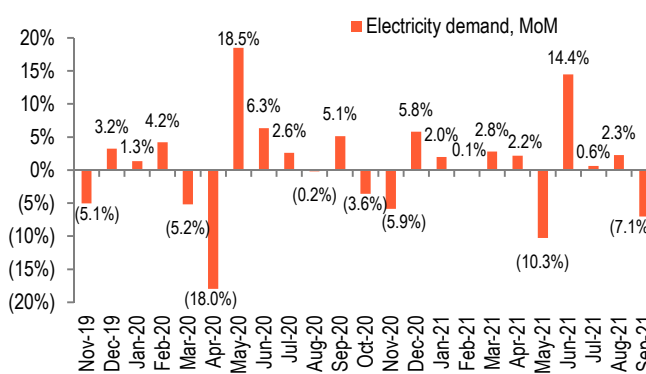
Source: CEIC, Bank of Baroda Research; Data as of 21 Sep 2021

**Fig 5 – Rail freight traffic inching down**



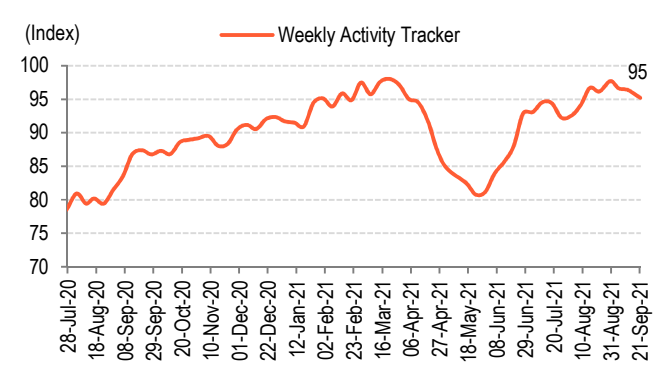
Source: CEIC, Bank of Baroda Research; Data as of 26 Sep 2021

**Fig 6 – Electricity demand seen slowing**



Source: Bloomberg, Bank of Baroda Research; \*Data as of 26 Sep 2021

**Fig 7 – Weekly activity tracker dips to 95**



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	1.45	9	10	(7)	80
UK	0.93	8	33	15	74
Japan	0.06	1	3	1	5
Germany	(0.23)	5	18	(7)	30
India <sup>^^</sup>	6.18	1	(7)	15	14
China	2.87	(1)	(2)	(23)	(26)
<b>2Y yields (Δ bps)</b>					
US	0.27	5	3	0	14
UK	0.38	9	24	30	45
Japan	(0.10)	2	2	1	5
Germany	(0.69)	1	5	(4)	2
India	4.16	8	3	(61)	(29)
China <sup>**</sup>	2.33	0	6	(5)	(27)
<b>Currencies (Δ %)</b>					
EUR	1.1720	0	(0.3)	(1.8)	0.8
GBP	1.3679	(0.5)	(0.2)	(1.4)	7.3
JPY	110.73	(0.7)	(0.6)	0	(4.9)
AUD	0.7262	0	0.3	(4.3)	3.3
INR	73.69	(0.3)	0.7	0.7	(0.1)
CNY	6.4662	0	0.2	(0.2)	5.2
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	34,798	0.6	(1.2)	1.1	28.1
FTSE	7,051	1.3	(1.0)	(1.2)	20.7
DAX	15,532	0.3	(1.7)	(0.5)	24.6
NIKKEI	30,249	(0.8)	9.0	4.1	30.4
Shanghai Comp	3,613	0	3.2	0.2	12.2
SENSEX	60,048	1.7	7.3	13.5	60.6
Brent (US\$/bbl)	78.09	3.7	9.9	2.5	86.3
Gold (US\$/oz)	1,750	(0.2)	(2.3)	(1.7)	(6.0)
CRB Index	552.9	(0.5)	(1.3)	0	37.0
Rogers Agri Index	1,083.5	1.2	(0.4)	6.5	45.6
LIBOR (3M)*	0.13	1	1	(1)	(9)
INR 5Y Swap*	5.77	0	0	8	28
<b>India FII data (US\$ mn)</b>					
	<b>23 Sep</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	183.0	360.8	793.2	(620.7)	1,406.6
FII-Equity	83.5	62.0	1,460.5	8,851.0	1,524.7

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	
27-Sep	Japan PPI services, % YoY	Aug	1.2%	1.1%	1.0%	
	Taiwan industrial production, % YoY	Aug	12.7%	13.9%	--	
	US durable goods orders, % MoM	Aug	0.6%	(0.1%)	--	
28-Sep	China industrial profits, % YoY	Aug	--	16.4%	--	
	Australia retail sales, % MoM	Aug	(2.5%)	(2.7%)	--	
	Germany GfK consumer confidence index	Oct	(1.6)	(1.2)	--	
	France consumer confidence index	Sep	100.0	99.0	--	
	Hong Kong exports, % YoY	Aug	25.8%	26.9%	--	
	US wholesale inventories, % MoM	Aug	0.8%	0.6%	--	
	US conference board consumer confidence index	Sep	115.0	113.8	--	
	UK nationwide house price index, % MoM	Sep	0.6%	2.1%	--	
	29-Sep	Spain CPI, % YoY	Sep	3.5%	3.3%	--
		BoT benchmark interest rate	29-Sep	0.5%	0.5%	--
UK mortgage approvals, in thousands		Aug	73.0	75.2	--	
Eurozone consumer confidence		Sep	--	(4.0)	--	
US MBA mortgage applications, % MoM		24-Sep	--	4.9%	--	
30-Sep	Japan industrial production, % MoM	Aug	(0.5%)	(1.5%)	--	
	Japan retail sales, % YoY	Aug	(1.0%)	2.4%	--	
	China non-manufacturing PMI	Sep	50.0	47.5	--	
	China manufacturing PMI	Sep	50.1	50.1	--	
	UK GDP, % QoQ (final)	Q2CY21	4.8%	4.8%	--	
	France CPI, % YoY	Sep	2.2%	1.9%	--	
	India fiscal deficit, Rs crore	Aug	--	46,898	--	
	India eight infrastructure industries index, % YoY	Aug	--	9.4%	--	
	Germany CPI, % YoY	Sep	4.2%	3.9%	--	
	US initial jobless claims, in thousands	25-Sep	330	351	--	
	US GDP, annualized, % QoQ (final)	Q2CY21	6.6%	6.6%	--	
	China BoP current account balance, \$bn	Q2CY21	--	52.8	--	
	India BoP current account balance, \$bn	Q2CY21	2.2	(8.1)	--	
	1-Oct	S.Korea exports, % YoY	Sep	16.0%	34.8%	--
Jibun Bank Japan manufacturing PMI		Sep	--	51	--	
Indonesia CPI, % YoY		Sep	1.7%	1.6%	--	
Markit India manufacturing PMI		Sep	--	52.3	--	
Markit France manufacturing PMI		Sep	55.2	55.2	--	
Markit/BME Germany manufacturing PMI		Sep	58.5	58.5	--	
Markit Eurozone manufacturing PMI		Sep	58.7	58.7	--	
Markit UK manufacturing PMI, SA		Sep	56.3	56.3	--	
Eurozone CPI, % MoM		Sep	0.5%	0.4%	--	
Markit US manufacturing PMI		Sep	60.5	60.5	--	
University of Michigan consumer sentiment index		Sep	71.0	71.0	--	
US ISM manufacturing		Sep	60	60	--	

Source: Bloomberg, Bank of Baroda Research

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