

## WEEKLY WRAP

29 November 2021

**Covid-19 variant strikes again**

Reports of new Covid-19 variant making inroads into major global economies once again, led to market mayhem. Global yields closed lower, with 10Y yields of US, UK and China dropping the most. Equity markets also ended in red and crude oil prices fell by 8% (US\$ 73/bbl). On the macro front, while flash PMIs of major economies surprised positively, US durable goods orders and Germany's Q3CY21 print came in lower than expected. On the domestic front too, fears over new Covid-19 variant led to decline in Sensex and depreciation of INR. Markets await GDP data.

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**Markets**

- **Bonds:** Except Germany, other global 10Y yields closed lower due to the spread of Covid-19 variant and re-imposition of travel restrictions. US 10Y yield fell by 7bps (1.47%) despite Fed minutes highlighting that rate hike/tapering might be 'sooner than currently anticipated'. Crude prices fell by 7.8% (US\$ 73/bbl) coupled with excess supply concerns and fear of muted demand. India's 10Y yield fell by 1bps (6.33%). System liquidity surplus rose to Rs 7.3tn as on 26 Nov 2021 versus Rs 6.8tn last week.
- **Currency:** Except EUR and JPY (higher) other global currencies closed lower this week amidst concerns over new Covid-19 variant. AUD fell the most by 1.3%. DXY strengthened by 0.1% on the back of hawkish Fed minutes. EUR rose by 0.1% supported by better than expected PMI print. INR depreciated by 0.9% led by FII outflows of US\$ 2.4bn in the week.
- **Equity:** Barring Shanghai Comp, other global indices ended lower led by renewed concerns surrounding the new Covid-19 variant and Fed's minutes (more hawkish than anticipated). Dax (5.6%) declined the most. Sensex (4.2%) too ended in red led by real estate stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 3.9mn versus 3.8mn last week. Cases rose in Europe (2.7mn versus 2.5mn) with sharp jump seen in Germany (0.4mn versus 0.3mn), and France (0.2mn versus 0.1mn). In India, cases rose at a slower pace of 62K versus 65K. Weekly tracker moderated to 100 (base level) from 101 in the previous week. US has fully vaccinated 58% of its population, Germany at 68% and UK at 68%. India is at ~37%.
- **Upcoming key events:** Major events this week include manufacturing and services PMIs, GDP prints of France, Australia and S. Korea, and US labour market data. Domestic market awaits Q2FY22 GDP prints, core sector output and fiscal data. Progress of new Covid-19 variant will also be key to watch.



## India macro developments

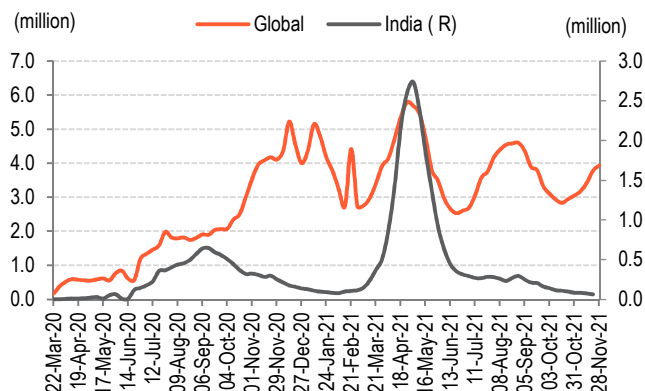
- India's exports have risen by 18.8% (YoY) to US\$ 20bn in Nov'21 (1-21 Nov 2021). In Oct'21 as well, exports rose by 43.1% to a record high of US\$ 35.7bn. The increase in Nov'21 was led by oil, engineering goods and gems and jewellery. In FYTD22, exports have remained buoyant and risen by 26.2% (Apr-Oct'21), on a 2-year basis to US\$ 233.9bn. Notably, government has set an exports target of US\$ 400bn in FY22. In Nov'21 (1-21 Nov), imports rose by 45.3% to US\$ 35.1bn, after increasing by 62.5% (US\$ 55.4bn) in Oct'21.
- E-way generation in India is seeing some moderation in Nov'21, owing to post festive demand lull. Daily e-way bills generated in Nov'21 averaged 1.9mn till 21 Nov 2021, compared with 2.3mn averaged till 24 Oct 2021 and 2.2mn averaged till 26 Sep 2021. This implies that while GST collections for Oct'21 will be robust, following Rs 1.3tn (2nd highest on record) collected for Sep'21, collections for Nov'21 are expected to soften.
- In India, Cabinet has approved the proposal to extend the PMGKAY-phase V for another 4 months (Dec-Mar'22). Under this scheme, 5kg foodgrains/person/month is distributed. This scheme is expected the cost the exchequer Rs 533bn. Separately, news reports indicate that government is expected to seek additional funds as supplementary grant for food subsidy (Rs 1.2tn), fertiliser subsidy (Rs 400bn) and export incentive scheme RoDTEP (Rs 750bn).
- Ministry of Finance (MoF) has increased the amount allocated for MGNREGA by Rs 100bn earlier this month. This is over and above Rs 730bn budgeted for it, as that amount has already been exhausted by the Ministry of Rural Development. Further allocation may also be made when government revises its BE figures at the time of budget making exercise. In FY21 too, MoF had increased the amount allocated to Rs 1.1tn from BE of Rs 651bn
- RBI reported that currency in circulation (CIC) declined by Rs 46bn and stood at Rs 28.5tn for the week ending 19 Nov 2021. Reserve money rose by 13.6% on a YoY basis, compared with 16.2% last year. On FYTD basis, reserve money increased by 4.7% against 9.5% increase, a year ago.
- India's foreign exchange reserves rose by US\$ 289mn to US\$ 640.4bn in the week ended 19 Nov 2021. Last week, forex reserves declined by US\$ 762mn. In FYTD22 so far, forex reserves have risen by US\$ 61.1bn, lower compared with an accretion of US\$ 99.7bn in the same period last year. In CYTD21, forex reserves have risen by US\$ 59.6bn versus US\$ 117.8bn in the same period last year.

## Global macro developments

- US existing home sales rose more than anticipated to 6.34mn in Oct'21 (est.:6.2mn) and against 6.29mn in Sep'21. This is the highest level since Jan'21. However, depleting inventories (down 12% on YoY basis) remained a cause of concern. Thus, median existing home price rose for the 116th straight month by 13% in Oct'21, on YoY basis.
- Reserve Bank of New Zealand has raised policy rate for the second time in two months, by another 0.25% to 0.75%. Notably, its neutral level of rate, at which monetary policy would neither stimulate nor restrict the economy, is projected to be higher at 2.6% by Dec'23 (against 2.1% estimated earlier). Further, CPI is expected to rise above 5% in the near-term before reverting to the 2% target by end of CY23.
- Global manufacturing activity improved in the Eurozone, US and Japan in Nov'21, led by a pickup in new orders. Manufacturing PMI in Eurozone (58.6 from 58.3 in Oct'21) and US (59.1 from 58.4) rose to a 2-month high. In Japan, manufacturing PMI rose to a ~4-year high of 54.2 from 53.2 (Oct'21). Output prices rose to a record-high in US and Eurozone. On the other hand, while services PMI picked up in Eurozone (56.6 versus 54.6) and Japan (52.1 versus 50.7), it moderated in the US (57 versus 58.7).
- US Fed in its minutes highlighted that hike in policy rate might be 'sooner than currently anticipated' due to overheating of inflation. Further, some members opined that tapering may be aggressive, if underlying economic conditions warrant. In a separate print, second estimate of Q3GDP showed that the economy rose by 2.1% (2% estimated earlier). The slight upward revision was on account of PCE, private inventory investment, state and local government spending. However, the print is far lower compared to 6.7% growth seen in Q2. Jobless claims print fell at its 52-year low of 199k for the week ending 20 Nov 2021.
- Germany IFO business climate index deteriorated to 96.5 in Nov'21 (est.: 96.7) from 97.7 in Oct'21. This is the fifth consecutive decline, after it peaked at 101.8 in Jun'21, aggravating concerns of supply side bottlenecks. The decline was broad based across sectors-manufacturing, construction, trade and services. Even the business expectations component fell to 94.2 from 95.4 in Oct'21.
- Bank of Korea (BoK), hiked its policy rate again by 25bps to 1%, in line with market expectations. Previously it had hiked policy rate in Aug'21. Rising inflationary pressure is the key driver, which also pushed BoK to raise its CY22 inflation forecast up to 2% from 1.5% earlier. However, growth forecasts have been left unchanged (4% for CY21 and 3% for CY22), despite worries over higher interest burden impacting household debt repayments and consumption. Analysts expect policy rate to reach 1.5% by the end of CY22.
- Germany's Q3CY21 GDP growth was revised downwards to 1.7% (QoQ) compared with 1.8% estimated earlier. In Q2CY21, GDP rose by 2%. While private consumption rose in Q3, government consumption, exports and business investment declined (QoQ). Separately, GfK's consumer sentiment index declined to a 6-month low of (-) 1.6 in Dec'21 from 1.0 in Nov'21. Persistent supply side bottlenecks as well as rising Covid-19 cases are likely to impact growth in Q4CY21.

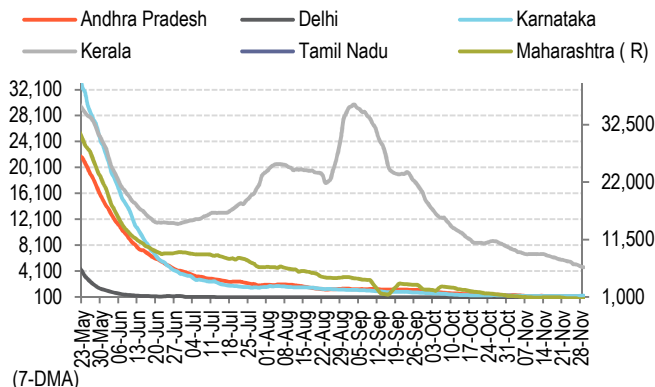
## High frequency indicators and weekly activity tracker

**Fig 1 – Global Covid-19 cases up on weekly basis**



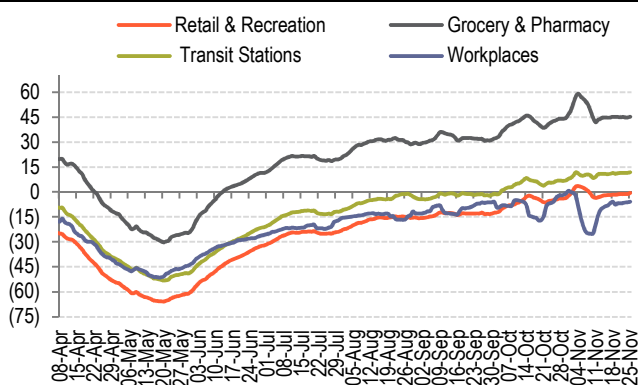
Source: CEIC, Bank of Baroda Research

**Fig 2 – Covid-19 cases in India still under control**



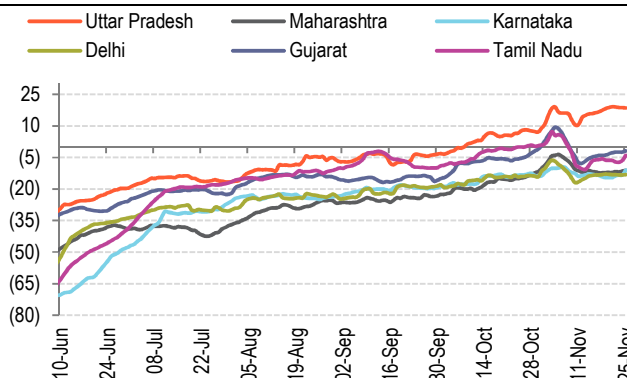
Source: CEIC, Bank of Baroda Research

**Fig 3 – Google mobility index steady**



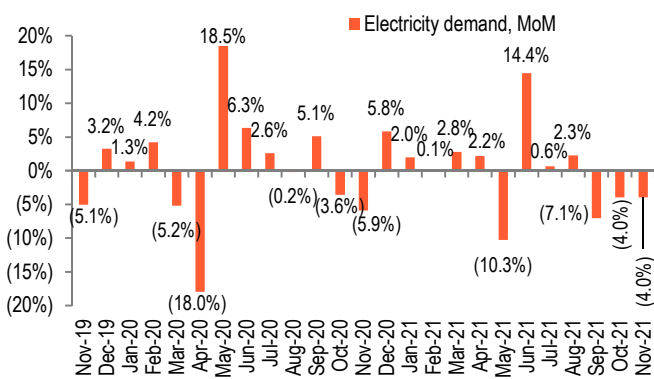
Source: CEIC, Bank of Baroda Research

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



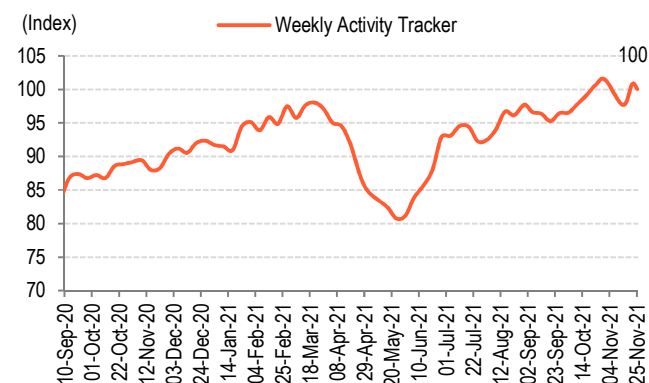
Source: CEIC, Bank of Baroda Research

**Fig 5 – Electricity demand also remains unchanged**



Source: Bloomberg, Bank of Baroda Research; Data as of 27 Nov 2021

**Fig 6 – Weekly activity tracker eases a tad to 100 from 101**



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	1.47	(7)	(11)	17	64
UK	0.83	(5)	(18)	25	54
Japan	0.07	(1)	(2)	5	4
Germany	(0.34)	1	(20)	9	25
India <sup>AA</sup>	6.33	(1)	(4)	8	42
China	2.86	(7)	(11)	(2)	(46)
<b>2Y yields (Δ bps)</b>					
US	0.50	(1)	1	28	35
UK	0.47	(2)	(18)	35	52
Japan	(0.13)	(1)	(3)	(2)	1
Germany	(0.76)	2	(14)	(2)	0
India	4.54	2	12	41	62
China <sup>**</sup>	2.47	(4)	(4)	(1)	(58)
<b>Currencies (Δ %)</b>					
EUR	1.1302	0.1	(3.2)	(4.2)	(5.5)
GBP	1.3340	(0.8)	(3.3)	(3.1)	0.2
JPY	113.70	0.3	(0.1)	(3.5)	(9.2)
AUD	0.7138	(1.3)	(5.4)	(2.4)	(3.4)
INR	74.87	(0.9)	0.1	(1.6)	(1.1)
CNY	6.3933	(0.1)	0	1.2	2.8
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	34,899	(2.0)	(2.3)	(1.6)	16.7
FTSE	7,044	(2.5)	(2.8)	(1.5)	10.6
DAX	15,257	(5.6)	(2.8)	(3.8)	14.4
NIKKEI	28,752	(3.3)	(0.2)	4.0	7.9
Shanghai Comp	3,564	0.1	1.3	1.2	4.6
SENSEX	57,107	(4.2)	(4.8)	1.8	29.3
Brent (US\$/bbl)	72.72	(7.8)	(13.8)	0	50.9
Gold (US\$/oz)	1,803	(2.3)	0.2	(0.8)	0.8
CRB Index	568.8	0	(0.2)	1.4	32.7
Rogers Agri Index	1,178.2	0	3.0	8.1	40.9
LIBOR (3M)*	0.18	1	4	6	(5)
INR 5Y Swap*	5.87	(5)	(4)	14	69
<b>India FII data (US\$ mn)</b>					
	<b>25 Nov</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	(36.9)	(377.9)	103.4	33.0	2,060.3
FII-Equity	(23.1)	(2,014.6)	922.7	7,181.2	(145.1)

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

Fig 8 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
29-Nov	Japan retail sales, % YoY	Oct	1.1%	(0.6%)	--
	Euro Area consumer confidence	Nov	--	(6.8)	--
	Germany CPI, % YoY	Nov	4.9%	4.5%	--
	US pending home sales, % MoM	Oct	0.7%	(2.3%)	--
	Germany retail sales, % MoM	Oct	0.6%	(2.5%)	--
30-Nov	Japan industrial production, % MoM	Oct	1.9%	(5.4%)	--
	China non-manufacturing PMI	Nov	51.4	52.4	--
	China manufacturing PMI	Nov	49.8	49.2	--
	France GDP, % QoQ	Q3CY21	--	3.0%	--
	Italy GDP WDA, % QoQ	Q3CY21	--	2.6%	--
	Euro Area CPI estimate, % YoY	Nov	4.3%	4.1%	--
	India fiscal deficit, Rs Crore	Oct	--	58,842.0	--
	India core sector output, % YoY	Oct	--	4.4%	--
	India GDP, % YoY	Q2FY22	8.1%	20.1%	--
	US Conference Board consumer confidence index	Nov	110.0	113.8	--
1-Dec	Australia GDP SA, % QoQ	Q3CY21	(2.5%)	0.7%	--
	Jibun Bank Japan manufacturing PMI	Nov	--	54.2	--
	Caixin China manufacturing PMI	Nov	50.5	50.6	--
	Markit India manufacturing PMI	Nov	--	55.9	--
	Markit/BME Germany manufacturing PMI	Nov	57.6	57.6	--
	Markit Eurozone manufacturing PMI	Nov	58.6	58.6	--
	Markit UK PMI manufacturing SA	Nov	--	58.2	--
	Markit US manufacturing PMI	Nov	--	59.1	--
	US ISM manufacturing index	Nov	61.0	60.8	--
2-Dec	South Korea GDP, % YoY	Q3CY21	4.0%	4.0%	--
	South Korea CPI, % YoY	Nov	3.0%	3.2%	--
	Euro Area PPI, % MoM	Oct	--	2.7%	--
	Euro Area unemployment rate, %	Oct	7.4%	7.4%	--
	US initial jobless claims, in thousands	27-Nov	--	199.0	--
3-Dec	Jibun Bank Japan services PMI Services	Nov	--	52.1	--
	Caixin China PMI services Services	Nov	51.0	53.8	--
	Markit India services PMI Services	Nov	--	58.4	--
	Markit Germany services PMI	Nov	53.4	53.4	--
	Markit Eurozone services PMI	Nov	56.6	56.6	--
	Markit/CIPS UK services PMI	Nov	--	58.6	--
	Euro Area retail sales, % MoM	Oct	0.3%	(0.3%)	--
	US change in nonfarm payrolls, in thousands	Nov	500.0	531.0	--
	US unemployment rate, %	Nov	4.5%	4.6%	--
	US ISM services Index	Nov	65.0	66.7	--
	US durable goods orders, % MoM	Oct	--	(0.5%)	--

Source: Bloomberg, Bank of Baroda Research

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