

WEEKLY WRAP

21 June 2021

US monetary cycle reversing

US Fed's dot plot suggests FOMC has front-loaded rate hikes to a year earlier to 2023 along with revision in inflation and growth forecast. This led to DXY's outperformance in the week. Commodities fell. Ironically, US 10Y despite intra-week volatility ended the week lower due to weak retail sales and jobless claims. India's 10Y was stable. MPC minutes reveal members are likely to be more data dependent going forward. May'21 inflation will also lead to upward revision in CPI trajectory for the year. We expect normalisation in Q4FY22.

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Markets

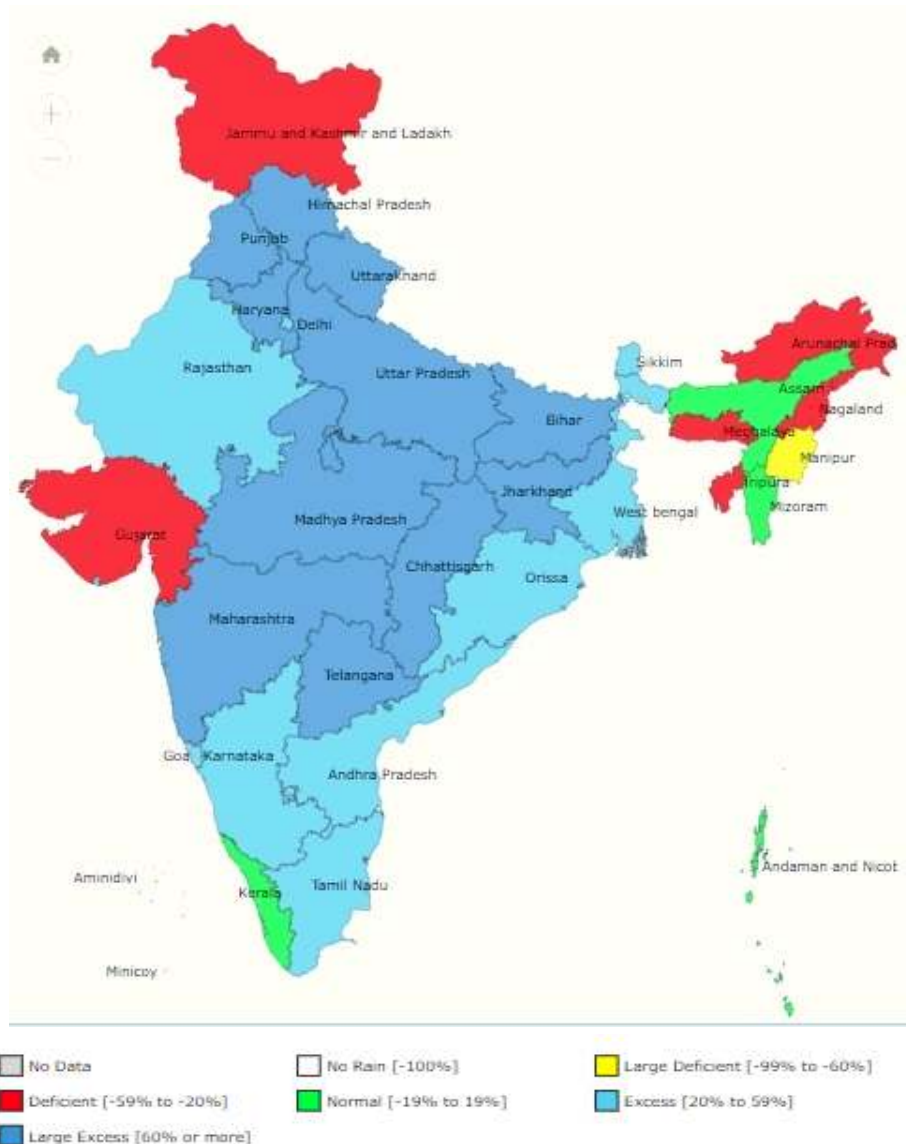
- **Bonds:** Germany's 10Y yield rose the most (by 7bps) as PPI inched up more than expected in May'21. Despite Fed being hawkish, US 10Y yield fell a tad by 1bps (1.44%) due to weaker retail sales and jobless claims data. Crude prices rose by 1.1% (US\$ 74/bbl) as OPEC expects limited US oil output growth in CY21. India's 10Y yield was stable at 6.01%. System liquidity surplus fell to Rs 4.1tn as on 18 Jun 2021 from Rs 4.8tn last week
- **Currency:** DXY rose by 1.8% (2-month high) as Fed signaled front-loading its rate hikes to CY23. AUD fell the most by 3%. GBP fell by 2.1% as UK deferred lifting lockdown restrictions owing to rising Covid-19 cases. INR fell by 1.1% amidst higher oil prices and FII outflows.
- **Equity:** Barring Nikkei, other global indices ended lower, as change in Fed's interest rate trajectory will change risk premia. Dow (3.4%) dropped the most, followed by Shanghai Comp (1.8%). Sensex (0.2%) too fell led by subdued global cues. Power and metal stocks fell the most.
- **Covid-19 tracker:** Global Covid-19 cases rose by 2.6mn this week versus 2.7mn last week. Fresh cases increased in UK (60K versus 45k). In India, cases rose by 0.5mn versus 0.7mn. Our weekly economic activity tracker index rose to 88 (100=Feb'20) from 86. Israel has fully vaccinated 59% of its population, UK at 45% and US at 44%. India is far lower at 3.5%.
- **Upcoming key events:** Major events this week include policy decision of BoE, global flash PMIs and US new home sales. On the domestic front, trajectory of Covid-19 cases following phased reopening will be monitored. Monsoon is progressing well and is 38% above LPA as of now.



Monsoon tracker

- For the period 1 Jun 2021 to 18 Jun 2021, monsoon is 38% above LPA compared with 32% last year. Large part of central India continues to receive excessive rainfall, this includes Uttar Pradesh, Maharashtra, Madhya Pradesh, Bihar, Telangana and other states. Kerala, Assam and Mizoram have received normal rains. Jammu and Kashmir, Gujarat, Meghalaya and Nagaland on the other hand have received deficient rainfall.

Fig 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun-18 Jun 2021

India macro developments

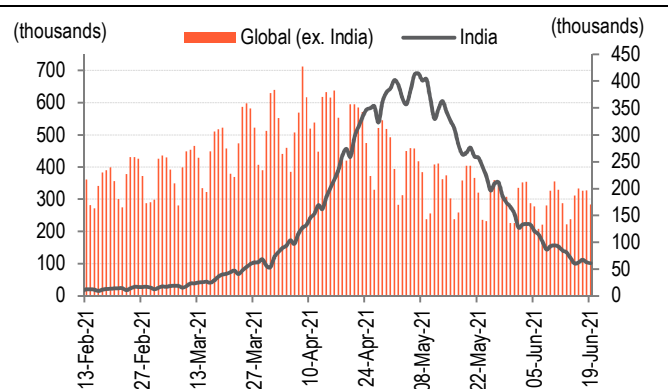
- RBI has released a consultative document for harmonising the regulatory framework for various regulated lenders in the microfinance space. The proposal includes freedom for MFIs to set interest rates through a board approved policy. It also suggested aligning the pricing guidelines for NBFCs-MFIs with NBFCs. Further, it has proposed introduction of a standard simplified factsheet on pricing of loans.
- India's exports rose to US\$ 32.3bn in May'21 (69.4% YoY) from US\$ 30.6bn in Apr'21 (195.7%). Over a 2-year horizon, exports have risen by 8%. Imports eased to US\$ 38.6bn in May'21 (73.6%) from US\$ 45.7bn in Apr'21 (167.1%). Compared with May'19, imports have fallen by 17.4%. Non-oil-non-gold imports have declined by 3% over 2-year horizon.
- India's gross direct tax collections rose to Rs 2.2tn (57%) in Q1FY22 (until 15 Jun) from Rs 1.4tn last year. Within this, Rs 969bn was under corporate tax collection, Rs 1.2tn under income tax (including security transaction). Despite the impact of second wave of Covid-19, advance tax collections for Q1FY22 were higher at Rs 288bn versus Rs 117bn last year.
- Government has slashed the tariff value for import of edible oils. Tariffs on RBD and crude palmolein have been reduced by US\$ 112/tonne, crude palm oil by US\$ 86/tonne and crude soyabean oil by US\$ 37/tonne. Oil and fats with weight of 3.56% in overall CPI have registered double-digit inflation since Apr'20. This move is likely to soften the retail prices.
- India's forex reserves rose by US\$ 3.1bn to a new record high of US\$ 608.1bn in the week ended 11 Jun 2021. With this, India is now the fourth largest accumulator of forex reserves after China, Japan and Switzerland. In FYTD22, India's forex reserves have risen by US\$ 28.8bn versus US\$ 32.1bn in the same period last year. Import cover stands at 15months.
- MPC members believe impact of second wave is lower than the first wave during the national lockdown. With sharp reduction in infections, activity is normalising. Growth will be led by government's capex, exports and a normal monsoon. However, a few members spoke of being data dependent on inflation risks getting generalised. With inflation above 6% in May'21, MPC is likely to discuss inflation trajectory in even greater detail in next meeting. We expect policy normalisation in Q4FY22 and repo rate hike in early FY23.

Global macro developments

- RBA in its minutes for June meeting confirmed that reaching full employment remained a priority for the Bank and it would be “premature to consider ceasing” the bond buying program (set to expire in Sep’21). Members believe that inflation will not reach 2-3% band on a sustained basis until CY24. Thus, in the July meeting, focus will be to decide whether to extend/scale back the bond-buying program and the 3Y yield target.
- Retail sales in the US fell by 1.3% in May’21 (est.: -0.6%) from 0.9% rise in Apr’21, owing to shift in spending pattern towards services. Core retail sales also fell by 0.7% versus 0.4% dip. Separately, industrial production rose by 0.8% in May’21 (est.: 0.6%) from 0.1% in Apr’21. The recovery was led by mining (1.2% from -0.4%) and manufacturing (0.9% from -0.1%). PPI also rose to its highest in the current series (since Nov’10) by 6.6%.
- Japan’s exports rose by 49.6% in May’21 (41 year high), from 38% rise in Apr’21, mainly owing to base effect (28.3% drop in May’20). Exports of both cars and auto parts rose sharply by 135.5% and 139.1% respectively, led by demand from the US. Imports too rose, by 27.9% versus 12.8% in Apr’21, owing to recovery in domestic demand and higher crude prices.
- US Fed while keeping the policy rate on hold, signalled for two possible rate hikes by the end of CY23, as the economy recovers with rapid pace of vaccinations. It pointed to the possibility of gradual pull back on the bond purchase programme. Fed has revised its GDP forecast upwards to 7% for CY21 (6.5% earlier) and 2.4% for CY23 (2.2% earlier). It has also revised its inflation forecast to 3.4% for CY21 (2.4% earlier).
- China’s industrial production rose by 8.8% (est.: 9.2%) in May’21 versus 9.8% in Apr’21. Over a 2-year horizon, output was up by 6.6%. FAI growth eased to 15.4% in Jan-May’21 from 19.9% in Jan-Apr’21. Over a 2-year horizon too, it was up by only 4.2%, indicating easing government stimulus to avoid over heating of the economy. Retail sales also missed expectations (13.6%) and rose by 12.4% in May’21 from 17.7% in Apr’21, in view of tighter Covid-19 restrictions.
- US jobless claims rose for the first time since Apr’21 by 37,000 to 0.41mn (est. 0.36mn) for the week ended 12 Jun 2021. Despite the increase in claims, which is seen as a temporary blip, the layoffs have eased sharply on the back of vaccination and hiring by businesses. The 4-week moving average for jobless claims was at 0.39mn versus 0.4mn last week.

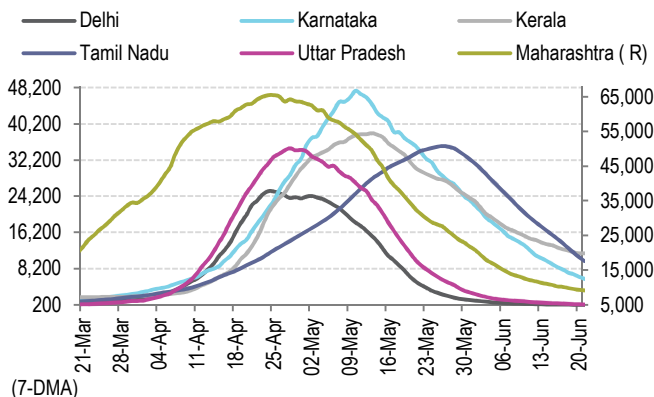
High Frequency Indicators and Weekly Activity Tracker

Fig 2 – GLOBAL COVID-19 CASES STEADILY DOWN



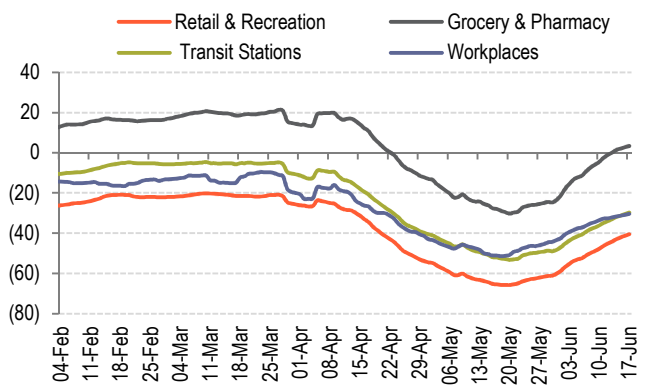
Source: CEIC, Bank of Baroda Research *Data as of 19 Jun 2021

Fig 3 – MODERATION CONTINUES IN COVID-19 CASES IN INDIAN STATES



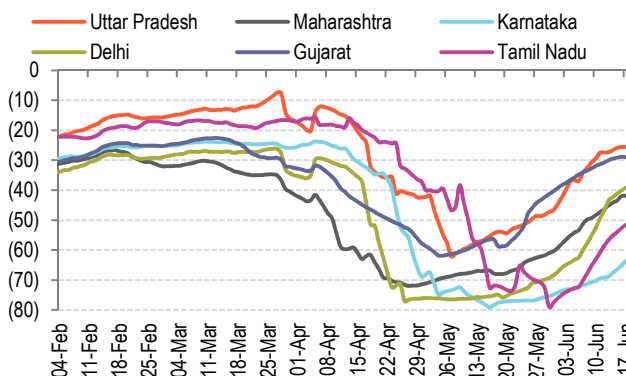
Source: CEIC, Bank of Baroda Research *Data as of 20 Jun 2021

Fig 4 – GOOGLE MOBILITY INDEX PICKING UP



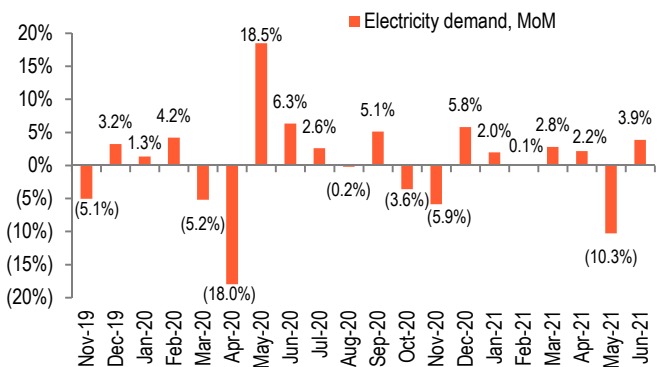
Source: CEIC, Bank of Baroda Research; *Data as of 17 Jun 2021

Fig 5 – IMPACT OF EASING LOCALISED LOCKDOWN ON MOBILITY: RETAIL AND RECREATION



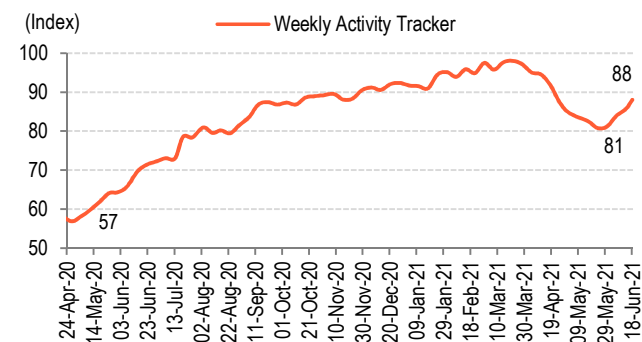
Source: CEIC, Bank of Baroda Research; *Data as of 17 Jun 2021

Fig 6 – IMPROVEMENT IN ELECTRICITY DEMAND



Source: Bloomberg, Bank of Baroda Research; *Data as of 19 Jun 2021

Fig 7 – WEEKLY ACTIVITY TRACKER SHOWING STEADY IMPROVEMENT



Source: CEIC, Bank of Baroda Research, Note: Composite weighted average index of high frequency indicators; *Data as of 18 Jun 2021

Fig 8 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.44	(1)	(20)	(28)	74
UK	0.75	4	(12)	(9)	51
Japan	0.06	2	(3)	(5)	4
Germany	(0.20)	7	(10)	9	22
India	6.01	0	3	(19)	16
China	3.15	0	2	(9)	27
2Y yields (Δ bps)					
US	0.25	11	11	10	7
UK	0.13	8	4	4	17
Japan	(0.12)	0	1	2	3
Germany	(0.67)	2	(2)	3	0
India	4.42	18	7	(39)	7
China**	2.47	3	7	(11)	30
Currencies (Δ %)					
EUR	1.1864	(2.0)	(2.9)	(0.3)	6.1
GBP	1.3810	(2.1)	(2.7)	(0.4)	11.8
JPY	110.21	(0.5)	(1.2)	(1.2)	(3.1)
AUD	0.7479	(3.0)	(4.0)	(3.4)	9.4
INR	73.87	(1.1)	(1.1)	(1.9)	3.0
CNY	6.4531	(0.9)	(0.4)	0.9	8.7
Equity & Other indices (Δ %)					
Dow	33,290	(3.4)	(2.3)	2.0	28.7
FTSE	7,017	(1.6)	(0.2)	4.6	11.5
DAX	15,448	(1.6)	0.4	5.7	25.3
NIKKEI	28,964	0.1	2.0	(2.8)	28.9
Shanghai Comp	3,525	(1.8)	(0.1)	3.5	18.8
SENSEX	52,344	(0.2)	4.3	5.0	50.7
Brent (US\$/bbl)	73.51	1.1	7.0	13.9	74.2
Gold (US\$/oz)	1,764	(6.0)	(5.6)	1.1	1.2
CRB Index	554.5	(1.6)	2.3	9.8	52.7
Rogers Agri Index	1,027.8	(5.0)	(3.6)	7.1	52.6
LIBOR (3M)*	0.13	2	(2)	(6)	(17)
INR 5Y Swap*	5.70	4	(6)	(27)	54
India FII data (US\$ mn)					
	17 Jun	WTD	MTD	CYTD	FYTD
FII-Debt	(17.2)	(9.7)	(265.1)	(2,845.7)	(818.5)
FII-Equity	(123.9)	(41.7)	1,392.2	7,978.3	652.0

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

Fig 9 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
21-Jun	South Korea exports 20 days, % YoY	Jun	--	53.3%	--
	Australia retail sales, % MoM	May	0.4%	1.1%	--
	Taiwan export orders, % YoY	May	40.3%	42.6%	--
	South Korea retail sales, % YoY	May	--	13.7%	--
22-Jun	South Korea PPI, % YoY	May	--	5.6%	--
	Japan machine tool orders, % YoY	May	--	140.7%	--
	Taiwan unemployment rate, %	May	--	3.7%	--
	Italy industrial sales, % MoM	Apr	--	1.6%	--
	Euro Area consumer confidence	Jun	--	(5.1)	--
23-Jun	US existing home sales, in mn	May	5.7	5.9	--
	Jibun Bank Japan manufacturing PMI	Jun	--	53.0	--
	Jibun Bank Japan services PMI	Jun	--	46.5	--
	Thailand customs exports, % YoY	May	34.5%	13.1%	--
	BoT benchmark interest rate, %	23-Jun	0.5%	0.5%	--
	Markit France manufacturing PMI	Jun	--	59.4	--
	Markit France services PMI	Jun	--	56.6	--
	Markit/BME Germany manufacturing PMI	Jun	64.4	64.4	--
	Markit Germany services PMI	Jun	55.3	52.8	--
	Markit Eurozone manufacturing PMI	Jun	62.6	63.1	--
	Markit Eurozone services PMI	Jun	57.1	55.2	--
	Markit UK PMI manufacturing SA	Jun	--	65.6	--
	Markit/CIPS UK services PMI	Jun	--	62.9	--
	US current account balance, US\$ bn	Q1CY21	(207.1)	(188.5)	--
	Markit US manufacturing PMI	Jun	61.8	62.1	--
	Markit US services PMI	Jun	69.9	70.4	--
	US new home sales, in thousands	May	875.0	863.0	--
24-Jun	France business confidence	Jun	--	108.0	--
	ECB economic bulletin				
	Germany IFO expectations	Jun	104.0	102.9	--
	BSP overnight borrowing rate, %	24-Jun	2.0%	2.0%	--
	Bank of England bank rate, %	24-Jun	--	0.1%	--
	US advance goods trade balance, US\$ bn	May	(88.2)	(85.2)	--
	US durable goods orders, % MoM	May	3.0%	(1.3%)	--
	US GDP annualized, % QoQ	Q1CY21	6.4%	6.4%	--
25-Jun	US initial jobless claims, in thousands	19-Jun	--	412.0	--
	UK GfK consumer confidence	Jun	--	(9.0)	--
	Singapore industrial production, % YoY	May	19.0%	2.1%	--
	Germany GfK consumer confidence	Jul	(3.3)	(7.0)	--
	Italy manufacturing confidence	Jun	--	110.2	--
University of Michigan consumer sentiment	Jun	86.8	86.4	--	

Source: Bloomberg, Bank of Baroda Research

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