

## WEEKLY WRAP

31 May 2021

**Indian states to begin phased reopening**

**US yields fell on the back of lower than estimated home sales and durables goods orders. DXY index was flat with economic sentiment in Europe improving. Oil prices rose by 5%. On the domestic front, our weekly economic tracker shows economic activity picking up, with index at 81 versus 79. Activity should improve further with cases coming down. India's 10Y yields rose as centre's borrowing may increase to compensate the states for GST shortfall. This week, Q4 GDP, FY21 fiscal deficit and RBI policy is awaited.**

**Sameer Narang**

+91 22 6698 5713

chief.economist@bankofbaroda.com

**Sonal Badhan**

sonal.badhan@bankofbaroda.com

**Markets**

- **Bonds:** Global yields closed mixed this week. US 10Y yield fell by 3bps (1.59%) led by lower than estimated US new and pending home sales. Crude prices rose by 4.8% (US\$ 69.7/bbl). India's 10Y yield rose by 3bps (6%) on news of higher than planned borrowing by central government. System liquidity surplus rose to Rs 4tn as on 28 May 2021 from Rs 3.7tn in previous week.
- **Currency:** Except JPY and AUD (lower), other global currencies closed higher this week. DXY closed flat. GBP rose by 0.3% amidst expectations of a rate hike in CY22. JPY depreciated sharply by 0.8% as lockdown restrictions are likely to extend further. INR rose by 0.5% to a 2-month high as Covid-19 cases continued to dip. FII inflows were US\$ 177mn.
- **Equity:** Global indices ended higher, led by drop in Covid-19 cases globally. Jobless print in US was better than estimated. Shanghai Comp surged by 3.3%, followed by Nikkei (2.9%). Sensex (1.7%) too ended in green led by real estate and tech stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose at a slower pace by 3.7mn this week versus 4mn last week. India added 1.5mn cases versus 2mn WoW. Our weekly economic activity tracker index rose to 81 (100=Feb'20) from 79 last week. Israel has vaccinated 63% of its population (single dose), UK at 57% and US at 50%. India is now at 12%.
- **Upcoming key events:** Markets await manufacturing and services PMI data of major global economies and payroll data of US. On the domestic front, GDP data, fiscal estimates and RBI's policy decision will be key to watch.



## India macro developments

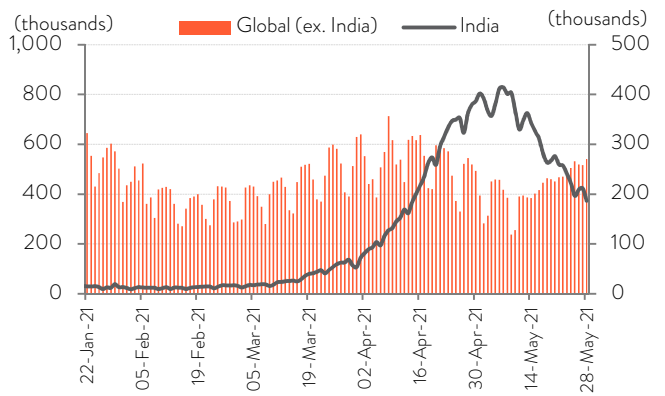
- RBI reported that currency in circulation (CIC) increased by Rs 63.3bn and stood at Rs 29.4tn for the week ending 21 May 2021. Reserve money rose by 17.4% on a YoY basis, compared with 12.8% last year. On FYTD basis, reserve money increased by 4.9% against 3% increase, a year ago.
- As per news reports, GST compensation to states in FY22 is estimated to shoot upto Rs 2.69tn compared with budgeted Rs 1.11tn. The excess Rs 1.58tn will have to be met through market borrowings. In FY21, Centre had borrowed from markets Rs 1.1tn on behalf of states to meet the shortfall in GST compensation.
- FDI inflows into India rose by 10% to a historic high of US\$ 81.7bn in FY21 versus US\$ 74.4bn in FY20. FDI equity inflows rose by 19% to US\$ 59.6bn. Singapore remained the biggest source of FDI inflows with a share of 29% followed by US at 23%. However, FDI inflows from Saudi Arabia jumped the most to US\$ 2.8bn from US\$ 89.9mn in FY20. Sector wise, computer hardware and software attracted 44% of total FDI inflows.
- RBI's balance sheet expanded by 7% in FY21 (Jul'20-Mar'21) to Rs 57tn (29% of GDP) as against 30% increase last year (Jul'19-Jun'20, 26% of GDP). On the liability side, while deposits with RBI increased (excess liquidity), provisions fell sharply (INR, gold and interest rates). Asset side saw increase in domestic and foreign securities (FX reserves, OMOs). Loans to SCBs fell. Even in a shorter accounting period, RBI's surplus increased to Rs 991bn from Rs 571bn last year due to higher other income (trading) and lower provisions.
- GST Council in its latest meeting has decided to exempt IGST on import of Covid-19 relief material (including equipment) until 31 Aug 2021. Another key decision was to reduce the compliance burden of small and medium-sized taxpayers. They will be able to file pending returns and avail benefits of amnesty scheme with reduced late fees. FM also stated that rough estimates show that centre will have to borrow additional Rs 1.58tn to pay to states for the shortfall in compensation cess.
- India's forex reserves rose to a historic high of US\$ 592.9bn in the week ended 21 May 2021. On a weekly basis, forex reserves rose by US\$ 2.9bn compared with US\$ 0.6bn last week. In FYTD22, forex reserves have increased by US\$ 13.6bn versus US\$ 14.5bn accretion in the same period last year.

## Global macro developments

- Central Bank of Korea has decided to keep the policy rate unchanged at 0.5% for now. It has also revised upward its GDP forecast for CY21 to 4% from 3% projected in Feb'21. The Bank has also signalled possible shift in accommodative stance in the remaining part of CY21, depending upon trajectory of Covid-19 cases and sustained economic recovery.
- US GDP rose at an unrevised pace of 6.4% in Q1CY21 from 4.3% in Q4CY20. The upward revision in consumer spending was offset by downward revision in exports. In a separate print, US durable goods orders fell by 1.3% in Apr'21 from 1.3% increase in Mar'21, driven by computer chip shortage. US jobless claims on the other hand, fell to a new pandemic low of 406,000 for the week ending 22 May 2021 from 444,000.
- China's industrial profits rose by 57% YoY in Apr'21 from 92.3% in Mar'21 as base effect begins to normalise. However, the recovery is seen to be uneven. Most of the improvement is attributed to higher profits of chemical products and metal processing firms, which in turn is led by higher internal commodity prices. In CYTD21 (Jan-mid-May) prices of China's steel products has risen by 30% YoY. On the other hand, garment and textile manufacturing firms are yet to reach their pre-pandemic profit levels.
- US mortgage applications declined by 4.2% for the week ending 21 May 2021 against 1.2% increase in the previous week. This was on account of tight supply and rising rates. New home sales also reported a decline of 5.9% in Apr'21. The 30-year fixed mortgage rate rose to 3.18% last week from 3.15% earlier
- As per Australia's preliminary trade estimates, exports remained flat at \$36bn in Apr'21 on a MoM basis despite increase in exports of medicinal & pharma products (55%), petroleum (8%) and coal (1%). However, imports declined by 7% to \$26bn in Apr'21 driven by sharp drop in non-monetary gold (-46%) and transport equipment (-34%). Thereby, the trade surplus expanded to \$10.1bn, 3rd highest on record.
- Singapore's GDP rose by 1.3% on YoY basis in Q1CY21 versus 0.2% increase as per preliminary estimates and 2.4% decline in Q4CY20. The push was provided by resumption in global demand leading to 10.7% increase in manufacturing activity (7.5% in advance estimate). However, both construction (22.7% versus 20.2% drop in AE) and services output continued to contract (0.5% versus 1.2% drop in AE) in Q1CY21.

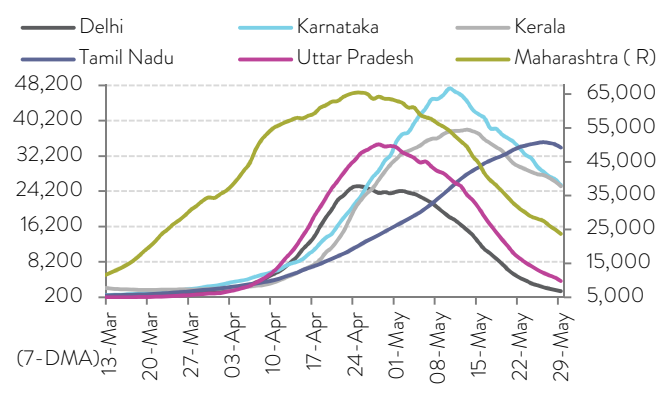
## High Frequency Indicators and Weekly Activity Tracker

**FIG 1 – INDIA’S COVID-19 CASES EASING**



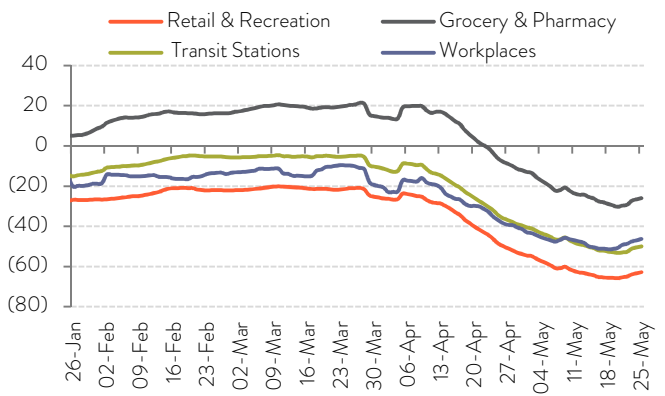
Source: Bloomberg, Bank of Baroda Research \*Data as of 28 May 2021

**FIG 2 – MODERATION IN COVID-19 CASES IN SEVERAL STATES**



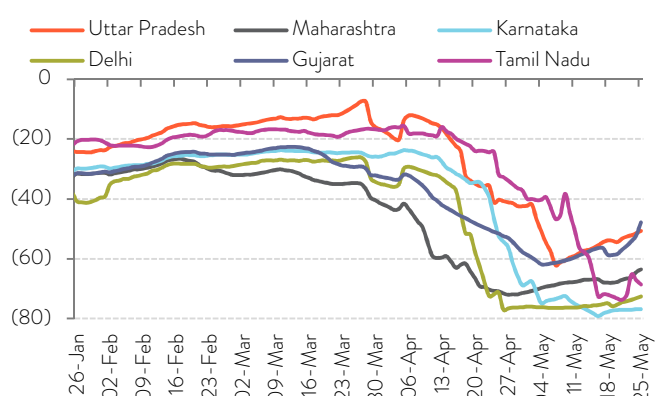
Source: CEIC, Bank of Baroda Research \*Data as of 29 May 2021

**FIG 3 – GOOGLE MOBILITY INDEX SHOWING SIGNS OF IMPROVEMENT**



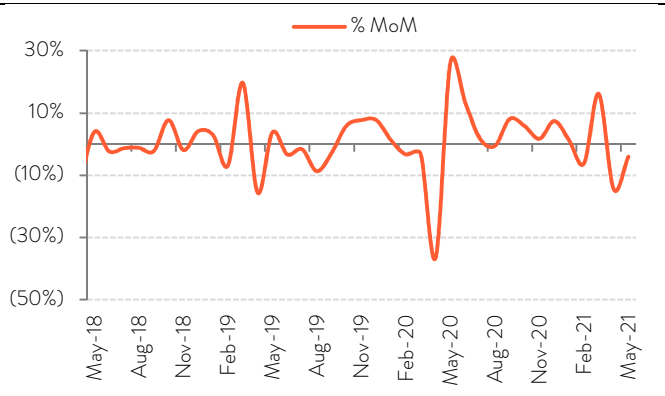
Source: CEIC, Bank of Baroda Research; \*Data as of 25 May 2021

**FIG 4 – IMPACT OF LOCALISED LOCKDOWN ON MOBILITY: RETAIL AND RECREATION**



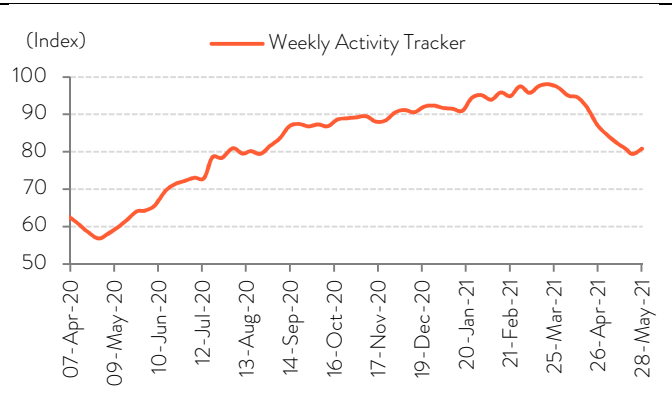
Source: CEIC, Bank of Baroda Research; \*Data as of 25 May 2021

**FIG 5 – RAIL FREIGHT VOLUMES IMPROVING**



Source: Bloomberg, Bank of Baroda Research; \*Data as of 28 May 2021

**FIG 6 – WEEKLY ACTIVITY TRACKER SHOWING PICK UP IN ACTIVITY**



Source: CEIC, Bank of Baroda Research, Note: Composite weighted average index of high frequency indicators; \*Data as of 28 May 2021

FIG 7 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

| Particulars                             | Current       | 1W         | 1M         | 3M          | 12M         |
|---|---------------|------------|------------|-------------|-------------|
| <b>10Y yields (Δ bps)</b>               |               |            |            |             |             |
| US                                      | 1.59          | (3)        | (3)        | 19          | 94          |
| UK                                      | 0.80          | (3)        | 2          | (2)         | 61          |
| Japan                                   | 0.08          | 0          | 0          | (8)         | 8           |
| Germany                                 | (0.18)        | (5)        | 7          | 8           | 26          |
| India                                   | 6.00          | 3          | (5)        | (23)        | 24          |
| China                                   | 3.09          | 2          | (11)       | (19)        | 40          |
| <b>2Y yields (Δ bps)</b>                |               |            |            |             |             |
| US                                      | 0.14          | (1)        | (4)        | 1           | (2)         |
| UK                                      | 0.06          | 2          | 0          | (7)         | 11          |
| Japan                                   | (0.12)        | 0          | 1          | (2)         | 3           |
| Germany                                 | (0.66)        | (1)        | 3          | 0           | (0)         |
| India                                   | 4.27          | (2)        | (23)       | (45)        | (12)        |
| China**                                 | 2.36          | (10)       | (4)        | (20)        | 80          |
| <b>Currencies (Δ %)</b>                 |               |            |            |             |             |
| EUR                                     | 1.2192        | 0.1        | 0.8        | 1.0         | 9.8         |
| GBP                                     | 1.4188        | 0.3        | 2.0        | 1.8         | 14.9        |
| JPY                                     | 109.85        | (0.8)      | (1.1)      | (3.1)       | (1.9)       |
| AUD                                     | 0.7712        | (0.3)      | (0.7)      | 0.1         | 15.7        |
| INR                                     | 72.45         | 0.5        | 3.0        | 1.4         | 4.2         |
| CNY                                     | 6.3685        | 1.0        | 1.8        | 1.7         | 10.8        |
| <b>Equity &amp; Other indices (Δ %)</b> |               |            |            |             |             |
| Dow                                     | 34,529        | 0.9        | 1.6        | 11.6        | 36.0        |
| FTSE                                    | 7,023         | 0.1        | 1.1        | 8.3         | 15.6        |
| DAX                                     | 15,520        | 0.5        | 1.8        | 12.6        | 33.9        |
| NIKKEI                                  | 29,149        | 2.9        | 0.5        | 0.6         | 33.2        |
| Shanghai Comp                           | 3,601         | 3.3        | 4.6        | 2.6         | 26.2        |
| SENSEX                                  | 51,423        | 1.7        | 5.1        | 4.7         | 58.6        |
| Brent (US\$/bbl)                        | 69.63         | 4.8        | 4.8        | 5.3         | 97.1        |
| Gold (US\$/oz)                          | 1,904         | 1.2        | 7.2        | 9.8         | 10.0        |
| CRB Index                               | 548.5         | 1.5        | 2.5        | 12.7        | 49.4        |
| Rogers Agri Index                       | 1,054.1       | 0.1        | (1.4)      | 8.6         | 57.5        |
| LIBOR (3M)*                             | 0.13          | (1)        | (4)        | (5)         | (21)        |
| INR 5Y Swap*                            | 5.72          | 7          | 19         | (14)        | 59          |
| <b>India FII data (US\$ mn)</b>         |               |            |            |             |             |
|   | <b>27 May</b> | <b>WTD</b> | <b>MTD</b> | <b>CYTD</b> | <b>FYTD</b> |
| FII-Debt                                | (130.9)       | (188.5)    | 72.8       | (2,319.5)   | (292.2)     |
| FII-Equity                              | 6.1           | 365.5      | (21.1)     | 5,816.0     | (1,510.3)   |

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

FIG 8 – DATA RELEASE CALENDAR

| Date   | Event                                       | Period | Estimate | Previous | Actual |
|--------|---|--------|----------|----------|--------|
| 31-May | South Korea industrial production, % YoY    | Apr    | 11.3%    | 4.7%     | --     |
|        | Japan industrial production, % MoM          | Apr    | 4.0%     | 1.7%     | --     |
|        | Japan retail sales, % YoY                   | Apr    | 15.3%    | 5.2%     | --     |
|        | China non-manufacturing PMI                 | May    | 55.1     | 54.9     | --     |
|        | China manufacturing PMI                     | May    | 51.2     | 51.1     | --     |
|        | India fiscal deficit, Rs crore              | Mar    | --       | 1,71,543 | --     |
|        | India GDP, % YoY                            | Q4FY21 | 0.9%     | 0.4%     | --     |
|        | India GDP annual estimate, % YoY            | FY21   | (7.5%)   | (8.0%)   | --     |
|        | Germany CPI, % YoY                          | May    | 2.3%     | 2.0%     | --     |
|        | Germany retail sales, % MoM                 | Apr    | (2.2%)   | 7.7%     | --     |
| 1-Jun  | South Korea exports, % YoY                  | May    | 47.2%    | --       | --     |
|        | Jibun Bank Japan manufacturing PMI          | May    | --       | 52.5     | --     |
|        | Caixin China manufacturing PMI              | May    | 51.9     | 51.9     | --     |
|        | RBA cash rate target, %                     | 01-Jun | 0.10%    | 0.10%    | --     |
|        | Markit India manufacturing PMI              | May    | --       | 55.5     | --     |
|        | Markit France manufacturing PMI             | May    | 59.2     | 59.2     | --     |
|        | Markit/BME Germany manufacturing PMI        | May    | 64.0     | 64.0     | --     |
|        | Markit Eurozone manufacturing PMI           | May    | 62.8     | 62.8     | --     |
|        | Markit UK PMI manufacturing SA              | May    | 66.1     | 66.1     | --     |
|        | Euro Area unemployment rate, %              | Apr    | 8.1%     | 8.1%     | --     |
|        | Italy GDP WDA, % QoQ                        | Q1CY21 | (0.4%)   | (0.4%)   | --     |
|        | Euro Area CPI estimate, % YoY               | May    | 1.9%     | 1.6%     | --     |
|        | Markit US manufacturing PMI                 | May    | 61.5     | 61.5     | --     |
|        | US ISM manufacturing PMI                    | May    | 61.0     | 60.7     | --     |
| 2-Jun  | South Korea CPI, % YoY                      | May    | 2.7%     | 2.3%     | --     |
|        | Australia GDP SA, % QoQ                     | Q1CY21 | 1.1%     | 3.1%     | --     |
|        | Euro Area PPI, % YoY                        | Apr    | 7.4%     | 4.3%     | --     |
| 3-Jun  | Jibun Bank Japan services PMI               | May    | --       | 45.7     | --     |
|        | Australia exports, % MoM                    | Apr    | 6.0%     | (2.0%)   | --     |
|        | Australia retail sales, % MoM               | Apr    | 1.1%     | 1.1%     | --     |
|        | Caixin China services PMI                   | May    | 56.0     | 56.3     | --     |
|        | Markit India services PMI                   | May    | --       | 54.0     | --     |
|        | Markit France services PMI                  | May    | 56.6     | 56.6     | --     |
|        | Markit Germany services PMI                 | May    | 52.8     | 52.8     | --     |
|        | Markit Eurozone services PMI                | May    | 55.1     | 55.1     | --     |
|        | Markit/CIPS UK services PMI                 | May    | 61.8     | 61.8     | --     |
|        | US initial jobless claims, in thousands     | 29-May | --       | 406.0    | --     |
| 4-Jun  | Thailand CPI, % YoY                         | May    | 3.1%     | 3.4%     | --     |
|        | India RBI repo rate, %                      | 04-Jun | 4.0%     | 4.0%     | --     |
|        | Singapore retail sales, % YoY               | Apr    | 60.5%    | 6.2%     | --     |
|        | Euro Area retail sales, % MoM               | Apr    | (1.4%)   | 2.7%     | --     |
|        | US change in nonfarm payrolls, in thousands | May    | 663.0    | 266.0    | --     |
|        | US unemployment rate, %                     | May    | 5.9%     | 6.1%     | --     |
|        | US durable goods orders, % MoM              | Apr    | --       | (1.3%)   | --     |

Source: Bloomberg, Bank of Baroda

## Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at [www.bankofbaroda.in](http://www.bankofbaroda.in)



For further details about this publication, please contact:

### **Economics Research Department**

Bank of Baroda

+91 22 6698 5713

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