

WEEKLY WRAP

07 June 2021

Domestic economic activity improving

US 10Y yields closed lower. While ISM manufacturing, services PMI and jobless claims were better than estimate, non-farm payrolls rose less than expected. India's services sector contracted (PMI). However, our weekly economic tracker shows a pickup in economic activity this week (index at 83 from 81 WoW) with states easing restrictions. While RBI kept rates on hold, it offered more liquidity to tide over the impact of the pandemic and expanded restructuring to cover more borrowers. It now expects growth at 9.5% in FY22.

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Markets

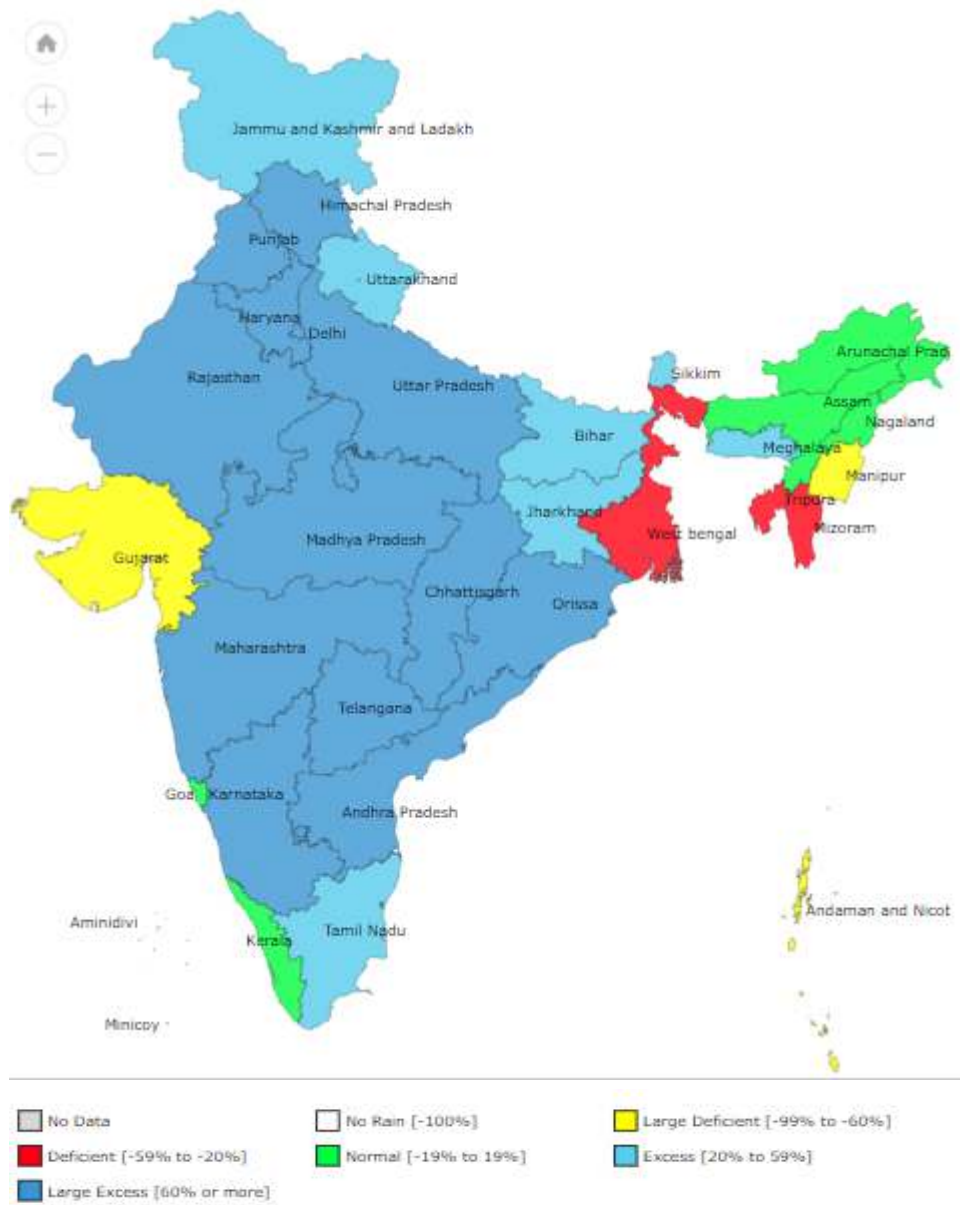
- **Bonds:** Global yields closed mixed this week. US 10Y yield fell by 4bps (1.55%) as US non-farm payrolls rose less than expected. Crude prices rose by 3.2% (US\$ 71.9/bbl) with global demand outlook improving. India's 10Y yield rose by 3bps (6.03%). While RBI did expand its bond purchase program, SDLs may crowd-out central securities. System liquidity surplus rose to Rs 4.7tn as on 4 Jun 2021 from Rs 4tn in previous week.
- **Currency:** Except JPY and AUD (higher), other global currencies closed lower this week. DXY rose by 0.1% this week amidst positive macro data (jobless claims, services PMI). CNY fell by 0.4% as PBOC ordered banks to increase their foreign exchange reserve ratios. INR depreciated by 0.8% as oil prices rose to a 2-year high despite FII inflows of US\$ 1.1bn.
- **Equity:** Barring Nikkei and Shanghai Comp, other global indices ended higher this week led by dip in Covid-19 cases globally. European indices ended in green led by strong PMI print. Amongst other indices, Sensex (1.3%) surged the most led by gains in real estate and oil and gas stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose at a slower pace of 1.6mn this week versus 3.7mn last week. India added 0.7mn cases versus 1.1mn WoW. Our weekly economic activity tracker index rose to 83 (100=Feb'20) from 81 last week. Israel has vaccinated 63% of its population (single dose), UK at 59% and US at 51%. India is now at 12.6%.
- **Upcoming key events:** Markets await ECB meeting, US and China CPI and industrial production of major European economies. In India, apart from IIP data, progress in vaccination will also be closely watched.



Monsoon tracker

- For the period 1 Jun 2021 to 4 Jun 2021, monsoon is 62% above LPA. With the onset of monsoon, a large part of the country has received excessive rainfall, this includes central, southern and parts of western India. North Eastern region including Nagaland, Assam and Arunachal Pradesh have received normal rains. Gujarat and Manipur have received deficient rainfall.
- IMD has revised its forecast for South-West monsoon upwards to 101% above LPA from 98% earlier and it expects the rainfall to be spatially well distributed.

FIG 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun-4 Jun 2021

India macro developments

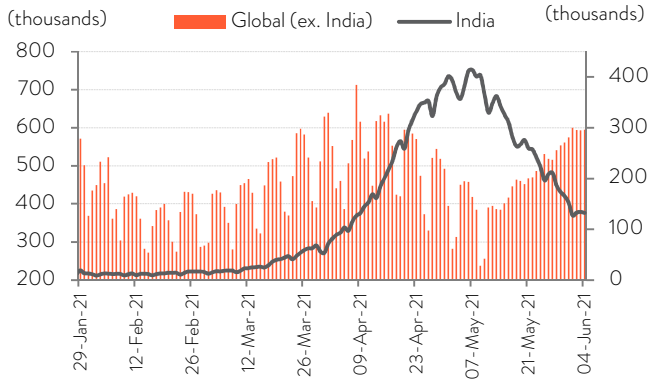
- India's fiscal deficit (% of GDP) reached 9.3% in FY21 versus 9.5% estimated in FY21RE. The marginal decline from budgeted target was owing to higher than expected jump in tax revenues (Rs 20.2tn versus Rs 19tn in FY21RE). Indirect tax collections surprised positively (Rs 10.7tn versus Rs 9.9tn). Expenditure momentum was also maintained with spending up by 30.7% (Rs 35.1tn) versus 28.4% (Rs 34.5tn) in FY21RE.
- India's manufacturing PMI slipped to a 10-month low of 50.8 in May'21 from 55.5 in Apr'21 as the country battled second wave of Covid-19 infections. New orders rose at the slowest pace since Aug'20 on the back of subdued demand. Due to scarcity of raw materials, input cost and inflation was above its long-run average.
- India's services PMI fell sharply in May'21 to 46.4 from 54 in Apr'21 due to localised lockdowns imposed by states in the wake of surging Covid-19 infections. New orders declined, with export orders declining at the fastest pace in 6 months. This also led to higher job shedding (fastest pace in 6 months). Activity wise, real estate and business services suffered the most. The 12-month ahead outlook also weakened to its lowest since Aug'20.
- MPC kept repo rates on hold and will continue with accommodative stance as long as necessary to revive growth. RBI pared down its GDP forecast to 9.5% in FY22 from 10.5%. CPI is estimated at 5.1% in FY22 from 5%. To support growth, RBI increased GSAP purchases to Rs 1.2tn in Q2 from Rs 1tn in Q1 and will now include SDLs. Targeted liquidity has also been provided to contact intensive sectors and MSMEs (via SIDBI) and borrowers upto Rs 500mn will now be eligible for restructuring. We believe policy reversal is likely in Q4FY22.
- RBI reported that currency in circulation (CIC) decreased by Rs 11.5bn and stood at Rs 29.6tn for the week ending 28 May 2021. Reserve money rose by 18.3% on a YoY basis, compared with 11.8% last year. On FYTD basis, reserve money increased by 2.9% against 3.4% increase, a year ago.
- India's forex reserves rose to a historic high of US\$ 598.2bn in the week ended 28 May 2021. On a weekly basis, forex reserves rose by US\$ 5.3bn compared with US\$ 2.9bn last week. In FYTD22, forex reserves have increased by US\$ 18.9bn versus US\$ 17.9bn accretion in the same period last year.

Global macro developments

- CPI inflation in Germany rose to a 10-year high of 2.5% in May'21 from 2% in Apr'21 on a YoY basis. This was driven by higher energy prices (10% versus 7.9% in Apr'21). Prices of services also rose by 2.2% in May'21 compared with 1.6% in Apr'21. HICP inflation (Harmonised Index of Consumer Prices) which is used by ECB rose to 2.4% in May'21, much above ECB's inflation target of ~2%.
- Global manufacturing PMI improved a tad in May'21 to 56 from 55.9 in Apr'21. Out of 30 countries, 24 registered improvement in business conditions. Eurozone led the gains with final manufacturing PMI at 63.1 versus 62.9 in Apr'21. UK's final PMI too reached record high of 65.6 in May'21 up from 60.9 in Apr'21. Globally, firms reported upturn in output and sharp increase in new orders (at 11-year high).
- Japan's services PMI fell to 46.5 in May'21 from 49.5 in Apr'21. This was led by sharp dip in new business orders due to spike in Covid-19 infections and imposition of a state of emergency. China's services PMI also declined to 55.1 in May'21 from 56.3 in Apr'21, led by dip in new export orders. However, employment and input costs picked up in both the economies.
- Australia's Q1CY21 GDP rose by 1.8% (est.: 1.5%) on QoQ basis versus 3.2% rise in Q4CY20. With Covid-19 infections in check, Australian economy has reached closed to pre-pandemic level, supported by private investment. Household spending also contributed 0.7ppt to growth. Separately, retail sales in Apr'21 rose by 1.1% on MoM basis, led by restaurant and cafes and household goods retailing.
- Eurozone services PMI jumped to 55.2 in May'21 from 50.5 in Apr'21, due to easing Covid-19 restrictions. Ireland and Spain noted considerable gain. In a separate print, US ISM services PMI rose for the 12th-straight month to a record high of 64 in May'21 from 62.7. This was led by a broad-based recovery due to stimulus and faster pace of vaccination. However, for both US and Eurozone, input costs remained elevated.
- US jobless claims dipped for the 5th-straight week by 20,000 to 385,000 (est., 387,000) for the week ended 29 May 2021. This was the lowest level since mid-Mar'20 and suggests continued recovery in the labour market on the back of rapid vaccination and easing of restrictions. Separately, US private payrolls rose by 978,000 (1-year high) in May'21.

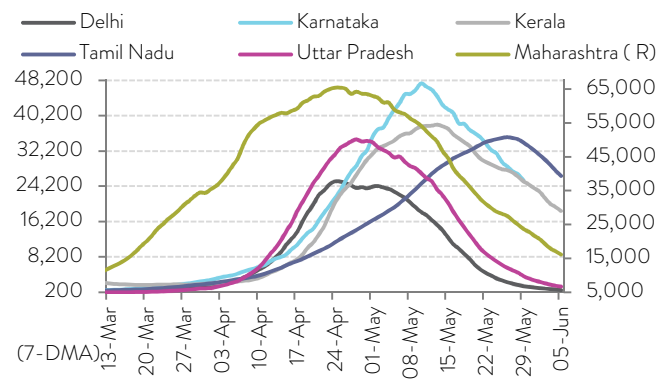
High Frequency Indicators and Weekly Activity Tracker

FIG 2 – STEADY DECLINE IN COVID-19 CASES GLOBALLY



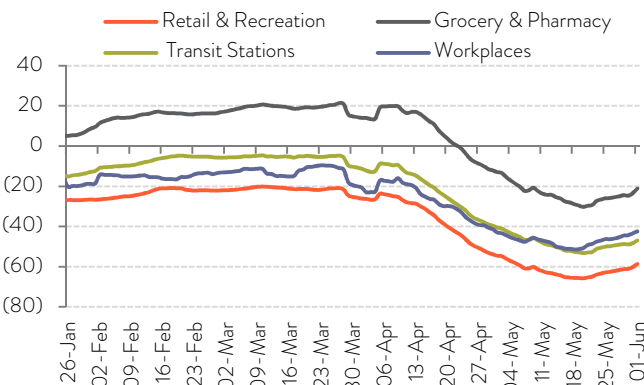
Source: Bloomberg, Bank of Baroda Research *Data as of 4 Jun 2021

FIG 3 – BROAD-BASED MODERATION IN COVID-19 CASES IN INDIAN STATES



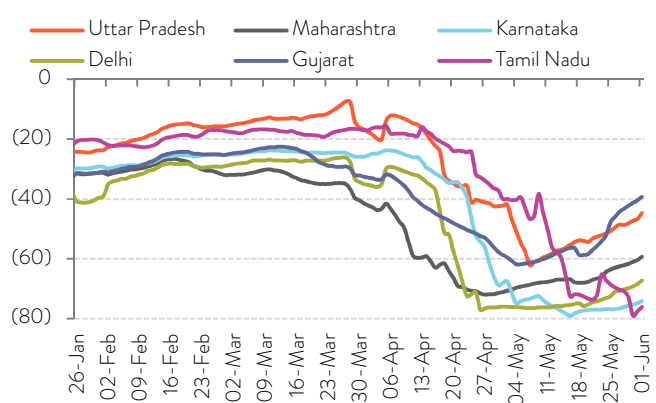
Source: CEIC, Bank of Baroda Research *Data as of 5 Jun 2021

FIG 4 – GOOGLE MOBILITY INDEX PICKING UP



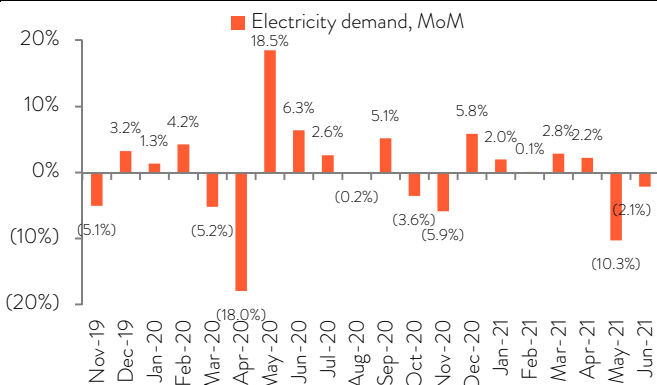
Source: CEIC, Bank of Baroda Research; *Data as of 1 Jun 2021

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



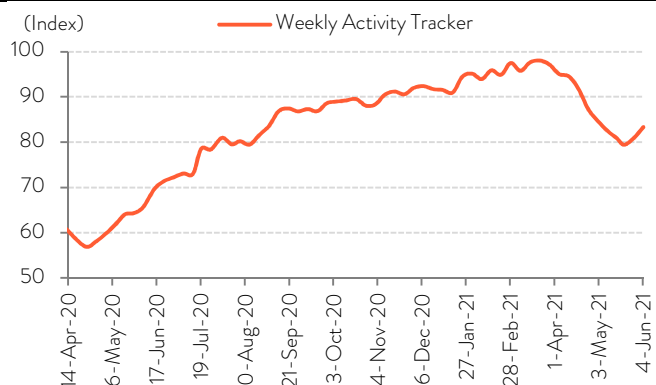
Source: CEIC, Bank of Baroda Research; *Data as of 13 May 2021

FIG 6 – CONTRACTION IN ELECTRICITY DEMAND EASES



Source: Bloomberg, Bank of Baroda Research; *Data as of 4 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 4 Jun 2021

FIG 8 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.55	(4)	(4)	(1)	66
UK	0.79	(1)	(1)	3	44
Japan	0.09	0	(1)	(1)	4
Germany	(0.21)	(3)	3	9	6
India	6.03	3	1	(20)	26
China	3.13	4	(3)	(12)	27
2Y yields (Δ bps)					
US	0.14	0	(1)	1	(6)
UK	0.07	1	2	(3)	6
Japan	(0.12)	1	1	1	1
Germany	(0.67)	(1)	3	2	(7)
India	4.33	6	(11)	(51)	(12)
China**	2.35	0	(16)	(21)	31
Currencies (Δ %)					
EUR	1.2167	(0.2)	1.3	2.1	7.7
GBP	1.4157	(0.2)	1.9	2.3	11.8
JPY	109.52	0.3	(0.2)	(1.1)	0.1
AUD	0.7739	0.4	0.4	0.7	11.0
INR	73.00	(0.8)	1.2	0.0	3.4
CNY	6.3952	(0.4)	1.2	1.6	9.7
Equity & Other indices (Δ %)					
Dow	34,756	0.7	1.8	10.4	28.2
FTSE	7,069	0.7	2.1	6.6	9.0
DAX	15,693	1.1	5.6	12.7	22.1
NIKKEI	28,942	(0.7)	0.4	0.3	26.6
Shanghai Comp	3,592	(0.2)	3.4	2.6	22.6
SENSEX	52,100	1.3	8.0	3.4	52.0
Brent (US\$/bbl)	71.89	3.2	4.4	3.6	70.0
Gold (US\$/oz)	1,892	(0.6)	6.3	11.2	12.3
CRB Index	551.3	0.5	3.1	12.2	49.3
Rogers Agri Index	1,087.2	3.1	0.8	12.2	58.6
LIBOR (3M)*	0.13	0	(4)	(5)	(18)
INR 5Y Swap*	5.58	(14)	(6)	(40)	47
India FII data (US\$ mn)					
	3 Jun	WTD	MTD	CYTD	FYTD
FII-Debt	65.6	2.7	76.5	(2,504.2)	(476.9)
FII-Equity	162.3	1,095.5	383.5	6,969.6	(356.7)

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

FIG 9 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
7-Jun	Germany factory orders, % MoM	Apr	0.5%	3.0%	--
	China exports, % YoY	May	32.0%	32.3%	27.9%
8-Jun	South Korea current account balance, US\$ bn	Apr	--	7.8	--
	Japan GDP SA, % QoQ	Q1CY21	(1.2%)	(1.3%)	--
	Japan current account balance, ¥ tn	Apr	149.0%	265.0%	--
	Germany industrial production SA, % MoM	Apr	0.4%	2.5%	--
	Italy retail sales, % MoM	Apr	0.2%	(0.1%)	--
	Taiwan CPI, % YoY	May	2.2%	2.1%	--
	Germany ZEW survey expectations	Jun	86.0	84.4	--
	Euro Area GDP SA, % QoQ	Q1CY21	(0.6%)	(0.6%)	--
	Euro Area ZEW survey expectations	Jun	--	84.0	--
	US trade balance, US\$ bn	Apr	(68.5)	(74.4)	--
9-Jun	South Korea GDP, % YoY	Q1CY21	1.8%	1.8%	--
	South Korea unemployment rate SA, %	May	3.6%	3.7%	--
	China CPI, % YoY	May	1.6%	0.9%	--
	China PPI, % YoY	May	8.5%	6.8%	--
	Germany exports SA, % MoM	Apr	0.5%	1.2%	--
10-Jun	Japan PPI, % YoY	May	4.5%	3.6%	--
	France industrial production, % MoM	Apr	0.6%	0.8%	--
	Italy industrial production, % MoM	Apr	0.3%	(0.1%)	--
	ECB policy rate, %	10-Jun	0.0%	0.0%	--
	US CPI, % MoM	May	0.4%	0.8%	--
	US initial jobless claims, in thousands	5-Jun	370	385	--
11-Jun	UK industrial production, % MoM	Apr	1.2%	1.8%	--
	India IIP, % YoY	Apr	125.0%	22.4%	--
	US University of Michigan consumer sentiment index	Jun P	84.2	82.9	--

Source: Bloomberg, Bank of Baroda

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