

WEEKLY WRAP

11 October 2021

Focal point: Energy crisis and FOMC minutes

Global markets were seen tracking the ongoing surge in energy prices amidst concerns of coal shortage emerging from China. Brent rose by 3.9% (weekly) to US\$ 82/bbl. US and UK 10Y yields spiked by 15bps and 16bps respectively. Most of the equity indices also climbed higher. In India, RBI maintained status quo and signalled normalisation with withdrawal of G-SAP. For FY22, while growth (9.5%) projection was retained, inflation forecast was revised downwards by 40bps to 5.3% (our estimate: 5.5%). We expect a hike in reverse repo rate in Q4FY22.

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Markets

- **Bonds:** Global yields rose sharply in the week. UK's 10Y yield rose the most by 16bps (1.16%), followed by US10Y yield rising by 15ps (1.61%). Spike in international oil prices, shortage of raw materials and possible rollback of QE measures by US Fed from next month, impacted investor sentiments. Crude prices rose by 3.9% (US\$ 82.4/bbl-highest since Oct'18). India's 10Y yield rose by 7bps (6.32%) as RBI discontinued G-SAP program. System liquidity surplus eased to Rs 7.5tn (8 Oct 2021) versus Rs 8.3tn last week.
- **Currency:** Global currencies closed mixed this week. DXY fell by 0.2% as US payrolls rose much less than expected in Sep'21. GBP rose by 0.7% on expectation of a rate hike by BoE. EUR fell by 0.2% as Germany's macro data disappointed (factory orders, industrial production and exports). INR depreciated sharply by 1.2% as oil prices rose to a 3-year high.
- **Equity:** Barring Nikkei and Shanghai Comp, other global indices ended higher as investors monitored a range of data print (uptick in US ISM services PMI, moderation in US jobless claims and higher Euro retail sales). Sensex surged by 2.2% led by strong gains in auto and technology stocks.
- **Covid-19 tracker:** Global Covid-19 cases moderated to 3mn versus 3.1mn last week. Cases moderated in US (0.7mn versus 0.8mn), Japan (7K versus 13K) and APAC (0.55mn versus 0.65mn). In India, cases rose at a slower pace (0.15mn versus 0.17mn). Our weekly economic activity tracker rose to 97 (100=Feb'20). UK has fully vaccinated 67% of its population, Germany at 65% and US at 56%. India is at 22.1%.
- **Upcoming key events:** Major events this week include US FOMC minutes and Bank of Korea's rate decision. In addition, data for China's CPI and PPI, industrial production of UK, Eurozone and Japan and US PPI are also due. In India, CPI, WPI and IIP prints are scheduled for release.



India macro developments

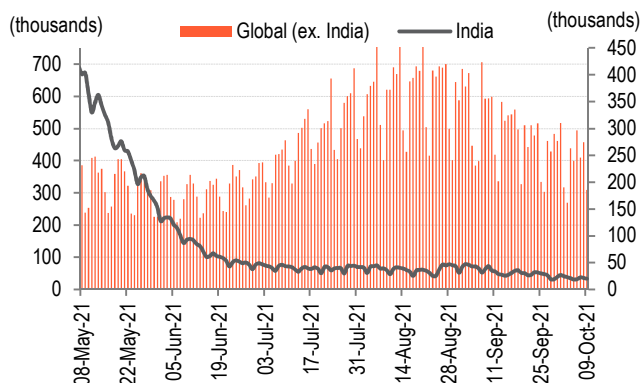
- In a sign of growing optimism owing to the gradual removal of Covid-19 restrictions, RBI's consumer confidence for the current situation index has improved to 57.7 in Sep'21 (highest since May'20) from 48.6 in Jul'21. The future index has also climbed to 107 (highest since Nov'20) in Sep'21 from 104 in Jul'21. Overall consumers remain optimistic on employment and general economic scenario. As per the survey, households have also reported an increase in expenditure levels with tilt towards essential items.
- MPC maintained status-quo on rates. While growth forecast was retained, inflation forecast was revised downward to 5.3% from 5.7%. With the discontinuation of G-SAP, RBI also signaled normalisation. This was due to a more optimistic outlook on growth, supported by normal monsoon, government capex and exports. While, inflation is likely to get comfort from record Kharif production and favourable base, oil prices above US\$ 80/bbl pose a significant risk.
- Centre has released Rs 400bn to States in order to meet the GST revenue shortfall. Taking into account the earlier Rs 750bn (announced on 15 Jul 2021), the total amount released under this mechanism tantamount to Rs 1.15tn, out of pegged Rs 1.59tn. This is over and above the compensation of Rs 1tn based on cess collection to be released to states during FY22. Centre's buoyant revenue collections has enabled faster clearance of dues, despite adhering to its targeted Rs 12.05tn borrowing plan in FY22.
- World Bank has left India's growth forecast for FY22 and FY23 unchanged (Jun'21 forecast) at 8.3% and 7.5% respectively. It notes that manufacturing output is likely to benefit from the PLI scheme and public investment. This bodes well for demand. As such, growth is expected to stabilize ~7% from FY23 onwards supported by structural reforms and infrastructure investment. On the other hand, deterioration in asset quality, sluggish recovery of informal sector and higher than expected inflation remain key downside risks to the outlook.
- Moody's has upgraded India's outlook to stable from negative, while retaining its sovereign rating at Baa3. This was on the back of green shoots of recovery observed in most sectors. It further stated that higher capital cushions and greater liquidity would pose lesser risks to banks and non-bank financial institutions than anticipated earlier. It expects GDP to rebound to 9.3% in FY22 followed by 7.9% growth in FY23. General government debt is expected to stabilise at around 91% over the medium term.
- India's services PMI eased to 55.2 in Sep'21 from 56.7 in Aug'21. Despite the moderation, services PMI remained above its long run average as Covid-19 restrictions were eased which boosted overall demand. With higher sales, outstanding business volume declined for 2nd month in a row and firms hired additional staff to manage sales. Employment level rose for the 1st time in over 10-months, while overall rate of inflation cooled-off to 8-month low. However, business outlook remained muted due to inflationary pressures.

Global macro developments

- Reserve Bank of Australia (RBA) left its cash rate unchanged at 0.1% in its latest policy meet. It also noted that the cash rate is likely to remain at current levels until CY24 until “actual inflation is sustainably within the 2-3% target range”. It also highlighted that while the Delta outbreak dented economic recovery, the impact is expected to be limited to Q3CY21. The economy is expected to rebound on the back of progress in vaccinations and easing of restrictions and is likely to revert back to the pre-Delta path by H2CY23.
- US non-farm payroll additions eased to 194k (est.: 550k) in Sep’21 compared with 366k jobs added in Aug’21. Additions were supported by sectors such as, leisure and hospitality (+74k), professional and business services (+60k) and retail trade (+56k). On the other hand, job losses were seen in local government education (-144k) and nursing and residential care facilities (-38k). Labour force participation rate was at 61.7, while unemployment rate eased to 4.8% in Sep’21 from 5.2% in Aug’21.
- US labour market remained robust with jobless claims for the week ended 2 Oct 2021 dropping sharply by 38,000 to 326,000. This comes against the backdrop of government winding down most of the pandemic-related programs amidst expectation of higher labour demand. However, these are still elevated compared to pre pandemic period when the average claims were hovering around 220,000. The 4-week moving average of claims, inched up to 344,000.
- Retail trade volume in both the Euro Area and EU rose by 0.3% each in Aug’21 (MoM basis) against contraction of 2.6% and 2.1% respectively, seen in Jul’21. This was led by non-food products especially mail orders and internet component. Country wise, Malta, Ireland and Slovakia showed the maximum increase. In a separate print, PPI rose by 1.1% each in both the Euro Area and EU against 2.5% increase seen in Jul’21, led by energy prices.
- Reserve Bank of New Zealand (RBNZ) raised its policy rate by 25bps to 0.50%. This was the first rate hike in 7-years. The MPC also left room open for more rate hikes “contingent on the medium-term outlook for inflation and employment”. It noted that inflation is expected to exceed 4% in the near-term before reverting back to 2% over the medium-term. It further noted that, despite some setback due to the Delta variant, economic recovery remains strong.
- Eurozone services PMI moderated further to 56.4 in Sep’21 (lowest since Apr’21) from 59 in Aug’21. This was led by slower pace of growth in new business from overseas and slower jobs growth (4-month low). On the price front, input costs rose at its fastest pace since CY08. Service providers were far less optimistic with positivity levels dropping to 6-month low. While services activity lost momentum in Germany, it remained resilient in France. Separately, US ISM services PMI improved marginally to 61.9 in Sep’21 from 61.7 in Aug’21.

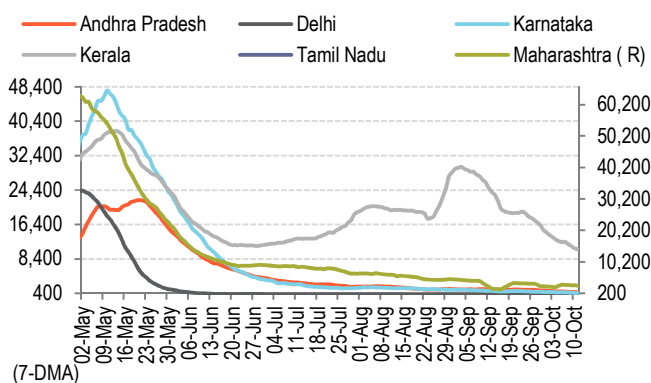
High frequency indicators and weekly activity tracker

Fig 1 – Global Covid-19 cases plateauing



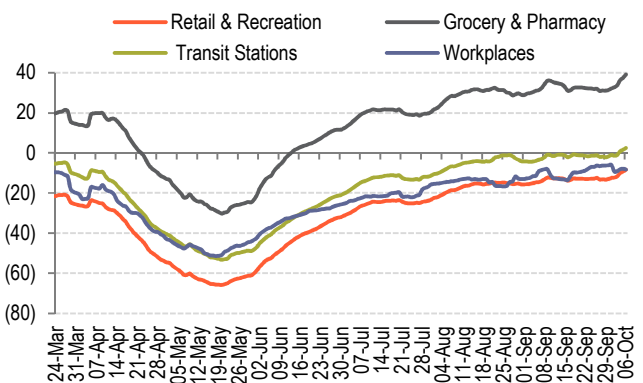
Source: CEIC, Bank of Baroda Research; Data as of 9 Oct 2021

Fig 2 – Covid-19 cases in India also on a downtrend



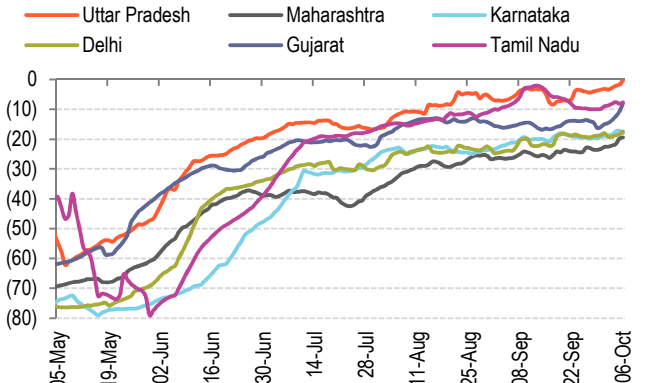
Source: CEIC, Bank of Baroda Research; Data as of 10 Oct 2021

Fig 3 – Google mobility index inching up



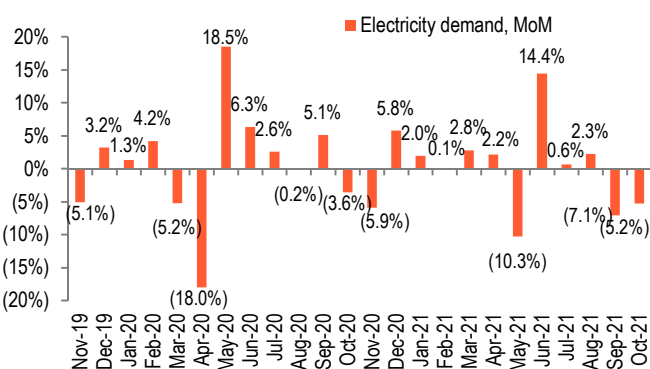
Source: CEIC, Bank of Baroda Research; Data as of 6 Oct 2021

Fig 4 – ...Similar movement in retail and recreation



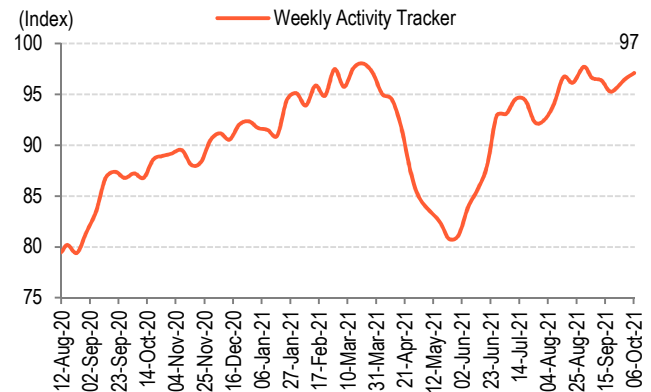
Source: CEIC, Bank of Baroda Research; Data as of 6 Oct 2021

Fig 5 – Slower pace of Contraction in electricity demand



Source: Bloomberg, Bank of Baroda Research; *Data as of 9 Oct 2021

Fig 6 – Weekly activity tracker picks up to 97



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
10Y yields (Δ bps)					
US	1.61	15	31	25	83
UK	1.16	16	42	50	87
Japan	0.09	3	4	5	5
Germany	(0.15)	7	21	14	37
India ^{AA}	6.32	7	14	13	30
China	2.90	4	3	(9)	(24)
2Y yields (Δ bps)					
US	0.32	5	11	11	17
UK	0.54	15	32	46	57
Japan	(0.10)	1	2	1	0
Germany	(0.69)	1	2	(1)	2
India	4.38	9	29	6	3
China ^{**}	2.30	(2)	4	16	(30)
Currencies (Δ %)					
EUR	1.1571	(0.2)	(2.1)	(2.6)	(1.6)
GBP	1.3623	0.6	(1.5)	(2.0)	5.3
JPY	112.18	(1.0)	(2.2)	(1.9)	(5.8)
AUD	0.7307	0.7	(0.8)	(2.4)	2.0
INR	74.99	(1.2)	(2.0)	(0.5)	(2.4)
CNY	6.4437	0.2	0.2	0.5	5.1
Equity & Other indices (Δ %)					
Dow	34,746	1.2	(0.4)	(0.4)	22.2
FTSE	7,096	1.0	1.0	(0.4)	18.7
DAX	15,206	0.3	(2.7)	(3.1)	16.6
NIKKEI	28,049	(2.5)	(6.5)	0.4	18.6
Shanghai Comp	3,592	(1.4)	(2.7)	1.9	11.6
SENSEX	60,059	2.2	3.0	14.6	49.5
Brent (US\$/bbl)	82.39	3.9	15.3	9.1	90.1
Gold (US\$/oz)	1,757	(0.2)	(2.1)	(2.8)	(7.2)
CRB Index	562.4	1.1	1.5	1.4	38.4
Rogers Agri Index	1,123.1	1.2	6.7	10.1	46.5
LIBOR (3M)*	0.12	(1)	1	(1)	(10)
INR 5Y Swap*	5.83	6	6	8	47
India FII data (US\$ mn)					
	7 Oct	WTD	MTD	CYTD	FYTD
FII-Debt	(12.2)	14.2	7.8	82.8	2,110.1
FII-Equity	(148.1)	261.2	475.9	9,005.8	1,679.5

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

Fig 8 – Data release calendar

Date Time	Event	Survey	Prior	Actual	
11-Oct	Japan machine tool orders, % YoY	Sep	--	85.2%	--
	Italy industrial production, % MoM	Aug	--	0.8%	--
12-Oct	Japan PPI, % YoY	Sep	5.8%	5.5%	--
	UK jobless claims change, in thousands	Sep	--	(58.6)	--
	UK ILO unemployment rate 3mths, %	Aug	4.5%	4.6%	--
	Germany ZEW survey expectations	Oct	20.1	26.5	--
	India CPI, % YoY	Sep	4.5%	5.3%	--
	India IIP, % YoY	Aug	11.9%	11.5%	--
	BoK 7-day repo rate, %	01-Oct	0.8%	0.8%	--
	13-Oct	UK industrial production, % MoM	Aug	0.2%	1.2%
Germany CPI, % YoY		Sep	4.1%	4.1%	--
Euro Area industrial production SA, % MoM		Aug	(1.5%)	1.5%	--
US CPI, % MoM		Sep	0.3%	0.3%	--
US FOMC meeting minutes		22-Sep	--	--	--
China exports, % YoY		Sep	22.0%	25.6%	--
14-Oct	Singapore GDP, % YoY	Q3CY21	6.7%	14.7%	--
	Australia unemployment rate, %	Sep	4.8%	4.5%	--
	China CPI, % YoY	Sep	0.9%	0.8%	--
	China PPI, % YoY	Sep	10.6%	9.5%	--
	Japan industrial production, % MoM	Aug	--	(3.2%)	--
	India WPI, % YoY	Sep	11.1%	11.4%	--
	India exports, % YoY	Sep	--	45.8%	--
	US initial jobless claims, in thousands	09-Oct	--	326.0	--
	US PPI final demand, % MoM	Sep	0.6%	0.7%	--
15-Oct	France CPI, % YoY	Sep	--	2.1%	--
	Italy CPI EU harmonized, % YoY	Sep	--	3.0%	--
	US retail sales, % MoM	Sep	(0.3%)	0.7%	--

Source: Bloomberg, Bank of Baroda Research

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