

WEEKLY WRAP

17 August 2021

MPC and FOMC minutes hold the key

US 10 year yield fell by 6bps on the back of drop in US consumer confidence. DXY fell by 0.3% as markets move their projections of Fed taper. Equity markets continue to make new highs in the US even as China's economy is slowing down. Indian 10 year yield was marginally higher even as inflation eased. MPC minutes to be released this week will give a peek into what members are thinking after a 5:1 vote on accommodative stance. In our view, RBI is likely to change its monetary policy stance during Q4FY22 with repo rate hike in early FY23.

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Markets

- **Bonds:** US 10Y yield fell the most by 6bps (1.27%) led by sharper than expected decline in US consumer sentiment index. China's 10Y yield rose by 3bps (2.89%) as PPI rose more than expected. Crude prices inched up by 0.7% (US\$ 70/bbl) amidst reports of no immediate increase in output by OPEC+. India's 10Y yield rose by 2bps (6.24%). System liquidity surplus rose to Rs 7.3tn as on 13 Aug 2021 from Rs 7tn last week.
- **Currency:** Except INR and GBP, other global currencies closed higher this week. DXY fell by 0.3% as US University of Michigan consumer sentiment index fell to a 10-year low in Aug'21. JPY rose the most by 1% supported by better than expected GDP data. INR closed flat as oil prices edged up marginally. FII inflows were muted at US\$ 70mn.
- **Equity:** Barring Nikkei, global indices ended higher. Sensex, Dow and Dax rose the most. Markets rose on the hope that Fed may remain accommodative for longer than what was earlier expected on the back of falling US consumer confidence and lower core inflation. Sensex rose by 2.2% led by metal and tech stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 4.5mn, same as last week. Fresh cases increased in US (0.9mn versus 0.8mn) and Japan (0.1mn versus 99k). In India, cases rose at a slower pace of 0.26mn versus 0.27mn. Our weekly economic activity tracker index rose to 96 (100=Feb'20) from 93. Singapore has fully vaccinated 71% of its population, Qatar at 65% and US at 50%. India is at 8.8%.
- **Upcoming key events:** Major events include US retail sales, industrial production, FOMC minutes, along with Q2 GDP print of Eurozone and Thailand. Rate decisions of Central Banks of Indonesia and New Zealand are also due. Domestic markets will react to latest CPI, WPI and MPC minutes.



Monsoon tracker

- For the period 1 Jun 2021 to 16 Aug 2021, monsoon is 9% below LPA compared with 1% above LPA last year. States like Telangana, Andhra Pradesh and Tamil Nadu have received excess rainfall. Maharashtra, Rajasthan, Madhya Pradesh, Uttar Pradesh, Punjab and Bihar have received normal rainfall. However, Gujarat, Kerala, Odisha and North Eastern Region have received deficient rainfall during this period.
- Overall kharif sown area has fallen by (-) 1.8% as on 13 Aug 2021 compared with last year. Sown area of cotton (-7.4%) and oilseeds (-2.9%) has dropped sharply. Area under rice (- 0.6%) has declined compared with last year. However, area under pulses (1.5%), sugarcane (1.5%) and jute & mesta (0.6%) has increased.

Fig 1 – Distribution pattern of south-west monsoon



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun- 16 Aug 2021

India macro developments

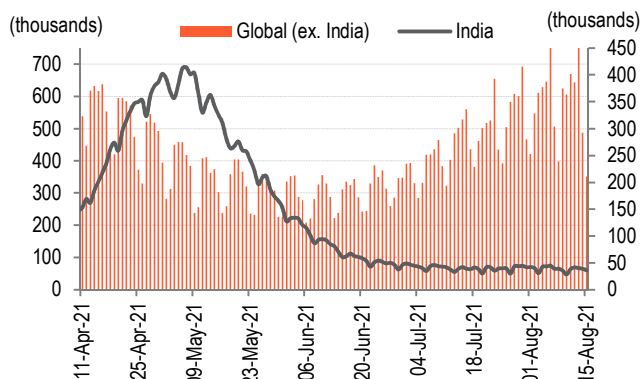
- According to FADA, automobile registrations rose by 34.1% in Jul'21 (22.6% in Jun'21 on YoY basis) on the back of calibrated reopening of the economy after Covid-19 induced lockdown. On a 2-year horizon, both passenger vehicles (24.3%) and tractor registrations (48.3%) saw a robust recovery. Within the PV segment, there has been a growing demand for compact SUVs. On the other hand, registrations for both CV and two-wheeler were down by 24.8% and 19% respectively, compared with the pre-pandemic levels.
- India's exports rose by 50.5% between 1-7 Aug 2021 to US\$ 7.4bn, on a YoY basis. In Jul'21, exports had risen by 47.9% to a record-high of US\$ 35.2bn. The increase in Aug'21 was driven by oil (145%), gems and jewellery (121%) and engineering goods (63%). Exports to US, UAE and Saudi Arabia rose the most. Imports also rose by 70% in Aug'21 (1-7 Aug'21) to US\$ 10.5bn versus an increase of 59.4% in Jul'21 (US\$ 46.4bn). While oil (141%) and electronic (31%) imports rose, gold imports dipped by 12.5% in Aug'21.
- RBI reported that currency in circulation (CIC) increased by Rs 73bn and stood at Rs 29tn for the week ending 6 Aug 2021. Reserve money rose by 16.6% on a YoY basis, compared with 15% last year. On FYTD basis, reserve money increased by 3.3% against 5.2% increase, a year ago.
- According to 4th Advance Estimates, foodgrain production is expected to have risen to a record 308.6mn ton in the crop year 2020-2021 (higher by 3.75% versus last year). Both rice and wheat production are expected to be up by 2.9% and 1.5% respectively on a YoY basis. Notably, output of pulses (11.7%), and oilseeds (8.7%) is also estimated to increase. However, production of cotton is expected to fall by 1.9%. Currently, kharif sowing is down by 1% from last year.
- India's IIP growth eased to 13.6% in Jun'21 led by base effect. Notably, over a 2-year horizon, output is down by 5.2% led by capital goods and durables. FMCG has expanded. CPI inflation has cooled off to 5.6% in Jul'21 (6.3% in Jun'21) led by food inflation at 4% (110bps MoM decline). Within food, prices of vegetables fell, while that fruits, pulses, oils and fats moderated. Core too softened to 6% (6.2% in Jun'21), led by transport and communication and personal care and effects.
- India's foreign exchange reserves rose to a fresh record high of US\$ 621.5bn in the week ended 6 Aug 2021. Forex reserves rose by US\$ 0.9bn last week, lower compared with an accretion of US\$ 9.4bn in the previous week. In FYTD22, forex reserves have risen by US\$ 42.4bn compared with an accretion of US\$ 62.6bn in the same period last year.

Global macro developments

- PBOC in its quarterly monetary policy report reaffirmed that it will continue to maintain the current policy stance and ensure ample liquidity. However, the report highlighted risks to growth. Export growth is expected to slow down (owing to base effect) and investment growth is also expected to remain weak due to uneven recovery in the economy, especially in retail sectors and tourism. Inflation pressures are considered to be “temporary” and “controllable”, thus fuelling hopes of RRR cuts going forward (in Oct’21 and Jan’22).
- Germany’s economic sentiment dropped in Aug’21 as reflected in the ZEW index, which fell from 63.3 to 40.4 (est.: 55). This is the third month in a row that the index has fallen. This was on the back of increasing risks from a possible fourth Covid-19 wave starting in autumn and slowdown in global demand.
- Singapore’s GDP rose by 14.7% in Q2CY21 on a YoY basis, higher than the initial estimate of 14.3% and an increase of 1.5% in Q1. The increase in Q2 was largely due to base effect as GDP growth fell by 13.3% in Q2CY20. Manufacturing (17.7%) and construction (106.2%) sectors were the biggest drivers of growth in Q2CY21. The government also raised its GDP forecast for CY21 to 6%-7% versus 4%-6% growth estimated earlier. This was on the back of improved vaccinations both domestically and globally.
- US CPI rose by 5.4% (YoY) in Jul’21, unchanged from Jun’21, and core inflation was down to 4.3% from 4.5% in Jun’21. On MoM basis, inflation eased significantly to 0.5% in Jul’21 from 0.9% in Jun’21. Core inflation moderated to 0.3% (est.: 0.4%) from 0.9%. Within core, prices of vehicles (new and used), apparel and transport service cooled significantly. Prices of medical care commodities and services inched up. The latest data print gives backing to Fed’s stance that inflation pressures are transitory.
- CPI inflation in Germany rose to its highest since Dec’93 to 3.8% in Jul’21 (YoY) compared with 2.3% in Jun’21 due to base effect. In Jul’20, inflation had fallen by 0.1% due to the impact of a reduction in VAT. Apart from this, introduction of CO2 charge and higher energy prices (11.6% in Jul’21, YoY) also contributed to the sharp jump in inflation. Food prices also rose by 4.3% in Jul’21 from 1.2% in Jun’21. On a MoM basis, inflation rose by 0.9% in Jul’21.
- US PPI rose by 1% (MoM) in Jul’21 unchanged from Jun’21 and higher than estimated 0.6%. Spike was seen in airline passenger fares (9.1% in Jul’21 from 2.5% in Jun’21) and auto parts and retailing (0.9% in Jul’21 from 0.5% in Jun’21). Core PPI accelerated to 0.9% in Jul’21 (0.5% in Jun’21), sharpest increase since Jan’21. On a YoY basis, the PPI was up by 7.8% in Jul’21 and Core PPI also rose by 0.9%. Separately, US jobless claims dropped for the third week in a row, by 12k to 375k signalling recovery in labour market.
- GDP growth in the UK rose by 4.8% in Q2CY21, following a decline of 1.6% in Q1CY21 on a QoQ basis. Amongst sectors, services, (5.7%), production (0.5%) and construction (3.3%) contributed the most to growth. Further, household consumption also rose sharply following easing of Covid-19 restrictions. The level of GDP is now 4.4% below where it was pre-pandemic (Q4CY19).

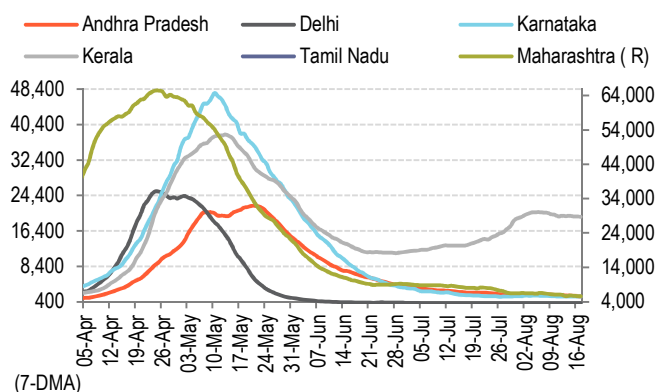
High frequency indicators and weekly activity tracker

Fig 2 – Global Covid-19 cases steady



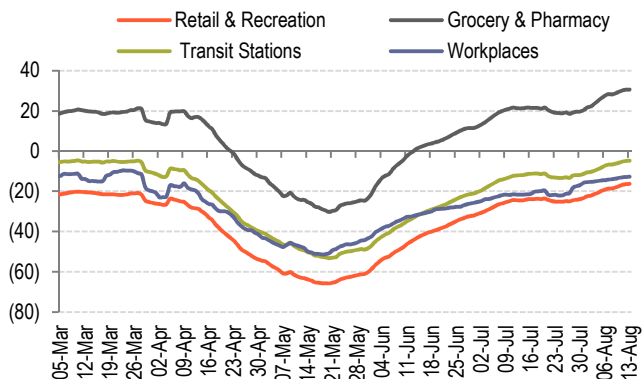
Source: CEIC, Bank of Baroda Research *Data as of 15 Aug 2021

Fig 3 – Covid-19 cases in India continue to dip



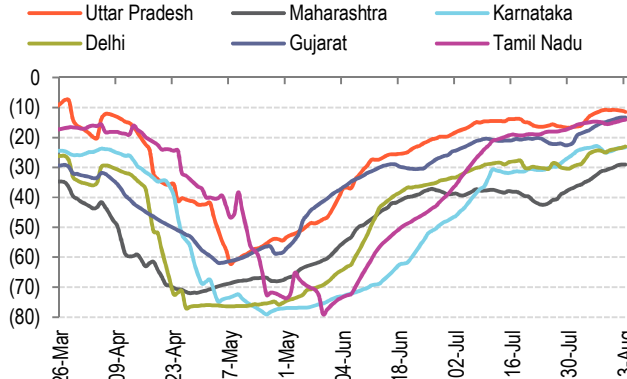
Source: CEIC, Bank of Baroda Research *Data as of 16 Aug 2021

Fig 4 – Google mobility index inching up



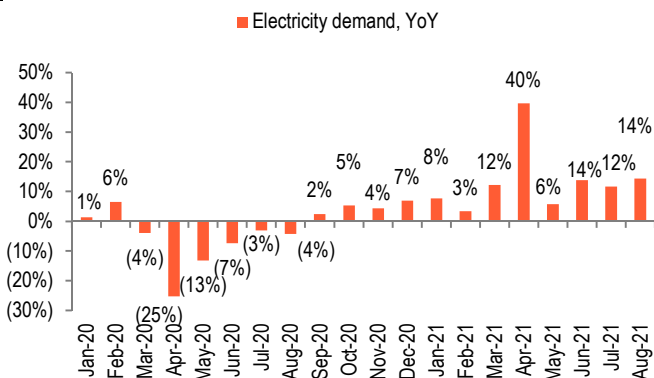
Source: CEIC, Bank of Baroda Research; *Data as of 13 Aug 2021

Fig 5 – Uptick in mobility: retail and recreation



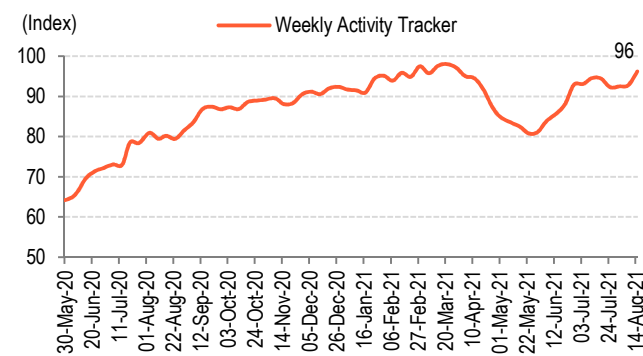
Source: CEIC, Bank of Baroda Research; *Data as of 13 Aug 2021

Fig 6 – Electricity demand improves



Source: Bloomberg, Bank of Baroda Research; *Data as of 15 Aug 2021

Fig 7 – Weekly activity tracker improved from 93 last week to 96 this week



Source: CEIC, Bank of Baroda Research, Note: Composite weighted average index of high frequency indicators;

Fig 8 – Movement in key global asset classes

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.27	(6)	(3)	(38)	58
UK	0.57	(1)	(5)	(29)	36
Japan	0.02	1	0	(6)	(3)
Germany	(0.47)	(1)	(12)	(35)	(2)
India ^{^^}	6.24	2	3	27	29
China	2.89	3	(5)	(25)	(6)
2Y yields (Δ bps)					
US	0.21	(1)	(1)	6	6
UK	0.14	1	3	6	19
Japan	(0.12)	0	0	0	(2)
Germany	(0.74)	1	(5)	(8)	(8)
India	4.19	(4)	(9)	(15)	(8)
China ^{**}	2.04	12	2	(36)	(22)
Currencies (Δ %)					
EUR	1.1778	0.3	(0.2)	(3.1)	(0.8)
GBP	1.3849	0	0.6	(2.0)	5.7
JPY	109.24	1.0	0.8	0	(3.1)
AUD	0.7338	0.1	(0.9)	(5.5)	1.7
INR	74.25	0	0.4	(1.4)	0.9
CNY	6.4747	0.2	0.1	(0.6)	6.6
Equity & Other indices (Δ %)					
Dow	35,625	1.5	2.7	3.8	27.9
FTSE	7,154	0.3	2.1	1.7	16.8
DAX	15,926	1.1	2.5	3.4	23.3
NIKKEI	27,523	(1.1)	(1.7)	(1.1)	19.2
Shanghai Comp	3,517	0.6	(0.6)	0	2.3
SENSEX	55,583	2.2	4.6	12.1	46.1
Brent (US\$/bbl)	69.51	0.7	(5.5)	0.1	53.2
Gold (US\$/oz)	1,787	3.3	(1.4)	(4.3)	(10.0)
CRB Index	564.0	0.9	0.5	4.7	47.0
Rogers Agri Index	1,102.9	3.9	4.1	4.0	53.8
LIBOR (3M)*	0.12	0	(1)	(3)	(14)
INR 5Y Swap*	5.84	(4)	(3)	12	48
India FII data (US\$ mn)					
	12 Aug	WTD	MTD	CYTD	FYTD
FII-Debt	(43.2)	(57.8)	(32.7)	(3,285.9)	(1,258.6)
FII-Equity	39.0	128.1	626.2	7,004.3	(322.0)

Source: Bloomberg, Bank of Baroda Research | *Indicates change in bps | **1Y yield | ^ 4.26GS2023 | ^^ 6.10GS2031

Fig 9 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
16-Aug	Japan GDP, SA, % QoQ	Q2CY21	0.1%	(1.0%)	0.3%
	China new home prices, % MoM	Jul	--	0.4%	0.3%
	China retail sales, % YoY	Jul	10.9%	12.1%	8.5%
	China industrial production, % YoY	Jul	7.9%	8.3%	6.4%
	China fixed assets, ex-rural, YTD % YoY	Jul	11.3%	12.6%	10.3%
	Thailand GDP, % YoY	Q2CY21	6.4%	(2.6%)	7.5%
	Japan industrial production, % MoM	Jun	--	6.2%	6.5%
	India wholesale prices, % YoY	Jul	11.3%	12.1%	11.2%
17-Aug	Singapore non-oil domestic exports, % YoY	Jul	11.9%	15.9%	12.7%
	RBA minutes of Aug. policy meeting	--	--	--	--
	UK jobless claims, change, in thousands	Jul	--	(114.8)	--
	Euro Area GDP, SA, % QoQ	Q2CY21	2.0%	2.0%	--
	US retail sales (advance), % MoM	Jul	(0.2%)	0.6%	--
	US industrial production, % MoM	Jul	0.5%	0.4%	--
18-Aug	Japan trade balance, ¥bn	Jul	177.3	384.0	--
	Japan core machine orders, % MoM	Jun	(2.8%)	7.8%	--
	RBNZ official cash rate	18-Aug	0.5%	0.3%	--
	UK CPI, % YoY	Jul	--	2.5%	--
	Euro Area CPI, % YoY	Jul	2.2%	1.9%	--
	US housing starts, in thousands	Jul	1,608	1,643	--
	US FOMC meeting minutes	28-Jul	--	--	--
19-Aug	Australia unemployment rate	Jul	5.0%	4.9%	--
	Bank Indonesia 7D reverse repo	19-Aug	3.5%	3.5%	--
	ECB current account, SA, EUR bn	Jun	--	11.7	--
	US initial jobless claims, in thousands	14-Aug	--	375.0	--
20-Aug	Japan CPI, % YoY	Jul	(0.4%)	(0.5%)	--
	RBI MPC minutes	6-Aug	--	--	--
	Indonesia BoP current account balance, US\$mn	Q2CY21	--	(997.0)	--
	Germany PPI, % MoM	Jul	0.8%	1.3%	--
	UK retail sales (inc auto fuel), % MoM	Jul	--	0.5%	--
	Taiwan export orders, % YoY	Jul	20.2%	31.1%	--
	Philippines BoP, US\$mn	Jul	--	(312.0)	--

Source: Bloomberg, Bank of Baroda Research

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