

WEEKLY WRAP

04 October 2021

RBI policy in focus

Global stocks ended lower amidst concerns over Evergrande crisis and uncertainty over US government shutdown. While manufacturing PMI picked up in US, China and Japan, it edged lower in Eurozone. Global yields were mostly higher. Consumer confidence picked up in Germany and France, but edged lower in US. In India, 10Y yield edged up by 7bps on reports of reverse repo hike in the upcoming RBI policy. Sensex fell from a record-high led by global cues. Investors await cues from the RBI policy as well as India's services PMI.

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Markets

- Bonds:** Except Japan and Germany (stable), global yields closed higher. UK's 10Y yield rose the most by 8bps (1%) as its Q2CY21 GDP rose more than its initial estimate (5.5% versus 4.8%). US 10Y yield rose a tad by 1bps (1.46%). Crude prices rose by 1.5% (US\$ 79/bbl) ahead of OPEC+ meeting. India's 10Y yield rose by 7bps (6.25%) amidst disappointing auction results and also reports of reverse repo hike in the upcoming policy. System liquidity surplus rose to Rs 8.3tn (1 Oct 2021) versus Rs 7.3tn last week.
- Currency:** Except CNY (higher), other global currencies closed lower. DXY rose by 0.8% supported by better than expected macro data from US (durable goods orders, ISM manufacturing PMI and Q2CY21GDP). EUR fell by 1.1% as Eurozone's manufacturing PMI fell more than expected in Sep'21. INR depreciated by 0.6% as oil prices rose by 1.5% in the week.
- Equity:** Global indices ended lower led by disappointing manufacturing PMI from EU, higher jobless claims in US and concerns over ongoing Evergrande crisis. Nikkei dropped the most (4.9%) followed by Dax (2.4%). Sensex too ended in red (2.1%) led by losses in technology and banking stocks.
- Covid-19 tracker:** Global Covid-19 cases moderated to 3mn versus 3.3 mn last week. Cases moderated in US (0.75mn versus 0.84mn), Japan (10K versus 18K) and France (35K versus 42K). In India, cases rose at a slower pace (0.16mn versus 0.2mn). Our weekly economic activity tracker rose to 96 (100=Feb'20). UK has fully vaccinated 66% of its population, Germany at 64% and US at 55%. India is at 19.4%.
- Upcoming key events:** Major events this week include jobs reports from US and global services PMI. In addition, New Zealand and Australia's policy decisions are also awaited. In India as well, upcoming RBI policy and service PMI will drive markets this week.



India macro developments

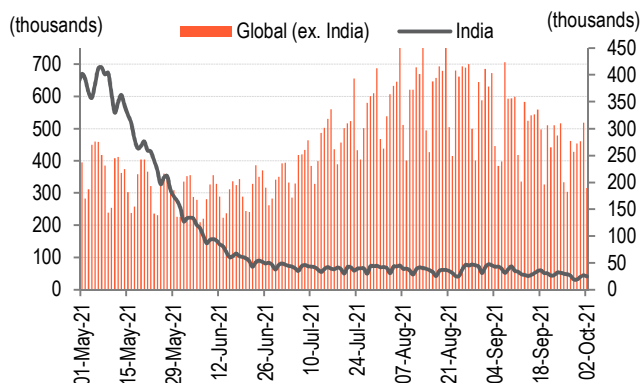
- Government of India has extended the existing Foreign Trade Policy (FTP) 2015-20 to 31 Mar 2022. The policy which was set to expire in FY20, was extended by one year to 31 Mar 2021 and subsequently to 30 Sep 2021 due to the Covid-19 pandemic. It provides guidelines for enhancing exports to support economic growth and create employment. It is expected that the government will come up with a new FTP in FY23 as the Covid-19 situation improves.
- Union Cabinet has approved additional capital infusion of Rs 40bn in the Export Credit Guarantee Credit Ltd. (ECGC) and is also planning to list it on the stock exchange as well. This will allow ECGC to provide Rs 880bn worth of export insurance to exporters. Cabinet has also approved capital infusion of Rs 16.5bn in the National Export Insurance Account (NEIA) trust, which provides financing to India's project exports and insurance. This will lead to a 20-fold increase in NEIA's ability to provide export cover to Rs 330bn.
- Centre's fiscal deficit inched up to 6.5% of GDP in Aug'21 (12MMA basis) from 6.2% in Jul'21, as government spending picked up pace. Overall expenditure was up by 2.3% in Aug'21 (FYTD basis) compared with 4.7% decline in Jul'21. Sharp increase was visible in capex growth (up 27.8% in Aug'21 versus 14.8% in Jul'21). Revenue spending is also seen recovering (0.8% decline versus 7% decline). Over a 2-year horizon, direct tax collections in Aug'21 were up by 33% versus 29% in Jul'21 and indirect tax collections were up by 28% versus 21%.
- India's eight core industries clocked double digit growth and rose to a 3-month high of 11.6% in Sep'21 from 9.9% in Aug'21 on a favourable base. This was led by improvement in output of cement (36.3% from 21.7% in Aug'21), electricity (15.3% from 11% in Aug'21), refinery products (9.1% from 6.7% in Aug'21) and coal (20.6%). Steel output moderated marginally by 5.1% and fertilizers output contracted by 3.1% (+0.5% in Aug'21). Over a 2-year horizon, core sector registered growth of 3.9% in Aug'21, thus signalling gradual revival.
- India's total GST collections rose to Rs 1.2tn in Aug'21 from Rs 1.1tn in Jul'21. Adjusted CGST collections rose to Rs 533bn from Rs 479 in Jul'21 and SGST collections jumped to Rs 711bn from Rs 601bn. On FYTD basis, total collections are at Rs 5.4tn versus Rs 4.2tn in FYTD21 and Rs 4.9tn in FYTD20. Over a 2-year horizon, GST collections are up by 9.9% in Aug'21 (FYTD basis) versus 5.9% in Jul'21.
- India's trade deficit widened to a record high of US\$ 22.9bn in Sep'21 from US\$ 13.8bn in Aug'21, as per preliminary data. This was led by higher imports at US\$ 56.4bn (record-high) from US\$ 47.1bn in Aug'21. Within imports, oil and non-oil-non-gold imports led the increase. Gold imports moderated. Exports were steady at US\$ 33.4bn from US\$ 33.3bn in Aug'21. Imports may expand further as economic activity recovers. Elevated oil prices also imply a higher import bill. However, resilient exports and buoyant software and remittances receipts imply that CAD is likely to remain contained at ~1% of GDP in FY22.

Global macro developments

- US durable goods orders rose solidly by 1.8% in Aug'21 (est. 0.6%) on a MoM basis compared with an increase of 0.5% in Jul'21. This was led by a rebound in orders for transportation equipment (+5.5% versus decline of 0.4% in Jul'21). Orders for non-defence capital goods (proxy for business spending) rose by 0.5% in Aug'21 versus 0.3% in Jul'21. On a YoY basis, durable orders rose by 16.4% in Jul'21 and are 18% above pre-pandemic levels.
- US consumer confidence dropped to a 7-month low of 109.3 in Sep'21 from 115.2 in Aug'21 as concerns over the spread of Covid-19 delta variant dented sentiments. Even the current conditions index dropped to a 5-month low of 143.4 as the present and the short-term business outlook conditions faded. Separately, consumer confidence in both Germany (0.3 in Oct'21 from -1.1 in Sep'21) and France (102 in Sep'21 from 99 in Aug'21) surprised positively.
- China's official manufacturing PMI dropped to 49.6 in Sep'21 (lowest since Feb'20) versus est.: 50 and 50.1 in Aug'21. New order growth contracted further to 49.3 from 49.6. Output of high energy consuming firms fell the most as China battles energy crisis. On the other hand, non-manufacturing PMI rose sharply to 53.2 in Sep'21 from 47.5 in Aug'21, led by rebound in services activity (52.4 versus 45.2). Improvement was driven by railway/air transport, catering and accommodation sectors. Construction PMI fell to 57.5 from 60.5 in Aug'21.
- Japan's industrial output declined (MoM) by 3.2% in Aug '21 following 1.5% dip in Jul'21. This was led by sharp drop in output of motor vehicles (-15.2% from 3.3%) due to chip shortages. Electrical machinery (-10.6% from 3.8%), and production machinery (-3.2% from +1.6% in Jul'21) output also fell. Separately, retail sales contracted (MoM) for the 1st time in 6-months to 4.1% (+1% in Jul'21), with households reducing their spending over Covid-19 concerns.
- US GDP for Q2CY21 was revised upward to 6.7% from 6.6% earlier. This was on account of upward revision in personal consumption expenditure, exports, and private inventory investment. In a separate print, US jobless claims rose for the third straight week by 11k to 362k for the week ending 25 Sep 2021, against its previous week's level. This was led by California as it announced on 17 Sep another Pandemic Emergency Unemployment Compensation program.
- Manufacturing PMI in Eurozone fell to 58.6 in Sep'21 from 61.4 in Aug'21 and in UK it dropped to 57.1 from 60.3. This was led by broad based decline in new orders, output and employment. Supply constraints and labour shortages led to this decline. Input cost pressure also remained elevated owing to lengthening delivery times. In the US, however, ISM manufacturing print picked up to 61.1 from 59.9 as new orders remained stable.

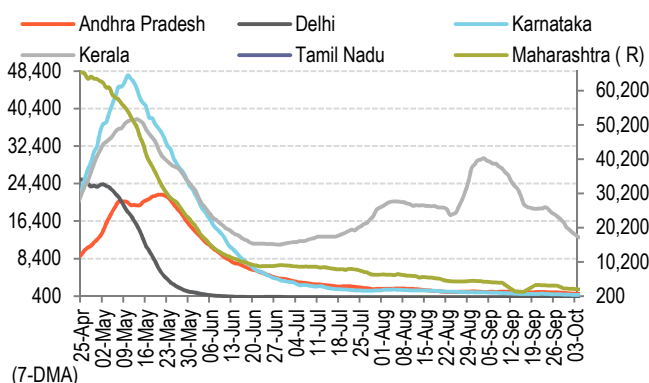
High frequency indicators and weekly activity tracker

Fig 1 – Global Covid-19 cases moderating



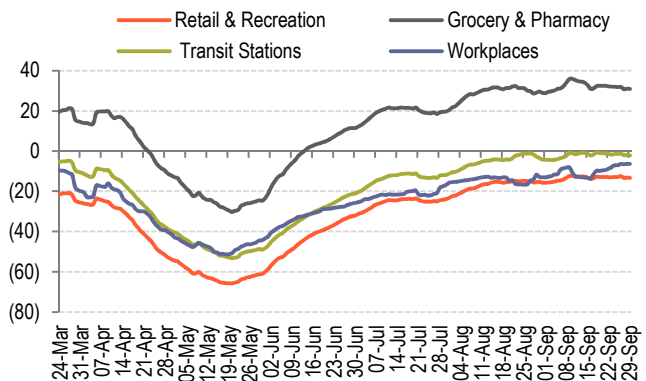
Source: CEIC, Bank of Baroda Research; Data as of 2 Oct 2021

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



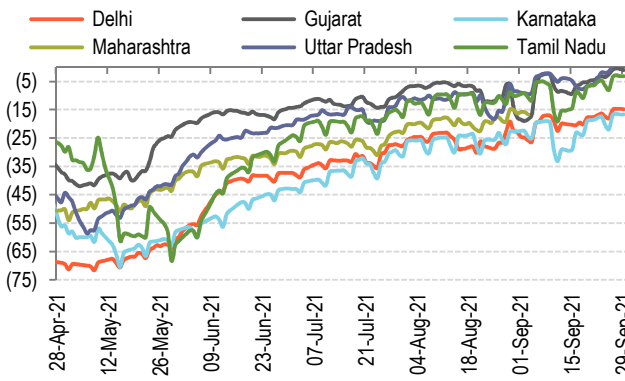
Source: CEIC, Bank of Baroda Research; Data as of 3 Oct 2021

Fig 3 – Google mobility index steady



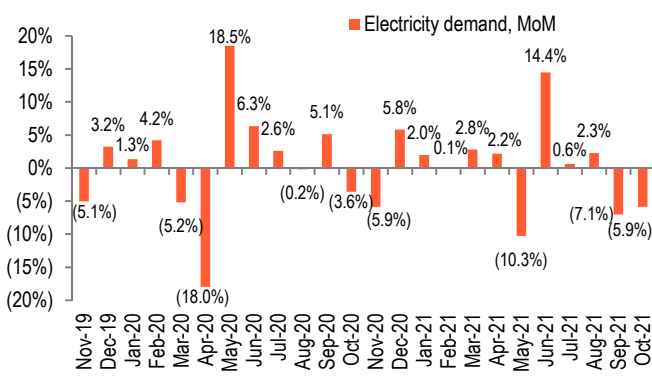
Source: CEIC, Bank of Baroda Research; Data as of 29 Sep 2021

Fig 4 – Workplace mobility inching up across states



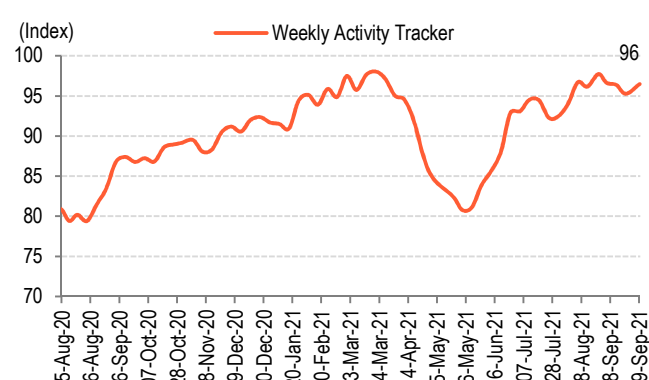
Source: CEIC, Bank of Baroda Research; Data as of 29 Sep 2021

Fig 5 – Contraction in electricity demand easing



Source: Bloomberg, Bank of Baroda Research; *Data as of 3 Oct 2021

Fig 6 – Weekly activity tracker picks up to 96



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	1.46	1	17	4	76
UK	1.00	8	31	30	76
Japan	0.06	0	3	2	4
Germany	(0.22)	0	15	1	31
India ^{^^}	6.25	7	5	18	25
China	2.88	2	6	(21)	(27)
2Y yields (Δ bps)					
US	0.26	(1)	5	3	13
UK	0.40	2	20	34	44
Japan	(0.11)	(1)	1	0	2
Germany	(0.70)	(2)	1	(3)	1
India	4.29	13	21	(6)	(8)
China ^{**}	2.32	1	9	1	(28)
Currencies (Δ %)					
EUR	1.1596	(1.1)	(2.1)	(2.3)	(1.0)
GBP	1.3546	(1.0)	(1.6)	(2.0)	4.7
JPY	111.05	(0.3)	(0.9)	0	(5.5)
AUD	0.7258	(0.1)	(1.5)	(3.6)	1.4
INR	74.13	(0.6)	(1.4)	0.8	(1.3)
CNY	6.4448	0.2	0.2	0.4	5.1
Equity & Other indices (Δ %)					
Dow	34,326	(1.4)	(2.8)	(1.3)	24.0
FTSE	7,027	(0.3)	(1.7)	(1.4)	19.1
DAX	15,156	(2.4)	(4.2)	(3.2)	19.4
NIKKEI	28,771	(4.9)	1.1	0	24.9
Shanghai Comp	3,568	(2.0)	0	1.4	10.9
SENSEX	58,766	(2.1)	2.5	12.0	51.9
Brent (US\$/bbl)	79.28	1.5	10.7	4.1	101.9
Gold (US\$/oz)	1,761	0.6	(2.9)	(1.5)	(7.3)
CRB Index	556.2	0.6	(0.2)	0.3	37.8
Rogers Agri Index	1,109.9	2.4	4.2	5.1	47.7
LIBOR (3M)*	0.13	0	1	0	(10)
INR 5Y Swap*	5.77	0	(2)	4	35
India FII data (US\$ mn)					
	30 Sep	WTD	MTD	CYTD	FYTD
FII-Debt	(33.1)	555.6	1,488.9	75.0	2,102.3
FII-Equity	(268.3)	(398.5)	1,139.4	8,529.9	1,203.6

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

Fig 8 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
04-Oct	Japan monetary base, % YoY	Sep	--	14.9%	--
	US durable goods orders, % MoM	Aug	--	1.8%	--
05-Oct	Markit Australia services PMI	Sep	--	44.9	--
	South Korea CPI, % YoY	Sep	2.3%	2.6%	--
	Jibun Bank Japan services PMI	Sep	--	47.4	--
	Australia trade balance, AUD bn	Aug	10.0	12.1	--
	RBA cash rate target, %	05-Oct	0.1%	0.1%	--
	Markit India services PMI	Sep	--	56.7	--
	Singapore retail sales, % YoY	Aug	--	0.2%	--
	France industrial production, % MoM	Aug	0.5%	0.3%	--
	Markit Italy services PMI	Sep	56.8	58.0	--
	Markit France services PMI	Sep	56.0	56.0	--
	Markit Germany services PMI	Sep	56.0	56.0	--
	Markit Eurozone services PMI	Sep	56.3	56.3	--
	Markit/CIPS UK services PMI	Sep	--	54.6	--
	Euro Area PPI, % YoY	Aug	13.4%	12.1%	--
US trade balance, US\$ bn	Aug	(70.5)	(70.1)	--	
Markit US services PMI	Sep	54.4	54.4	--	
US ISM services index	Sep	59.8	61.7	--	
06-Oct	RBNZ official cash rate, %	06-Oct	0.5%	0.25%	--
	Germany factory orders, % MoM	Aug	(1.5%)	3.4%	--
	Taiwan CPI, % YoY	Sep	--	2.4%	--
	Euro Area retail sales, % MoM	Aug	0.9%	(2.3%)	--
	US ADP employment change, in thousands	Sep	430.0	374.0	--
07-Oct	South Korea current account balance, US\$ bn	Aug	--	8.2	--
	Germany industrial production SA, % MoM	Aug	(0.1%)	1.0%	--
	France trade balance, € bn	Aug	--	(7.0)	--
	Italy retail sales, % MoM	Aug	--	(0.4%)	--
	US initial jobless claims, in thousands	02-Oct	--	362.0	--
	Singapore GDP, % YoY	Q3CY21	--	14.7%	--
08-Oct	Japan current account balance, ¥ tn	Aug	1.5	1.9	--
	Caixin China services PMI	Sep	49.2	46.7	--
	RBI repo rate, %	08-Oct	4.0%	4.0%	--
	Germany exports SA, % MoM	Aug	0.5%	0.5%	--
	US change in nonfarm payrolls, in thousands	Sep	500.0	235.0	--
	US unemployment rate, %	Sep	5.1%	5.2%	--

Source: Bloomberg, Bank of Baroda Research

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