

## WEEKLY WRAP

06 December 2021

**All eyes on RBI**

Accelerated concerns surrounding the spread of new Covid-19 variant kept the global market on hooks. Additionally, subdued US payroll, coupled with Fed's hawkish commentary and record high inflation in Eurozone, added to the woes. Major equity indices ended in red. US and UK's 10Y yield was down by 13bps and 8bps respectively. On the domestic front, India's trade deficit widened as exports weakened. This week, markets will closely monitor RBI's policy and IIP print.

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**Markets**

- **Bonds:** Except India and China (higher), global yields closed lower due to fear of spread of new Covid-19 variant. US 10Y yield fell the most by 13bps (1.34%) due to weak payroll data. Crude prices fell by 3.9% (US\$ 70/bbl) as OPEC+ surprised markets, as it will review supply additions ahead of its next meeting. India's 10Y yield rose by 4bps (6.37%) as government sought Parliament's approval for additional spending of Rs 2.99tn. System liquidity surplus rose to Rs 8.3tn as on 3 Dec 2021 against Rs 7.3tn in previous week.
- **Currency:** Global currencies closed mixed. DXY closed flat as muted US labour data offset hawkish comments from Fed. JPY rose by 0.5% on safe-haven demand amidst concerns over new Covid-19 variant. AUD fell the most by 1.7%. GBP also fell by 0.8% as investors await the BoE policy meet. INR depreciated by 0.4% led by FII outflows of US\$ 1.5bn.
- **Equity:** Global indices closed mixed with Dow, Dax and Nikkei closing lower and others ending higher. Emergence of new Covid-19 variant, disappointing US payroll data and record high inflation in Eurozone, dented investor sentiments. Sensex ended higher (1%), led by IT and durable stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 4.3mn versus 4mn last week. Cases rose in the US (0.8mn versus 0.5mn), France (0.3mn versus 0.2mn), Italy (0.1mn versus 82K), and UK (321K versus 305K). In India, cases rose by 52K versus 62K. Weekly tracker improved to 101 from 100 in the previous week. US has fully vaccinated 59% of its population, France at 70% and UK at 68%. India is at ~50%.
- **Upcoming key events:** Major events this week include policy decisions of RBA and RBI, US CPI, China's trade and inflation data and GDP prints of Eurozone and Japan. Domestic market will also monitor IIP data and trajectory of spread of new Covid-19 variant in the country.



## India macro developments

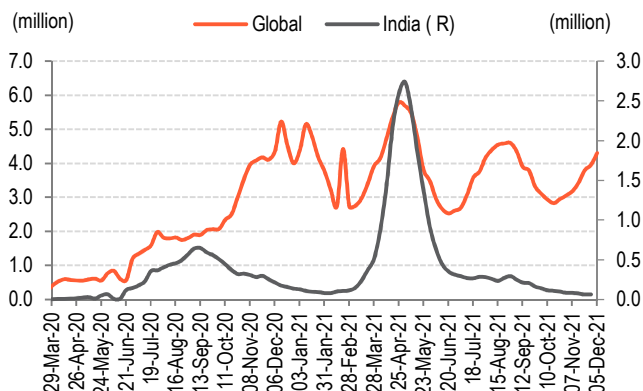
- Central government has presented second supplementary grant in the parliament seeking additional expenditure to the tune of Rs 3.74tn. Of this, Rs 2.99tn is expected to be the additional cash outgo while the remaining amount is estimated to be met through savings. Key spending proposals include: clearing of past dues of Air India (Rs 621bn), additional fertilizer (Rs 584bn) and food subsidy (Rs 498bn), clearing dues of exporters (Rs 531bn), and additional outgo for MGNREGA (Rs 220bn). Earlier, in the 1st supplementary grant, approval was sought for Rs 1.87tn additional spending, with net cash outgo of Rs 237bn.
- As per written reply in Lok Sabha, Centre's gross direct tax collections till 23 Nov 2021 have reached more than Rs 8.15tn, recording 48.1% jump in YoY terms versus BE of Rs 11.08tn. In net terms (post refunds) also, collections are 68% higher on YoY basis at Rs 6.92tn. Even over a 2-year horizon, net direct tax collections are up by 27.3%. Stronger than expected rebound in economic activity has supported government's revenue growth in FY22 so far.
- OECD has slashed India's growth forecast to 9.4% in FY22 from 9.7% estimated earlier. The report highlighted that the new Covid-19 variant could pose downside risks to growth. It also pointed that in the medium term, uncertainty over employment and earnings prospects will slow down the revival of household consumption. However, appropriate policy mix and structural reforms might support growth. It has estimated economy to grow by 8.1% in FY23, and 5.5% in FY24.
- India's manufacturing PMI rose to 57.6 in Nov'21 (highest in 10-months) from 55.9 in Oct'21, owing to increase in domestic demand. This led to sharp rise in production (highest in 9-months), increased input buying and pick up in hiring activity. Input prices remained elevated, unchanged from Oct'21 (92-month high), owing to supply side shortages and rising transportation cost. Future business optimism index slipped to 17-month low as companies are concerned about higher inflationary pressures denting domestic demand.
- India's central government fiscal deficit eased to 6.4% of GDP (12MMA basis) in Oct'21 from 6.6% in Sep'21. This has been achieved on the back of higher revenue growth, which has allowed spending to pick up pace. On FYTD basis, gross tax revenue has risen to Rs 13.6tn versus, registering 56% jump on YoY basis and 30% rise over 2-year horizon. Within this, direct tax collections are up by 24% compared with FY20 and indirect tax collections are up by 35%. Overall spending has risen to Rs 18.3tn, up by 10.4% compared with FY20.
- India's services PMI came at 58.1 in Nov'21 from 58.4 in Oct'21. New business rose at a broadly similar rate as seen in Oct'21. Business confidence improved to a three month high in Nov'21. Rate of input cost inflation rose at its strongest pace since FY11. Employment on the other hand, remained broadly stable.

## Global macro developments

- US nonfarm payroll addition fell to 210K in Nov'21 (est.: 550K) and against 546K seen in Oct'21. This was on account of job losses at retailers and local government education. Unemployment rate and labour force participation rate was at 4.2% and 61.8% respectively. Average hourly earnings, on MoM basis was at 0.3% against 0.4% in Oct'21. In a separate print, US ISM service index rose to a fresh record high of 69.1 (est.: 65) and compared to 66.7 in Oct'21, driven by pickup in new orders.
- China's official manufacturing PMI rebounded to 50.1 in Nov'21 from 49.2 in Oct'21. The index moved into expansionary zone as energy and raw material supply stabilized and prices also eased. As a result, the sub-index of production rose to 52 in Nov'21 from 48.4 in Oct'21. Raw material price index fell sharply to 52.9 from 72.1 in Oct'21 while factory gate price index dropped to 48.9 from 61.1. However, non-manufacturing PMI eased a tad to 52.3 in Nov'21 from 52.4 in Oct'21, as services activity slowed in view of increase in Covid-19 cases. Construction activity on the other hand continued to improve in Nov'21.
- Markit's PMI data for Nov'21 shows that while services activity rebounded sharply in Japan, it softened marginally in China. Japan's services PMI rose to 53 in Nov'21 from 50.7 in Oct'21 supported by new business activity (in expansion for the 1st time since Jan'20). Revival in new export orders led the growth. On the other hand, in China, PMI index eased to 52.1 from 53.8. Slowdown in domestic demand due to resurgence in Covid-19 cases was the key reason. In both the countries, input cost pressures remained elevated.
- US Conference Board consumer confidence index fell to a 9-month low of 109.5 (est. 110.9) in Nov'21 from 111.6 in Oct'21. This was led by moderation in both current situation (142.5 from 145.5) and expectations (87.6 from 89.0) index. Rising prices and Covid-19 impacted sentiments. Inflation expectation jumped to its highest since Jun'08 at 7.6% versus 7.1% in Oct'21. Consumers were less willing to buy items such as houses, vehicles and other appliances in the next 6-months. However, consumers' assessment of labour market remained strong.
- Manufacturing activity (PMI) in major economies inched up. In the Eurozone, it rose a tad to 58.4 in Nov'21 from 58.3 in Oct'21. This was driven by increase in new orders which was above its long-run average. Countrywise, only Italy stood out. In UK, the print rose to its 3-month high of 58.1 in Nov'21 from 57.8 in Oct'21, supported by increase in production. In the US also, the ISM print rose to 61.1 from 60.8 in Oct'21. Elevated input cost due to supply chain bottlenecks remained a cause of worry.
- US jobless claims for the week ended 27 Nov 2021 increased to 222,000 (est. 240,000), after falling to a pandemic low of 194,000 last week. The rise can be attributed to seasonal factors and volatility amidst the holiday season. In fact, the four-week average of claims declined to 238,750-lowest since the pandemic. Separately, ADP report showed that private payrolls rose more than expected by 534,000 in Nov'21 (est. 525,000), suggesting a strong recovery in labour market.

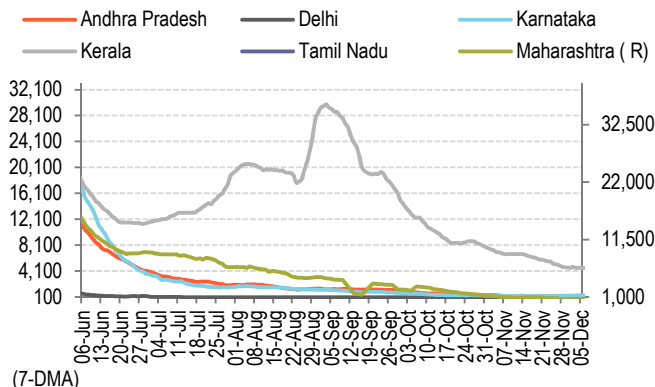
## High frequency indicators and weekly activity tracker

**Fig 1 – Global Covid-19 cases rose**



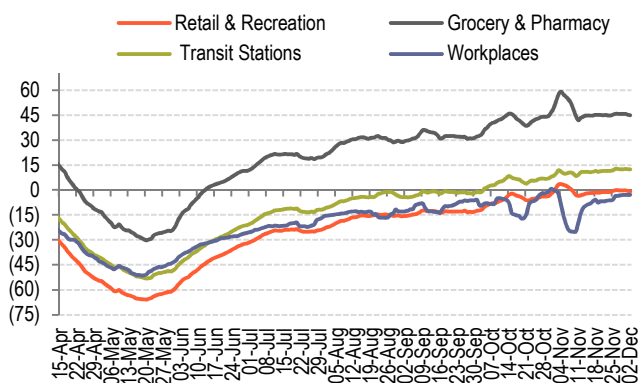
Source: CEIC, Bank of Baroda Research; Data as of 5 Dec 2021

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



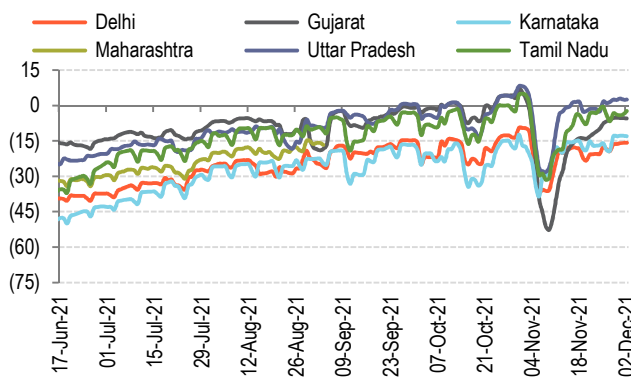
Source: CEIC, Bank of Baroda Research; Data as of 5 Dec 2021

**Fig 3 – Google mobility index steady**



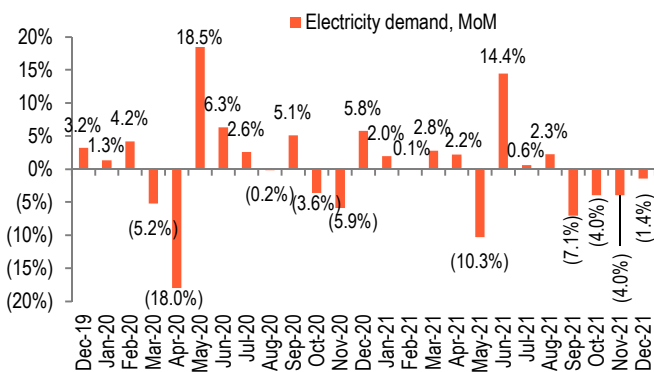
Source: CEIC, Bank of Baroda Research; Data as of 2 Dec 2021

**Fig 4 – ...led by workplace**



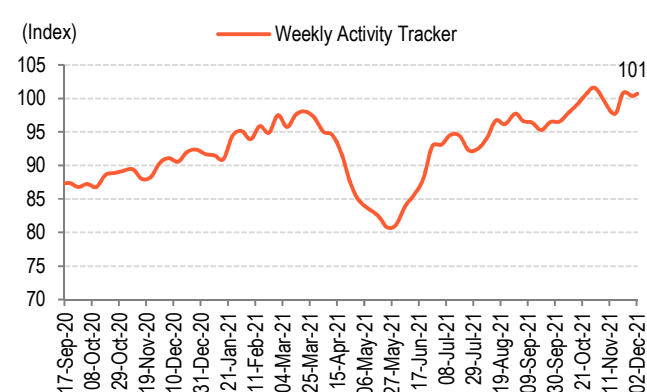
Source: CEIC, Bank of Baroda Research; Data as of 2 Dec 2021

**Fig 5 – Slower pace of moderation in Electricity demand**



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

**Fig 6 – Weekly activity tracker improves to 101**



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
<b>10Y yields (Δ bps)</b>					
US	1.34	(13)	(21)	2	38
UK	0.75	(8)	(29)	3	40
Japan	0.05	(2)	(3)	1	3
Germany	(0.39)	(5)	(22)	(3)	16
India <sup>AA</sup>	6.37	4	1	21	55
China	2.90	4	(3)	7	(40)
<b>2Y yields (Δ bps)</b>					
US	0.59	9	14	38	44
UK	0.48	0	(20)	28	51
Japan	(0.11)	2	(1)	2	1
Germany	(0.74)	1	(8)	(4)	0
India	4.59	1	13	52	72
China <sup>**</sup>	2.51	4	3	6	(48)
<b>Currencies (Δ %)</b>					
EUR	1.1315	0	(2.3)	(4.8)	(6.6)
GBP	1.3236	(0.8)	(2.8)	(4.6)	(1.5)
JPY	112.80	0.5	1.0	(2.8)	(8.3)
AUD	0.7001	(1.7)	(5.8)	(6.2)	(5.7)
INR	75.17	(0.4)	(0.6)	(2.9)	(1.9)
CNY	6.3765	0.3	0.4	1.2	2.4
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	34,580	(0.9)	(4.1)	(2.2)	14.4
FTSE	7,122	1.1	(2.1)	(0.2)	8.7
DAX	15,170	(0.6)	(4.9)	(3.9)	14.1
NIKKEI	28,030	(2.5)	(5.1)	(3.8)	4.8
Shanghai Comp	3,607	1.2	2.9	0.7	4.7
SENSEX	57,696	1.0	(3.9)	(0.7)	28.0
Brent (US\$/bbl)	69.88	(3.9)	(17.5)	(3.8)	41.9
Gold (US\$/oz)	1,783	(1.1)	(0.3)	(2.4)	(3.0)
CRB Index	566.3	(0.4)	(0.7)	1.5	32.5
Rogers Agri Index	1,158.4	(1.7)	0.2	7.3	41.5
LIBOR (3M)*	0.18	0	4	6	(5)
INR 5Y Swap*	5.69	(18)	(18)	(11)	51
<b>India FII data (US\$ mn)</b>					
	<b>2 Dec</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	89.2	136.6	16.6	99.9	2,127.2
FII-Equity	(40.2)	(1,591.4)	(408.3)	5,094.2	(2,232.1)

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

Fig 8 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
06-Dec	Germany factory orders, % MoM	Oct	(0.3%)	1.3%	--
	Italy retail sales, % MoM	Oct	0.3%	0.8%	--
	Markit/CIPS UK construction PMI	Nov	54.2	54.6	--
07-Dec	Sout Korea current account balance, US\$ bn	Oct	--	10.1	--
	Japan household spending, % YoY	Oct	(0.6%)	(1.9%)	--
	RBA cash rate target, %	07-Dec	0.1%	0.1%	--
	Germany industrial production SA, % MoM	Oct	0.9%	(1.1%)	--
	France trade balance, € bn	Oct	(6.9)	(6.8)	--
	Germany ZEW Survey Expectations	Dec	25.0	31.7	--
	Euro Area GDP SA, % QoQ	Q3CY21	2.2%	2.2%	--
	Euro Area ZEW survey expectations	Dec	--	25.9	--
	China exports, % YoY	Nov	19.8%	27.1%	--
	08-Dec	Japan current account balance, ¥ tn	Oct	1.3	1.0
Japan GDP SA, % QoQ		Q3CY21	(0.8%)	(0.8%)	--
RBI repo rate, %		08-Dec	4.0%	4.0%	--
09-Dec	China CPI, % YoY	Nov	2.5%	1.5%	--
	China PPI, % YoY	Nov	12.0%	13.5%	--
	Japan machine tool orders, % YoY	Nov	--	81.5%	--
	Germany exports SA, % MoM	Oct	0.8%	(0.7%)	--
	US initial jobless claims, in thousands	04-Dec	225.0	222.0	--
10-Dec	Japan PPI, % YoY	Nov	8.5%	8.0%	--
	Germany CPI, % YoY	Nov	5.2%	5.2%	--
	UK industrial production, % MoM	Oct	0.1%	(0.4%)	--
	Italy industrial production, % MoM	Oct	0.3%	0.1%	--
	India IIP, % YoY	Oct	4.3%	3.1%	--
	US CPI, % MoM	Nov	0.7%	0.9%	--
	University of Michigan consumer sentiment index	Dec	68.0	67.4	--

Source: Bloomberg, Bank of Baroda Research

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