WEEKLY WRAP

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CPI and IIP data in focus

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Fed has begun tapering with reduction of its monthly asset purchase by US$ 15bn. BoE on the other hand stayed put on rate and asset purchase, in contrast with market expectation. Thus UK's 10Y yield fell the most by 19bps. Global equity got a boost from Pfizer's announcement of Covid-19 pill and buoyant labour market in the US. On the domestic front, manufacturing and services PMI data remained robust. RBI announced revised PCA framework for banks w.e.f. 1 Jan 2022. In the current week, CPI and IIP data will be on the radar.

Markets

- **Bonds:** Global 10Y yields closed lower. UK's 10Y yield fell the most by 19bps (0.85%) as BoE did not raise policy rate as widely anticipated by markets. US 10Y yield fell by 10bps (1.45%) despite better labour market conditions and Fed starting tapering. Crude prices fell by 1.9% (US$ 83/bbl) despite OPEC+ producers sticking to their previous output plan. India's 10Y yield rose by 2bps (6.36%) in the truncated trading week. System liquidity surplus was at Rs 6.9tn as on 3 Nov 2021 versus Rs 7tn last week.

- **Currency:** Except AUD (lower) and GBP (lower) other global currencies closed higher this week. DXY rose by 0.2% as Fed revealed its tapering plan. EUR rose by 0.1% as PPI data rose more than expected. INR rose by 0.8% on account of moderation in oil prices and FII inflow of US$ 265mn in the week.

- **Equity:** Barring Shanghai Comp and Sensex (lower), global indices ended higher as Pfizer announced Covid-19 pill. Better jobs data in the US also supported investor sentiments. Nikkei rose the most (2.5%), followed by Dax (2.3%) and Dow (1.4%). Sensex (2.2%) traded lower in the truncated week, dragged down by banking stocks.

- **Covid-19 tracker:** Global Covid-19 cases rose by 3.1mn versus 3mn last week. Cases rose in Germany (0.16mn versus 0.13mn), Russia (0.27mn versus 0.26mn) and Japan (4K versus 1.9K). In India, cases rose at a slower pace of 88K versus 103K. Our weekly economic activity tracker is above the base level at 101 (100=Feb'20). US has fully vaccinated 57% of its population, Germany at 66% and Russia at 34%. India is ~ 30%.

- **Upcoming key events:** Major events this week include China's and US inflation print and UK GDP data. Policy decision of Thailand is also scheduled. Domestic market will monitor CPI and IIP data.

India macro developments

- India's manufacturing PMI expanded at its fastest pace in over 7-months to 55.9 in Oct'21 from 53.7 in Sep'21. The improvement was led by scaling up of production as new orders continued to expand even in Oct'21. Factory output rose at its fastest pace since Mar'21. Further, expansion in new export orders (fastest in 3-months) was also seen owing to the pick-up in international demand. With overall improvement in demand, business optimism scaled up to a 6-month high.
- India's services PMI expanded to a decadal high of 58.4 in Oct'21 from 55.2 in Sep'21 signalling substantial recovery in the sector. The pickup in new orders too rose at its fastest pace in over 10 years. Improvement in overall demand has boosted sales and output level. New work intakes have also risen at its strongest level since Jul'11. However, business confidence remained subdued due to growing price pressures, the output charge inflation rose to a 51-month high.
- India’s trade deficit narrowed from a record high of US$ 22.6bn in Sep’21 to US$ 19.9bn in Oct’21 owing to higher exports. Oil exports rose the most. Non-oil exports also fared well. Imports moderated, led by oil imports. However, non-oil-non-gold imports continue to show resilience and rose further to US$ 35.8bn in Oct’21. Imports are likely to expand further going forward as economic activity recovers. We expect CAD at 1.2% of GDP in FY22 from a surplus of 0.9% of GDP in FY21.
- RBI has revised the PCA framework for SCBs that will be effective from 1 Jan 2022. It has excluded the parameter of profitability (return on assets) from the list of triggers that could put a bank under PCA. Capital, asset quality and leverage will be taken into consideration for monitoring. The underlying indicators would include CRAR/ CET 1 ratio, net NPA ratio and Tier 1 leverage ratio. Exit route has also been defined. The objective is to enable supervisory intervention at an appropriate time so as to initiate and implement remedial measures.
- RBI’s fortnightly statistics data showed that credit demand picked up to 6.8% as on 22 Oct 2021 against 6.5% seen in the previous fortnight. However, deposit growth slightly moderated to 9.9% from 10.2%. Demand deposits remained stable showing 21.4% growth. Time deposits on the other hand moderated to 8.6% from 8.9%. CD ratio was at 70.3%.
- RBI’s Committee has come up with recommendations for efficient functioning of ARCs. This includes creation of online platform for sale of stressed assets, allowing ARCs to act as resolution applicants during IBC. Section 5 of the SARFAESI Act has been proposed to be expanded to allow ARCs for acquiring assets from all regulated entities. For ensuring better price discovery it has been suggested that two bank-approved external valuers should carry out valuation for accounts above Rs 5bn and one valuer for accounts between Rs 1-5bn.

Global macro developments

- US Fed in its latest policy announced tapering with winding down of its monthly asset purchases later this month at a pace of US$ 15bn/month (US$ 10bn: Treasury purchase + US$ 5bn: Mortgage Backed securities). In a separate print, US labour market conditions also remained buoyant. Non farm payroll addition was higher at 531K in Oct'21 against 312K in Sep'21. Unemployment was down by 0.2% to 4.6%. Leisure and hospitality businesses led the broad based increase, with 164K jobs created in that sector. Average hourly earnings on YoY basis, rose by 4.9% against 4.6% in Sep'21.

- Bank of England in its latest policy kept rates unchanged with a vote of 7-2 and retained its asset purchase program at £ 895bn (vote of 6-3 against earlier 7-2). Primarily, concern about uncertain growth outlook over higher energy prices and impact on labour market due to the end of the furlough scheme (Sept. 30), contributed towards this decision. CPI is expected to rise to 4.5% in Nov'21 and is expected to peak at ~5% in Apr'22. The policy has also added that the market-implied path for bank rate would rise to around 1% by end of CY22.

- Reserve Bank of Australia (RBA) in its recent policy discontinued the yield curve control of 0.1% on its April 2024 Government bond. This was on the back of inflation gathering pace and economy recovering with faster pace of vaccination. It projected inflation to be at 2.25% in CY21 and CY22 and at 2.5% in CY23. Growth is estimated to be at 3% in CY21 and at 5.5% and 2.5% in CY22 and CY23 respectively. On rates and asset purchase program however, it stayed put.

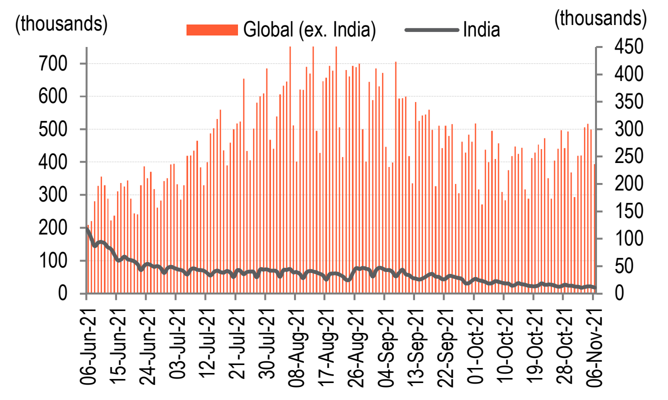
- Manufacturing PMI in the US showed moderation as reflected in the ISM print which fell to 60.8 in Oct'21 from 61.1 in Sep'21. This was on account of record-long raw materials lead times, continued shortages of critical materials and rising commodities prices. New orders index fell to 59.8 from 66.7 in Sep'21. Price Index rose to 85.7 from 81.2. However, employment Index rose to 52 from 50.2 in Sep'21.

- Services PMI for China and Australia indicate that activity improved in both countries in Oct'21. In case of Australia, the rebound was much sharper (51.8 in Oct'21 versus 45.5 in Sep'21) compared to China (53.8 versus 53.4). Both countries reported improvement in new orders and employment. Input and output costs too increased everywhere. However, while future business optimism index rose above the long-run average in Australia, it softened in China and remained below the long-run average.

- In the Eurozone, services activity fell to its 6-month low of 54.6 in Oct'21 against 56.4 in Sep'21, down by 5 points from its 15-year high seen in Jul'21. New business growth slowed down. Inflationary pressures build up with strongest increase in costs and selling price seen in over 21 years. However, employment conditions remain favourable.

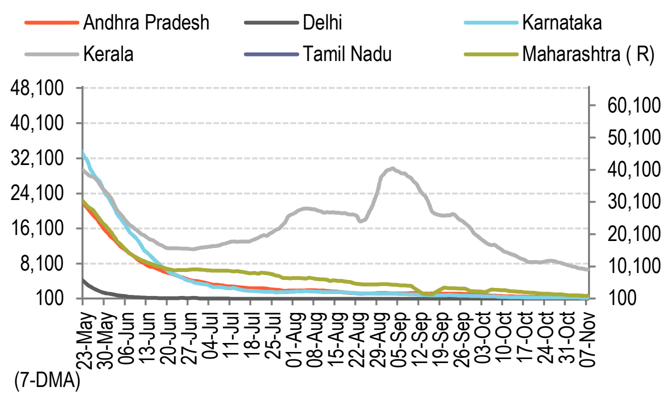
High frequency indicators and weekly activity tracker

Fig 1 – Global Covid-19 cases plateauing



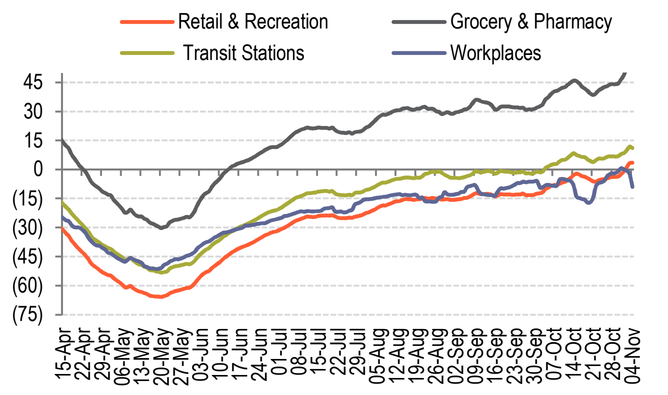
Source: CEIC, Bank of Baroda Research

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



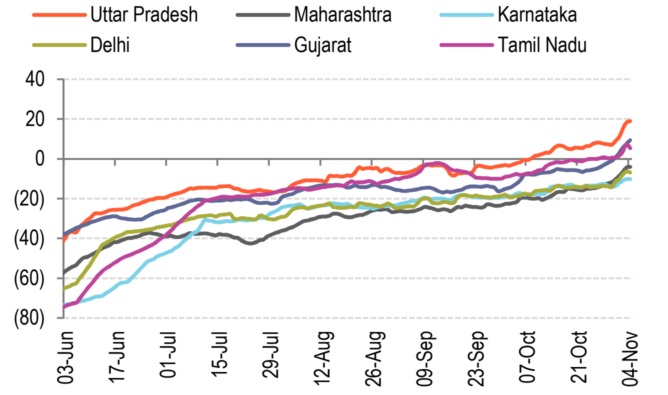
Source: CEIC, Bank of Baroda Research

Fig 3 – Except workplace, Google mobility index inch up



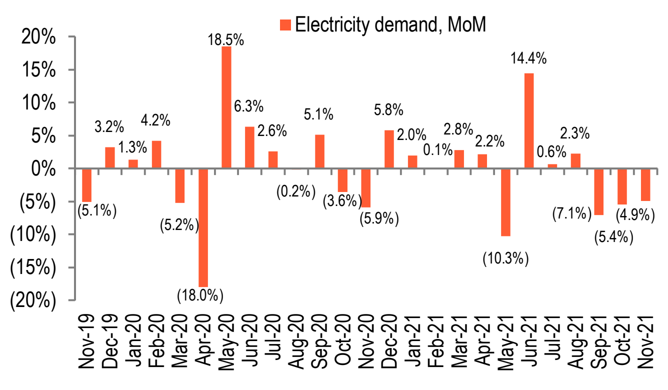
Source: CEIC, Bank of Baroda Research

Fig 4 – …led by retail and recreation index



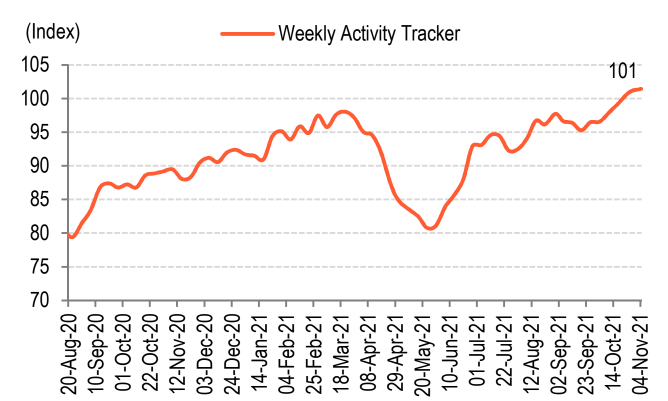
Source: CEIC, Bank of Baroda Research

Fig 5 – Electricity demand seen improving as pace of decline reduced



Source: Bloomberg, Bank of Baroda Research; Data as of 5 Nov 2021

Fig 6 – Weekly activity tracker was stable at 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
10Y yields (Δ bps)					
US	1.45	(10)	(7)	15	63
UK	0.85	(19)	(24)	23	57
Japan	0.06	(4)	0	5	4
Germany	(0.28)	(17)	(9)	18	34
India^^	6.36	2	11	15	47
China	2.89	(8)	1	7	(31)
2Y yields (Δ bps)					
US	0.40	(10)	12	19	25
UK	0.41	(30)	(5)	27	44
Japan	(0.11)	(1)	0	1	3
Germany	(0.73)	(14)	(3)	3	5
India	4.43	1	16	23	26
China**	2.31	7	(2)	38	(45)
Currencies (Δ %)					
EUR	1.1567	0.1	(0.3)	(1.7)	(2.6)
GBP	1.3498	(1.3)	(1.0)	(2.7)	2.6
JPY	113.41	0.5	(1.7)	(2.9)	(9.7)
AUD	0.7400	(1.6)	1.5	0.6	2.0
INR	74.46	0.8	(0.2)	(0.4)	0.4
CNY	6.3988	0.1	0.7	1.3	3.2
Equity & Other indices (Δ %)					
Dow	36,328	1.4	5.9	3.2	28.3
FTSE	7,304	0.9	3.2	2.5	23.6
DAX	16,054	2.3	5.7	1.9	28.6
NIKKEI	29,612	2.5	6.4	6.4	21.7
Shanghai Comp	3,492	(1.6)	(2.1)	1.0	5.4
SENSEX	59,772	(2.2)	0.8	9.7	47.2
Brent (US$/bbl)	82.74	(1.9)	0.2	17.0	109.7
Gold (US$/oz)	1,818	2.0	3.3	3.1	(6.8)
CRB Index	567.7	(0.6)	1.6	1.3	36.6
Rogers Agri Index	1,136.1	(0.7)	2.0	6.4	42.2
LIBOR (3M)*	0.14	1	2	2	(6)
INR 5Y Swap*	5.87	(5)	10	(3)	80
India FII data (US$ mn)	**2 Nov**	**WTD**	**MTD**	**CYTD**	**FYTD**
FII-Debt	135.8	145.1	145.1	74.8	2,102.0
FII-Equity	156.7	119.6	119.6	6,378.1	(948.2)

Source: Bloomberg, Bank of Baroda Research | *Indicates change in bps | **1Y yield | Indian market were closed on 4th & 5th Nov

Fig 8 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
08-Nov	China exports, % YoY	Oct	22.8%	28.1%	27.1%
	Japan leading index CI	Sep	--	101.3	--
	Taiwan exports, % YoY	Oct	--	29.2%	--
09-Nov	Japan current account balance, ¥ tn	Sep	--	1.7	--
	Philippines GDP, % YoY	Q3CY21	4.6%	11.8%	--
	Germany exports SA, % MoM	Sep	--	(1.2%)	--
	Germany ZEW survey expectations	Nov	--	22.3	--
	US PPI final demand, % MoM	Oct	0.6%	0.5%	--
10-Nov	South Korea unemployment rate SA, %	Oct	--	3.0%	--
	China CPI, % YoY	Oct	--	0.7%	--
	China PPI, % YoY	Oct	--	10.7%	--
	Japan machine tool orders, % YoY	Oct	--	71.9%	--
	Germany CPI, % YoY	Oct	--	4.5%	--
	BoT benchmark interest rate, %	10-Nov	--	0.5%	--
	Italy industrial production, % MoM	Sep	--	(0.2%)	--
	US CPI, % MoM	Oct	0.5%	0.4%	--
	US initial jobless claims, in thousands	06-Nov	--	--	--
11-Nov	Japan PPI, % YoY	Oct	--	6.3%	--
	Australia unemployment rate, %	Oct	--	4.6%	--
	UK industrial production, % MoM	Sep	--	0.8%	--
	UK GDP, % QoQ	Q3CY21	--	5.5%	--
12-Nov	Euro Area industrial production SA, % MoM	Sep	--	(1.6%)	--
	India IIP, % YoY	Sep	--	11.9%	--
	India CPI, % YoY	Oct	--	4.4%	--
	US Univ. of Michigan consumer sentiment index	Nov	72.0	71.7	--

Source: Bloomberg, Bank of Baroda Research

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