

WEEKLY WRAP

19 April 2021

Global recovery pushes commodity prices higher

Global commodity prices moved higher in the week led by oil with upward revision to global demand. US economic recovery gained momentum as seen in housing starts. Even so, US yields slipped and DXY index was weak. INR rose by 0.5% despite higher oil prices and FPI outflows. Surge in Covid-19 cases globally and in India pose a risk to recovery. Higher commodity prices drove India's WPI to rise to 7.4%. Domestic yields rose. Rising Covid-19 imply local restrictions may increase thus impacting growth in Q1FY22.

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Markets

- Bonds:** US 10Y fell by 8bps (1.58%) in the week as Fed officials reiterated to keep rates ultra-low to support growth. On the other hand, Germany's 10Y yield rose by 4bps as vaccination gained pace (18.4% of population vaccinated). Crude prices rose by 6.1% (US\$ 67/bbl) as OPEC and IEA upgraded their demand forecast for CY21. India's 10Y yield rose by 7bps (6.09%) due to higher CPI and WPI print. System liquidity surplus was at Rs 5.5tn as on 16 Apr2021, versus Rs 6.2tn in the previous week.
- Currency:** Global currencies closed higher. DXY fell by 0.7% amidst a dip in US 10Y yield, even as US economy continued to recover. AUD rose by 1.5% as Australia's unemployment rate declined in Mar'21. INR rose by 0.5% following global cues, despite higher oil prices and FII outflows.
- Equity:** Global indices ended mixed. Dow rose by 1.2% led by strong US data (jobless claims, industrial production, housing starts and retail sales). Sensex fell by 1.5%, amidst rising cases and re-imposition of restrictions. It was dragged down by real estate and tech stocks.
- Covid-19 tracker:** Global cases rose by 5.2mn this week versus 4.4mn in last week, led by India and France. India added 1.2mn cases versus 0.7mn WoW. Israel has vaccinated 62% of its population (single dose), UK at 48% and US at 38%. India is at 7.4%.
- Upcoming key events:** Globally, flash PMIs, US home sales and UK CPI will be in key focus. Also, rate decisions of ECB and Bank of Indonesia are due. In India, minutes of RBI's April policy will be released. Focus will be on continued surge in Covid-19 infections and progress in vaccination drive.



India macro developments

- Centre's indirect tax collections for FY21 have exceeded the revised target set in the Union Budget. Total collections reached Rs 10.71tn (+8.3%) versus Rs 9.89tn projected for FY21RE. This was largely owing to higher revenue from customs (+21%) and excise (+58%). GST collections on the other hand were down by 8%. With this, total tax collections in FY21 were at Rs 20.16tn (+0.5%) versus Rs 20.05tn in FY20.
- As per RBI data, SCBs credit growth edged down to 5.6% for the fortnight ending 26 Mar 2021 as against 6.5% in the previous fortnight. Deposits growth moderated to 11.4% from 12.1% in the previous fortnight. Demand and time deposits inched down to 15.1% (16.4% earlier) and 10.9% (11.6% earlier) respectively. CD ratio was at 72.5.
- India's trade deficit expanded to US\$ 13.9bn in Mar'21 from US\$ 12.6bn in Feb'21 as gold imports rose sharply by 591.7%. Non-oil-non-gold-imports also rose by 46.7%. Overall, imports rose by 53.7% in Mar'21 from 7%. Exports on the other hand rose by 60.3% led by gems and jewellery, engineering and pharma exports. We expect trade deficit to widen in FY22 amidst higher oil prices and improvement in domestic demand.
- WPI accelerated to 7.4% in Mar'21 from 4.2% in Feb'21 led by broad based increase in food, fuel and manufactured products inflation. A low base effect and rising global commodity prices imply there is room for WPI inflation to go up. Localized lockdowns may also push food inflation higher. We expect WPI to average at 7% in FY22 with upside risks emanating from higher global commodity and oil prices and a weaker INR.
- India's industrial output fell by 3.6% in Feb'21 from 0.9% in Jan'21 led by dip in mining and manufacturing. CPI inflation rose to 5.5% in Mar'21 from 5% in Feb'21 led by jump in food inflation to 4.9% (3.9% in Feb'21). Core inflation remained sticky at 5.9% in Mar'21. Food inflation too may be higher than our baseline estimate due to supply bottlenecks. Given RBI's lexicographic preference of growth over inflation, we expect a reverse repo hike in H2FY22.
- RBI reported that currency in circulation (CIC) declined by Rs 29.6bn and stood at Rs 28.8tn for the week ending 9 Apr 2021. Reserve money rose by 18.4% on a YoY basis, compared with 8% a year ago. On FYTD basis, reserve money increased by 0.5% as against a decline of 2.2% a year ago.
- As per IMD, India is expected to receive normal monsoon (98% of LPA) in 2021 for third year in a row. The probability of normal and above normal rain stands at 61%. For the last 2 years, monsoon was above normal at 110% and 109% of LPA respectively. IMD also stated that there is a little scope of the formation of EL-Nino in the monsoon period. This augurs well for agriculture growth and will support overall economic recovery in FY22.

Global macro developments

- China's exports rose by 30.6% in Mar'21 (est. 35.5%) following 60.6% jump in Jan-Feb'21. This was largely owing to lower base (6.6% decline in Mar'20). Apart from this, exports of toys and medical equipment supported growth. Imports on the other hand recorded strong growth at 38.1% (est.: 23.3%) versus 22.2% in Jan-Feb'21. Rising commodity prices was the key driver.
- Singapore's GDP rose by 0.2% in Q1CY21 on a YoY basis, after declining for 4-straight quarters (contraction of 5.4% in Q4CY20). Output in goods producing industries rose by 3.3% in Q1 supported by manufacturing (7.5%). Construction output contracted at a slower pace of 20.2% versus 35.9% in Q4. Contraction in services sector also moderated. Separately, Monetary Authority of Singapore (MAS) kept its policy settings unchanged and maintained its accommodative stance.
- China's GDP rose by 18.3% in Q1CY21 owing to favourable base (6.8% decline in Q1CY20). On QoQ basis, growth eased to 0.6% (est.: 1.4%) versus 3.2% increase in Q4CY20. Much of the slowdown was visible in Mar'21, as industrial production eased to 14.1% from 35.1% in Jan-Feb'21 and FAI was down to 25.6% in Q1CY21 versus 35% last year. Retail sales however rose by 34.2% in Mar'21 versus 33.8% in Jan-Feb'21
- US retail sales rose by 9.8% in Mar'21, (est.: 5.5%) highest gain in past 10 months and against 2.7% decline in Feb'21. Higher spending was supported by stimulus cheques. Separately, industrial production rose to an 8-month high of 1.4% from a decline of 2.6%, led by manufacturing and mining. Jobless claims fell by 193,000 in the week ended 10 Apr 2021 to 576,000 (lowest since Mar'20).
- CPI inflation in the Euro Area rose by 1.3% in Mar'21 from 0.9% in Feb'21, on YoY basis. In European Union as well, inflation rose to 1.7% in Mar'21 from 1.3% in Feb'21. The highest contribution came from services (0.57%), followed by energy (0.43%), food, alcohol & tobacco (0.24%) and non-energy industrial goods (+0.09%). The highest inflation was recorded in Poland, Hungary and Romania.
- US housing starts rose by 19.4% on a MoM basis in Mar'21, highest since Jun'06 and up from 11.3% decline in Feb'21. The largest jump was seen in multi-storey apartments (30%). Despite increasing home prices, demand remains robust owing to ultra-low mortgage rates. Permits for future construction also rose by 2.7% in Mar'21 versus 8.8% dip in Feb'21.

FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.58	(8)	(4)	50	94
UK	0.76	(1)	(2)	48	46
Japan	0.09	(2)	(1)	5	7
Germany	(0.26)	4	7	28	21
India	6.09	7	(9)	14	(26)
China	3.16	(5)	(10)	1	61
2Y yields (Δ bps)					
US	0.16	1	1	3	(4)
UK	0.04	(1)	(5)	18	(5)
Japan	(0.12)	0	2	0	1
Germany	(0.69)	1	0	3	(1)
India	4.62	6	(31)	15	(19)
China**	2.46	(4)	(12)	18	124
Currencies (Δ %)					
EUR	1.1983	0.7	0.7	(0.8)	10.2
GBP	1.3832	0.9	(0.4)	1.8	10.7
JPY	108.80	0.8	0.2	(4.8)	(1.2)
AUD	0.7734	1.5	(0.2)	0.4	21.5
INR	74.36	0.5	(2.5)	(1.8)	2.7
CNY	6.5206	0.5	(0.2)	(0.6)	7.8
Equity & Other indices (Δ %)					
Dow	34,201	1.2	4.2	11.0	41.1
FTSE	7,020	1.5	3.2	4.2	21.3
DAX	15,460	1.5	6.2	12.1	45.5
NIKKEI	29,683	(0.3)	(0.8)	4.1	49.2
Shanghai Comp	3,427	(0.7)	(0.6)	(3.9)	20.7
SENSEX	48,832	(1.5)	(3.0)	(0.4)	54.6
Brent (US\$/bbl)	66.77	6.1	(2.4)	21.2	137.8
Gold (US\$/oz)	1,777	1.9	2.6	(2.8)	5.6
CRB Index	515.3	0.8	3.8	13.5	46.9
Rogers Agri Index	989.6	2.5	1.7	7.1	53.3
LIBOR (3M)*	0.19	0	0	(3)	(92)
INR 5Y Swap*	5.60	(6)	(38)	1	3
India FII data (US\$ mn)					
	15 Apr	WTD	Mar-21	CYTD	FY21
FII-Debt	57.8	103.9	(303.2)	(2,330.4)	(303.2)
FII-Equity	(108.1)	(439.7)	(395.3)	6,931.1	(395.3)

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

FIG 2 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
19-Apr	Japan exports, % YoY	Mar	11.7%	(4.5%)	--
	Japan industrial production, % MoM	Feb F	--	(2.1%)	--
	Euro Area current account balance SA, € bn	Feb	--	30.5	--
	Italy current account balance SA, € bn	Feb	--	710.0	--
20-Apr	RBA minutes of April policy meeting	Apr	--	--	--
	UK ILO unemployment rate 3mths, %	Feb	5.1%	5.0%	--
	Japan machine tool orders, % YoY	Mar F	--	65.0%	--
	Germany PPI, % MoM	Mar	--	0.7%	--
	Bank of Indonesia 7D reverse repo rate, %	20-Apr	3.5%	3.5%	--
21-Apr	South Korea exports 20 days, % YoY	Apr	--	12.5%	--
	Australia retail sales, % MoM	Mar P	1.0%	(0.8%)	--
	UK CPI, % YoY	Mar	0.9%	0.4%	--
22-Apr	Thailand exports, % YoY	Mar	(1.0%)	(2.6%)	--
	France manufacturing confidence	Apr	99.0	98.0	--
	Italy industrial sales WDA, % YoY	Feb	--	(1.6%)	--
	ECB policy rate, %	22-Apr	0.0%	0.0%	--
	RBI minutes of April policy meeting		--	--	--
	US initial jobless claims, in thousands	17-Apr	--	576.0	--
	US existing home sales, in mn	Mar	6.17	6.22	--
23-Apr	UK GfK consumer confidence	Apr	--	(16.0)	--
	Japan CPI, % YoY	Mar	(0.2%)	(0.4%)	--
	Jibun Bank Japan manufacturing PMI (flash)	Apr P	--	52.7	--
	Jibun Bank Japan services PMI (flash)	Apr P	--	48.3	--
	CPI YoY	Mar	1.2%	0.7%	--
	Markit France manufacturing PMI (flash)	Apr P	58.9	59.3	--
	Markit France services PMI (flash)	Apr P	44.1	48.2	--
	Markit/BME Germany manufacturing PMI (flash)	Apr P	65.7	66.6	--
	Markit Germany services PMI (flash)	Apr P	51.4	51.5	--
	Markit Eurozone manufacturing PMI (flash)	Apr P	62.2	62.5	--
	Markit Eurozone services PMI (flash)	Apr P	49.9	49.6	--
	Markit UK PMI manufacturing PMI (flash)	Apr P	59.8	58.9	--
	Markit/CIPS UK services PMI (flash)	Apr P	58.0	56.3	--
	Markit US manufacturing PMI (flash)	Apr P	60.0	59.1	--
	Markit US services PMI (flash)	Apr P	61.3	60.4	--
US new home sales, in thousands	Mar	868.0	775.0	--	

Source: Bloomberg, Bank of Baroda

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