

WEEKLY WRAP

05 July 2021

Indian yields inch up, global yields fall

Global yields fell, led by US 10Y which declined by 10bps even as consumer confidence, payrolls and home sales were strong. However, unemployment rate did edge up to 5.9% (est. 5.6%). India was an exception with yields rising on the back of concerns over higher borrowing by government and rising inflation. INR depreciated to a 2-month low amidst elevated oil prices. With gradual easing of restrictions, our weekly economic activity tracker picked up to 92 from 89 last week. Markets await US FOMC minutes to gauge future moves by US Fed.

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Markets

- **Bonds:** Despite higher than estimated addition to payrolls, US 10Y yield fell by 10bps (1.42%) as unemployment rate picked up to 5.9% from 5.8%. Yields were lower even in Europe and UK. Crude prices closed flat at US\$ 76/bbl as OPEC+ talks on supply policy got delayed. India's 10Y yield rose by 4bps (6.07%) with concerns over higher borrowing by government. RBI changed the price discovery method as more securities devolved on PDs. System liquidity surplus rose to Rs 5.7tn as on 2 Jul 2021 from Rs 4.6tn last week.
- **Currency:** Global currencies closed lower this week. DXY rose by 0.4% this week on the back of strong macro data (consumer confidence, jobless claims, payrolls and factory orders). AUD fell the most by 0.8% amidst rising Covid-19 cases. INR depreciated by 0.7% as oil prices remained elevated at above US\$ 75/bbl. FII outflows were muted at US\$ 21mn.
- **Equity:** Barring Dow and Dax (higher), other global indices ended lower in the week. Better than expected non-farm payroll in the US helped Dow gain by 1%. On the other hand Shanghai Comp (2.5%) and Nikkei (1%) fell the most. Sensex (0.8%) too fell, led by power, oil and gas, and metal stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 2.7mn this week versus 2.6mn last week led by UK (0.2mn versus 89k). In India, cases rose by 0.3mn versus 0.4mn, last week. Our weekly economic activity tracker index rose to 92 (100=Feb'20) from 89. Israel has fully vaccinated 60% of its population, UK at 49% and US at 47%. India is at 4.5%.
- **Upcoming key events:** Major events this week include RBA policy and FOMC minutes. Additionally, global services PMIs, Europe industrial production and China's CPI and PPI are also due. In India, trajectory of Covid-19 cases following a gradual reopening will be monitored. Monsoon has seen a lull and is now 1% above LPA versus 15% last year. Kharif sowing is also lower.



Monsoon tracker

- For the period 1 Jun 2021 to 4 Jul 2021, monsoon is 1% above LPA compared with 15% last year. Central India continues to receive excessive rainfall, including states like Uttar Pradesh, Bihar, Madhya Pradesh, Maharashtra and Goa. Rajasthan, Haryana, Odisha and Karnataka have received normal rains. Himachal Pradesh, Jammu and Kashmir, Delhi, Gujarat and Kerala on the other hand have received deficient rainfall.
- Overall kharif sown area has fallen by (-) 21.6% as on 25 Jun 2021 compared with last year. Sown area of cotton (-) 48.2%, oilseeds (-) 35.5% and pulses (-) 16.7% has declined the most. Major decline was also visible in cereals (-) 7.5%. However, sown area of sugarcane (0.6%) and jute and mesta has improved by 0.4%.

Fig 1 – DISTRIBUTION PATTERN OF SOUTH-WEST MONSOON



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun- 4 Jul 2021

India macro developments

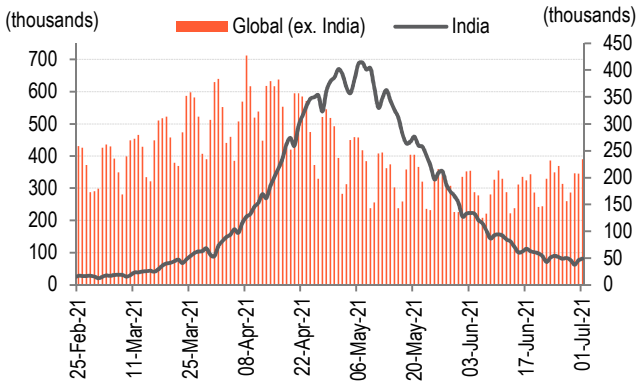
- Finance Minister of India announced a stimulus package for sectors most impacted by the second wave: MSMEs, health, farm, tourism and MFIs. MSMEs will get a big boost by way of increase in ECLGS by Rs 1.5tn. The total cash payout is limited to be less than 1% of GDP. We expect GDP to rebound by 9.7% in FY22 led by gradual opening up of restrictions.
- Government has cut basic custom duty on crude palm oil to 10% from 15% earlier and on refined palm oil to 37.5% from 45% earlier w.e.f 30 Jun 2021 till 30 Sep 2021. Including cess, customs duty on crude palm oil stands at 30.25% (from 35.75%) and for refined palm oil at 41.25% (from 49.5%). Earlier this month, government had also reduced tariff value for import of other edible oils. This is likely to soften domestic prices of edible oils which have been on an upswing lately.
- India's eight core industries output eased to 16.8% in May'21 from 60.9% in Apr'21. The moderation was led by refinery (15.3% from 30.9% in May'21), steel (59.3% from 472.7% in May'21) and cement (7.9% from 582.7% in May'21). Over a 2-year horizon, infrastructure index is down by 8.2% in May'21. However, with rapid vaccination drive and easing of state-wide restrictions, we expect a gradual recovery in coming months.
- India's central government finances indicate that the impact of second wave of Covid-19 on government revenues was much less compared with the first wave. Gross tax revenues rose to Rs 3.1tn in Apr-May'21 versus Rs 1.3tn last year. Indirect tax collections were more robust (Rs 1.9tn versus 0.7tn). Total expenditure eased marginally to Rs 4.7tn versus Rs 5.1tn, as much of the front loading was done in Q4FY21. Capex spending remained steady (Rs 0.6tn), and cuts were seen mainly in revenue expenditure (Rs 4.2tn versus Rs 4.6tn).
- RBI's Financial Stability Report reiterated impact of second wave on economy in-line with its revised GDP projection of 9.5% for FY22. GNPA ratio of SCBs under the baseline scenario is expected to increase to 9.8% of loans in Mar'22 led by retail loans. Notably, in the previous report, RBI had predicted GNPA ratio at 13.5% in Sep'21. Under severe stress, GNPA ratio can increase to 11.2% in Mar'22.
- India's manufacturing PMI slid into contraction for the first time in 11 months to 48.1 in Jun'21 from 50.8 in May'21. This was on the back of second wave of Covid-19 pandemic and statewide lockdown restrictions which resulted in contractions across, production, exports, factory orders and quantities of purchases. Both business optimism and employment index dropped further. However, the only silver lining was lower rate of inflation (joint lowest in 5-months), despite the increase in input cost.

Global macro developments

- Retail sales in Japan rose by 8.2% in May'21 (est.: 8.1%) and against 11.9% increase in Apr'21, on YoY basis. This is the 3rd consecutive month that retail sales have picked up, primarily led by favourable base. In a separate print, seasonally adjusted unemployment rate was at its 5-month high of 3.0% (est.: 2.9%) in May'21 from 2.8% in Apr'21.
- US non-farm payroll rose more than expected by 850,000 in Jun'21 (est.: 720,000) and against 583,000 in May'21. Unemployment rate was at 5.9% and labour force participate rate stood at 61.6. Average hourly earnings rose by 0.3% compared with 0.4% in May'21, on MoM basis. In a separate print, US factory orders rose by 1.7% in May'21 (est.: 1.6% increase) from 0.1% decline in Apr'21.
- China's official manufacturing PMI eased to 50.9 in Jun'21 (est.: 50.7) from 51 in May'21. Production index slowed to 51.9 versus 52.7 in May'21, despite increase in new orders (51.5 versus 51.3), led by supply chain bottlenecks. Within new orders, growth was led by domestic orders while export orders fell further (48.1 versus 48.3). Non-manufacturing PMI also slipped to 53.5 in Jun'21 from 55.2, led by services sector. Construction activity remained robust.
- Japan's industrial production fell by 5.9% in May'21 (est.: 2.4% drop) following 2.9% rise in Apr'21 (MoM basis). This was driven by decline in production of motor vehicles, machinery, electric machinery and equipment for information and communications. Shipment of iron, steel and non-ferrous metal products also fell. The Ministry estimates production to bounce back in Jun'21 and increase by 9% (5% estimated in May'21) before falling by 1.4% in Jul'21.
- As per ADP, private sector payrolls in the US rose by 692,000 in Jun'21 (est.: 550,000) versus 886,000 in May'21. Biggest gains were seen in leisure and hospitality sector (332k) and education and health services (123k). Additions in manufacturing sector slowed (19k). Separately, NAR data showed that pending home sales index rose by 8% (MoM) in May'21 (est.: 0.8% decline) versus 4.4% drop in Apr'21 despite increase in home prices and mortgage rates.
- US ISM manufacturing PMI eased a tad to 60.6 in Jun'21 from 61.2 in May'21, due to dip in new orders (66 versus 67). While domestic orders slowed down, new export orders continued to increase (56.2 versus 55.4). Backlog of orders fell sharply (64.5 versus 70.6) and employment too eased. Separately, initial jobless claims for the week ended 26 Jun 2021 fell by 51,000 to 364,000. The 4-week moving average also fell by 6,000 to 392,750 (lowest since 14 Mar 2020).

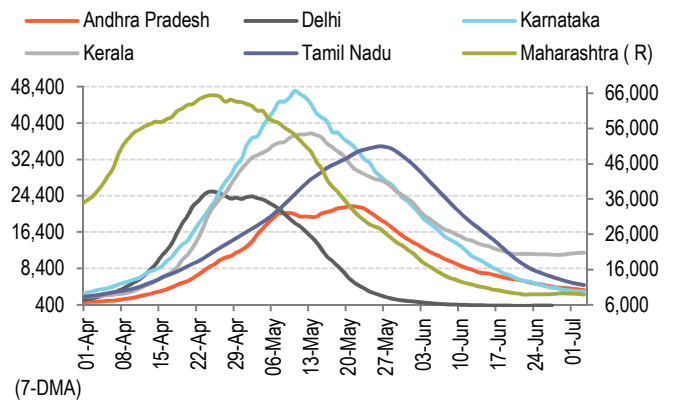
High Frequency Indicators and Weekly Activity Tracker

Fig 2 – GLOBAL COVID-19 CASES PICKED UP MARGINALLY THIS WEEK



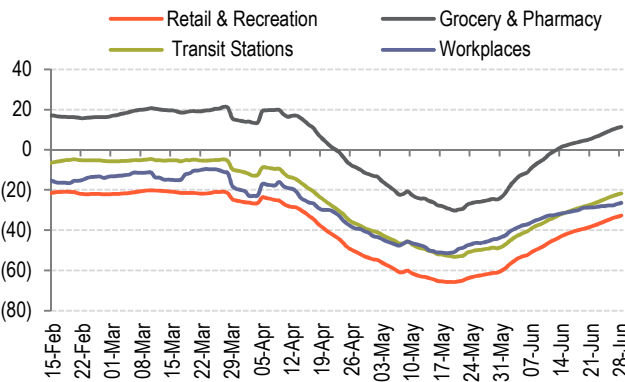
Source: CEIC, Bank of Baroda Research *Data as of 1 Jul 2021

Fig 3 – MODERATION IN COVID-19 CASES IN INDIAN STATES



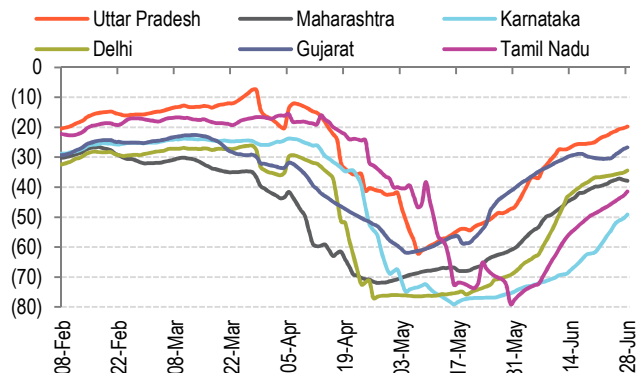
Source: CEIC, Bank of Baroda Research *Data as of 1 Jul 2021

Fig 4 – GOOGLE MOBILITY INDEX PICKING UP



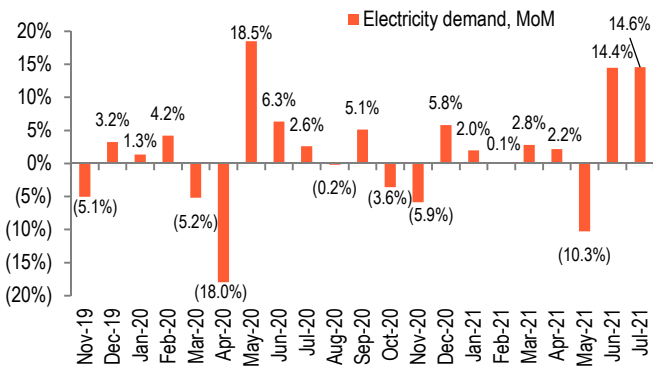
Source: CEIC, Bank of Baroda Research; *Data as of 28 Jun 2021

Fig 5 – IMPACT OF EASING LOCALISED LOCKDOWN ON MOBILITY: RETAIL AND RECREATION



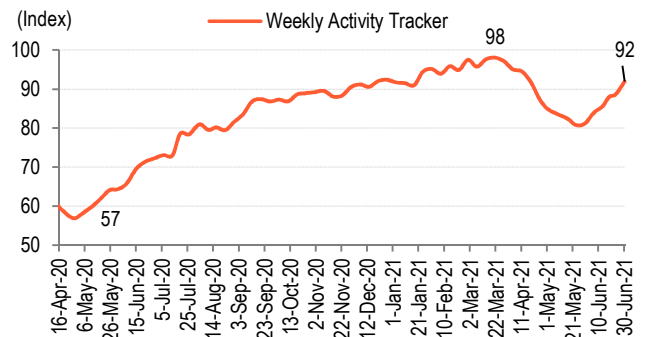
Source: CEIC, Bank of Baroda Research; *Data as of 28 Jun 2021

Fig 6 – IMPROVEMENT IN ELECTRICITY DEMAND



Source: Bloomberg, Bank of Baroda Research; *Data as of 2 Jul 2021

Fig 7 – WEEKLY ACTIVITY TRACKER SHOWING STEADY IMPROVEMENT



Source: CEIC, Bank of Baroda Research, Note: Composite weighted average index of high frequency indicators; *Data as of 30 Jun 2021

Fig 8 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.42	(10)	(18)	(30)	75
UK	0.70	(8)	(12)	(9)	52
Japan	0.05	0	(4)	(8)	2
Germany	(0.24)	(8)	(6)	9	20
India	6.07	4	4	(10)	22
China	3.08	(2)	(1)	(12)	18
2Y yields (Δ bps)					
US	0.23	(3)	9	5	8
UK	0.06	(3)	(1)	(2)	14
Japan	(0.11)	0	0	0	2
Germany	(0.67)	(2)	(1)	4	1
India	4.62	7	35	(5)	46
China**	2.32	(6)	(4)	(20)	26
Currencies (Δ %)					
EUR	1.1865	(0.6)	(2.8)	0.9	5.5
GBP	1.3824	(0.4)	(2.3)	(0.1)	10.7
JPY	111.05	(0.3)	(1.4)	(0.3)	(3.3)
AUD	0.7526	(0.8)	(2.9)	(1.1)	8.5
INR	74.75	(0.7)	(2.5)	(2.2)	(0.1)
CNY	6.4730	(0.3)	(1.4)	1.4	8.4
Equity & Other indices (Δ %)					
Dow	34,786	1.0	0.6	5.5	34.7
FTSE	7,123	(0.2)	0.6	6.1	15.7
DAX	15,650	0.3	0.5	4.3	24.9
NIKKEI	28,783	(1.0)	(0.1)	(3.6)	29.0
Shanghai Comp	3,519	(2.5)	(2.9)	1.0	11.6
SENSEX	52,485	(0.8)	1.1	6.0	45.7
Brent (US\$/bbl)	76.17	(0.0)	8.4	19.9	78.0
Gold (US\$/oz)	1,787	0.3	(6.0)	3.4	0.6
CRB Index	554.5	0.3	0.4	9.4	53.8
Rogers Agri Index	1,055.8	3.8	(1.8)	10.9	54.9
LIBOR (3M)*	0.14	0	2	(5)	(13)
INR 5Y Swap*	5.73	4	1	(11)	45
India FII data (US\$ mn)					
	1 Jul	WTD	MTD	CYTD	FYTD
FII-Debt	(23.2)	(97.8)	(23.2)	(3,190.0)	(1,162.7)
FII-Equity	(150.7)	118.5	(150.7)	8,068.8	742.5

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

Fig 9 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Prior	Actual
5-Jul	Jibun Bank Japan services PMI	Jun	--	47.2	48.0
	Australia retail sales, % MoM	May	0.1%	0.1%	0.4%
	Caixin China services PMI	Jun	54.9	55.1	50.3
	Markit India services PMI	Jun	--	46.4	41.2
	Singapore retail sales, % YoY	May	65.0%	54.0%	--
	Markit Italy services PMI	Jun	56.9	53.1	--
	Markit France services PMI	Jun	57.4	57.4	--
	Markit Germany services PMI	Jun	58.1	58.1	--
	Markit Eurozone services PMI	Jun	58.0	58.0	--
	Markit/CIPS UK services PMI	Jun	--	61.7	--
6-Jul	Japan household spending, % YoY	May	11.1%	13.0%	--
	RBA cash rate target, %	6-Jul	0.1%	0.1%	--
	Germany factory orders, % MoM	May	1.1%	(0.2%)	--
	Germany ZEW survey expectations	Jul	75.0	79.8	--
	Euro Area retail sales, % MoM	May	4.4%	(3.1%)	--
	Euro Area ZEW survey expectations	Jul	--	81.3	--
	Markit US services PMI	Jun	64.8	64.8	--
	US ISM services index	Jun	63.8	64.0	--
7-Jul	South Korea current account balance, US\$ bn	May	--	1.9	--
	Germany industrial production SA, % MoM	May	0.4%	(1.0%)	--
	Italy retail sales, % MoM	May	--	(0.4%)	--
	Taiwan CPI, % YoY	Jun	2.3%	2.5%	--
	Taiwan exports, % YoY	Jun	31.0%	38.6%	--
	US FOMC meeting minutes	16-Jun	--	--	--
	Singapore GDP, % YoY	Q2CY21	--	1.3%	--
8-Jul	Japan current account balance, ¥ tn	May	1.8	1.3	--
	Germany exports SA, % MoM	May	0.0%	0.3%	--
	US initial jobless claims, in thousands	3-Jul	--	364.0	--
9-Jul	China CPI, % YoY	Jun	1.3%	1.3%	--
	China PPI, % YoY	Jun	8.7%	9.0%	--
	UK industrial production, % MoM	May	2.5%	(1.3%)	--
	France industrial production, % MoM	May	0.7%	(0.1%)	--
	Italy industrial production, % MoM	May	0.5%	1.8%	--

Source: Bloomberg, Bank of Baroda Research

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