

WEEKLY WRAP

23 August 2021

Risk-off drives DXY to 9-month high

Slower than anticipated growth in China, lockdown measures to contain spread of Covid-19 and sooner than expected tapering signal from Fed minutes drove DXY index to a 9-month high. Global equities sold-off. Yields were lower. So was oil and other commodity indices. US retail sales and housing starts too were weaker than expected. Indian yields too fell. MPC minutes reveal members likely to continue to be accommodative into Q4FY22. India's Q1FY22 growth will be released this month and will give direction to how soon RBI may move (RBI's estimate is 21.4%).

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Markets

- **Bonds:** Global 10Y yields closed lower led by rising Covid-19 cases as few countries/ regions went into lockdown measures to control the spread. US 10Y yield fell by 2bps (1.26%) with softer than expected retail sales and housing starts. Crude prices fell by 7.7% (US\$ 65/bbl-lowest since May'21). India's 10Y yield fell a tad by 1bps (6.23%). System liquidity surplus fell to Rs 6.9tn as on 20 Aug 2021 from Rs 7.3tn last week.
- **Currency:** Even with dip in US yields, DXY rose by 1.1% to a 9-month high. Sharp decline in global commodity prices, decelerating growth outlook in China and lockdowns to contain Covid-19 explain US\$ outperformance. Fed minutes indicated tapering to begin this year. AUD fell the most (3.2% lower) as Australian government extended its lockdown. INR depreciated by 0.2% led by global cues despite lower oil prices and FII inflows.
- **Equity:** Global indices ended the week in red as concerns over Fed tapering and spread of delta variant, kept investors on the edge. Nikkei dropped the most (3.4%) followed by Shanghai Comp (2.5%) and FTSE (1.8%). Sensex too ended in red (0.2%) led by sell-off in metal and real estate stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 4.6mn versus 4.5mn last week. Fresh cases increased in US (1mn versus 0.9mn) and Japan (0.15mn versus 0.11mn) and Germany (43K versus 27k). In India, cases rose by 0.24mn versus 0.26mn. Our weekly economic activity tracker index rose to 97 (100=Feb'20) from 96. Singapore has fully vaccinated 71% of its population, Qatar at 68% and US at 51%. India is at 9.1%.
- **Upcoming key events:** Major events include flash global manufacturing and services PMI, US home sales, and Bank of Korea's rate decision. Additionally Germany's Ifo business index and consumer sentiment index of Germany and US are also due. Domestically, markets will react to RBI's MPC minutes.



Monsoon tracker

- For the period 1 Jun 2021 to 22 Aug 2021, monsoon is 8% below LPA compared with 5% above LPA last year. Large part of central and southern India including states such as Maharashtra, Rajasthan, Uttar Pradesh, Chhattisgarh, Andhra Pradesh and Karnataka have received normal rainfall. Telangana, Delhi and Tamil Nadu have received excessive rainfall during this period. However, Gujarat, Kerala, Jammu and Kashmir, Orissa, and North Eastern Region have received deficient rainfall.
- Overall kharif sown area has fallen by 1.6% as on 20 Aug 2021 compared with last year. Sown area of cotton (-8.3%) and oilseeds (-1.1%) continues to decline. Moreover, sowing of rice (- 1.1%) has also declined compared with last year. However, on the bright side sowing of pulses (1.7%), sugarcane (1.4%) and jute & mesta (1.2%) has improved.

Fig 1 – Distribution pattern of south-west monsoon



Source: IMD, Bank of Baroda Research | Note: Cumulative Data for 1 Jun- 22 Aug 2021

India macro developments

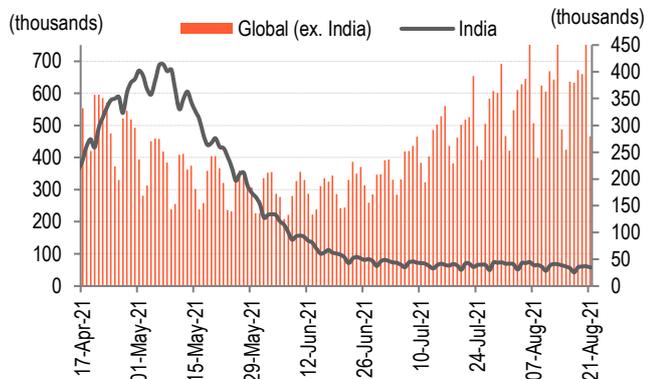
- India's EPFO data shows that net payroll additions rose to 12.8mn in Jun'21 from 7.7mn in May'21. With this, net additions are at 30.3mn in Q1FY22, slightly lower than 33.6mn in Q4FY21, thus showing the impact of second wave of Covid-19. However, the impact was far less than the first wave, when additions fell by 4.5mn in Q1FY21. New additions to subscriber base has also shown similar trend with 21.9mn additions in Q1FY22 versus 24.1mn in Q4FY21 and 11mn in Q1FY21. However, new additions remain far below pre-pandemic levels (33mn in Q1FY20).
- RBI's MPC minutes showed that members are worried about growth and remain steadfast on supporting the nascent recovery underway. Apart from Prof Varma, members are agreeing to a glide path in which CPI inflation will be lower than the upper tolerance band of 6% in FY22 from 6.2% last year. This will provide much needed stimulus since India's economy will just about reach pre-pandemic level by Mar'22. We expect RBI to raise reverse repo rate in Q4FY22. US Fed policy direction remains a risk to our view.
- In an effort to reduce import dependence of edible oil, Union Cabinet of India has approved a new oil palm scheme for the next 5 years. This will cost the exchequer around Rs 110.4bn, of which Rs 88.44bn will be Centre's share and Rs 21.96 will be States' share. Further, the scheme intends to increase oil palm productivity by covering an additional 0.65mn hectare under oil palm till 2025-26, thereby reaching the target of 1mn hectare.
- RBI bought record US\$ 18.6bn in the spot market (net) in Jun'21 compared with US\$ 5.8bn purchase in May'21. In Q1FY22, RBI has bought US\$ 28.7bn in the spot market versus sale of US\$ 1.4bn in Q4FY21. In the forwards market, RBI sold US\$ 10.1bn in Jun'21 versus sale of US\$ 5.1bn in May'21. RBI's net outstanding forward position stands at US\$ 49.6bn as of Jun'21.
- RBI reported that currency in circulation (CIC) increased by Rs 62bn and stood at Rs 29.6tn for the week ending 13 Aug 2021. Reserve money rose at a slightly higher pace of 16.4% on a YoY basis, compared with 14.4% last year. On financial year basis, reserve money increased by 3.5% against 5.7% increase, a year ago.
- As per CMIE data, unemployment rate in India (30-day moving average) rose to 7.54% as of 20 Aug 2021 from 7.47% in the previous week. This was led by pickup in urban unemployment rate (9.21% from 8.93%). Rural unemployment rate on the other hand, moderated to 6.79% from 6.81% in the previous week. With faster pace of vaccination and government's stimulus, unemployment rate is likely to edge down in the near term.

Global macro developments

- Flash global and services PMIs for Japan and Australia shows that activities slowed considerably in both countries in Aug'21. While manufacturing PMI in Japan eased to 51 (51.8 in Jul'21), it was down to 51.7 in Australia (56.9 in Jul'21). Services activity fell further into contraction with index at 43.5 in Japan (47.4 in Jul'21) and at 43.3 in Australia (44.2 in Jul'21). Surge in cases due to Delta variant has impacted businesses in both countries, with new order growth slowing. Supply chain bottlenecks also remained a concern in Japan.
- Retail sales in the US dropped more than expected by 1.1% in Jul'21 (est.: 0.3% decline) and against 0.7% increase seen in Jun'21. This was led by renewed inflationary concerns. Core retail sales also fell by 1% from 1.4% increase in Jun'21. In a separate print, industrial production in the US rose by 0.9% (est.: 0.5%) and against 0.2% in Jun'21. This was led by manufacturing (1.4% increase versus 0.3% decline) and mining (1.2% versus 0.5%) activities.
- As against expectations (0.5%), Reserve Bank of New Zealand delayed hiking the official cash rate (OCR), keeping it unchanged at 0.25%. This was in view of fresh Covid-19 cases in the country and current lockdown restrictions. However, official projections indicate that the OCR will be hiked at least once in CY21. A hike is impending in light of faster inflation and strong labour market. In Q2CY21, annualised CPI was at 3.3% (highest since Jun'11), and is further expected to inch up to 4.1% in Q3, much higher than RBNZ's target of 1-3%.
- Japan's CPI inflation fell by 0.3% in Jul'21 on a YoY basis versus a decline of 0.5% in Jun'21. The decline was led by transport and communication (-5.4%), medical care (-0.5%) and food (-0.6%). Further, while prices of good increased by 0.8% in Jul'21, prices of services fell by 1.5%. Core CPI (excluding fresh food) fell by 0.2% in Jul'21 on a YoY basis, marking the 12th straight month of decline. In Jun'21, core CPI had declined by 0.4%.
- US FOMC minutes showed that members are willing to begin reducing the asset purchase program in CY21 if economic recovery continues. Key risks to growth from rapid spread of new Delta variant and supply chain bottlenecks impacting businesses were also highlighted. Officials also pointed out that inflation trajectory was satisfying and unemployment goals are also on track. Separately, US initial jobless claims in fell by 29K to 348k (est.: 365k) in the week ended 14 Aug 2021. This is the lowest level since 14 Mar 2020 (256k).
- Producer prices in Germany rose more than anticipated by 1.9% in Jul'21 (est.:0.8%) and against 1.3% increase in Jun'21. On a YoY basis, prices rose the most since Jan'75 by 10.4% versus 8.5% in Jun'21. This was led by sharp increase in prices for all energy sources and non-durable consumer goods.

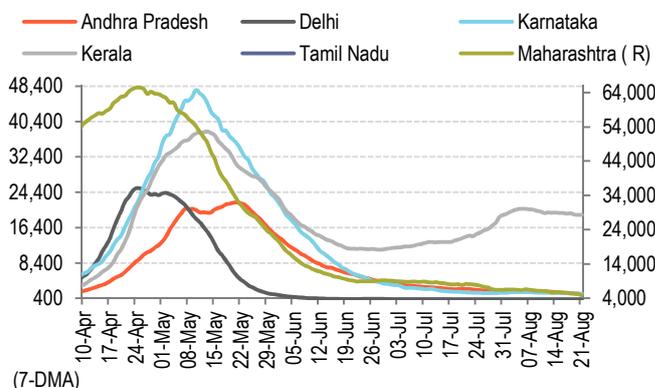
High frequency indicators and weekly activity tracker

Fig 2 – Global Covid-19 cases inch up



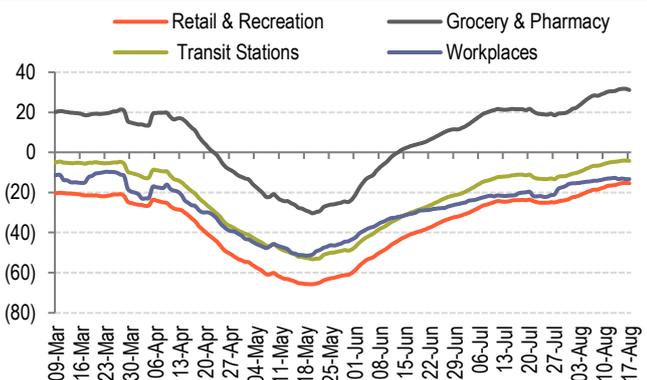
Source: CEIC, Bank of Baroda Research *Data as of 21 Aug 2021

Fig 3 – Covid-19 cases in India continue to dip



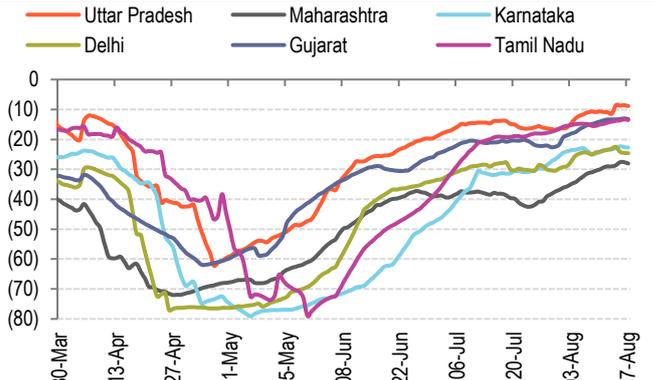
Source: CEIC, Bank of Baroda Research *Data as of 21 Aug 2021

Fig 4 – Google mobility index inching up



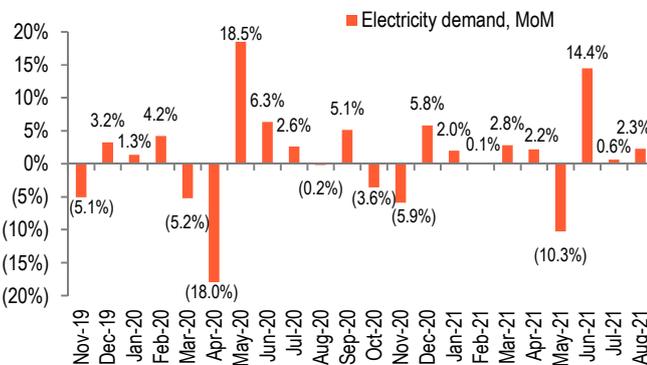
Source: CEIC, Bank of Baroda Research; *Data as of 17 Aug 2021

Fig 5 – Uptick in mobility: retail and recreation



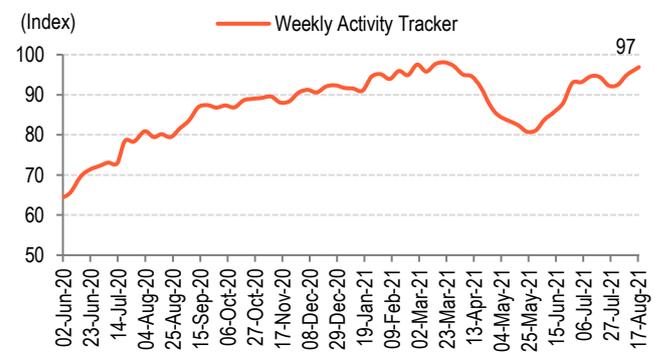
Source: CEIC, Bank of Baroda Research; *Data as of 17 Aug 2021

Fig 6 – Electricity demand improves



Source: Bloomberg, Bank of Baroda Research; *Data as of 21 Aug 2021

Fig 7 – Weekly activity tracker improved to 97 from 96 last week



Source: CEIC, Bank of Baroda Research, Note: Composite weighted average index of high frequency indicators

Fig 8 – Movement in key global asset classes

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.26	(2)	3	(37)	63
UK	0.52	(5)	(4)	(31)	32
Japan	0.01	(2)	0	(7)	(2)
Germany	(0.50)	(3)	(9)	(37)	1
India ^{^^}	6.23	(1)	4	26	15
China	2.85	(4)	(8)	(22)	(14)
2Y yields (Δ bps)					
US	0.22	2	2	7	8
UK	0.10	(4)	1	6	15
Japan	(0.12)	(1)	1	0	(1)
Germany	(0.75)	(1)	(3)	(9)	(6)
India	4.12	(7)	(13)	(17)	(20)
China ^{**}	1.91	(13)	(7)	(49)	(53)
Currencies (Δ %)					
EUR	1.1698	(0.8)	(0.7)	(4.0)	(0.8)
GBP	1.3623	(1.8)	0	(3.7)	4.1
JPY	109.78	(0.2)	0.1	(0.8)	(3.8)
AUD	0.7132	(3.2)	(2.7)	(7.8)	(0.4)
INR	74.40	(0.2)	0.3	(2.1)	0.6
CNY	6.5015	(0.4)	(0.3)	(1.0)	6.0
Equity & Other indices (Δ %)					
Dow	35,120	(1.1)	1.8	2.7	25.7
FTSE	7,088	(1.8)	3.0	1.0	18.1
DAX	15,808	(1.1)	3.9	2.4	23.8
NIKKEI	27,013	(3.4)	(1.4)	(4.6)	17.9
Shanghai Comp	3,427	(2.5)	(3.1)	(1.7)	1.4
SENSEX	55,329	(0.2)	6.0	9.5	44.0
Brent (US\$/bbl)	65.18	(7.7)	(6.0)	(1.9)	47.0
Gold (US\$/oz)	1,781	0.1	(1.6)	(5.3)	(8.2)
CRB Index	560.0	(0.8)	0.1	3.6	44.9
Rogers Agri Index	1,065.1	(3.5)	0.7	1.2	47.9
LIBOR (3M)*	0.13	1	(1)	(2)	(12)
INR 5Y Swap*	5.83	(1)	0	18	35
India FII data (US\$ mn)					
	18 Aug	WTD	MTD	CYTD	FYTD
FII-Debt	33.0	140.5	87.0	(3,166.2)	(1,138.9)
FII-Equity	148.4	407.8	1,018.6	7,396.8	70.4

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

Fig 9 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
23-Aug	Markit Australia manufacturing PMI	Aug	--	56.9	--
	South Korea exports, 20 Days, % YoY	Aug	--	32.8%	--
	Jibun Bank Japan manufacturing PMI	Aug	--	53.0	--
	Jibun Bank Japan services PMI	Aug	--	47.4	--
	Markit France manufacturing PMI	Aug	57.2	58.0	--
	Markit France services PMI	Aug	56.3	56.8	--
	Markit/BME Germany manufacturing PMI	Aug	65.0	65.9	--
	Markit Germany services PMI	Aug	61.0	61.8	--
	Markit Eurozone manufacturing PMI	Aug	62.0	62.8	--
	Markit Eurozone services PMI	Aug	59.5	59.8	--
	Markit UK PMI manufacturing SA	Aug	59.5	60.4	--
	Markit/CIPS UK services PMI	Aug	59.1	59.6	--
	Markit US manufacturing PMI	Aug	62.3	63.4	--
	Markit US services PMI	Aug	59.2	59.9	--
	US existing home sales, in mn	Jul	5.8	5.9	--
24-Aug	Thailand customs exports, % YoY	Jul	19.9%	43.8%	--
	Germany GDP, SA, % QoQ (final)	Q2CY21	1.5%	1.5%	--
	US Richmond Fed manufacturing index	Aug	25.0	27.0	--
	US new home sales, in thousands	Jul	699.0	676.0	--
25-Aug	New Zealand trade balance, NZ\$ mn	Jul	--	261.0	--
	Japan machine tool orders, % YoY	Jul	--	93.4%	--
	Germany IFO expectations index	Aug	100.0	101.2	--
	US MBA mortgage applications	20-Aug	--	(3.9%)	--
	US durable goods orders, % MoM	Jul	(0.3%)	0.9%	--
26-Aug	Germany GfK consumer confidence index	Sep	(0.5)	(0.3)	--
	France manufacturing confidence index	Aug	109.0	110.0	--
	Hong Kong exports, % YoY	Jul	26.3%	33.0%	--
	US initial jobless claims, in thousands	21-Aug	350.0	348.0	--
	US GDP annualized, % QoQ (second estimate)	Q2CY21	6.7%	6.5%	--
	BoK 7-day repo rate	26-Aug	0.5%	0.5%	--
27-Aug	China industrial profits, % YoY	Jul	--	20.0%	--
	Australia retail sales, % MoM	Jul	(2.1%)	(1.8%)	--
	France consumer confidence index	Aug	100.0	101.0	--
	Italy manufacturing confidence index	Aug	115.0	115.7	--
	US advance goods trade balance, US\$ bn	Jul	(90.6)	(91.2)	--
	US wholesale inventories, % MoM	Jul	1.0%	1.1%	--
	US University of Michigan consumer sentiment index	Aug	70.6	70.2	--

Source: Bloomberg, Bank of Baroda Research

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