

# FIRST LIGHT

## RESEARCH

### BOB Economics Research | Weekly Wrap

Global recovery pushes commodity prices higher

### BOB Economics Research | GDP

Second wave dents India's growth

## SUMMARY

### India Economics: Weekly Wrap

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.

[Click here for the full report.](#)

### India Economics: GDP

With local restrictions in place across large states (75% of India's GDP), there is a perceptible dip in economic momentum in Apr'21 as seen in rail freight, E-Way bills, toll collection and mobility data. The economic impact of restrictions is to the extent of 2% downward revision in Q1 growth with normalization in Q2. Hence, we have revised our FY22 GDP growth forecast to 11% from 11.5% earlier. We expect RBI to normalize monetary policy in H2 with increase in reverse repo rate. Repo rate hike is expected in early FY23.

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	1,000
<a href="#">TCS</a>	Buy	3,780
<a href="#">Tech Mahindra</a>	Buy	1,130

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,750
<a href="#">Greenply Industries</a>	Buy	195
<a href="#">Laurus Labs</a>	Buy	480
<a href="#">Transport Corp</a>	Buy	330

Source: BOBCAPS Research

### DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.58	0bps	(4bps)	94bps
India 10Y yield (%)	6.09	(4bps)	(9bps)	(26bps)
USD/INR	74.36	0.8	(2.5)	2.7
Brent Crude (US\$/bbl)	66.77	(0.3)	(2.4)	137.8
Dow	34,201	0.5	4.2	41.1
Shanghai	3,427	0.8	(0.6)	20.7
Sensex	48,832	0.1	(3.0)	54.6
India FII (US\$ mn)	15 Apr	MTD	CYTD	FYTD
FII-D	57.8	(303.2)	(2,330.4)	(303.2)
FII-E	(108.1)	(395.3)	6,931.1	(395.3)

Source: Bank of Baroda Economics Research

### BOBCAPS Research

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## 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.



## GDP UPDATE

19 April 2021

### Second wave dents India's growth

**With local restrictions in place across large states (75% of India's GDP), there is a perceptible dip in economic momentum in Apr'21 as seen in rail freight, E-Way bills, toll collection and mobility data. The economic impact of restrictions is to the extent of 2% downward revision in Q1 growth with normalization in Q2. Hence, we have revised our FY22 GDP growth forecast to 11% from 11.5% earlier. We expect RBI to normalize monetary policy in H2 with increase in reverse repo rate. Repo rate hike is expected in early FY23.**

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**Growth to take a hit:** The recent surge in Covid-19 cases has forced states such as Maharashtra (13.9% of India's GDP), Tamil Nadu (9.1%), UP (8.8%), Karnataka (8.3%), Rajasthan (5%), Delhi (4.2%) and Punjab (2.8%) to impose restrictions on movement of people and economic activity. The extent of restrictions vary in each state depending on local containment measures. In Maharashtra, manufacturing (16% of India's manufacturing) activity has been restricted to essentials and exports. Private non-essential services such as trade, education, real estate etc. (20% of India's GDP) is impacted across all states. These restrictions will have an impact on growth.

**High frequency indicators showing a slowdown:** High frequency indicators are now showing an impact. Google mobility index (ex-residential) has slipped by 12% from baseline in last 15 days compared with decline of 6% from baseline during 1 Mar to 27 Mar'21. During 1 Apr to 15 Apr'21, rail freight movement has seen a decline of 4.6% over 1 Mar to 15 Mar'21, electricity supply has risen by +2% versus +6% in month of Mar'21, E-way bills have fallen by 7.1% vs. +11.6% in Mar'21 and toll collection has fallen by 7.5% vs. +21.5% in Mar'21.

**Where do we see growth?** Our earlier projection for FY22 GDP growth was 11.5% within which H1 growth was estimated at 16% and H2 growth at 6.9%. Growth in Q1 is now estimated to be impacted by the restrictions put in place. Pent-up demand and normalization of economic activity will give some push to growth in Q2 and H2. Steady increase in vaccination rates will also give impetus to growth in H2. Thus we have revised our FY22 GDP growth to 11% with H1 growth at 15.1%. Higher oil prices and continuation of restrictions into Q2 pose downside risk to our current estimates.

#### KEY HIGHLIGHTS

- GDP forecast for FY22 revised downward by 50bps to 11%.
- Most of the impact in Q1 with downward revision of 2%.
- Vaccination to drive growth in H2. RBI to normalize monetary policy in H2FY22.



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**SELL** – Expected return <-5%

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