

RESEARCH
BOB Economics Research | Weekly Wrap

Global yields see a leg up

BOB Economics Research | February MPC Minutes

MPC points to medium-term inflation risks

SUMMARY
India Economics: Weekly Wrap

Global yields rose sharply led by US and UK, as reflation bets gained momentum amidst an improvement in economic activity. Oil prices are now at US\$ 63/bbl. US retail sales, industrial production, existing home sales and services PMI rose more than expected, signalling a quick economic recovery. Equity markets too rose. Indian 10Y yield rose by 15bps as oil prices rose. RBI stepped up OMO purchases as securities devolved on PDs. This week India's GDP will be released. We expect growth to contract by 7% in FY21.

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

India Economics: February MPC Minutes

The decline in CPI inflation has vindicated the MPCs lexicographic preference of growth over inflation. In FY22, growth is expected to rebound to 11.5%. MPC will have to manage the trilemma (corresponding inflation risks) of global flows, currency movement and commodity prices. The growth inflation matrix calls for normalisation of monetary policy with fiscal policy changing gears to crowd-in private investments. As a first step, RBI has raised CRR back to 4%. However, RBI's OMOs will supplement durable liquidity at the long-end.

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

TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
GAIL	Buy	160
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	480
Transport Corp	Buy	330
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.34	4bps	25bps	(13bps)
India 10Y yield (%)	6.14	11bps	23bps	(29bps)
USD/INR	72.65	0.1	0.7	(1.4)
Brent Crude (US\$/bbl)	62.91	(1.6)	12.5	7.5
Dow	31,494	0	1.8	8.6
Shanghai	3,696	0.6	3.6	21.6
Sensex	50,890	(0.8)	3.0	23.6
India FII (US\$ mn)	17 Feb	MTD	CYTD	FYTD
FII-D	(131.9)	(214.5)	(712.8)	(4,806.4)
FII-E	163.5	3,916.7	5,894.9	35,870.7

Source: Bank of Baroda Economics Research

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WEEKLY WRAP

22 February 2021

Global yields see a leg up

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Markets

- **Bonds:** Global 10Y yields closed higher. UK 10Y yield rose the most at 18bps to its highest since Mar'20 led by higher CPI print. US 10Y yield rose by 13bps to 1.34%, highest since Feb'20, supported by US Treasury Secretary's comments on fiscal stimulus. Oil prices rose by 0.8% (US\$ 63/bbl). India's 10Y yield rose by 15bps to a 7-month high (6.14%) led by higher oil prices and devolvement of securities on PDs. System liquidity surplus fell to Rs 5.5tn as on 18 Feb 2021, versus Rs 6.2tn last week.
- **Currency:** Except JPY, other global currencies closed broadly higher against the dollar. DXY fell by 0.1% to hover around a 3-week low as risk-sentiment improved. JPY also fell by 0.5%. GBP rose by 1.2% amidst rising inflation and a faster pace of vaccine rollout. INR appreciated by 0.1% supported by FII equity inflows of US\$ 732mn.
- **Equity:** Barring Dax and Sensex, other global indices ended higher led by vaccine roll out and strong earnings report. Sensex (1.3%) ended in red for the second week led by concerns over rising bond yields and surge in Covid-19 cases in some states.
- **Covid-19 tracker:** Global cases rose by 2.5mn in the week ended 19 Feb 2021 versus 2.8mn in the previous week led by dip in UK, US and Germany. India added 83k cases in the week versus 78k last week.
- **Upcoming key events:** Globally, US durable goods order, consumer confidence, Germany IFO index and New Zealand's policy decision are due. In India, RBI minutes, GDP, eight core and fiscal data will be released.



FEBRUARY MPC MINUTES

22 February 2021

MPC points to medium-term inflation risks

The decline in CPI inflation has vindicated the MPCs lexicographic preference of growth over inflation. In FY22, growth is expected to rebound to 11.5%.

MPC will have to manage the trilemma (corresponding inflation risks) of global flows, currency movement and commodity prices. The growth inflation matrix calls for normalisation of monetary policy with fiscal policy changing gears to crowd-in private investments. As a first step, RBI has raised CRR back to 4%. However, RBI's OMOs will supplement durable liquidity at the long-end.

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Recovery gathering pace: MPC members agreed economic recovery gathered pace in Q3FY21 and momentum is maintained in Q4, owing to recovery in manufacturing and rural demand. RBI Governor, Shri Das pointed out that Indian economy will expand by 10.5% in FY22 based on assessment that India is witnessing a multispeed recovery. However, contact intensive services are likely to recovery with a lag. In view of expansionary fiscal policy and accommodative monetary policy, Dr. Saggiar believes that capacity utilization is likely to near 70% by end of FY22 and that output gap will close by Q4FY22. Dr. Patra stressed on the need for building capital cushion for dealing with potential loan defaults and ensuring availability of credit.

Core inflation remains elevated: Most MPC members agreed that there are inflationary pressures emanating from higher global oil and commodity prices and pass-through into real economy. Dr Saggiar pointed out that food prices are at bottom and are likely to go up. In addition, there is upside risk to inflation from core inflation stickiness and higher crude prices. However, he also reiterated that the same has been embedded in RBI's baseline projections. Dr Patra also agreed that stubborn core, high commodity prices, and inflows into capital markets increase the risk of imported inflation.

Gradually draining out liquidity: Dr. Patra summed up the monetary policy outlook by stating that near-term outlook for inflation appears less risky than the near-term challenges for growth. RBI Governor, Shri Das pointed out that time based guidance used in Covid-19 period. Going forward, markets need to factor in forward guidance with respect to two-phase normalisation of CRR which opens up space for a variety of operations to inject liquidity such as OMOs. We believe RBI will remain on hold and gradually drain out excess liquidity between now and Mar'22 while conducting OMOs.

KEY HIGHLIGHTS

- MPC members to keep rates on hold and maintain accommodative stance.
- MPC believes growth to rebound in FY22.
- Core inflation stickiness and higher crude prices pose upside risks to inflation outlook.



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SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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