

WEEKLY WRAP

03 January 2022

Rampant rise in Covid-19 cases

Global economies monitored the growing spread of Omicron, however these concerns remained subdued as experts believe the severity to be much milder. Additionally, dip in US jobless claims and uptick in China's PMI pushed the currencies and most of the equity indices higher. US and Germany's 10Y yields too inched upwards. On the domestic front, India's CAD expanded in Q2FY22 led by higher imports, while India's eight core output eased to 3.1% in Nov'21. This week, markets will monitor India's GDP (FY21) and PMI prints along with keeping an eye on rising cases.

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Markets

- **Bonds:** Germany's 10Y yield rose the most by 7bps (-0.18%) as investors' focus on ECB's tapering. US 10Y yield rose by 2bps (1.51%) as jobless claims data signalled tighter labour market conditions. While Japan's 10Y yield closed stable; China's 10Y yield fell by 5bps (2.78%), on expectation of more stimulus. Crude prices rose by 2.2% (US\$ 78/bbl) ahead of OPEC+ meeting. India's 10Y yield fell by 1bps (6.45%). System liquidity surplus rose to Rs 6.7tn as on 31 Dec 2021 versus Rs 6.3tn in the previous week).
- **Currency:** Except JPY (lower), other global currencies closed higher this week. Risk-sentiment was boosted as countries refrained from lockdowns despite rising Covid-19 cases. DXY fell by 0.3% as US trade deficit rose to a record high. GBP rose the most by 1.1%. INR appreciated by 0.9% despite FII outflows and higher oil prices.
- **Equity:** Global indices ended higher with Sensex, Dow and Dax gaining the most. Positive news surrounding lower severity of Omicron cases, efficacy of vaccines, US jobless claims and China PMIs, supported investor sentiment. Gains in Sensex (2%) were led by consumer durable and auto stocks.
- **Covid-19 tracker:** Weekly increase in global Covid-19 cases doubled to 10.1mn versus 5.2mn last week. Cases rose sharply in the US (2.8mn versus 1.4mn), UK (1.4mn versus 0.5mn), France (1.1mn versus 0.5mn) and Spain (0.6mn versus 0.3mn). In India, cases rose by 96K versus 46K. Weekly tracker was stable at 103. US has fully vaccinated 62% of its population, UK at 70% and France at 73%. India is at ~65%.
- **Upcoming key events:** Major events this week include global manufacturing and services PMIs and key macro prints from US (Fed minutes, non-farm payroll and factory orders). Domestic market will also monitor India's PMI and annual GDP update for FY21, in addition to Covid-19 case trajectory.



India macro developments

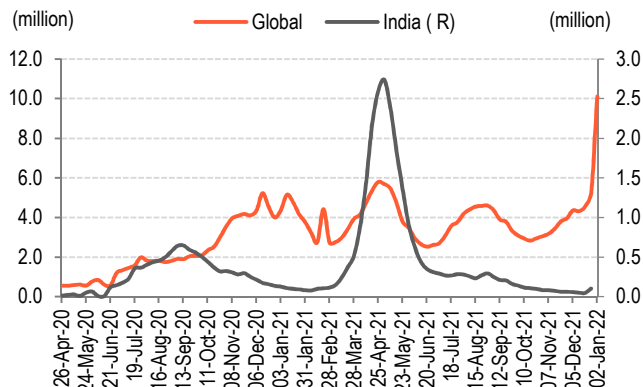
- India's eight core industries growth moderated to 3.1% in Nov'21 from 8.4% in Oct'21. Amongst major sectors, cement (-3.2% versus 14.5% in Oct'21), coal (8.2% versus 14.7%), refinery (4.3% versus 14.4%) and steel (0.8% versus 4.5%), fell the most. Going forward, rising Covid-19 cases worldwide poses downside risk to overall production. With this, we expect IIP growth to ease further in Nov'21 amidst supply disruption.
- India's GST collections for Nov'21 remained broadly steady at Rs 1.3tn compared with Rs 1.32tn in Oct'21. Unadjusted for IGST, both CGST (Rs 226bn versus Rs 240bn) and SGST (Rs 287bn versus 311bn) collections eased. On the other hand, IGST collections rose marginally to Rs 692bn from Rs 668bn. However, in FYTD22, collections remained robust at Rs 9.3tn versus Rs 7.5tn in FYTD21. Monthly run-rate of CGST also remains higher (Rs 455bn) than BE (Rs 442bn).
- India's current account registered a deficit of 1.3% of GDP in Q2FY22 following a surplus of 0.9% in Q1 as trade deficit widened. With pick up in domestic economy, imports picked up faster than exports. Capital inflows were robust, due to SDR allocation. FII and ECB inflows too picked up. Despite this, BoP surplus eased a tad on account of trade deficit. We expect trade deficit at US\$ 180bn and CAD at 1.5% of GDP in FY22. INR is likely to trade in the range of 74-76/\$ in the near-term.
- As per news reports, food subsidy is likely to be less than Rs 4tn in FY22 (B.E: Rs 2.4tn) against Rs 5.3tn in FY21. Under National Food Security Act (NFSA), Rs 1.5tn has been incurred for implementing Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY). Other than that, Rs 2.3tn has been estimated for procurement and distribution of foodgrains in FY22. Further, government has also extended the supply of free foodgrain under PMGKAY scheme till Mar'22.
- RBI has released the report on Trend and Progress of Banking for FY21 and Sep'21. It noted that the CRAR ratio strengthened from 14.8% in Mar'20 to 16.3% in Mar'21 and to 16.6% in Sep'21. It stated that banks capital position has improved on the back of recapitalisation by government and market raising of funds. GNPA ratio of commercial banks declined to 6.9% in Sep'21 compared with 7.3% in Mar'21. While the credit growth of the commercial bank remained subdued in FY21 led by the pandemic, NBFCs have largely filled up this space.
- As per Ministry of Consumer Affairs, Government in the ongoing Rabi Marketing season (Oct-Sep'21) has procured 44.3mn tonnes of paddy at MSP level. Most of the quantities have been purchased from Punjab (18.6mn tonne), Haryana (5.5mn tonnes) and Telangana (5.3mn tonnes). With this, over 4.7mn farmers have benefitted from the MSP value of Rs 869.2bn. Last year, the government had procured over 89.4mn tonnes of paddy and over 13.1mn farmers had benefitted.
- RBI in the FSR (Financial Stability Report) noted that CRAR and PCR (provision coverage ratio) of SCBs rose to 16.6% (16% in Mar'21) and 68.1% (67.6% in Mar'21) respectively in Sep'21. Under the stress test scenario, it stated that the GNPA ratio of SCBs may jump from 6.9% in Sep'21 to 8.1% (baseline) and 9.5% in Sep'22 (severe stress scenario). Furthermore, close monitoring is required as emerging signs of stress can be noted in MSME and even in micro finance segment.

Global macro developments

- China's official PMI indicates that both manufacturing and non-manufacturing activity picked up in Dec'21. Manufacturing PMI rose to 50.3 from 50.1 in Nov'21, owing to improvement in power supply situation and softening of commodity prices. However with resurgence in global Covid-19 cases and beginning of lockdown restrictions, China's new export orders fell (48.1 versus 48.5). Separately, non-manufacturing PMI rose to 52.7 in Dec'21 (52.3 in Nov'21) led by services (52 versus 51.1), while construction activity eased (56.3 from 59.1).
- US initial jobless claims for the week ended 25 Dec 2021 fell by 8,000 to 198,000 (est. 206,000) despite a surge in Covid-19 cases. The 4-week moving average of claims also fell by 7,250 to its lowest since Oct'69 at 199,250. Continuing claims also fell to its lowest since Mar'20 at 1.72mn in the week ended 18 Dec 2021. This reflects continued tightening of the labour market. However, spread of Omicron remains a key headwind for a sustained recovery in the job market.
- US trade deficit expanded to a record high of US\$ 97.8bn in Nov'21 (est. US\$ 89bn) from US\$ 83.2bn in Oct'21. While goods exports fell by 2.1% (+4.3% in Oct'21), imports rose by 4.7% (+3.4% in Oct'21), on a MoM basis. Barring food products, exports of all other items declined. On the other hand, imports of industrial supplies, consumer goods and auto surged the most. Separately, US pending home sales index fell unexpectedly by 2.2% in Nov'21 versus estimate of 0.5% increase. This was due to higher prices and limited stock availability.
- Hong Kong's exports rose by 25% (YoY) in Nov'21, up from 21.4% in Oct'21. The increase was broad-based, barring only exports of jewellery/silverware. Sharpest gains were visible in exports of clothing and apparel (9.1% versus -1.7%), power generating machinery (29.3% versus -4%), telecom equipment (13.6% versus 10.1%) and office machinery (48.3% versus 27%). Country-wise, exports to US, India, Taiwan and China rose the most.
- Japan's industrial production rose on MoM basis by 7.2% (est.: 4.8%) in Nov'21 from 1.8% in Oct'21. This is the sharpest jump in decades and was led by higher production of autos (43.1% versus 15.9%) and easing supply chain issues. Recovery was also visible in production of iron, steel and non-ferrous metals (6.5% versus -2.3%) and electronic parts and devices (3.1% versus -1.1%). The ministry expects production to increase by 1.6% in Dec'21 and by 5% in Jan'22.
- Consumer confidence in South Korea deteriorated to 103.9 in Dec'21 from 107.6 in Nov'21. This was the first drop in past four months on the back of falling outlook on future economic growth and spending. Among major sub-indices, spending on travel, dine-out, leisure and cultural activities fell the most due to stringent measures to contain the spread of Omicron variant.

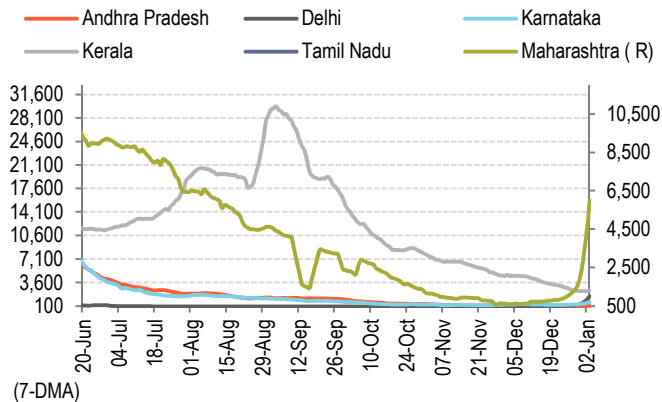
High frequency indicators and weekly activity tracker

Fig 1 – Global Covid-19 cases on a rise



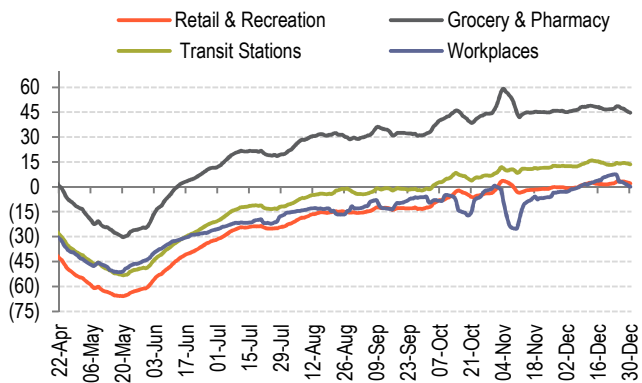
Source: CEIC, Bank of Baroda Research; Data as of 2 Jan 2022

Fig 2 – Covid-19 cases in India too edging upwards



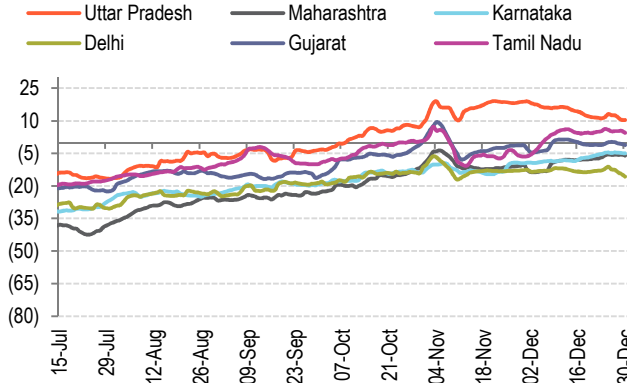
Source: CEIC, Bank of Baroda Research; Data as of 2 Jan 2022

Fig 3 – Google mobility index dips



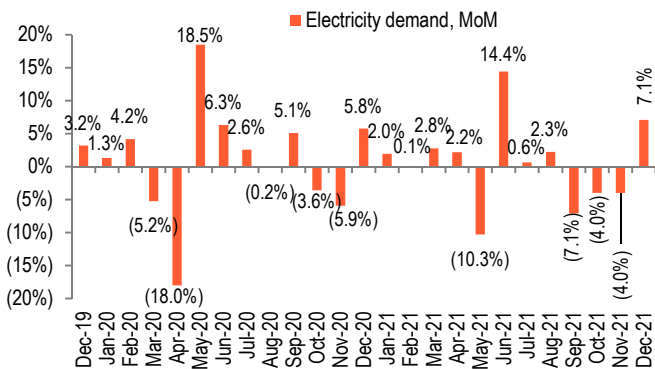
Source: CEIC, Bank of Baroda Research; Data as of 30 Dec 2021

Fig 4 – ...led by retail and recreation



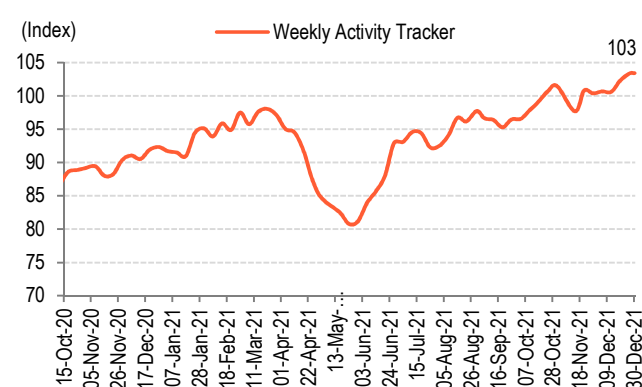
Source: CEIC, Bank of Baroda Research; Data as of 30 Dec 2021

Fig 5 – Electricity demand improves



Source: Bloomberg, Bank of Baroda Research; Data as of 30 Dec 2021

Fig 6 – Weekly activity tracker steady at 103



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

Fig 7 – Movement in key global asset classes

Particulars	Current	1W	1M	3M	12M
10Y yields (Δ bps)					
US	1.51	2	7	5	60
UK	0.97	5	16	(3)	77
Japan	0.07	0	1	1	5
Germany	(0.18)	7	17	5	39
India ^{AA}	6.45	(1)	13	21	58
China	2.78	(5)	(8)	(10)	(37)
2Y yields (Δ bps)					
US	0.73	4	17	47	61
UK	0.69	2	20	29	85
Japan	(0.09)	(3)	4	2	3
Germany	(0.62)	6	12	8	8
India ^{**}	4.37	(2)	10	29	100
China	2.36	(13)	(13)	(12)	(35)
Currencies (Δ %)					
EUR	1.1370	0.5	0.3	(1.9)	(6.9)
GBP	1.3532	1.1	1.8	(0.1)	(1.0)
JPY	115.08	(0.6)	(1.7)	(3.6)	(11.5)
AUD	0.7263	0.6	1.9	0.1	(5.6)
INR	74.34	0.9	1.1	(0.3)	(1.6)
CNY	6.3561	0.2	0.1	1.4	2.6
Equity & Other indices (Δ %)					
Dow	36,338	1.1	5.4	5.9	18.7
FTSE	7,385	0.2	4.6	5.1	14.3
DAX	15,885	0.8	5.2	4.8	15.8
NIKKEI	28,792	0	3.5	0.1	4.9
Shanghai Comp	3,640	0.6	2.1	2.0	4.8
SENSEX	58,254	2.0	2.1	(0.9)	21.7
Brent (US\$/bbl)	77.78	2.2	10.2	(1.9)	50.2
Gold (US\$/oz)	1,829	1.0	3.1	3.9	(3.7)
CRB Index	578.8	0.8	2.6	4.1	30.4
Rogers Agri Index	1,192.2	(0.4)	5.0	7.4	34.6
LIBOR (3M)*	0.21	(1)	4	8	(2)
INR 5Y Swap*	5.80	7	1	3	48
India FII data (US\$ mn)					
	30 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	99.6	(99.1)	(1,612.3)	(1,528.9)	498.3
FII-Equity	(151.8)	(129.7)	(1,826.8)	3,675.7	(3,650.6)

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

Fig 8 – Data release calendar

Date	Event	Period	Survey	Prior	Actual
03-Jan	Singapore GDP, % YoY	Q4CY21	5.1%	7.1%	5.9%
	Markit South Korea manufacturing PMI Mfg	Dec	--	50.9	--
	Markit India manufacturing PMI	Dec	--	57.6	--
	Markit France manufacturing PMI	Dec	54.9	54.9	--
	Markit/BME Germany manufacturing PMI	Dec	57.9	57.9	--
	Markit Eurozone manufacturing PMI	Dec	58.0	58.0	--
	Markit US manufacturing PMI	Dec	57.7	57.8	--
04-Jan	Markit Australia manufacturing PMI	Dec	--	--	--
	Jibun Bank Japan manufacturing PMI	Dec	--	--	--
	Caixin China manufacturing PMI Mfg	Dec	50.0	49.9	--
	Germany retail sales, % MoM	Nov	(0.5%)	(0.3%)	--
	Markit UK manufacturing PMI SA	Dec	57.6	57.6	--
	US ISM manufacturing PMI	Dec	60.2	61.1	--
05-Jan	Thailand CPI, % YoY	Dec	--	2.7%	--
	Markit India services PMI	Dec	--	58.1	--
	Markit Italy services PMI	Dec	54.0	55.9	--
	Markit France services PMI	Dec	57.1	57.1	--
	Markit Germany services PMI	Dec	48.4	48.4	--
	Markit Eurozone services PMI	Dec	53.3	53.3	--
	US ADP employment change, in thousands	Dec	360k	534k	--
	Markit US services PMI	Dec	57.5	57.5	--
	US FOMC meeting minutes	05-Jan	--	--	--
06-Jan	Markit Australia services PMI	Dec	--	55.1	--
	Jibun Bank Japan services PMI	Dec	--	51.1	--
	Caixin China services PMI	Dec	51.9	52.1	--
	Germany factory orders, % MoM	Nov	2.2%	(6.9%)	--
	Markit/CIPS UK services PMI	Dec	53.2	53.2	--
	Germany CPI, % YoY	Dec	5.1%	5.2%	--
	US trade balance, US\$ bn	Nov	-\$74.7b	-\$67.1b	--
	US initial jobless claims, in thousands	01-Jan	199k	198k	--
	US factory orders, % MoM	Nov	1.5%	1.0%	--
	US ISM services index	Dec	67.0	69.1	--
07-Jan	Germany industrial production SA, % MoM	Nov	1.0%	2.8%	--
	Germany exports SA, % MoM	Nov	(0.2%)	4.1%	--
	Euro Area retail sales, % MoM	Nov	(0.5%)	0.2%	--
	Euro Area CPI, % MoM	Dec	0.3%	0.4%	--
	Euro Area consumer confidence	Dec	--	(8.3)	--
	India GDP annual estimate, % YoY	FY21	9.5%	(7.3%)	--
	US change in nonfarm payrolls, in thousands	Dec	400k	210k	--
	US unemployment rate, %	Dec	4.1%	4.2%	--

Source: Bloomberg, Bank of Baroda Research

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