

RESERVE BANK OF INDIA
BULLETIN

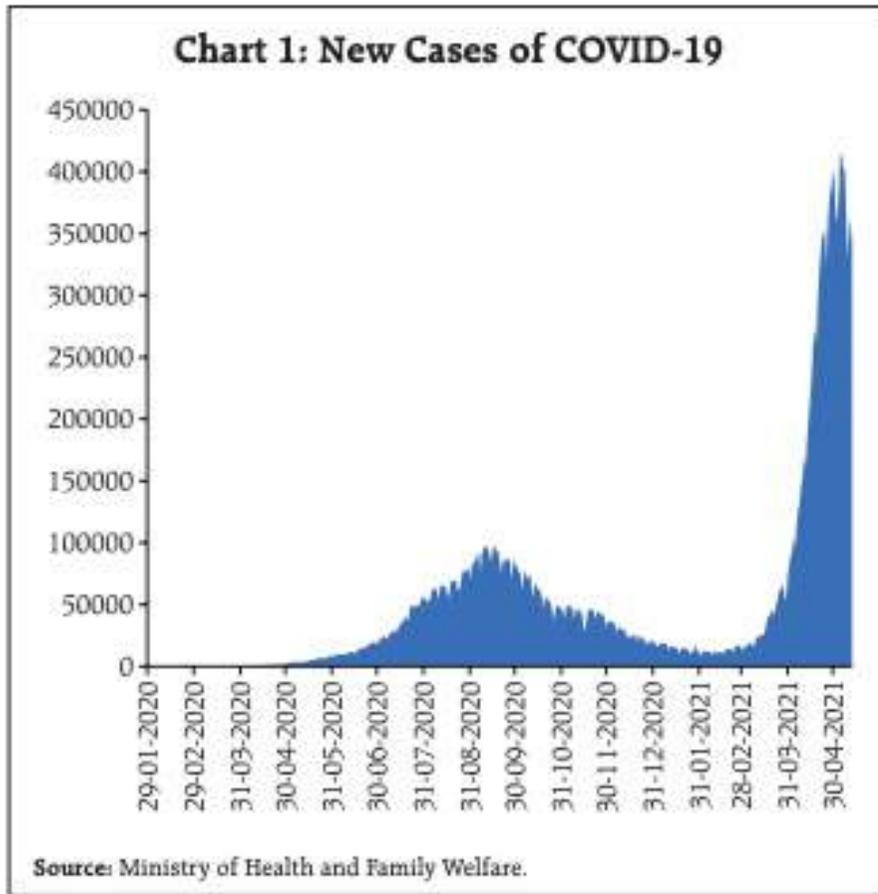


MAY 2021

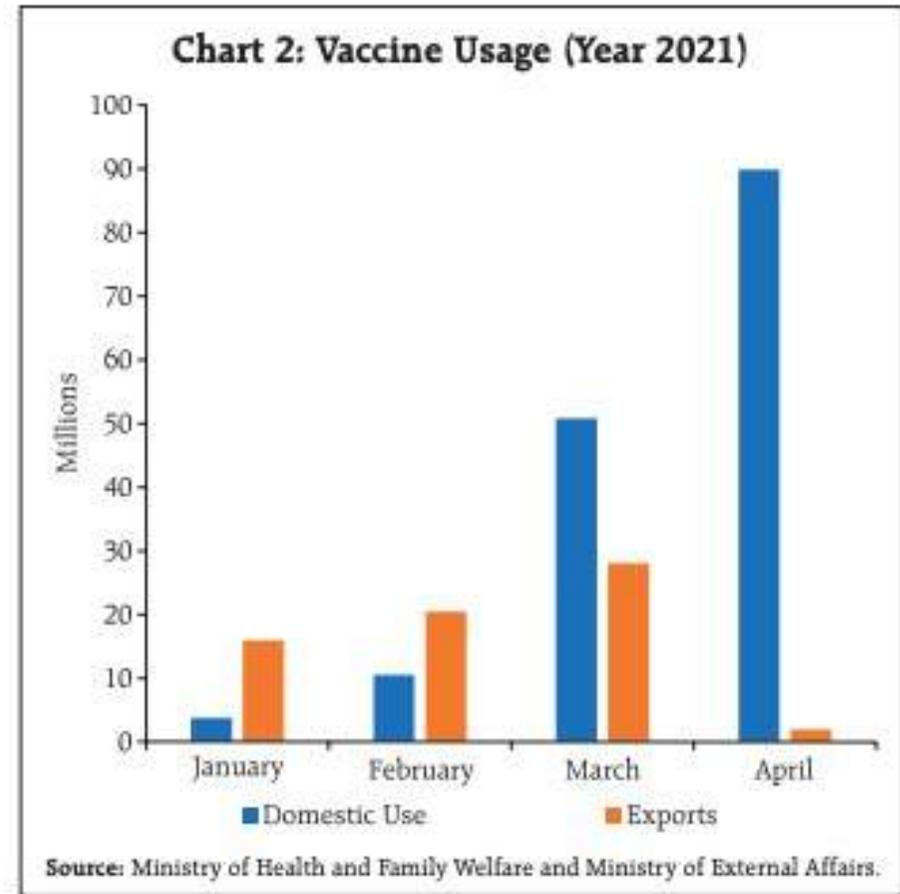
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May 24th 2021
Power *read*

Wealth  Strategies 



The ferocity of the current second wave of COVID-19 has shaken the nation³. The pandemic's trajectory in India has become near-vertical (Chart 1). On May 6, 2021, India reported 4,14,188 people testing COVID-positive, the highest figure for any country at any point of time during the pandemic.



With case numbers rising domestically and stretching the health and medical production infrastructure to its limits, India could ship just 1.9 million doses abroad in April, as compared with 64 million in the three prior months⁴, impacting commercial commitments and the COVAX scheme⁵ to supply more shots worldwide (Chart 2).

Table 1: Additions to the Hospital Infrastructure During the Pandemic – Select Statistics

	COVID Beds	Isolation Beds	ICU Beds	Oxygen Supported Beds
COVID Hospitals - 2084	4,68,974	2,63,573	50,408	1,54,993
COVID Health Centres - 4,043	3,57,096	2,31,462	25,459	1,00,175
Total	8,26,070	4,95,035	75,867	2,55,168

Source: PIB (<https://pib.gov.in/PressReleasePage.aspx?PRID=1710629>)

India is mobilising a war effort to stop the second surge in its tracks (Table 1).

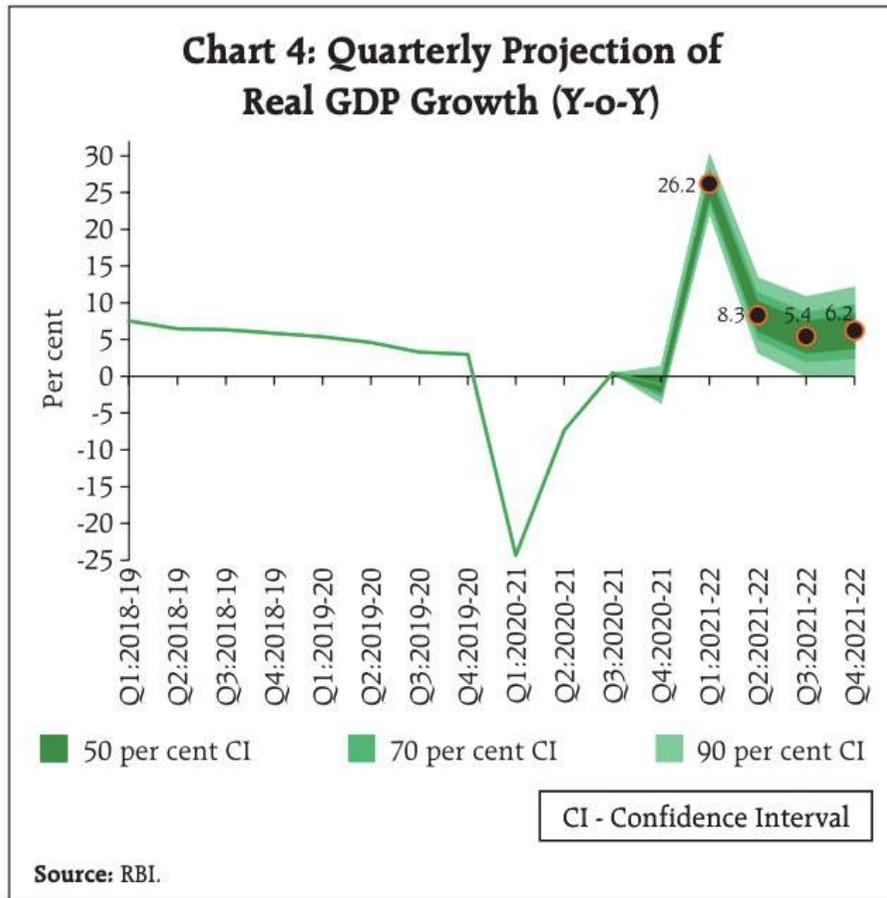
Table 2: Global Support

Medicines and Equipment	Quantity
Oxygen Concentrators	9200
Oxygen Cylinders	5243
Oxygen Generation Plants	19
Ventilators/Bi PAP	5913
Remdesivir	3.44 lakhs

Note: Cumulative support received till May 10, 2021

Source: PIB

Global support has poured in, with over 40 governments committing to help India with medical essentials. The World Trade Organisation’s Director-General Ngozi Okonjo-Iweala tweeted: “India unselfishly exported over 40 per cent of her vaccines. Timely for India to get this support”.



Possible GDP Growth probabilities in the wake of COVID 2.0 surge



Raw material costs grew sharply but other operating expenses such as wages and salaries grew at a slower pace as benefits from economies of scale set in and interest expenses declined. Thus, notwithstanding elevated raw material costs, the growth of operating profits and net profits was higher than in preceding quarters (Chart 5).

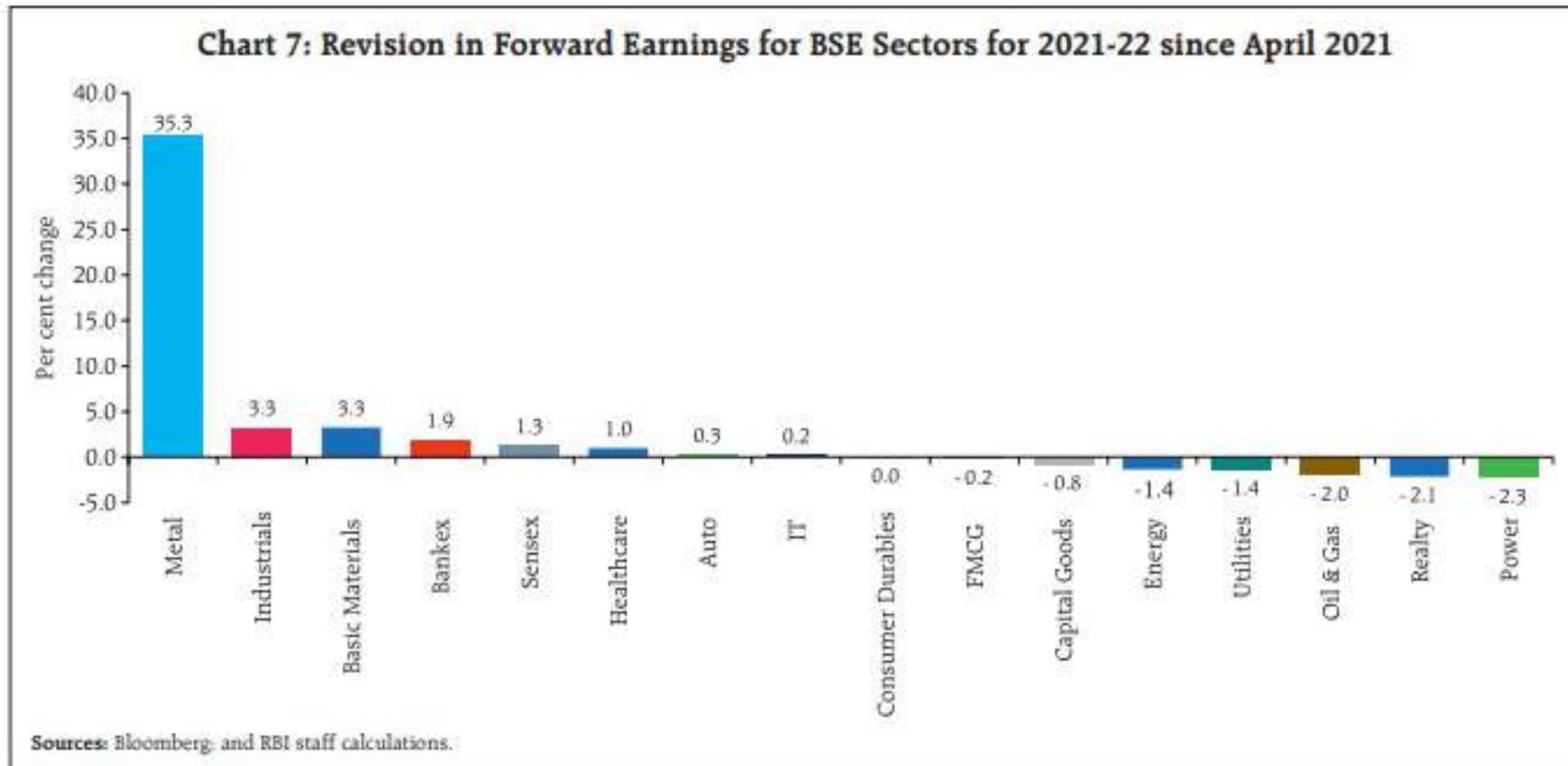
Table 3: Industry-Wise Y-o-Y Net Sales Growth (%)

Quarter ended	Auto & Ancillaries	Chemicals	Communication Services	Construction & Real Estate	Construction Materials	Consumer Goods	Hotels & Tourism	Information Technology	Machinery	Metals & Mining	Oil & Gas	Pharmaceuticals	Textiles	Transport Services	Others
Mar-21	35.0	30.8	8.9	16.7	28.8	26.4	-37.8	8.0	36.1	44.3	9.2	20.7	32.8	15.1	6.7
Dec-20	20.5	11.8	6.7	10.7	11.1	12.0	-51.4	6.3	7.4	20.3	-23.7	15.9	-1.1	14.1	2.7
Sep-20	7.5	0.2	1.5	0.4	4.5	7.1	-58.8	4.5	-7.3	10.4	-26.9	16.5	-28.4	0.4	1.5
Jun-20	-66.3	-22.8	-2.2	-28.5	-35.6	-16.2	-77.5	4.3	-54.9	-35.0	-45.8	15.9	-67.6	-21.2	-23.2

Note: Data pertain to listed non-financial companies.

Sources: Prowess and RBI staff calculations.

Corporate performance is undergoing a silent transformation as if it is positioning itself for a turn in the business cycle. The initial set of earnings results declared by 288 Indian listed companies (constituting around 51 per cent of the market capitalisation of all listed non-financial companies) for Q4:2020-21 marks a distinct shift from the previous quarters, with top-line growth gaining prominence in a broad-based manner (Table 3).



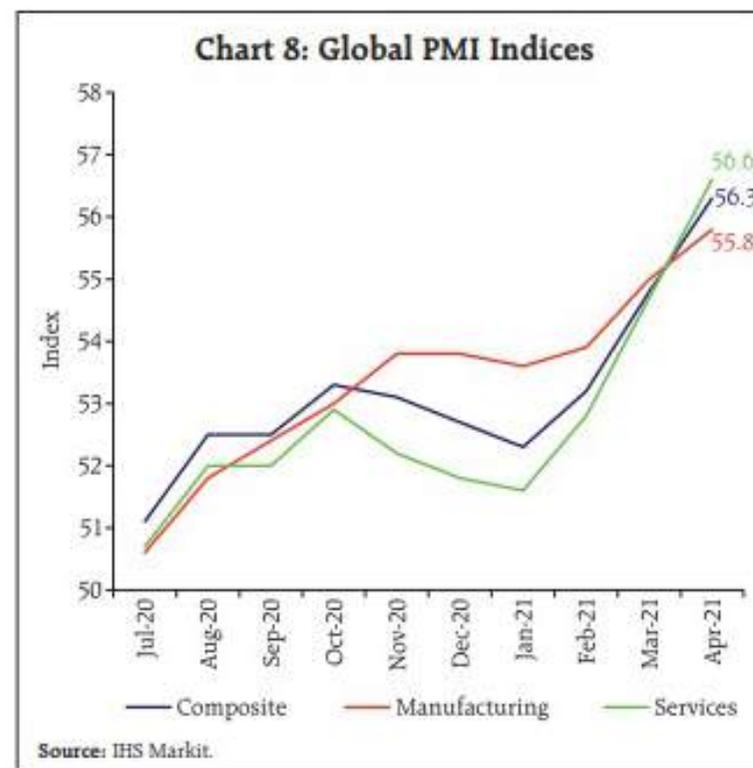
Despite the second wave, analysts remain upbeat on 2021-22 corporate earnings¹⁵ (Chart 7).

Table 4: GDP Growth Projections for 2021 – Select AEs and EMEs

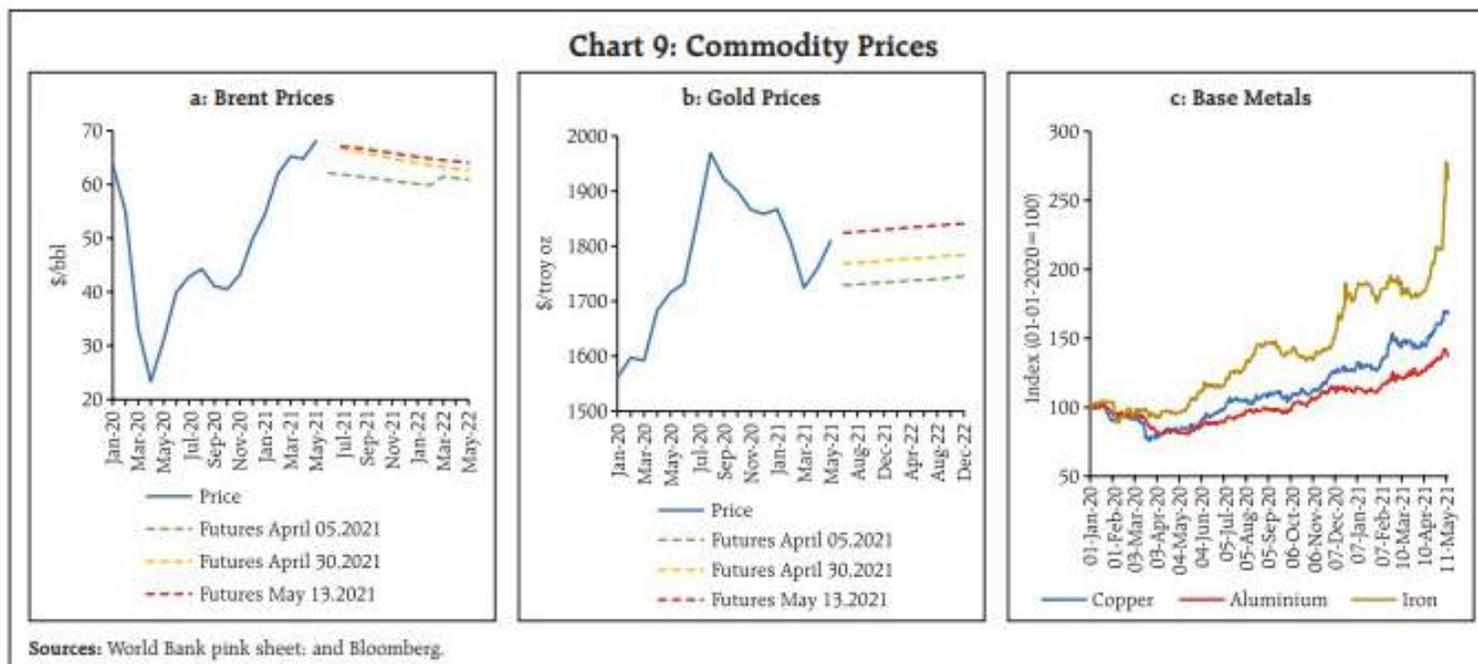
Country	December Development Outlook Supplement	April Asian Development Outlook 2021
Advanced Economies		
 US	4.2	6.5
 Euro area	5.6	4.3
 Japan	2.3	2.9
Emerging Market Economies		
 China	7.7	8.1
 Indonesia	4.5	4.5
 Malaysia	7.0	6.0
 Philippines	6.5	4.5
 India	8.0	11.0

Source: Asian Development Bank.

The upward revisions in global growth projections for 2021 by major international organisations point to an improved outlook. In the Asian Development Outlook (ADO), released on April 28, 2021 the Asian Development Bank (ADB) has forecast a strong rebound for developing Asia in 2021. Tourism-dependent economies remain the hardest hit, however, and are expected to revive relatively slowly (Table 4). The global composite PMI rose to a 11-year high

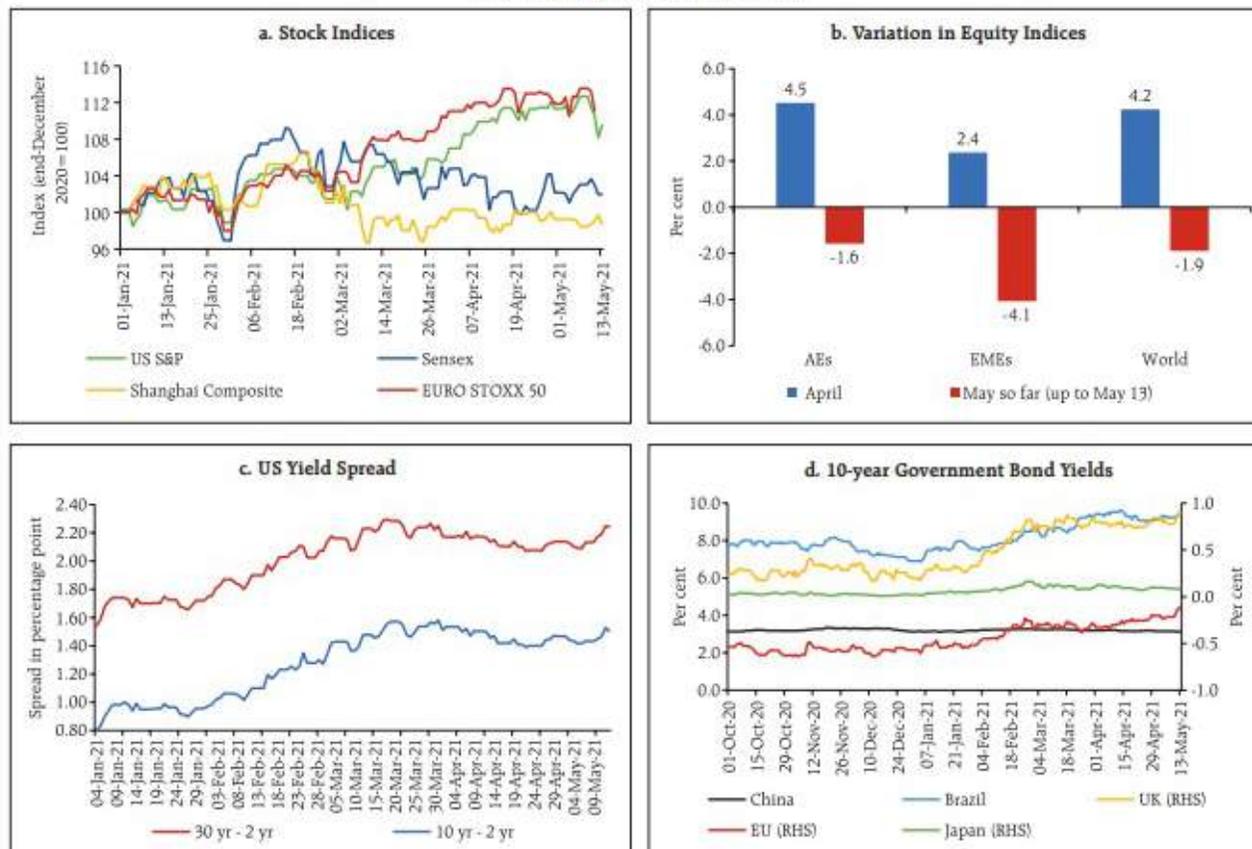


The global composite PMI rose to a 11-year high in April, with services expanding at a higher pace than manufacturing for the first time since July 2020. (Chart 8).

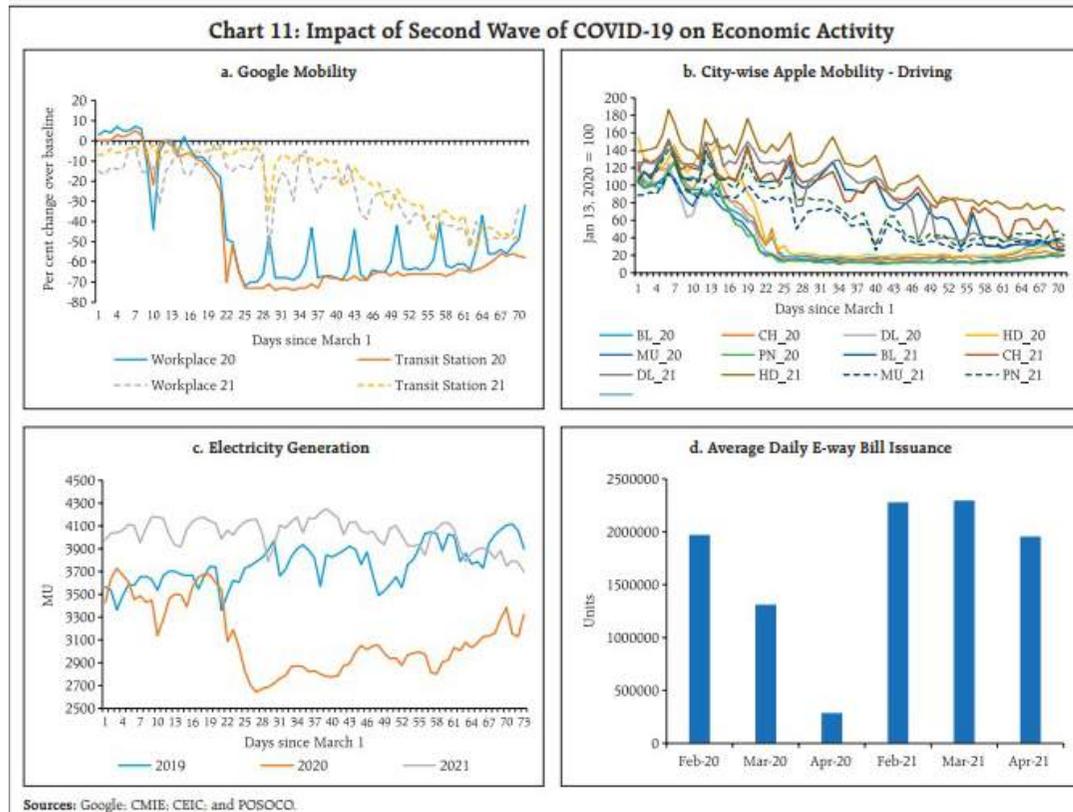


Following corrections since mid-March, crude oil prices picked up in April and in the first half of May, briefly crossing US\$ 69 per barrel before trading rangebound, despite the decision of the Organization of Petroleum Exporting Countries (OPEC) plus to ease current production cuts between May and July. At US\$ 66.96 per barrel on May 13, 2021, Brent prices marked an overall year-to-date gain of 31.0 per cent (Chart 9a). Gold prices pared some losses in April and May with the pullback in US treasury yields and a weakening US dollar boosting safe-haven demand (Chart 9b). Base metal prices continued to boil as demand-supply imbalances fuelled bullish sentiments (Chart 9c).

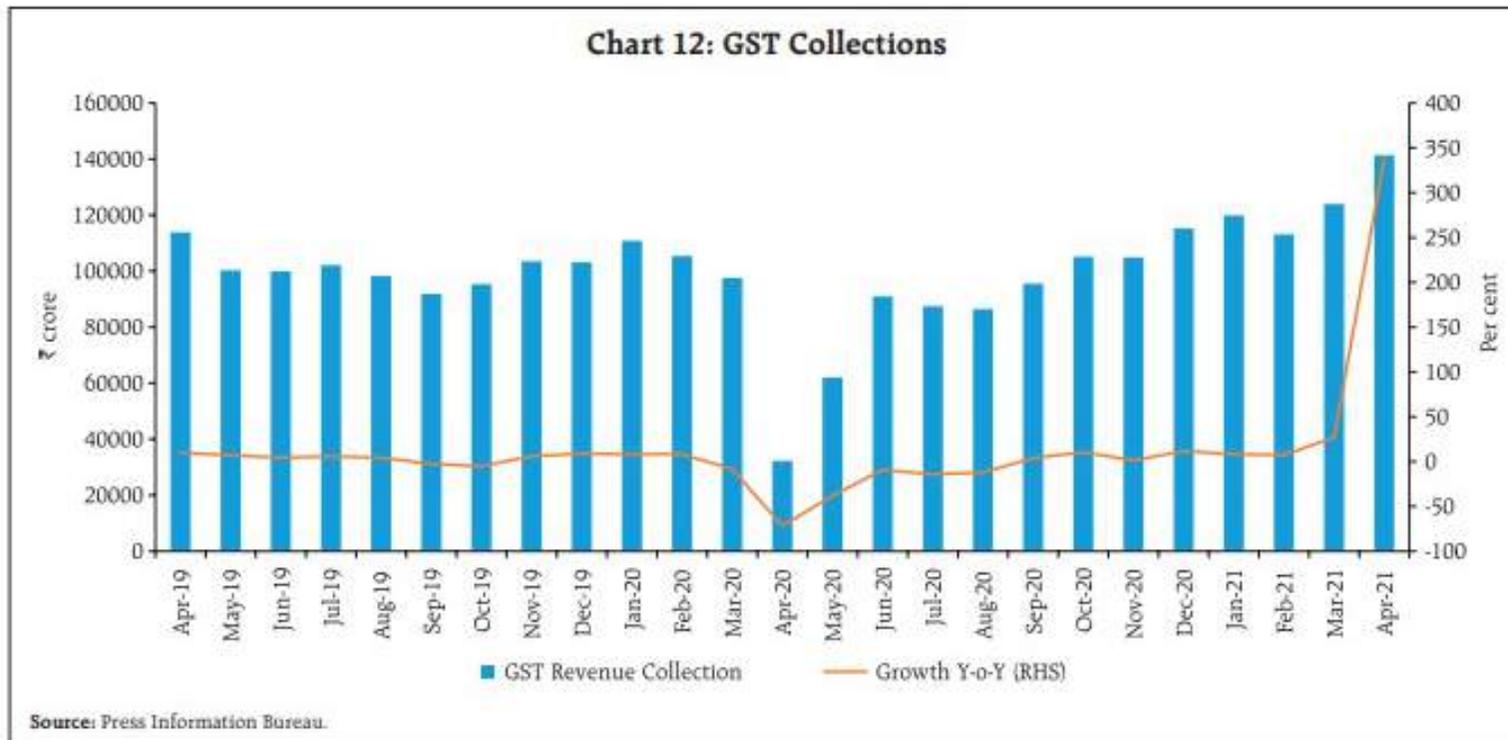
Chart 10: Financial Markets



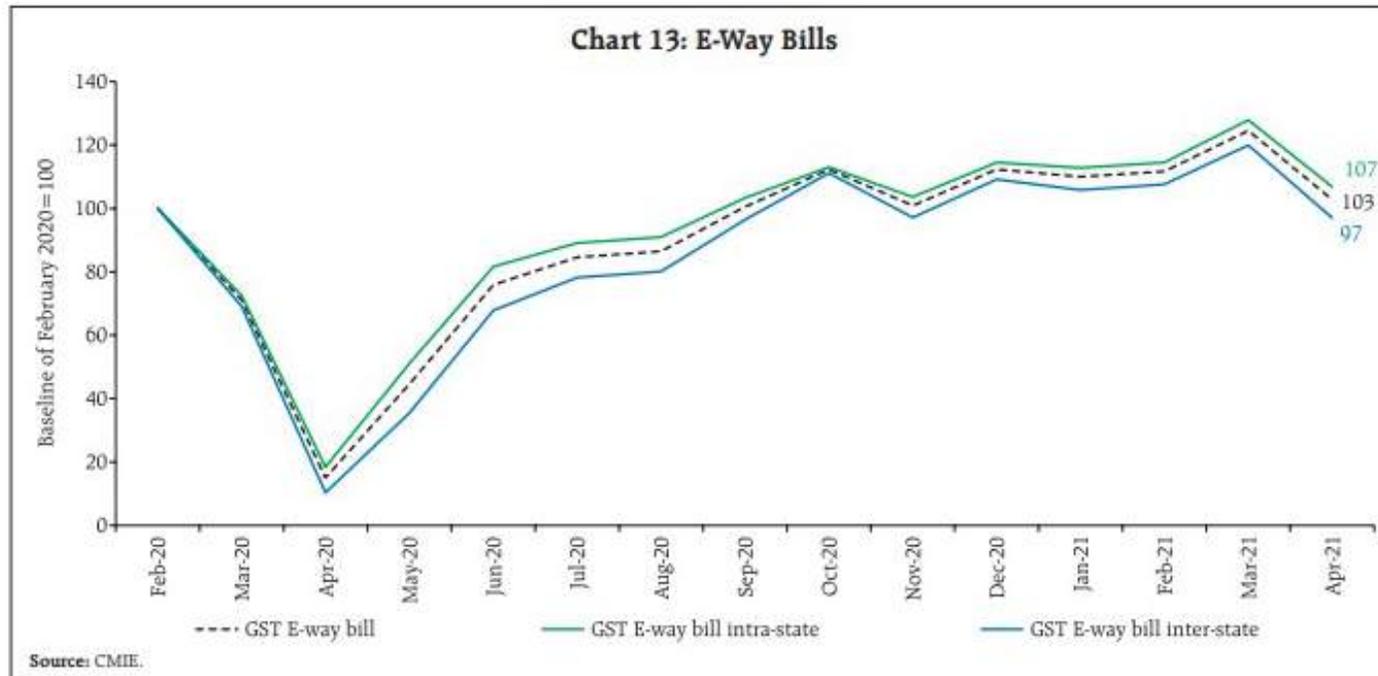
With markets retracting expectations of a premature roll-back of monetary accommodation, the US treasury bond yields have broadly eased in April and May so far (up to May 13, 2021), barring intermittent hardening, from a multi-month high in March (Chart 10c). As on May 13, 2021, the US 10-year G-sec bond yield had decreased by 8 basis points from 1.74 per cent recorded on March 31, 2021. Bond yields across most other AEs and major EMEs have exhibited similar movements (Chart 10d).



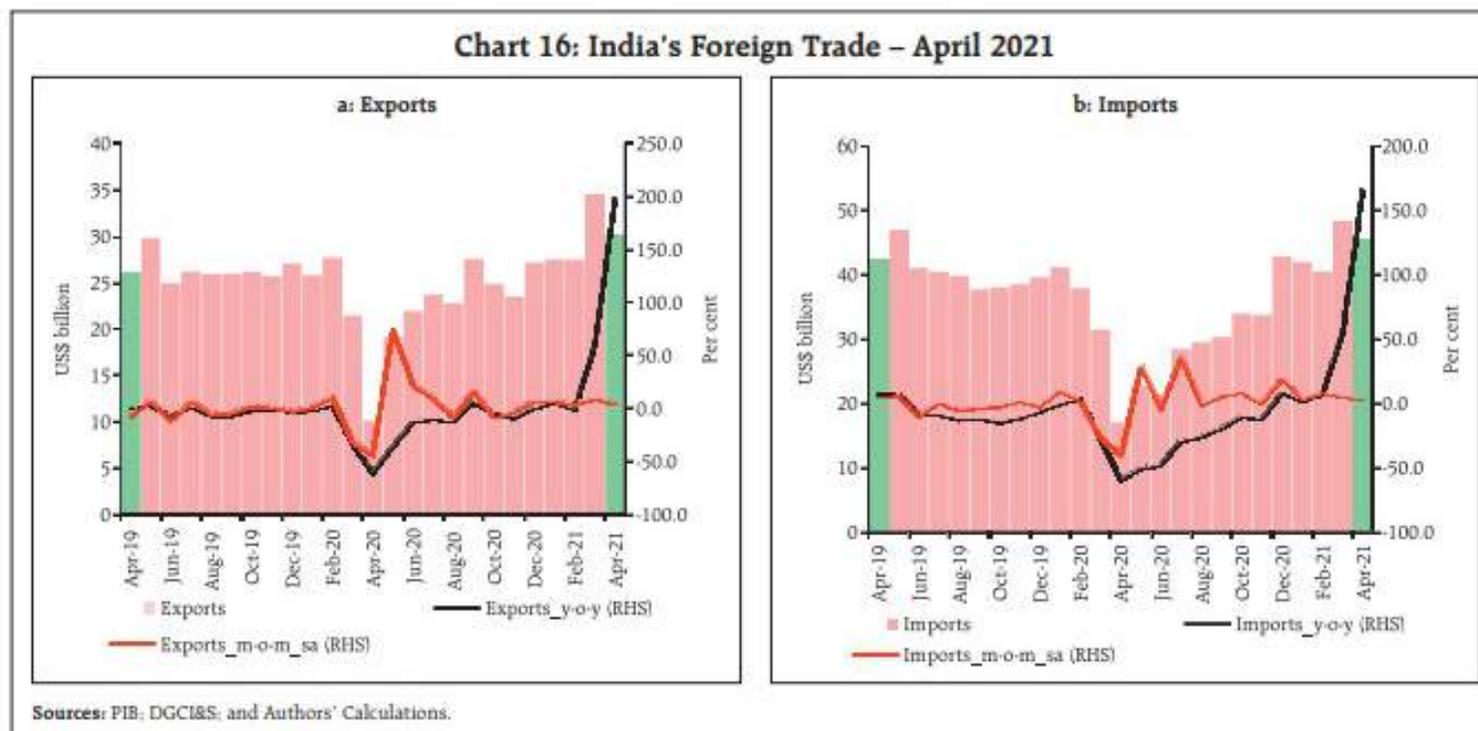
Real economy indicators moderated in April and May 2021, as many states imposed restrictions to arrest the renewed surge in infections. The second wave has intensified in metros/cities, and relative to the first wave, it has spread rapidly across states, regions, and into rural pockets. Google mobility indicators exhibited a dip across all major cities in April and May as compared to the baseline. The Apple mobility index also corroborated this declining mobility across cities (Chart 11a and 11b). The impact of the second wave on the real economy seems to be limited so far in comparison with the first wave. Evidently, the localised nature of lockdowns, better adaptation of people to work from home protocols, online delivery models, e-commerce and digital payments are at work (Chart 11c and 11d).



Aggregate demand conditions have been impacted, albeit not on the scale of the first wave. Goods and services tax (GST) collections in April at `1.41 lakh crore were the highest since the introduction of GST (Chart 12).

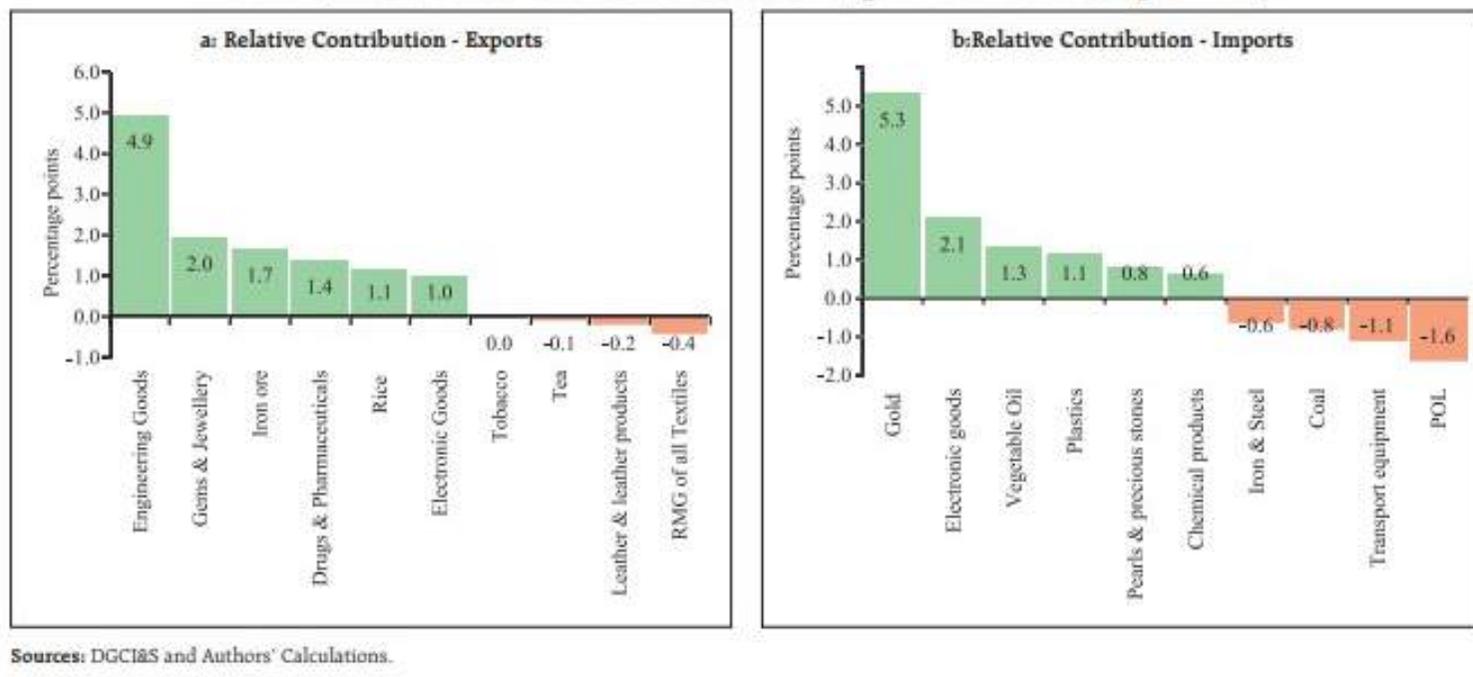


E-way bills — an indicator of domestic trade — recorded double digit contraction at 17.5 per cent month-on-month (m-o-m) in April 2021, with intrastate and inter-state e-way bills declining by (-) 16.5 per cent and (-) 19 per cent, respectively (Chart 13).

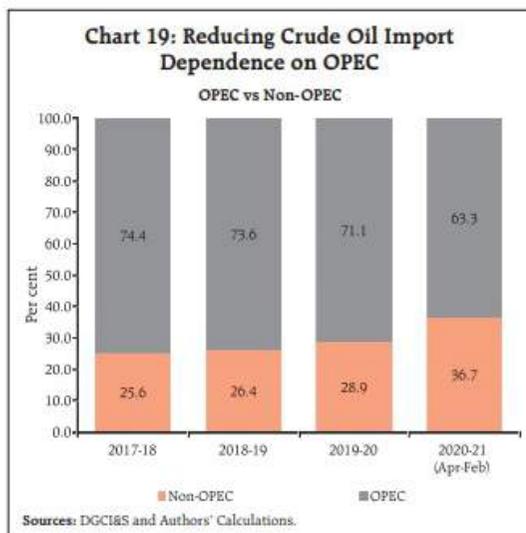


India's merchandise exports surged to US\$ 30.6 billion in April, reflecting a favourable base effect and an increase of about 16 per cent over the pre-pandemic level (April 2019) [Chart 16]. April 2021 has been compared with April 2019 to provide a more realistic assessment, as base effects pose several challenges in assessing economic activity since the lockdown started in March 2020.

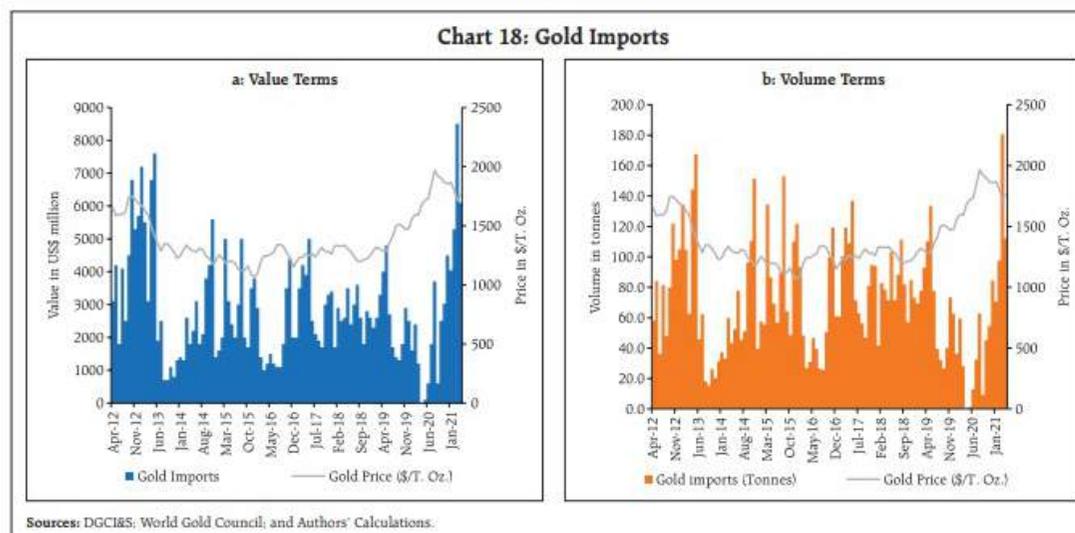
Chart 17: Relative Contribution of Sectors - (April 2021 vis-à-vis April 2019)



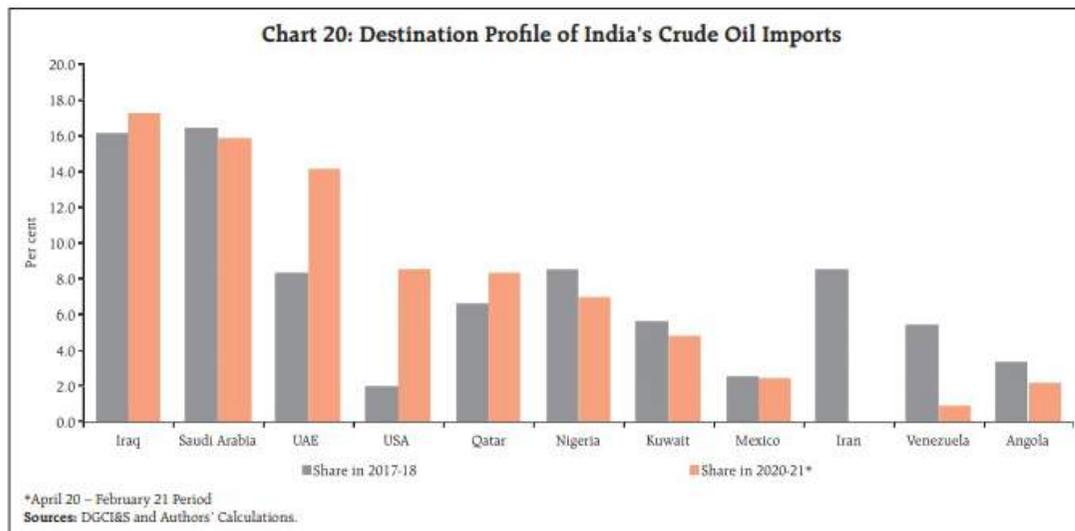
The major sectors that powered export growth in April 2021 (compared with April 2019) were engineering goods, gems and jewellery, iron ore, drugs and pharmaceuticals, and electronic goods (Chart 17a). India's merchandise imports rose by around three times to US\$ 45.7 billion in April, though the growth remained moderate as compared with the pre-COVID period (April 2019). The major sectors which pulled up import growth were gold, electronics, pearls and precious stones and chemical products (Chart 17b).



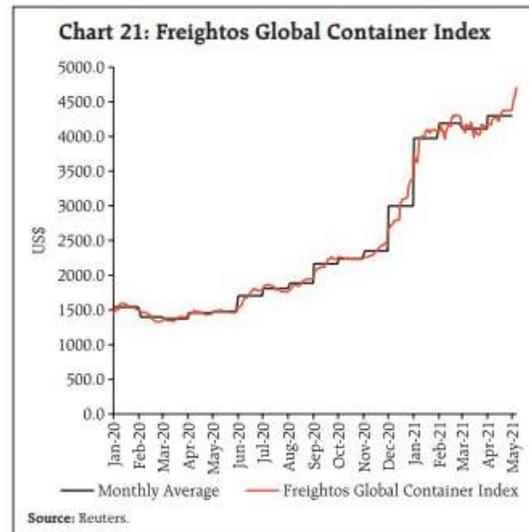
The recent rise in crude prices, following the OPEC+ decision to cut production, has lent impetus to India's oil import basket diversification. India has successfully diverted away from OPEC countries towards non-OPEC producers of crude in recent years, with a greater push for diversification coming in recent months (Chart 19).



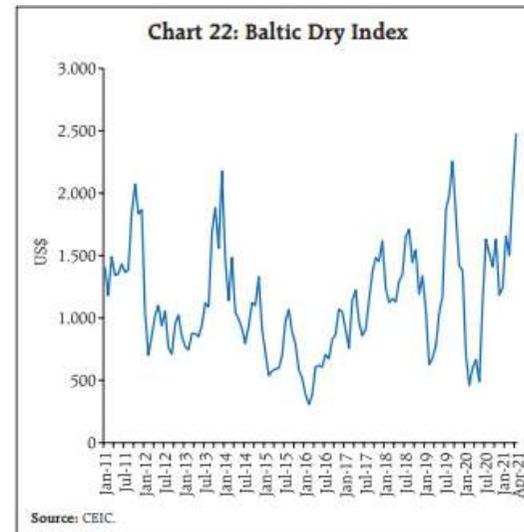
In recent months, gold imports have risen sharply, April marking the seventh consecutive month of expansion in both value and volume terms on top of record gold imports in March (Chart 18a and 18b). According to the Gems and Jewellery Export Promotion Council (GJEPC), improvement in demand conditions in major export destinations, pent up domestic demand for weddings postponed earlier along with the festive season, have pushed up demand for gold and jewellery. Improved business and consumer sentiments, reduction in customs duty, ebbing of gold prices from record peaks in August 2020 and the appreciation of Indian Rupee vis-à-vis US Dollar in Q4:2020-21 has also attracted retail investment in gold.



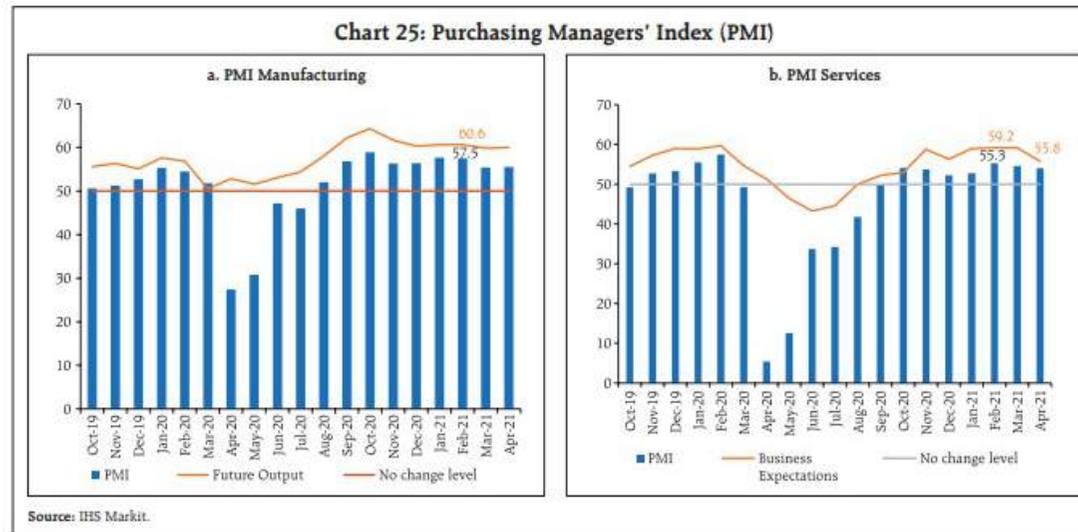
India has shifted towards non-OPEC producers, especially the USA, Qatar and Mexico, reducing its dependence on Saudi Arabia (Chart 20). In fact, the share of OPEC in India's oil imports slipped in March to a two-decade low



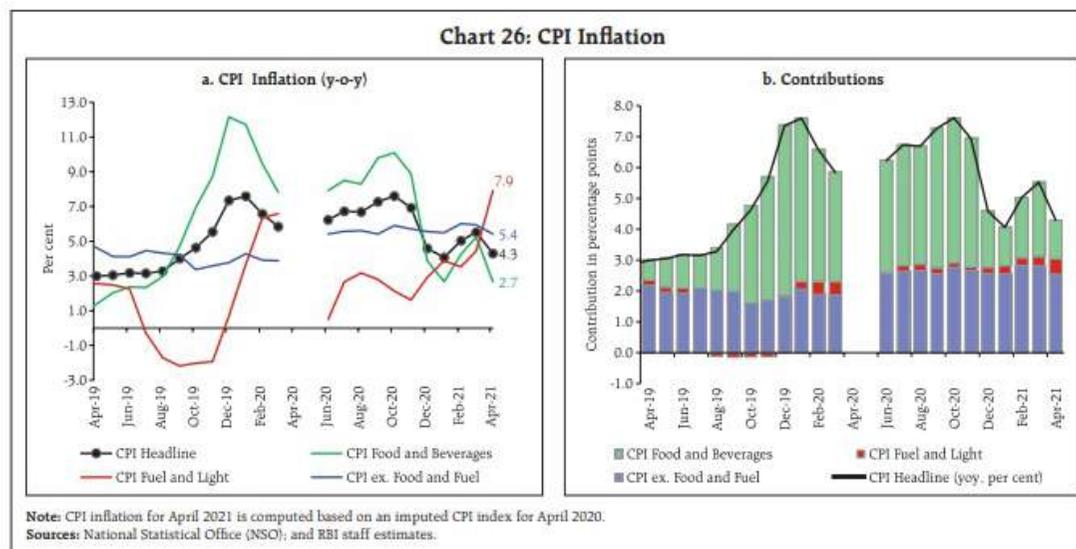
The reopening of the Suez Canal increased pressure on global logistics and shortage of shipping containers have resulted in a steep rise in freight prices (Chart 21).



The rise in freight is not limited to container shipping as dry bulk cargo freight rates have also risen sharply. The Baltic Dry Index, which gives the weighted average freight rates across different sizes and routes, is at a decade-long peak (Chart 22)



The headline manufacturing PMI remained in expansion at 55.5 in April 2021, improving marginally from 55.4 a month ago (Chart 25a). The services sector PMI expanded in April too for the seventh consecutive month, but the pace softened (Chart 25b).



CPI inflation in April 2021 moderated by 122 bps to 4.3 per cent from 5.5 per cent in March 2021 as food and core (CPI excluding food and fuel) inflation eased even as fuel inflation registered a substantial pick-up (Chart 26a). Large favourable base effects brought about the softening in food and core inflation.

Among CPI groups, CPI food and beverages inflation moderated to 2.7 per cent in April from 5.2 per cent in March as the deflation in prices of vegetables, cereals, and sugar deepened, milk prices moved into deflation and inflation in pulses, spices, and prepared meals moderated (Chart 26b). The other noteworthy development was that CPI excluding food and fuel inflation moderated to 5.4 per cent in April from 5.9 per cent in March with most of the subgroups registering a softening in inflation.

Table 5: Petroleum Product Prices

Item	Unit	Domestic Prices			Month-over-month (per cent)	
		May-20	Apr-21	May-21 [^]	Apr-21	May-21
Petrol	₹/litre	73.97	92.64	93.17	-0.6	0.6
Diesel	₹/litre	67.07	84.54	85.21	-0.7	0.8
Kerosene (subsidised)	₹/litre	14.43	30.32	30.38	3.2	0.2
LPG (non-subsidised)	₹/cylinder	578.63	819.63	819.63	-1.2	0.0

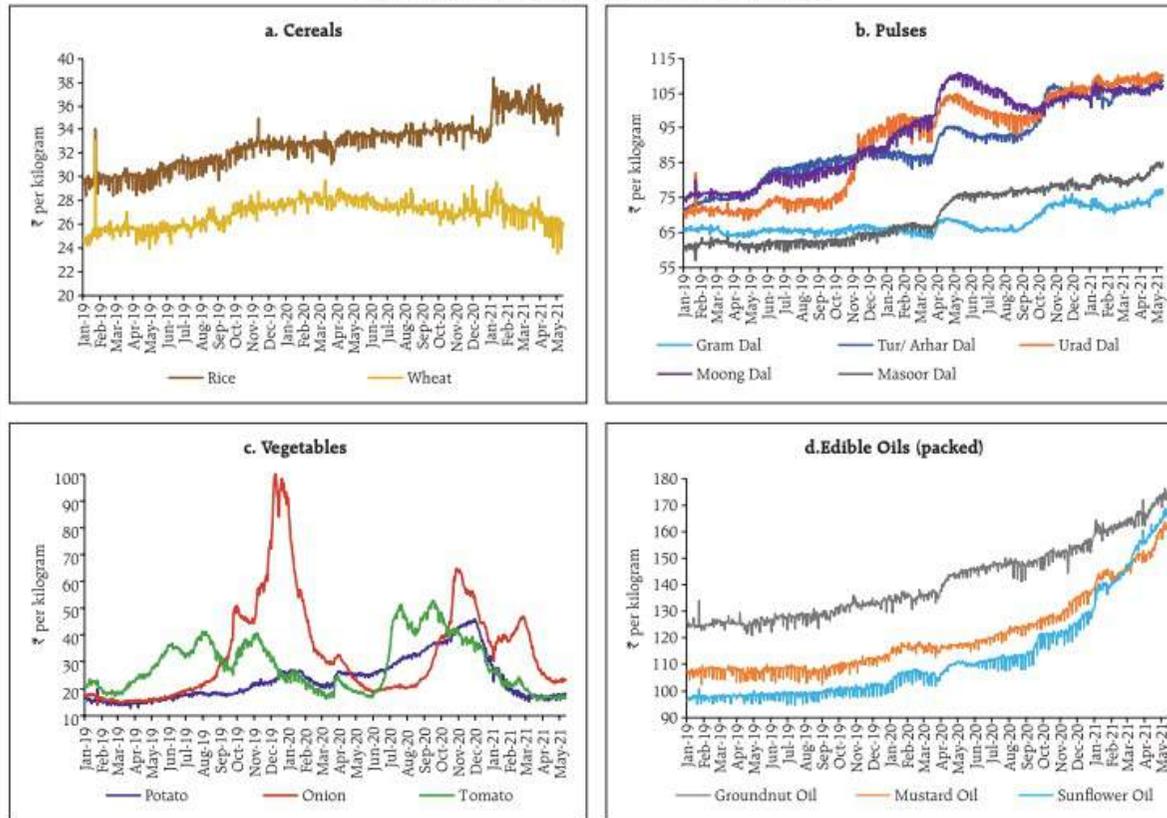
[^]: For the period May 1 -12, 2021

Note: Other than kerosene, prices represent the average Indian Oil Corporation Limited (IOCL) prices in four major metros (Delhi, Kolkata, Mumbai and Chennai). For kerosene, prices denote the average of the subsidised prices in Kolkata, Mumbai and Chennai.

Sources: IOCL, Petroleum Planning and Analysis Cell (PPAC) and RBI staff estimates.

With international crude prices on an upward trajectory since mid-April 2021, domestic pump prices also increased with a lag from early May onwards. Between May 3, 2021 to May 12, 2021 petrol and diesel pump prices (average of prices in four major metros) increased by `1.53 per litre and `1.85 per litre to `94.10 per litre and `86.33 per litre, respectively. At this level, pump prices are scaling new historic highs (Table 5).

Chart 27: DCA Essential Commodity Prices



Sources: Department of Consumer Affairs, GoI; and RBI staff estimates.

High frequency food price data from the Ministry of Consumer Affairs, Food and Public Distribution (Department of Consumer Affairs) for May so far (May 1-12, 2021) show, barring cereals, a pick-up in prices of key food items (Chart 27).

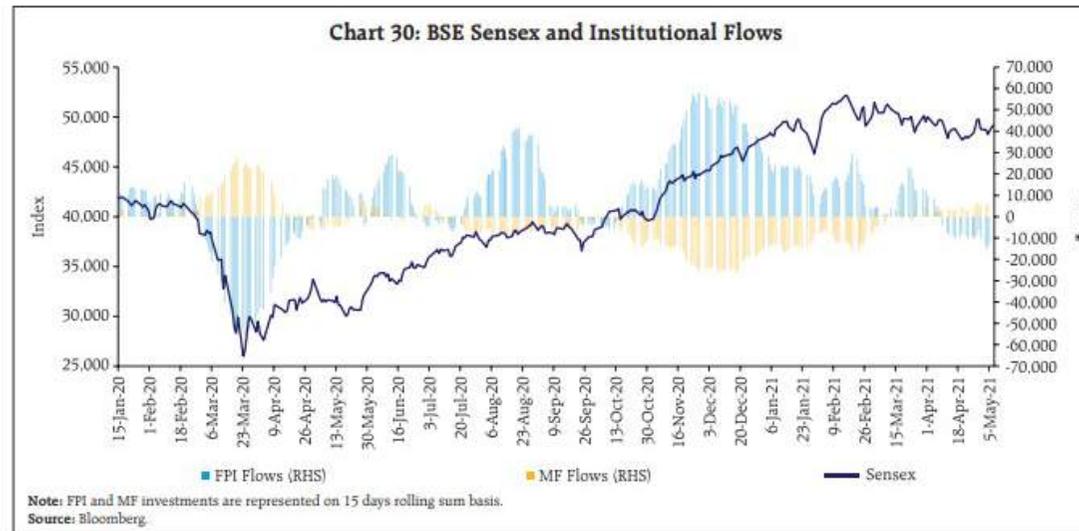
Table 7: Corporate Bond Yield and Spread

Issuer	Rating	Yield					Spread				
		Apr-20	March 2021	April 2021	Variation (April 2021 over April 2020)	Variation (April 2021 over March 2021)	Apr-20	March 2021	April 2021	Variation (April 2021 over April 2020)	Variation (April 2021 over March 2021)
		(Per cent)			(bps)		(bps)			(bps)	
PSU, Banks and FIs	AAA	6.37	5.81	5.58	-79	-23	127	60	41	-86	-19
	AA	7.01	6.42	6.27	-74	-15	191	122	110	-82	-12
	BBB-	9.87	9.59	9.47	-39	-12	477	438	430	-47	-8
Corporates	AAA	7.19	5.56	5.38	-181	-18	211	35	19	-192	-16
	AA	7.99	6.31	6.08	-190	-23	291	110	94	-197	-16
	BBB-	11.15	10.17	10.05	-110	-12	614	496	486	-128	-10
NBFCs	AAA	7.29	5.69	5.52	-177	-17	217	48	34	-184	-14
	AA	8.12	6.92	6.78	-134	-14	300	171	160	-140	-11
	BBB-	11.56	11.18	11.04	-52	-14	638	597	586	-53	-11

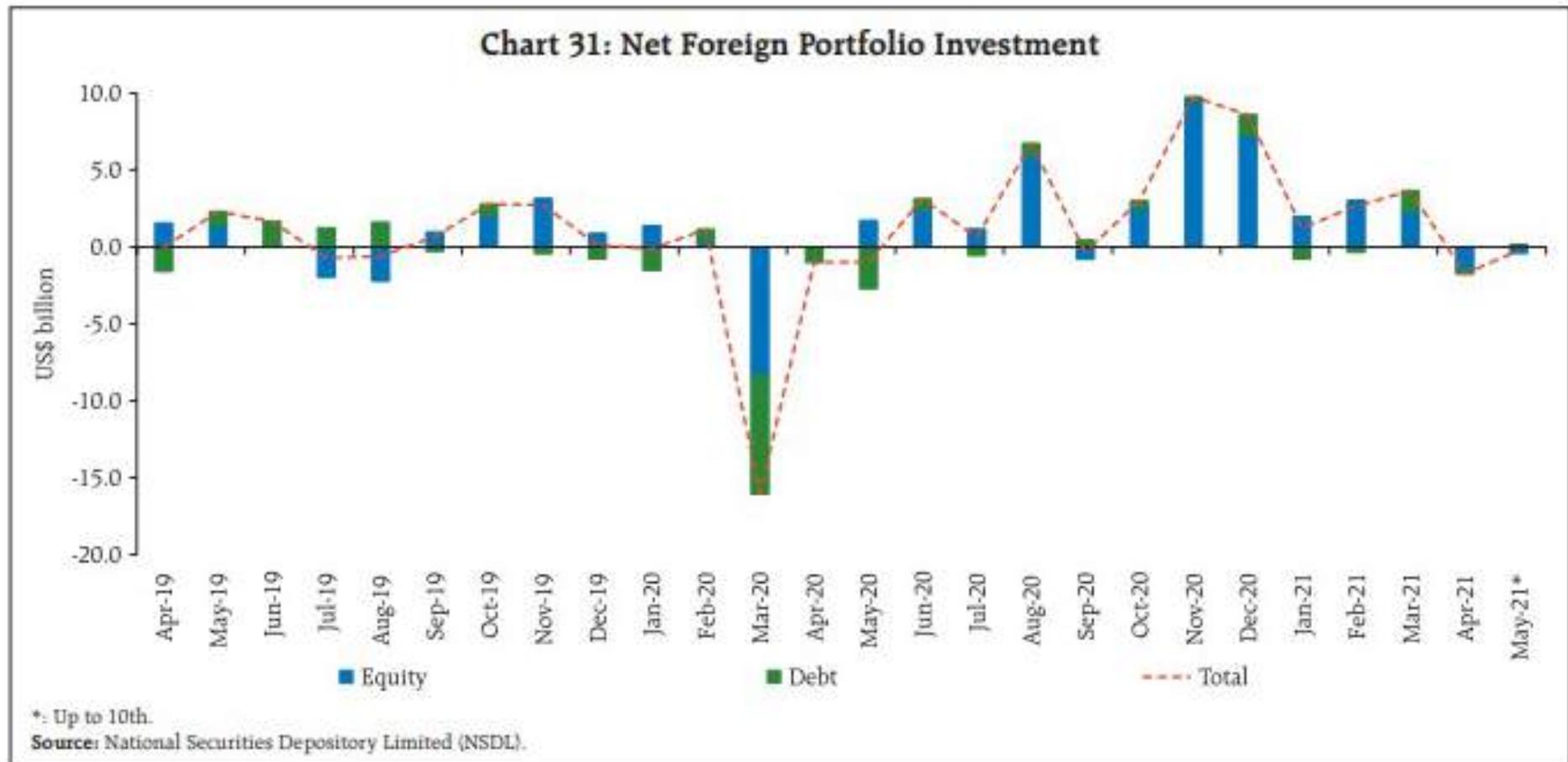
Note: Yields and spreads are monthly averages.

Source: FIMMDA.

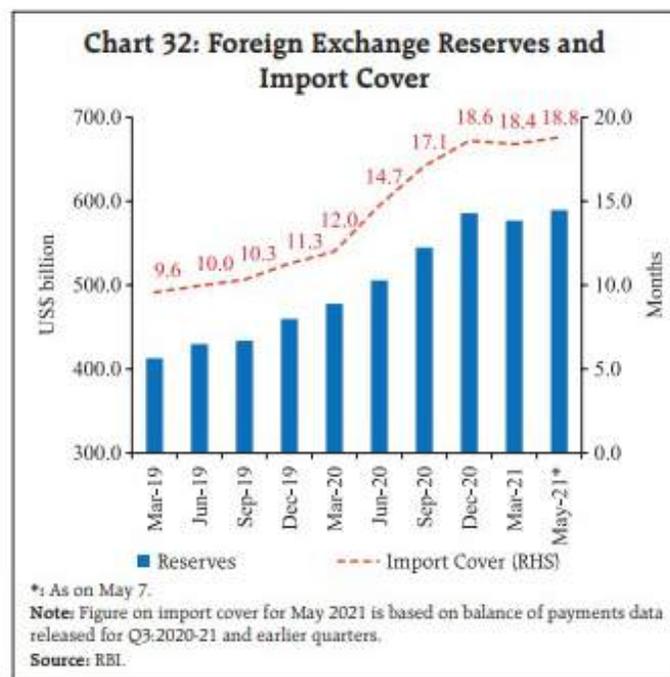
Corporate bond yields eased, tracking the movement in G-sec yields. Furthermore, the spread on corporate bonds over corresponding G-secs moderated across issuer categories and ratings spectrum (Table 7).



The Indian equity markets exhibited wild swings during April 2021 as investors turned anxious over the rapid spread of the second wave of COVID-19 infections, oxygen/ vaccine supply issues and fresh lockdown-like restrictions in various parts of the country (Chart 30)



After a gap of six months, foreign portfolio investors (FPIs) turned bearish with net sales in equity markets of `11,116 crore in the month of April. Mutual funds, on the other hand, remained net buyers for the second consecutive month with net purchases of `5,526 crore. So far in 2021, FPIs are net buyers of stocks, worth `40,212 crore. FPIs turned net sellers in both domestic equity and debt markets, to the tune of US\$ 1.7 billion in April 2021. In May (up to 10th), FPIs have continued to sell, prompting total net outflows of US\$ 0.2 billion (Chart 31).



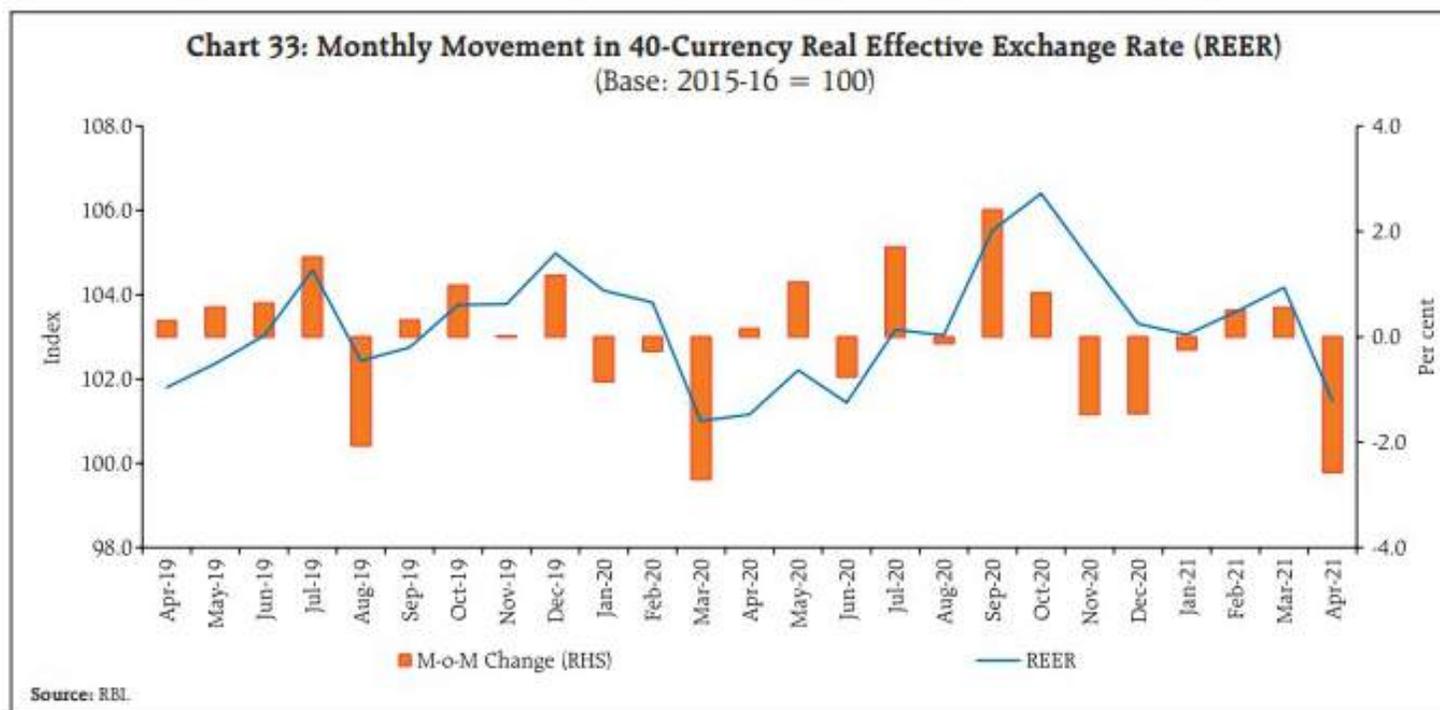
Foreign exchange reserves dipped to US\$ 589.5 billion on May 7, 2021 on account of valuation loss, after reaching an all-time high of US\$ 590.2 billion on January 29, 2021 (Chart 32).

Table 8: Growth Rates in Select Payment Systems

Payment System	Transaction Volume Growth (y-o-y, per cent)				Transaction Value Growth (y-o-y, per cent)			
	Mar-2020	Mar-2021	Apr-2020	Apr-2021	Mar-2020	Mar-2021	Apr-2020	Apr-2021
RTGS	-12.8	70.1	-52.6	178.8	-19.0	7.8	-42.7	36.6
NEFT	8.2	32.7	-13.5	62.7	-10.3	33.4	-36.4	56.6
UPI	55.9	119.1	27.9	164.2	54.7	144.5	6.4	226.6
IMPS	14.0	67.5	-33.8	163.7	14.6	62.0	-28.4	147.3
NACH	11.2	12.5	64.4	-48.6	31.5	21.4	6.3	14.9
NETC	216.3	128.6	-60.5	1500.8	138.5	117.2	-57.7	1021.6
BBPS	-66.2	122.4	44.6	175.2	84.2	165.9	29.9	279.4

Source: RBI.

Digital transactions continued to surge into April and May 2021 so far. Real Time Gross Settlement (RTGS) transactions volume registered a triple digit growth of 179 per cent (y-o-y) in April. In the suite of retail digital modes, the National Electronic Fund Transfer (NEFT), the Immediate Payment Service (IMPS), the Bharat Bill Payment System (BBPS) and the National Electronic Toll Collection (NETC) also recorded strong growth. Under the Unified Payments Interface (UPI), transaction volume increased by 164 per cent and its value more than tripled to `4.9 trillion in April from `1.5 trillion a year ago (Table 8).



In the foreign exchange market, the Indian rupee (INR) depreciated against the US dollar in April 2021 on FPI outflows. The INR depreciated vis-à-vis the US dollar by 2.3 per cent in April over March 2021, but it has appreciated modestly in May (up to 11th). In terms of the 40-currency real effective exchange rate (REER) index, the INR depreciated by 2.6 per cent in April over its level a month ago (Chart 33).

CONCLUSION

The resurgence of COVID-19 has dented but not debilitated economic activity in the first half of Q1: 2021-22. Although extremely tentative at this stage, the central tendency of available diagnosis is that the loss of momentum is not as severe as at this time a year ago. Tragically, the loss of life and the caseload of infections are higher. As the WHO points out, this is completely unlike the first wave – the B.1.617 variant of the coronavirus, which was first detected in Vidarbha and has 13 mutations, has been declared a ‘global variant of concern’ in view of its rapid transmissibility. Apart from the severe incidence of infections in India, it has already spread to nearly 50 countries.

The impact of the new infections appears to be U-shaped. Each shoulder of the U represents sectors that are weathering the storm - agriculture at one end and IT on the other. On the slopes of the U are organised and automated manufacturing on one side and on the other, services that can be delivered remotely and do not require producers and consumers to move. These activities continue to function under pandemic protocols. In the well of the U are the most vulnerable - blue collar groups who have to risk exposure for a living and for rest of society to survive; doctors and healthcare workers; law and order; and municipal personnel; individuals eking out daily livelihood; small businesses, organised and unorganised - and they will warrant priority in policy interventions. It is in this direction that the Reserve Bank, re-armed and re-loaded, has stepped out. This is the beginning. There is more work to be done.

The effective reproduction number (R count), a key indicator of how fast COVID-19 infects people - the number of people in a population who can be infected by an individual at any specific time - is beginning to drop in India, according to a data modelling assessment of the University of Michigan. From a R count of 1.61 on April 1, the national metric stood at 0.99 on May 15, the lowest since mid-February, indicating a slowdown in the spread rate of the virus. On May 16, seven-day average of daily new cases declined for the eighth consecutive day, indicating that India might be approaching the peak of the devastating second wave. 18 states are reporting plateauing of new cases. The data show, however, that the wave is shifting from big cities to small towns and villages where testing is low and health infrastructure poor, and this is where we must refocus our efforts and energies to put down the virus.

What has worked so far? Lockdowns have worked in controlling transmissibility. Localised lockdowns rather than nation-wide lockdowns have been preferred in order to balance the spread of infections versus the loss of economic activity but the jury is out on which works and where. The key lesson from the visitation of the second wave is vaccinate, vaccinate, vaccinate. As Professor Arvind Panagariya writes, “With its well-developed vaccine manufacturing ecosystem, India is well positioned to ramp up its production... at speed. It must mobilise all its brownfield capacity... while de-risking potential investors in greenfield capacity...”.

Several successes are being studied for replication - the Kerala model of preventing vaccine wastage; the Mumbai model of decentralised war rooms for bed allotment; the Pune model of strict containment; the UP model of door to door testing to isolate hidden Covid cases; the Jammu and Kashmir model of Atmanirbharta on medical oxygen; a more muted migration; compassion as a business skill; and most importantly, the resolve and fortitude to stand together and support people and families. As it is said in Zulu, Ubuntu, i.e., I am because you are. The road ahead is fraught with danger, but India’s destiny lies not in the second wave, but in life beyond it. In these dire moments, one is reminded of the light shone by the late Shri S. S. Tarapore, the iconic and much revered Deputy Governor of the Reserve Bank: “गर जन्नत ही जाना हो तो चल मेरे साथ; याद रख ऐ बंदे कि रास्ता है दोज़ख के बीच” – If you wish to go to heaven, come with me. But remember, the path lies through hell.

End of the report.



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