20 August 2021

India's economic recovery remains on track, activity near pre-second COVID wave levels

- The global economic recovery remains robust, but incoming data suggest a moderation in the pace of economic activity amidst a resurgence of COVID cases across the world, particularly in several Asian countries.
- In India, the second wave has started receding after daily cases had plateaued around the 40,000 level for over a month.
- While the risk of a third wave persists, the ongoing acceleration in vaccination pace coupled with higher seroprevalence should limit the intensity of the new wave (if/when it happens). New variants may pose downside risks.
- High-frequency data indicate continued recovery from temporary setbacks due to the second wave.
- We estimate Q1 FY22 real Gross Domestic Product (GDP) growth to be around 19.8% YoY compared to an earlier estimate of 16%, thanks to better-than-anticipated exports growth, states government spending, and tax collections.
- Consumption demand conditions are improving, supported by pent-up demand and the ongoing recovery in the jobs market.
- A continued recovery in job creation coupled with improvement in the quality of jobs is critical for sustained demand growth.
- The government is leading investment revival. There are also signs of a pick up in private investment in select industries in commodity and exports-oriented segments. Broader revival is constrained by existing capacity.
- Exports' stellar performance continued in July after solid growth in Q1 FY22. Despite near-term uncertainties due to the new global COVID wave, we expect exports to do well in FY22, supported by the world trade revival and better vaccination levels in key trading partners.
- The domestic policy environment remains supportive as the Reserve Bank of India (RBI) continues to prioritize growth revival over inflationary pressures, maintaining its accommodative stance.
- Domestic inflationary pressures from the non-food category remain elevated despite a breather provided by the drop in inflation print in July.
- As the central bank moves towards policy normalization later in the year, we expect a change in the accommodative policy stance in the December'21/February'22 policy meeting.

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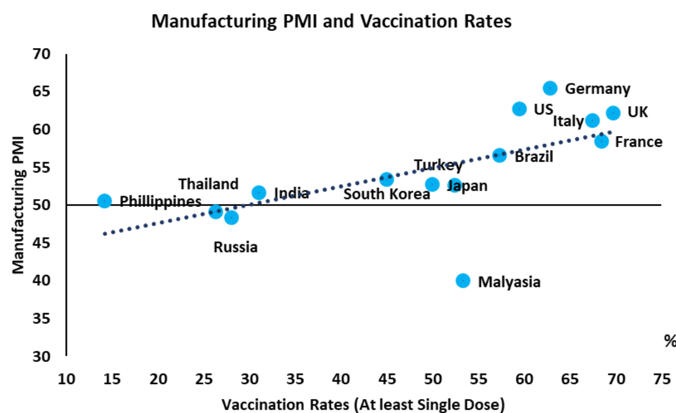
The resurgence of COVID cases raises near-term uncertainty about the global economic outlook

While global economic recovery remains robust, incoming data suggest moderation in the pace of economic activity amidst a resurgence of COVID cases across the world, particularly in several Asian countries, including China, Japan, and ASEAN countries. The composite global purchasing managers' index (PMI) remained in the expansion zone in July for the thirteenth consecutive month but eased to 55.7, its lowest level since March, from a 15-year high of 58.5 in May. The moderation was for both the manufacturing and services sectors, even as the services PMI maintained its lead over manufacturing PMI for a fourth consecutive month. The new COVID wave, driven by the Delta variant, has further widened fault lines between emerging and advanced economies. The new wave seems to be hitting countries with lower vaccination paces—mostly emerging countries— harder than countries with higher vaccinated populations and better health infrastructure, typically advanced nations. This is in line with a positive correlation between vaccination levels and manufacturing sector activity. Accordingly, economic activity is hit in several Asian countries where COVID cases have surged, leading to increasing COVID-19 containment measures.

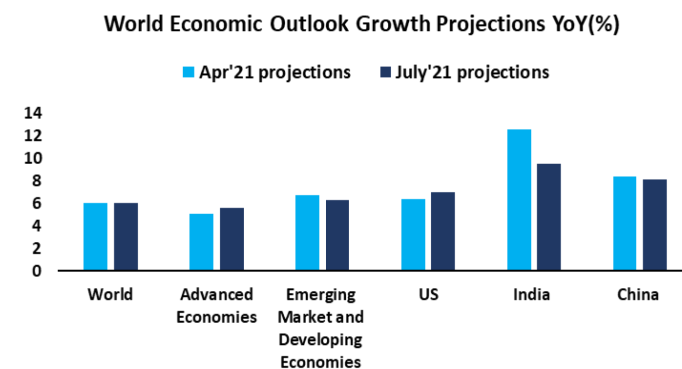
Economies with higher vaccination levels report better manufacturing activity



Source: IHS Markit, Average Manufacturing PMI for June and July are used above; vaccination rates are as on August 17, 2021

Given unequal access to vaccines coupled with the policy space, the disparity between advanced and developing economies continues to widen. Compared to projections made in April'21, the International Monetary Fund (IMF) has kept global economic growth projection for 2021 unchanged at 6% YoY in its July report. But it has marked down the growth estimate for emerging market and developing economies (EMDE) by 0.4 percentage points (pp) to 6.3% YoY while it raised the growth forecast for advanced economies by 0.5 pp to 5.6% YoY. For 2022, the IMF raised the global growth forecast by 0.5pp to 4.9% YoY, with a larger upward revision to advanced economies' growth (by 0.8 pp to 4.4%) compared to EMDE (by 0.2 pp to 5.2% YoY). The upward revision to the 2021-22 growth forecast for advanced countries reflects favorable outlooks for vaccine rollout and additional fiscal support. This is much more evident in the United States (US) case, where additional financial support from anticipated legislation is estimated to lift 2021 US GDP growth by 0.3 pp and 2022 growth by 1.1 pp, as per the IMF. It is worth noting that the size of the US economy has already crossed the pre-pandemic level, thanks to a robust pace of recovery, with real GDP growing by a strong pace of 6.5% and 6.3% (annualized) in Q2 and Q1 of 2021, respectively. The growth was propelled by consumer spending, which grew by an average of 11.6% (annualized) in H1-2021, supported by a rebound in job creation and fiscal transfers.

The IMF lowers growth projection for emerging economies for 2021 while upgrading it for advanced economies



Source: IMF

One other implication of the new COVID wave has been a moderation in commodity prices, given the possible impact on demand conditions. Additionally, metal and oil prices also felt the pressure from government/supplier measures such as China's government released metal stocks from its reserves to cool prices while the Organization of Petroleum Countries (OPEC) plus agreed to raise oil production for a likely restoration of output to pre-pandemic levels by September 2022. Despite this, commodity prices generally remain elevated, keeping worries about cost build-up alive. In the US, the producer prices index (PPI) for final demand jumped 7.8% annualized, a record high, and China too reported a further rise in producers' prices (to 9% YoY in July v/s 8.8% in June), indicating that underlying input price pressure could feed into retail inflation. The imposition of COVID-19 containment measures in many Asian countries is also renewing supply constraints for their exports. If these disruptions persist, they can potentially delay the easing of supply-side driven inflationary pressures. As a result, the recent breather seen in consumer inflation in both the US

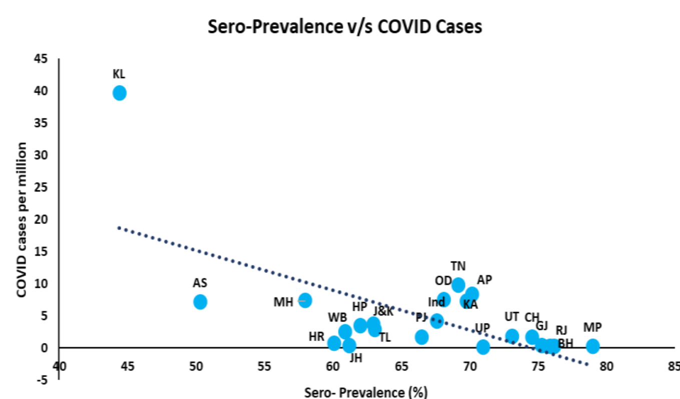
(headline consumer inflation was unchanged at 5.4% YoY in July but eased on a sequential basis to 0.5% MoM from 0.9% in the previous month) and China (1% YoY in July v/s 1.1% in June) may prove temporary. For now, a drop in US retail inflation supports the "transitory inflation" narrative of Fed Chairman Powell. While in China, easing inflation may open space for monetary easing to limit the impact on the economy due to the latest COVID wave and floods. Meanwhile, some other major emerging economies, including Brazil, Hungary, Mexico, Russia, and Turkey, have begun normalizing monetary policy to head off price pressures. The risk of inflation pressures persisting beyond transitory spikes thus remains, which, if sustained, may force more central banks to start withdrawing stimulus/hike policy rates earlier than anticipated.

The second wave recedes after plateauing around 40K for over a month, and the vaccination pace accelerates

After reaching its peak in early May, India's daily COVID cases dropped sharply in May-June'21. However, daily cases plateaued around 40,000 for over a month till early August as the rise in cases in Kerala (amidst lockdown relaxations and festivals) and in states in the north-eastern region (where the second wave reached late) counterbalanced the improvement seen in the rest of India. Kerala and north-eastern states thus accounted for around 58% of India's cases in the first half of August. More recently, cases seem to have peaked in Kerala (with a gradual decline since the August 4th peak of 20,600 to 19,500 by August 16). There are some signs of a slowing pace of infection spread in some states in the northeast. This helped drop daily COVID cases in the country to ~36,000 (7-day moving average) as of August 17, down from around 40,000 as of August 7. The daily positivity rate, presently at 1.6% as of August 16, has remained below 3% for the last 22 days and below 5% for 71 consecutive days now. It is imperative to enforce COVID-appropriate behavior by states to prevent a resurgence of cases while continuing to accelerate the pace of vaccination.

Vaccination remains the best defence against a possible third wave. It is encouraging to see that the vaccination pace has accelerated further in July and August. The average daily pace of vaccination improved to 43 lakh doses in July and to 53 lakh doses in the first half of August, compared to 40 lakh and 20 lakh doses in June and May, respectively. India has administered close to 54.6 crore vaccine doses as of August 16, 2021, and as a result, inoculated 45% of the adult population with at least one dose and ~13% of the population with both doses. Regional differences in the pace of vaccination continue to persist, with Uttar Pradesh and Bihar lagging in vaccination coverage. With a ramp-up in vaccine supply in the coming months, the inoculation drive is likely to get a further boost. According to the health minister, the monthly production capacity of Covishield and Covaxin is expected to increase to over 12 crores and 5.8 crores respectively from August to December compared to the current capacity of 11 crores and 2.5 crores respectively. This will be sufficient to support the vaccination rate of around 59 lakh doses per day, which will be enough to fully vaccinate ~70% of the adult population by the end of 2021. Moreover, additional vaccine supply can be expected with approvals of foreign vaccines (in August, Johnson & Johnson's single COVID shot received emergency use approval in India) and likely new domestic vaccine approval. Measures to address vaccine hesitancy and widening regional coverage should continue.

Seroprevalence and COVID cases (June-July average) show a negative correlation



Source: PIB, CMIE

Besides vaccination, it is also worth noting that there has been a sharp jump in seroprevalence in the country. This may help limit the size/intensity of the third wave if/when it happens. Indian Council of Medical Research's (ICMR) fourth national serosurvey showed that two-thirds of India's population has COVID antibodies in June-July'21, which is higher than rates recorded during the previous three surveys: 0.7% during May-June'20, 7.1% in August-September'20; and 24.1% in December' 20-January'21. The negative correlation between seroprevalence and infections can be gauged by the fact that Kerala, with one of the lowest seroprevalence rates, is reporting the highest number of COVID cases in the country. Further, about 90% of new infections in the second wave were in high-rise buildings in Mumbai, where the seroprevalence rate in Dec'20 was 16%. In contrast, only ~10% of new infections in the second wave were in slums, which had reported a seroprevalence of 57% in Dec'20, as noted in the finance ministry report. Also, attesting to the effectiveness of vaccines, the latest serosurvey showed that 62.3% of unvaccinated people had

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a prevalence of antibodies, compared to 81% of people with a single dose and 89.8% of people with two doses.

Q1 FY22 growth estimated to be better than previously anticipated: incoming data suggests the continuation of economic recovery on expected lines

As expected, economic recovery gathered steam from a temporary hit during the second COVID wave. As detailed below, the impact of the second wave of Q1 FY22 on economic activity was relatively lower compared to the previous wave. Recovery has also been swift, as we had anticipated. Given better-than-anticipated exports growth and a sharp rebound in states' expenditure (up 17% YoY for 15 major states combined), partly offset by muted central government total expenditure (0.7% YoY), we estimate Q1 FY22 real GDP growth to be around 19.8% YoY compared to our earlier projection of ~16%. The revised GDP number also incorporates a possible lift from higher tax collections in Q1 compared to the Gross Value Added (GVA) number. The July-August data suggest a pick up in economic recovery, which, if sustained and assuming no third COVID wave, may provide an upside to our 9.9% YoY growth projection for FY22.

Industrial activity was relatively less impacted by the April-May COVID wave, given the allowed exemptions for the sector and business adaptability. Accordingly, the Index of Industrial Production (IIP) grew by 45% YoY in Q1 FY22 compared to a steep 35.6% YoY contraction in the same period last year. The index reported a 5.7% sequential jump in June after an 8.4% MoM fall in May, supported by a 7.4% MoM rise in manufacturing and a 4.4% MoM increase in electricity, while mining reported a modest contraction. In July, electricity production rose to 114% of pre-COVID levels, up from 103% in June. E-way bills (33% YoY/17% MoM) and GST collections (33% YoY/25% MoM) showed strong growth in July on an annualized and sequential basis, indicating a further pick up in industrial activity in July. Moreover, a rebound in the manufacturing PMI indicates an improving outlook. The index returned to the expansionary zone in July, rising from 48.1 in June to 55.3 in July. The improvement was broad-based with output, new orders, exports, and input stocks returning to the expansionary zone. Employment noted a marginal increase, ending a 15-month sequence of job shedding.

The services sector also noted sequential recovery in July. The PMI services index rose to 45.4 in July, up from 41.2 in June, though remaining in the contraction zone. Business activity, new orders, input costs, and employment deteriorated further. However, in most cases, the rate of contraction moderated compared to the prior month. Compared to the PMI survey, other high-frequency indicators suggest a faster rebound. National electronic toll collection rose by 15.5% MoM in value terms and 25.8% MoM in volume terms. Domestic air passenger traffic rose 61% MoM in July to around 50.1 lakh passengers. Rail freight and vehicles sales also showed robust growth rates. As vaccination rates continue to pick up, we expect an acceleration in demand for services. On the agriculture sector activity front, Kharif crops sowing recovered, almost reaching last year's levels by August 13. Area sowed until August 13 was 1.8% lower than last year but 2.1% higher than the past five-year average. However, the southwest monsoon cumulative rainfall was still 7% below the long period average, suggesting there will be some impact on summer crops. The impact is likely to be limited as reservoirs are running at a high level, which will also aid Rabi/Winter crops. As of August 12, the live storage available in 130 reservoirs is 8.4% higher compared to last year.

Demand conditions also showed recovery in the June-August period. Strong recovery in net sales of FMCG corporates in Q1 FY22 showed a revival in consumption demand that is expected to pick up in coming quarters. This is supported by high-frequency indicators. Google mobility for retail & recreation and grocery & pharmacy reached closer to pre-second COVID levels by the end of July and crossed those levels by early August. Indicators such as passenger vehicle sales/registrations, two-wheeler registrations, petrol consumption, etc. point to continued recovery in June-July, with some indicators surpassing levels seen in March 2021. Consumer confidence, on the other hand, remained mixed, with the current situation index increasing marginally in July to 48.6 from its historic lows of 48.5 in May, while the future expectations index returned to the optimistic territory in July at 104, rebounding after falling into the pessimistic territory in the May round at 96.4 (value above 100 level shows optimism and below indicates pessimism).

A sustained recovery in job creation coupled with improvement in the quality of jobs is critical for pick up in demand growth as pent-up demand fades. The consumer sentiments survey by the RBI for July and the PMI surveys showed improvement in labour market conditions. Further, jobs data continued to improve in July—as per CMIE data—with over 1.6 crore jobs recovered, more than reversing the ~1.5 crore jobs lost in Q1 FY22. The unemployment rate, unemployed pool (fell by 1.6 crores to 4.4 crores between June and July), and the total number employed are back to pre-second wave levels. Another positive sign of a turnaround is a rise in the labor force, indicating a return of discouraged workers. Despite this, the quality of jobs is yet

to recover. In July, the recovery was led by small traders & wage labourers (1.86 crores), while the salaried class shed 32 lakh jobs. Poor quality of job recovery was also reflected in the shift of workers from industry and services to agriculture, with their respective shares in total employment at 23.6%, 35.5%, and 40.9% in July versus 25.1%, 37%, and 37.8% in Feb'21.

On a positive note, hiring activity in the organized sector picked up to reach an all-time high in July, giving hopes of a possible improvement in quality jobs in coming quarters. The Naukri Jobs Index surpassed its pre-COVID levels for the second consecutive month and surged to an all-time high in July. The index increased to 112.7% of its pre-COVID levels as it built on the rebound seen in June by noting an additional 11% sequential rise in July and staged a 108% YoY increase. The hiring uptrend was broad-based, with all sectors witnessing a sequential increase, including contact-intensive sectors such as Hotels/Restaurants/Airlines/Travel. IT-Software/Software Services sector also maintained its uptrend as hiring increased by 64% above its pre-COVID levels, demonstrating the digitization process. Real Estate, Medical/Healthcare, Freight, Electronics, etc., also registered an increase in hiring activity to above respective pre-COVID levels.

Broad-based pick up in consumption demand indicators seen in June-July

Consumption Demand Indicators (% of pre-COVID levels - CY 2019 average)										
	Apr-20	May-20	Jun-20	Sep-20	Dec-20	Mar-21	Apr-21	May-21	Jun-21	Jul-21
Google mobility (grocery & pharmacy)	-52.0	-25.9	-2.5	-4.9	9.5	18.5	5.9	-25.3	3.2	20.4
Google mobility (retail & recreation)	-81.5	-76.1	-59.8	-41.9	-27.5	-22.1	-38.0	-62.6	-40.4	-24.6
Petrol consumption	51.8	84.9	89.0	85.6	103.0	103.9	94.2	83.7	90.5	93.1
Personal Loans	109.3	108.5	109.1	112.6	116.6	123.2	123.1	122.1	122.0	
Corporate sector - Consumer good Net sales			-50.7	-25.3	-9.9	5.8			43.6	
Passenger vehicle registrations	9.8	16.1	65.4	102.0	129.8	134.2	94.8	39.1	90.7	146.1
Two wheeler registrations	23.4	11.9	58.5	75.9	104.6	88.3	63.6	30.2	68.4	83.3
Passenger vehicle sales	0.0	14.1	44.4	114.3	106.3	121.5	109.3	36.8	96.8	110.5
Domestic air passenger traffic	0.0	2.4	16.7	33.5	62.0	65.9	47.6	17.0	25.8	
Consumer electronic imports	31.9	50.6	51.3	122.6	98.0	108.8	101.1	84.7		
IIP: Consumer durable goods	4.4	32.0	63.0	104.0	100.7	107.2	87.8	61.4	82.0	
IIP: Consumer non-durable goods	49.0	91.2	99.5	99.4	108.6	106.0	95.6	92.5	95.0	

Source: CMIE

On the investment activity front, there seem to be tentative signs of recovery in select segments. In the June quarter, new project investments announced by public sector companies declined by 8% QoQ while they rose by 58% QoQ for private companies (thanks to a few large projects). Overall, new investment announcements in aggregate rose by 40% QoQ to Rs 2.7 lakh crore in Q1 FY22, as per the latest data from CMIE. However, investment-related indicators from IIP data showed a sequential decline though it was lesser than last year. Compared to corresponding quarters in 2019, the production indices of capital goods and infrastructure/construction goods fell by 15 pp to 74% and by 4 pp to 97% respectively between March'21 and June '21 quarters. Last year, sequential declines were 47 pp to 35% for capital goods and 39 pp to 53% for infrastructure/construction goods. Going forward, investment activity is likely to pick up, but it is expected to be driven by the public sector, as shown by Q1 data and budget plans. In Q1 FY22, the central government capital expenditure rose by 26.3% YoY. Data for 15 major states showed a 135% YoY surge in their combined CAPEX, aided by a favorable base (-58%YoY in Q1 FY21) and reaching closer to pre-pandemic levels (0.7% below Q1 FY20 levels), supported by a 45% YoY rise in tax receipts in the first quarter. The government's FY22 CAPEX plan and its various initiatives, such as the Production-Linked Incentive (PLI) scheme, asset monetization, and opening sectors for private sector participation, are likely to help private sector investments in coming quarters. Initially, we expect investment to be driven by select industries such as metal, commodities, pharma, and export-oriented industries. A broader pick-up in investment is likely to come later, given the present excess capacity. By Q4 FY21, the aggregate capacity utilization (CU) level increased to 69.4% from 66.6% recorded in the previous quarter but remained below the pre-Covid long-term average of 74.6%.

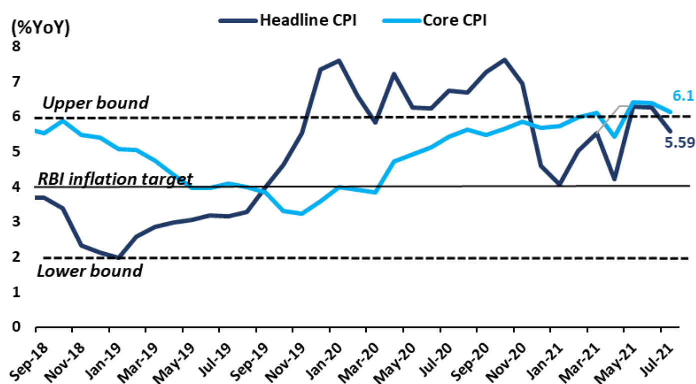
Export demand has remained strong. In Q1 FY22, exports performance was even better than anticipated, with merchandise exports rising to 118% of pre-pandemic levels (taken as the corresponding quarter of FY20) up from 104% in Q4 FY21 while imports moderated to 97% in Q1 FY22 compared to 108% in the previous quarter. In July, exports maintained their stellar performance, rising by ~50% YoY and 9% MoM basis, while imports also recovered (62% YoY/10.8% MoM) with normalizing domestic demand conditions. In the near term, the spread of the Delta variant across the globe could weigh on export demand, but we expect growth to remain strong aided by the projected pick up in world trade (the IMF projects global trade volumes to expand 9.7% YoY in 2021 and 7.0% YoY in 2022) and better vaccination levels of key trade partners.

RBI reiterates its accommodative stance and continues to focus on growth revival over inflation

The domestic policy environment remains supportive as the RBI continues to prioritize growth revival over inflationary pressures. As was widely expected, the RBI maintained the status quo on key policy rates and its accommodative stance in the August policy meeting. The RBI revised its Consumer Price Index (CPI) projection upward to 5.7% YoY for FY22 from 5.1% earlier while keeping the economic growth estimate for FY22 unchanged at 9.5%. Given a slight

unfavourable growth-inflation mix seen in new projections by the RBI, the governor's comment, **"…the MPC continues to be conscious of its mandate of anchoring inflation expectations as soon as the prospects for strong and sustainable growth are assured…"**, was aimed at ensuring continued prioritization of growth revival. In this respect, the RBI continued to perceive the ongoing recovery as 'nascent and hesitant', which rested on weak underlying factors and warranted further nurturing. As such, the central bank remains cautious of a preemptive withdrawal of policy support that could be detrimental to a durable recovery and sustainable growth path. The central bank continues to see inflationary pressures as supply-side driven and transient. Moreover, the RBI intends to calibrate its policy to spread disinflation over 2-3 years to reduce losses on output.

Headline CPI eases below RBI's upper target band to a three-month low

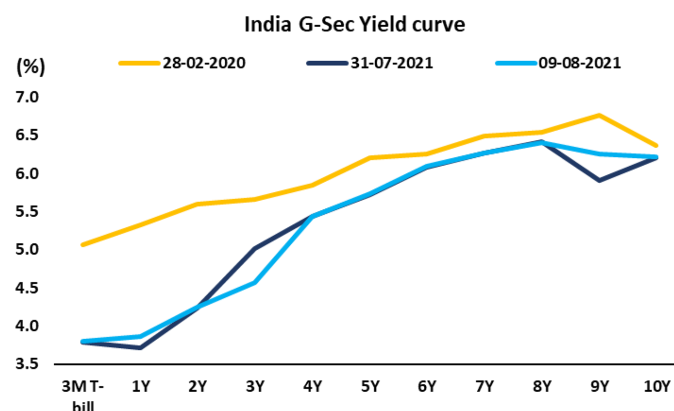


Source: CMIE, RBI

RBI's "transient inflation" view may get some support in the near term with the base effect becoming favourable and Kharif harvest arrivals that are likely to ease food inflation. The CPI inflation print for July already captured parts of this, as it eased to a three-month low of 5.59% YoY. While sequential momentum rose moderately in July (0.7% MoM v/s 0.6% MoM in June), a favourable base effect from last year aided the easing of the inflation print. The momentum for food inflation eased from 1.2% MoM in June to 1% MoM in July, while that for core inflation doubled from 0.3% MoM in June to 0.6% MoM in July, possibly reflecting a mix of demand recovery and continued supply-side constraints. However, a favourable base effect helped ease core inflation by 30 basis points to 6.1% YoY in July (from 6.4% in June). While up-side pressures in core inflation and elevated wholesale inflation need to be watched closely, congenial inflation prints expected in the near term are likely to provide space for the RBI to remain accommodative and continue nurturing growth recovery.

On liquidity management, the RBI announced an increase in the variable-rate reverse repo (VRRR) auction amount from Rs 2 lakh crore currently to Rs 4 lakh crore, given the surge in liquidity recently. The governor also managed to dissect the process of liquidity normalization from policy normalization as he reiterated that the VRRR announcement does not tantamount to and should not be misread as a reversal of the accommodative stance. Moreover, given the glut of liquidity in the system, at over Rs 8 lakh crore in August and core liquidity surpassing Rs 10 lakh crore (as on July 30, 2021), the move towards liquidity normalization (of Rs 2 lakh crore) is unlikely to have any significant bearing on the availability of funds in the system. In fact, the absorption of liquidity could create more space for the RBI to sterilize capital flows in the forex market (given robust capital flows), conduct more Open Market Operations (OMOs) - the RBI announced fresh G-SAP auctions of Rs 50,000 crore in August - and also balance flows from government spending that is expected to pick up in the coming months. As such, we maintain our call for a change in the accommodative stance that could come in the form of a reverse repo rate at the end of Q3 FY22/early Q4 FY22 (in Dec'21/Feb'22 meeting). We expect the first repo rate hike to take place in the next fiscal year (FY 2023).

India yield curve flattens following RBI policy meeting



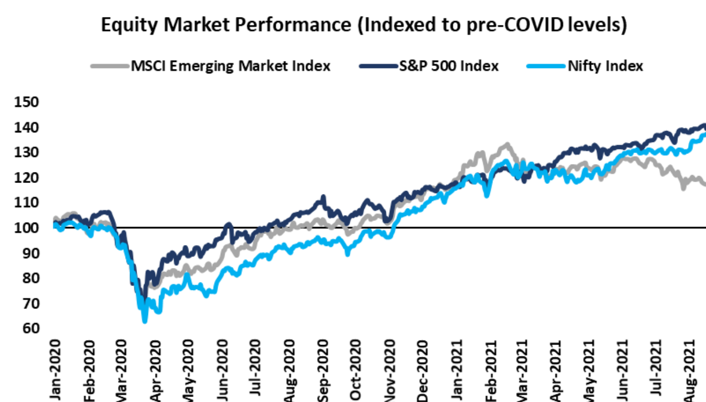
Source: Bloomberg

Markets Section

Indian bond markets came under pressure in July, given traction in economic recovery, elevated inflation, and higher oil prices. After remaining anchored around the 6% threshold for several months, yields on the G-sec 10-year benchmark increased to 6.17% on average in July (v/s 6.02% in June). The tussle between the RBI and market participants in terms of the fair market price of bonds also noted a shift, with the RBI reducing the number of devolvement in July and starting to accept higher yields in weekly auctions. A new 10Y benchmark auctioned at a higher coupon of 6.1% also reflected the RBI's willingness to accept higher yields. This transpired despite RBI's continued dovish signals that were also maintained in the August policy (including the announcement of G-SAP auctions of Rs 50,000 crore in

August). However, in August, yields have remained sticky, with the 10Y trading above the 6.20 threshold and averaging ~6.22% (until August 16). In addition, while the RBI's move towards liquidity normalization was carefully constructed, dissecting it from policy normalization, the impact on shorter end rates was noted with the increase in the VRRR auction amount leading to a flattening of the curve (the 10Y-1Y spread has narrowed by ~13 basis points since the end of July to current levels). Foreign portfolio investors also continued to withdraw capital from Indian bonds for the seventh consecutive month (although the quantum remained modest).

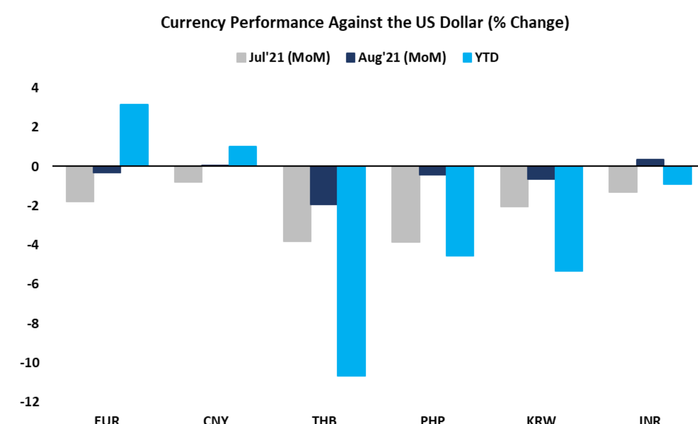
Gains in India's equity market move ahead of the emerging markets but lag the US market



Source: Bloomberg; Data for Aug'21 till August 17. Pre-COVID refers to Dec'19 average levels.

Meanwhile, Indian equity markets extended their upward momentum in July as both the indices – NIFTY and SENSEX – registered modest gains of 0.26% and 0.20%, respectively. Amidst broader market pick up, the BSE MidCap and BSE SmallCap overperformed the benchmark by increasing 2.45% and 6.16%, respectively, in July'21. The positive momentum was due to a combination of factors like recovery in high-frequency indicators and a slight easing of inflation in July which marginally outweighed negative factors like weak global cues on account of the surge in Delta variant cases. Foreign Portfolio Investors (FPIs) turned cautious in July, resulting in the outflow of foreign capital from the equity market to the tune of $1.7 billion. The Price-to-Earnings (P/E) ratio of the NIFTY50 index reduced further to 27.0 in July 2021 from 28.3 and 29.2 in June and May, respectively. However, optimism over domestic economic recovery, followed by encouraging macroeconomic data and robust domestic participation, powered the market, with Indian equity indices scaling new peaks in August. This has put the gains in the Indian markets ahead of the emerging markets in July-August. Overall, the Indian equity market (reflected by the NIFTY index) was higher by ~35% (in August so far) compared to pre-COVID levels (December 2019 average), outperforming other emerging markets (MSCI EM index at ~19% above pre-COVID levels), but is still lower than countries like the US, which was ~40% higher than pre-COVID level, where the sentiment is benefitting from the relatively larger stimulus and better vaccination levels.

Indian Rupee performs better than its Asian peers



Source: Bloomberg; Data for Aug'21 till August 17. Change is calculated based on the average for the month.

In July-August, the Indian Rupee continued to stay under pressure against the Dollar. The USD/INR pair depreciated marginally by 1.3% to average 74.54 in July compared to 73.56 in the previous month, amidst FPIs capital outflows and high crude oil prices. However, India's currency depreciation is much lower (0.89% in 2021 so far) than other developing nations such as Thailand (10.6% in 2021 so far), the Philippines (4.5% in 2021 so far), etc. The greenback gained strength amidst rising global uncertainty because of the resurgence of COVID cases in Asian economies and faster economic recovery in the US. As such, the dollar index continued to appreciate by 1.6% in July, adding to gains of 0.8% in June'21. The dollar index gained further in August due to a rise in risk aversion. Going ahead, we continue to expect depreciating bias for the Rupee given a stronger US dollar and elevated commodity prices. However, continued domestic economic recovery, expected foreign capital inflows, and large foreign exchange reserves should limit the downward pressures.

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