

MACRO DAILY

18 February 2021

Macro developments

- In an effort to protect the interest of investors and depositors, RBI has issued several directions for Housing Finance Companies (HFCs). These pertain to maintenance of liquidity coverage ratio, risk management, asset classification and LTV ratio, amongst others. It has also prevented HFCs to accept/renew public deposit unless it obtained a minimum investment grade rating for fixed deposits from any approved CRAs for at least a year.
- US Fed minutes pointed out that considerable risks to economic outlook remain. Thus, the current ultra-low policy rate and asset purchase program (US\$ 120bn/month) are likely to persist till FOMC goals are achieved. Separately, US retail sales rose to a 7-month high of 5.3% in Jan'21 on MoM basis (est.: 1%) versus 1% dip in Dec'20. Industrial production rose by 0.9% in Jan'21 (est.: 0.4%) from 1.3%, led by mining and manufacturing.
- UK's CPI rose by 0.9% in Jan'21 (highest since Oct'20) following 0.8% increase in Dec'20. The pickup was led by higher contribution from furniture and household items, restaurants and hotels and transport. With rising commodity prices, and increased costs owing to Brexit, it is expected that inflation will meet or even surpass BoE's 2% inflation target in CY21.

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Markets

- **Bonds:** Global yields closed mixed. US 10Y yield fell by 4bps as Fed minutes cautioned against downside risks to growth. UK 10Y yield also declined by 5bps. Crude prices rose to a 13-month high at US\$ 64/bbl (up 1.6%) due to disruptions in US oil production. Thus, India's 10Y yield inched up by 1bps to 6.03%. It is trading flat today.
- **Currency:** Except JPY (higher), other global currencies closed lower against the dollar. DXY rose by 0.5% as US retail sales and industrial output rose more than expected in Jan'21. EUR depreciated the most by 0.6%. INR fell by 0.1% as oil prices continued to climb. It is trading further lower today, while other Asian currencies are trading mixed.
- **Equity:** Barring Dow, other global indices ended lower as concerns over movement of US 10Y yield and inflation outlook weighed on investors' sentiments. Dax (1.1%) dropped the most. Sensex (0.8%) too ended in red led by banking and real estate stocks. However, it is trading higher today while other Asian stocks are trading mixed.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	1.27	(4)	15	19	40	(30)
UK	0.57	(5)	8	28	24	(3)
Japan	0.10	1	2	6	8	15
Germany	(0.37)	(2)	7	18	19	5
India	6.03	1	2	8	15	(36)
China	3.24	1	0	9	(9)	36
2Y yields (Δ bps)						
US	0.10	(2)	0	(3)	(7)	(132)
UK	(0.04)	(1)	(2)	9	(2)	(57)
Japan	(0.11)	1	0	1	3	5
Germany	(0.70)	(1)	2	2	3	(6)
India	4.63	8	0	16	57	(106)
China	2.65	(3)	0	37	(25)	42
Currencies (Δ %)						
EUR	1.2038	(0.6)	(0.7)	(0.4)	1.6	11.4
GBP	1.3857	(0.3)	0.2	2.0	4.4	7.3
JPY	105.87	0.2	(1.2)	(1.9)	(2.0)	4.9
AUD	0.7751	(0.1)	0.4	0.6	6.1	16.1
INR	72.75	(0.1)	0.1	0.4	1.9	(1.7)
CNY	6.4583	(0.4)	0	0.3	1.6	7.7
Equity & Other indices (Δ %)						
Dow	31,613	0.3	0.6	2.6	7.4	7.7
FTSE	6,711	(0.6)	2.9	(0.4)	5.1	(10.0)
DAX	13,909	(1.1)	(0.2)	0.9	5.4	0.9
NIKKEI	30,292	(0.6)	2.5	6.2	17.7	29.4
Shanghai Comp	3,655	1.4	0	2.5	9.2	22.8
SENSEX	51,704	(0.8)	0.8	5.4	17.0	25.1
Brent (US\$/bbl)	64.34	1.6	4.7	16.8	45.1	8.8
Gold (US\$/oz)	1,776	(1.0)	(3.6)	(2.9)	(5.1)	10.2
CRB Index	476.3	0	1.9	4.9	12.6	18.2
Rogers Agri Index	954.5	(0.3)	2.3	3.3	15.4	28.1
LIBOR (3M)*	0.19	0	(1)	(3)	(4)	(151)
INR 5Y Swap*	5.97	1	3	38	89	(46)
India FII data (US\$ mn)						
	16 Feb	15 Feb	WTD	MTD	CYTD	FYTD
FII-Debt	(119.7)	86.0	(33.7)	(82.7)	(581.0)	(4,674.6)
FII-Equity	304.2	264.3	568.5	3,753.2	5,731.5	35,707.2

Source: Bloomberg, Bank of Baroda | *Indicates change in bps | Markets in China were closed on 17 Feb 2021

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