

MACRO DAILY

11 October 2019

Macro developments

- In order to boost compliance, government has made changes to the input tax credit scheme under GST. Going forward (we.f. from 9 Oct), input tax credit refund will be capped at 20% (of the eligible amount) for the entities whose suppliers have not uploaded relevant invoices in support of the tax credit claim. While this measure is likely to also boost government revenue, it may cause cash flow concerns for companies.
- US CPI remained flat in Sep'19 (0%) vs 0.1% in Aug'19 and est.: 0.1%. Core CPI too slowed, from 0.3% in Aug'19 to 0.1% in Sep'19. The softening was driven by decline in prices of apparels, used cars and trucks and medical services. On the other hand, initial jobless claims for the week ending 5 Oct fell by 10,000 from the previous week to 210,000. However, the 4-week moving average rose by 1,000 to 213,750.
- ECB minutes reflect growing rift amongst members after it reduced rates and unveiled plans to restart the QE program in Sep'19. It comes in the wake of ECB's chief serving his last term this month as members remained divided over the bond-purchasing program. However, they overall agreed on the need for monetary easing, but it was less dovish than expected.

Jahnvi | Sameer Narang

chief.economist@bankofbaroda.com

Markets

- Bonds:** Except Japan, global yields closed higher boosted by developments in US-China trade talks and Brexit negotiations. US 10Y yield inched up by 8bps (1.67%). Crude prices rose by 1.3% to US\$ 59.1/bbl as OPEC hinted at "deeper production cuts" amidst slower global growth. As a result, India's 10Y yield rose by 3bps (6.69%). It is trading even higher at 6.71% today.
- Currency:** Major global currencies closed higher. JPY (-0.5%) and DXY (-0.4%) fell on waning safe-haven demand as US-China started negotiations on a trade deal. GBP rebounded by 1.9% on reports of a breakthrough in Brexit negotiations. INR opened higher today in line with its Asian peers.
- Equity:** Barring Sensex, other global indices closed higher amidst optimism surrounding US-China trade talks. Shanghai Comp (0.8%) gained the most followed by Dow and Dax each up by 0.6%. Sensex fell by (-) 0.8% dragged down by banking and real estate stocks. However, it is trading higher today in line with other Asian stocks.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	1.67	8	13	2	(47)	(148)
UK	0.59	13	12	0	(25)	(109)
Japan	(0.20)	0	(1)	5	(7)	(35)
Germany	(0.47)	8	12	12	(24)	(99)
India	6.69	3	8	11	20	(130)
China	3.13	1	0	10	(4)	(46)
2Y yields (Δ bps)						
US	1.54	8	15	(5)	(32)	(131)
UK	0.47	10	11	3	(15)	(41)
Japan	(0.30)	0	2	0	(11)	(19)
Germany	(0.71)	4	7	15	2	(18)
India	5.66	2	2	(5)	(53)	(202)
China#	2.56	0	2	(3)	(2)	(35)
Currencies (Δ %)						
EUR	1.1005	0.3	0.4	(0.4)	(2.2)	(5.1)
GBP	1.2443	1.9	0.9	0.8	(0.6)	(5.9)
JPY	107.98	(0.5)	(1.0)	(0.7)	0.5	3.7
AUD	0.6761	0.5	0.3	(1.5)	(3.1)	(5.1)
INR	71.07	0	(0.3)	0.9	(3.8)	4.1
CNY	7.1163	0.2	0.2	0.1	(3.6)	(3.3)
Equity & Other indices (Δ %)						
Dow	26,497	0.6	1.1	(1.3)	(2.2)	5.8
FTSE	7,186	0.3	1.5	(0.7)	(4.3)	2.6
DAX	12,164	0.6	1.3	(0.5)	(1.4)	5.4
NIKKEI	21,552	0.4	1.0	1.1	(0.4)	(4.6)
Shanghai Comp	2,948	0.8	0.6	(2.5)	1.0	14.1
SENSEX	37,880	(0.8)	(0.6)	2.0	(2.4)	11.4
Brent (US\$/bbl)	59.10	1.3	2.4	(5.6)	(11.2)	(26.4)
Gold (US\$/oz)	1,494	(0.8)	(0.7)	(0.3)	6.4	22.0
CRB Index	387.9	0.2	(0.2)	1.0	(4.1)	(6.9)
Rogers Agri Index	711.1	(0.9)	(0.3)	5.2	(4.8)	(9.2)
LIBOR (3M)*	1.98	(3)	(6)	(15)	(32)	(45)
INR 5Y Swap*	6.37	10	6	28	(21)	(146)
India FII data (US\$ mn)						
	9 Oct	7 Oct	WTD	MTD	CYTD	FYTD
FII-Debt	(87.2)	50.4	(36.9)	(19.2)	3,954.2	3,409.6
FII-Equity	(96.0)	(51.8)	(147.9)	(644.7)	7,516.0	670.8

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

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com