

## MACRO DAILY

12 October 2020

### Macro developments

- MPC members unanimously voted to keep the policy rate unchanged and maintain the accommodative stance into the current and next financial year. It expects GDP to contract by 9.5% in FY21 with positive growth in Q4. Inflation too is likely to ease in the range of 4.1-4.4% in FY22 which is higher than target of 4%. RBI announced on tap TLTROs, SDL OMOs, extension of HTM limits and lower risk weight for housing.
- India's forex reserves rose by US\$ 3.6bn to a record high of US\$ 545.6bn in the week ended 2 Oct 2020. Last week, forex reserves had declined by US\$ 3bn. In FYTD21, forex reserves have increased by US\$ 70bn compared with an accretion of US\$ 25.9bn in the same period last year.
- UK's industrial production rose by 0.3% in Aug'20 (MoM) versus est.: 2.5% and 5.2% increase in Jul'20. Manufacturing output slowed to 0.7% from 6.9% in Jul'20 with 8 of 13 sub-sectors reporting growth. Other manufacturing and repair were the key drivers in Aug'20. In addition, while utilities (1.6%) output contributed positively, mining and quarrying fell by 4.1%. Production in Aug'20 was 6% lower than Feb'20 levels.

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### Markets

- **Bonds:** Global yields closed mixed with India's 10Y yield falling the most (8bps), followed by US and UK (1bps each). Yields in US and UK reflected cautious approach of investors despite hope of renewed fiscal talks in the US. Crude prices fell by 1.1% (US\$ 42.9/bbl) as US producers restored output. India's 10Y yield fell sharply to 5.94% following RBI's policy announcements. It is trading at 5.93% today.
- **Currency:** Global currencies closed higher against the dollar. DXY fell by 0.6% as risk-sentiment improved on hopes of US fiscal stimulus. CNY rose sharply by 1.4% as early indicators signalled a victory for Democrats in the US presidential elections. INR appreciated by 0.2% as oil prices eased. It is trading further higher today in line with other Asian currencies.
- **Equity:** Barring Nikkei other global indices ended higher as investors continued to closely monitor US stimulus negotiations. Sensex was up by 0.8% followed by both Dow and FTSE rising up by 0.6% each. The gains in domestic market were led by liquidity measures taken by RBI. 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
<b>10Y yields (Δ bps)</b>						
US	0.77	(1)	7	10	13	(96)
UK	0.28	(1)	3	5	13	(43)
Japan	0.04	0	1	1	1	22
Germany	(0.53)	0	1	(9)	(6)	(9)
India	5.94	(8)	(6)	(12)	18	(57)
China	3.19	4	6	9	16	3
<b>2Y yields (Δ bps)</b>						
US	0.15	0	2	1	0	(144)
UK	(0.02)	0	2	9	9	(57)
Japan	(0.12)	(2)	1	(0)	(0)	17
Germany	(0.71)	(1)	(1)	(5)	(3)	1
India	4.27	(7)	(9)	(22)	16	(140)
China	2.62	2	2	5	49	4
<b>Currencies (Δ %)</b>						
EUR	1.1826	0.6	0.9	0.1	4.7	7.1
GBP	1.3036	0.8	0.8	1.8	3.3	2.9
JPY	105.62	0.4	(0.3)	0.5	1.2	2.5
AUD	0.7240	1.0	1.1	(0.2)	4.2	6.6
INR	73.13	0.2	0	0.4	2.8	(3.0)
CNY	6.6947	1.4	1.9	2.0	4.4	5.6
<b>Equity &amp; Other indices (Δ %)</b>						
Dow	28,587	0.6	3.3	3.8	9.6	6.6
FTSE	6,017	0.6	1.9	0.2	(1.3)	(17.0)
DAX	13,051	0.1	2.9	(1.2)	3.3	4.3
NIKKEI	23,620	(0.1)	2.6	1.7	6.0	8.4
Shanghai Comp	3,272	1.7	1.6	1.2	(3.3)	10.0
SENSEX	40,509	0.8	4.7	4.3	10.7	6.2
Brent (US\$/bbl)	42.85	(1.1)	9.1	7.0	(0.9)	(29.2)
Gold (US\$/oz)	1,930	1.9	1.6	(0.8)	7.3	29.6
CRB Index	410.3	1.0	1.7	2.8	12.9	4.9
Rogers Agri Index	772.3	0.8	2.8	4.7	11.7	6.4
LIBOR (3M)*	0.22	0	(1)	(3)	(4)	(178)
INR 5Y Swap*	5.33	(3)	(9)	(28)	6	(107)
<b>India FII data (US\$ mn)</b>						
	<b>8 Oct</b>	<b>7 Oct</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	(35.2)	(91.0)	(219.8)	(462.6)	(15,142.3)	(5,382.8)
FII-Equity	167.3	139.0	497.5	751.2	4,791.3	11,394.3

Source: Bloomberg, Bank of Baroda | \*Indicates change in bps

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