

MACRO DAILY

19 August 2019

Macro developments

- India's forex reserves rose to a lifetime high of US\$ 430.6bn in the week ending 9 Aug 2019. On a weekly basis, forex reserves rose by US\$ 1.6bn compared with a decline of (-) US\$ 0.7bn last week. In FYTD20, forex reserves have increased by US\$ 18.7bn vs decline of (-) US\$ 23.5bn last year.
- Hong Kong's GDP forecast for CY19 has been slashed downward to 0-1% from earlier estimate of 2-3%. GDP in Q2CY19 contracted by (-) 0.4% against a growth of 1.3% in Q1CY19. Hong Kong government has also announced a stimulus package of US\$ 2.4bn to support the economy.
- In a bid to lower interest rates and stimulate growth, PBOC has announced key changes to its Loan Prime Rate (LPR) mechanism w.e.f 20 Aug 2019. The central bank will ask for LPR quotations from bank, which will have to be based upon rates of open market operations. The new rate will have to be used for setting floating lending rates by banks, thereby effectively lowering the borrowing cost of the economy. Along with 1Y-LPR, 5Y-LPR and longer tenor LPR will also be added.

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Markets

- Bonds:** Except India, global yields closed higher as fear of global recession faded slightly on the back of expected fiscal stimulus in Germany. China's central bank also lowered corporate borrowing cost. US 10Y yield rose by 3bps (1.55%). Crude prices rose by 0.7% (US\$ 59/bbl) on the back of tensions in Saudi Arabia. India's 10Y yield fell by 9bps (6.55%) as reports said that fiscal glide path will be strictly adhered. It is trading at 6.59% today.
- Currency:** Global currencies closed mixed. EUR fell by (-) 0.2% on rising expectations of a rate cut by the ECB. DXY closed flat. INR rose by 0.2% tracking gains in local equity markets. It opened higher today, in line with other Asian currencies.
- Equity:** Global indices rebounded and ended higher as fears of recessions eased. Dax gained by 1.3% followed by Dow (1.2%). Sensex too ended in green (0.1%) awaiting growth supporting measures from the government. It is trading even 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	1.55	3	(19)	(49)	(84)	(131)
UK	0.47	6	(2)	(29)	(57)	(77)
Japan	(0.23)	1	(1)	(11)	(18)	(33)
Germany	(0.69)	3	(11)	(40)	(58)	(99)
India	6.55	(9)	5	20	(82)	(132)
China	3.02	1	0	(15)	(24)	(63)
2Y yields (Δ bps)						
US	1.48	(2)	(17)	(33)	(72)	(113)
UK	0.52	7	8	(2)	(18)	(19)
Japan	(0.27)	0	(1)	(9)	(12)	(14)
Germany	(0.91)	0	(5)	(16)	(27)	(26)
India	5.87	3	2	(23)	(79)	(169)
China#	2.52	0	(3)	(7)	(9)	(27)
Currencies (Δ %)						
EUR	1.1090	(0.2)	(1.0)	(1.2)	(0.6)	(3.0)
GBP	1.2149	0.5	1.0	(2.3)	(4.5)	(4.7)
JPY	106.38	(0.2)	(0.7)	1.5	3.4	3.7
AUD	0.6779	0.1	(0.1)	(3.3)	(1.3)	(7.3)
INR	71.16	0.2	(0.5)	(3.4)	(1.3)	(1.4)
CNY	7.0428	(0.1)	0.3	(2.5)	(1.8)	(2.4)
Equity & Other indices (Δ %)						
DOW	25,886	1.2	(1.5)	(4.9)	0.5	0.8
FTSE	7,117	0.7	(1.9)	(5.6)	(3.1)	(5.8)
DAX	11,563	1.3	(1.1)	(6.3)	(5.5)	(5.3)
NIKKEI	20,419	0.1	(1.3)	(4.9)	(3.9)	(8.3)
Shanghai Comp	2,824	0.3	1.8	(3.7)	(2.0)	5.8
SENSEX	37,350	0.1	(0.6)	(4.8)	(1.5)	(1.6)
Brent (USD/bbl)	58.64	0.7	0.2	(7.9)	(18.8)	(18.4)
Gold (USD/oz)	1,514	(0.6)	1.1	6.1	18.5	27.8
CRB Index	398.2	0.1	(0.6)	(1.5)	(3.5)	(3.7)
Rogers Agri Index	694.3	0.6	(2.7)	(5.8)	(2.6)	(13.8)
LIBOR (3M)*	2.14	1	(4)	(17)	(39)	(18)
INR 5Yr Swap*	6.29	(7)	(4)	(17)	(74)	(119)
India FII data (US\$ mn)						
	14 Aug	13 Aug	WTD	MTD	CYTD	FYTD
FII-Debt	64.8	(54.1)	10.8	174.5	2,828.5	2,283.8
FII-Equity	284.8	(78.6)	206.2	(1,279.7)	8,124.9	1,279.7

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

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