

MACRO DAILY

01 August 2019

Macro developments

- Central government's fiscal data shows that it lowered its spending in Q1FY20 to 2% vs 8.7% in Q1FY19. This was led by a sharp contraction in capex growth (-27.6% vs +27.3% in Q1FY19). Centre's net revenue receipts growth also eased to 6.4% in Q1FY20 vs 34.4% last year. Indirect tax collections remain a worry (4% vs 8.5% last year), while direct tax collections are holding ground (9.7% vs 6.2% in Q1FY19).
- China's official manufacturing PMI indicates that activity contracted for the 3rd consecutive month in Jul'19 (49.7 vs 49.4 in Jun'19). This was led by continuous decline in new orders, in particular new export orders (46.9 vs 46.3 in Jun'19), thereby adding pressure on employment numbers as well. Weak domestic demand also led to easing of non-manufacturing activity in Jul'19 (53.7 vs 54.2 in Jun'19).
- US Fed reduced its policy rates by 25bps for the first time since Dec'08 on the back of muted inflation print, weak business spending and concerns of slowdown in global economy. Notably, it is unlikely that Fed would reduce rates any further in CY19 as was initially anticipated, as it referred the rate cut to 'mid-cycle adjustment'. In line with this, it has also decided to reduce its bonds holding programme, two months ahead of the scheduled date.

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Markets

- **Bonds:** Except Japan, global yields closed lower after US Fed cut its policy rate by 25bps as a 'mid-cycle adjustment' rather than start of monetary easing. US 10Y yield fell by 4bps to 2.01%. Crude prices inched up by 0.7% (US\$ 65/bbl). India's 10Y yield fell by 2bps (6.37%) supported by buying from private banks. It is trading higher at 6.39% today.
- **Currency:** Global currencies closed mixed. DXY rose to more than a 2-year high after US Fed cut rates by 25bps while also signalling that it might not cut rates in the future. While EUR, JPY and AUD fell, INR and GBP strengthened. INR opened lower today in line with other Asian currencies.
- **Equity:** Barring Sensex and Dax, global indices ended lower after Fed reduced rates and hinted at a less dovish stance. Dow fell by (-) 1.2% followed by Nikkei (-0.9%) and FTSE (-0.8%). Sensex on the other hand rose by 0.2% supported by metal and auto stocks. However, it is trading lower 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	2.01	(4)	(3)	1	(49)	(99)
UK	0.61	(2)	(7)	(22)	(54)	(77)
Japan	(0.15)	0	(1)	1	(11)	(28)
Germany	(0.44)	(4)	(6)	(11)	(45)	(92)
India	6.37	(2)	(7)	(51)	(104)	(133)
China	3.16	(2)	(1)	(8)	(24)	(31)
2Y yields (Δ bps)						
US	1.87	3	5	12	(43)	(81)
UK	0.44	(1)	(5)	(18)	(30)	(35)
Japan	(0.20)	1	0	2	(5)	(11)
Germany	(0.78)	(2)	0	(3)	(19)	(23)
India	6.02	(2)	(8)	(28)	(80)	(146)
China**	2.58	0	(1)	(5)	(8)	(24)
Currencies (Δ %)						
EUR	1.1076	(0.7)	(0.6)	(2.6)	(1.1)	(5.0)
GBP	1.2159	0.1	(2.6)	(4.2)	(6.8)	(7.4)
JPY	108.78	(0.2)	(0.5)	(0.9)	2.3	2.6
AUD	0.6845	(0.4)	(1.9)	(2.5)	(2.4)	(7.5)
INR	68.80	0.1	0.3	0.3	1.1	(0.5)
CNY	6.8844	0	(0.2)	(0.3)	(2.2)	(0.9)
Equity & Other indices (Δ %)						
DOW	26,864	(1.2)	(1.5)	1.0	1.6	6.0
FTSE	7,587	(0.8)	1.1	2.2	2.7	(0.9)
DAX	12,189	0.3	(2.7)	(1.7)	(1.3)	(4.3)
NIKKEI	21,522	(0.9)	(0.9)	1.2	(3.3)	(5.4)
Shanghai Comp	2,933	(0.7)	0.3	(1.6)	(4.7)	3.8
SENSEX	37,481	0.2	(1.0)	(4.9)	(4.0)	(0.1)
Brent (USD/bbl)	65.17	0.7	3.1	(2.1)	(9.7)	(10.0)
Gold (USD/oz)	1,414	(1.2)	(0.8)	0.3	10.7	16.3
CRB Index	403.2	(0.4)	(1.0)	(1.2)	(4.0)	(6.1)
Rogers Agri Index	720.7	(1.3)	(2.5)	(4.1)	(0.4)	(11.5)
LIBOR (3M)*	2.25	0	(1)	(7)	(32)	(10)
INR 5Yr Swap*	6.58	(1)	7	(16)	(54)	(108)
India FII data (US\$ mn)						
	30 Jul	29 Jul	WTD	MTD	CYTD	FYTD
FII-Debt	37.0	(17.5)	19.5	1,102.1	2,530.4	1,985.8
FII-Equity	(98.2)	(54.3)	(152.5)	(1,721.4)	9,617.5	2,772.3

Source: Bloomberg, Bank of Baroda | *Indicates change in bps, ** as on 16.07.2019.

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