

MACRO DAILY

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Macro developments

- India's core sector growth contracted by (-) 0.5% and to a 52-month low in Aug'19 from 2.7% in Jul'19. This was driven by weaker demand. The sharpest contraction amongst all the sectors was seen in coal at (-) 8.7% in Aug'19 (-1.6% in Jul'19). This was followed by crude oil (-5.5% vs 4.4% in Jul'19) and natural gas (-4% vs -0.6% in Jul'19). Going ahead, IIP is likely to fare weaker than expected.
- Centre's gross borrowings for H2FY20 were at Rs 2.68tn as per budgeted vs Rs 4.42tn in H1. Notably, >10 year issuances in H2 are at 75.4% (42% outstanding), implying biasedness for steeper yield curve. To meet revenue shortfall, government announced disinvestment, including 100% stake sale in certain CPSEs. We expect fiscal deficit at 3.5% of GDP in FY20, to support growth.
- China's official manufacturing PMI rose to 49.8 in Sep'19 from 49.5 in Aug'19 led by a pickup in demand. However, the index has stayed in the contraction zone for 5-months now, as escalating US-China trade war and a weak global outlook impinges on the manufacturing sector. Export orders contracted for 16th straight month as global demand remains muted.

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Markets

- Bonds:** Global yields closed mixed amidst ongoing political tensions in US and UK, mixed manufacturing PMI in China and subdued GDP growth in UK. US 10Y yield fell by 2bps (1.66%). Oil prices declined by (-) 1.8% (US\$ 61/bbl) owing to demand concerns. India's 10Y yield fell by 3bps (6.7%). It is trading lower today at 6.69% as H2 borrowing plan was as per budgeted.
- Currency:** Except GBP (flat), other global currencies closed lower. EUR depreciated by (-) 0.4% to its lowest in 30-months as CPI inflation in Germany cooled off in Sep'19, signaling further easing by ECB. DXY rose by 0.3%. In line with Asian currencies, INR is trading higher today.
- Equity:** Barring Dow and Dax, global indices closed lower as investors remained jittery over the next course of action in the US-China trade deal. Shanghai Comp (-0.9%) fell the most, followed by Nikkei (-0.6%). Sensex (-0.4%) too ended in red dragged down by banking 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	1.66	(2)	(6)	17	(36)	(142)
UK	0.49	(1)	(6)	1	(33)	(110)
Japan	(0.21)	2	(1)	6	(7)	(35)
Germany	(0.57)	0	1	13	(21)	(104)
India	6.70	(3)	(5)	14	(18)	(129)
China	3.14	0	4	8	(9)	(48)
2Y yields (Δ bps)						
US	1.62	(1)	(6)	12	(17)	(120)
UK	0.37	(3)	(12)	(3)	(24)	(47)
Japan	(0.32)	0	(2)	(2)	(10)	(20)
Germany	(0.77)	0	(2)	16	(1)	(23)
India	5.78	(2)	(1)	0	(50)	(204)
China	2.56	0	2	(3)	(7)	(41)
Currencies (Δ %)						
EUR	1.0899	(0.4)	(0.9)	(0.8)	(3.4)	(5.9)
GBP	1.2289	0	(1.1)	1.1	(2.8)	(5.8)
JPY	108.08	(0.1)	(0.5)	(1.7)	0.3	5.1
AUD	0.6750	(0.2)	(0.3)	0.3	(3.1)	(6.6)
INR	70.87	(0.4)	0.1	0.8	(2.8)	2.8
CNY	7.1483	(0.4)	(0.4)	0.1	(4.3)	(4.1)
Equity & Other indices (Δ %)						
Dow	26,917	0.4	(0.1)	1.9	0.7	1.0
FTSE	7,408	(0.2)	1.1	2.8	(1.2)	(1.2)
DAX	12,428	0.4	0.7	4.1	(0.7)	0.7
NIKKEI**	21,756	(0.6)	(1.5)	5.1	0.1	(10.3)
Shanghai Comp	2,905	(0.9)	(2.4)	0.7	(4.6)	3.0
SENSEX	38,667	(0.4)	(1.1)	3.6	(2.6)	5.9
Brent (US\$/bbl)	60.78	(1.8)	(6.2)	0.6	(6.6)	(28.5)
Gold (US\$/oz)	1,472	(1.6)	(3.3)	(3.1)	6.4	23.8
CRB Index	387.6	0	0.3	0.1	(4.6)	(6.7)
Rogers Agri Index	712.4	1.2	1.3	4.3	(4.6)	(7.7)
LIBOR (3M)*	2.10	(1)	(1)	(4)	(23)	(30)
INR 5Y Swap*	6.38	0	(2)	19	(33)	(133)
India FII data (US\$ mn)						
	27 Sep	26 Sep	WTD	MTD	CYTD	FYTD
FII-Debt	(120.6)	(205.7)	(403.6)	(227.2)	4,020.0	3,475.3
FII-Equity	(42.6)	1,569.8	1,767.6	996.9	8,203.0	1,357.8

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

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