

MACRO DAILY

21 August 2019

Macro developments

- According to news reports, 15th Finance Commission (FC) is expected to discontinue the revenue deficit grants given to states. 14th FC had set out “post-devolution” grants of Rs 1.9tn for 11 states for the period FY16-20. For FY20, 8 states have estimated revenue deficits, between 0.2% (A.P.) to 2.6% (Rajasthan). This move may push these states towards higher market borrowings in order to meet their expenditure targets.
- Reserve Bank of Australia’s latest minutes revealed that the board is ready to take steps such as implementing quantitative easing programme in order to stimulate the economy. It can even cut interest rates further which are already at a record low of 1%. While on the domestic front, housing and job market remain worrisome, uncertainty at the global level related to US-China trade dispute puts downside risk to growth.
- Taiwan exports orders fell for the 9th consecutive month in Jul’19 on a YoY basis, albeit at a slower pace (- 3% vs -4.5% in Jun’19). Milder contraction was led by electronic products (-1.3% vs -4.3%) and machinery (-19.7% vs -22.3%). As peak year-end season for gadget approaches, Taiwan may see marginal recovery in exports orders in H2CY19.

Dipanwita Mazumdar | Sameer Narang
 chief.economist@bankofbaroda.com

Markets

- Bonds:** Except China and India, global yields closed lower on the back of mounting political crisis in Italy and Brexit worries. US 10Y yield fell by (-) 5bps (1.56%) ahead of Jackson Hole meeting. Crude rose by 0.5% (US\$ 60/bbl) driven by drawdown of US inventories. India’s 10Y yield closed stable (6.59%). It is trading lower today at 6.57% ahead of MPC minutes.
- Currency:** Barring INR and CNY, other global currencies closed higher. DXY fell by (-) 0.2% ahead of Fed Chair’s speech at the Jackson Hole meet. INR depreciated by (-) 0.4% as oil prices increased. It is trading marginally higher today in line with other Asian currencies.
- Equity:** Barring Nikkei, global indices ended lower as fears of recession continue to loom. European indices ended in red after political tension mounted in Italy. Sensex fell by (-) 0.2% dragged by metal and realty stocks. It is trading lower today in line with other Asian markets.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	1.56	(5)	(15)	(50)	(87)	(127)
UK	0.45	(2)	(4)	(28)	(63)	(82)
Japan	(0.23)	(1)	0	(10)	(19)	(32)
Germany	(0.69)	(4)	(8)	(37)	(63)	(102)
India	6.59	0	6	22	(72)	(124)
China	3.03	1	2	(13)	(28)	(62)
2Y yields (Δ bps)						
US	1.51	(3)	(15)	(31)	(74)	(108)
UK	0.49	(1)	2	(3)	(25)	(23)
Japan	(0.29)	(2)	(1)	(10)	(14)	(17)
Germany	(0.90)	(1)	(3)	(14)	(28)	(31)
India	5.85	(1)	(4)	(21)	(76)	(173)
China	2.52	0	(3)	(7)	(9)	(27)
Currencies (Δ %)						
EUR	1.1100	0.2	(0.6)	(1.1)	(0.5)	(4.1)
GBP	1.2170	0.4	0.9	(2.7)	(4.2)	(5.7)
JPY	106.23	0.4	0.5	1.4	3.9	3.7
AUD	0.6778	0.2	(0.3)	(3.7)	(1.5)	(8.0)
INR	71.71	(0.4)	(0.4)	(4.2)	(2.9)	(2.7)
CNY#	7.0605	(0.1)	(0.2)	(2.6)	(2.3)	(3.1)
Equity & Other indices (Δ %)						
Dow	25,962	(0.7)	(1.2)	(4.4)	0.3	0.5
FTSE	7,125	(0.9)	(1.7)	(5.1)	(2.8)	(5.8)
DAX	11,651	(0.5)	(0.8)	(5.0)	(4.1)	(5.9)
NIKKEI	20,677	0.6	1.1	(3.7)	(2.8)	(6.9)
Shanghai Comp	2,880	(0.1)	3.0	(1.5)	(0.9)	5.3
SENSEX	37,328	(0.2)	1.0	(2.6)	(4.2)	(2.5)
Brent (US\$/bbl)	60.03	0.5	(2.1)	(3.9)	(16.8)	(17.3)
Gold (US\$/oz)	1,507	0.8	0.4	5.7	18.2	26.0
CRB Index	395.5	(0.3)	(0.5)	(2.6)	(4.4)	(4.6)
Rogers Agri Index	686.0	(0.3)	(1.0)	(7.4)	(5.3)	(14.1)
LIBOR (3M)*	2.15	2	(1)	(11)	(37)	(16)
INR 5Y Swap*	6.35	5	(2)	(9)	(55)	(113)
India FII data (US\$ mn)						
	19 Aug	16 Aug	WTD	MTD	CYTD	FYTD
FII-Debt	214.5	79.4	214.5	468.3	3,122.3	2,577.6
FII-Equity	(37.2)	185.0	(37.2)	(1,131.9)	8,272.7	1,427.5

Source: Bloomberg, Bank of Baroda | *Indicates change in bps | #1Y yield as of 9 Aug 2019

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Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com