

MACRO DAILY

22 July 2019

Macro developments

- In a major relief to IT and ITES sector, government has announced that select BPO services will qualify as exports and would not be subject to GST. Previously, appellate authority had categorised this sector as intermediary services, liable to 18% GST. However, CBIC has clarified that this will not be considered as intermediary services as long as provision of service is on its own account. This move will provide a thrust to India's software exports which rose by 18% (US\$ 205bn) in FY19 vs 9% (US\$ 175bn) in FY18.
- RBI's fortnightly data shows credit growth as on 5 Jul 2019 rose by 12% on YoY basis, unchanged from Jun'19. Deposit growth on the other hand rose marginally to 10.3% from 10% in Jun'19. In FYTD20, credit growth has remained steady at 12.7% vs 12.4% in the same period last year, while deposit growth has picked up significantly (10.1% vs 7.8% last year).
- Japan's CPI growth on a YoY basis remained unchanged from May'19 at 0.7% in Jun'19. Core (ex food and energy) too remained unchanged at 0.5% in Jun'19. Prices of services declined by (-) 0.1% in Jun'19, led by transportation & communication (-1.3% vs -0.4% in May'19) and furniture & household utensils (1.8% vs 2.6% in May'19).

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Markets

- Bonds:** Global yields closed mixed. US 10Y yield rose by 3bps (2.06%) as views on aggressive rate cut faded amidst comments from New York Fed official. Crude prices rose by 0.9% (US\$ 62/bbl) due to tensions in Middle East. India's 10Y yield fell by 2bps (6.36%) supported by buying from foreign and private banks. It is trading higher at 6.44% today, as RBI governor clarified that accommodating stance will depend on incoming data.
- Currency:** Except INR and CNY other global currencies closed lower. DXY rose by 0.4% on reports that Fed may cut rates by only 25bps this month. EUR depreciated by (-) 0.5% on expectations of a rate cut by ECB. INR rose by 0.2%. It opened lower today in line with other Asian currencies.
- Equity:** Barring Dow and Sensex, other global indices ended higher. Dow fell by (-) 0.3% as hopes of aggressive rate cut faded. Even Sensex tanked by (-) 1.4%, dragged by auto and banking stocks. 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	2.06	3	(7)	0	(50)	(84)
UK	0.73	(3)	(10)	(7)	(46)	(50)
Japan	(0.13)	0	(2)	(1)	(10)	(17)
Germany	(0.32)	(1)	(11)	0	(35)	(69)
India	6.36	(2)	(12)	(44)	(106)	(142)
China	3.16	0	0	(9)	(22)	(36)
2Y yields (Δ bps)						
US	1.82	6	(3)	(5)	(56)	(77)
UK	0.52	(2)	(8)	(7)	(25)	(22)
Japan	(0.20)	(1)	(2)	0	(5)	(8)
Germany	(0.77)	(2)	(5)	(1)	(19)	(15)
India	6.06	(1)	(12)	(15)	(63)	(148)
China**	2.58	0	(1)	5	(10)	(56)
Currencies (Δ %)						
EUR	1.1221	(0.5)	(0.4)	0.2	(0.2)	(4.3)
GBP	1.2502	(0.4)	(0.6)	(0.4)	(3.8)	(4.8)
JPY	107.71	(0.4)	0.2	0.7	3.8	3.3
AUD	0.7042	(0.5)	0.3	2.4	(1.5)	(5.0)
INR	68.81	0.2	(0.2)	1.3	0.8	0.1
CNY	6.8821	0	0	0.3	(2.7)	(1.7)
Equity & Other indices (Δ %)						
DOW	27,154	(0.3)	(0.7)	2.6	2.2	8.4
FTSE	7,509	0.2	0	0.9	0.7	(2.2)
DAX	12,260	0.3	(0.5)	(0.6)	0.3	(2.4)
NIKKEI	21,467	2.0	(1.0)	2.4	(3.3)	(5.4)
Shanghai Comp	2,924	0.8	(0.2)	1.2	(10.6)	3.4
SENSEX	38,337	(1.4)	(1.0)	(1.8)	(2.1)	5.0
Brent (USD/bbl)	62.47	0.9	(6.4)	0.5	(13.2)	(14.5)
Gold (USD/oz)	1,425	(1.4)	0.7	5.8	11.7	15.9
CRB Index	405.8	0.5	0	(1.5)	(4.5)	(6.1)
Rogers Agri Index	740.5	1.4	(1.4)	(3.3)	(0.2)	(7.1)
LIBOR (3M)*	2.28	(2)	(3)	(11)	(30)	(6)
INR 5Yr Swap*	6.43	(2)	(15)	(34)	(25)	(125)
India FII data (US\$ mn)						
	18 Jul	17 Jul	WTD	MTD	CYTD	FYTD
FII-Debt	(147.3)	(88.5)	32.1	1,092.7	2,520.9	1,976.3
FII-Equity	(203.5)	(12.5)	(295.9)	(1,038.1)	10,300.7	3,455.5

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

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