

MACRO DAILY

23 September 2019

Macro developments

- To address the current economic slowdown, government has reduced the effective corporate tax rate to 25.2% from 29.5% currently. MAT has also been reduced from 18.5% to 15%. The measure will benefit smaller firms and services sector the most. Fresh investments will be taxed at 17% thus leading to a much improved RoE. The aggregate impact of these measures will result in Rs 1.45tn reduction in tax revenue (0.7% of GDP).
- Japan's CPI eased on a YoY basis in Aug'19 to 0.2% from 0.6% in Jul'19. Core CPI moderated to 0.5% in Aug'19 vs 0.6% in Jul'19. The dip in prices was mainly driven by medical care (-0.2% vs 0.6%) and transportation & communication (-1.2%). With dip in inflation & faltering domestic growth, BoJ is expected to announce monetary easing in its Oct'19 meeting.
- Consumer confidence improved slightly in both Euro area & EU by 0.6 points in Aug'19. It was at (-) 6.5 in the Euro area and at (-) 6.4 points in the EU, well above their long period average. Improvement in consumer confidence is a respite amidst muted growth in the region. Further, ECB's current monetary easing measures will support demand in the near term.

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Markets

- Bonds:** Except Japan and India, global yields closed lower amidst uncertainties in US-China trade deal and Brexit. US 10Y yield closed lower by 6bps (1.72%). Crude prices fell marginally by (-) 0.2% (US\$ 64/bbl) amidst rising US crude inventories. India's 10Y yield rose by 15bps (6.79%) driven by fiscal concerns of revenue shortfall. It is trading at 6.75% today.
- Currency:** Global currencies closed mixed. DXY rose by 0.2% as investors are expecting positive outcome from US-China trade talks. GBP fell by (-) 0.4% led by uncertainties around Brexit. INR gained (0.5%), supported by government announcements and lower oil prices. It is trading higher today, while other Asian currencies are trading lower.
- Equity:** Barring Dow and FTSE, global indices closed higher. Shanghai comp gained by 0.2% as PBOC reduced its new prime lending rate by 25bps to 4.2%. Sensex rebounded (5.3%) and clocked its biggest single day gain in a decade after tax reform measures were announced. It is trading higher today; while Asian stocks are trading mixed.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	1.72	(6)	(17)	17	(33)	(134)
UK	0.63	(1)	(13)	18	(22)	(93)
Japan	(0.21)	1	(5)	3	(5)	(34)
Germany	(0.52)	(1)	(7)	17	(24)	(98)
India	6.79	15	15	20	(7)	(129)
China	3.10	(1)	1	7	(16)	(60)
2Y yields (Δ bps)						
US	1.68	(5)	(12)	17	(8)	(112)
UK	0.52	0	(5)	3	(9)	(29)
Japan	(0.29)	0	(5)	0	(6)	(19)
Germany	(0.72)	1	(1)	18	2	(19)
India	5.80	6	9	(4)	(42)	(209)
China#	2.53	(5)	(5)	(5)	1	(37)
Currencies (Δ %)						
EUR	1.1017	(0.2)	(0.5)	(0.7)	(3.1)	(6.2)
GBP	1.2478	(0.4)	(0.2)	2.5	(2.0)	(4.5)
JPY	107.56	0.4	0.5	(1.3)	(0.2)	4.5
AUD	0.6766	(0.4)	(1.6)	(0.2)	(2.3)	(7.2)
INR	70.95	0.5	0	1.1	(2.0)	1.7
CNY	7.0916	0.1	(0.2)	(0.4)	(3.2)	(3.4)
Equity & Other indices (Δ %)						
Dow	26,935	(0.6)	(1.0)	3.7	0.8	0.7
FTSE	7,345	(0.2)	(0.3)	3.1	(0.8)	(1.9)
DAX	12,468	0.1	0	7.0	1.0	0.3
NIKKEI**	22,079	0.2	0.4	6.8	3.9	(7.5)
Shanghai Comp	3,006	0.2	(0.8)	4.4	0.1	7.5
SENSEX	38,015	5.3	1.7	1.8	(3.0)	3.2
Brent (US\$/bbl)	64.28	(0.2)	6.7	7.1	(1.4)	(18.4)
Gold (US\$/oz)	1,517	1.2	1.9	0.6	8.4	26.4
CRB Index	385.5	0	0.2	(2.5)	(6.3)	(7.0)
Rogers Agri Index	698.5	(0.4)	(0.3)	1.8	(7.8)	(9.3)
LIBOR (3M)*	2.16	0	2	1	(19)	(21)
INR 5Y Swap*	6.35	0	4	0	(18)	(136)
India FII data (US\$ mn)						
	19 Sep	18 Sep	WTD	MTD	CYTD	FYTD
FII-Debt	41.1	14.3	(298.3)	107.9	4,355.1	3,810.5
FII-Equity	(104.7)	(130.7)	(440.9)	(854.2)	6,351.9	(493.3)

Source: Bloomberg, Bank of Baroda | *Indicates change in bps | #1Y yield as on 17 Sep 2019

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