

## MACRO DAILY

28 August 2020

### Macro developments

- In the GST council meet the FM informed the states that centre will not be able to meet the full demand of GST compensation in FY21. The total demand is estimated to be at Rs 3tn, and BE for cess collections is Rs 650bn. This implies a gap of Rs 2.35tn. Two options have been given to states; 1) take loan of Rs 970bn (estimated gap for GST compensation payable to states) from RBI at G-sec linked rates and repay after 5 years; 2) borrow Rs 2.35tn from market.
- US Fed made a change in its mandate by seeking to achieve inflation that averages 2% over time. Powell's statement specified "approach could be viewed as a flexible form of average inflation targeting". Separately, US GDP fell by 31.7% in Q2CY20, against its first estimate of 32.9%. Jobless claims also fell by 98,000 to 1.01mn for the week ending 22 Aug 2020.
- France consumer confidence remained steady at 94 in Aug'20 unchanged from Jul'20. Concerns about unemployment dropped to its lowest levels since Apr'20. There have been lower cases of permanent unemployment in the country as the workers were provided state -subsidised furloughs.

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### Markets

- Bonds:** Global yields closed mixed. US 10Y yield rose by 6bps (0.75%) supported by Fed's decision to change its mandate of inflation targeting "averaging to 2%". Crude prices fell by 1.2% (US\$ 45/bbl) as US rigs have started production. India's 10Y yield fell by 4bps (6.15%) as RBI had set a higher than expected cut-off price for 5.79%GS2030 purchased through special OMO. However, it is trading higher at 6.19% today.
- Currency:** Except AUD and INR, other global currencies closed lower. DXY closed slightly higher after Fed Chair announced changes to its inflation target. JPY depreciated the most by 0.5%. However, INR rose sharply by 0.7% to its highest since Mar'20 on the back of FII inflows. It is trading lower today while other Asian currencies are trading higher.
- Equity:** Global indices ended mixed after Fed unveiled a new strategy to achieve price stability and maximum employment. FTSE (0.8%) and Dax (0.7%) declined the most. However, Sensex (0.1%) inched up marginally on the expiry of F&O contracts for Aug'20. 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
<b>10Y yields (Δ bps)</b>						
US	0.75	6	10	14	6	(74)
UK	0.34	3	11	23	13	(10)
Japan	0.04	0	1	2	4	33
Germany	(0.41)	1	9	8	1	29
India	6.15	(4)	21	30	40	(40)
China	3.06	1	6	17	37	3
<b>2Y yields (Δ bps)</b>						
US	0.16	1	2	1	(1)	(136)
UK	(0.02)	0	2	9	1	(38)
Japan	(0.11)	(1)	(1)	0	3	20
Germany	(0.66)	(1)	2	1	(3)	25
India	4.48	0	25	25	7	(129)
China	2.50	1	7	26	92	(8)
<b>Currencies (Δ %)</b>						
EUR	1.1822	(0.1)	(0.3)	0.6	6.7	6.9
GBP	1.3201	(0.1)	(0.1)	2.5	7.1	8.4
JPY	106.57	(0.5)	(0.7)	(1.1)	1.0	0
AUD	0.7259	0.4	0.9	1.5	9.4	7.9
INR	73.82	0.7	1.6	1.4	2.6	(2.8)
CNY	6.8941	(0.1)	0.3	1.5	3.5	3.5
<b>Equity &amp; Other indices (Δ %)</b>						
Dow	28,492	0.6	2.7	7.2	12.2	8.1
FTSE	6,000	(0.8)	(0.2)	(1.7)	(3.5)	(16.5)
DAX	13,096	(0.7)	2.1	2.0	11.2	10.6
NIKKEI	23,209	(0.4)	1.4	2.2	5.9	13.4
Shanghai Comp	3,350	0.6	(0.4)	4.5	17.7	15.9
SENSEX	39,113	0.1	2.3	3.1	21.5	5.5
Brent (US\$/bbl)	45.09	(1.2)	0.4	3.9	27.8	(26.2)
Gold (US\$/oz)	1,930	(1.3)	(0.9)	(0.7)	12.3	26.3
CRB Index	390.7	0.2	1.1	3.7	6.7	0.6
Rogers Agri Index	738.5	1.1	2.7	6.3	10.3	7.7
LIBOR (3M)*	0.26	0	1	(1)	(9)	(188)
INR 5Y Swap*	5.65	4	28	44	52	(57)
<b>India FII data (US\$ mn)</b>						
	<b>26 Aug</b>	<b>25 Aug</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	56.0	(139.8)	(66.3)	(97.0)	(14,624.6)	(4,865.1)
FII-Equity	222.5	235.7	600.2	6,158.1	4,869.9	11,472.9

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

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