

MACRO DAILY

29 August 2019

Macro developments

- In order to improve FDI inflows, Cabinet has permitted 100% FDI under the automatic route in contract manufacturing. It has provided greater flexibility to single brand retail trade (SBRT) by diluting the current 30% domestic sourcing norm. In the mining sector, 100% FDI under automatic route has been permitted for sale of coal, coal mining activities including associated processing infrastructure.
- As per news reports, the panel on Direct Tax Code has suggested changes to personal income tax. These include-introducing 5 tax brackets (5%, 10%, 20%, 30% and 35%) vs current structure of 5%, 20% and 30%. If the recommendations are accepted, it would imply lower tax rates for those in Rs 0.5-1mn bracket (10% vs current 20%) and in Rs 1-2mn bracket (20% vs current 30%), thereby supporting domestic consumption.
- Consumer confidence in Germany was unchanged at 9.7 in Sep'19 (est. 9.6). However, the economic expectation index dropped to the lowest since Jan'13 as consumers become increasingly wary of global growth slowdown, US-China trade war and Brexit. On the other hand, consumers' propensity to buy rose, suggesting that domestic demand remains resilient.

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Markets

- Bonds:** Global yields closed mixed amidst US-China trade dispute, political turmoil in Britain and expected monetary stimulus from ECB and BoJ. US 10Y yield inched up by 1bps (1.48%). Crude rose by 1.6% (US\$ 60/bbl). India's 10Y yield edged up by 4bps (6.57%) driven by selling from private banks and MFs. It is trading at 6.58% today.
- Currency:** Except CNY (unchanged), global currencies closed lower as persistent fears of recession lifted the dollar. DXY rose by 0.2%. GBP depreciated by (-) 0.6% on Brexit uncertainty. INR opened further lower today, in line with other Asian currencies.
- Equity:** Global indices closed mixed with Dow rising the most by 1%. While Dow's rally was supported by energy and financial stocks, US yield inversion remained a drag for other markets. Sensex fell by (-) 0.5% led by auto 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	1.48	1	(11)	(59)	(78)	(140)
UK	0.44	(6)	(4)	(21)	(45)	(105)
Japan	(0.28)	(1)	(4)	(13)	(19)	(38)
Germany	(0.71)	(2)	(4)	(32)	(54)	(112)
India	6.57	4	0	16	(55)	(135)
China	3.06	0	(0)	(13)	(24)	(57)
2Y yields (Δ bps)						
US	1.50	(2)	(7)	(36)	(61)	(118)
UK	0.35	(3)	(16)	(12)	(24)	(41)
Japan	(0.30)	(1)	(0)	(10)	(13)	(19)
Germany	(0.88)	1	1	(12)	(24)	(31)
India	5.75	(2)	(9)	(30)	(77)	(189)
China#	2.60	2	8	2	0	(27)
Currencies (Δ %)						
EUR	1.1078	(0.1)	(0.1)	(0.6)	(0.5)	(5.4)
GBP	1.2212	(0.6)	0.7	(0.1)	(3.3)	(6.2)
JPY	106.12	(0.3)	0.5	2.4	3.2	5.0
AUD	0.6734	(0.3)	(0.7)	(2.4)	(2.6)	(7.9)
INR	71.77	(0.4)	(0.3)	(4.4)	(2.8)	(1.7)
CNY	7.1652	0	(1.5)	(3.9)	(3.6)	(5.0)
Equity & Other indices (Δ %)						
Dow	26,036	1.0	(0.6)	(4.4)	3.6	(0.3)
FTSE	7,115	0.4	(1.2)	(7.4)	(1.0)	(5.9)
DAX	11,701	(0.2)	(0.9)	(5.8)	(1.2)	(6.9)
NIKKEI	20,479	0.1	(0.7)	(5.3)	(2.5)	(10.4)
Shanghai Comp	2,894	(0.3)	0.5	(1.6)	(0.7)	4.5
SENSEX	37,452	(0.5)	1.1	(0.6)	(5.2)	(3.3)
Brent (US\$/bbl)	60.49	1.6	0.3	(5.1)	(12.9)	(21.6)
Gold (US\$/oz)	1,539	(0.2)	2.4	7.9	20.3	27.5
CRB Index	390.4	0.1	(1.4)	(4.1)	(6.0)	(5.2)
Rogers Agri Index	686.8	0.6	(0.2)	(6.6)	(8.0)	(12.1)
LIBOR (3M)*	2.12	(3)	(3)	(14)	(40)	(20)
INR 5Y Swap*	6.18	0	(10)	(39)	(53)	(134)
India FII data (US\$ mn)						
	27 Aug	26 Aug	WTD	MTD	CYTD	FYTD
FII-Debt	358.4	45.0	403.4	1,392.6	4,046.5	3,501.9
FII-Equity	(147.6)	(97.9)	(245.5)	(2,015.2)	7,389.4	544.2

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

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