

## MACRO DAILY

29 July 2019

### Macro developments

- GST council has reduced tax rate for electric vehicles (EV) from 12% to 5% and for EV chargers from 18% to 5%. This additional support comes after announcement was made in the Union Budget to give tax deduction of Rs 0.15mn on interest paid on loans taken for buying EVs. Government has set aside Rs 100bn for phase 2 of the FAME scheme (Faster Adoption and Manufacturing of hybrid and Electric vehicles).
- India's forex reserves rose to a lifetime high of US\$ 430.4bn in the week ending 19 Jul 2019. On a weekly basis, forex reserves rose by US\$ 1.6bn vs a decline of (-) US\$ 1.1bn last week. In CYTD19, forex reserves have increased by US\$ 37bn vs a decline of (-) US\$ 4.3bn last year.
- US GDP growth slowed to 2.1% in Q2CY19 vs 3.1% in Q1CY19 (est. 1.8%). This was led by weaker business investment and exports. Private domestic investment faltered to 5.5%, lowest since Q4CY15. Further, while consumer spending rose by 4.3% in Q2 to over a 6-quarter high, it is unlikely to sustain going forward. Against this backdrop, Fed is likely to reduce rates by only 25bps in the upcoming policy meet.

Aditi Gupta | Sameer Narang

chief.economist@bankofbaroda.com

### Markets

- **Bonds:** Global yields closed mixed. US 10Y yield fell by 1bps (2.07%) as markets are anticipating Fed to cut rate. Crude prices rose by 0.1% (US\$ 63/bbl). India's 10Y yield increased by 1bps (6.52%). It is trading 9bps lower (6.43%) today, as FM clarified that overseas borrowing plan will be as per budget proposal and also confirmed that there remains scope for further monetary accommodation in the current fiscal space.
- **Currency:** Barring INR, other global currencies closed lower. DXY rose by 0.2% to a 2-month high after US Q2CY19 GDP growth was better than expected suggesting that Fed will cut rates by only 25bps. GBP depreciated by (-) 0.6% on Brexit concerns. INR opened lower today, in line with other Asian currencies.
- **Equity:** Except Nikkei, global indices closed higher. Dow rose by 0.2% supported by robust earnings. FTSE rose by 0.8% as ECB hinted at a rate cut in its next policy meet. Sensex rose marginally by 0.1% supported by DII inflow of Rs 19bn. Asian stocks are trading lower today, while Sensex is trading flat.



**FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES**

Particulars	Current	1D	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>						
US	2.07	(1)	2	2	(43)	(88)
UK	0.69	(2)	(5)	(14)	(46)	(59)
Japan	(0.15)	0	(2)	(1)	(11)	(25)
Germany	(0.38)	(1)	(5)	(7)	(35)	(78)
India	6.52	1	16	(41)	(89)	(126)
China	3.17	0	1	(8)	(23)	(35)
<b>2Y yields (Δ bps)</b>						
US	1.85	(1)	3	8	(43)	(82)
UK	0.49	(2)	(2)	(12)	(24)	(27)
Japan	(0.21)	0	(1)	1	(6)	(10)
Germany	(0.75)	1	2	(2)	(16)	(15)
India	6.10	1	4	(19)	(70)	(142)
China**	2.58	0	(1)	(12)	(9)	(36)
<b>Currencies (Δ %)</b>						
EUR	1.1128	(0.2)	(0.8)	(2.1)	(0.2)	(4.5)
GBP	1.2384	(0.6)	(0.9)	(2.4)	(4.1)	(5.5)
JPY	108.68	0	(0.9)	(0.8)	2.6	2.1
AUD	0.6911	(0.6)	(1.9)	(1.1)	(1.9)	(6.6)
INR	68.90	0.2	(0.1)	0.4	1.6	(0.4)
CNY	6.8795	(0.1)	0	0	(2.2)	(1.0)
<b>Equity &amp; Other indices (Δ %)</b>						
DOW	27,192	0.2	0.1	2.5	2.4	6.8
FTSE	7,549	0.8	0.5	1.8	1.6	(2.0)
DAX	12,420	0.5	1.3	1.4	0.9	(3.4)
NIKKEI	21,658	(0.5)	0.9	2.7	(2.7)	(4.6)
Shanghai Comp	2,945	0.2	0.7	(1.1)	(4.6)	2.5
SENSEX	37,883	0.1	(1.2)	(4.3)	(3.0)	1.5
Brent (USD/bbl)	63.46	0.1	1.6	(4.6)	(12.0)	(14.6)
Gold (USD/oz)	1,419	0.3	(0.5)	0.7	10.3	15.9
CRB Index	406.1	(0.3)	0.0	(1.0)	(3.9)	(6.2)
Rogers Agri Index	733.9	(0.3)	(0.9)	(3.3)	0.7	(9.0)
LIBOR (3M)*	2.27	1	1	(6)	(32)	(8)
INR 5Yr Swap*	6.62	2	19	(2)	(50)	(106)
<b>India FII data (US\$ mn)</b>						
	<b>25 Jul</b>	<b>24 Jul</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	4.8	139.0	76.2	1,274.5	2,702.8	2,158.2
FII-Equity	77.6	(209.6)	(809.6)	(2,005.2)	9,333.7	2,488.5

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

## Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at [www.bankofbaroda.com](http://www.bankofbaroda.com)



For further details about this publication, please contact:

### **Economics Research Department**

Bank of Baroda

[chief.economist@bankofbaroda.com](mailto:chief.economist@bankofbaroda.com)