

MACRO DAILY

31 December 2019

Macro developments

- State governments in India are expected to borrow Rs 2.1tn in Q4FY20 vs Rs 1.4tn in Q3FY20 (till 23 Dec). This will take total borrowing for FY20 to life-time high of Rs 5.7tn vs Rs 4.7 in FY19. State budgets for FY20 had planned for Rs 6.3tn of total borrowing in view of ~Rs 1.5tn of repayments this year. In FY21 as well, repayments are expected remain around ~Rs 1.5tn, we expect states to continue to rely heavily on market borrowings.
- CPI inflation in S.Korea accelerated to 0.7% in Dec'19 (est. 0.6%) from 0.2% in Nov'19. However, inflation at 0.5% in CY19 is much lower than 1.5% in CY18 and BoK's target of 2%, as consumer demand remains tepid. While BoK has cut rates by 50bps in CY19, muted inflation as well as weak economic growth raises the likelihood of further rate cuts in CY20.
- China's official manufacturing PMI remained unchanged in Dec'19 at 50.2, (est. 50.1) marking this the second consecutive month of expansion. New export orders index reached 50.3 (48.8 in Nov'19) for the first time since Jun'18. On the other hand, non-manufacturing PMI fell to 53.5 in Dec'19 from 54.4 in Nov'19, dragged by construction (56.7 vs 59.6 in Nov'19).

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Markets

- Bonds:** Barring Japan and US (flat), global yields closed higher led by easing of the trade tensions. UK 10Y yield rose by 11bps (0.87%) highest since Jun'19, on account of an expected, year-end sell off. Oil prices rose by 0.4% (US\$ 68.4/bbl), as a result India's 10Y yield inched up by 4bps to 6.55%. It is trading a tad lower today at 6.54%.
- Currency:** Major global currencies closed higher against the dollar. DXY fell by (-) 0.2% on reports that US and China are close to signing the Phase-1 trade deal. After depreciating for six straight sessions, INR rose by 0.1% even as oil prices continued to increase. It is trading higher today in line with other Asian currencies.
- Equity:** Apart from Shanghai Comp, global indices closed lower as investors looked for more cues amidst holiday season. Both FTSE and Nikkei dropped by (-) 0.8% each followed by Dax (-0.7%). Sensex ended flat and was trading lower today; while Asian stocks are trading higher led by better than expected manufacturing data of China.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	1.88	0	(5)	10	21	(81)
UK	0.87	11	9	17	38	(41)
Japan	(0.01)	(1)	(3)	6	20	(1)
Germany	(0.19)	7	6	18	39	(43)
India	6.55	4	(2)	8	(15)	(82)
China	3.15	1	(2)	(3)	0	(17)
2Y yields (Δ bps)						
US	1.57	(2)	(9)	(5)	(6)	(92)
UK	0.59	3	4	5	22	(16)
Japan	(0.13)	(1)	(4)	4	18	1
Germany	(0.60)	3	2	3	17	1
India	5.82	0	(2)	48	4	(103)
China	2.28	(5)	(30)	(35)	(27)	(41)
Currencies (Δ %)						
EUR	1.1199	0.2	1.0	1.6	2.8	(2.3)
GBP	1.3113	0.3	1.4	1.5	6.7	2.8
JPY	108.88	0.5	0.5	0.6	(0.7)	0.7
AUD	0.6994	0.2	1.0	3.4	3.6	(0.8)
INR	71.31	0.1	(0.2)	0.6	(0.6)	(2.2)
CNY	6.9868	0.1	0.4	0.6	2.3	(1.6)
Equity & Other indices (Δ %)						
Dow	28,462	(0.6)	(0.3)	1.5	5.7	22.0
FTSE	7,587	(0.8)	(0.5)	3.3	2.4	12.8
DAX	13,249	(0.7)	(0.4)	0.1	6.6	25.5
NIKKEI	23,657	(0.8)	(0.7)	1.6	8.7	18.2
Shanghai Comp	3,040	1.2	2.6	5.9	4.6	21.9
SENSEX	41,558	0	(0.2)	1.9	7.5	15.2
Brent (US\$/bbl)	68.44	0.4	3.1	9.6	12.6	27.2
Gold (US\$/oz)	1,515	0.3	2.0	3.5	2.9	18.1
CRB Index	402.3	0.3	0.9	4.1	3.8	(1.7)
Rogers Agri Index	759.2	0.3	1.6	4.2	6.6	0.2
LIBOR (3M)*	1.94	(2)	0	4	(14)	(86)
INR 5Y Swap*	6.74	0	11	39	36	(47)
India FII data (US\$ mn)						
	27 Dec	26 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	27.0	346.3	473.5	(522.9)	3,721.9	3,177.2
FII-Equity	106.4	18.5	438.4	1,099.7	14,472.1	7,626.9

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

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