

MACRO DAILY

07 August 2019

Macro developments

- RBI in its current policy is expected to cut rates for the fourth successive time. This will be in line with other central banks such as US Fed, Bank of Korea, Philippines, and Indonesia to stimulate growth. This move is opportune as inflation is expected to be below MPC's target of 4% at 3.3% and 3.7% respectively in FY20 and FY21. Hence, we expect a 50bps rate cut by RBI to spur growth.
- Factory orders in Germany rose by 2.5% in Jun'19 on a MoM basis, after a decline of (-) 2% in May'19. The higher than anticipated increase (est. 0.5%) was led by new orders from outside the Euro Zone (up 8.6%). Sectorwise, orders for capital goods increased by 3.7% while new orders for intermediate goods rose by 1.3%.
- Reserve Bank of Australia (RBA) left interest rate unchanged at 1% in its latest policy meet after cutting rates by 25bps each in its last two meetings. It however mentioned that against weak growth and unemployment, interest rates are expected to remain low. Separately, Reserve Bank of New Zealand cut its policy rate by 50bps (est. 25bps) to 1% in order to support growth.

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Markets

- **Bonds:** Global yields closed mixed amidst trade war concerns. US 10Y yield fell marginally by 1bps (1.7%). Crude prices declined by (-) 1.5% (US\$ 59/bbl) on anticipation of muted global demand. India's 10Y yield fell by 5bps (6.34%) on expectation of rate cut by RBI, to support growth. It is trading lower at 6.32% today.
- **Currency:** Global currencies closed mixed. After declining for 3 straight sessions on the back of heightened trade tensions, DXY rose by 0.1%. CNY also rose by 0.4% after falling to its lowest since Mar'08. INR fell by (-) 0.1% and is trading lower today ahead of RBI policy meet. Asian currencies are also trading lower.
- **Equity:** Barring Dow and Sensex, other global indices ended lower after US labelled China as a currency manipulator in further escalation of trade tensions. Shanghai Comp fell by (-) 1.6%. Sensex rose by 0.8% led by capital and realty stocks. It is trading slightly lower today, while other 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	1.70	(1)	(36)	(35)	(75)	(127)
UK	0.52	0	(12)	(20)	(64)	(81)
Japan	(0.18)	1	(3)	(4)	(13)	(30)
Germany	(0.54)	(2)	(14)	(17)	(50)	(95)
India	6.34	(5)	(5)	(23)	(104)	(145)
China	3.07	1	(11)	(11)	(28)	(43)
2Y yields (Δ bps)						
US	1.58	1	(26)	(31)	(70)	(109)
UK	0.43	(1)	(2)	(12)	(32)	(30)
Japan	(0.22)	(1)	(1)	(2)	(7)	(11)
Germany	(0.82)	(1)	(6)	(7)	(21)	(24)
India	5.94	(3)	(11)	(19)	(83)	(156)
China#	2.55	(1)	(4)	(4)	(7)	(8)
Currencies (Δ %)						
EUR	1.1199	0	0.4	(0.1)	0.1	(3.4)
GBP	1.2171	0.2	0.2	(2.7)	(6.9)	(5.9)
JPY	106.47	(0.5)	2.0	2.1	3.4	4.4
AUD	0.6761	0.1	(1.6)	(3.0)	(3.6)	(8.9)
INR	70.83	(0.1)	(2.9)	(3.2)	(2.0)	(3.1)
CNY	7.0254	0.4	(2.0)	(2.1)	(3.7)	(2.8)
Equity & Other indices (Δ %)						
DOW	26,030	1.2	(4.3)	(2.9)	0.2	1.6
FTSE	7,172	(0.7)	(6.2)	(5.0)	(1.2)	(7.1)
DAX	11,568	(0.8)	(4.8)	(7.8)	(4.3)	(8.5)
NIKKEI	20,585	(0.7)	(5.2)	(4.4)	(6.1)	(9.2)
Shanghai Comp	2,778	(1.6)	(5.9)	(5.3)	(5.1)	(0.1)
SENSEX	36,977	0.8	(1.1)	(4.5)	(3.4)	(1.8)
Brent (USD/bbl)	58.94	(1.5)	(8.9)	(8.1)	(15.7)	(21.0)
Gold (USD/oz)	1,474	0.7	3.0	5.7	14.8	21.8
CRB Index	398.7	(0.2)	(1.5)	(1.5)	(4.5)	(6.3)
Rogers Agri Index	705.3	(0.5)	(3.4)	(5.3)	(1.0)	(14.0)
LIBOR (3M)*	2.21	(3)	(4)	(13)	(35)	(13)
INR 5Yr Swap*	6.42	(14)	(17)	(9)	(82)	(124)
India FII data (US\$ mn)						
	5 Aug	2 Aug	WTD	MTD	CYTD	FYTD
FII-Debt	(15.0)	144.6	(15.0)	(29.5)	2,624.4	2,079.8
FII-Equity	(308.6)	(416.4)	(308.6)	(893.9)	8,510.7	1,665.5

Source: Bloomberg, Bank of Baroda | *Indicates change in bps | #1 year yield as on 2 Aug 2019

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