

MACRO DAILY

07 February 2020

Macro developments

- RBI's MPC members kept policy rate and stance unchanged and reiterated room for further rate cuts. More importantly, it withdrew the 1% ceiling on banks' borrowing from RBI and introduced LTROs. It also incentivised banks to deduct auto, mortgage and MSME loans from CRR computation and extended sops to commercial real estate projects. We believe these measures are structurally positive and send signal to banks to lend.
- US jobless claims fell to a 9-month low to 202,000 for the week ended 1 Feb 2020, (est. 216,000) pointing to buoyant labour market conditions. The 4-week moving average was also lower by 3,000 to 211,750 from 214,750 in the previous week, lowest since Apr'19.
- Germany's new manufacturing factory orders declined by (-) 2.1% in Dec'19 from (-) 0.8% in Nov'19. This was led by new export orders (-4.5% vs -2.5%), in particular from Euro Area (-13.9%). Demand from other countries rose by 2.1% and domestic orders too increased (1.4% vs 1.3%). Orders for investment goods fell the most by (-) 20% in Dec'19.

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Markets

- **Bonds:** Except Japan, global yields closed lower over concerns of spread of coronavirus and muted macro print in Germany. US 10Y yield fell marginally 1bps (1.64%) supported by buoyant labour market scenario. Oil prices fell by (-) 0.6% (US\$ 55/bbl) driven by concerns over muted demand. India's 10Y yield fell the most by 6bps (6.45%) supported by RBI's liquidity infusion measures. It is trading further lower at 6.41% today.
- **Currency:** Barring INR and CNY which closed flat, other global currencies closed lower. DXY (+0.2%) rose for the 4th straight session as US jobless claims fell more than expected. EUR fell (-) 0.1% on weak German factory orders. INR is trading lower today in line with its Asian peers.
- **Equity:** Global indices ended higher as China slashed tariffs on imports worth US\$ 75bn from the US. Nikkei (2.4%) surged the most, followed by Shanghai Comp (1.7%). Sensex (0.4%) too ended in green after RBI policy. Banking and oil & gas stocks advanced the most. It is trading lower today in line with other Asian stocks.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	1.64	(1)	6	(17)	(28)	(102)
UK	0.58	(3)	4	(19)	(21)	(60)
Japan	(0.02)	2	4	0	5	(1)
Germany	(0.37)	(1)	4	(8)	(14)	(49)
India	6.45	(6)	(11)	(12)	(6)	(87)
China	2.84	(3)	(22)	(30)	(44)	(27)
2Y yields (Δ bps)						
US	1.45	0	3	(10)	(22)	(103)
UK	0.49	(2)	(2)	(11)	(6)	(23)
Japan	(0.13)	1	2	2	5	3
Germany	(0.63)	1	2	(1)	(2)	(6)
India	5.82	(18)	(26)	(41)	26	(99)
China	2.23	(7)	(5)	(42)	(42)	(17)
Currencies (Δ %)						
EUR	1.0983	(0.1)	(0.4)	(1.9)	(0.6)	(3.2)
GBP	1.2931	(0.5)	(1.2)	(1.8)	0.9	(0.2)
JPY	109.99	(0.1)	(0.9)	(1.5)	(0.6)	(0.2)
AUD	0.6730	(0.2)	0.1	(3.0)	(2.4)	(5.2)
INR	71.20	0	0.4	1.0	(0.3)	0.4
CNY	6.9707	0	(1.5)	0.1	0.1	(3.3)
Equity & Other indices (Δ %)						
Dow	29,380	0.3	1.8	2.4	6.2	16.7
FTSE	7,505	0.3	1.7	(0.9)	1.3	5.8
DAX	13,575	0.7	3.2	3.4	2.1	23.2
NIKKEI	23,874	2.4	3.9	2.9	2.3	15.0
Shanghai Comp	2,867	1.7	(7.4)	(7.0)	(3.8)	9.5
SENSEX	41,306	0.4	1.0	1.5	1.6	11.7
Brent (US\$/bbl)	54.93	(0.6)	(5.8)	(20.3)	(11.8)	(10.9)
Gold (US\$/oz)	1,567	0.7	(0.5)	0.1	6.7	19.6
CRB Index	404.9	0	0.1	0.9	3.6	(2.1)
Rogers Agri Index	736.7	0.2	(0.4)	(2.4)	1.0	(4.6)
LIBOR (3M)*	1.74	0	(2)	(13)	(16)	(96)
INR 5Y Swap*	6.52	(7)	(19)	(14)	(3)	(60)
India FII data (US\$ mn)						
	5 Feb	4 Feb	WTD	MTD	CYTD	FYTD
FII-Debt	311.0	(546.0)	(206.6)	(206.6)	(1,775.5)	1,168.6
FII-Equity	74.4	129.7	462.7	462.7	1,835.4	9,224.6

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

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