

MACRO DAILY

08 August 2019

Macro developments

- RBI surprised with a 35bps cut in policy rates (4-2 vote) while maintaining an accommodative stance. It has also indicated further rate cuts as it looks at closing the negative output gap. While RBI expects growth at 6.9% in FY20 (6.8% in FY19), recent indicators suggest growth will be lower. Hence, RBI will be in a position to cut repo rate further by 40bps in FY20 to support growth, as inflation outlook remains favourable.
- Industrial production in Germany fell sharply by (-) 1.5% in Jun'19 on a MoM basis vs an increase of 0.1% in May'19. The larger than anticipated decline (est. -0.5%) was led by intermediate (-2%) and capital goods (-1.8%). In Q2CY19 industrial production fell by (-) 1.8% as US-China trade war hit exports leading to fears of recession.
- Central bank of Thailand reduced policy rate by 25bps for the first time since 2015 to 1.5% to support growth and currency. In CYTD19, Baht has appreciated by 5% which has taken a toll on its exports. Globally major central banks (US Fed, Bank of Korea, Russia, Indonesia, Australia and India) are also on an easing cycle to give the desired impetus to growth.

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Markets

- **Bonds:** Except India, global yields closed lower as central banks of major economies are on a path of monetary easing to support growth. US 10Y yield fell by 2bps (1.71%). Crude prices continued to decline by (-) 4.6% (US\$ 56/bbl) amidst build-up in US inventories. India's 10Y yield closed higher by 3bps (6.37%) as investors were uncertain about the extent and timing of future rate cuts. It is trading flat today.
- **Currency:** Except EUR and JPY, other global currencies closed lower. Concerns over global growth intensified as Central banks in India, NZ and Thailand cut rates. DXY fell by (-) 0.1%. INR depreciated by (-) 0.1% after RBI cut policy rate by 35bps. It opened higher today, in line with other Asian currencies.
- **Equity:** Barring European indices, other global indices ended lower as trade fears lingered on. Sensex dropped the most (-0.8%), followed by Shanghai Comp and Nikkei declining by (-) 0.3% each. The domestic market trimmed initial gains and ended in red after RBI lowered its growth forecast for FY20. However, it is trading higher today in line with Asian stocks.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	1.71	(2)	(30)	(34)	(77)	(125)
UK	0.49	(3)	(12)	(23)	(65)	(83)
Japan	(0.19)	(1)	(4)	(5)	(14)	(30)
Germany	(0.58)	(4)	(14)	(22)	(54)	(98)
India	6.37	3	0	(20)	(101)	(141)
China	3.05	(2)	(11)	(14)	(30)	(48)
2Y yields (Δ bps)						
US	1.61	2	(27)	(30)	(69)	(106)
UK	0.46	2	2	(10)	(29)	(28)
Japan	(0.23)	(1)	(3)	(3)	(7)	(12)
Germany	(0.86)	(4)	(8)	(12)	(24)	(26)
India	5.88	(6)	(14)	(28)	(86)	(161)
China#	2.52	(2)	(6)	(6)	(8)	(11)
Currencies (Δ %)						
EUR	1.1199	0	1.1	(0.1)	0.1	(3.5)
GBP	1.2143	(0.2)	(0.1)	(3.0)	(6.6)	(5.7)
JPY	106.27	0.2	2.3	2.3	3.5	4.2
AUD	0.6757	(0.1)	(1.3)	(3.1)	(3.3)	(9.1)
INR	70.89	(0.1)	(3.0)	(3.3)	(1.7)	(3.3)
CNY	7.0602	(0.5)	(2.6)	(2.6)	(4.1)	(3.3)
Equity & Other indices (Δ %)						
DOW	26,007	(0.1)	(3.2)	(2.9)	0.2	1.7
FTSE	7,199	0.4	(5.1)	(4.5)	(1.0)	(7.4)
DAX	11,650	0.7	(4.4)	(6.3)	(4.3)	(7.8)
NIKKEI	20,517	(0.3)	(4.7)	(4.9)	(5.0)	(9.4)
Shanghai Comp	2,769	(0.3)	(5.6)	(5.4)	(4.3)	0.9
SENSEX	36,691	(0.8)	(2.1)	(5.3)	(2.9)	(3.2)
Brent (USD/bbl)	56.23	(4.6)	(13.7)	(12.4)	(20.1)	(22.2)
Gold (USD/oz)	1,501	1.8	6.2	7.4	17.2	23.7
CRB Index	396.0	(0.7)	(1.8)	(1.4)	(4.4)	(6.8)
Rogers Agri Index	705.3	0	(2.1)	(4.5)	(0.5)	(13.8)
LIBOR (3M)*	2.19	(2)	(8)	(15)	(36)	(15)
INR 5Yr Swap*	6.38	(4)	(20)	(10)	(75)	(128)
India FII data (US\$ mn)						
	6 Aug	5 Aug	WTD	MTD	CYTD	FYTD
FII-Debt	(44.0)	(15.0)	(59.0)	(73.5)	2,580.4	2,035.8
FII-Equity	(263.6)	(308.6)	(572.2)	(1,157.5)	8,247.1	1,401.9

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

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