

MACRO DAILY

16 December 2021

Macro developments

- In order to boost the manufacturing sector, Union Cabinet has approved the PLI scheme for semiconductors worth Rs 760bn to be spread across 6-years. Under this, the government is expected to set up the entire ecosystem including design, fabrication, packaging, testing. Over 20 units are likely to be established in the next 2-years. An incentive of 50% on eligible expenditure and 4%-6% on net sales for the next 5-years will be given under the design scheme.
- US Fed remained hawkish and reduced the pace of its asset purchase program. It proposed that buying will be US\$ 60bn/month from Jan'22, versus current pace of US\$ 90bn. FOMC projection also reflected 3 rate hikes in CY22. Fed fund rate estimate (median) has been revised up to 0.9% in CY22 (from 0.3%) and 1.6% (from 1%) in CY23. Core PCE is expected to be elevated at 2.7% in CY22 and 2.3% in CY23 (above target). Separately, US retail sales moderated to 0.3% (est.: 0.8%) from 1.8% in Oct'21, dragged down by higher inflation expectations.
- Japan's exports rose by 20.5% in Nov'21 on a YoY basis (est. 21%), from 9.4% in Oct'21. Auto exports rose by 4.1%, registering the first increase in 3-months. Gains were also seen in export of steel, semiconductor equipment and chips. Imports rose much sharply by 43.8% from 26.7% in Oct'21, leading to a trade deficit of ₹ 954.8bn (highest since Jan'20). Separately, flash PMI for Dec'21, signaled moderation in both manufacturing (53.3 in Dec'21 from 54) and services (51.1 in Dec'21 from 53) activity, led by softening output and new orders growth.

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Markets

- **Bonds:** Except Japan and China (stable), global yields closed higher as Fed policy remained hawkish. US 10Y yield rose by 2bps (1.46%) followed by UK and Germany (+1bps each). Crude prices rose by 0.2% (US\$ 74/bbl) supported by decline in US inventories. India's 10Y yield rose a tad by 1bps (6.36%), taking global cues. It is trading at 6.37% today.
- **Currency:** Global currencies closed mixed. DXY fell by 0.1% even as Fed signalled faster than anticipated rate hikes. EUR and GBP rose by 0.3% and 0.2% respectively ahead of central bank meetings. INR depreciated sharply by 0.5% to a 20-month low amidst higher oil prices and FII outflows. It is trading further lower today, in line with other Asian currencies.
- **Equity:** Global indices ended mixed as investors monitored Fed's decision of dealing back its ultra-loose monetary policy. FTSE (0.7%) declined the most. Sensex (0.6%) too ended in red led by losses in real estate and IT stocks. However, it is trading higher 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	1.46	2	(6)	(10)	16	54
UK	0.74	1	(4)	(18)	(4)	46
Japan	0.05	0	0	(2)	2	4
Germany	(0.36)	1	(5)	(10)	(5)	21
India	6.36	1	2	0	20	47
China	2.88	0	(1)	(5)	(2)	(42)
2Y yields (Δ bps)						
US	0.66	1	(2)	15	45	55
UK	0.49	4	3	(4)	23	57
Japan	(0.10)	1	1	2	3	2
Germany	(0.68)	0	0	6	2	4
India	4.52	2	2	(4)	42	64
China	2.47	0	(4)	0	(5)	(44)
Currencies (Δ %)						
EUR	1.1289	0.3	(0.5)	(1.4)	(4.5)	(7.5)
GBP	1.3262	0.2	0.4	(1.1)	(4.2)	(1.8)
JPY	114.04	(0.3)	(0.3)	(0.1)	(4.3)	(10.2)
AUD	0.7169	0.9	0	(2.2)	(2.2)	(5.4)
INR	76.23	(0.5)	(1.0)	(2.4)	(3.7)	(3.6)
CNY	6.3675	0	(0.4)	0.2	1.0	2.5
Equity & Other indices (Δ %)						
Dow	35,927	1.1	0.5	(0.5)	3.2	19.1
FTSE	7,171	(0.7)	(2.3)	(2.4)	2.2	9.1
DAX	15,476	0.1	(1.3)	(3.8)	(0.9)	14.1
NIKKEI	28,460	0.1	(1.4)	(3.9)	(6.7)	6.4
Shanghai Comp	3,648	(0.4)	0.3	3.1	(0.2)	8.3
SENSEX	57,788	(0.6)	(1.5)	(4.8)	(1.6)	23.8
Brent (US\$/bbl)	73.88	0.2	(2.6)	(10.1)	(2.1)	44.6
Gold (US\$/oz)	1,777	0.3	(0.3)	(4.7)	(1.0)	(4.7)
CRB Index	566.5	(0.1)	(1.0)	(0.7)	1.6	29.7
Rogers Agri Index	1,153.7	(0.9)	(0.9)	(1.3)	7.3	38.3
LIBOR (3M)*	0.21	1	1	6	9	(3)
INR 5Y Swap*	5.65	0	(5)	(24)	(9)	38
India FII data (US\$ mn)						
	14 Dec	13 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	(95.4)	11.3	(84.0)	(415.4)	(332.1)	1,695.2
FII-Equity	(4.1)	(253.5)	(257.6)	(681.0)	4,821.5	(2,504.8)

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

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