

MACRO DAILY

05 January 2022

Macro developments

- India's services PMI dropped to 55.5 in Dec'21 from 58.1 in Nov'21. New orders rose at a slower pace (3-month low), as new export orders declined further. Domestic orders however held up. Given the current work load, employment fell marginally. Input cost pressures remained elevated (albeit at weakest pace in 3-months) and most survey respondents felt that rising prices and resurgence in domestic Covid-19 could dampen demand in the coming months.
- According to FADA, India's retail sales of passenger vehicles contracted at a much slower pace of 10.1% in Dec'21 from 19.4% in Nov'21. On the other hand, two-wheeler sales declined sharply by 19.9% in Dec'21 compared with 0.8% drop in Nov'21. This was on the back of high cost of ownership, subdued rural sentiment and work from home situation, thereby curtailing the need for a vehicle. FADA also noted that uncertainty due to the spread of Omicron, might have a negative impact on sales, going ahead.
- Global manufacturing PMI remained unchanged from Nov'21 at 54.2 in Dec'21, as faster growth in investment goods production was offset by weaker growth in consumer and intermediate goods industries. Production in EU improved the most. However, manufacturing activity in UK (57.9 in Dec'21 from 58.1 in Nov'21), Japan (54.3 from 54.5) and US (ISM index at 58.7 in Dec'21 versus 61.1) eased, as new exports softened. Resurgence in Covid-19 globally has hit demand and supplier delivery times.

Markets

- Bonds:** Except Germany (stable), global yields closed higher. UK's 10Y yield rose the most by 11bps (1.09%) as impact of Omicron is likely to be less severe on growth outlook. US 10Y yield rose by 2bps (1.65%) ahead of release of Fed minutes. Crude prices rose by 1.3% (US\$ 80/bbl), as OPEC+ stuck to its existing plan to lift output by 400,000bbl/day. India's 10Y yield rose by 6bps (6.52%), taking global cues. It is trading flat today.
- Currency:** Global currencies closed mixed. DXY rose by 0.1% in line with US 10Y yields ahead of FOMC minutes. JPY fell by 0.7% to a 4-year low. GBP gained by 0.4% as UK's manufacturing PMI was stronger than earlier estimate. INR depreciated by 0.4% as oil prices inched up. However, it is trading higher today, while other Asian currencies are trading mixed.
- Equity:** Barring Shanghai Comp, other global indices ended higher as fears around rapid spread of Omicron variant subsided. Amongst other indices, Sensex (1.1%) was the biggest gainer with power and banking stocks advancing the most. It is trading further higher today, while other Asian stocks are trading mixed.

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Fig 1 – Movement in key global asset classes

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	1.65	2	17	30	12	69
UK	1.09	11	16	34	0	88
Japan	0.09	2	3	4	3	8
Germany	(0.12)	0	11	27	7	46
India	6.52	6	4	15	26	69
China	2.79	2	(1)	(11)	(9)	(35)
2Y yields (Δ bps)						
US	0.76	3	1	17	48	64
UK	0.77	8	10	29	32	91
Japan	(0.09)	0	0	2	2	4
Germany	(0.61)	1	3	13	8	10
India**	4.38	1	(3)	3	31	104
China	2.36	(1)	(8)	(16)	(12)	(36)
Currencies (Δ %)						
EUR	1.1287	(0.1)	(0.2)	(0.2)	(2.7)	(8.2)
GBP	1.3530	0.4	0.7	2.2	(0.7)	(0.7)
JPY	116.16	(0.7)	(1.2)	(3.0)	(4.2)	(13.1)
AUD	0.7236	0.6	0.1	3.4	(0.8)	(6.7)
INR	74.56	(0.4)	0.1	0.8	(0.1)	(1.9)
CNY	6.3726	(0.3)	(0.1)	0.1	1.1	1.3
Equity & Other indices (Δ %)						
Dow	36,800	0.6	1.1	6.4	7.2	21.1
FTSE	7,505	1.6	1.8	5.4	6.0	13.5
DAX	16,153	0.8	1.2	6.5	6.3	18.3
NIKKEI	29,302	1.8	0.8	4.5	5.3	7.9
Shanghai Comp	3,632	(0.2)	0.1	0.7	1.8	2.9
SENSEX	59,856	1.1	3.4	3.7	0.2	23.6
Brent (US\$/bbl)	80.00	1.3	1.3	14.5	(3.1)	49.3
Gold (US\$/oz)	1,815	0.7	0.5	1.8	3.1	(6.9)
CRB Index	579.9	0.2	0.4	2.0	3.8	29.3
Rogers Agri Index	1,209.4	1.6	0.9	4.4	8.6	34.4
LIBOR (3M)*	0.21	(1)	(1)	2	9	(3)
INR 5Y Swap*	5.80	35	3	11	3	47
India FII data (US\$ mn)						
	3 Jan	31 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	(29.6)	3.9	(29.6)	(29.6)	(29.6)	472.6
FII-Equity	311.7	85.4	311.7	311.7	311.7	(3,253.5)

Source: Bloomberg, Bank of Baroda Research | *Indicates change in bps | **1Y yield

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