

MACRO DAILY

06 January 2022

Macro developments

- RBI reported that currency in circulation (CIC) declined by Rs 92.6bn and stood at Rs 29.9tn for the week ending 31 Dec 2021. Reserve money rose by 14.5% on a YoY basis, compared with 15.1% last year. On FYTD basis, reserve money increased by 5.6% against 9.7% increase, a year ago.
- US FOMC minutes for Dec'21 meeting indicated that members were gearing up for a “potentially faster pace of policy normalization”, in the wake of stronger economic outlook, higher inflation (5.7% in Nov'21), tight labour market and larger balance sheet. Members also indicated that balance sheet tapering would begin sometime after the first rate hike by the Fed. Market participants are expecting first rate hike by Fed in Mar'22. Separately, ADP reports showed that 807k jobs were added in Dec'21, significantly up from estimated 400k and 505k in Nov'21.
- Services activity in major economies moderated in Dec'21, however the pace of expansion remained robust. Services PMI in the Eurozone and Japan eased to 53.1 (55.9 in Nov'21) and 52.1 (53 in Nov'21) respectively. This was led by a decline in new orders. However while input and output cost inflation eased in the Eurozone, it continued to edge up in Japan. In the US, services PMI eased only marginally to 57 (57.2 in Nov'21) supported by growth in new orders. Input price inflation also rose to a record-high.

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Markets

- **Bonds:** Global yields closed mixed, with US (+6bps) and Germany's (+4bps) 10Y yield rising the most. Yields in US rose on the back of more hawkish Fed minutes. Crude prices rose by 1% (US\$ 81/bbl), even as OPEC+ stuck to agreed output target rise and US inventories fell owing to weak demand. India's 10Y yield fell a tad by 1bps (6.51%). It is trading much higher today at 6.55%, tracking Fed minutes and global cues.
- **Currency:** Except JPY (flat) and AUD (lower), other global currencies closed higher against the dollar. DXY fell by 0.1% even as FOMC minutes were more hawkish than anticipated. INR rose by 0.3% supported by global cues despite higher oil prices. However, it is trading lower today, in line with other Asian currencies.
- **Equity:** Barring Dow and Shanghai Comp, other global indices ended higher as fears over spread of Omicron variant subsided. On the other hand, Dow (1.1%) ended in red as investors monitored hawkish minutes by Fed. Sensex rose by 0.6%, led by banking and metal stocks. However, 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	1.71	6	16	36	18	67
UK	1.09	0	7	34	2	84
Japan	0.09	0	2	3	0	7
Germany	(0.08)	4	10	30	10	44
India	6.51	(1)	5	14	23	66
China	2.81	2	1	(10)	(7)	(33)
2Y yields (Δ bps)						
US	0.83	7	8	24	53	69
UK	0.76	(1)	6	29	29	90
Japan	(0.08)	0	(1)	3	2	2
Germany	(0.62)	(1)	1	12	7	8
India**	4.39	2	(1)	5	33	51
China	2.35	1	(7)	(16)	(13)	(33)
Currencies (Δ %)						
EUR	1.1314	0.2	(0.3)	0	(2.1)	(8.2)
GBP	1.3557	0.2	0.5	2.4	(0.2)	(0.4)
JPY	116.11	0	(1.0)	(2.9)	(4.2)	(12.7)
AUD	0.7221	(0.2)	(0.4)	3.1	(0.7)	(7.4)
INR	74.36	0.3	0.5	1.1	0.8	(1.7)
CNY	6.3639	0.1	0.1	0.2	1.3	1.5
Equity & Other indices (Δ %)						
Dow	36,407	(1.1)	(0.2)	5.3	5.8	18.1
FTSE	7,517	0.2	1.3	5.5	7.4	9.9
DAX	16,272	0.7	2.6	7.3	8.7	17.1
NIKKEI	29,332	0.1	1.5	4.6	6.6	8.4
Shanghai Comp	3,595	(1.0)	(0.1)	(0.3)	0.8	1.2
SENSEX	60,223	0.6	4.2	4.4	1.7	25.0
Brent (US\$/bbl)	80.80	1.0	2.0	15.6	(0.3)	48.8
Gold (US\$/oz)	1,810	(0.2)	0.3	1.5	2.7	(5.6)
CRB Index	583.9	0.7	1.0	2.7	4.4	30.3
Rogers Agri Index	1,205.9	(0.3)	(0.2)	4.1	8.1	33.7
LIBOR (3M)*	0.22	1	(1)	3	9	(2)
INR 5Y Swap*	5.80	0	2	11	(1)	39
India FII data (US\$ mn)						
	4 Jan	3 Jan	WTD	MTD	CYTD	FYTD
FII-Debt	(16.9)	(29.6)	(46.5)	(46.5)	(46.5)	455.7
FII-Equity	181.9	311.7	493.7	493.7	493.7	(3,071.6)

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

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