

## MACRO DAILY

21 December 2018

### Macro developments

- Government through supplementary grants has sought approval of fresh capital worth Rs 410bn for bank recap. This will enable to move 4-5 PSBs out of the PCA framework. Government had initially budgeted Rs 650bn through recap bonds in FY19, of which Rs 420bn still has to be allotted. With additional capital, sum of Rs 830bn will be spent for the remaining fiscal, thereby taking the total amount for bank recap to Rs 1060bn.
- BoE in its latest meeting kept policy rates unchanged at 0.75%, while reiterating concerns over Brexit. Loosening fiscal policy as announced in Budget CY18 will boost UK's GDP by 0.3%. Elsewhere, in Sweden and Thailand, the central bank raised policy rates for the 1st time in 7 years by 25bps each. Bank of Indonesia however, kept rates unchanged at 6%.
- Japan's cabinet has approved draft budget for FY19 (Apr'19-Mar'20) for ¥101.5tn (US\$ 902.3bn). The record high budget focuses on extra spending by the government to offset the impact of sales tax rise (to 10% vs 8% now) from Oct'19 onwards. The stimulus spending of ¥6.5tn is estimated to be higher than extra ¥5.6tn revenue from sales tax hike.

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### Markets

- Bonds:** Except US & India, global yields closed lower. This was driven by 5% decline in crude prices (US\$ 54/bbl) amid concerns of oversupply. US 10Y yields shot up by 5bps (2.81%) as markets were expecting more dovish approach from Fed. Indian 10Y yields rose by 6bps (7.28%) led by selling pressure from private banks & MFs. It was trading lower at 7.27% today.
- Currency:** Except AUD which closed flat, other global currencies closed higher as dollar weakened. DXY fell by (-) 0.8% to the lowest in a month after the Fed sounded caution on the economic outlook and signalled fewer rate hikes in CY19. INR appreciated by 1% on the back of lower oil prices (-5%) and FII inflows. However, it opened lower today.
- Equity:** Global indices closed lower with Nikkei (-2.8%) and Dow (-2%) losing the most. Investors' sentiments remained cautious after the Fed signalled two more rate hikes in CY19 despite a gloomier economic outlook. Further, fears of US government shutdown also spooked investors. Sensex ended lower by (-) 0.1% tracking weakness in global equity markets. It opened lower today, in line with other Asian markets.



**FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES**

Particulars	Current	1D	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>						
US	2.81	5	(11)	(26)	(26)	31
UK	1.27	(1)	(2)	(12)	(32)	2
Japan	0.03	(1)	(3)	(8)	(10)	(3)
Germany	0.23	(1)	(6)	(12)	(24)	(18)
India	7.28	6	(13)	(52)	(80)	6
China	3.34	(2)	(2)	(6)	(36)	(58)
<b>2Y yields (Δ bps)</b>						
US	2.67	2	(9)	(13)	(13)	81
UK	0.74	1	(4)	3	(10)	27
Japan	(0.15)	1	0	0	(4)	0
Germany	(0.60)	1	(2)	(1)	(7)	7
India	6.90	2	(8)	(44)	(105)	47
China#	2.67	17	12	(22)	(18)	(111)
<b>Currencies (Δ %)</b>						
EUR	1.1446	0.6	1	0.7	(2.8)	(3.6)
GBP	1.2656	0.4	0.1	(1.0)	(4.6)	(5.4)
JPY	111.28	1.1	2.1	1.3	1.1	1.9
AUD	0.7108	0	(1.6)	(1.5)	(2.5)	(7.3)
INR	69.71	1.0	2.8	2.5	3.7	(8.7)
CNY	6.8850	0.1	0	0.9	(0.6)	(4.7)
<b>Equity &amp; Other indices (Δ %)</b>						
DOW	22,860	(2.0)	(7.1)	(6.6)	(14.2)	(7.6)
FTSE	6,712	(0.8)	(2.4)	(3.4)	(8.9)	(10.8)
DAX	10,611	(1.4)	(2.9)	(4.1)	(13.9)	(18.8)
NIKKEI	20,393	(2.8)	(6.5)	(5.5)	(13.9)	(10.9)
Shanghai Comp	2,536	(0.5)	(3.7)	(4.1)	(7.1)	(22.9)
SENSEX	36,432	(0.1)	1.4	2.7	(1.9)	7.9
Brent (USD/bbl)	54.35	(5.0)	(11.6)	(13.1)	(30.9)	(15.8)
Gold (USD/oz)	1,260	1.3	1.4	3.1	4.4	(0.5)
CRB Index	411.7	(0.2)	(1.1)	(1.2)	(0.4)	(4.4)
Rogers Agri Index	768.5	(0.5)	(1.7)	0.1	0	(3.5)
LIBOR (3M)*	2.79	0	1	14	42	113
INR 5Yr Swap*	7.17	3	(7)	(41)	(51)	61
<b>India** FII data (US\$ mn)</b>						
	<b>19 Dec</b>	<b>18 Dec</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	172.7	53.9	224.9	452.8	(7,119.4)	(7,365.3)
FII-Equity	144.9	(47.9)	68.8	518.0	(4,371.8)	(6,497.3)

Source: Bloomberg, Bank of Baroda | #1 year yield is taken, \*Indicates change in bps

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