

MACRO DAILY

02 July 2021

Macro developments

- RBI's Financial Stability Report reiterated impact of second wave on economy in-line with its revised GDP projection of 9.5% for FY22. GNPA ratio of SCBs under the baseline scenario is expected to increase to 9.8% of loans in Mar'22 led by retail loans. Notably, in the previous report, RBI had predicted GNPA ratio at 13.5% in Sep'21. Under severe stress, GNPA ratio can increase to 11.2% in Mar'22.
- India's manufacturing PMI slid into contraction for the first time in 11 months to 48.1 in Jun'21 from 50.8 in May'21. This was on the back of second wave of Covid-19 pandemic and statewide lockdown restrictions which resulted in contractions across, production, exports, factory orders and quantities of purchases. Both business optimism and employment index dropped further. However, the only silver lining was lower rate of inflation (joint lowest in 5-months), despite the increase in input cost.
- US ISM manufacturing PMI eased a tad to 60.6 in Jun'21 from 61.2 in May'21, due to dip in new orders (66 versus 67). While domestic orders slowed down, new export orders continued to increase (56.2 versus 55.4). Backlog of orders fell sharply (64.5 versus 70.6) and employment too eased. Separately, initial jobless claims for the week ended 26 Jun 2021 fell by 51,000 to 364,000. The 4-week moving average also fell by 6,000 to 392,750 (lowest since 14 Mar 2020).

Markets

- **Bonds:** Global yields closed mixed. US 10Y yield fell by 1bps (1.46%) ahead of jobs data. Germany's 10Y yield rose by 1bps (-0.2%) as manufacturing PMI remained buoyant. Crude prices rose by 0.9% (US\$ 76/bbl) as OPEC+ delayed its meeting on supply policy. India's 10Y yield fell by 1bps (6.04%) on hopes of RBI's OMO announcement.
- **Currency:** Global currencies closed lower against the dollar. DXY rose for the 7th straight session and was up by 0.2% as CBO and IMF upgraded US growth forecast. AUD fell by 0.4% as major Australian cities remained under strict lockdown. INR depreciated by 0.3% to a near 2-month low amidst higher oil prices. It is trading further lower today, in line with other Asian currencies.
- **Equity:** Global indices ended mixed. European indices and Dow ended in green led by strong data print (Euro Area PMI and lower US jobless claims). However, both Nikkei and Sensex fell by 0.3% each. The drop in domestic market was led by sharp losses in power and technology stocks. It is trading lower today in line with other Asian stocks.

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Fig 1 – Movement in key global asset classes

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	1.46	(1)	(3)	(14)	(21)	79
UK	0.73	1	(1)	(7)	(7)	54
Japan	0.04	(2)	(1)	(5)	(7)	1
Germany	(0.20)	1	(1)	(1)	13	23
India	6.04	(1)	3	2	(13)	20
China	3.09	0	0	2	(10)	23
2Y yields (Δ bps)						
US	0.25	0	(2)	11	9	10
UK	0.07	1	0	1	(1)	16
Japan	(0.11)	(2)	(1)	1	0	0
Germany	(0.67)	(1)	(2)	(1)	4	1
India	4.55	(4)	3	28	(12)	38
China	2.31	(5)	(10)	(5)	(21)	22
Currencies (Δ %)						
EUR	1.1850	(0.1)	(0.7)	(3.1)	0.6	5.4
GBP	1.3767	(0.5)	(1.1)	(3.1)	(0.5)	10.4
JPY	111.53	(0.4)	(0.6)	(1.8)	(0.8)	(3.7)
AUD	0.7470	(0.4)	(1.5)	(3.4)	(1.9)	7.9
INR	74.56	(0.3)	(0.5)	(2.7)	(2.0)	0.6
CNY	6.4691	(0.2)	0	(1.6)	1.5	8.5
Equity & Other indices (Δ %)						
Dow	34,634	0.4	1.3	0.3	4.5	34.1
FTSE	7,125	1.2	0.2	1.5	5.8	14.2
DAX	15,604	0.5	0.1	1.2	3.3	23.8
NIKKEI	28,707	(0.3)	(0.6)	(0.5)	(2.3)	29.6
Shanghai Comp	3,589	(0.1)	0.6	(0.7)	3.5	16.1
SENSEX	52,319	(0.3)	(0.7)	0.7	4.6	46.0
Brent (US\$/bbl)	75.84	0.9	0.4	9.4	16.9	75.8
Gold (US\$/oz)	1,777	0.4	0.1	(6.8)	2.7	0.1
CRB Index	554.3	(0.3)	0.1	1.0	9.8	53.7
Rogers Agri Index	1,059.6	(0.2)	3.2	0.5	12.7	55.4
LIBOR (3M)*	0.15	0	0	1	(5)	(16)
INR 5Y Swap*	5.71	(3)	3	(3)	(14)	41
India FII data (US\$ mn)						
	30 Jun	29 Jun	WTD	MTD	CYTD	FYTD
FII-Debt	(3.1)	(66.0)	(71.5)	(586.2)	(3,166.8)	(1,139.5)
FII-Equity	(150.7)	443.3	284.6	1,498.1	8,084.2	757.8

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

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