

MACRO DAILY

13 February 2019

Macro developments

- CPI surprised positively at 2.1% vs est.: 2.5%. This was led by 30bps decline in core to 5.4%. It was quite broad-based with major dip seen in transport & communication component. Food prices outlook is benign. IIP growth on the other hand, inched up to 2.4% in Dec'18 led by infra, capital and FMCG sectors. Jan'19 PMI shows the trend may sustain. We thus believe MPC to cut rate by another 25bps in Apr'19.
- EIA has revised its demand growth & oil price forecast downwards in its report for Feb'19. Global oil consumption is expected to average 101.4mn bbl/day (101.5mn in Jan'19) and 102.9mn bbl/day (103mn bbl/day in Jan'19) in CY19 and CY20 respectively. Brent (US\$62/bbl) prices have also been lowered by US\$3/bbl from last month's estimate.
- Japan's machinery orders rose by 8.3% in Nov'18 on a MoM basis vs 19.5% in Oct'18. The slowdown was led by private sector manufacturing orders, which fell from 12.3% in Oct'18 to (-) 6.4% in Nov'18. Within manufacturing, the decline was most visible in ICE equipment, automobile parts and other transport equipment.

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Markets

- **Bonds:** Global yields closed higher amid optimism over US-China trade deal. US 10Y yield rose by 3bps (2.69%) over progress in border security funding. Crude prices rose by 1.5% (US\$ 62/bbl). 7.17GS2028 closed stable at 7.53% ahead of the inflation data. 7.26GS2029 also closed flat at 7.36%. It was trading quite lower at 7.28% supported by lower than expected CPI in Jan '19.
- **Currency:** Barring JPY, other global currencies closed higher as dollar weakened. DXY fell by (-) 0.4% after gaining for eight straight session as progress in US-China trade deal boosted demand for other assets. INR appreciated by 0.7% even as crude prices inched up. It was trading even higher today after data showed that CPI inflation eased further in Jan'19.
- **Equity:** Except Sensex, other global indices rallied on reports of progress on US-China trade deal and a tentative agreement to avoid another US government shutdown. Nikkei (2.6%) and Dow (1.5%) gained the most. Sensex fell for 4th straight session on the back of FII and DII outflows. Asian markets including Sensex were trading higher today.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.69	3	(1)	(1)	(45)	(14)
UK	1.19	1	(5)	(11)	(34)	(43)
Japan	(0.01)	2	0	(3)	(13)	(8)
Germany	0.13	1	(4)	(10)	(28)	(62)
India#	7.53	0	(8)	10	(23)	4
China	3.08	(3)	(7)	(6)	(41)	(82)
2Y yields (Δ bps)						
US	2.51	2	(2)	(3)	(39)	40
UK	0.73	0	(2)	(9)	(7)	3
Japan	(0.16)	0	0	(1)	(2)	(1)
Germany	(0.57)	1	0	3	0	1
India	6.72	(1)	(24)	(25)	(69)	(14)
China	2.61	1	2	(15)	(50)	(97)
Currencies (Δ %)						
EUR	1.1326	0.4	(0.7)	(1.2)	0.3	(8.3)
GBP	1.2892	0.3	(0.4)	0.2	(0.7)	(7.2)
JPY	110.48	(0.1)	(0.5)	(2.1)	2.9	(2.5)
AUD	0.7095	0.5	(1.9)	(1.4)	(1.7)	(9.7)
INR	70.67	0.7	1.3	0.4	2.8	(10.3)
CNY	6.7740	0.3	(0.4)	(0.1)	2.6	(6.8)
Equity & Other indices (Δ %)						
DOW	25,426	1.5	0.1	6.3	0.6	3.2
FTSE	7,133	0.1	(0.6)	4.1	1.1	(0.5)
DAX	11,126	1.0	(2.1)	2.5	(3.0)	(8.8)
NIKKEI	20,864	2.6	0.1	1.5	(4.3)	(1.8)
Shanghai Comp	2,672	0.7	2.0	5.4	0.6	(16.1)
SENSEX	36,154	(0.7)	(1.3)	0.8	2.9	5.8
Brent (USD/bbl)	62.42	1.5	0.7	5.8	(4.7)	(0.5)
Gold (USD/oz)	1,311	0.2	(0.3)	1.5	9.0	(1.4)
CRB Index	411.8	0.1	(0.6)	(0.2)	(0.5)	(6.3)
Rogers Agri Index	768.0	0.5	(1.6)	(0.1)	0	(7.3)
LIBOR (3M)*	2.70	0	(4)	(8)	8	86
INR 5Yr Swap*	7.05	(1)	(18)	(11)	(58)	(0)
India FII data (US\$ mn)						
	11 Feb	8 Feb	WTD	MTD	CYTD	FYTD
FII-Debt	(60.1)	301.2	(60.1)	(135.2)	(502.4)	(7,493.0)
FII-Equity	(56.9)	113.9	(56.9)	409.9	334.5	(6,348.4)

Source: Bloomberg, Bank of Baroda | *Indicates change in bps, # 7.17 GS 2028 security is taken

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