

## MACRO DAILY

02 June 2020

### Macro developments

- Moody's has downgraded India's sovereign rating to its lowest investment grade for the first time in 22 years. Now the rating stands at Baa3 from Baa2, with a negative outlook. This was on the back of government missing its fiscal deficit target and growth slowdown from COVID-19. Moody's expect GDP to contract by 4% in FY21. It also expects debt-GDP ratio to shoot up to 84% in FY20, against 72% estimated earlier.
- India's manufacturing PMI inched up to 30.8 in May'20 from 27.4 in Apr'20, contracting for second consecutive month. Led by weakness in demand, new orders continued to decline, however the pace has softened. Additionally, subdued demand from international markets added to the growing concerns, as uncertainty looms over the impact of COVID-19.
- Euro Zone manufacturing PMI improved to 39.4 in May'20 from a 22-year low of 33.4 in Apr'20, as lockdown restrictions were lifted. In US too, ISM manufacturing index improved to 43.1 from an 11-year low at 41.5 in Apr'20. However, the index still remains in contraction globally. In Asia manufacturing PMIs in Japan and S. Korea fell to their lowest since CY09.

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### Markets

- Bonds:** Global yields closed higher, impacted by marginal improvements in US and European PMI. US 10Y yield rose by 1bps (0.66%). Crude prices jumped 8.5% (US\$ 38/bbl) on hopes of revival in demand. India's 10Y yield rose by 3bps (6.04%) amidst fiscal concerns. It is trading higher today at 6.06% following Moody's downgrade.
- Currency:** Global currencies closed higher as easing lockdown restrictions raised hopes of a possible economic recovery. Manufacturing PMIs of major economies too improved from multi-year lows. DXY fell by 0.5%. AUD and GBP rose by 2% and 1.2% respectively. INR rose by 0.1%. It is trading lower today in line with other Asian currencies.
- Equity:** Global indices ended higher led by hopes of recovery as countries began to reopen after easing lockdown restrictions. Sensex (2.7%) surged the most followed by Shanghai Comp (2.2%) and FTSE (1.5%). The gains in domestic market was led by phased reopening of the economy, with consumer durables stocks advancing the most. It is trading higher today while other Asian stocks are trading mixed.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>						
US	0.66	1	0	5	(50)	(141)
UK	0.23	5	6	(2)	(18)	(63)
Japan	0.01	1	1	3	13	11
Germany	(0.40)	5	9	18	22	(20)
India	6.04	3	8	(7)	(31)	(94)
China	2.74	4	8	22	(1)	(53)
<b>2Y yields (Δ bps)</b>						
US	0.16	0	(1)	(3)	(75)	(168)
UK	(0.01)	4	5	(5)	(27)	(58)
Japan	(0.12)	3	2	2	12	6
Germany	(0.65)	1	3	11	17	(1)
India	4.44	5	1	(12)	(112)	(196)
China	1.62	6	21	49	(35)	(91)
<b>Currencies (Δ %)</b>						
EUR	1.1136	0.3	2.2	1.4	0	(0.9)
GBP	1.2492	1.2	2.5	(0.1)	(2.1)	(1.4)
JPY	107.59	0.2	0.1	(0.6)	0.7	0.4
AUD	0.6798	2.0	3.9	5.9	4.0	(2.6)
INR	75.55	0.1	0.2	(0.6)	(3.9)	(9.1)
CNY	7.1278	0.1	0.1	(0.9)	(2.4)	(3.2)
<b>Equity &amp; Other indices (Δ %)</b>						
Dow	25,475	0.4	4.1	7.4	(4.6)	2.6
FTSE	6,166	1.5	2.9	7.0	(7.3)	(14.2)
DAX	11,587	(1.6)	1.7	6.7	(2.3)	(1.7)
NIKKEI	22,062	0.8	6.4	12.5	3.4	8.1
Shanghai Comp	2,915	2.2	3.5	1.9	(1.9)	0.9
SENSEX	33,304	2.7	8.6	(1.2)	(12.7)	(17.3)
Brent (US\$/bbl)	38.32	8.5	7.9	44.9	(26.2)	(37.5)
Gold (US\$/oz)	1,740	0.5	0.4	2.3	9.4	31.3
CRB Index	367.8	0.2	0.6	4.1	(7.6)	(11.6)
Rogers Agri Index	670.6	0.2	1.4	2.6	(5.7)	(11.2)
LIBOR (3M)*	0.34	(1)	(3)	(20)	(91)	(213)
INR 5Y Swap*	5.15	2	2	(7)	(94)	(141)
<b>India FII data (US\$ mn)</b>						
	<b>29 May</b>	<b>28 May</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	19.3	(51.7)	(342.1)	(2,711.6)	(14,055.3)	(4,295.8)
FII-Equity	159.3	263.5	1,032.8	1,719.0	(4,914.5)	1,688.4

Source: Bloomberg, Bank of Baroda | \*Indicates change in bps| Note: Markets in Germany were closed on 1 Jun 2020

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