

MACRO DAILY

21 June 2019

Macro developments

- RBI released minutes of its 6 Jun meeting, confirming that significant undershoot of Q4 growth to a 20-quarter low of 5.8%, drove the MPC members to cut policy rate by 25bps. The need to improve transmission to reduce real interest rates, benign outlook on core inflation and recent decline in oil prices, guided change in stance to accommodative. In our view, global and domestic growth slowdown calls for another 25bps rate cut.
- US initial jobless claims for the week ending 15 Jun fell to 216,000 from 222,000 in the previous week. The 4-week average however inched up slightly from 217,750 to 218,750 in the same period. The data point towards continuing strength in the labour market despite concerns of lay-off arising due to heightened trade tensions and slowing economic growth.
- Bank of England in its latest policy held bank rate steady at 0.75%. However it signalled that slightly tight monetary policy may be forthcoming to maintain price stability, as wages have been growing at the fastest pace in a decade. Growth concerns were also expressed (growth forecast has been revised downward to 0% from 0.2% earlier for Q2CY19) on account of muted global environment and uncertainties over Brexit.

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Markets

- **Bonds:** Except China, global yields closed lower amidst benign global growth outlook. US 10Y yield fell by 2bps (2.01%) over dovish outlook by Fed on future course of interest rate. Crude prices increased by 4.3% (US\$ 64/bbl) amidst rising tensions in Middle East. India's 10Y yield closed lower by 5bps (6.79%) ahead of the release of RBI's minutes. It was trading at 6.83% today.
- **Currency:** Global currencies closed higher as Fed signalled its willingness to reduce rates in the near term to boost growth. DXY fell by (-) 0.5%. INR strengthened by 0.4%, however it opened weaker today as crude prices surged led by tensions in Middle East. Asian currencies on the other hand are trading higher today.
- **Equity:** Buoyed by a possibility of a rate cut by Fed in CY19, global indices closed higher. Shanghai Comp surged by 2.4% followed by Sensex (1.2%) and Dow (0.9%). Both Asian markets and Sensex are trading lower today led by muted global cues as tensions in Middle East continue to linger.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.01	(2)	(8)	(41)	(53)	(89)
UK	0.81	(6)	(3)	(25)	(26)	(47)
Japan	(0.17)	(3)	(5)	(12)	(13)	(21)
Germany	(0.32)	(3)	(8)	(23)	(36)	(65)
India	6.79	(5)	(22)	(50)	(54)	(98)
China	3.26	0	(2)	(2)	13	(35)
2Y yields (Δ bps)						
US	1.78	4	(6)	(44)	(63)	(76)
UK	0.57	(5)	(1)	(14)	(13)	(16)
Japan	(0.23)	(2)	(4)	(8)	(8)	(10)
Germany	(0.76)	(2)	(8)	(11)	(21)	(9)
India	6.19	(2)	(9)	(42)	(41)	(124)
China	2.68	(2)	11	11	28	(60)
Currencies (Δ %)						
EUR	1.1293	0.6	0.2	1.1	(0.7)	(2.7)
GBP	1.2702	0.5	0.2	(0.2)	(3.1)	(4.1)
JPY	107.30	0.7	1.0	2.5	3.2	2.4
AUD	0.6923	0.6	0.1	0.2	(2.7)	(6.2)
INR	69.44	0.4	0.1	0.4	(0.7)	(2.1)
CNY	6.8519	0.7	1.0	0.9	(2.3)	(5.5)
Equity & Other indices (Δ %)						
DOW	26,753	0.9	2.5	4.2	3.0	9.4
FTSE	7,424	0.3	0.8	1.6	0.9	(1.7)
DAX	12,355	0.4	1.5	2.6	7.0	(1.3)
NIKKEI	21,463	0.6	2.0	0.8	(0.8)	(5.4)
Shanghai Comp	2,987	2.4	2.6	4.1	(3.7)	3.9
SENSEX	39,602	1.2	(0.4)	0.6	3.8	11.8
Brent (USD/bbl)	64.45	4.3	5.1	(10.4)	(5.0)	(11.8)
Gold (USD/oz)	1,388	2.1	3.4	8.7	6.0	9.6
CRB Index	411.8	0	(0.3)	(0.4)	(2.8)	(7.3)
Rogers Agri Index	762.4	0.4	0	5.4	(0.2)	(5.0)
LIBOR (3M)*	2.39	0	(2)	(14)	(22)	5
INR 5Yr Swap*	6.59	(23)	(20)	(29)	(5)	(93)
India FII data (US\$ mn)						
	19 Jun	18 Jun	WTD	MTD	CYTD	FYTD
FII-Debt	115.4	(26.0)	59.7	1,062.6	1,298.3	753.7
FII-Equity	(3.2)	9.5	(40.0)	8.5	11,198.4	4,353.2

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

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