

MACRO DAILY

22 August 2019

Macro developments

- RBI minutes revealed that MPC has kept room open for further reduction in rates as economic activity continues to decelerate. A benign inflation outlook favours lower real rates. We believe there is room for another 40bps cut in policy rates (110bps in CYTD19). However, focus will be on transmission, particularly, for new loans linked to external benchmark to ensure lower lending rates which will incentivize consumers/ firms to invest.
- RBI reported that currency in circulation increased by Rs 46bn (on a weekly basis) and stood at Rs 21.9tn as on 16 Aug 2019. Overall reserve money increased by 13.6% on a YoY basis vs 19.4% a year ago. On FYTD basis, reserve money has risen by 1% against 1.9% in the previous year.
- US FOMC minutes highlighted that the current 25bps reduction in policy rate was a part of “recalibration of the stance of policy”. The mid-cycle adjustment was guided by muted growth outlook (especially business investment and manufacturing) and ongoing trade tensions. Few of the FOMC members also preferred a 50bps cut at the current juncture when inflation is also softening and global central banks are on a path of easing.

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Markets

- **Bonds:** Except Japan and India, global yields closed higher. US 10Y yield rose by 3bps (1.59%) as FOMC minutes justified the rate cut as a mid-cycle adjustment. Crude prices rose by 0.4% (US\$ 60/bbl). India’s 10Y yield fell by (-) 2bps (6.57%). It is trading lower today at 6.56% as MPC minutes sounded dovish on future course of rates.
- **Currency:** Global currencies closed mixed. DXY rose by 0.1% as investors await comments from Fed Chair’s speech at the Jackson Hole meet and the Group of Seven meeting over the weekend. INR rose by 0.2%. It opened lower today in line with other Asian currencies.
- **Equity:** Barring Nikkei and Sensex, other global indices ended higher with European stocks gaining the most. Dow jumped 0.9%, supported by strong earnings. Sensex fell by (-) 0.7% as growth concerns dragged auto and banking stocks down. It is trading further lower today, while Asian stocks are trading mixed.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	1.59	3	1	(46)	(79)	(123)
UK	0.48	3	3	(23)	(54)	(79)
Japan	(0.24)	0	(2)	(10)	(18)	(34)
Germany	(0.67)	2	(2)	(32)	(58)	(101)
India	6.57	(2)	(6)	15	(69)	(126)
China	3.06	3	4	(9)	(26)	(58)
2Y yields (Δ bps)						
US	1.57	6	0	(24)	(65)	(102)
UK	0.51	2	5	1	(18)	(21)
Japan	(0.30)	(1)	(3)	(10)	(15)	(18)
Germany	(0.89)	2	(1)	(11)	(26)	(30)
India	5.84	(1)	0	(23)	(74)	(174)
China	2.52	0	(3)	(7)	(9)	(27)
Currencies (Δ %)						
EUR	1.1085	(0.1)	(0.5)	(1.1)	(0.6)	(4.4)
GBP	1.2130	(0.3)	0.6	(2.8)	(4.2)	(6.0)
JPY	106.62	(0.4)	(0.7)	1.2	3.4	3.6
AUD	0.6781	0	0.5	(3.6)	(1.5)	(7.7)
INR	71.56	0.2	(0.4)	(3.8)	(2.7)	(2.5)
CNY#	7.0627	0	(0.6)	(2.6)	(2.3)	(3.2)
Equity & Other indices (Δ %)						
Dow	26,203	0.9	2.8	(3.6)	1.7	1.8
FTSE	7,204	1.1	0.8	(4.1)	(1.8)	(4.9)
DAX	11,803	1.3	2.7	(4.0)	(3.0)	(4.7)
NIKKEI	20,619	(0.3)	(0.2)	(3.7)	(3.1)	(7.8)
Shanghai Comp	2,880	0	2.5	(0.2)	(0.4)	6.1
SENSEX	37,060	(0.7)	(0.7)	(2.6)	(5.2)	(3.2)
Brent (US\$/bbl)	60.30	0.4	1.4	(4.7)	(15.1)	(19.4)
Gold (US\$/oz)	1,503	(0.3)	(0.9)	5.5	18.0	25.7
CRB Index	395.9	0.1	(0.4)	(2.4)	(4.3)	(4.3)
Rogers Agri Index	688.0	0.3	(0.5)	(6.1)	(4.8)	(13.0)
LIBOR (3M)*	2.15	0	(2)	(13)	(38)	(16)
INR 5Y Swap*	6.28	(6)	(9)	(17)	(66)	(120)
India FII data (US\$ mn)						
	20 Aug	19 Aug	WTD	MTD	CYTD	FYTD
FII-Debt	264.7	214.5	479.2	468.3	3,387.0	2,842.4
FII-Equity	(57.0)	(37.2)	(94.1)	(1,131.9)	8,215.7	1,370.5

Source: Bloomberg, Bank of Baroda | *Indicates change in bps | #1Y yield as of 9 Aug 2019

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