

## MACRO DAILY

25 July 2019

### Macro developments

- Indian government has approved creation of sugar buffer stock of 4mn tonne in order to address the bumper crop production and pending cane arrears of over Rs 15.2bn. The move is likely to cost Rs 16.7bn to the exchequer and is expected to not only stabilize sugar prices, but also maintain the demand-supply balance. Last year too, buffer stock of 3mn tonne was created with a cost of Rs 11.7bn.
- Flash manufacturing PMIs show manufacturing activity faltering with US PMI hitting 119th month low in Jul'19 (48.9). Eurozone manufacturing PMI also fell to its 79-month low (46.4 in Jul'19 vs 47.6 in Jun'19). In Japan as well, similar trend was seen on the back of slowdown in global growth, trade war concerns and Brexit woes.
- US new home sales rose by 7% on a MoM basis in Jun'19 vs (-) 8.2% in May'19. However, the data is to be read with caution as numbers for the previous 3 months were revised downward. Apart from this, in Q2CY19 sales have risen by only 0.6% on a YoY basis vs 4.2% rise in Q1, implying real estate sector may pose a drag to Q2 GDP growth.

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### Markets

- Bonds:** Except China, global yields closed lower amidst slowdown in global growth as visible from the flash PMI readings of major economies. Investors also awaited ECB's policy decision expecting monetary easing. US 10Y yield fell by 4bps (2.04%). Crude prices declined by (-) 1% (US\$ 63/bbl) on concerns of weaker demand. India's 10Y yield closed lower by 3bps (6.44%) taking global cues. It is trading stable today.
- Currency:** Global currencies closed mixed. EUR depreciated by (-) 0.1% after weaker than expected PMI reading for the Eurozone. GBP rose by 0.4% after the new UK PM promised to meet the 31 Oct deadline for Brexit. INR declined by (-) 0.1% led by FII outflows. It opened further lower today, while other Asian currencies are trading mixed.
- Equity:** Global indices ended mixed as investors awaited ECB rate decision. Weaker PMI print for Eurozone added to these woes. Sensex ended the day lower (-0.4%) as IMF slashed India's growth forecast. However, it is trading higher today, while 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                                      | 2.04          | (4)           | 0          | 3          | (48)        | (93)        |
| UK                                      | 0.68          | (1)           | (8)        | (14)       | (50)        | (60)        |
| Japan                                   | (0.15)        | (1)           | (3)        | 1          | (11)        | (22)        |
| Germany                                 | (0.38)        | (2)           | (9)        | (7)        | (37)        | (77)        |
| India                                   | 6.44          | (3)           | 9          | (41)       | (99)        | (135)       |
| China                                   | 3.17          | 1             | (1)        | (8)        | (26)        | (40)        |
| <b>2Y yields (Δ bps)</b>                |               |               |            |            |             |             |
| US                                      | 1.82          | (2)           | 1          | 9          | (50)        | (85)        |
| UK                                      | 0.48          | (1)           | (6)        | (11)       | (27)        | (28)        |
| Japan                                   | (0.20)        | 0             | (2)        | 3          | (5)         | (8)         |
| Germany                                 | (0.78)        | 0             | (3)        | (4)        | (19)        | (18)        |
| India                                   | 6.09          | 2             | 0          | (12)       | (67)        | (143)       |
| China**                                 | 2.58          | 0             | (1)        | (6)        | (10)        | (45)        |
| <b>Currencies (Δ %)</b>                 |               |               |            |            |             |             |
| EUR                                     | 1.1140        | (0.1)         | (0.7)      | (2.3)      | (0.1)       | (5.0)       |
| GBP                                     | 1.2484        | 0.4           | 0.4        | (2.0)      | (3.2)       | (5.3)       |
| JPY                                     | 108.19        | 0             | (0.2)      | (0.8)      | 3.6         | 2.5         |
| AUD                                     | 0.6977        | (0.4)         | (0.5)      | 0.2        | (0.5)       | (6.4)       |
| INR                                     | 68.98         | (0.1)         | (0.2)      | 0.5        | 1.3         | (0.3)       |
| CNY                                     | 6.8719        | 0.1           | 0          | 0.1        | (2.2)       | (1.5)       |
| <b>Equity &amp; Other indices (Δ %)</b> |               |               |            |            |             |             |
| DOW                                     | 27,270        | (0.3)         | 0.2        | 2.0        | 2.5         | 7.3         |
| FTSE                                    | 7,501         | (0.7)         | (0.5)      | 1.1        | 0.4         | (2.0)       |
| DAX                                     | 12,523        | 0.3           | 1.5        | 2.0        | 1.7         | (0.4)       |
| NIKKEI                                  | 21,710        | 0.4           | 1.1        | 2.0        | (2.2)       | (4.0)       |
| Shanghai Comp                           | 2,923         | 0.8           | (0.3)      | (2.8)      | (8.7)       | 0.7         |
| SENSEX                                  | 37,848        | (0.4)         | (3.5)      | (3.3)      | (3.1)       | 2.7         |
| Brent (USD/bbl)                         | 63.18         | (1.0)         | (0.8)      | (2.6)      | (15.3)      | (14.5)      |
| Gold (USD/oz)                           | 1,426         | 0.6           | 0          | 0.4        | 11.8        | 15.8        |
| CRB Index                               | 407.4         | 0             | 0.8        | (1.1)      | (3.3)       | (5.9)       |
| Rogers Agri Index                       | 737.2         | 0.3           | 0.1        | (3.1)      | 1.6         | (9.0)       |
| LIBOR (3M)*                             | 2.28          | (1)           | (2)        | (6)        | (31)        | (6)         |
| INR 5Yr Swap*                           | 6.51          | 5             | 5          | (3)        | (67)        | (119)       |
| <b>India FII data (US\$ mn)</b>         |               |               |            |            |             |             |
|   | <b>23 Jul</b> | <b>22 Jul</b> | <b>WTD</b> | <b>MTD</b> | <b>CYTD</b> | <b>FYTD</b> |
| FII-Debt                                | 9.1           | (76.7)        | (67.6)     | 1,130.7    | 2,559.0     | 2,014.4     |
| FII-Equity                              | (398.0)       | (279.5)       | (677.5)    | (1,873.1)  | 9,465.8     | 2,620.6     |

Source: Bloomberg, Bank of Baroda | \*Indicates change in bps, \*\* as on 16.07.2019.

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