

MACRO DAILY

27 September 2019

Macro developments

- RBI's working group on Liquidity Management Framework has suggested to continue with the corridor system (call: target rate, repo: policy rate). This would require system liquidity to be in a small deficit of 0.25-0.5% of NDTL. However, framework should be adaptable to surplus liquidity situations. It has also recommended introduction of longer-term repo operations up to one-year for durable liquidity management.
- UNCTAD estimates India's GDP growth at 6% in CY19, a 7-year low from 7.4% in CY18, led by lower tax collections and cut in public spending due to fiscal consolidation. Growth in China is also expected to be lower at 6.1% vs 6.6% in CY18. Global growth is expected to fall to 2.3% from 3% in CY18, driven by trade tensions, Brexit uncertainty and weak demand.
- Central Banks of both Mexico and Philippines reduced their policy rates by 25bps to 7.75% and 4% respectively. Both decisions were driven on account of subdued inflation, credit crunch, and faltering growth. Additionally, BSP has lowered its inflation forecast for CY19 to 2.5% from 2.6% earlier. In Q2CY19, Philippine's GDP growth had slowed to 5.5%—lowest since CY15, while Mexico's GDP rose by mere 0.1%.

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Markets

- **Bonds:** Except Japan and China, global yields closed lower on account of slowdown worries. US 10Y yield fell by 4bps (1.69%) amidst dismal business investment print. Crude prices rose by 0.6% (US\$ 63/bbl). India's 10Y yield fell by (-) 4bps (6.72%) awaiting the release of RBI's report on liquidity management framework. It is trading higher at 6.75% today.
- **Currency:** Global currencies closed mixed. EUR depreciated by (-) 0.2% due to continued weakness in Euro Area. GBP also fell by (-) 0.2% on the back of the political crisis in UK. DXY rose by 0.1%. INR rose by 0.2%. INR is trading weaker today, while Asian currencies are trading mixed.
- **Equity:** Barring Dow and Shanghai Comp, global indices closed higher. Dow fell by (-) 0.3% on the back of political uncertainty which outweighed the developments over US-China trade deal. However, Sensex rose (1%) led by cap goods and banking stocks. It was further supported by DII inflows of Rs 3.4bn. 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
10Y yields (Δ bps)						
US	1.69	(4)	(9)	16	(32)	(136)
UK	0.52	(2)	(12)	4	(30)	(108)
Japan	(0.25)	1	(3)	2	(11)	(37)
Germany	(0.58)	(1)	(8)	8	(26)	(111)
India	6.72	(4)	8	24	(18)	(131)
China	3.14	2	3	8	(13)	(50)
2Y yields (Δ bps)						
US	1.66	(2)	(8)	12	(9)	(117)
UK	0.44	(1)	(8)	(1)	(16)	(39)
Japan	(0.33)	1	(4)	(1)	(12)	(21)
Germany	(0.75)	(2)	(3)	15	(1)	(26)
India	5.79	0	5	4	(50)	(207)
China	2.56	2	2	(3)	(8)	(42)
Currencies (Δ %)						
EUR	1.0921	(0.2)	(1.1)	(1.6)	(3.9)	(6.2)
GBP	1.2328	(0.2)	(1.6)	0.9	(2.7)	(5.7)
JPY	107.83	(0.1)	0.2	(1.6)	0	4.9
AUD	0.6749	0	(0.6)	(0.4)	(3.7)	(6.4)
INR	70.88	0.2	0.6	1.6	(2.6)	2.4
CNY	7.1326	0	(0.5)	0.3	(3.7)	(3.5)
Equity & Other indices (Δ %)						
Dow	26,891	(0.3)	(0.8)	3.8	1.4	1.7
FTSE	7,351	0.8	(0.1)	3.7	(0.7)	(2.6)
DAX	12,289	0.4	(1.4)	5.4	0.1	(1.2)
NIKKEI**	22,048	0.1	0	8.8	3.3	(7.3)
Shanghai Comp	2,929	(0.9)	(2.3)	2.3	(2.3)	4.9
SENSEX	38,990	1.0	8.0	4.0	(1.5)	7.3
Brent (US\$/bbl)	62.74	0.6	(2.6)	6.9	(5.7)	(23.2)
Gold (US\$/oz)	1,505	0	0.4	(1.5)	6.7	27.2
CRB Index	387.4	0.4	0.9	(1.1)	(5.2)	(7.0)
Rogers Agri Index	703.5	0.1	0.3	2.8	(7.3)	(8.5)
LIBOR (3M)*	2.10	(1)	(6)	(2)	(22)	(30)
INR 5Y Swap*	6.31	0	(4)	15	(43)	(150)
India FII data (US\$ mn)						
	25 Sep	24 Sep	WTD	MTD	CYTD	FYTD
FII-Debt	10.3	(26.7)	(77.3)	99.1	4,346.3	3,801.6
FII-Equity	(49.6)	(105.4)	240.4	(530.3)	6,675.8	(169.4)

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

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