

MACRO DAILY

29 July 2019

Macro developments

- GST council has reduced tax rate for electric vehicles (EV) from 12% to 5% and for EV chargers from 18% to 5%. This additional support comes after announcement was made in the Union Budget to give tax deduction of Rs 0.15mn on interest paid on loans taken for buying EVs. Government has set aside Rs 100bn for phase 2 of the FAME scheme (Faster Adoption and Manufacturing of hybrid and Electric vehicles).
- India's forex reserves rose to a lifetime high of US\$ 430.4bn in the week ending 19 Jul 2019. On a weekly basis, forex reserves rose by US\$ 1.6bn vs a decline of (-) US\$ 1.1bn last week. In CYTD19, forex reserves have increased by US\$ 37bn vs a decline of (-) US\$ 4.3bn last year.
- US GDP growth slowed to 2.1% in Q2CY19 vs 3.1% in Q1CY19 (est. 1.8%). This was led by weaker business investment and exports. Private domestic investment faltered to 5.5%, lowest since Q4CY15. Further, while consumer spending rose by 4.3% in Q2 to over a 6-quarter high, it is unlikely to sustain going forward. Against this backdrop, Fed is likely to reduce rates by only 25bps in the upcoming policy meet.

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Markets

- **Bonds:** Global yields closed mixed. US 10Y yield fell by 1bps (2.07%) as markets are anticipating Fed to cut rate. Crude prices rose by 0.1% (US\$ 63/bbl). India's 10Y yield increased by 1bps (6.52%). It is trading 9bps lower (6.43%) today, as FM clarified that overseas borrowing plan will be as per budget proposal and also confirmed that there remains scope for further monetary accommodation in the current fiscal space.
- **Currency:** Barring INR, other global currencies closed lower. DXY rose by 0.2% to a 2-month high after US Q2CY19 GDP growth was better than expected suggesting that Fed will cut rates by only 25bps. GBP depreciated by (-) 0.6% on Brexit concerns. INR opened lower today, in line with other Asian currencies.
- **Equity:** Except Nikkei, global indices closed higher. Dow rose by 0.2% supported by robust earnings. FTSE rose by 0.8% as ECB hinted at a rate cut in its next policy meet. Sensex rose marginally by 0.1% supported by DII inflow of Rs 19bn. Asian stocks are trading lower today, while Sensex is trading flat.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.07	(1)	2	2	(43)	(88)
UK	0.69	(2)	(5)	(14)	(46)	(59)
Japan	(0.15)	0	(2)	(1)	(11)	(25)
Germany	(0.38)	(1)	(5)	(7)	(35)	(78)
India	6.52	1	16	(41)	(89)	(126)
China	3.17	0	1	(8)	(23)	(35)
2Y yields (Δ bps)						
US	1.85	(1)	3	8	(43)	(82)
UK	0.49	(2)	(2)	(12)	(24)	(27)
Japan	(0.21)	0	(1)	1	(6)	(10)
Germany	(0.75)	1	2	(2)	(16)	(15)
India	6.10	1	4	(19)	(70)	(142)
China**	2.58	0	(1)	(12)	(9)	(36)
Currencies (Δ %)						
EUR	1.1128	(0.2)	(0.8)	(2.1)	(0.2)	(4.5)
GBP	1.2384	(0.6)	(0.9)	(2.4)	(4.1)	(5.5)
JPY	108.68	0	(0.9)	(0.8)	2.6	2.1
AUD	0.6911	(0.6)	(1.9)	(1.1)	(1.9)	(6.6)
INR	68.90	0.2	(0.1)	0.4	1.6	(0.4)
CNY	6.8795	(0.1)	0	0	(2.2)	(1.0)
Equity & Other indices (Δ %)						
DOW	27,192	0.2	0.1	2.5	2.4	6.8
FTSE	7,549	0.8	0.5	1.8	1.6	(2.0)
DAX	12,420	0.5	1.3	1.4	0.9	(3.4)
NIKKEI	21,658	(0.5)	0.9	2.7	(2.7)	(4.6)
Shanghai Comp	2,945	0.2	0.7	(1.1)	(4.6)	2.5
SENSEX	37,883	0.1	(1.2)	(4.3)	(3.0)	1.5
Brent (USD/bbl)	63.46	0.1	1.6	(4.6)	(12.0)	(14.6)
Gold (USD/oz)	1,419	0.3	(0.5)	0.7	10.3	15.9
CRB Index	406.1	(0.3)	0.0	(1.0)	(3.9)	(6.2)
Rogers Agri Index	733.9	(0.3)	(0.9)	(3.3)	0.7	(9.0)
LIBOR (3M)*	2.27	1	1	(6)	(32)	(8)
INR 5Yr Swap*	6.62	2	19	(2)	(50)	(106)
India FII data (US\$ mn)						
	25 Jul	24 Jul	WTD	MTD	CYTD	FYTD
FII-Debt	4.8	139.0	76.2	1,274.5	2,702.8	2,158.2
FII-Equity	77.6	(209.6)	(809.6)	(2,005.2)	9,333.7	2,488.5

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

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