

MACRO DAILY

31 December 2020

Macro developments

- India's current account surplus narrowed to US\$ 15.5bn in Q2FY21 (2.4% of GDP) from US\$ 19.2bn in Q1 (3.8% of GDP). With recovery in economic activity, imports picked up and trade deficit widened. Transfers and software services income rose. Capital inflows saw a rebound with a surplus of US\$ 15.4bn in Q2, led by foreign inflows. In FY21, we expect a current account surplus of 1.5% of GDP and a BoP surplus of US\$ 130bn.
- China's official manufacturing PMI eased to 51.9 in Dec'20 from 52.1 in Nov'20. Stricter lockdown restrictions in Europe, slight increase in domestic infections and power blackouts in Southern China, impacted the print. New export order index fell (51.3 versus 51.5) and small business activity contracted (48.8 from 50.1). Non-manufacturing PMI also eased to 55.7 in Dec'20 from 56.4 in Nov'20.
- US goods trade deficit widened to US\$ 84.8bn in Nov'20 from US\$ 80.4bn in Oct'20. This was led by higher imports (2.6% MoM at US\$ 212bn in Nov'20) driven by consumer goods. However, exports rose at a softer pace of 0.8% to US\$ 127.2bn. Separately, advance wholesale inventories declined by 0.1% in Nov'20 (increase by 1.2% in Oct'20).

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Markets

- Bonds:** Except UK, Japan and Germany (closed stable), global yields closed lower. US 10Y yield fell by 1bps (0.92%) amidst worries over twin deficit. Crude prices rose by 0.5% (US\$ 51/bbl) due to drawdown in US inventory. India's 10Y yield fell by 3bps (5.9%) owing to higher than expected cut off price set by RBI in its special OMO auction. It is trading flat today.
- Currency:** Global currencies ended higher against the dollar. DXY declined by 0.3% amidst concerns over US fiscal and trade deficit. AUD and GBP rose the most by 1.1% and 0.9% respectively. INR rose for the fifth straight session to its highest since Oct'20 supported by FII equity inflows. It is trading further higher today, in line with other Asian currencies.
- Equity:** Global indices ended mixed as investors continued to monitor the progress of Brexit trade deal and US macro prints. Amongst other indices, while FTSE ended lower (0.7%), Shanghai Comp rose by 1%. Sensex too inched up by 0.3% led by auto stocks. It is trading higher today while other 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 | 0.92 | (1) | (2) | 9 | 24 | (99) |
| UK | 0.21 | 0 | (7) | (7) | (2) | (61) |
| Japan | 0.02 | 0 | 1 | (1) | 1 | 3 |
| Germany | (0.57) | 0 | (2) | 2 | (5) | (38) |
| India | 5.90 | (3) | (5) | (1) | (11) | (61) |
| China | 3.14 | (3) | (8) | (18) | (1) | (1) |
| 2Y yields (Δ bps) | | | | | | |
| US | 0.12 | 0 | 0 | (3) | (1) | (145) |
| UK | (0.15) | 0 | (3) | (11) | (13) | (70) |
| Japan | (0.12) | 0 | 1 | 2 | 1 | 2 |
| Germany | (0.70) | 2 | 1 | 6 | 0 | (10) |
| India | 3.89 | (1) | 1 | (3) | (54) | (188) |
| China | 2.52 | (5) | (15) | (40) | (9) | 23 |
| Currencies (Δ %) | | | | | | |
| EUR | 1.2298 | 0.4 | 0.9 | 2.8 | 4.9 | 9.7 |
| GBP | 1.3625 | 0.9 | 1.0 | 2.4 | 5.5 | 2.8 |
| JPY | 103.19 | 0.4 | 0.4 | 0.9 | 2.2 | 5.1 |
| AUD | 0.7686 | 1.1 | 1.5 | 4.0 | 7.3 | 9.5 |
| INR | 73.31 | 0.2 | 0.6 | 1.0 | 0.6 | (2.9) |
| CNY | 6.5232 | 0.1 | 0.3 | 0.8 | 3.9 | 6.3 |
| Equity & Other indices (Δ %) | | | | | | |
| Dow | 30,410 | 0.2 | 0.9 | 1.7 | 9.5 | 6.6 |
| FTSE | 6,556 | (0.7) | 0.9 | 3.0 | 11.8 | (13.1) |
| DAX | 13,719 | (0.3) | 1.0 | 2.9 | 7.5 | 3.5 |
| NIKKEI | 27,444 | (0.4) | 3.5 | 3.0 | 18.4 | 16.0 |
| Shanghai Comp | 3,414 | 1.0 | 1.0 | 0.2 | 6.1 | 11.9 |
| SENSEX | 47,746 | 0.3 | 2.8 | 8.1 | 25.4 | 15.7 |
| Brent (US\$/bbl) | 51.34 | 0.5 | 0.3 | 6.6 | 25.4 | (22.2) |
| Gold (US\$/oz) | 1,894 | 0.9 | 1.1 | 6.0 | 0.5 | 24.9 |
| CRB Index | 443.4 | 0.2 | 0.8 | 3.4 | 9.2 | 10.4 |
| Rogers Agri Index | 880.3 | 1.0 | 2.3 | 5.3 | 16.4 | 16.0 |
| LIBOR (3M)* | 0.25 | 1 | 0 | 3 | 2 | (165) |
| INR 5Y Swap* | 5.32 | 3 | 3 | 14 | (12) | (140) |
| India FII data (US\$ mn) | | | | | | |
| | 29 Dec | 28 Dec | WTD | MTD | CYTD | FYTD |
| FII-Debt | (2.4) | 14.7 | 12.3 | 657.3 | (13,961.9) | (4,202.4) |
| FII-Equity | 328.7 | 231.2 | 559.9 | 6,942.2 | 23,047.9 | 29,650.8 |

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

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