

MACRO DAILY

08 July 2019

Macro developments

- In the union budget for FY20, the FM has laid the roadmap for an investment led recovery through focus on labour reforms, Make in India and infrastructure spending. Revenue estimates have been trimmed down particularly for GST and income tax collection. On the other hand, non-tax revenues under dividends, railways and 5G auction have been revised upwards. This, along with prudent expenditure management has allowed a lower fiscal deficit of 3.3% in FY20 (3.4% in Interim Budget).
- German factory orders fell by (-) 2.2% in May'19 vs 0.4% in Apr'19. The decline was driven by new export orders which dropped by (-) 4.3% vs 1.1% in Apr'19. Domestic orders on the other hand rose by 0.7% vs (-) 0.8% in Apr'19. This trend confirms that weaker global growth is negatively impacting the German economy with no turnaround in sight.
- US labour market conditions remained buoyant. Nonfarm payroll increased by 224,000 in Jun'19, highest in past 5 months and against 75,000 in May'19. Labour force participation rate also rose to 62.9% in Jun'19 vs 62.8% in May'19. Unemployment rate was at 3.7% in Jun'19. However, average hourly earnings remained unchanged at 3.1% in Jun'19.

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Markets

- Bonds:** Barring India, global yields closed higher. This was on account of 8bps increase in US 10Y yield (2.03%) driven by buoyant labour market conditions. Crude prices rose by 1.5% (US\$ 64/bbl) due to prevailing tensions in Iran. India's 10Y yield declined by 5bps to close at 6.7%, lowest since 4 Oct 2017. This was led by government lowering its fiscal deficit target to 3.3% in FY20 from 3.4% earlier. It was trading lower at 6.63%.
- Currency:** Apart from INR, other global currencies closed lower. DXY rose by 0.5% on the back of stronger than anticipated payroll additions in US. EUR fell by (-) 0.5% as German factory orders disappointed. INR appreciated for the 10th straight session to close higher by 0.1%. It however opened slightly lower today, in line with other Asian currencies.
- Equity:** Except Nikkei and Shanghai Comp, global indices closed lower as expectations of rate cut by Fed faded due to stronger than expected jobs data from US. Sensex ended in red after budget failed to boost investors' sentiments. It is trading lower today in line with other Asian stocks.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.03	8	3	(10)	(46)	(79)
UK	0.74	6	(10)	(16)	(38)	(53)
Japan	(0.16)	0	0	(5)	(13)	(19)
Germany	(0.36)	4	(4)	(16)	(37)	(66)
India	6.70	(5)	(18)	(32)	(66)	(117)
China	3.18	2	(6)	(6)	(8)	(35)
2Y yields (Δ bps)						
US	1.86	10	10	(2)	(48)	(68)
UK	0.56	5	(6)	(4)	(15)	(19)
Japan	(0.21)	1	1	(2)	(6)	(8)
Germany	(0.75)	1	0	(10)	(18)	(9)
India	6.17	(7)	(13)	(24)	(42)	(144)
China**	2.58	2	(5)	5	18	(46)
Currencies (Δ %)						
EUR	1.1225	(0.5)	(1.3)	(0.2)	0.1	(4.4)
GBP	1.2521	(0.5)	(1.4)	(1.4)	(4.0)	(5.7)
JPY	108.47	(0.6)	(0.6)	(0.3)	2.9	1.8
AUD	0.6980	(0.6)	(0.6)	(0.2)	(1.8)	(6.1)
INR	68.42	0.1	0.9	1.2	1.2	0.7
CNY	6.8936	(0.3)	(0.4)	0.2	(2.6)	(3.8)
Equity & Other indices (Δ %)						
DOW	26,922	(0.2)	1.2	6.3	1.9	10.1
FTSE	7,553	(0.7)	1.7	4.7	1.4	(0.8)
DAX	12,569	(0.5)	1.4	5.0	4.7	0.6
NIKKEI	21,746	0.2	2.2	6.6	(0.3)	(0.2)
Shanghai Comp	3,011	0.2	1.1	5.2	(7.3)	9.6
SENSEX	39,513	(1.0)	0.3	(1.4)	1.7	10.8
Brent (USD/bbl)	64.23	1.5	(3.5)	3.6	(8.7)	(16.7)
Gold (USD/oz)	1,399	(1.2)	(0.7)	5.6	8.3	11.5
CRB Index	405.6	0.5	(0.6)	(2.3)	(4.5)	(7.1)
Rogers Agri Index	745.9	(0.5)	(0.7)	(1.2)	(0.7)	(7.4)
LIBOR (3M)*	2.29	(1)	(3)	(19)	(30)	(4)
INR 5Yr Swap*	6.62	(9)	(12)	(2)	27	(109)
India FII data (US\$ mn)						
	4 Jul	3 Jul	WTD	MTD	CYTD	FYTD
FII-Debt	44.1	(106.5)	198.4	198.4	1,626.7	1,082.0
FII-Equity	80.7	(186.0)	(455.5)	(455.5)	10,883.3	4,038.1

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

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