


MACRO DAILY

04 January 2019

Macro developments

- CMIE data showed that capacity expansion remained moderate with outstanding projects at Rs 185tn in Q3FY19 vs Rs 189tn in Q2FY19. This was driven by fall in new projects announcement during Q3 to Rs 1.2tn vs Rs 2.1tn in Q2. Within new projects, manufacturing and services sector showed a steep decline in Q3FY19. However, government share in new projects increased to 44% compared with 38% in Q2FY19.
- Japan's manufacturing PMI expanded in Dec'18 to climb to 52.6 from 52.2 in Nov'18 led by upturn in production which rose at its fastest pace in over eight months. The improvement in new orders along with higher output is poised to contribute positively in Japan's GDP for Q42018. However, fading business optimism and subdued demand pressures continue to pose downside risks to these prospects.
- US ISM manufacturing PMI fell to 54.1 in Dec'18 from 59.3 (est.: 57.9), on account of broad-based decline in sub-indices. New orders index dipped sharply to 51.1 in Dec'18 from 62.1. Although input price pressures eased, uncertainty around future tariffs slowed demand. Separately, jobless claims for week ending 29 Dec rose to 230,000 (est.: 220,000) from 221,000 in the previous week. This is partially on account of government shutdown.

Markets

- **Bonds:** Global yields closed mixed. US 10Y yield declined by 7bps (2.55%) led by weaker macro prints. Crude prices inched up by 1.9% to close at US\$ 56/bbl. Indian 10Y yield shot up by 7bps (7.43%) amid fiscal concerns over government's expenditure of around Rs 2.3tn to stimulate rural economy. It was trading at 7.42% today.
- **Currency:** Except CNY (-0.1%) and INR (flat), other major currencies closed higher. DXY ended lower by (-) 0.5% on escalating concerns over global growth outlook after manufacturing PMI in both US and China disappointed. JPY (up 1.1%) gained the most on safe haven demand. INR was trading higher today, in line with other Asian currencies.
- **Equity:** Global indices tumbled with Dow (-2.8%) and Dax (-1.5%) losing the most. Weaker than expected US economic data, worries around global growth (led by China), pulled global stocks down. Sensex fell by (-) 1.1% tracking weakness in global equity markets. While Asian stocks were trading in red in the morning session, Sensex opened higher.

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FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.55	(7)	(21)	(36)	(68)	10
UK	1.19	(2)	(12)	(9)	(53)	(4)
Japan	0	0	(2)	(7)	(15)	(5)
Germany	0.15	(1)	(8)	(11)	(42)	(28)
India	7.43	7	15	(15)	(60)	9
China	3.16	(2)	(15)	(18)	(47)	(78)
2Y yields (Δ bps)						
US	2.38	(9)	(18)	(42)	(51)	43
UK	0.70	(1)	(7)	(3)	(22)	21
Japan	(0.14)	0	(2)	(1)	(2)	0
Germany	(0.61)	0	2	0	(10)	0
India	6.83	1	0	(38)	(101)	24
China#	2.69	0	1	19	(28)	(116)
Currencies (Δ %)						
EUR	1.1394	0.4	(0.3)	0.4	(1.1)	(5.6)
GBP	1.2628	0.2	(0.1)	(0.7)	(3.8)	(6.8)
JPY	107.68	1.1	3.0	4.5	5.3	4.5
AUD	0.7006	0.3	(0.4)	(4.5)	(0.7)	(10.9)
INR	70.19	0	0.2	0.4	4.8	(10.7)
CNY	6.8720	(0.1)	(0.1)	(0.5)	0.7	(5.8)
Equity & other indices (Δ %)						
DOW	22,686	(2.8)	(2.0)	(9.4)	(14.2)	(9.5)
FTSE	6,693	(0.6)	1.6	(4.7)	(8.6)	(13.0)
DAX	10,417	(1.5)	0.3	(8.1)	(14.0)	(20.9)
NIKKEI	20,015	(0.3)	(0.3)	(9.2)	(15.8)	(14.9)
Shanghai Comp	2,464	0	(0.8)	(7.6)	(9.4)	(27.2)
SENSEX	35,514	(1.1)	(0.8)	(1.7)	3.3	4.5
Brent (USD/bbl)	55.95	1.9	7.3	(9.9)	(33.5)	(17.8)
Gold (USD/oz)	1,294	0.8	1.5	4.5	7.5	(2.2)
CRB Index	410.9	0.4	0.2	(1.8)	(1.5)	(5.9)
Rogers Agri Index	762.2	0.6	0.8	(2.4)	(3)	(6.3)
LIBOR (3M)*	2.79	(1.4)	(1)	6	39	109
INR 5Yr Swap*	7.22	2	0	(31)	(54)	50
India FII data (US\$ mn)						
	2 Jan	1 Jan	WTD	MTD	CYTD	FYTD
FII-Debt	35.3	(80.6)	127.1	(45.4)	(45.4)	(7,036.0)
FII-Equity	(62.5)	67.7	(138.4)	5.1	5.1	(6,677.7)

Source: Bloomberg, Bank of Baroda | #1 year yield is taken, *Indicates change in bps

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