

MACRO DAILY

31 January 2019

Macro developments

- As per the first advance estimates, government expects a record horticulture production of 314.5mn tonne (fruits and vegetables), 1% higher than in 2017-18 and over 8% higher than the last 5-year average. The final estimates for the year 2017-18 show that both production of fruits and vegetables have grown by 4.8% and 3.5% respectively.
- China's official manufacturing PMI indicates that activity contracted for the 2nd consecutive month in Jan'19 with PMI at 49.5 vs 49.4 in Dec'18. This was led by continued decline in new orders (46.9 vs 46.6 in Dec'18). As a result employment index too declined. However, apart from weak domestic & global demand, this could also be because business are a shut for a longer period due to Lunar New Year holidays.
- US Fed in its current policy signalled a pause in its rate hike cycle while keeping the policy rate unchanged. The FOMC also said that "it will be patient" with regard to the adjustment in fund rate. This decision has been on the back of cross currents from the global economy and downside risks to inflation. Further, it also highlighted that FOMC would consider adjusting the balance sheet in view of the evolving economic conditions.

BOB Economics Research

+91 22 6698 5713

chief.economist@bankofbaroda.com

Markets

- **Bonds:** Except India, global yields closed lower driven by Fed's signalling of a potential end in the rate hike cycle. US 10Y yield declined by 3bps (2.68%). Crude prices inched up by 0.5% (US\$ 62/bbl) as media reports suggested that Saudi Arabia also pledged for deeper cuts in production. Indian 10Y yield rose by 2bps (7.55%) led by selling from foreign banks. It was trading lower at 7.53% today.
- **Currency:** Except INR which closed flat, other major global currencies closed higher. This was led by a weaker dollar (DXY fell by 0.5%) after US Fed indicated that it would be more "patient" with regard to rate hikes in CY19 amidst slowing growth momentum. INR was trading higher today in line with other Asian currencies.
- **Equity:** Global indices ended lower led by fears of slowdown in global economy with Shanghai Comp (-0.7%) and Nikkei (-0.5%) falling the most. However, Dow rose by 1.8% after Fed indicated a pause in future rate hikes. Both Asian markets and Sensex were trading higher today.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.68	(3)	(6)	(1)	(47)	(3)
UK	1.26	(1)	(7)	(2)	(18)	(26)
Japan	0.01	0	0	0	(12)	(8)
Germany	0.19	(1)	(4)	(5)	(20)	(51)
India	7.55	2	(3)	18	(30)	12
China	3.14	0	0	(18)	(40)	(79)
2Y yields (Δ bps)						
US	2.51	(6)	(7)	2	(36)	37
UK	0.78	(1)	(3)	3	3	11
Japan	(0.16)	0	1	(2)	(4)	(3)
Germany	(0.57)	1	2	5	5	(4)
India	6.97	0	(6)	11	(61)	11
China	2.61	1	2	(15)	(46)	(97)
Currencies (Δ %)						
EUR	1.1480	0.4	0.9	0.1	1.5	(7.5)
GBP	1.3116	0.4	0.4	2.8	2.7	(7.6)
JPY	109.04	0.3	0.5	0.6	3.5	0.1
AUD	0.7248	1.3	1.5	2.8	2.5	(10.0)
INR	71.12	0	0.3	(1.9)	3.8	(11.8)
CNY	6.7165	0.3	1.1	2.4	3.7	(6.8)
Equity & Other indices (Δ %)						
DOW	25,015	1.8	1.8	7.2	(0.4)	(4.3)
FTSE	6,942	1.6	1.4	3.2	(2.6)	(7.9)
DAX	11,182	(0.3)	1.0	5.9	(2.3)	(15.2)
NIKKEI	20,557	(0.5)	(0.2)	2.7	(6.2)	(11.0)
Shanghai Comp	2,576	(0.7)	(0.2)	3.3	(1.0)	(26.0)
SENSEX	35,591	0	(1.4)	(1.3)	3.3	(1.0)
Brent (USD/bbl)	61.65	0.5	0.8	14.6	(18.3)	(10.7)
Gold (USD/oz)	1,320	0.6	2.9	2.9	8.7	(1.9)
CRB Index	413.7	0.2	0.5	1.1	(0.6)	(6.7)
Rogers Agri Index	778.9	0.4	0.3	2.8	1.0	(5.2)
LIBOR (3M)*	2.74	(1)	(3)	(6)	19	97
INR 5Yr Swap*	7.21	0	(1)	0	(51)	25
India FII data (US\$ mn)						
	29 Jan	28 Jan	WTD	MTD	CYTD	FYTD
FII-Debt	10.4	(20.0)	(9.6)	(292.6)	(292.6)	(7,283.2)
FII-Equity	(38.9)	(10.8)	(49.7)	(496.1)	(496.1)	(7,179.0)

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

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com