

MACRO DAILY

07 October 2019

Macro developments

- India's services PMI index fell sharply in Sep'19 to 48.7 from 52.4 in Aug'19. Weak domestic demand and competitive pressures have impacted pricing power of firms. Business expectation index (12-month ahead) also declined to a two and a half year low. The only positive was uptick seen in new export orders.
- RBI reduced repo rate by 25bps thus taking cumulative rate cuts by the central bank to 135bps since Feb'19. A sharp reduction in growth, now estimated at 6.1% in FY20 (6.9% earlier), justifies the rate cutting cycle. Inflation is expected to remain below RBI's target of 4%. While another 25bps repo rate cut is likely in Dec'19, it will bring real policy rates in the range of 1-1.25% thus putting an end to the rate cut cycle.
- US unemployment rate fell to 3.5% in Sep'19-a 50-year low, after remaining unchanged at 3.7% in the last 3-months. The data offers some support even as manufacturing and services activity moderated in Sep'19. However, non-farm payrolls rose by only 136,000 vs est. 145,000. Manufacturing payrolls declined for the first time in 6-months by (-) 2,000 led by automotive sector.

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Markets

- Bonds:** Except India, other major global yields fell, with US 10Y yield falling by 1bps (1.53%). Weaker than estimated US macro data (PMIs, non-farm payrolls) impacted investor sentiments. Crude prices rose by 1.1% to US\$ 58.4/bbl, driving 8bps increase in India's 10Y yield (6.69%). It is trading marginally lower at 6.67% today.
- Currency:** Global currencies closed mixed. DXY ended lower for the 4th straight session (-0.1%), after US payroll additions rose lower than expected. GBP, JPY and INR closed flat. In line with other Asian currencies, INR is trading lower today.
- Equity:** Barring Sensex, global indices closed higher as investors are hoping for another rate cut by Fed. Ongoing US-China trade negotiations also supported markets. Amongst other indices, Dow (1.4%) gained the most followed by FTSE (1.1%) and Dax (0.7%). Sensex is trading lower today; while 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	1.53	(1)	(15)	7	(50)	(170)
UK	0.44	(3)	(6)	4	(30)	(128)
Japan	(0.21)	(2)	2	7	(6)	(37)
Germany	(0.59)	0	(1)	12	(22)	(116)
India	6.69	8	(5)	17	(1)	(134)
China	3.14	0	4	7	(4)	(48)
2Y yields (Δ bps)						
US	1.40	1	(23)	(5)	(46)	(148)
UK	0.35	(1)	(5)	2	(21)	(57)
Japan	(0.33)	(1)	(1)	(4)	(12)	(21)
Germany	(0.78)	0	(1)	13	(3)	(27)
India	5.64	(1)	(17)	(4)	(53)	(220)
China#	2.56	0	2	(3)	(2)	(41)
Currencies (Δ %)						
EUR	1.0979	0.1	0.4	0	(2.2)	(4.7)
GBP	1.2331	0	0.3	2.1	(1.5)	(6.0)
JPY	106.94	0	0.9	(0.9)	1.4	6.0
AUD	0.6771	0.4	0.1	0.2	(3.0)	(4.0)
INR	70.88	0	(0.5)	2.1	(3.6)	3.9
CNY	7.1483	(0.4)	(0.4)	0.4	(3.7)	(4.1)
Equity & Other indices (Δ %)						
Dow	26,574	1.4	(0.9)	1.7	(1.3)	0.5
FTSE	7,155	1.1	(3.6)	(1.6)	(5.3)	(2.2)
DAX	12,013	0.7	(3.0)	0.9	(4.4)	(0.8)
NIKKEI	21,410	0.3	(2.1)	3.8	(1.5)	(10.0)
Shanghai Comp	2,905	(0.9)	(0.9)	(0.9)	(3.5)	3.0
SENSEX	37,673	(1.1)	(3.0)	3.0	(4.7)	9.6
Brent (US\$/bbl)	58.37	1.1	(5.7)	0.2	(9.1)	(30.6)
Gold (US\$/oz)	1,505	0	0.5	(2.7)	7.5	25.0
CRB Index	388.6	0	0.3	0.6	(3.8)	(6.9)
Rogers Agri Index	712.3	(0.1)	1.1	5.2	(4.5)	(9.3)
LIBOR (3M)*	2.04	(1)	(6)	(8)	(27)	(36)
INR 5Y Swap*	6.32	1	(6)	26	(31)	(148)
India FII data (US\$ mn)						
	3 Oct	1 Oct	WTD	MTD	CYTD	FYTD
FII-Debt	103.8	(24.7)	334.0	334.0	4,581.1	4,036.5
FII-Equity	(57.8)	(174.8)	(670.8)	(670.8)	6,535.3	(309.9)

Source: Bloomberg, Bank of Baroda | *Indicates change in bps | #1Y yield | Note: China's markets are closed since 30.9.2019.

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