

MACRO DAILY

08 November 2019

Macro developments

- Moody's downgraded India's credit rating outlook to negative from stable. This was on the back of slowdown in domestic growth, rising debt burden, fiscal concerns and ongoing financial stress. Moody's believes fiscal deficit will be higher at 3.8% of GDP in FY20 vs BE of 3.3%. As a result INR has opened weaker and yields are higher. We believe continued reforms (privatisation, cut in corporate tax, measures to boost FDI) should support domestic growth and contain fiscal deficit in the near-term.
- China's exports fell by (-) 0.9% in Oct'19 vs (-) 3.2% in Sep'19. The ease in contraction was driven by postponement of tariffs on Chinese goods by the US. China's imports too declined, by (-) 6.4% vs (-) 8.5% in Sep'19 due to weak domestic demand. Analysts expect decline in exports to bottom out in coming months if US-China reach a trade deal before 15 Dec 2019.
- Bank of England (BoE) kept the key policy rate unchanged with a vote of 7-2. However, it signalled chances of future rate cut to support growth amidst gloomier global growth outlook and entrenching Brexit uncertainties. Growth is also expected to bottom out to 1% in CY19. Inflation will be at 1.25% in the spring, below the 2% target.

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Markets

- Bonds:** Global yields rose led by positive developments in US-China trade deal. 10Y yield in both US (+9bps) and Germany (+10bps) rose to a 3-month high. Oil prices increased by 0.9% (US\$ 62/bbl). India's 10Y yield closed higher by 3bps (6.72%) following global cues. It is trading higher at 6.77% (+4bps) today, after Moody's cut India's rating outlook to negative.
- Currency:** Global currencies closed mixed. DXY and CNY rose as US and China agreed to roll back tariffs in the first phase of their trade deal. EUR fell by (-) 0.1% as EC cut its growth forecast for Euro Area to 1.1% in CY19. GBP fell by (-) 0.3% as two BoE officials voted for lower rates. While Asian currencies are trading higher today, INR is trading lower.
- Equity:** Barring Shanghai Comp (flat), global indices ended higher as US and China agreed to rollback tariffs. Sensex gained by 0.5%, pushed up by metal and real estate stocks. It is trading lower today after Moody's downgraded India's outlook. 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	1.92	9	23	36	20	(132)
UK	0.79	8	16	34	27	(77)
Japan	(0.06)	2	7	16	13	(19)
Germany	(0.23)	10	17	34	33	(69)
India^	6.72	3	7	4	32	(108)
China	3.27	2	(1)	13	22	(23)
2Y yields (Δ bps)						
US	1.67	6	14	21	5	(130)
UK	0.54	1	4	20	7	(30)
Japan	(0.17)	1	6	16	6	(4)
Germany	(0.61)	3	5	16	24	(3)
India	5.51	(1)	2	(15)	(34)	(197)
China#	2.65	0	(1)	9	13	(5)
Currencies (Δ %)						
EUR	1.1050	(0.1)	(0.9)	0.7	(1.2)	(2.8)
GBP	1.2817	(0.3)	(1.0)	4.3	5.6	(1.9)
JPY	109.28	(0.3)	(1.2)	(1.9)	(3.0)	4.2
AUD	0.6898	0.2	0.1	2.5	1.4	(4.9)
INR	70.97	0	(0.1)	0.1	(0.4)	2.8
CNY	6.9784	0.3	0.9	2.4	0.9	(0.6)
Equity & Other indices (Δ %)						
Dow	27,675	0.7	2.3	4.5	4.9	5.7
FTSE	7,406	0.1	2.2	2.9	1.7	3.7
DAX	13,289	0.8	3.3	9.9	12.2	15.3
NIKKEI	23,330	0.1	1.8	9.1	13.3	3.8
Shanghai Comp	2,979	0	1.7	2.5	6.6	13.0
SENSEX	40,654	0.5	1.3	8.3	8.9	16.2
Brent (US\$/bbl)	62.29	0.9	3.4	6.8	8.6	(11.8)
Gold (US\$/oz)	1,468	(1.5)	(2.9)	(1.7)	(2.2)	20.0
CRB Index	391.0	0.5	0.4	1.6	(2.4)	(6.1)
Rogers Agri Index	729.1	0	0.0	2.6	2.3	(6.5)
LIBOR (3M)*	1.90	1	0	(11)	(28)	(71)
INR 5Y Swap*	6.54	0	0	26	26	(125)
India FII data (US\$ mn)						
	6 Nov	5 Nov	WTD	MTD	CYTD	FYTD
FII-Debt	387.1	31.4	565.3	798.9	5,485.7	4,941.0
FII-Equity	178.0	56.4	245.9	500.9	10,723.6	3,878.4

Source: Bloomberg, Bank of Baroda | ^7.26% GS 2029 | *Indicates change in bps | #1Y yield

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