

MACRO DAILY

16 January 2019

Macro developments

- India's trade deficit narrowed to US\$ 13.1bn in Dec'18 (US\$ 16.7bn in Nov'18) on account of decline in imports (-2.4%), a first in 27-months. The fall was led by (-) 24.3% decline in gold imports as well as non-oil-non-gold imports at (-) 1.9%. Exports too registered near flat growth of 0.4% with a broad-based slowdown. With a benign global outlook, exports are likely to remain muted. We expect CAD at 2.5% of GDP in FY19.
- US PPI posted its biggest decline (-0.2% in Dec'18 vs 0.1% increase in Nov'18 on MoM basis) in the past 5 months. This was driven by steep decline in gasoline prices. Core PPI increased marginally by 0.1% in Dec'18 vs 0.3% in Nov'18. However on a YoY basis, PPI remained unchanged at 2.5%. Both lower PPI and CPI data in Dec'18 substantiates that Fed might be dovish in CY19.
- Germany's GDP in CY18 rose by 1.5% vs 2.2% in the previous 2 years. This is slowest rate of growth since CY13 (0.5%). This was led by slowdown in exports & consumption demand. With these numbers, it is now assumed that German economy recorded near flat growth (0%) in Q4CY18. Led by recent trade wars and slowdown in China, German corporates' profits have taken a serious hit, thus putting the economy on a weaker footing in CY19.

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Markets

- Bonds:** Global yields closed mixed amidst Brexit uncertainty, fears of prolonged shutdown in the US government and growth concerns in China. Indian 10Y yield shot up by 4bps (7.47%) led by 3% rise in crude prices (US\$ 61/bbl). It was trading flat today.
- Currency:** Global currencies closed mixed. EUR depreciated by (-) 0.5% after data showed that German GDP growth fell to the lowest in 5 years. GBP ended flat after UK parliament voted down PM May's Brexit deal by a huge margin. INR depreciated by (-) 0.2% on the back of higher oil prices. It was trading higher today while Asian currencies were trading lower.
- Equity:** Global indices ended higher, showcasing optimism ahead of the earnings season. Dow gained by 0.7% supported by rally in tech stocks. Shanghai Comp surged by 1.4% as China plans to provide economic stimulus, amidst reports of slowdown. Sensex was up by 1.3%. While Asian markets were trading mixed, Sensex was trading higher.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.71	1	(2)	(15)	(45)	17
UK	1.26	(4)	(2)	(1)	(35)	(4)
Japan	0.01	0	0	(3)	(14)	(7)
Germany	0.21	(3)	(2)	(5)	(29)	(36)
India	7.47	4	2	1	(40)	9
China	3.15	1	0	(24)	(44)	(82)
2Y yields (Δ bps)						
US	2.53	0	(5)	(16)	(33)	52
UK	0.81	(2)	5	7	(1)	23
Japan	(0.15)	0	(2)	0	(4)	(2)
Germany	(0.62)	(2)	(4)	(1)	(6)	(5)
India	6.99	3	(1)	1	(61)	9
China#	2.69	0	1	19	(28)	(116)
Currencies (Δ %)						
EUR	1.1413	(0.5)	(0.2)	0.6	(1.4)	(6.9)
GBP	1.2861	0	1.1	1.9	(2.4)	(6.8)
JPY	108.68	(0.5)	0.1	3.7	3.2	1.6
AUD	0.7201	0.1	0.9	0.3	0.8	(9.5)
INR	71.04	(0.2)	(1.2)	0.7	3.3	(10.9)
CNY	6.7610	0.1	1.3	2.0	2.2	(4.9)
Equity & Other indices (Δ %)						
DOW	24,066	0.7	1.2	2.0	(6.7)	(6.7)
FTSE	6,895	0.6	0.5	1.8	(2.3)	(11.1)
DAX	10,892	0.3	0.8	1.1	(7.5)	(17.8)
NIKKEI	20,555	1.0	1.7	(4.4)	(8.8)	(14.2)
Shanghai Comp	2,570	1.4	1.7	(1.1)	0.9	(25.2)
SENSEX	36,318	1.3	0.9	0.1	3.3	4.4
Brent (USD/bbl)	60.64	2.8	3.3	1.7	(25.5)	(12.3)
Gold (USD/oz)	1,290	(0.2)	0.3	3.5	5.3	(3.7)
CRB Index	411.2	(0.3)	(0.6)	(0.8)	(1.8)	(6.3)
Rogers Agri Index	765.4	(0.5)	(0.7)	(1.4)	(4)	(5.1)
LIBOR (3M)*	2.78	(1)	0	(2)	33	104
INR 5Yr Swap*	7.17	1	(5)	(4)	(52)	33
India** FII data (US\$ mn)						
	14 Jan	11 Jan	WTD	MTD	CYTD	FYTD
FII-Debt	(26.9)	29.5	(26.9)	(75.0)	(75.0)	(7,065.6)
FII-Equity	(43.6)	(88.7)	(122.2)	(449.1)	(326.9)	(7,131.9)

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

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