


MACRO DAILY

31 December 2018

Macro developments

- As per RBI, SCBs balance sheet grew at a moderate pace of 7.6% in FY18 vs 8% in FY17. Overhang of stressed assets has contributed to this. GNPA ratio of SCBs rose to 11.2% in FY18 vs 9.3% in FY17, while for PSBs, it increased to 14.6% vs 11.7%. However, the report noted that NPAs have begun to stabilise in H1FY19 with the recovery rate through IBC increasing to 46.1% in H1FY19 vs 41.3% in FY18.
- As per news reports, government is mulling upon 3 options to reduce farmer distress. These include: (1) monetary transfer of Rs 1700-2000/acre to all land owing farmers; (2) meeting the gap between MSP and actual price at which the crop is sold; and (3) waiving farm loans upto Rs 1 lakh. The cost to exchequer is touted to be between Rs 1tn for the first scheme, Rs 500bn for the second and Rs 3tn for the third.
- China's official manufacturing PMI indicates contraction in activity in Dec'18. The index slipped from 50 in Nov'18 to 49.4 in Dec'18 (est.: 49.9)-its lowest level since Feb'16. New export orders fell for the 7th consecutive month in Dec'18 (46.6 vs 47 in Nov'18). Services activity on the other hand, continues to hold ground as the index inched up from 53.4 in Nov'18 to 53.8 in Dec'18.

Markets

- Bonds:** Global yields closed mixed. US 10Y yield closed lower by 5bps (2.72%) daunted by weaker macro data. Crude prices edged marginally up by 0.1% (US\$ 52/bbl). Indian 10Y yield firmed up by 11bps (7.39%) as RBI governor indicated that the central bank is comfortable to keep liquidity in a 'slight deficit' mode in dissonance with earlier approach of liquidity remaining closer to neutrality. Indian 10Y yield was trading lower at 7.38% today.
- Currency:** Barring CNY which ended lower by (-) 0.2%, major global currencies closed higher. DXY weakened by 0.1% amidst heightened concerns over global economic outlook and volatility in equity stocks. JPY rallied (up 0.7%) on safe haven demand. INR ended higher by 0.6% and was also trading higher today.
- Equity:** Except Dow (-0.3%), global indices ended higher. Ongoing tussle between Trump and Fed as well as shutdown of US government dented investor confidence. Euro indices reversed their previous day's losses and ended in green. Sensex was trading higher today.

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FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.72	(5)	(7)	(34)	(34)	29
UK	1.27	(4)	(5)	(11)	(30)	7
Japan	0	(2)	(4)	(10)	(13)	(6)
Germany	0.24	1	(1)	(11)	(23)	(18)
India	7.39	11	11	(26)	(64)	(1)
China	3.31	0	(3)	(9)	(32)	(58)
2Y yields (Δ bps)						
US	2.52	(5)	(12)	(29)	(30)	61
UK	0.74	(3)	(3)	(1)	(8)	31
Japan	(0.14)	(2)	0	(1)	(3)	(1)
Germany	(0.61)	2	(1)	(2)	(9)	(1)
India	6.83	0	(4)	(43)	(101)	23
China#	2.69	0	2	19	(28)	(116)
Currencies (Δ %)						
EUR	1.1444	0.1	0.6	0.7	(1.4)	(4.2)
GBP	1.2699	0.4	0.4	(1.0)	(2.5)	(5.5)
JPY	110.27	0.7	0.9	3.0	3.0	2.3
AUD	0.7047	0.2	0.1	(3.5)	(2.5)	(9.6)
INR	69.95	0.6	0.3	1.0	3.5	(9.2)
CNY	6.8785	(0.2)	0.4	1.1	(0.1)	(5.3)
Equity & Other indices (Δ %)						
DOW	23,062	(0.3)	2.7	(9.1)	(12.8)	(7.1)
FTSE	6,734	2.3	0.2	(3.9)	(10.3)	(11.7)
DAX	10,559	1.7	(0.7)	(6.5)	(13.8)	(18.7)
NIKKEI	20,015	(0.3)	(0.8)	(9.7)	(17.0)	(12.2)
Shanghai Comp	2,494	0.4	(0.9)	(4.1)	(11.6)	(24.3)
SENSEX	36,077	0.8	0.9	1.0	(0.4)	6.6
Brent (USD/bbl)	52.20	0.1	(3.0)	(11.2)	(36.9)	(21.8)
Gold (USD/oz)	1,278	0.2	1.7	4.7	7.3	(1.3)
CRB Index	410.0	(0.2)	(0.4)	(0.4)	(1.2)	(5.1)
Rogers Agri Index	759.6	0.5	(0.2)	(1.5)	(1)	(5.7)
LIBOR (3M)*	2.80	(2)	(2)	10	40	111
INR 5Yr Swap*	7.25	3	9	(27)	(47)	63
India FII data (US\$ mn)						
	27 Dec	26 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	(23.3)	(6.8)	49.4	707.1	(6,865.1)	(7,111.0)
FII-Equity	224.3	(20.6)	79.3	508.8	(4,381.0)	(6,506.5)

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

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