

MACRO DAILY

14 January 2022

Macro developments

- In an effort to fructify “fair and balanced” FTA, India and UK launched formal negotiations. This aims to cover more than 90% of tariff lines with an incentive to double bilateral trade to about US\$ 100bn by CY30. It would include labour intensive sectors such as textiles and garments, leather, footwear, iron & steel, gem and jewellery etc. India’s merchandise exports to UK in FYTD22 stood at US\$ 6.8bn and imports at US\$ 4.3bn.
- US PPI softened sharply in Dec’21 to 0.2% (MoM) from 1% in Nov’21, owing to sharp decline in prices of goods (-0.4% versus 1% in Nov’21). Within goods, prices of both food (-0.6% versus +1.3%) and energy (-3.3% versus 2%) contracted. Core PPI (excl food and energy) too softened to 0.5% from 0.8%. Prices of services also eased from 0.9% in Nov’21 to 0.5% in Dec21. Slowdown was broad-based with both trade and transportation and warehousing components easing. Separately, initial jobless claims for the week ending 8 Jan 2022, rose by 23k from last week to 230k.
- China's exports rose by 20.9% in Dec’21 (est.: 20%), down from 22% rise in Nov’21, while imports rose by 19.5% (est.: 26.3%) compared with 31.7% in Nov’21. Exports were supported by higher shipments of computer and electronics. Re-imposed restrictions in many advanced economies and work from home situation may have helped demand. Slowdown in imports on the other hand was effected by decline international commodity prices and easing domestic demand.

Markets

- Bonds:** Except Japan and China (stable), global yields closed lower as investors are eyeing major data releases in the US (retail sales, industrial production and Michigan sentiment). US 10Y yield fell by 4bps (1.7%) as PPI data softened in Dec’21. Crude prices fell by 0.2% (US\$ 84/bbl) on expectation of oil release from Strategic Reserves by the US. India’s 10Y yield fell by 3bps (6.56%) supported by less than expected CPI print. It is trading at 6.57% today.
- Currency:** Barring EUR and JPY (higher), other global currencies closed flat. DXY fell by 0.1% as investors expect no change in Fed’s hawkish stance after reading Dec’21 US CPI print. JPY (0.4%) gained the most, followed by EUR (0.1%). INR ended flat even as oil prices inched down. However, it is trading lower today, while other Asian currencies are trading mixed.
- Equity:** Global indices closed mixed. While Shanghai Comp fell the most by 1.2%, FTSE and Dax went up by 0.2% and 0.1% respectively. Even Sensex rose by 0.1% led by gains in metal and capital goods stocks. It is trading lower today in line with other Asian stocks.

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Fig 1 – Movement in key global asset classes

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	1.70	(4)	(2)	29	19	57
UK	1.11	(3)	(5)	41	6	81
Japan	0.13	0	1	8	5	9
Germany	(0.09)	(3)	(3)	29	10	46
India	6.56	(3)	4	19	24	67
China	2.79	0	(3)	(10)	(17)	(32)
2Y yields (Δ bps)						
US	0.89	(3)	3	26	53	75
UK	0.76	(5)	(5)	36	25	88
Japan	(0.08)	(1)	0	2	3	3
Germany	(0.60)	(1)	0	10	9	13
India**	4.34	(2)	(4)	6	24	15
China**	2.16	0	(4)	(10)	(13)	(11)
Currencies (Δ %)						
EUR	1.1455	0.1	1.4	1.5	(1.2)	(5.8)
GBP	1.3706	0	1.3	3.7	0.2	0.1
JPY	114.20	0.4	1.4	(0.6)	(0.5)	(10.0)
AUD	0.7283	0	1.7	2.1	(1.8)	(6.4)
INR	73.89	0	0.8	2.5	1.8	(1.1)
CNY	6.3598	0	0.4	0.1	1.2	1.8
Equity & Other indices (Δ %)						
Dow	36,114	(0.5)	(0.3)	1.3	3.4	16.5
FTSE	7,564	0.2	1.5	4.6	4.9	11.2
DAX	16,032	0.1	(0.1)	2.6	3.7	14.6
NIKKEI	28,489	(1.0)	0.0	(0.5)	(0.2)	(0.7)
Shanghai Comp	3,555	(1.2)	(0.9)	(3.4)	(0.1)	(0.3)
SENSEX	61,235	0.1	2.7	5.1	(0.1)	23.5
Brent (US\$/bbl)	84.47	(0.2)	3.0	13.6	0.6	49.7
Gold (US\$/oz)	1,823	(0.2)	1.8	2.0	1.5	(1.3)
CRB Index	585.3	(0.3)	0.6	2.9	3.7	28.5
Rogers Agri Index	1,192.3	(1.0)	(0.4)	2.5	7.7	28.7
LIBOR (3M)*	0.24	(1)	1	4	12	1
INR 5Y Swap*	6.04	(18)	24	37	24	45
India FII data (US\$ mn)						
	12 Jan	11 Jan	WTD	MTD	CYTD	FYTD
FII-Debt	43.7	36.5	12.8	34.6	34.6	536.8
FII-Equity	(98.0)	54.6	(63.1)	348.4	348.4	(3,216.9)

Source: Bloomberg, Bank of Baroda Research | *Indicates change in bps | **1Y yield

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