

MACRO DAILY

14 July 2021

Macro developments

- S&P has reaffirmed India's sovereign rating for 14th year in a row to 'BBB-' with a stable outlook on the back of gradual recovery in the economy. The agency noted that India's strong external settings is likely to help buffer the risks associated with the government's high deficits and debt stock. It also expects the economy to normalise in the coming months with GDP growth at 9.5% in FY22.
- US CPI rose the most since CY08 by 0.9% in Jun'21 (est.: 0.5%) and against 0.6% increase in May'21, on MoM basis. Food prices rose by 0.8% from 0.4% and energy prices which was flat in May'21 shot up by 1.5%. Core CPI (excl. food and energy) also rose by 0.9% from 0.7% in May'21, driven by sharp jump in new and used vehicle prices. On YoY basis, core rose by 4.5% while headline CPI was up by 5.4%.
- CPI inflation in Germany eased to 2.3% in Jun'21 from 2.5% in May'21, led by dip in both energy prices (9.4% versus 10%) and food inflation (1.2% versus 1.5%). HICP CPI rose by 2.1% versus 2.4% in May'21. Separately, in France CPI rose by 1.5% in Jun'21 versus 1.4% in May'21. While both food and energy prices fell, core inflation (1.1% versus 0.9%) pushed the headline print up.

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Markets

- **Bonds:** Except US (higher) and Germany (stable), global yields closed lower amidst concerns regarding faster spread of Delta variant. US 10Y yield rose by 5bps (1.42%) as CPI data raised hopes of faster pace of tightening by Fed. Crude prices rose by 1.8% (US\$ 76/bbl) on expectation of drop in US inventory. India's 10Y yield fell by 2bps (6.2%) as CPI data lent some comfort.
- **Currency:** Barring INR and CNY (higher), other global currencies closed lower. DXY rose by 0.5% in line with an increase in US 10Y yield as inflation rose more than expected in Jun'21. CNY rose by 0.1% as China's exports strengthened in Jun'21. INR appreciated by 0.1%. It is however trading lower today, while other Asian currencies are trading mixed.
- **Equity:** Global indices ended mixed as investors monitored higher than expected inflation print from US and corporate earnings. While European indices ended flat, Dow (0.3%) ended lower. On the other hand, Sensex (0.8%) ended in green led by strong gains in banking stocks. However, it is trading lower today in line with other Asian stocks.



Fig 1 – Movement in key global asset classes

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	1.42	5	7	(4)	(20)	79
UK	0.63	(2)	0	(8)	(15)	48
Japan	0.03	(1)	(2)	(1)	(8)	(1)
Germany	(0.29)	0	(3)	(2)	0	15
India	6.20	(2)	3	20	19	38
China	2.94	(2)	(16)	(22)	(23)	(7)
2Y yields (Δ bps)						
US	0.25	3	3	11	9	10
UK	0.09	0	4	4	4	20
Japan	(0.12)	(1)	(1)	0	1	1
Germany	(0.67)	0	1	1	3	(1)
India [^]	4.31	(3)	(8)	(26)	(25)	14
China	2.09	(2)	(19)	(35)	(41)	(5)
Currencies (Δ %)						
EUR	1.1776	(0.7)	(0.4)	(2.8)	(1.4)	3.3
GBP	1.3814	(0.5)	0.1	(2.1)	0.5	10.0
JPY	110.63	(0.2)	0	(0.9)	(1.4)	(3.2)
AUD	0.7447	(0.4)	(0.7)	(3.4)	(2.5)	6.8
INR	74.50	0.1	0.1	(1.9)	0.7	1.2
CNY	6.4688	0.1	0.2	(1.1)	1.2	7.7
Equity & Other indices (Δ %)						
Dow	34,889	(0.3)	0.9	1.2	3.6	31.0
FTSE	7,125	0	0.3	(0.1)	3.4	15.3
DAX	15,790	0	1.8	0.6	3.6	24.4
NIKKEI	28,718	0.5	0.3	(0.8)	(3.5)	27.1
Shanghai Comp	3,567	0.5	1.0	(0.6)	5.0	4.4
SENSEX	52,770	0.8	(0.2)	0.6	8.7	46.4
Brent (US\$/bbl)	76.49	1.8	2.6	5.2	20.1	78.3
Gold (US\$/oz)	1,808	0.1	0.6	(3.7)	3.6	(0.1)
CRB Index	559.3	0.4	1.3	(0.7)	9.2	53.7
Rogers Agri Index	1,037.1	0.2	1.5	(4.1)	7.6	52.0
LIBOR (3M)*	0.13	0	0	1	(5)	(14)
INR 5Y Swap*	5.80	0	2	14	13	54
India FII data (US\$ mn)						
	12 Jul	9 Jul	WTD	MTD	CYTD	FYTD
FII-Debt	(68.6)	10.8	(68.6)	(72.9)	(3,239.7)	(1,212.5)
FII-Equity	(65.9)	(134.4)	(65.9)	(350.3)	7,733.8	407.5

Source: Bloomberg, Bank of Baroda Research | *Indicates change in bps | ^ 4.26GS2023 security

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