MACRO DAILY

Macro developments

- India's core sector growth contracted by (-) 0.5% and to a 52-month low in Aug'19 from 2.7% in Jul'19. This was driven by weaker demand. The sharpest contraction amongst all the sectors was seen in coal at (-) 8.7% in Aug'19 (-1.6% in Jul'19). This was followed by crude oil (-5.5% vs 4.4% in Jul'19) and natural gas (-4% vs -0.6% in Jul'19). Going ahead, IIP is likely to fare weaker than expected.
- Centre's gross borrowings for H2FY20 were at Rs 2.68tn as per budgeted vs Rs 4.42tn in H1. Notably, >10 year issuances in H2 are at 75.4% (42% outstanding), implying biasedness for steeper yield curve. To meet revenue shortfall, government announced disinvestment, including 100% stake sale in certain CPSEs. We expect fiscal deficit at 3.5% of GDP in FY20, to support growth.
- China's official manufacturing PMI rose to 49.8 in Sep'19 from 49.5 in Aug'19 led by a pickup in demand. However, the index has stayed in the contraction zone for 5-months now, as escalating US-China trade war and a weak global outlook impinges on the manufacturing sector. Export orders contracted for 16th straight month as global demand remains muted.

Markets

- Bonds: Global yields closed mixed amidst ongoing political tensions in US and UK, mixed manufacturing PMI in China and subdued GDP growth in UK. US 10Y yield fell by 2bps (1.66%). Oil prices declined by (-) 1.8% (US\$ 61/bbl) owing to demand concerns. India's 10Y yield fell by 3bps (6.7%). It is trading lower today at 6.69% as H2 borrowing plan was as per budgeted.
- Currency: Except GBP (flat), other global currencies closed lower. EUR depreciated by (-) 0.4% to its lowest in 30-months as CPI inflation in Germany cooled off in Sep'19, signaling further easing by ECB. DXY rose by 0.3%. In line with Asian currencies, INR is trading higher today.
- Equity: Barring Dow and Dax, global indices closed lower as investors remained jittery over the next course of action in the US-China trade deal. Shanghai Comp (-0.9%) fell the most, followed by Nikkei (-0.6%). Sensex (-0.4%) too ended in red dragged down by banking stocks. However, it is trading higher today in line with other Asian stocks.



01 October 2019

Aditi Gupta | Sameer Narang

chief.economist@bankofbaroda.com





FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

10Y yields (Δ bps) US 1.66 UK 0.49 Japan (0.21) Germany (0.57) India 6.70 China 3.14 2Y yields (Δ bps) 1.62 UK 0.37 Japan (0.32) Germany (0.32) UK 0.37 Japan (0.32) Germany (0.77) India 5.78 China 2.56 Differencies (Δ %) 2.56 EUR 1.0899 GBP 1.2289 JPY 108.08 AUD 0.6750 INR 70.87 CNY 7.1483 Equity & Other indices (Δ %) 26,917 FTSE 7,408 DAX 12,428	(2) (1) 2 0 (3) 0 (1) (3) 0 (1) (3) 0 (2) 0 (2) 0 (0,4) 0 (0,4) 0 (0,1) (0,2)	(6) (6) (1) 1 (5) 4 (6) (12) (2) (2) (2) (2) (2) (2) (2) (2) (2) (17 1 6 13 14 8 12 (3) (2) 16 0 (3) (0.8) 1.1 (1.7)	(36) (33) (7) (21) (18) (9) (17) (24) (10) (1) (24) (10) (1) (50) (7) (7) (3.4) (2.8) (3.3)	(142) (110) (35) (104) (129) (48) (120) (47) (20) (23) (204) (204) (204) (204) (204) (5.9) (5.9)
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Equity & Other indices (Δ %) 26,917 Dow 26,917 FTSE 7,408	(0.4)	0.1	0.8	(2.8)	2.8
Dow 26,917 FTSE 7,408	(0.4)	(0.4)	0.1	(4.3)	(4.1)
FTSE 7,408					
	0.4	(0.1)	1.9	0.7	1.0
DAX 12,428	(0.2)	1.1	2.8	(1.2)	(1.2)
	0.4	0.7	4.1	(0.7)	0.7
NIKKEI** 21,756	(0.6)	(1.5)	5.1	0.1	(10.3)
Shanghai Comp 2,905	(0.9)	(2.4)	0.7	(4.6)	3.0
SENSEX 38,667	(0.4)	(1.1)	3.6	(2.6)	5.9
Brent (US\$/bbl) 60.78	(1.8)	(6.2)	0.6	(6.6)	(28.5)
Gold (US\$/oz) 1,472	(1.6)	(3.3)	(3.1)	6.4	23.8
CRB Index 387.6	0	0.3	0.1	(4.6)	(6.7)
Rogers Agri Index 712.4	1.2	1.3	4.3	(4.6)	(7.7)
LIBOR (3M)* 2.10	(1)	(1)	(4)	(23)	(30)
INR 5Y Swap* 6.38	0	(2)	19	(33)	(133)
India FII data (US\$ mn) 27 Sep	26 Sep	WTD	MTD	CYTD	FYTD
FII-Debt (120.6)	(205.7)	(403.6)	(227.2)	4,020.0	3,475.3
FII-Equity (42.6)	1,569.8	1,767.6	996.9	8,203.0	1,357.8

Source: Bloomberg, Bank of Baroda | *Indicates change in bps

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda chief.economist@bankofbaroda.com