

MACRO DAILY

20 August 2021

Macro developments

- In an effort to reduce import dependence of edible oil, Union Cabinet of India has approved a new oil palm scheme for the next 5 years. This will cost the exchequer around Rs 110.4bn, of which Rs 88.44bn will be Centre's share and Rs 21.96 will be States' share. Further, the scheme intends to increase oil palm productivity by covering an additional 0.65mn hectare under oil palm till 2025-26, thereby reaching the target of 1mn hectare.
- Japan's CPI inflation fell by 0.3% in Jul'21 on a YoY basis versus a decline of 0.5% in Jun'21. The decline was led by transport and communication (-5.4%), medical care (-0.5%) and food (-0.6%). Further, while prices of good increased by 0.8% in Jul'21, prices of services fell by 1.5%. Core CPI (excluding fresh food) fell by 0.2% in Jul'21 on a YoY basis, marking the 12th straight month of decline. In Jun'21, core CPI had declined by 0.4%.
- US FOMC minutes showed that members are willing to begin reducing the asset purchase program in CY21 if economic recovery continues. Key risks to growth from rapid spread of new Delta variant and supply chain bottlenecks impacting businesses were also highlighted. Officials also pointed out that inflation trajectory was satisfying and unemployment goals are also on track. Separately, US initial jobless claims in fell by 29K to 348k (est.: 365k) in the week ended 14 Aug 2021. This is the lowest level since 14 Mar 2020 (256k).

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Markets

- Bonds:** Except Japan (stable), global yields closed lower amidst concerns over spread of Delta variant. UK's 10Y yield fell the most by 3bps followed by US, Germany and China's 10Y yield which fell by 1bps each. Investors also await Fed Chair's comment on economic outlook in the upcoming Jackson Hole symposium. India's 10Y yield is trading at 6.23% today, ahead of MPC minutes.
- Currency:** Global currencies closed mixed. DXY rose by 0.4% to its highest since Nov'20 amidst increased expectations that the Fed will taper its asset purchase programme this year. AUD fell the most by 1.2%. JPY closed flat. However, INR rose by 0.1% supported by lower oil prices. It is trading lower today in line with other Asian currencies.
- Equity:** Global markets closed lower with FTSE (-1.5%), DAX (-1.3%), and Nikkei (-1.1%) falling the most. Investor sentiments were impacted by FOMC minutes which indicated that Fed tapering may begin in CY21 itself. Dow fell by 0.2%. Indian markets were closed. Following global cues, Sensex opened 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	1.24	(1)	(12)	5	(38)	59
UK	0.54	(3)	(6)	(2)	(30)	31
Japan	0.02	(0)	(1)	0	(7)	(2)
Germany	(0.49)	(1)	(3)	(10)	(38)	1
India ^{AA}	6.23	(1)	0	4	26	28
China	2.84	(1)	(3)	(11)	(25)	(16)
2Y yields (Δ bps)						
US	0.22	0	0	0	7	8
UK	0.12	(3)	(4)	4	7	15
Japan	(0.13)	0	(2)	(1)	(1)	(3)
Germany	(0.75)	0	0	(6)	(10)	(7)
India ^A	4.16	(1)	(4)	(15)	(17)	(8)
China	1.91	1	(11)	(8)	(48)	(52)
Currencies (Δ %)						
EUR	1.1675	(0.3)	(0.5)	(1.1)	(4.5)	(1.6)
GBP	1.3639	(0.9)	(1.2)	(0.3)	(3.9)	3.2
JPY	109.74	0.0	0.6	(0.3)	(0.9)	(3.7)
AUD	0.7147	(1.2)	(2.6)	(2.7)	(8.1)	(0.6)
INR	74.25	0.1	0	0.8	(1.6)	1.0
CNY	6.4949	(0.2)	(0.2)	(0.1)	(0.9)	6.1
Equity & Other indices (Δ %)						
Dow	34,894	(0.2)	(1.7)	2.7	2.4	25.8
FTSE	7,059	(1.5)	(1.9)	3.1	0.6	17.4
DAX	15,766	(1.3)	(1.1)	4.2	2.6	22.9
NIKKEI	27,281	(1.1)	(2.6)	(1.3)	(2.9)	19.2
Shanghai Comp	3,466	(0.6)	(1.7)	(2.1)	(1.2)	3.0
SENSEX	55,629	(0.3)	1.4	5.9	12.2	45.5
Brent (US\$/bbl)	66.45	(2.6)	(6.8)	(3.2)	2.1	48.0
Gold (US\$/oz)	1,780	(0.4)	1.6	(1.8)	(5.2)	(8.6)
CRB Index	562.5	(0.6)	(0.1)	0.9	4.0	45.6
Rogers Agri Index	1,076.3	(1.7)	(1.4)	2.9	2.3	49.7
LIBOR (3M)*	0.13	0	1	0	(2)	(13)
INR 5Y Swap*	5.82	3	(1)	(1)	11	45
India FII data (US\$ mn)						
	17 Aug	13 Aug	WTD	MTD	CYTD	FYTD
FII-Debt	107.5	(20.8)	107.5	54.0	(3,199.2)	(1,172.0)
FII-Equity	259.4	(15.3)	259.4	870.2	7,248.3	(78.0)

Source: Bloomberg, Bank of Baroda Research | *Indicates change in bps | **6.10GS2031, ^ 4.26GS2023 security

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