

MACRO DAILY

20 January 2021

Macro developments

- News reports suggest that the Centre may announce complete shift to DBT for providing fertiliser subsidy to farmers in FY22 Budget. It is estimated that Rs 5,000-Rs 6,000 will be provided to 146mn beneficiaries annually. This will cost the exchequer ~Rs 803bn. For FY21, centre had budgeted subsidy of Rs 713bn, which was raised by another Rs 650bn as part of fiscal stimulus program, taking the total to Rs 1.36tn.
- As per news reports, government may set aside Rs 250bn for capital infusion in PSBs in FY22. During FY18-20, government infused Rs 2.65tn into PSBs. In FY21, while there was no allocation for recap, but later Rs 200bn was earmarked through supplementary demand. This is likely to revive the health of PSBs whose GNPA ratio as per RBI's FSR is likely to rise to 16.2% from 9.7% in Sep'20 (base case) and to 17.6% (severe stress).
- CPI inflation in Germany eased to 0.5% in CY20 from 1.4% in CY19. This was led by temporary reduction in value added tax which dampened prices sharply in H2CY20. Further, decline in energy prices (-4.8% from 1.4% in CY19) owing to a crash in oil prices, added to the moderation. Separately, ZEW investor sentiment index rose to a 4-month high of 61.8 in Jan'21 from 55 in Dec'20, on improved export expectations.

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Markets

- **Bonds:** Global yields closed mixed. US 10Y yield fell by 1bps (1.09%) buoyed by hopes of a larger quantum of US fiscal stimulus. UK 10Y yield closed stable at 0.29% as BoE chief economist said that economic recovery will be visible from Q2CY21. Crude prices rose by 2.1% (US\$ 56/bbl). India's 10Y yield fell by 1bps (5.91%). It is trading flat today.
- **Currency:** Improvement in risk-sentiment pushed global currencies higher as US Treasury Secretary nominee Yellen called for a larger stimulus package. Safe-haven DXY (0.3%) and JPY (0.2%) fell. EUR gained as ZEW investor sentiment index in Germany rose more than expected. INR rose by 0.2%. It is trading further higher today in line with other Asian currencies.
- **Equity:** Global indices ended mixed as investors monitored rising Covid-19 cases and remarks by US treasury nominee Janet Yellen on US stimulus. Shanghai comp (0.8%) declined the most. Sensex gained by 1.7% led by advancement in real estate and metal stocks. It is trading higher 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	1.09	1	(4)	14	30	(69)
UK	0.29	0	(6)	4	10	(34)
Japan	0.06	0	2	5	4	5
Germany	(0.53)	0	(6)	4	8	(28)
India	5.91	(1)	(1)	0	(3)	(73)
China	3.16	(2)	1	(14)	(4)	12
2Y yields (Δ bps)						
US	0.13	0	(1)	1	(1)	(140)
UK	(0.13)	1	(5)	(4)	(6)	(56)
Japan	(0.11)	0	0	2	2	2
Germany	(0.71)	1	(2)	2	7	(13)
India	4.47	0	7	59	23	(171)
China	2.39	3	20	(34)	(28)	16
Currencies (Δ %)						
EUR	1.2129	0.4	(0.6)	(1.0)	2.6	9.4
GBP	1.3630	0.3	(0.2)	0.8	5.3	4.4
JPY	103.90	(0.2)	(0.1)	(0.6)	1.5	5.4
AUD	0.7695	0.2	(1.0)	1.0	9.2	12.4
INR	73.17	0.2	0.1	0.5	0.4	(2.8)
CNY	6.4791	0.2	(0.2)	0.9	3.0	6.2
Equity & Other indices (Δ %)						
Dow	30,931	0.4	(0.4)	2.5	9.3	5.9
FTSE	6,713	(0.1)	(0.6)	2.8	14.0	(11.8)
DAX	13,815	(0.2)	(0.8)	1.4	8.5	1.9
NIKKEI	28,633	1.4	1.7	7.0	21.5	20.0
Shanghai Comp	3,566	(0.8)	(1.2)	5.1	7.2	16.8
SENSEX	49,398	1.7	(0.2)	5.2	21.8	19.5
Brent (US\$/bbl)	55.90	2.1	(1.2)	7.0	29.5	(13.5)
Gold (US\$/oz)	1,840	(0.1)	(0.8)	(2.2)	(3.5)	18.1
CRB Index	456.8	0.6	0.5	4.3	10.2	11.2
Rogers Agri Index	919.6	(0.5)	0.8	8.3	16.4	20.8
LIBOR (3M)*	0.22	0	(1)	(1)	1	(158)
INR 5Y Swap*	5.52	(5)	(4)	19	29	(122)
India FII data (US\$ mn)						
	18 Jan	15 Jan	WTD	MTD	CYTD	FYTD
FII-Debt	(176.9)	(55.0)	(176.9)	(660.4)	(660.4)	(4,754.0)
FII-Equity	266.5	(144.2)	266.5	2,562.7	2,562.7	32,538.4

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

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