

MACRO DAILY

20 July 2021

Macro developments

- ADB has revised India's growth forecast for FY22 lower to 10% from 11% estimated earlier due to the second wave of Covid-19. For FY23, growth estimate has been revised upward to 7.5% from 7% earlier on expectations of substantial progress in vaccination. Inflation in FY22 is also expected higher at 5.5% (+0.3%) and 4.8% (unchanged) in FY23. In CY21, growth in Asia is expected at 7.2% from 7.3% earlier led by renewed virus outbreaks.
- RBA in its minutes emphasized that it expects no rate hikes before CY24 unless actual inflation is sustainably within 2-3% target. The board noted that there should be a flexibility to raise or reduce weekly bond purchases. In light of this, weekly bond purchases have already been reduced from AUD 5bn to AUD 4bn. It also expects the CPI to rise temporarily above the target but is likely to decline subsequently.
- Japan's CPI rose by 0.2% on YoY basis in Jun'21 following 0.1% decline in May'21. This was led by higher core inflation (all excl food) which rose to 0.2% versus 0.2% decline in May'21. Higher energy prices pushed the fuel and light component up by 0.6% from 0.3% decline in May'21. Excluding food and fuel items, inflation continued to decline by 0.2%. Prices of services fell by 0.6%. Within this medical care services were down by 0.3% versus 0.1% drop in May'21 and culture and recreation service prices eased to 0.5% from 0.6%.

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Markets

- **Bonds:** Except China (stable), global yields closed lower with rising Covid-19 cases in the US and South East Asia. US 10Y yield fell the most by 10bps (1.19%), followed by UK which declined by 7bps (0.56%). Crude prices also declined sharply by 6.8% (US\$ 69/bbl-lowest since May'21) fueled by demand concerns. Thus, India's 10Y yield fell by 2bps (6.19%).
- **Currency:** Safe-haven JPY (0.6%) and DXY (0.2%) rose amidst concerns over the spread of the Delta variant. Other global currencies closed lower. AUD (0.8%) and GBP (0.7%) fell sharply amidst a spike in Covid-19 cases. INR depreciated by 0.4% even as oil prices fell to a ~2-month low. It is trading further lower today in line with other Asian currencies.
- **Equity:** Barring Shanghai Comp (flat), other global indices ended lower on escalated fears of spread of Covid-19 delta variant. Dax (2.6%) declined the most as devastation due to massive flooding in Germany also impacted investor sentiments. This was followed by FTSE (2.3%) and Dow (2.1%). Sensex (1.1%) too ended in red. Banking and metal stocks declined the most. 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	1.19	(10)	(18)	(25)	(42)	58
UK	0.56	(7)	(9)	(19)	(20)	41
Japan	0.02	(1)	(2)	(4)	(7)	(2)
Germany	(0.39)	(3)	(9)	(19)	(15)	7
India ^{AA}	6.19	(2)	(3)	19	11	39
China	2.95	0	0	(20)	(20)	0
2Y yields (Δ bps)						
US	0.22	(1)	(1)	(4)	6	7
UK	0.08	(4)	(1)	(5)	4	18
Japan	(0.13)	0	(1)	(1)	(1)	0
Germany	(0.69)	(1)	(2)	(2)	(1)	(2)
India ^A	4.30	1	(4)	(38)	(29)	13
China	1.99	(3)	(11)	(48)	(47)	(7)
Currencies (Δ %)						
EUR	1.1800	(0.1)	(0.5)	(0.5)	(2.0)	3.1
GBP	1.3675	(0.7)	(1.5)	(1.0)	(2.2)	8.0
JPY	109.46	0.6	0.8	0.7	(1.2)	(2.0)
AUD	0.7344	(0.8)	(1.8)	(1.8)	(5.3)	4.7
INR	74.88	(0.4)	(0.4)	(1.4)	0.0	0.1
CNY	6.4905	(0.2)	(0.2)	(0.6)	0.3	7.1
Equity & Other indices (Δ %)						
Dow	33,962	(2.1)	(3.0)	2.0	(0.3)	27.3
FTSE	6,844	(2.3)	(3.9)	(2.5)	(2.2)	9.3
DAX	15,133	(2.6)	(4.2)	(2.0)	(1.5)	16.0
NIKKEI	27,653	(1.3)	(3.2)	(4.5)	(6.8)	21.7
Shanghai Comp	3,539	0	(0.2)	0.4	1.8	6.8
SENSEX	52,553	(1.1)	0.3	0.4	9.6	40.4
Brent (US\$/bbl)	68.62	(6.8)	(8.7)	(6.7)	2.3	58.5
Gold (US\$/oz)	1,813	0	0.4	2.7	2.3	(0.3)
CRB Index	557.3	(0.7)	0	0.5	7.8	52.0
Rogers Agri Index	1,046.0	(1.3)	1.1	1.8	5.4	51.5
LIBOR (3M)*	0.13	0	0	0	(5)	(12)
INR 5Y Swap*	5.83	(4)	3	13	32	55
India FII data (US\$ mn)						
	16 Jul	15 Jul	WTD	MTD	CYTD	FYTD
FII-Debt	(24.1)	100.3	61.0	56.7	(3,110.1)	(1,082.8)
FII-Equity	(56.8)	51.4	(226.1)	(510.5)	7,573.7	247.3

Source: Bloomberg, Bank of Baroda Research | *Indicates change in bps | **5.85GS2030, ^ 4.26GS2023 security

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