

## MACRO DAILY

23 February 2021

### Macro developments

- The decline in CPI inflation has vindicated MPCs lexicographic preference of growth over inflation. They will have to manage the trilemma (corresponding inflation risks) of global flows, currency movement and commodity prices. The growth inflation matrix calls for normalisation of monetary policy with fiscal policy changing gears to crowd-in private investments. RBI has already raised CRR by 4% as a first step.
- China's new home prices rose by 0.3% (MoM) in Jan'21 versus 0.1% rise in Dec'20. Tier-1 cities contributed most to increase as prices rose by 0.6% versus 0.2% in Dec'20. This is in line with credit growth data, which showed that household loans, mainly mortgages, more than doubled in Jan'21 on MoM basis. Separately, PBOC has left 1Y LPR unchanged at 3.85%, but signalled plans to allow more liberal capital outflows.
- Business sentiment in Germany improved as reflected in the IFO index print. It rose to 92.4 in Feb'21 from 90.3 in Jan'21 and against expectation of 90.5. This was the strongest monthly gain since Jul'20. Both current situation and expectation index increased pointing to optimism. Amongst major sectors, the index in manufacturing rose to its highest since Nov'18.

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### Markets

- **Bonds:** Global yields closed mixed. US 10Y yield rose by 3bps (1.37%) amidst inflation worries and awaiting Fed Chair's testimony. Germany 10Y yield fell by 3bps amidst rising Covid-19 cases. Crude prices rose by 3.7% (US\$ 65/bbl) due to supply disruption in the US. India's 10Y yield rose by 6bps (6.2%-10month high) post devolvement on PD. It is trading lower (6.19%) today as MPC indicated liquidity to remain comfortable.
- **Currency:** Except CNY, other global currencies closed higher. DXY fell by 0.4% as investors await comments from Fed Chair. AUD (0.6%) and GBP (0.3%) closed near a 3-year high. INR rose by 0.2% to a 1-year high. It is trading further higher today, in line with other Asian currencies.
- **Equity:** Barring Dow and Nikkei, other global indices ended lower on the back of subdued global cues, rising bond yields and surge in Covid-19 cases. Sensex dropped the most (2.3%) and was dragged lower by real estate and tech stocks. However, it is trading higher today while other Asian stocks are trading mixed.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>						
US	1.37	3	16	28	51	(1)
UK	0.68	(2)	11	37	36	14
Japan	0.13	2	4	8	11	18
Germany	(0.34)	(3)	4	17	24	14
India	6.20	6	18	29	30	(17)
China	3.27	1	3	15	(2)	46
<b>2Y yields (Δ bps)</b>						
US	0.11	1	0	(1)	(5)	(114)
UK	0.04	5	7	17	7	(37)
Japan	(0.10)	0	2	2	3	6
Germany	(0.69)	(1)	1	2	7	(1)
India	4.67	13	9	17	73	(98)
China	2.61	(5)	(4)	29	(34)	65
<b>Currencies (Δ %)</b>						
EUR	1.2157	0.3	0.2	(0.1)	2.7	12.0
GBP	1.4063	0.3	1.2	2.8	5.6	8.8
JPY	105.08	0.4	0.3	(1.3)	(0.5)	5.1
AUD	0.7916	0.6	1.7	2.6	8.6	19.8
INR	72.50	0.2	0.3	0.7	2.2	(0.7)
CNY	6.4648	(0.1)	(0.1)	0.3	1.8	8.0
<b>Equity &amp; Other indices (Δ %)</b>						
Dow	31,522	0.1	0.2	1.7	6.5	12.7
FTSE	6,612	(0.2)	(2.1)	(1.2)	4.4	(7.6)
DAX	13,950	(0.3)	(1.1)	0.5	6.3	7.0
NIKKEI	30,156	0.5	0.2	5.3	18.1	28.9
Shanghai Comp	3,642	(1.5)	(0.3)	1.0	6.7	20.2
SENSEX	49,744	(2.3)	(4.6)	1.8	12.9	23.2
Brent (US\$/bbl)	65.24	3.7	3.1	17.7	41.6	11.5
Gold (US\$/oz)	1,810	1.4	(0.5)	(2.5)	(1.5)	9.1
CRB Index	484.1	0.6	3.0	6.1	13.5	21.3
Rogers Agri Index	975.0	1.6	3.6	8.1	17.2	34.3
LIBOR (3M)*	0.18	(1)	(2)	(4)	(3)	(147)
INR 5Y Swap*	5.99	6	3	35	86	(35)
<b>India FII data (US\$ mn)</b>						
	<b>18 Feb</b>	<b>17 Feb</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	(89.2)	(131.9)	(254.7)	(303.7)	(802.0)	(4,895.6)
FII-Equity	128.1	163.5	860.1	4,044.8	6,023.0	35,998.8

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

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