

MACRO DAILY

03 February 2021

Macro developments

- India's trade deficit narrowed to US\$ 14.8bn in Jan'21 from US\$ 15.4bn in Dec'20 as exports bounced back by 5.4%, led by non-oil exports. Import growth however slowed to 2% from 7.6% in Dec'20 as oil imports fell. Non-oil-non-gold imports were stable. We expect trade deficit to increase to US\$ 165bn in FY22 from US\$ 95bn in FY21. Foreign inflows and software exports will support INR at current levels.
- Reserve Bank of Australia (RBA) in its recent policy has decided to keep the policy rate at record low level of 0.1% for "as long as necessary". It also expanded its asset purchase program by another US\$ 76bn. Further, the policy highlighted that the ultra-low rates would persist till inflation target of 2-3% is met and labour market revives (expected not before CY24).
- Euro Area's GDP contracted by 0.7% (est.: 1% drop) in Q4CY20 versus 12.4% increase in Q3. Resurgence in Covid-19 cases forced major European countries to impose strict lockdown measures in Q4. Steepest decline was seen in Austria (4.3%), Italy (2%) and France (1.3%). In CY20, Euro Area GDP fell by 6.8%, sharpest since CY95.

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Markets

- Bonds:** Barring Japan (lower), other global yields closed higher. US 10Y yield rose by 2bps (1.1%) on hopes of faster economic recovery and progress on fiscal stimulus deal. UK and German 10Y yield rose by 3bps each, as Europe is expected to receive more vaccine doses soon. India's 10Y yield rose the most by 7bps (6.13%) on the back of higher government borrowing. It is trading tad lower at 6.12% today.
- Currency:** Global currencies closed mixed. DXY rose by 0.2% to a 2-month high as progress in US stimulus raised hopes of a quicker recovery. EUR depreciated by 0.1% amidst concerns over the economic impact of second lockdowns in Q1CY21. INR fell by 0.1% as oil prices increased. However, it is trading higher today, while other Asian currencies are trading lower.
- Equity:** Global indices ended higher with Sensex, Dow and Dax gaining the most. Dip in global Covid-19 cases, news of higher vaccine supplies to Europe and progress on US fiscal stimulus plan boosted sentiments. Sensex surged by 2.5% led by auto and real estate stocks. It is trading further higher today while other Asian stocks are trading mixed.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	1.10	2	6	18	20	(50)
UK	0.35	3	8	15	8	(22)
Japan	0.05	(1)	2	3	1	10
Germany	(0.49)	3	4	8	13	(9)
India	6.13	7	21	25	23	(38)
China	3.18	1	1	4	0	32
2Y yields (Δ bps)						
US	0.11	1	(1)	(1)	(5)	(130)
UK	(0.09)	2	5	7	(5)	(59)
Japan	(0.11)	0	1	0	0	4
Germany	(0.72)	0	0	(2)	8	(6)
India	4.70	5	17	83	52	(132)
China	2.62	2	2	13	(10)	39
Currencies (Δ %)						
EUR	1.2044	(0.1)	(1.0)	(1.4)	2.8	9.1
GBP	1.3668	0	(0.5)	0	4.7	4.9
JPY	104.98	0	(1.3)	(1.7)	(0.5)	4.1
AUD	0.7607	(0.2)	(1.8)	(1.1)	6.2	12.9
INR	72.97	0.1	0	0.1	1.9	(2.4)
CNY	6.4574	0.2	0.1	1.1	3.3	7.7
Equity & Other indices (Δ %)						
Dow	30,687	1.6	(0.8)	0.3	11.7	6.5
FTSE	6,517	0.8	(2.1)	0.9	12.6	(12.4)
DAX	13,835	1.6	(0.3)	0.8	14.4	4.2
NIKKEI	28,362	1.0	(0.6)	3.3	21.7	22.9
Shanghai Comp	3,534	0.8	(1.0)	1.7	8.0	27.0
SENSEX	49,798	2.5	3.0	4.0	23.7	22.1
Brent (US\$/bbl)	57.46	2.0	2.8	10.9	44.7	6.5
Gold (US\$/oz)	1,838	(1.2)	(0.7)	(3.2)	(3.7)	18.4
CRB Index	458.8	0.1	(0.2)	3.4	11.6	13.6
Rogers Agri Index	920.2	(0.4)	(0.5)	3.9	16.7	25.4
LIBOR (3M)*	0.20	(1)	(2)	(4)	(3)	(154)
INR 5Y Swap*	5.66	(1)	6	34	44	(95)
India FII data (US\$ mn)						
	1 Feb	29 Jan	WTD	MTD	CYTD	FYTD
FII-Debt	18.3	(25.8)	18.3	18.3	(480.0)	(4,573.6)
FII-Equity	253.2	(595.5)	253.2	253.2	2,231.4	32,207.2

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

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