

MACRO DAILY

14 March 2019

Macro developments

- In an effort to address durable rupee liquidity needs, RBI has decided to conduct long-term foreign exchange buy/sell swap of US\$ 5bn for a tenor of 3 years on 26 Mar 2019. Under this arrangement, banks can swap their dollars for rupees. This measure is in supplement to the ongoing OMO purchases (Rs 2.99tn already announced in FYTD19).
- Chinese economy is off to a weak start in CY19 as visible in falling industrial output in Jan-Feb'19, which slowed to 5.3% from 5.7% in Dec'18—slowest start since CY09. Retail sales growth held steady compared to Dec'18 at 8.2%. On the other hand, FAI growth held ground as it rose by 6.1% vs 5.9 in CY18. This was led by infrastructure investment (4.3% vs 3.8% last year). Private investment however remains lukewarm (7.5% vs 8.7% in CY18).
- US durable goods orders rose by 0.4% in Jan'19, led by 15.9% increase in orders for aircraft. Core capital orders too rose by 1.4% in Jan'19 from 0.6% in Dec'18, sharpest jump since Jul'18. Separately, PPI rose by 0.1% in Feb'19 (MoM basis) on the back of higher gasoline prices. On a YoY basis, it was up by 1.9% in Feb'19 vs 2% in Jan'19. Core PPI too eased to 2.3% in Feb'19 from 2.5% in Jan'19.

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Markets

- **Bonds:** Global yields closed mixed. This has been on the backdrop of sluggish industrial growth in China and UK lawmakers' rejection of a no-deal Brexit. Crude prices rose by 1.3% (US\$ 68/bbl) on expectation of US-China trade deal. India's 7.26GS2029 yield inched by 2bps (7.38%) driven by higher than expected CPI print in Feb'19. It was trading at 7.37% today.
- **Currency:** Except CNY, other global currencies closed higher as dollar weakened. DXY ended lower by (-) 0.4% after weak US PPI data. GBP rose sharply by 2% after British parliament voted to reject a no-deal Brexit. INR appreciated for the 3rd straight session. It weakened today after RBI announced USD/INR swap auction worth US\$ 5bn on Mar 26.
- **Equity:** Barring Nikkei and Shanghai Comp, global indices ended higher. Dow gained by 0.4% as capital goods rebounded and inflation remained muted. However, Shanghai comp tumbled by (-) 1.1% as China's industrial growth fell to two-year low. While Asian markets were trading mixed; Sensex opened higher.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.62	2	(7)	(3)	(29)	(20)
UK	1.20	3	(3)	2	(8)	(24)
Japan	(0.04)	(1)	(4)	(1)	(10)	(9)
Germany	0.07	1	(6)	(6)	(21)	(53)
India#	7.55	4	(2)	2	14	(14)
China	3.15	(1)	(5)	7	(14)	(71)
2Y yields (Δ bps)						
US	2.46	1	(5)	(2)	(31)	21
UK	0.75	3	0	2	0	(6)
Japan	(0.15)	(1)	(1)	1	(2)	(1)
Germany	(0.55)	0	(3)	2	2	3
India	6.69	3	(1)	(4)	(35)	(29)
China**	2.43	2	1	2	(24)	(87)
Currencies (Δ %)						
EUR	1.1327	0.3	0.2	0.5	(0.4)	(8.4)
GBP	1.3338	2.0	1.3	3.8	5.6	(4.5)
JPY	111.17	0.2	0.5	(0.7)	1.9	(4.6)
AUD	0.7094	0.2	0.9	0.5	(1.7)	(9.9)
INR	69.54	0.2	1.1	2.3	3.4	(7.3)
CNY	6.7071	0	0.1	1.3	2.5	(6.2)
Equity & Other indices (Δ %)						
DOW	25,703	0.6	0.1	2.6	4.8	3.8
FTSE	7,159	0.1	(0.5)	0.4	4.1	0.4
DAX	11,572	0.4	(0.1)	5.1	5.9	(5.4)
NIKKEI	21,290	(1.0)	(1.4)	2.0	(1.4)	(2.2)
Shanghai Comp	3,027	(1.1)	(2.4)	14.1	16.3	(8.0)
SENSEX	37,752	0.6	3.0	3.7	5.5	11.6
Brent (USD/bbl)	67.55	1.3	2.4	9.8	12.3	4.1
Gold (USD/oz)	1,309	0.6	1.8	0.1	5.1	(1.2)
CRB Index	419.4	0.5	1.6	1.9	1.0	(6.0)
Rogers Agri Index	750.2	0.1	0.4	(1.8)	(4.0)	(11.5)
LIBOR (3M)*	2.61	1	1	(8)	(17)	46
INR 5Yr Swap*	6.95	6	(8)	(11)	(26)	5
India FII data (US\$ mn)						
	12 Mar	11 Mar	WTD	MTD	CYTD	FYTD
FII-Debt	47.0	153.7	200.6	848.6	(819.5)	(7,810.2)
FII-Equity	511.1	493.8	1,004.8	1,838.1	3,915.5	(2,767.4)

Source: Bloomberg, Bank of Baroda | *Indicates change in bps, # 7.17 GS 2028 security is taken Baroda, ** 1Y yield is taken

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