

MACRO DAILY

01 October 2019

Macro developments

- India's core sector growth contracted by (-) 0.5% and to a 52-month low in Aug'19 from 2.7% in Jul'19. This was driven by weaker demand. The sharpest contraction amongst all the sectors was seen in coal at (-) 8.7% in Aug'19 (-1.6% in Jul'19). This was followed by crude oil (-5.5% vs 4.4% in Jul'19) and natural gas (-4% vs -0.6% in Jul'19). Going ahead, IIP is likely to fare weaker than expected.
- Centre's gross borrowings for H2FY20 were at Rs 2.68tn as per budgeted vs Rs 4.42tn in H1. Notably, >10 year issuances in H2 are at 75.4% (42% outstanding), implying biasedness for steeper yield curve. To meet revenue shortfall, government announced disinvestment, including 100% stake sale in certain CPSEs. We expect fiscal deficit at 3.5% of GDP in FY20, to support growth.
- China's official manufacturing PMI rose to 49.8 in Sep'19 from 49.5 in Aug'19 led by a pickup in demand. However, the index has stayed in the contraction zone for 5-months now, as escalating US-China trade war and a weak global outlook impinges on the manufacturing sector. Export orders contracted for 16th straight month as global demand remains muted.

Aditi Gupta

aditi.gupta3@bankofbaroda.com

Sameer Narang

chief.economist@bankofbaroda.com

Markets

- Bonds:** Global yields closed mixed amidst ongoing political tensions in US and UK, mixed manufacturing PMI in China and subdued GDP growth in UK. US 10Y yield fell by 2bps (1.66%). Oil prices declined by (-) 1.8% (US\$ 61/bbl) owing to demand concerns. India's 10Y yield fell by 3bps (6.7%). It is trading lower today at 6.69% as H2 borrowing plan was as per budgeted.
- Currency:** Except GBP (flat), other global currencies closed lower. EUR depreciated by (-) 0.4% to its lowest in 30-months as CPI inflation in Germany cooled off in Sep'19, signaling further easing by ECB. DXY rose by 0.3%. In line with Asian currencies, INR is trading higher today.
- Equity:** Barring Dow and Dax, global indices closed lower as investors remained jittery over the next course of action in the US-China trade deal. Shanghai Comp (-0.9%) fell the most, followed by Nikkei (-0.6%). Sensex (-0.4%) too ended in red dragged down by banking stocks. However, 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 | 1.66 | (2) | (6) | 17 | (36) | (142) |
| UK | 0.49 | (1) | (6) | 1 | (33) | (110) |
| Japan | (0.21) | 2 | (1) | 6 | (7) | (35) |
| Germany | (0.57) | 0 | 1 | 13 | (21) | (104) |
| India | 6.70 | (3) | (5) | 14 | (18) | (129) |
| China | 3.14 | 0 | 4 | 8 | (9) | (48) |
| 2Y yields (Δ bps) | | | | | | |
| US | 1.62 | (1) | (6) | 12 | (17) | (120) |
| UK | 0.37 | (3) | (12) | (3) | (24) | (47) |
| Japan | (0.32) | 0 | (2) | (2) | (10) | (20) |
| Germany | (0.77) | 0 | (2) | 16 | (1) | (23) |
| India | 5.78 | (2) | (1) | 0 | (50) | (204) |
| China | 2.56 | 0 | 2 | (3) | (7) | (41) |
| Currencies (Δ %) | | | | | | |
| EUR | 1.0899 | (0.4) | (0.9) | (0.8) | (3.4) | (5.9) |
| GBP | 1.2289 | 0 | (1.1) | 1.1 | (2.8) | (5.8) |
| JPY | 108.08 | (0.1) | (0.5) | (1.7) | 0.3 | 5.1 |
| AUD | 0.6750 | (0.2) | (0.3) | 0.3 | (3.1) | (6.6) |
| INR | 70.87 | (0.4) | 0.1 | 0.8 | (2.8) | 2.8 |
| CNY | 7.1483 | (0.4) | (0.4) | 0.1 | (4.3) | (4.1) |
| Equity & Other indices (Δ %) | | | | | | |
| Dow | 26,917 | 0.4 | (0.1) | 1.9 | 0.7 | 1.0 |
| FTSE | 7,408 | (0.2) | 1.1 | 2.8 | (1.2) | (1.2) |
| DAX | 12,428 | 0.4 | 0.7 | 4.1 | (0.7) | 0.7 |
| NIKKEI** | 21,756 | (0.6) | (1.5) | 5.1 | 0.1 | (10.3) |
| Shanghai Comp | 2,905 | (0.9) | (2.4) | 0.7 | (4.6) | 3.0 |
| SENSEX | 38,667 | (0.4) | (1.1) | 3.6 | (2.6) | 5.9 |
| Brent (US\$/bbl) | 60.78 | (1.8) | (6.2) | 0.6 | (6.6) | (28.5) |
| Gold (US\$/oz) | 1,472 | (1.6) | (3.3) | (3.1) | 6.4 | 23.8 |
| CRB Index | 387.6 | 0 | 0.3 | 0.1 | (4.6) | (6.7) |
| Rogers Agri Index | 712.4 | 1.2 | 1.3 | 4.3 | (4.6) | (7.7) |
| LIBOR (3M)* | 2.10 | (1) | (1) | (4) | (23) | (30) |
| INR 5Y Swap* | 6.38 | 0 | (2) | 19 | (33) | (133) |
| India FII data (US\$ mn) | | | | | | |
| | 27 Sep | 26 Sep | WTD | MTD | CYTD | FYTD |
| FII-Debt | (120.6) | (205.7) | (403.6) | (227.2) | 4,020.0 | 3,475.3 |
| FII-Equity | (42.6) | 1,569.8 | 1,767.6 | 996.9 | 8,203.0 | 1,357.8 |

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

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com