

MACRO DAILY

29 December 2020

Macro developments

- RBI's recent working paper has pointed out that current 4% inflation target is appropriate in the medium-term. This paper comes amidst reports that the government is considering to loosen the target in its next review in Mar'21. The paper explores trend or steady state inflation and says that the same has declined to 4.1- 4.3% since 2014. Thus setting a higher/lower target can result in expectation mismatches.
- As per the amended rule under GST, businesses with more than Rs 60mn annual turnover will have to pay atleast 1% of their GST liability in cash from 1 Jan 2021. This implies input tax credit (ITC) notes can be used to avoid only 99% of their GST liability. Government has clarified that this rule will not burden MSMEs and will impact only 45,000 tax payers from a total of base of 12mn taxpayers.
- Hong Kong's exports rose by 5.6% in Nov'20 following a decline of 1.1% in Oct'20, on a YoY basis supported by improvement in global economy. Exports to Germany (7.1%) and Asia (5.7%) rose the most. In terms of commodities, exports of electrical machinery (10.5%) showed maximum increase. Imports too accelerated to 5.1% in Nov'20 versus 0.6% in Oct'20 led by Korea (20.8%) and Taiwan (19.4%).

Jahnvi

jahnvi@bankofbaroda.com

Sameer Narang

+91 22 6698 5713

chief.economist@bankofbaroda.com

Markets

- **Bonds:** Except Germany and China, global yields were broadly stable. US and UK 10Y yield closed flat at 0.92% and 0.26% respectively as optimistic outcome from US fiscal stimulus and Brexit deal calmed investors. Crude prices fell by 0.8% (US\$ 51/bbl) amidst fear of new Covid-19 strain. India's 10Y yield also closed stable at 5.93% and is trading at the same level today.
- **Currency:** Except INR and EUR (lower), other global currencies ended lower. DXY rose by 0.1% as US fiscal stimulus deal moved forward. GBP fell by 0.8% despite finalisation of Brexit trade deal. INR rose by 0.1% as oil prices fell. It is trading further higher today, in line with other Asian currencies.
- **Equity:** Global indices ended higher led by optimism over US stimulus deal. Amongst other indices, Dax (1.5%) gained the most followed by Shanghai Comp (1.0%). Sensex (0.8%) too ended in green led by real estate and metal stocks. 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	0.92	0	(1)	9	27	(96)
UK	0.26	0	5	(3)	6	(61)
Japan	0.03	1	1	(1)	0	4
Germany	(0.57)	(2)	2	2	(4)	(38)
India	5.93	0	(3)	2	(13)	(62)
China	3.17	(6)	(10)	(15)	5	2
2Y yields (Δ bps)						
US	0.12	0	0	(3)	(1)	(145)
UK	(0.12)	0	(2)	(8)	(7)	(72)
Japan	(0.12)	0	1	2	2	1
Germany	(0.71)	0	3	5	0	(10)
India	3.88	(1)	(1)	(4)	(57)	(194)
China	2.59	(7)	(12)	(33)	(1)	30
Currencies (Δ %)						
EUR	1.2216	0.2	(0.2)	2.1	4.7	9.1
GBP	1.3452	(0.8)	(0.1)	1.1	4.8	2.6
JPY	103.81	(0.2)	(0.5)	0.3	1.6	4.7
AUD	0.7579	(0.2)	(0.1)	2.6	7.2	8.4
INR	73.50	0.1	0.4	0.7	0.4	(3.1)
CNY	6.5371	(0.1)	0.2	0.6	4.0	6.4
Equity & Other indices (Δ %)						
Dow	30,404	0.7	0.6	1.7	10.2	6.8
FTSE	6,502	0.1	1.3	2.1	9.7	(14.3)
DAX	13,790	1.5	4.1	3.4	7.1	4.1
NIKKEI	26,854	0.7	0.5	0.8	14.2	13.5
Shanghai Comp	3,397	1.0	(0.7)	(0.3)	5.6	11.8
SENSEX	47,354	0.8	4.0	7.3	24.7	13.9
Brent (US\$/bbl)	50.86	(0.8)	(0.1)	5.6	19.9	(25.7)
Gold (US\$/oz)	1,874	(0.5)	(0.2)	4.8	(0.4)	23.7
CRB Index	441.5	0.2	0.9	3.0	9.3	9.7
Rogers Agri Index	861.4	(0.2)	1.2	3.0	16.0	13.4
LIBOR (3M)*	0.24	(1)	0	1	2	(167)
INR 5Y Swap*	5.27	1	(7)	9	(17)	(147)
India FII data (US\$ mn)						
	24 Dec	23 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	195.2	(144.1)	(118.6)	645.0	(13,974.2)	(4,214.7)
FII-Equity	(68.4)	94.8	465.5	6,382.3	22,488.0	29,090.9

Source: Bloomberg, Bank of Baroda | *Indicates change in bps | FTSE was closed on 28.12.20

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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