

MACRO DAILY

07 June 2019

Macro developments

- RBI surprised with a change in stance to accommodative from neutral while reducing policy rate by 25bps. It reduced its GDP forecast for FY20 to 7% and retained its FY20 inflation forecast at 3.3%. We expect RBI to further reduce policy rate by another 25bps in Aug'19 or Oct'19 as growth is likely to remain below 7% and inflation below 4%. However, volatile oil prices, below normal monsoon or change in fiscal projections remain key risks.
- ECB kept key policy rates unchanged and sounded dovish on global growth concerns. Several members also raised the possibility of further rate cut and resuming the asset purchase program that ended in Dec'18. It also revealed the details of quarterly targeted longer-term refinancing operations (TLTRO III) saying that ECB would give banks credit at rates just 10 basis points above its (-) 0.4% deposit rate, thus stimulating lending demand.
- US jobless claims remained unchanged from its previous week level of 218,000 for the week ending 1 Jun 2019. The 4-week moving average also fell by 1,000 to 1,672,750 as against its previous week's level, indicating buoyant labour market conditions. This in turn stimulated hopes of rate cut by Fed in the near term on the back of growth concerns in the economy.

Jahnvi
jahnvi@bankofbaroda.com
Sameer Narang
chief.economist@bankofbaroda.com

Markets

- **Bonds:** Barring Japan and China, global yields closed lower as major central banks such as ECB and RBI highlighted global growth concerns. US 10Y yield closed lower by 2bps at 2.12% as hopes of rate cut escalated. Crude rose by 1.7% (US\$ 62/bbl). India's 10Y yield closed at its lowest (9bps) since 21 Nov 2017 at 6.93% prompted by RBI's 3rd consecutive rate cut decision. It was trading at 6.95% today.
- **Currency:** Except INR and CNY, global currencies closed higher against the dollar. DXY fell by (-) 0.3% ahead of the US jobs report. EUR strengthened by 0.5% as ECB revised its forward guidance policy. INR is trading higher today in line with other Asian currencies.
- **Equity:** Global indices ended mixed after ECB delayed its first post-crisis rate hike decision. Dow gained by 0.7% as US and Mexico trade talks made some progress. Sensex registered its biggest loss (- 1.4%) in CY19 as RBI refrained from mentioning any measure towards NBFCs liquidity crisis. Asian markets are trading mixed.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.12	(2)	(10)	(35)	(52)	(80)
UK	0.83	(4)	(7)	(39)	(35)	(58)
Japan	(0.12)	0	(4)	(8)	(11)	(18)
Germany	(0.24)	(1)	(6)	(25)	(31)	(72)
India	6.93	(9)	(20)	(46)	(45)	(106)
China	3.25	1	(4)	(11)	8	(43)
2Y yields (Δ bps)						
US	1.88	(0)	(18)	(41)	(59)	(61)
UK	0.54	(6)	(7)	(25)	(19)	(20)
Japan	(0.20)	(2)	(4)	(5)	(6)	(8)
Germany	(0.65)	(1)	(1)	(6)	(11)	(4)
India	6.28	(14)	(23)	(49)	(42)	(139)
China**	2.53	(2)	(6)	(13)	8	(64)
Currencies (Δ %)						
EUR	1.1276	0.5	1.3	0.7	0.7	(4.4)
GBP	1.2694	0.1	0.7	(3.1)	(3.0)	(5.4)
JPY	108.40	0.1	1.1	2.1	2.8	1.2
AUD	0.6977	0.1	0.9	(0.2)	(0.6)	(8.5)
INR	69.28	0	0.9	0.2	1.0	(3.2)
CNY	6.9096	0	(0.1)	(2.1)	(2.9)	(8.1)
Equity & Other indices (Δ %)						
DOW	25,721	0.7	2.2	(2.7)	1.0	1.9
FTSE	7,260	0.5	0.6	(1.6)	1.4	(5.8)
DAX	11,953	(0.2)	0.4	(2.7)	3.8	(6.7)
NIKKEI	20,774	0	(0.8)	(5.2)	(3.2)	(9.0)
Shanghai Comp	2,828	(1.2)	(2.7)	(2.7)	(9.0)	(9.1)
SENSEX	39,530	(1.4)	(0.8)	2.4	7.6	11.5
Brent (USD/bbl)	61.67	1.7	(7.8)	(13.4)	(7.0)	(20.2)
Gold (USD/oz)	1,335	0.4	3.6	4.2	3.9	2.9
CRB Index	415.8	0.3	(0.4)	(0.4)	0.5	(7.0)
Rogers Agri Index	750.3	1.1	(1.2)	5.3	1.5	(11.1)
LIBOR (3M)*	2.47	0	(5)	(9)	(13)	14
INR 5Yr Swap*	6.57	(8)	(18)	(67)	(44)	(73)
India FII data (US\$ mn)						
	4 Jun	3 Jun	WTD	MTD	CYTD	FYTD
FII-Debt	225.5	104.1	329.6	329.6	565.3	(451.1)
FII-Equity	19.6	338.6	358.2	358.2	11,548.2	3,253.5

Source: Bloomberg, Bank of Baroda | *Indicates change in bps, ** 1Y yield

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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