

MACRO DAILY

13 March 2020

Macro developments

- CPI inflation in India edged down to 6.6% in Feb'20 (7.6% in Jan'20) led by moderation in prices of vegetables and fruits. Core also fell by 10bps to 4.1% due to fall in retail fuel prices. While industrial output rebounded to 2% in Jan'20, we expect domestic economic activity to decelerate on the back of supply and demand disruption because of COVID-19. The current growth-inflation mix calls for 25-40bps cut in policy rate.
- India's CAD fell to US\$ 1.4bn (0.2% of GDP) in Q3FY20 from US\$ 6.5bn in Q2FY20 (0.9% of GDP) on the back of lower trade deficit. Sharp increase in FPI inflows in Q3 led to BoP surplus of US\$21.6bn vs US\$ 5.1bn in Q2. We expect CAD at 0.6% in FY21.
- Against market expectations (-10bps), ECB has kept the policy rates unchanged in Mar'20. However, it has announced measures to support banks and increase its asset purchase program by €120bn. To support lending, European banks will be able to borrow from ECB at (-) 0.75%, lower than (-) 0.5% deposit rate. With ECB's interest rates already in the negative territory, the scope for further lowering of rates is limited.

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Markets

- **Bonds:** Global yields closed mixed amidst concerns over impact of COVID-19 on economic activity. US 10Y yield fell by 7bps (0.8%) supported by Fed's move to provide US\$ 1.5tn of short term liquidity. Oil prices fell sharply by (-) 7.2% (US\$ 33/bbl). India's 10Y yield rose by 11bps (6.24%) as weaker rupee ignited fear of FPI outflow from debt segment. It is trading further higher at 6.33% today.
- **Currency:** Global currencies closed lower against the dollar, with AUD (-3.8%) falling to its lowest since Nov'08. DXY rose by 0.6%. EUR fell by (-) 0.8% as ECB stimulus measures failed to lift investor sentiments. INR also fell by (-) 0.8%. It opened at an all-time low of 74.5/\$ today. Asian currencies are also trading lower.
- **Equity:** Amidst escalated concerns over the spread of COVID-19, global indices plummeted to an all-time low, raising fears of economic slowdown. Dax (-12.2%) dropped the most followed by FTSE (-10.9%) and Dow (-10%). Sensex (-8.2%) too slumped registering its biggest single-day selloff. It is trading lower 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	0.80	(7)	(11)	(77)	(109)	(183)
UK	0.27	(3)	(7)	(29)	(56)	(96)
Japan	(0.06)	1	6	0	(5)	(2)
Germany	(0.74)	0	(5)	(33)	(47)	(83)
India	6.24	11	0	(21)	(54)	(113)
China	2.63	(1)	(6)	(16)	(56)	(52)
2Y yields (Δ bps)						
US	0.48	(4)	(12)	(91)	(118)	(198)
UK	0.20	5	5	(29)	(38)	(57)
Japan	(0.22)	0	2	(7)	(10)	(6)
Germany	(0.93)	2	(8)	(29)	(31)	(40)
India	5.42	9	2	(35)	(35)	(120)
China	1.96	(1)	(34)	(33)	(63)	(47)
Currencies (Δ %)						
EUR	1.1185	(0.8)	(0.5)	2.5	0.5	(1.1)
GBP	1.2571	(1.9)	(3.0)	(2.7)	(4.5)	(5.1)
JPY	104.64	(0.1)	1.4	4.7	4.3	6.3
AUD	0.6236	(3.8)	(5.7)	(6.7)	(9.7)	(11.7)
INR	74.22	(0.8)	(1.2)	(4.1)	(4.8)	(7.0)
CNY	7.0294	(1.0)	(1.3)	(0.6)	(0.6)	(4.6)
Equity & Other indices (Δ %)						
Dow	21,201	(10.0)	(18.8)	(27.6)	(24.6)	(17.5)
FTSE	5,237	(10.9)	(21.9)	(29.7)	(28.0)	(27.1)
DAX	9,161	(12.2)	(23.3)	(32.1)	(30.7)	(20.9)
NIKKEI	18,560	(4.4)	(13.0)	(21.6)	(20.8)	(12.8)
Shanghai Comp	2,923	(1.5)	(4.8)	1.1	0.3	(2.2)
SENSEX	32,778	(8.2)	(14.8)	(20.0)	(19.2)	(13.2)
Brent (US\$/bbl)	33.22	(7.2)	(33.5)	(37.6)	(48.3)	(50.6)
Gold (US\$/oz)	1,576	(3.6)	(5.7)	0.3	7.2	21.6
CRB Index	395.9	0	(0.8)	(1.4)	0.3	(5.3)
Rogers Agri Index	673.2	(2.2)	(5.1)	(8.9)	(8.5)	(10.2)
LIBOR (3M)*	0.77	(1)	(23)	(94)	(112)	(184)
INR 5Y Swap*	5.61	(4)	(20)	(85)	(97)	(102)
India FII data (US\$ mn)						
	11 Mar	9 Mar	WTD	MTD	CYTD	FYTD
FII-Debt	(1,077.1)	124.3	(952.9)	(1,199.5)	(2,766.6)	177.6
FII-Equity	(472.0)	(948.2)	(1,420.2)	(2,666.6)	(879.6)	6,509.6

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

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