

MACRO DAILY

18 November 2020

Macro developments

- RBI's data showed that state borrowings in FYTD21 are up by 49% compared with last year and stood at Rs 4.48tn as of 17 Nov 2020. Cost of borrowing remains a concern for states as the average gap between SDLs and G-sec is beginning to inch up again. While it was at 54bps in the last auction it rose to 61bps in the recent auction held on 17 Nov 2020. However, RBI's OMO has supported the average gap which went down to 53.8bps in Nov'20 from 61.1 in Oct'20.
- US retail sales rose at the slowest pace in 6-months by 0.3% in Oct'20 (est.: 0.5%) and against 1.6% increase in Nov'20. Excluding auto and gasoline, sales rose by only 0.2%, reflecting muted consumption demand. Industrial production on the other hand rose by 1.1% against 0.4% decline in Sep'20, led by increase in utilities (3.9% against -5.2% in Sep'20).
- RBA in its minutes re-affirmed that lower policy rates will continue as long as needed and are already showing effects. It observed that borrowing costs have fallen, exchange rate is low and there is steady growth in asset prices. In terms of forward guidance, it confirmed that targeting of 3-year bond rate will be continued instead of using 5-year bond rate. Unemployment was also given more weightage in the discussion.

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Markets

- **Bonds:** Global yields closed mixed amidst hopes of Brexit trade deal and surging Covid-19 cases in US, Japan, South Korea and Australia. US 10Y yield fell by 5bps (0.86%) as Fed Chairman hinted at long way to recovery. Crude prices fell by 0.2% (US\$ 44/bbl) due to rising US inventory. India's 10Y yield closed flat at 5.88%. It is trading at 5.87% today.
- **Currency:** Barring AUD, global currencies closed higher. GBP, JPY and CNY rose the most by 0.4% and DXY fell by 0.2% supported by optimism around vaccine development. INR also rose by 0.2% following global cues. It is trading lower today while other Asian currencies are trading mixed.
- **Equity:** Global indices closed mixed. FTSE fell the most (0.9%) followed by Dow (0.6%) as respective Central Bank officials warned of downside risks to growth amidst rising Covid-19 cases. Sensex on the other hand rose by 1.2% to its record high level of 43,953, led by banking stocks. It is trading flat today while other Asian stocks are trading mixed.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	0.86	(5)	(10)	11	19	(93)
UK	0.32	(3)	(8)	14	11	(41)
Japan	0.03	0	(2)	0	(1)	11
Germany	(0.56)	(2)	(8)	6	(10)	(22)
India	5.88	0	(4)	(6)	(8)	(60)
China	3.28	1	6	7	30	11
2Y yields (Δ bps)						
US	0.17	(1)	(1)	3	3	(143)
UK	(0.03)	(1)	(4)	2	1	(60)
Japan	(0.14)	0	(2)	0	(3)	7
Germany	(0.72)	0	(1)	5	(6)	(9)
India	4.07	(3)	(8)	(18)	(20)	(139)
China	2.85	2	8	13	59	20
Currencies (Δ %)						
EUR	1.1862	0.1	0.4	1.2	(0.6)	7.1
GBP	1.3246	0.4	(0.2)	2.6	0.1	2.5
JPY	104.19	0.4	1.1	1.1	1.2	4.0
AUD	0.7301	(0.3)	0.2	3.1	0.8	6.9
INR	74.46	0.2	(0.4)	(1.5)	0.4	(3.8)
CNY	6.5567	0.4	0.9	2.1	5.3	6.7
Equity & Other indices (Δ %)						
Dow	29,783	(0.6)	1.2	4.1	7.2	6.6
FTSE	6,365	(0.9)	1.1	7.5	4.8	(13.1)
DAX	13,133	0	(0.2)	1.7	2.0	(0.7)
NIKKEI	26,015	0.4	4.5	11.1	12.9	11.7
Shanghai Comp	3,340	(0.2)	(0.6)	0.1	(3.2)	13.8
SENSEX	43,953	1.2	1.6	9.9	14.1	8.6
Brent (US\$/bbl)	43.75	(0.2)	0.3	1.9	(3.8)	(28.2)
Gold (US\$/oz)	1,880	(0.5)	0.2	(1.0)	(6.1)	27.7
CRB Index	421.2	0.2	1.0	2.4	9.7	8.3
Rogers Agri Index	823.0	0.3	0.8	5.2	15.1	13.4
LIBOR (3M)*	0.22	0	1	0	(3)	(167)
INR 5Y Swap*	5.12	(1)	(2)	(17)	(24)	(139)
India FII data (US\$ mn)						
	13 Nov	12 Nov	WTD	MTD	CYTD	FYTD
FII-Debt	(0.6)	(42.7)	61.9	147.6	(14,082.1)	(4,322.6)
FII-Equity	231.8	478.1	2,655.9	4,388.1	10,934.6	17,537.6

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

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