

MACRO DAILY

14 December 2021

Macro developments

- FDI inflows into India fell to US\$ 13.6bn in Q2FY22 compared with US\$ 17.6bn in Q1FY22. On a YoY basis, FDI inflows fell by 42%. However, over a 2-year horizon FDI inflows are up by 39.1%. In H1FY22, total FDI inflows stand at US\$ 31.2bn compared with US\$ 30bn in the same period last year. Singapore remained the top source for FDI inflows into India in Q2, accounting for 35% of the total FDI inflows. Sectorwise, computer hardware and software (29.9%) and trading (10.7%), accounted for the bulk of FDI inflows in Q2FY22.
- India's CPI inflation rose to 4.9% in Nov'21 from 4.5% in Oct'21 led by food inflation (1.9% versus 0.8% in Oct'21). Core inflation however eased by 10bps to 6.1%, due to lower oil prices. Going forward, we expect core inflation to remain sticky due to pent-up demand. Overall, we expect CPI inflation at 5.5% in FY22. While RBI remained dovish in Oct'21 meet, it is likely to be watchful of the rising inflation. Thus RBI is likely to raise reverse repo rate in Q4FY22, followed by a hike in repo rate in Q1FY23.
- ADB has trimmed its growth forecast for Developing Asia to 7% in CY21 (7.1% in Sep'21) and 5.3% for CY22 (5.4% in Sep'21). It noted that while Covid-19 infections have slowed down in Developing Asia, the 'emergence of fast spreading-variant suggest that the pandemic will take time to play out'. Moreover, slower pace of recovery in China due to debt issues in property market, surging prices and slowdown in manufacturing sector is also partly responsible for slower recovery in other sub regions. Further, it expects inflation to be manageable in Asia and hence monetary policy is likely to remain supportive of growth.

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Markets

- Bonds:** Global yields closed mixed amidst renewed fears over Omicron. Investors also await policy decision of major central banks. US 10Y yield fell the most by 7bps (1.42%) despite New York Fed Reserve survey showing rising short term inflation expectations. Crude prices fell by 1% (US\$ 74/bbl) as ADB trimmed its growth forecast for Developing Asia. India's 10Y yield closed flat at 6.37%. It is trading at 6.36% today.
- Currency:** Except INR and CNY (flat), other global currencies closed lower. DXY rose by 0.2% on expectations of a faster than anticipated pace of tightening by Fed. AUD fell the most by 0.6%, followed by GBP (down by 0.4%). INR is trading lower today in line with other Asian currencies.
- Equity:** Global indices ended mixed as investors turned their attention towards global central banks meet scheduled later this week. While Nikkei (0.7%) gained the most, Dow (0.9%) ended in red. Sensex too declined by 0.9% led by weaker global cues and was dragged down by real estate and oil and gas stocks. It is trading further 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	1.42	(7)	(2)	(15)	9	52
UK	0.70	(4)	(4)	(22)	(5)	48
Japan	0.05	0	1	(2)	0	4
Germany	(0.38)	(4)	1	(12)	(5)	24
India	6.37	0	1	0	18	48
China	2.89	1	2	(5)	0	(42)
2Y yields (Δ bps)						
US	0.63	(2)	0	12	42	52
UK	0.40	(3)	(7)	(13)	17	49
Japan	(0.10)	0	0	1	0	3
Germany	(0.70)	(1)	2	4	0	7
India	4.52	2	(7)	(4)	40	61
China	2.49	(1)	0	2	(2)	(46)
Currencies (Δ %)						
EUR	1.1284	(0.3)	0	(1.4)	(4.5)	(7.1)
GBP	1.3217	(0.4)	(0.4)	(1.5)	(4.5)	(0.8)
JPY	113.54	(0.1)	(0.1)	0.3	(3.2)	(9.1)
AUD	0.7131	(0.6)	1.1	(2.7)	(3.2)	(5.4)
INR	75.76	0	(0.4)	(1.8)	(2.8)	(3.0)
CNY	6.3670	0	0.1	0.2	1.3	2.8
Equity & Other indices (Δ %)						
Dow	35,651	(0.9)	1.2	(1.2)	2.2	19.4
FTSE	7,231	(0.8)	0	(1.6)	2.3	10.7
DAX	15,622	0	1.6	(2.9)	(0.5)	18.1
NIKKEI	28,640	0.7	2.6	(3.3)	(5.9)	7.1
Shanghai Comp	3,681	0.4	2.6	4.0	(0.9)	9.3
SENSEX	58,283	(0.9)	2.7	(4.0)	0.2	26.0
Brent (US\$/bbl)	74.39	(1.0)	1.8	(9.5)	1.2	47.9
Gold (US\$/oz)	1,787	0.2	0.4	(4.2)	(0.4)	(2.2)
CRB Index	569.0	(0.3)	0	(0.3)	2.5	30.6
Rogers Agri Index	1,163.5	(0.1)	(0.1)	(0.4)	10.5	40.1
LIBOR (3M)*	0.20	0	1	4	8	(2)
INR 5Y Swap*	5.67	0	0	(22)	(7)	43
India FII data (US\$ mn)						
	10 Dec	9 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	(101.1)	(50.8)	(312.8)	(331.4)	(248.1)	1,779.2
FII-Equity	(122.0)	1,052.7	379.0	(423.4)	5,079.1	(2,247.3)

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

