

MACRO DAILY

15 November 2018

Macro developments

- RBI remained a net seller of US\$ for the sixth consecutive month and sold US\$ 31mn in Sep'18 in the spot market, down sharply from US\$ 2.3bn in Aug'18. However, RBI's intervention in the forwards market continued at a steady pace and it sold US\$ 7.1bn in Sep'18 vs US\$ 5bn in Aug'18. In CYTD18, RBI's overall FX intervention (cash + forward) is at US\$ 39bn (net sales) while INR has depreciated by 12% in the same period.
- Q3CY18 GDP of Japan, Germany and Eurozone indicates an economic slowdown in the developed countries. While GDP in Japan and Germany contracted on a QoQ basis, by (-) 0.3% and (-) 0.2% respectively, growth in Eurozone slowed to 0.2% vs 0.4% in Q2. Weaker exports and slowing domestic consumption impacted both Japan and Germany, but in Japan natural disasters were an additional cause for the declining output.
- Retail inflation in US rose to its 9-month high on a MoM basis (0.3% in Oct'18 vs 0.1% in Sep'18). This was led by higher cost of gasoline and rent. On an annualised basis, it rose by 2.5% vs 2.3% in Sep'18. This has further fuelled hopes of Fed's fund rate hike along the desired trajectory. Elsewhere in UK and France, CPI remained unchanged at 2.4% and 2.2% respectively.

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Markets

- **Bonds:** Barring Japan, global yields closed lower. US 10Y yields declined a tad by 1bps (3.13%) as US inflation remained on expected lines. Crude prices rose by 1% (US\$ 66/bbl) as fear of production cut looms amidst oversupply in the market. Indian 10Y yields fell by 3bps (7.73%) supported by buying from foreign and private banks. It was trading at 7.75% today.
- **Currency:** All major global currencies closed higher as dollar eased (DXY: - 0.5%). EUR and GBP ended higher (up 0.2% and 0.1% respectively) after the British cabinet approved the draft Brexit deal. INR ended higher by 0.5% on the back of lower crude prices. It opened further higher today in line with other Asian currencies.
- **Equity:** Barring Nikkei, other indices ended in red with Dow and Shanghai Comp losing the most, led by growing trade concerns and weaker global GDP data for Q3CY18. European markets were also weighed down by doubts over getting parliament approval for the agreed upon Brexit deal. Asian markets were trading mixed today, but Sensex opened higher.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	3.13	(1)	(11)	(3)	26	75
UK	1.51	(1)	(3)	(10)	28	19
Japan	0.11	0	(1)	(3)	1	6
Germany	0.40	(1)	(5)	(11)	9	0
India	7.73	(3)	(7)	(19)	(9)	68
China	3.43	(5)	(8)	(17)	(16)	(56)
2Y yields (Δ bps)						
US	2.87	(2)	(9)	1	26	118
UK	0.79	(2)	(3)	(3)	10	30
Japan	(0.14)	0	(1)	(2)	(3)	4
Germany	(0.57)	0	2	0	8	17
India	7.35	(6)	(13)	(30)	(16)	99
China#	2.60	(2)	(17)	(25)	(26)	(100)
Currencies (Δ %)						
EUR	1.1310	0.2	(1.0)	(2.3)	(0.3)	(4.1)
GBP	1.2992	0.1	(1.0)	(1.2)	2.3	(1.3)
JPY	113.63	0.2	(0.1)	(1.7)	(2.6)	(0.1)
AUD	0.7232	0.2	(0.6)	1.4	(0.1)	(5.2)
INR	72.31	0.5	0.9	2.0	(3.5)	(10.5)
CNY	6.9505	0.1	(0.4)	(0.5)	(0.2)	(4.7)
Equity & Other indices (Δ %)						
DOW	25,081	(0.8)	(4.2)	(0.7)	(0.3)	7.1
FTSE	7,034	(0.3)	(1.2)	0.1	(6.2)	(5.1)
DAX	11,413	(0.5)	(1.4)	(1.7)	(6.2)	(12.4)
NIKKEI	21,846	0.2	(1.1)	(1.9)	(1.6)	(2.4)
Shanghai Comp	2,632	(0.9)	(0.3)	2.5	(3.3)	(23.2)
SENSEX	35,142	0	(0.3)	0.8	(7.2)	6.7
Brent (USD/bbl)	66.12	1.0	(8.3)	(18.1)	(6.6)	6.3
Gold (USD/oz)	1,211	0.7	(1.3)	(1.3)	3.1	(5.4)
CRB Index	414.5	0.2	(0.7)	(1.1)	0.1	(3.7)
Rogers Agri Index	772.4	0.3	(1.2)	(3.6)	(2.1)	(4.6)
LIBOR (3M)*	2.62	0	2	17	30	120
INR 5Yr Swap*	7.58	(5)	(21)	(16)	14	114
India** FII data (US\$ mn)						
	13 Nov	12 Nov	WTD	MTD	CYTD	FYTD
FII-Debt	(36.3)	(85.3)	(121.6)	550.5	(7,910.7)	(8,156.7)
FII-Equity	128.6	328.2	456.8	168.0	(5,590.2)	(7,715.7)

Source: Bloomberg, Bank of Baroda | #1 year yield is taken, *Indicates change in bps

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