


MACRO DAILY

03 December 2018

Macro developments

- India's fiscal deficit has reached Rs 6.5tn or 103.9% of BE by Oct'18. On a 12M trailing basis, total expenditure growth dipped to 8.7% in Oct'18 vs 10.5% in Oct'17, led by a steep fall in capex (-14.2% vs 38.1% in Oct'17). Revenue receipts were also down (6.3% vs 8% last year), mainly on account of lower tax revenue growth (5.4% in Oct'18 vs 15.3% last year).
- India's infrastructure index rose to a 3-month high of 4.8% in Oct'18 from 4.3% in Sep'18. This was led by improvement in cement, coal and electricity industry which rose by 18.4% (vs 11.8%), 10.6% (vs 6.4) and 11.4% (vs 8.2%) respectively in Oct'18. However, a sharp decline in crude oil (-5%) and fertilizer industry (-11.5%) remains worrisome. Going forward, we expect industrial production to improve in Oct'18.
- China's official manufacturing PMI index slipped to 50 in Nov'18 from 50.2 in Oct'18. The drop was led by declining new orders (50.4 vs 50.8 in Oct'18), especially continued contraction in new export orders since Jun'18. Output price index, an indicator of profitability, contracted for the first time in 8 months in Nov'18 to 46.4 vs 52 in Oct'18, suggesting deepening economic slowdown.

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Markets

- Bonds:** Global yields closed mixed. US 10Y yields closed lower by 4bps (2.99%) as Fed minutes reflected that fund rates are moving closer to neutrality. Crude prices declined by 1.3% (US\$ 59/bbl). The temporary pause seen in US-China tariff war and upcoming OPEC meeting are likely to guide future course of oil prices. Indian yields closed flat at 7.61%. It was trading higher at 7.64% today.
- Currency:** Except INR which ended higher, other currencies closed lower. DXY ended higher by 0.5% as investors awaited the outcome of trade talks between US and China at the G20 meet. INR strengthened by 0.4% on the back of lower oil prices (down 1.3%). It was trading lower today, after GDP growth slipped to 7.1% in Q2FY19 from 8.2% in Q1FY19.
- Equity:** Barring FTSE and Dax, global indices closed higher with Dow and Shanghai Comp gaining the most. Hopes of a positive outcome from the G20 summit and Fed's dovish comment boosted investor sentiments. Both Asian markets and Sensex were trading higher in the morning session today.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.99	(4)	(5)	(16)	13	58
UK	1.36	0	(2)	(7)	(6)	3
Japan	0.09	1	(1)	(4)	(2)	5
Germany	0.31	(1)	(3)	(7)	(1)	(5)
India	7.61	0	(10)	(25)	(35)	55
China	3.38	0	(4)	(16)	(22)	(54)
2Y yields (Δ bps)						
US	2.79	(2)	(2)	(8)	16	100
UK	0.78	1	3	3	5	26
Japan	(0.13)	1	1	(1)	(2)	3
Germany	(0.60)	0	(2)	2	1	9
India	7.23	(2)	(7)	(34)	(47)	88
China#	2.50	(2)	(5)	(39)	(35)	(126)
Currencies (Δ %)						
EUR	1.1317	(0.7)	(0.2)	0	(2.5)	(4.9)
GBP	1.2749	(0.3)	(0.5)	(0.1)	(1.6)	(5.7)
JPY	113.57	(0.1)	(0.5)	(0.6)	(2.3)	(0.9)
AUD	0.7306	(0.2)	1.0	3.3	1.6	(3.4)
INR	69.58	0.4	1.6	5.9	2.0	(8.0)
CNY	6.9605	(0.3)	(0.2)	0.2	(1.9)	(5.3)
Equity & Other indices (Δ %)						
DOW	25,538	0.8	5.2	1.7	(1.6)	5.2
FTSE	6,980	(0.8)	0.4	(2.1)	(6.1)	(4.7)
DAX	11,257	(0.4)	0.6	(1.7)	(9.0)	(13.6)
NIKKEI	22,351	0.4	3.3	2.0	(2.2)	(1.6)
Shanghai Comp	2,588	0.8	0.3	(0.6)	(5.0)	(22.0)
SENSEX	36,194	0.1	3.5	5.1	(6.3)	9.2
Brent (USD/bbl)	58.71	(1.3)	(0.2)	(22.2)	(24.2)	(7.6)
Gold (USD/oz)	1,221	(0.3)	(0.2)	0.5	1.6	(4.3)
CRB Index	414.2	0.3	(0.3)	(0.5)	0.7	(3.5)
Rogers Agri Index	773.6	0.5	0.8	0.3	(1.4)	(4.6)
LIBOR (3M)*	2.74	3	5	20	42	126
INR 5Yr Swap*	7.53	6	0	(19)	10	102
India FII data (US\$ mn)						
	29 Nov	28 Nov	WTD	MTD**	CYTD	FYTD
FII-Debt	(75.6)	100.1	(157.0)	868.0	(7,593.3)	(7,839.3)
FII-Equity	171.0	161.6	609.6	891.1	(4,867.1)	(6,992.6)

Source: Bloomberg, Bank of Baroda | #1 year yield is taken, *Indicates change in bps, **figures for Nov'18

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