


MACRO DAILY

20 December 2018

Macro developments

- Niti Aayog has suggested a slew of measures through its strategy document for increasing the economy's size to US\$ 4tn by 2023, by sustaining 8% or more growth. It suggests bumping tax-GDP ratio to 22% vs current 17% and focusing towards housing and infrastructure. More efforts are even needed for manufacturing and exports, and rationalising direct taxes.
- US Fed in its Dec'18 policy raised fed fund rate by 25bps to 2.25-2.5%. Further, two more rate hikes are indicated in the dot plot against earlier estimates of three. This dovish approach is on the back of muted growth. Real GDP is now estimated to be around 10bps & 20bps lower (3% & 2.3% in CY18 & CY19 respectively) vs its earlier forecast. Inflation has also been projected lower at 1.9% both in CY18 & CY19 vs est: 2.1 & 2% respectively.
- BoJ in its latest meeting has decided to continue with its "ultra-loose" monetary policy, by keeping its short-term interest rates at (-) 0.1% and 10Y bond yield around 0%. Its forward guidance, to keep low interest rates for an extended period of time, also remains unchanged. Downside risks to global growth, trade war concerns and slumping oil prices (thus lowering Japan's inflation) are touted to be the key reasons behind this decision.

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Markets

- **Bonds:** Except Japan, global yields closed lower. This was driven by dovish tone reflected in Fed policy over future pace of rate hikes. In response, US 10Y yields declined by 6bps (2.75%). Indian 10Y yields declined by 13bps (7.22%) supported by RBI's OMO purchases and expecting signals for change in stance from RBI's minutes. It opened at 7.26% today.
- **Currency:** Global currencies closed mixed ahead. DXY ended lower by (-) 0.1% after US Fed hiked rates by 25bps and signalled 2 more rate hikes in CY19. While JPY & INR closed unchanged, EUR & CNY appreciated by 0.1%. AUD depreciated the most (-1%). GBP also ended lower by (-) 0.2%. INR was trading lower today, in line with other Asian currencies.
- **Equity:** Global indices closed lower with Dow falling by (-) 1.5% led by last rate hike by Fed for CY18 and lowering its projections to two rate hike from previous three in CY19. However, European indices closed higher led by breakthrough on the budget deal between Italy and EU. Both Asian markets and Sensex were trading lower today.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.75	(6)	(15)	(31)	(31)	29
UK	1.27	(1)	0	(10)	(33)	7
Japan	0.04	1	(2)	(6)	(9)	(1)
Germany	0.24	(1)	(4)	(13)	(25)	(14)
India	7.22	(13)	(19)	(57)	(85)	4
China	3.36	(2)	7	(3)	(32)	(54)
2Y yields (Δ bps)						
US	2.65	0	(13)	(14)	(14)	79
UK	0.73	(2)	(2)	3	(11)	27
Japan	(0.15)	0	(1)	(1)	(5)	0
Germany	(0.60)	0	(4)	(2)	(8)	8
India	6.88	(4)	(16)	(46)	(107)	41
China#	2.50	(3)	(5)	(39)	(35)	(128)
Currencies (Δ %)						
EUR	1.1376	0.1	0	(0.7)	(2.5)	(3.9)
GBP	1.2610	(0.2)	(0.2)	(1.9)	(4.1)	(5.8)
JPY	112.48	0	0.7	0.1	(0.2)	0.4
AUD	0.7109	(1.0)	(1.5)	(2.5)	(2.1)	(7.2)
INR	70.40	0	2.3	1.8	2.7	(9.9)
CNY	6.8911	0.1	(0.2)	0.7	(0.6)	(4.3)
Equity & Other indices (Δ %)						
DOW	23,324	(1.5)	(4.9)	(6.8)	(11.7)	(5.8)
FTSE	6,766	1.0	(1.7)	(3.4)	(7.7)	(10.3)
DAX	10,766	0.2	(1.5)	(4.3)	(11.9)	(18.5)
NIKKEI	20,988	(0.6)	(2.8)	(3.8)	(11.3)	(8.2)
Shanghai Comp	2,550	(1.1)	(2.0)	(5.7)	(6.6)	(22.7)
SENSEX	36,484	0.4	2.0	2.0	(1.7)	7.8
Brent (USD/bbl)	57.24	1.7	(4.8)	(14.3)	(27.9)	(10.3)
Gold (USD/oz)	1,243	(0.5)	(0.2)	1.5	3.2	(1.5)
CRB Index	412.8	(0.1)	(0.6)	(1.3)	0.1	(4.1)
Rogers Agri Index	772.6	(0.5)	(1.1)	0.2	1	(2.7)
LIBOR (3M)*	2.79	(1)	1	15	44	115
INR 5Yr Swap*	7.14	(4)	(9)	(48)	(53)	106
India** FII data (US\$ mn)						
	18 Dec	17 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	53.9	(1.7)	52.2	280.1	(7,292.0)	(7,538.0)
FII-Equity	(47.9)	(28.2)	(76.1)	373.2	(4,516.6)	(6,642.1)

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

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