

MACRO DAILY

19 December 2018

Macro developments

- To address rural distress, Assam, Chhattisgarh and MP have announced farm loan waivers. The quantum of waiver for Assam is estimated to be around Rs 6bn, for Chhattisgarh it will cost ~Rs 61bn (excluding the burden of hiking paddy's MSP to Rs 2,500/quintal), and for MP it is estimated to be ~ Rs 350-380bn. This takes the total farm loan waivers announced by various states to Rs 2.4tn or 1.4% of GDP.
- Business climate in Germany deteriorated in Dec'18 as reflected from IFO index. It fell to 101 vs est. 101.7 and lower compared to 102 seen in Nov'18. Both manufacturing and services business climate fell sharply. Current as well as future assessment of business conditions also declined markedly.
- Housing starts in the US rose by 3.2% in Nov'18 on a MoM basis, after declining by (-) 1.6% in Oct'18 & (-) 3.4% in Sep'18. The rise was mainly driven by multi-family houses rather than single family homes, which hold the largest share in housing market. Single family home starts declined for the 3rd consecutive month, to (-) 4.6% in Nov'18 vs (-) 1.7% in Oct'18.

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Markets

- **Bonds:** Except UK, global yields closed lower. Crude declined by 6% to close near its 16-month low of US\$ 56/bbl. Indian 10Y yields also declined by 12bps (7.35%) in response to falling oil prices. It was trading further lower at 7.28% supported by RBI's scaling up of OMO purchase in Dec'18 to 500bn and another Rs 500bn purchase in Jan'19. Further, similar purchases are likely to continue till Mar'19 based on liquidity conditions.
- **Currency:** Except JPY and CNY which closed flat, other major currencies closed higher. Dollar continued to remain weak (DXY closed unchanged, near a one-week low) as investors await the outcome of Fed policy meet for further guidance on future rate hikes. INR posted its highest single day gain in over five years (up 1.6%) on the back of lower oil prices (down 5.6%). It was trading even higher today, in line with other Asian currencies.
- **Equity:** Barring Dow and Sensex, global indices closed lower amidst fears of slowdown in global growth and the impending fed rate hike scheduled later today. Nikkei (-1.8%) lost the most, followed by FTSE (-1.1%) and Shanghai Comp (0.8%) as oil prices tanked on fears of oversupply. While Asian markets were trading mixed; Sensex was trading higher today.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.82	(4)	(6)	(29)	(24)	42
UK	1.28	1	9	(9)	(29)	13
Japan	0.03	(2)	(2)	(8)	(9)	(2)
Germany	0.24	(1)	1	(12)	(24)	(7)
India	7.35	(12)	(18)	(41)	(79)	16
China	3.38	0	8	(3)	(28)	(52)
2Y yields (Δ bps)						
US	2.64	(5)	(12)	(21)	(15)	82
UK	0.75	1	6	4	(7)	30
Japan	(0.15)	0	(1)	(2)	(5)	(1)
Germany	(0.61)	0	0	(2)	(8)	10
India	6.92	(6)	(21)	(47)	(108)	54
China#	2.50	(3)	(5)	(39)	(35)	(128)
Currencies (Δ %)						
EUR	1.1361	0.1	0	0.3	(2.6)	(3.6)
GBP	1.2639	0.1	1.2	(1.1)	(3.9)	(5.6)
JPY	112.52	0.3	0.8	1.0	(0.1)	0
AUD	0.7181	0	(0.3)	(1.3)	(0.5)	(6.3)
INR	70.42	1.6	2.0	2.2	3.5	(9.6)
CNY	6.8951	0	0.1	0.6	(0.5)	(4.2)
Equity & Other indices (Δ %)						
DOW	23,676	0.4	(2.9)	(6.4)	(9.8)	(4.5)
FTSE	6,702	(1.1)	(1.5)	(4.8)	(8.2)	(11.1)
DAX	10,741	(0.3)	(0.4)	(5.4)	(11.7)	(19.3)
NIKKEI	21,115	(1.8)	(0.2)	(3.2)	(9.8)	(7.8)
Shanghai Comp	2,577	(0.8)	(0.7)	(3.4)	(4.6)	(21.2)
SENSEX	36,347	0.2	3.4	3.1	(2.5)	8.2
Brent (USD/bbl)	56.26	(5.6)	(6.5)	(15.6)	(28.8)	(11.3)
Gold (USD/oz)	1,249	0.3	0.5	3.0	4.3	(1.0)
CRB Index	413.4	(0.2)	(0.3)	(0.6)	0.8	(3.9)
Rogers Agri Index	776.2	(0.1)	(0.1)	0.2	2.5	(2.2)
LIBOR (3M)*	2.80	0	2	16	47	118
INR 5Yr Swap*	7.18	(2)	(13)	(41)	(50)	62
India** FII data (US\$ mn)						
	17 Dec	16 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	(1.7)	12.1	(1.7)	226.3	(7,345.9)	(7,591.9)
FII-Equity	(28.2)	106.3	(28.2)	421.0	(4,468.8)	(6,594.3)

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

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