


MACRO DAILY

25 February 2019

Macro developments

- In an effort to boost the real estate sector, GST rates on under construction houses have been lowered from 12% to 5% w.e.f 1 Apr 2019. Affordable housing projects have also been given a thrust, with lowering of GST rates from 8% to 1%. Projects with carpet area of 60sqmt in metros and 90sqmt in non-metros falling under the Rs. 4.5mn cap will qualify for the benefit.
- Retail inflation in Japan rose by 0.2% on a YoY basis in Jan'19 vs 0.3% in Dec'18. Core inflation rose by 0.4% vs 0.3% in Dec'18 vs BoJ's target of 2%. The marginal rise was on account higher services inflation, especially medical care, culture & recreation and education. Thus tight labour market conditions are leading to passing on of rising wage costs to consumers.
- Ifo's business climate index for Germany fell for the 6th straight month to 98.5 in Feb'19 from 99.1 in Jan'19 (est. 98.9). This is the lowest reading since Dec'14. The decline was visible in all sub-indices, including manufacturing and services. US President's threat to impose tariff on auto imports from EU and the US-China trade war have dented business confidence in the country.

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Markets

- **Bonds:** Global yields closed mixed driven by progress over US-China trade talks. As a result, US 10Y yield fell by 4bps (2.65%). Uncertainty surrounding Brexit also impacted market sentiments. Crude prices edged up by 0.1% (US\$ 67/bbl) as US energy firm cut the number of oil rigs. 7.26GS2029 rose by 6bps to 7.41% led by selling from foreign banks and MFs. It was trading at 7.40% today.
- **Currency:** Except EUR and JPY which closed flat, other currencies closed higher. DXY fell by (-) 0.1% over progress on US-China trade deal. After plunging to a 10-day low, AUD recovered (+0.5%) on easing concerns over Chinese ban on coal imports. INR ended higher by 0.2%. It was trading even higher today, in line with other Asian currencies.
- **Equity:** Barring Nikkei and Sensex, global indices ended higher as investors remained optimistic on the outcome of US-China trade talk. Shanghai Comp surged by 1.9% followed by Dow (0.7%). With US announcing a delay in its 1st March timeline of imposing additional tariff on China, Asian markets and Sensex opened higher today.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.65	(4)	(1)	(9)	(39)	(21)
UK	1.16	(4)	0	(17)	(22)	(36)
Japan	(0.04)	0	(2)	(4)	(14)	(9)
Germany	0.10	(3)	(1)	(13)	(24)	(56)
India#	7.60	6	2	2	(11)	(7)
China	3.15	1	6	1	(27)	(75)
2Y yields (Δ bps)						
US	2.49	(4)	(2)	(9)	(32)	26
UK	0.76	0	2	(5)	1	5
Japan	(0.18)	1	(1)	(1)	(4)	(3)
Germany	(0.57)	(1)	(1)	2	2	(3)
India	6.68	2	(7)	(35)	(63)	(26)
China	2.61	1	2	(15)	(50)	(97)
Currencies (Δ %)						
EUR	1.1335	0	0.3	(0.4)	0	(7.8)
GBP	1.3053	0.1	1.3	(0.1)	1.9	(6.6)
JPY	110.69	0	(0.2)	(1.0)	2.0	(3.6)
AUD	0.7129	0.5	(0.2)	(0.2)	(1.4)	(9.1)
INR	71.14	0.2	0.1	0.3	(0.6)	(9.9)
CNY	6.7137	0.1	0.9	1.2	3.4	(5.9)
Equity & Other indices (Δ %)						
DOW	26,032	0.7	0.6	5.9	7.2	2.9
FTSE	7,179	0.2	(0.8)	4.9	3.2	(0.9)
DAX	11,458	0.3	1.4	3.5	2.4	(8.2)
NIKKEI	21,426	(0.2)	2.5	4.0	(1.0)	(2.1)
Shanghai Comp	2,804	1.9	4.5	8.6	8.7	(14.7)
SENSEX	35,871	(0.1)	0.2	(0.7)	2.5	5.1
Brent (USD/bbl)	67.12	0.1	1.3	9.8	14.1	(0.3)
Gold (USD/oz)	1,329	0.4	0.5	3.6	8.7	0.1
CRB Index	415.0	0.3	0.4	0.8	(0.1)	(6.3)
Rogers Agri Index	765.1	0	0.2	(1.4)	(0.3)	(8.6)
LIBOR (3M)*	2.65	0	(4)	(12)	(4)	69
INR 5Yr Swap*	7.09	4	4	(12)	(45)	(3)
India FII data (US\$ mn)						
	21 Feb	20 Feb	WTD	MTD	CYTD	FYTD
FII-Debt	103.2	(233.8)	(146.2)	(255.8)	(623.0)	(7,613.6)
FII-Equity	180.2	180.2	(85.3)	(101.3)	(176.7)	(6,859.5)

Source: Bloomberg, Bank of Baroda | *Indicates change in bps, # 7.17 GS 2028 security is taken

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