


MACRO DAILY

03 January 2019

Macro developments

- India's manufacturing PMI slipped in Dec'18 to 53.2 vs 54 in Nov'18. However Q3FY19 PMI average rose to its highest since Q3FY12. This was driven by 2nd quickest pace of expansion in new orders since Dec'17. Apart from this, rising demand for Indian goods as visible from the 14th straight month of rise in exports also supported the manufacturing sector. Input cost inflation on the other hand, eased to a 34-month low.
- RBI reported that currency in circulation (CIC) decreased by Rs 49bn (on a weekly basis) and stood at Rs 20tn as on 28 Dec 2018. Overall reserve money grew by 17% on a YoY basis compared to 56% a year ago. On FYTD basis, reserve money is growing at a slower pace of 8.2% against 17.7% in the previous year.
- Global manufacturing PMI index declined from 52.0 in Nov'18 to 51.5 in Dec'18-its lowest level since Aug'18. This was led by slowing new orders (51.3 vs 52 in Nov'18), in particular new export orders (49.6 vs 49.8 in Nov'18), which fell for the 4th consecutive month. Input price pressures were however seen easing. Slowdown in activity was evident across most major economies, especially the US, Eurozone, Germany and France.

Markets

- **Bonds:** Except Japan, global yields closed lower driven by muted global manufacturing activity. Crude prices edged up by 2% to close at US\$ 55/bbl on the back of fall in Saudi oil exports. Indian 10Y yield also closed lower by 6bps (7.36%) in line with falling global yields and supported by buying activity from foreign bank and mutual funds. It was trading at 7.39% today.
- **Currency:** Global currencies closed mixed. EUR depreciated by (-) 1.1% as manufacturing PMI disappointed, hinting at further economic slowdown in the region. DXY and JPY both, on the other hand, strengthened by 0.8%. INR reversed gains to depreciate by 1.1% tracking losses in local equity markets. It was trading lower today, in line with other Asian currencies.
- **Equity:** Global indices closed mixed with Shanghai comp (-1.1%) ending in red led by weaker manufacturing PMI. However, Dow and Euro indices gained by 0.1% and 0.2% respectively. Sensex declined by (-) 1% led by DII's outflow of Rs 2.26bn as well as weaker vehicle sales data and lower tax collections. While Asian markets were trading lower; Sensex was trading higher today.

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FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.62	(6)	(19)	(35)	(57)	17
UK	1.21	(7)	(5)	(10)	(46)	0
Japan	0	0	(2)	(8)	(16)	(5)
Germany	0.17	(8)	(9)	(14)	(37)	(28)
India	7.36	(6)	9	(27)	(80)	4
China	3.18	(13)	(13)	(20)	(44)	(75)
2Y yields (Δ bps)						
US	2.47	(2)	(15)	(35)	(40)	54
UK	0.72	(4)	(2)	(2)	(17)	25
Japan	(0.14)	0	(1)	(1)	(4)	(1)
Germany	(0.61)	0	(1)	(1)	(10)	0
India	6.81	(2)	(1)	(42)	(115)	22
China#	2.69	0	1	19	(28)	(116)
Currencies (Δ %)						
EUR	1.1344	(1.1)	(0.1)	(0.1)	(1.5)	(5.6)
GBP	1.2607	(1.0)	(0.2)	(0.9)	(3.2)	(6.7)
JPY	108.88	0.8	2.2	4.2	4.4	3.2
AUD	0.6985	(1.0)	(1.1)	(5.1)	(1.3)	(10.9)
INR	70.17	(1.1)	(0.1)	0.4	4.6	(10.4)
CNY	6.8620	0.2	0.3	0.3	1.0	(5.5)
Equity & other indices (Δ %)						
DOW	23,346	0.1	2.0	(9.6)	(12.3)	(6.3)
FTSE	6,734	0.1	2.3	(4.6)	(9.2)	(12.2)
DAX	10,580	0.2	(0.5)	(7.7)	(13.6)	(18.5)
NIKKEI	20,015	(0.3)	(0.8)	(11.3)	(16.5)	(14.9)
Shanghai Comp	2,465	(1.1)	(1.3)	(7.1)	(9.2)	(26.8)
SENSEX	35,892	(1.0)	0.7	(1.0)	2.1	6.2
Brent (USD/bbl)	54.91	2.1	0.8	(11.0)	(35.1)	(19.1)
Gold (USD/oz)	1,285	0.2	1.4	4.4	7.1	(2.2)
CRB Index	409.4	0.1	(0.3)	(2.1)	(1.9)	(5.9)
Rogers Agri Index	757.5	0	0.1	(3.0)	(3)	(6.9)
LIBOR (3M)*	2.81	1	(1)	6	40	111
INR 5Yr Swap*	7.20	(2)	5	(40)	(62)	49
India FII data (US\$ mn)						
	1 Jan	31 Dec	WTD	MTD	CYTD	FYTD
FII-Debt	(80.6)	(52.1)	89.2	(80.6)	(80.6)	(7,071.3)
FII-Equity	67.7	(32.9)	(29.4)	67.7	67.7	(6,615.2)

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

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