

MORNING MOCHA

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Jahnavi Prabhakar

In line with market expectation, Germany's economy contracted in 2023 to 0.3% on the back of high inflation and weak foreign demand. Additionally, poor domestic demand and 'unfavourable financing conditions' due to higher rates added to the woes. Going ahead, analysts expect the fear of recession remains high in CY24. Separately, ECB officials have recently commented over pushback towards rate cuts as this might propel another wave of inflation. Investors have priced in 20% chance of rate cut as early as Mar'24 with a total of 150bps rate cuts this year. Elsewhere, Japan's PPI climbed higher by 0.3% in Dec'23 on a MoM basis from 0.2% in Nov'23. On domestic front, India's trade deficit narrowed to US\$ 19.8bn in Dec'23 from US\$ 20.6bn in Nov'23.

- Global markets ended mixed. Investors' monitored commentary by ECB officials on premature cutting of rates that could possibly push inflation higher along with poor GDP print from Germany. Powered by rally in shipping stocks, Nikkei for the first time in 34-years has crossed the 36,000 mark. Sensex extended its rally further scaling a new high led by strong gains in IT stocks. However, it is trading lower today in line with other Asian stocks.

Fig 1 – Stock markets

	12-01-2024	15-01-2024	% change
Dow Jones	37,711	37,593	(0.3)
S & P 500	4,780	4,784	0.1
FTSE	7,625	7,595	(0.4)
Nikkei	35,577	35,902	0.9
Hang Seng	16,245	16,216	(0.2)
Shanghai Comp	2,882	2,886	0.1
Sensex	72,568	73,328	1.0
Nifty	21,895	22,097	0.9

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed until 15 Jan 2024

- Except INR and EUR (flat), other global currencies ended lower. DXY ended flat, owing to thin trading. However, it has opened higher today as investors reassesses Fed's possible rate cut trajectory. JPY fell the most as market participants scale back their expectations for BoJ's change in policy stance. INR ended flat, however it is trading lower today, in line with other Asian currencies.

Fig 2 – Currencies

	12-01-2024	15-01-2024	% change
EUR/USD (1 EUR / USD)	1.0951	1.0950	0
GBP/USD (1 GBP / USD)	1.2753	1.2727	(0.2)
USD/JPY (JPY / 1 USD)	144.88	145.73	(0.6)
USD/INR (INR / 1 USD)	82.92	82.89	0
USD/CNY (CNY / 1 USD)	7.1675	7.1715	(0.1)

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed until 15 Jan 2024



- Global yields closed mixed. Germany's 10Y yield rose by 5bps, while in Japan it fell by 4bps. Despite Germany reporting contraction in GDP in Q4CY23, one of the ECB member hinted that there is no room for a rate cut in CY24, as inflation is still not down to 2% mark. India's 10Y yield also fell by 3bps, as oil prices eased. Awaiting more global cues, it is trading flat today.

Fig 3 – Bond 10Y yield

	12-01-2024	15-01-2024	change in bps
US	3.97	3.94	(3)
UK	3.79	3.80	0
Germany	2.18	2.23	5
Japan	0.61	0.57	(4)
China	2.52	2.52	0
India	7.18	7.15	(3)

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed until 15 Jan 2024

Fig 4 – Short term rates

	12-01-2024	15-01-2024	change in bps
Tbill-91 days	6.94	6.95	1
Tbill-182 days	7.13	7.12	(1)
Tbill-364 days	7.13	7.12	(1)
G-Sec 2Y	7.03	7.01	(2)
India OIS-2M	6.78	6.78	0
India OIS-9M	6.68	6.64	(4)
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.31	5.31	0

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed until 15 Jan 2024

Fig 5 – Liquidity

Rs tn	12-01-2024	15-01-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	1.7	2.1	0.5
Reverse repo	0	0	0
Repo	0	1.8	1.8

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	11-01-2024	12-01-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	15.4	262.9	247.5
Debt	108.9	314.8	205.9
Equity	(93.5)	(51.9)	41.6
Mutual funds (Rs cr)	3,028.1	3,454.5	426.4
Debt	796.8	2,103.2	1,306.5
Equity	2,231.3	1,351.3	(880.0)

Source: Bloomberg, Bank of Baroda Research Note: Mutual fund data as of 10 Jan 2024 and 11 Jan 2024

- Oil prices fell by 0.2%, as analysts await more cues on global demand.

Fig 7 – Commodities

	12-01-2024	15-01-2024	% change
Brent crude (US\$/bbl)	78.3	78.2	(0.2)
Gold (US\$/ Troy Ounce)	2,049.1	2,056.6	0.4
Copper (US\$/ MT)	8,241.2	8,284.0	0.5
Zinc (US\$/MT)	2,492.7	2,535.0	1.7
Aluminium (US\$/MT)	2,219.5	2,204.5	(0.7)

Source: Bloomberg, Bank of Baroda Research



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For further details about this publication, please contact:

Chief Economist

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com