

MORNING MOCHA

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Expectations of early rate cuts took a back seat as data sets (higher retail sales and sharp drop in Unemployment benefits) continue to signal strength in the US economy. In line with Fed, even ECB in its minutes had highlighted that it is premature to discuss policy easing. Separately, Japan's inflation cooled off to 2.6% (lowest level since Jun'22) from 2.8% in Nov'23 with core inflation down to 2.3%. This data print comes ahead of BoJ's policy meet which supports the Bank's decision to wait before ending the negative rates. On domestic front, RBI's monthly bulletin noted 'potential output is picking up and actual output is running above it' and this gap is moderate. Furthermore, government's push towards capex has started to crowd in private investment. On inflation, it noted Dec'23 print was due to unfavourable base and core inflation has moderated (lowest in more than 4-years).

- Apart from Nikkei (flat) and Sensex (lower), other global indices ended higher. US indices climbed higher supported by gains in technology stocks amidst optimism surrounding AI. Lower jobless claims also provided further support. Sensex extended its fall and was dragged down by consumer durable and power stocks. However, it is trading higher today in line with other Asian stocks.

Fig 1 – Stock markets

	17-01-2024	18-01-2024	% change
Dow Jones	37,267	37,469	0.5
S & P 500	4,739	4,781	0.9
FTSE	7,446	7,459	0.2
Nikkei	35,478	35,466	0
Hang Seng	15,277	15,392	0.8
Shanghai Comp	2,834	2,846	0.4
Sensex	71,501	71,187	(0.4)
Nifty	21,572	21,462	(0.5)

Source: Bloomberg, Bank of Baroda Research

- Barring EUR (lower) and GBP (higher), other global currencies ended flat. DXY was up by 0.1%, as investors scale back their expectations around Fed's rate cut trajectory. GBP gained owing to dimmed hopes of rate cut by BoE any time before Q2CY24. INR ended flat, even as oil prices picked up pace. It is trading lower today, while other Asian currencies are trading higher.

Fig 2 – Currencies

	17-01-2024	18-01-2024	% change
EUR/USD (1 EUR / USD)	1.0883	1.0876	(0.1)
GBP/USD (1 GBP / USD)	1.2676	1.2706	0.2
USD/JPY (JPY / 1 USD)	148.16	148.16	0
USD/INR (INR / 1 USD)	83.14	83.12	0
USD/CNY (CNY / 1 USD)	7.1963	7.1963	0

Source: Bloomberg, Bank of Baroda Research



- Except UK (lower) and China (flat), other global yields closed higher. US' 10Y yield rose the most. Better than expected retail sales data in the US and continued tightness in the labour market has raised uncertainty around the timing of Fed's rate cuts. India's 10Y yield rose by 1bps, as oil prices inched up. Following global cues, it is trading further higher today at 7.19%.

Fig 3 – Bond 10Y yield

	17-01-2024	18-01-2024	change in bps
US	4.10	4.14	4
UK	3.99	3.93	(5)
Germany	2.32	2.35	3
Japan	0.62	0.65	3
China	2.51	2.51	0
India	7.17	7.18	1

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	17-01-2024	18-01-2024	change in bps
Tbill-91 days	6.96	6.96	0
Tbill-182 days	7.16	7.15	(1)
Tbill-364 days	7.15	7.15	0
G-Sec 2Y	7.03	7.02	(1)
India OIS-2M	6.77	6.78	1
India OIS-9M	6.66	6.67	0
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.32	5.32	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	17-01-2024	18-01-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	2.1	2.1	0
Reverse repo	0	0	0
Repo	1.8	1.8	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	16-01-2024	17-01-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	427.5	(1,150.9)	(1,578.4)
Debt	285.1	110.1	(175.0)
Equity	142.4	(1,261.0)	(1,403.4)
Mutual funds (Rs cr)	(3,935.0)	(3,743.4)	191.6
Debt	(3,335.0)	(3,175.7)	159.2
Equity	(600.1)	(567.6)	32.4

Source: Bloomberg, Bank of Baroda Research Note: Mutual fund data as of 15 Jan 2024 and 16 Jan 2024

- Oil prices rose as IEA upwardly revised its projections for oil demand in CY24.

Fig 7 – Commodities

	17-01-2024	18-01-2024	% change
Brent crude (US\$/bbl)	77.9	79.1	1.6
Gold (US\$/ Troy Ounce)	2,006.3	2,023.3	0.9
Copper (US\$/ MT)	8,174.3	8,223.8	0.6
Zinc (US\$/MT)	2,448.3	2,449.2	0
Aluminium (US\$/MT)	2,178.0	2,163.5	(0.7)

Source: Bloomberg, Bank of Baroda Research



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