

## MORNING MOCHA

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ECONOMIST  
**Sonal Badhan**

Better than expected labour market data from the US has pushed global yields back up. The yield gap between short-term and long-term US securities narrowed. Initial jobless claims in the US fell by 18k to 202k (est.: 215k) for the week ending 30 Dec'23. Even private payrolls data (ADP) indicate that employment went up by 164k (est.: 115k) in Dec'23 from 101k in Nov'23—posting fastest increase since Aug'23. Markit PMI data shows that services sector activity continued to expand in Dec'23 at faster pace in the US and UK, while it remained in contraction in Eurozone (led by France and Germany). Solid economic data from the US has raised uncertainty around timing of Fed's rate cut, with CME Fed Watch Tool suggesting that chances of no rate cut in Mar'24 have gone up to 35% from 13% a week ago. Nearly 60% chances are still priced in for 25bps rate cut.

- Global indices ended mixed. Investors monitored US ADP jobs report which came in stronger than expected (companies added 1,64,000 jobs in Dec'23) Additionally the weekly jobless claims data was also lower than anticipated, signalling labour market remains tight. Sensex ended higher led by sharp gains in real estate stocks. It is trading higher today in line with other Asian indices.

**Fig 1 – Stock markets**

|               | 3-1-2024 | 4-1-2024 | % change |
|---------------|----------|----------|----------|
| Dow Jones     | 37,430   | 37,440   | 0        |
| S & P 500     | 4,705    | 4,689    | (0.3)    |
| FTSE          | 7,682    | 7,723    | 0.5      |
| Nikkei        | 33,464   | 33,288   | (0.5)    |
| Hang Seng     | 16,646   | 16,646   | 0        |
| Shanghai Comp | 2,967    | 2,954    | (0.4)    |
| Sensex        | 71,357   | 71,848   | 0.7      |
| Nifty         | 21,517   | 21,659   | 0.7      |

Source: Bloomberg, Bank of Baroda Research| Note: Markets in Japan were closed until 3 Jan 2024

- Except JPY and CNY, other global currencies closed higher. DXY retreated marginally despite scaled back expectations of aggressive rate cuts by Fed. Investors will closely await US jobs report for more cues, given signals of tight labour market. INR ended stronger led by fall in oil prices. It is trading stronger today, while other Asian currencies are trading mixed.

**Fig 2 – Currencies**

|                       | 3-1-2024 | 4-1-2024 | % change |
|-----------------------|----------|----------|----------|
| EUR/USD (1 EUR / USD) | 1.0922   | 1.0945   | 0.2      |
| GBP/USD (1 GBP / USD) | 1.2665   | 1.2682   | 0.1      |
| USD/JPY (JPY / 1 USD) | 143.29   | 144.63   | (0.9)    |
| USD/INR (INR / 1 USD) | 83.29    | 83.23    | 0.1      |
| USD/CNY (CNY / 1 USD) | 7.1494   | 7.1608   | (0.2)    |

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed, with yields in Asia ending flat/lower, while US and Europe they inched up. US 10Y yield rose by 8bps as better than expected labour market data has raised doubts on timing of Fed's rate cuts. India's 10Y yield ended flat, as oil prices fell. However, following global cues, it is trading a tad higher today at 7.23%.

**Fig 3 – Bond 10Y yield**

|         | 3-1-2024 | 4-1-2024 | change in bps |
|---------|----------|----------|---------------|
| US      | 3.92     | 4.00     | 8             |
| UK      | 3.64     | 3.73     | 9             |
| Germany | 2.02     | 2.12     | 10            |
| Japan   | 0.61     | 0.62     | 0             |
| China   | 2.56     | 2.54     | (1)           |
| India   | 7.22     | 7.22     | 0             |

Source: Bloomberg, Bank of Baroda Research| Note: Markets in Japan were closed until 3 Jan 2024

**Fig 4 – Short term rates**

|                          | 3-1-2024 | 4-1-2024 | change in bps |
|--------------------------|----------|----------|---------------|
| Tbill-91 days            | 6.93     | 6.89     | (4)           |
| Tbill-182 days           | 7.14     | 7.11     | (3)           |
| Tbill-364 days           | 7.11     | 7.11     | 0             |
| G-Sec 2Y                 | 7.07     | 7.06     | (1)           |
| India OIS-2M             | 6.80     | 6.79     | 0             |
| India OIS-9M             | 6.70     | 6.70     | 0             |
| SONIA int rate benchmark | 5.19     | 5.19     | 0             |
| US SOFR                  | 5.40     | 5.39     | (1)           |

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

| Rs tn                             | 3-1-2024 | 4-1-2024 | change (Rs tn) |
|-----------------------------------|----------|----------|----------------|
| Net Liquidity (-Surplus/+deficit) | 1.2      | 1.1      | (0.1)          |
| Reverse repo                      | 0        | 0        | 0              |
| Repo                              | 1.3      | 1.3      | 0              |

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

|                      | 2-1-2024 | 3-1-2024  | change (US\$ mn/Rs cr) |
|----------------------|----------|-----------|------------------------|
| FII (US\$ mn)        | 305.4    | 35.5      | (269.9)                |
| Debt                 | 114.0    | 104.1     | (9.9)                  |
| Equity               | 191.4    | (68.6)    | (260.0)                |
| Mutual funds (Rs cr) | 786.1    | 537.4     | (248.7)                |
| Debt                 | (102.6)  | 1,861.8   | 1,964.4                |
| Equity               | 888.7    | (1,324.4) | (2,213.1)              |

Source: Bloomberg, Bank of Baroda Research| Note: Mutual fund data as of 1 Jan 2024 and 2 Jan 2024

- Oil prices fell as US EIA data indicated significant build up in inventories.

**Fig 7 – Commodities**

|                         | 3-1-2024 | 4-1-2024 | % change |
|-------------------------|----------|----------|----------|
| Brent crude (US\$/bbl)  | 78.3     | 77.6     | (0.8)    |
| Gold (US\$/ Troy Ounce) | 2,041.5  | 2,043.7  | 0.1      |
| Copper (US\$/ MT)       | 8,418.5  | 8,367.8  | (0.6)    |
| Zinc (US\$/MT)          | 2,565.0  | 2,516.5  | (1.9)    |
| Aluminium (US\$/MT)     | 2,312.5  | 2,281.0  | (1.4)    |

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