

MORNING MOCHA

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ECONOMIST
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On macro front, US ISM services PMI data rose to its 4 month high of 53.4 in Jan'24 from 50.4 in Dec'23. New orders and employment indices also showed improvement. Fed officials (Minneapolis Fed President and Chicago Fed President) also spoke of more time to gauge the incoming data before taking any call on rates. CME Fed watch tool is only attaching a 16.5% probability for a rate cut in Mar'24 from 46.2% a week earlier. Thus, US dollar firmed up to its highest since Nov'23. Elsewhere, Central Bank of Australia also went on a path of data dependent cautious pause. The quarterly forecast of RBA show that core inflation will reach the midpoint of its 2-3% target by 2026. Globally, everywhere the rhetoric is not letting the guards down unless the fight against inflation is over. On domestic front, even RBI is expected to walk on the lines of a cautious pause remaining vigil on inflation.

- Global stocks ended broadly lower. Prospects of a Fed rate cut were pushed back further following comments from Fed officials amidst strong US macro data. Stock market rout in China continued with the Shanghai Comp moderating due to losses in small cap stocks. Sensex fell by 0.5%, driven by consumer durables stocks. It is trading higher today, while Asian stocks trading mixed.

Fig 1 – Stock markets

	02-02-2024	05-02-2024	% change
Dow Jones	38,654	38,380	(0.7)
S & P 500	4,959	4,943	(0.3)
FTSE	7,616	7,613	(0.0)
Nikkei	36,158	36,354	0.5
Hang Seng	15,534	15,510	(0.2)
Shanghai Comp	2,730	2,702	(1.0)
Sensex	72,086	71,731	(0.5)
Nifty	21,854	21,772	(0.4)

Source: Bloomberg, Bank of Baroda Research

- Global currencies fell at the expense of a stronger dollar. DXY rose by 0.5% as US ISM services PMI rose sharply in Jan'24. GBP depreciated the most despite positive macro data. EUR fell as Germany's exports growth was weaker than expected in Dec'23. INR fell following adverse global cues. However, it is trading a tad stronger today, in line with other Asian currencies.

Fig 2 – Currencies

	02-02-2024	05-02-2024	% change
EUR/USD (1 EUR / USD)	1.0788	1.0743	(0.4)
GBP/USD (1 GBP / USD)	1.2631	1.2536	(0.8)
USD/JPY (JPY / 1 USD)	148.38	148.68	(0.2)
USD/INR (INR / 1 USD)	82.93	83.06	(0.2)
USD/CNY (CNY / 1 USD)	7.1935	7.1985	(0.1)

Source: Bloomberg, Bank of Baroda Research



- Except China (lower), global yields closed higher. US 10Y yield rose by 14bps supported by buoyant economic data. The paring down of rate cut expectations in Mar'24 has impacted yields of other economies (UK, Germany). In UK, yields were also supported by a better PMI reading. India's 10Y yield rose by 4bps, taking global cues. It is trading lower at 7.08% today.

Fig 3 – Bond 10Y yield

	02-02-2024	05-02-2024	change in bps
US	4.02	4.16	14
UK	3.92	4.01	9
Germany	2.24	2.32	7
Japan	0.67	0.73	5
China	2.43	2.40	(3)
India	7.06	7.10	4

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	02-02-2024	05-02-2024	change in bps
Tbill-91 days	7.00	7.00	-
Tbill-182 days	7.14	7.10	(4)
Tbill-364 days	7.11	7.13	2
G-Sec 2Y	6.99	7.01	2
India OIS-2M	6.72	6.75	3
India OIS-9M	6.60	6.64	4
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.32	5.32	-

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	02-02-2024	05-02-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	1.4	1.2	(0.2)
Reverse repo	0	0	0
Repo	2.5	2.5	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	01-02-2024	02-02-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	311.0	377.7	66.7
Debt	273.4	350.1	76.8
Equity	37.7	27.6	(10.1)
Mutual funds (Rs cr)	490.8	(783.8)	(1,274.6)
Debt	(2,365.0)	(774.8)	1,590.2
Equity	2,855.8	(9.0)	(2,864.8)

Source: Bloomberg, Bank of Baroda Research, Note: Mutual fund data as of 31 Jan and 1st Feb 2024

- Oil prices increased amidst escalation in tensions in the Middle-East.

Fig 7 – Commodities

	02-02-2024	05-02-2024	% change
Brent crude (US\$/bbl)	77.3	78.0	0.9
Gold (US\$/ Troy Ounce)	2,039.8	2,025.1	(0.7)
Copper (US\$/ MT)	8,374.3	8,247.2	(1.5)
Zinc (US\$/MT)	2,440.2	2,408.3	(1.3)
Aluminium (US\$/MT)	2,233.5	2,212.5	(0.9)

Source: Bloomberg, Bank of Baroda Research



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