

MORNING MOCHA

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Softer than expected retail sales print in the US has fuelled bets of dovish outlook by Fed. As per the CME Fed watch tool, odds of rate cut in May'24 jumped up to 40%, for Jun'24 they were around 80%. On the other hand, fall in weekly jobless claims signalled strength in labour market. Investors will await PPI report for more cues. Separately, after Japan, now the UK's economy has slipped in to technical recession. The economy shrank by 0.3% for Q4CY23 on a quarterly basis compared with contraction of (-) 0.1% in the Q3CY23. This was led by broad based decline across the sectors, services (-0.2%), production (-1%) and construction (-1.3%). Furthermore, weakness in labour market and persistently high inflation added to the contraction. However, analyst expect the recession will be short lived with recovery expected in CY24, with inflation likely to moderate.

- Global indices closed higher. US indices ended in green as hopes of a possible rate cut by Fed resurfaced after disappointing retail sales data (-0.8% from +0.4% in Dec'23). Nikkei surged by 1.2% and is on course to record an all-time high. Sensex (0.3%) continued to advance supported by gains in oil & gas and power stocks. It is trading higher today, in line with other Asian stocks.

Fig 1 – Stock markets

| | 14-02-2024 | 15-02-2024 | % change |
|---------------|------------|------------|----------|
| Dow Jones | 38,424 | 38,773 | 0.9 |
| S & P 500 | 5,001 | 5,030 | 0.6 |
| FTSE | 7,568 | 7,598 | 0.4 |
| Nikkei | 37,703 | 38,158 | 1.2 |
| Hang Seng | 15,879 | 15,945 | 0.4 |
| Shanghai Comp | 2,830 | 2,866 | 1.3 |
| Sensex | 71,823 | 72,050 | 0.3 |
| Nifty | 21,840 | 21,911 | 0.3 |

Source: Bloomberg, Bank of Baroda Research, Note: China's market are closed through this week for Lunar New Year Holiday

- Except INR, other major currencies closed higher against the dollar, with EUR and JPY gaining the most. DXY fell by 0.4%, dragged by drop in treasury yields. INR ended flat, despite increase in international oil prices. It is trading a tad higher today, in line with other Asian currencies.

Fig 2 – Currencies

| | 14-02-2024 | 15-02-2024 | % change |
|-----------------------|------------|------------|----------|
| EUR/USD (1 EUR / USD) | 1.0727 | 1.0772 | 0.4 |
| GBP/USD (1 GBP / USD) | 1.2566 | 1.2600 | 0.3 |
| USD/JPY (JPY / 1 USD) | 150.58 | 149.93 | 0.4 |
| USD/INR (INR / 1 USD) | 83.03 | 83.04 | 0 |
| USD/CNY (CNY / 1 USD) | 7.1967 | 7.1936 | 0 |

Source: Bloomberg, Bank of Baroda Research



- Global 10Y yields ended mixed. 10Y yields in US, Japan and India fell, while they were up in UK and Germany. With sharper than expected decline in US retail sales, hopes of rate cut by Fed in Jun'24 have firmed up. India's 10Y yield fell by 2bps, even as oil prices rose. Following global cues, it is trading further lower today at 7.08%.

Fig 3 – Bond 10Y yield

| | 14-02-2024 | 15-02-2024 | change in bps |
|---------|------------|------------|---------------|
| US | 4.26 | 4.23 | (3) |
| UK | 4.04 | 4.05 | 1 |
| Germany | 2.34 | 2.36 | 2 |
| Japan | 0.75 | 0.73 | (2) |
| China | 2.42 | 2.44 | 2 |
| India | 7.11 | 7.09 | (2) |

Source: Bloomberg, Bank of Baroda Research, Note: China's market are closed through this week for Lunar New Year Holiday

Fig 4 – Short term rates

| | 14-02-2024 | 15-02-2024 | change in bps |
|--------------------------|------------|------------|---------------|
| Tbill-91 days | 7.04 | 7.03 | (1) |
| Tbill-182 days | 7.15 | 7.14 | (1) |
| Tbill-364 days | 7.14 | 7.11 | (3) |
| G-Sec 2Y | 7.08 | 7.06 | (2) |
| India OIS-2M | 6.80 | 6.78 | (2) |
| India OIS-9M | 6.75 | 6.74 | (1) |
| SONIA int rate benchmark | 5.19 | 5.19 | 0 |
| US SOFR | 5.31 | 5.30 | (1) |

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

| Rs tn | 14-02-2024 | 15-02-2024 | change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | 2.2 | 2.1 | (0.1) |
| Reverse Repo | 0 | 0 | 0 |
| Repo | 2.3 | 2.5 | 0.2 |

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

| | 13-02-2024 | 14-02-2024 | change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn) | 111.5 | (330.0) | (441.5) |
| Debt | 83.3 | (13.7) | (97.0) |
| Equity | 28.1 | (316.3) | (344.5) |
| Mutual funds (Rs cr) | (2,195.0) | (1,640.0) | 555.0 |
| Debt | (3,661.0) | (2,215.3) | 1,445.8 |
| Equity | 1,466.0 | 575.3 | (890.8) |

Source: Bloomberg, Bank of Baroda Research, Note: Mutual fund data as of 12th and 13th Feb 2024

- Oil prices rose on the hopes of rate cut by Fed, following weak macro data.

Fig 7 – Commodities

| | 14-02-2024 | 15-02-2024 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl) | 81.6 | 82.9 | 1.5 |
| Gold (US\$/ Troy Ounce) | 1,992.3 | 2,004.4 | 0.6 |
| Copper (US\$/ MT) | 8,097.0 | 8,223.0 | 1.6 |
| Zinc (US\$/MT) | 2,288.8 | 2,331.7 | 1.9 |
| Aluminium (US\$/MT) | 2,235.5 | 2,224.5 | (0.5) |

Source: Bloomberg, Bank of Baroda Research



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