

MORNING MOCHA

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ECONOMIST
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US Fed unanimously decided to keep policy rate unchanged, as anticipated, while striking a dovish tone. FOMC projections revealed that 75bps rate cut is pencilled in next year. This is higher than its Sep'23 projection of 50bps rate cut. Most importantly, policymakers have not priced in any further rate hike in their projection document, a first event since Mar'21. Thus, the dovish policy has led to market rally. Dow Jones rose to its record high and S&P rose to its highest in two years. US 10Y yield made a sharp correction. Elsewhere, in major macro releases, UK's monthly GDP contracted more than estimated by 0.3% and its industrial production fell sharply by 0.8%. Japan's core machinery orders remained firm. On domestic front, impact of a likely pivot in global monetary policy will be closely watched.

- Barring Hong Kong and China, stocks elsewhere ended in green. Investors cheered the much awaited "Fed pivot". Stocks in US surged the most, with Dow Jones closing at a record-high. Shanghai Comp fell by 1.2%, amidst lingering growth concerns. Credit growth in China rose less than expected in Nov'23. In India, Sensex ended marginally flat. However, it is trading higher today, in line with other Asian markets.

Fig 1 – Stock markets

	12-12-2023	13-12-2023	% change
Dow Jones	36,578	37,090	1.4
S & P 500	4,644	4,707	1.4
FTSE	7,543	7,548	0.1
Nikkei	32,844	32,926	0.3
Hang Seng	16,375	16,229	(0.9)
Shanghai Comp	3,003	2,969	(1.2)
Sensex	69,551	69,585	0
Nifty	20,906	20,926	0.1

Source: Bloomberg, Bank of Baroda Research

- Except INR, other global currencies gained against the dollar. DXY fell sharply as Fed indicated lower rates in 2024. JPY gained the most by 1.8%. Gains in GBP were muted amidst a contraction in GDP in Oct'23. INR remained under pressure and fell to a new record-low, as oil prices increased. However it is trading stronger today in line with other Asian currencies.

Fig 2 – Currencies

	12-12-2023	13-12-2023	% change
EUR/USD (1 EUR / USD)	1.0794	1.0874	0.7
GBP/USD (1 GBP / USD)	1.2563	1.2618	0.4
USD/JPY (JPY / 1 USD)	145.45	142.89	1.8
USD/INR (INR / 1 USD)	83.39	83.40	0
USD/CNY (CNY / 1 USD)	7.1772	7.1708	0.1

Source: Bloomberg, Bank of Baroda Research



- Global yields closed lower. US 10Y yield fell at its sharpest pace by 18bps (lowest since Aug'23) mirroring Fed's dovish policy. The expectation of an easing financial conditions going ahead, was also reflected in yields of UK and Germany, which also fell considerably. India's 10Y fell a tad by 1bps. It is trading lower at 7.21% today.

Fig 3 – Bond 10Y yield

	12-12-2023	13-12-2023	change in bps
US	4.20	4.02	(18)
UK	3.97	3.83	(14)
Germany	2.23	2.17	(5)
Japan	0.72	0.69	(3)
China	2.66	2.65	(1)
India	7.27	7.26	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	12-12-2023	13-12-2023	change in bps
Tbill-91 days	6.98	6.97	(1)
Tbill-182 days	7.15	7.18	3
Tbill-364 days	7.16	7.18	2
G-Sec 2Y	7.21	7.19	(2)
India OIS-2M	6.86	6.86	0
India OIS-9M	6.87	6.84	(3)
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.32	5.31	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	12-12-2023	13-12-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.3	0.4	0.1
Reverse repo	0.2	0.2	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	11-12-2023	12-12-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	143.6	385.0	241.3
Debt	39.1	74.6	35.5
Equity	104.6	310.4	205.8
Mutual funds (Rs cr)	2,907.5	1,824.5	(1,083.0)
Debt	1,654.9	1,251.4	(403.6)
Equity	1,252.6	573.2	(679.4)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 7 Dec and 8 Dec 2023

- Oil prices rose amidst optimism that lower Fed rates are likely to spur demand.

Fig 7 – Commodities

	12-12-2023	13-12-2023	% change
Brent crude (US\$/bbl)	73.2	74.3	1.4
Gold (US\$/ Troy Ounce)	1,979.5	2,027.7	2.4
Copper (US\$/ MT)	8,259.8	8,237.4	(0.3)
Zinc (US\$/MT)	2,425.0	2,423.3	(0.1)
Aluminium (US\$/MT)	2,121.0	2,140.0	0.9

Source: Bloomberg, Bank of Baroda Research



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