

## MORNING MOCHA

16 February 2024

ECONOMIST  
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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 12<sup>th</sup> and 13<sup>th</sup> 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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