

MORNING MOCHA

01 January 2024

ECONOMIST
Jahnvi

The Fed policy meet in Dec'23 has made a crucial shift with Fed Chair signalling a dovish pivot in CY24. Investors anticipate a 75bps rate cut through the year on the back of moderation in inflation. Against this backdrop, dollar is expected to weaken further, it had already declined by 2% for CY23. Oil prices have fallen by ~10%, steepest decline since CY20 (-22%) owing to muted demand. As global economic activity is expected to weaken further in H1CY24, investors are hoping for rate cuts by other central banks (ECB and BoE) also. In Asia, China's official PMI data reflects that contraction in manufacturing activity deepened in Dec'23, while non-manufacturing activity improved. Domestically, India's eight core index moderated to 7.8% in Nov'23 from 12.5% in Oct'23, with contraction in crude oil output.

- Global indices ended mixed. US indices closed the last trading day of the year on lower note. Sensex too ended the day in red led by losses in oil & gas and banking stocks. In CY23, Sensex ended CY23 18.7% higher, second to S&P 500 (24.2%), as other major indices end the year with slower growth. However, it is trading lower today.

Fig 1 – Stock markets

	28-12-2023	29-12-2023	% change
Dow Jones	37,710	37,690	(0.1)
S & P 500	4,783	4,770	(0.3)
FTSE	7,723	7,733	0.1
Nikkei	33,540	33,464	(0.2)
Hang Seng	17,044	17,047	0
Shanghai Comp	2,955	2,975	0.7
Sensex	72,410	72,240	(0.2)
Nifty	21,779	21,731	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed mixed. DXY inched up by 0.1% but is expected to weaken amidst anticipation of aggressive rate cuts by Fed. JPY and CNY gained the most. Investors hope BoJ to exit the ultra-loose monetary policy in CY24, though cues from BoJ itself are awaited. INR ended flat, after falling by 0.6% in CY23. It is trading higher today, in line with other Asian currencies.

Fig 2 – Currencies

	28-12-2023	29-12-2023	% change
EUR/USD (1 EUR / USD)	1.1061	1.1039	(0.2)
GBP/USD (1 GBP / USD)	1.2733	1.2731	0
USD/JPY (JPY / 1 USD)	141.41	141.04	0.3
USD/INR (INR / 1 USD)	83.17	83.21	0
USD/CNY (CNY / 1 USD)	7.1104	7.1000	0.1

Source: Bloomberg, Bank of Baroda Research



- Barring China and India, other global yields closed higher. Tracking gains in US treasury yields, Germany and UK's 10Y yields also climbed higher by 8bps and 4bps respectively. India's 10Y yield declined a tad by 1bps, and during CY23, it was down by 17bps, even as US 10Y yield closed CY23 at similar levels as last year (+0.4bps). India's 10Y yield is trading slightly higher today.

Fig 3 – Bond 10Y yield

	28-12-2023	29-12-2023	change in bps
US	3.84	3.88	3
UK	3.49	3.54	4
Germany	1.94	2.02	8
Japan	0.60	0.61	2
China	2.57	2.56	(1)
India	7.21	7.17	(4)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	28-12-2023	29-12-2023	change in bps
Tbill-91 days	6.94	7.00	6
Tbill-182 days	7.11	7.08	(3)
Tbill-364 days	7.10	7.09	(1)
G-Sec 2Y	7.10	7.06	(4)
India OIS-2M	6.79	6.78	(1)
India OIS-9M	6.68	6.66	(1)
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.39	5.40	1

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	28-12-2023	29-12-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	2.6	1.9	(0.7)
Reverse repo	0	0	0
Repo	1.8	0	(1.8)

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	27-12-2023	28-12-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	458.4	785.1	326.7
Debt	74.0	105.4	31.4
Equity	384.4	679.7	295.3
Mutual funds (Rs cr)	1,346.8	(475.9)	(1,822.7)
Debt	(1,071.4)	(1,698.7)	(627.2)
Equity	2,418.3	1,222.8	(1,195.5)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual fund data as of 22 Dec 2023 and 26 Dec 2023

- Oil prices dropped further, amidst easing supply concerns (Red Sea route).

Fig 7 – Commodities

	28-12-2023	29-12-2023	% change
Brent crude (US\$/bbl)	78.4	77.0	(1.7)
Gold (US\$/ Troy Ounce)	2,065.6	2,063.0	(0.1)
Copper (US\$/ MT)	8,530.3	8,463.9	(0.8)
Zinc (US\$/MT)	2,626.3	2,640.0	0.5
Aluminium (US\$/MT)	2,378.0	2,384.0	0.3

Source: Bloomberg, Bank of Baroda Research



Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at



For further details about this publication, please contact:

Chief Economist

Bank of Baroda

chief.economist@bankofbaroda.com