

MORNING MOCHA

01 March 2024

ECONOMIST
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Fed's preferred inflation gauge, PCE index rose by 0.3% (MoM) in Jan'24 up from 0.2% in Dec'23. Core PCE was up by 0.4% from 0.1%. Pressure was visible in case of food, recreational activities and vehicles. As the print was in line with expectations, analysts continue to attach ~62% probability of rate cut by Fed in Jun'24. CPI in Germany eased to 2.5% (YoY) in Feb'24 (est.: 2.6%) from 2.9% in Jan'24, thus raising hopes of rate cut by ECB in Apr'24. Separately, in China, official data shows that manufacturing PMI fell to 49.1 in Feb'24 from 49.2 in Jan'24, dragged by lower new-export orders. However, non-manufacturing PMI rose to 51.4 from 50.7 in Jan'24, supported by Chinese New Year festival spend. Domestically, India's GDP surprised positively as it registered 8.4% growth in Q3FY24, up from 8.1% in Q2. Full year (FY24) growth is also expected at 7.6% (7.3% as per AE).

- Except Nikkei and Hang Seng, other global stocks edged higher. US indices rose as core PCE data was in line with market expectations, suggesting that rate cut bets in Jun'24 remain intact. Amongst other indices, Shanghai Comp rose the most by 1.9%. Sensex rose by 0.3%, led by gains in power and metal stocks. It is trading further higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	28-02-2024	29-02-2024	% change
Dow Jones	38,949	38,996	0.1
S & P 500	5,070	5,096	0.5
FTSE	7,625	7,630	0.1
Nikkei	39,208	39,166	(0.1)
Hang Seng	16,537	16,511	(0.2)
Shanghai Comp	2,958	3,015	1.9
Sensex	72,305	72,500	0.3
Nifty	21,951	21,983	0.1

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended mixed. DXY rose by 0.4% after the PCE report. EUR depreciated by 0.3% even as headline inflation in Germany, France and Spain moderated. Elevated core inflation remains a cause of concern. INR is trading near a 6-month high today supported by better than expected GDP print. Other Asian currencies are trading mixed.

Fig 2 – Currencies

	28-02-2024	29-02-2024	% change
EUR/USD (1 EUR / USD)	1.0838	1.0805	(0.3)
GBP/USD (1 GBP / USD)	1.2662	1.2625	(0.3)
USD/JPY (JPY / 1 USD)	150.69	149.98	0.5
USD/INR (INR / 1 USD)	82.93	82.91	0
USD/CNY (CNY / 1 USD)	7.1980	7.1886	0.1

Source: Bloomberg, Bank of Baroda Research



- Global 10Y yields closed mixed. 10Y yields in UK and Germany fell the most, as Germany's lower than expected CPI print revived hopes that ECB may soon begin its rate cut cycle. US 10Y yield dropped a tad as core PCE data came in line with expectations. India's 10Y yield rose by 1bps, and is trading a slightly lower today at 7.07%.

Fig 3 – Bond 10Y yield

	28-02-2024	29-02-2024	change in bps
US	4.26	4.25	(1)
UK	4.19	4.12	(6)
Germany	2.46	2.41	(5)
Japan	0.70	0.71	1
China	2.36	2.35	0
India	7.07	7.08	1

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	28-02-2024	29-02-2024	change in bps
Tbill-91 days	6.93	6.86	(7)
Tbill-182 days	7.16	7.14	(2)
Tbill-364 days	7.11	7.11	0
G-Sec 2Y	7.02	7.01	(1)
India OIS-2M	6.77	6.78	1
India OIS-9M	6.74	6.74	0
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.31	5.31	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	28-02-2024	29-02-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	1.9	0.9	(1.0)
Reverse Repo	0	0	0
Repo	2.5	1.0	(1.5)

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	27-02-2024	28-02-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	390.4	(65.7)	(456.1)
Debt	142.4	101.8	(40.6)
Equity	248.0	(167.5)	(415.5)
Mutual funds (Rs cr)	(3,315.9)	339.5	3,655.4
Debt	(3,464.0)	(1,347.2)	2,116.8
Equity	148.2	1,686.7	1,538.6

Source: Bloomberg, Bank of Baroda Research, Note: Mutual fund data as of 26 and 27 Feb 2024

- Oil prices fell, on account of increased supply (higher OPEC+ supply in Feb'24).

Fig 7 – Commodities

	28-02-2024	29-02-2024	% change
Brent crude (US\$/bbl)	83.7	83.6	(0.1)
Gold (US\$/ Troy Ounce)	2,034.6	2,044.3	0.5
Copper (US\$/ MT)	8,354.8	8,401.5	0.6
Zinc (US\$/MT)	2,369.3	2,381.8	0.5
Aluminium (US\$/MT)	2,190.5	2,228.0	1.7

Source: Bloomberg, Bank of Baroda Research



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