

MORNING MOCHA

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The dovish pivot by Fed raised the expectations (67.5% chance) of a possible rate cut by as early as Mar'24. This comes in the wake of the PCE report scheduled to release later this week. On data front, sales of new single family home surged to 1.5 year high at 18% in Nov'23. In forex market, Yen declined amidst a dovish policy by BoJ. Separately, PBoC for the 4th time in a row has kept the interest rate unchanged with the one-year rate for household and corporate at 3.45% and 5-year benchmark rate at 4.2% for mortgages. On the domestic front, RBI has tightened norms for lenders towards their investment in alternative investment funds.

- Except Hang Seng, other global indices ended higher. Investors monitored commentary by Fed officials ahead of the key inflation data. Nikkei surged to a record high after the BoJ continued with its ultra-loose-monetary policy decision. Amidst the decision to keep the rate unchanged by PBoC, Shanghai Comp edged up marginally. Sensex advanced to fresh record high, supported by gains in oil and gas stocks. It is trading higher today, in line with other Asian markets.

Fig 1 – Stock markets

| | 18-12-2023 | 19-12-2023 | % change |
|---------------|------------|------------|----------|
| Dow Jones | 37,306 | 37,558 | 0.7 |
| S & P 500 | 4,741 | 4,768 | 0.6 |
| FTSE | 7,614 | 7,638 | 0.3 |
| Nikkei | 32,759 | 33,219 | 1.4 |
| Hang Seng | 16,629 | 16,505 | (0.7) |
| Shanghai Comp | 2,931 | 2,932 | 0.1 |
| Sensex | 71,315 | 71,437 | 0.2 |
| Nifty | 21,419 | 21,453 | 0.2 |

Source: Bloomberg, Bank of Baroda Research

- Barring JPY and INR (lower), other global currencies ended higher against the dollar. DXY fell by 0.4%, as investors attach a higher probability to rate cut by Fed in Mar'24. JPY fell the most (-0.7%) as BoJ continued to sound dovish in its latest remarks. INR fell by 0.1%, eyeing build-up in oil prices. However, it is trading higher today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

| | 18-12-2023 | 19-12-2023 | % change |
|-----------------------|------------|------------|----------|
| EUR/USD (1 EUR / USD) | 1.0924 | 1.0981 | 0.5 |
| GBP/USD (1 GBP / USD) | 1.2648 | 1.2732 | 0.7 |
| USD/JPY (JPY / 1 USD) | 142.78 | 143.84 | (0.7) |
| USD/INR (INR / 1 USD) | 83.06 | 83.19 | (0.1) |
| USD/CNY (CNY / 1 USD) | 7.1311 | 7.1185 | 0.2 |

Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed, with 10Y yields in US and China ending flat, and falling across Germany and Japan. Eurozone's worries have risen as global



supply chains are expected to again come under pressure, thus hampering external trade. BoJ's dovish stance impacted its sovereign yield. India's 10Y yield rose by 2bps, as oil prices were up. It is trading further higher today.

Fig 3 – Bond 10Y yield

| | 18-12-2023 | 19-12-2023 | change in bps |
|---------|------------|------------|---------------|
| US | 3.93 | 3.93 | 0 |
| UK | 3.70 | 3.65 | (4) |
| Germany | 2.08 | 2.02 | (6) |
| Japan | 0.68 | 0.63 | (5) |
| China | 2.63 | 2.63 | 0 |
| India | 7.16 | 7.17 | 2 |

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

| | 18-12-2023 | 19-12-2023 | change in bps |
|--------------------------|------------|------------|---------------|
| Tbill-91 days | 6.92 | 6.93 | 1 |
| Tbill-182 days | 7.12 | 7.10 | (2) |
| Tbill-364 days | 7.07 | 7.07 | 0 |
| G-Sec 2Y | 7.06 | 7.06 | 0 |
| India OIS-2M | 6.76 | 6.78 | 3 |
| India OIS-9M | 6.64 | 6.65 | 1 |
| SONIA int rate benchmark | 5.19 | 5.19 | 0 |
| US SOFR | 5.32 | 5.32 | 0 |

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

| Rs tn | 18-12-2023 | 19-12-2023 | change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | 2.0 | 1.8 | (0.2) |
| Reverse repo | 0 | 0 | 0 |
| Repo | 1.0 | 1.0 | 0 |

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

| | 15-12-2023 | 18-12-2023 | change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn) | 1,542.3 | 474.9 | (1,067.4) |
| Debt | 311.6 | 259.7 | (51.8) |
| Equity | 1,230.7 | 215.2 | (1,015.5) |
| Mutual funds (Rs cr) | 2,070.8 | (2,605.1) | (4,675.9) |
| Debt | 886.8 | (1,523.7) | (2,410.4) |
| Equity | 1,184.0 | (1,081.4) | (2,265.4) |

Source: Bloomberg, Bank of Baroda Research | Note: Mutual fund data as of 14 Dec 2023 and 15 Dec 2023

- Oil prices rose by 1.6%, as tensions in Red Sea continue to build up, thus leading to possible disruptions in global supply chains.

Fig 7 – Commodities

| | 18-12-2023 | 19-12-2023 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl) | 78.0 | 79.2 | 1.6 |
| Gold (US\$/ Troy Ounce) | 2,027.2 | 2,040.4 | 0.6 |
| Copper (US\$/ MT) | 8,393.8 | 8,500.5 | 1.3 |
| Zinc (US\$/MT) | 2,550.0 | 2,584.8 | 1.4 |
| Aluminium (US\$/MT) | 2,283.0 | 2,262.5 | (0.9) |

Source: Bloomberg, Bank of Baroda Research



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