

## MORNING MOCHA

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Global stocks continued to rally amidst strengthening expectations of Fed rate cuts. As per the CME Fed Watch tool, the probability of a rate cut in Mar'24 stands at 72.7%. Separately, macro data from Asia painted a mixed picture. Industrial production in South Korea rose at a solid pace of 3.3% in Nov'23 on a MoM basis versus estimate of a 1.4% increase. This was led by a sharp uptick in production of semi-conductors. On the other hand, industrial production in Japan fell by 0.9% in Nov'23 (MoM), following an increase of 1.3%. Separately, retail sales increased by 1% in Nov'23, after declining by 1.7%. In China, industrial profits rose by 29.5% in Nov'23, compared with 2.7%. However, the recovery was uneven, with the property sector continuing to post a lacklustre performance. In India, RBI's report highlighted a healthy growth in balance sheet of both banks as well as NBFCs led by a pickup in credit growth. Asset quality and profitability also noted an improvement in H1FY24.

- Equity markets closed higher. Traders ramped up expectations of a pivot in monetary policy cycle of major central banks in the last trading week of the year, with anticipation of ~ 150bps rate cut by Fed next year. Hang Seng rose the most, followed by Nikkei. Sensex rose by 1%, led by auto and banking stocks. It is trading higher today while Asian stocks are trading mixed.

**Fig 1 – Stock markets**

	26-12-2023	27-12-2023	% change
Dow Jones	37,545	37,657	0.3
S & P 500	4,775	4,782	0.1
FTSE	7,698	7,725	0.4
Nikkei	33,306	33,681	1.1
Hang Seng	16,340	16,625	1.7
Shanghai Comp	2,899	2,915	0.5
Sensex	71,337	72,038	1.0
Nifty	21,441	21,655	1.0

Source: Bloomberg, Bank of Baroda Research

- Barring INR and CNY, other global currencies appreciated against the dollar. Prospects of lower Fed rates weighed on the dollar, with the DXY falling by 0.5%. EUR and GBP rose by 0.6%. INR depreciated by 0.2%, amidst increased dollar demand. However, it is trading stronger today, in line with its Asian peers.

**Fig 2 – Currencies**

	26-12-2023	27-12-2023	% change
EUR/USD (1 EUR / USD)	1.1042	1.1105	0.6
GBP/USD (1 GBP / USD)	1.2725	1.2798	0.6
USD/JPY (JPY / 1 USD)	142.40	141.83	0.4
USD/INR (INR / 1 USD)	83.19	83.35	(0.2)
USD/CNY (CNY / 1 USD)	7.1427	7.1427	0

Source: Bloomberg, Bank of Baroda Research



- Global yields felt the reverberation of expectation of Fed rate cut in the coming year. US 10Y yield fell the most by 10bps. Even Germany and UK's 10Y yield fell by 8bps and 7bps respectively. India's 10Y rose by 2bps amidst tight liquidity conditions. Notably, the result of 2 day VRR showed that bids received were of much higher quantum. India's 10Y yield is trading at 7.20% today.

**Fig 3 – Bond 10Y yield**

	26-12-2023	27-12-2023	change in bps
US	3.90	3.79	(10)
UK	3.51	3.44	(7)
Germany	1.98	1.90	(8)
Japan	0.64	0.61	(2)
China	2.58	2.57	(2)
India	7.18	7.21	2

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	26-12-2023	27-12-2023	change in bps
Tbill-91 days	6.96	6.92	(4)
Tbill-182 days	7.08	7.14	6
Tbill-364 days	7.10	7.11	1
G-Sec 2Y	7.08	7.08	0
India OIS-2M	6.78	6.79	1
India OIS-9M	6.67	6.68	1
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.31	5.32	1

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	26-12-2023	27-12-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	2.7	2.6	(0.1)
Reverse repo	0	0	0
Repo	1.8	1.8	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	22-12-2023	26-12-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	199.9	(52.9)	(252.7)
Debt	269.1	(117.5)	(386.5)
Equity	(69.2)	64.6	133.8
Mutual funds (Rs cr)	(648.1)	1,346.8	1,995.0
Debt	(2,695.4)	(1,071.4)	1,624.0
Equity	2,047.3	2,418.3	371.0

Source: Bloomberg, Bank of Baroda Research | Note: Mutual fund data as of 21 Dec 2023 and 22 Dec 2023

- Oil prices moderated amidst a build-up in US inventories.

**Fig 7 – Commodities**

	26-12-2023	27-12-2023	% change
Brent crude (US\$/bbl)	81.1	79.7	(1.8)
Gold (US\$/ Troy Ounce)	2,067.8	2,077.5	0.5
Copper (US\$/ MT)	8,483.5	8,589.0	1.2
Zinc (US\$/MT)	2,588.3	2,625.3	1.4
Aluminium (US\$/MT)	2,326.0	2,387.0	2.6

Source: Bloomberg, Bank of Baroda Research



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