

MORNING MOCHA

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ECONOMIST
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US GDP in Q4CY23 expanded by 3.3%, beating expectation of 2% growth, but slowing from 4.9% in Q3. The sharper than estimated jump was driven by consumption (PCE was up by 2.8%, broadly stable compared to previous quarter). Other components such as increase in state and federal spending and gross private investment also helped beat expectations. Thus, CY23 growth clocked in at 2.5% versus 1.9% in CY22. However, inflationary pressures remain under control, with core PCE deflator rising by 2.9% in Dec'23 versus est. 3% and slowing from 3.2% in Nov'23. Investors are now expecting 47% probability of rate cut in Mar'24. In Europe, as ECB maintains that rate cut talks are "premature", pessimistic business outlook in Germany is back. The Ifo index fell to 85.2 in Jan'24 from 86.3 in Dec'23 as participants brace for stagnation to shallow recession in the economy.

- Global indices closed mixed. Moderation in consumer inflation in US raised hopes of possible rate cuts by Fed. Dow Jones ended in green. FTSE too climbed higher (1.4%) led by strong gains in household goods stocks and ahead of the rate decision. Sensex is trading higher ahead of the announcements from the Economic Survey and Interim budget. Asian indices are also trading higher with gains in Hong Kong market after news of liquidation order of a firm.

Fig 1 – Stock markets

	25-01-2024	26-01-2024	% change
Dow Jones	38,049	38,109	0.2
S & P 500	4,894	4,891	(0.1)
FTSE	7,530	7,635	1.4
Nikkei	36,236	35,751	(1.3)
Hang Seng	16,212	15,952	(1.6)
Shanghai Comp	2,906	2,910	0.1
Sensex	71,060	70,701	(0.5)
Nifty	21,454	21,353	(0.5)

Source: Bloomberg, Bank of Baroda Research| Note: Markets in India were closed on 26.01.2024

- Global currencies ended mixed. DXY fell by 0.5% as investors await the policy decision by Fed. Investors have priced in a 47% chance of a rate cut in Mar'24 from 86% chance seen in Dec'23. INR is trading weaker today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	25-01-2024	26-01-2024	% change
EUR/USD (1 EUR / USD)	1.0846	1.0853	0.1
GBP/USD (1 GBP / USD)	1.2708	1.2703	0
USD/JPY (JPY / 1 USD)	147.66	148.15	(0.3)
USD/INR (INR / 1 USD)	83.13	83.12	0
USD/CNY (CNY / 1 USD)	7.1739	7.1774	0

Source: Bloomberg, Bank of Baroda Research| Note: Markets in India were closed on 26.01.2024



- Global yields closed mixed. US 10Y yield was up by 2bps as economy continues to show signs of resilience (GDP). In UK, markets await BoE decision due this week. India's 10Y yield closed a tad lower by 1bps, even as oil prices rose. It is trading flat today, awaiting cues from Union Budget presentation this week.

Fig 3 – Bond 10Y yield

	25-01-2024	26-01-2024	change in bps
US	4.12	4.14	2
UK	3.98	3.96	(2)
Germany	2.29	2.30	1
Japan	0.75	0.72	(3)
China	2.50	2.50	0
India	7.18	7.18	(1)

Source: Bloomberg, Bank of Baroda Research | Note: Markets in India were closed on 26.01.2024

Fig 4 – Short term rates

	24-01-2024	25-01-2024	change in bps
Tbill-91 days	7.00	7.04	4
Tbill-182 days	7.19	7.16	(3)
Tbill-364 days	7.16	7.15	(1)
G-Sec 2Y	7.03	7.02	(1)
India OIS-2M	6.76	6.72	(4)
India OIS-9M	6.66	6.62	(4)
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.31	5.32	1

Source: Bloomberg, Bank of Baroda Research | Note: Markets in India were closed on 26.01.2024

Fig 5 – Liquidity

Rs tn	24-01-2024	25-01-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	3.5	2.6	(0.9)
Reverse repo	0	0	0
Repo	3.0	0	(3.0)

Source: RBI, Bank of Baroda Research | Note: Markets in India were closed on 26.01.2024

Fig 6 – Capital market flows

	23-01-2024	24-01-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	(235.7)	(635.9)	(400.2)
Debt	90.1	16.7	(73.4)
Equity	(325.8)	(652.6)	(326.9)
Mutual funds (Rs cr)	5,791.5	(58.3)	(5,849.8)
Debt	(155.7)	(2,877.8)	(2,722.1)
Equity	5,947.2	2,819.5	(3,127.7)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 18 and 19 Jan 2024

- Oil prices inched up, owing to supply side concerns (Red sea attacks).

Fig 7 – Commodities

	25-01-2024	26-01-2024	% change
Brent crude (US\$/bbl)	82.4	83.6	1.4
Gold (US\$/ Troy Ounce)	2,020.8	2,018.5	(0.1)
Copper (US\$/ MT)	8,477.5	8,448.1	(0.3)
Zinc (US\$/MT)	2,577.0	2,570.5	(0.3)
Aluminium (US\$/MT)	2,238.5	2,274.5	1.6

Source: Bloomberg, Bank of Baroda Research



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