

MORNING MOCHA

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ECONOMIST
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Fed Chair reiterated that US inflation is on track to return to the Fed's target range but shied away from committing to a widely expected rate cut in Sep'24. This comes on ahead of CPI data which is likely to show a further moderation to 3.1% in Jun'24 from 3.3% in Jul'24 (YoY). Traders are now pricing in two possible rate cuts by the Fed in 2024, with the first expected in Sep'24 (70% probability as per CME FedWatch Tool) and another in Dec'24 (probability at 46%). Separately, Bank of England's Chief Economist flagged the continued stubbornness in inflation and increase in wage growth as risks to policy easing. As a result, investors have pared back expectations of a rate cut by the BoE in Aug'24. In Japan, core machinery orders declined by 3.2% (est. 0.9% drop), following a decline of 2.9% in Apr'24. The data complicates BoJ's decision to raise rates amid faltering growth and increasing price pressures.

- Global indices ended mixed. Investors remained cautious monitoring comments of key central bank officials. Stocks in China fell the most amid worries over persisting pressure in pricing power. In US, stocks rose led by hopes that the Fed will start its easing cycle in Sep'24. Sensex fell by 0.5%, led by metal and auto stocks. It is trading higher today, while Asian stocks are trading mixed.

Fig 1 – Stock markets

	09-07-2024	10-07-2024	Change, %
Dow Jones	39,292	39,721	1.1
S & P 500	5,577	5,634	1.0
FTSE	8,140	8,194	0.7
Nikkei	41,580	41,832	0.6
Hang Seng	17,523	17,472	(0.3)
Shanghai Comp	2,959	2,939	(0.7)
Sensex	80,352	79,925	(0.5)
Nifty	24,433	24,324	(0.4)

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended mixed. DXY declined by 0.1% as investors have raised bets of two rate cuts by Fed this year. GBP rose by 0.5% tracking comments from key BoE official. JPY depreciated further to its weakest since Dec'86. INR fell a tad. However, it is trading stronger today, in line with other Asian peers.

Fig 2 – Currencies

	09-07-2024	10-07-2024	Change, %
EUR/USD (1 EUR / USD)	1.0813	1.0830	0.2
GBP/USD (1 GBP / USD)	1.2786	1.2849	0.5
USD/JPY (JPY / 1 USD)	161.33	161.69	(0.2)
USD/INR (INR / 1 USD)	83.49	83.53	0
USD/CNY (CNY / 1 USD)	7.2726	7.2760	0

Source: Bloomberg, Bank of Baroda



- Global yields closed lower. In Germany, 10Y yield fell the most by 5bps led by political uncertainty in France. In UK, 10Y yield fell by 3bps even as BoE member flagged risks of underlying inflation. US 10Y yield fell a tad following comments of Fed official who spoke of US data reaffirming soft landing. India's 10Y yield inched down marginally and is trading flat today.

Fig 3 – Bond 10Y yield

	09-07-2024	10-07-2024	Change, bps
US	4.30	4.28	(1)
UK	4.16	4.13	(3)
Germany	2.58	2.53	(5)
Japan	1.09	1.09	(1)
China	2.28	2.27	(1)
India	6.99	6.98	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	09-07-2024	10-07-2024	change in bps
Tbill-91 days	6.73	6.74	1
Tbill-182 days	6.82	6.87	5
Tbill-364 days	6.90	6.91	1
G-Sec 2Y	6.93	6.92	(1)
India OIS-2M	6.68	6.67	(1)
India OIS-9M	6.75	6.73	(2)
SONIA int rate benchmark	5.20	5.20	0
US SOFR	5.32	5.34	2

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	09-07-2024	10-07-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.0)	(1.1)	(0.1)
Reverse Repo	0.2	0.4	0.2
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	08-07-2024	09-07-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	(9.3)	251.2	260.5
Debt	(28.7)	68.1	96.8
Equity	19.4	183.1	163.7
Mutual funds (Rs cr)	(1,143.4)	(1,611.4)	(468.0)
Debt	157.0	(1,886.3)	(2,043.3)
Equity	(1,300.4)	274.9	1,575.3

Source: Bloomberg, Bank of Baroda Research| Note: Mutual Fund data as of 4 Jul and 5 Jul 2024

- Oil prices rose as OPEC upgraded its global growth forecast.

Fig 7 – Commodities

	09-07-2024	10-07-2024	% change
Brent crude (US\$/bbl)	84.7	85.1	0.5
Gold (US\$/ Troy Ounce)	2,364.1	2,371.3	0.3
Copper (US\$/ MT)	9,711.0	9,743.6	0.3
Zinc (US\$/MT)	2,868.2	2,904.4	1.3
Aluminium (US\$/MT)	2,496.5	2,483.5	(0.5)

Source: Bloomberg, Bank of Baroda Research



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