

MORNING MOCHA

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ECONOMIST
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Supported by cooling inflation and signs of weakness in the labour market (continuing claims highest since Nov'21), investors are growing more confident that the Fed may announce a jumbo 50bps rate cut in its Sep'24 meeting. Fed Governor Bowman also softened her hawkish stance and acknowledged that monetary policy should not be too restrictive. Separately, demand conditions in China seem to be improving with CPI inflation inching back up, which also supported rise in international oil prices. In contrast, stagflation worries in Germany are seen emerging with Jul'24 CPI rising to 2.3% from 2.2% in Jun'24. On MoM basis also CPI was up by 0.3%, led by higher food prices. Energy prices are easing, however core CPI still remains close to 3% mark (2.9% in Jul'24). This comes at a time when manufacturing activity is declining and services sector activity is also slowing down.

- Barring Shanghai Comp, other global indices ended higher. US indices advanced, reviewing macro data release and optimism around the Fed beginning with the monetary easing cycle in the coming months. Nikkei was the biggest gainer amongst other indices, amidst dovish signals by BoJ. Sensex surged, led by gains in real estate and IT stocks. However, it is trading lower today, while other Asian stocks are trading higher.

Fig 1 – Stock markets

	08-08-2024	09-08-2024	Change, %
Dow Jones	39,446	39,498	0.1
S & P 500	5,319	5,344	0.5
FTSE	8,145	8,168	0.3
Nikkei	34,831	35,025	0.6
Hang Seng	16,892	17,090	1.2
Shanghai Comp	2,870	2,862	(0.3)
Sensex	78,886	79,706	1.0
Nifty	24,117	24,368	1.0

Source: Bloomberg, Bank of Baroda Research

- Except for the EUR and INR (flat), other global currencies ended higher. DXY slipped ahead of the key data releases (PPI and CPI). Fed chair comments scheduled later this week will also be closely monitored. JPY strengthened by 0.4%. INR is trading flat today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	08-08-2024	09-08-2024	Change, %
EUR/USD (1 EUR / USD)	1.0919	1.0917	0
GBP/USD (1 GBP / USD)	1.2748	1.2761	0.1
USD/JPY (JPY / 1 USD)	147.23	146.61	0.4
USD/INR (INR / 1 USD)	83.96	83.96	0.0
USD/CNY (CNY / 1 USD)	7.1763	7.1683	0.1

Source: Bloomberg, Bank of Baroda



- Global yields closed mixed. 10Y yields in US and Europe fell, while it inched up in China. US 10Y yield declined the most as central bank officials commented that inflation is cooling down, thus fuelling hopes of 50bps cut by Fed in Sep'24. China's 10Y yield rose by 3bps as inflation rose faster than expected. India's 10Y yield ended flat, but is trading lower today at 6.87%, following global cues.

Fig 3 – Bond 10Y yield

	08-08-2024	09-08-2024	Change, bps
US	3.99	3.94	(5)
UK	3.98	3.95	(3)
Germany	2.27	2.23	(4)
Japan	0.85	0.85	0
China	2.17	2.21	3
India	6.88	6.88	0

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	08-08-2024	09-08-2024	change in bps
Tbill-91 days	6.62	6.58	(4)
Tbill-182 days	6.71	6.72	1
Tbill-364 days	6.73	6.73	0
G-Sec 2Y	6.74	6.75	1
India OIS-2M	6.57	6.58	1
India OIS-9M	6.54	6.55	1
SONIA int rate benchmark	4.95	4.95	0
US SOFR	5.33	5.34	1

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	08-08-2024	09-08-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.7)	(1.5)	0.2
Reverse Repo	1.6	0	(1.6)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	07-08-2024	08-08-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	(102.7)	108.5	211.2
Debt	235.8	46.4	(189.4)
Equity	(338.5)	62.1	400.6
Mutual funds (Rs cr)	985.0	(3,444.0)	(4,429.0)
Debt	(2,872.4)	(2,137.6)	734.9
Equity	3,857.4	(1,306.4)	(5,163.8)

Source: Bloomberg, Bank of Baroda Research

- Oil prices inch up, driven by escalating geo-political tensions in the Middle East.

Fig 7 – Commodities

	08-08-2024	09-08-2024	% change
Brent crude (US\$/bbl)	79.2	79.7	0.6
Gold (US\$/ Troy Ounce)	2,427.5	2,431.3	0.2
Copper (US\$/ MT)	8,670.9	8,747.3	0.9
Zinc (US\$/MT)	2,601.3	2,698.5	3.7
Aluminium (US\$/MT)	2,274.0	2,301.5	1.2

Source: Bloomberg, Bank of Baroda Research



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