

MORNING MOCHA

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ECONOMIST

Dipanwita Mazumdar

Momentum got built around in the global market over beginning of rate cut cycle by Fed. Bets intensified over half a percentage cut by Fed as visible in the 1month OIS rates and CME data. Any deviation from the expected outcome might lead to volatility. Even US government official confirmed that inflation is nearing its normal levels and lower borrowing cost would be supportive, at the current juncture. Adjustments among major asset class continued with gold trading near record high benefitting from a weaker dollar. DXY softened by 0.3%, that comforted major EM currencies. In a data light trading day, it was mainly sentiment driven movement. A lot also hinges on BoJ Governor's future guidance to shed light on the quantum of policy divergence with the US. On domestic front, India's 10Y yield shied just away from the 6.75% mark and the resistance level below it will be tested based on Fed's rhetoric.

- Global indices ended mixed. US stocks made further gains ahead of the start of the Fed's policy easing cycle, with reignited bets of an outsized rate cut this week. Key Asian markets in Japan and China were closed for a holiday. In India, Sensex rose marginally by 0.1%. Power and metal stocks led the gains. However, it is trading lower today, in line with other Asian stocks.

Fig 1 – Stock markets

	13-09-2024	16-09-2024	Change, %
Dow Jones	41,394	41,622	0.6
S & P 500	5,626	5,633	0.1
FTSE	8,273	8,278	0.1
Nikkei	36,833	36,582	(0.7)
Hang Seng	17,369	17,422	0.3
Shanghai Comp	2,717	2,704	(0.5)
Sensex	82,891	82,989	0.1
Nifty	25,357	25,384	0.1

Source: Bloomberg, Bank of Baroda Research, Note: Markets in Japan and China were closed on 16 Sep 2024

- Global currencies ended stronger against the dollar. DXY fell by 0.3% ahead of the Fed policy, with increased bets of a 50bps rate cut. GBP appreciated the most by 0.7%, followed by EUR which gained 0.5%. INR closed broadly unchanged. It is trading stronger today, in line with other Asian currencies.

Fig 2 – Currencies

	13-09-2024	16-09-2024	Change, %
EUR/USD (1 EUR / USD)	1.1075	1.1133	0.5
GBP/USD (1 GBP / USD)	1.3124	1.3216	0.7
USD/JPY (JPY / 1 USD)	140.85	140.62	0.2
USD/INR (INR / 1 USD)	83.90	83.89	0
USD/CNY (CNY / 1 USD)	7.1174	7.0972	0.3

Source: Bloomberg, Bank of Baroda , Note: Markets in Japan and China were closed on 16 Sep 2024



- Global yields closed lower. US 10Y yield fell by 3bps amidst rising expectation of a higher quantum of rate cut by Fed. Thus, 10Y yield of other AEs softened. ECB official also spoke of more easing in the coming days. India's 10Y yield fell by 3bps, in sync with global yield. The falling momentum is likely to continue amidst favourable domestic liquidity. It is trading at the same level today.

Fig 3 – Bond 10Y yield

	13-09-2024	16-09-2024	Change, bps
US	3.65	3.62	(3)
UK	3.77	3.76	(1)
Germany	2.15	2.12	(3)
Japan	0.85	0.85	0
China	2.10	2.07	(2)
India	6.79	6.76	(3)

Source: Bloomberg, Bank of Baroda Research , Note: Markets in Japan and China were closed on 16 Sep 2024

Fig 4 – Short term rates

	13-09-2024	16-09-2024	change in bps
Tbill-91 days	6.61	6.60	(1)
Tbill-182 days	6.65	6.62	(3)
Tbill-364 days	6.64	6.61	(3)
G-Sec 2Y	6.69	6.68	(1)
India OIS-2M	6.61	6.61	0
India OIS-9M	6.43	6.43	0
SONIA int rate benchmark	4.95	4.95	0
US SOFR	5.33	5.33	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	13-09-2024	16-09-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.4)	(0.2)	1.2
Reverse Repo	0.2	0.2	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	11-09-2024	12-09-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	319.5	877.8	558.3
Debt	(22.3)	(71.4)	(49.1)
Equity	341.8	949.2	607.4
Mutual funds (Rs cr)	(1,883.0)	(4,119.6)	(2,236.5)
Debt	(1,953.5)	(3,869.5)	(1,916.0)
Equity	70.5	(250.1)	(320.6)

Source: Bloomberg, Bank of Baroda Research | Note: Data for Mutual Funds as of 10th and 11th Sep 2024

- Oil prices rose on improved demand prospects amid expectations of rate cut.

Fig 7 – Commodities

	13-09-2024	16-09-2024	% change
Brent crude (US\$/bbl)	71.6	72.8	1.6
Gold (US\$/ Troy Ounce)	2,577.7	2,582.5	0.2
Copper (US\$/ MT)	9,189.2	9,264.8	0.8
Zinc (US\$/MT)	2,866.3	2,910.3	1.5
Aluminium (US\$/MT)	2,471.0	2,528.5	2.3

Source: Bloomberg, Bank of Baroda Research



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For further details about this publication, please contact:

Chief Economist

Bank of Baroda

chief.economist@bankofbaroda.com